CNB NEW CONSTRUCTION AND PARKING GARAGE
DIA Market Rate Multi-Family Housing REV Grant
Staff Report
October 15, 2021

Applicant:	**Axis 404 Julia, LLC (Augustine Development Group)**
Project:	**CNB New Construction And Parking Garage**
Program Request:	**DIA Market Rate Multi-Family Housing REV Grant**
Total Development Costs (as presented):	**$39,227,136**
Total Development Cost (as underwritten):	**$36,827,136**
REV Requested:	**75% / 15 years**
REV Recommended:	**75% / 15 years**
REV Amount (Not to exceed):	**$4,050,000**

The Project

The owner/developer, Axis 404 Julia, LLC ("Axis") is a Single Purpose Entity established by Augustine Development Group for the purpose of developing a 136-unit multifamily development including a structured parking garage with 487 proposed spaces.

The development is presented to DIA as two components; the "new construction" component including 103 units of new multifamily housing and a 487-space structured parking garage (the subject of this staff report), and the "historic redevelopment" component of the Central National Bank ("CNB") building that will be presented for consideration of an award under DPRP once that information is finalized. Construction of each component will be undertaken simultaneously as the overall project is integral to the function and operation of the multifamily project.

However, the new construction component is presented first to allow for financing to be finalized, contracts to be entered into, and that the new construction components may be started. Beyond this multifamily development, that structured parking garage will also serve the Ambassador Hotel, the Independent Life multifamily redevelopment, and JFRD as detailed further below.

Construction activities within the 100-room Ambassador Hotel are underway (HPRTF Grant $1.5 million), whereas Commencement of construction on the 140-unit, mixed-use, Independent Life building (HPRTF Grant $3 million) is scheduled for November 17, 2021.

Additionally, the Jacksonville Fire and Rescue Department ("JFRD") will enter into an agreement to acquire 120 parking spaces within the structured parking garage for permanent use at a cost of $20,000 per space. Those spaces are to include 30-32 on the first floor with dedicated exclusive access for quick ingress/egress. The remaining approximately 90 spaces will be in designated assigned spaces exclusively for JFRD use.

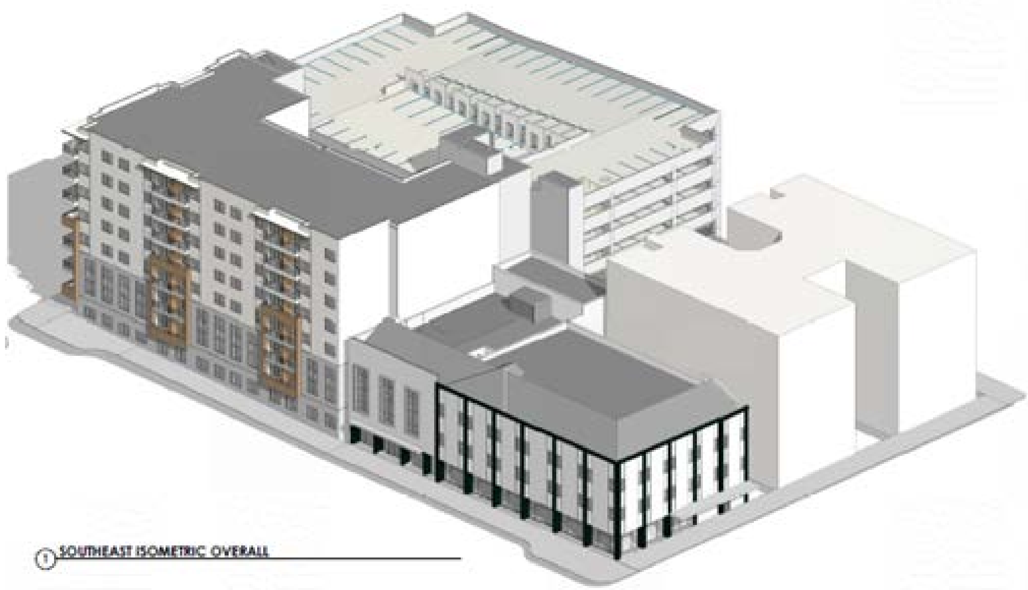
As noted, the parcel under development, is part of the larger development activities of Augustine Development group, which on the same block includes the Ambassador hotel. As shown by the shaded area in the map below, the new construction is found on the western half of the block bounded by W.

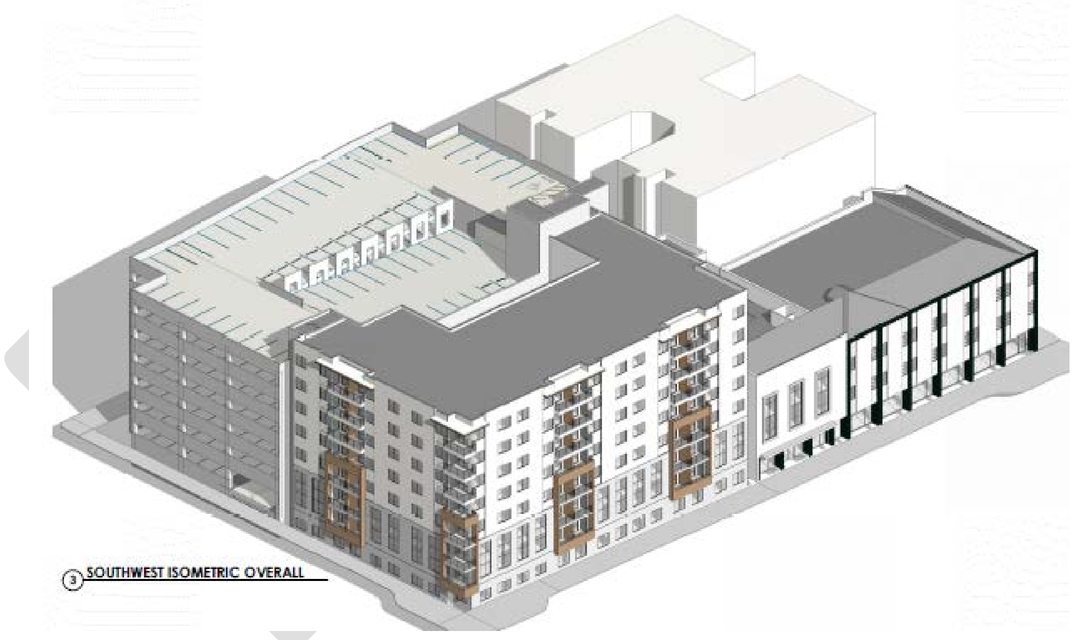
Duval Street on the south, N. Pearl Street on the west, and W. Church Street on the north. This combined parcel dedicated to the new construction component is estimated to cover 33,908 square feet, or 0.78 acres and is valued at $27 per square foot by the Duval County Property Appraiser's office.

The CNB Building , the historic redevelopment component of the overall development plan, is found at 404 N Julia Street at the corner with W. Duval Street, and the Ambassador Hotel is found at 420 N. Julia Street at the corner with W. Church Street .

The architectural rendering below provides a depiction of how the finished development is to look upon completion:

The renderings below show the eight-story project from a perspective that also captures the interaction with the structured parking garage and the Ambassador Hotel (shown in white):





The Development Team

Augustine Development (George Bochis, CEO; Bryan Greiner, President) have redevelopment activity underway at the 100-room Ambassador Hotel (HPRTF Grant $1.5 million), and the 140-unit, mixed-use, Independent Life building (HPRTF Grant $3 million), as noted earlier. The principals report having completed 12 Storage projects, 18 Multifamily, 13 Retail, 4 Hotel, 2 Assisted Living, and 3 Warehouse projects in their history dating to 1970. Projects have ranged in size from 40,000 square feet to 200,000 square feet, or alternatively within Multifamily, 33-240 unit developments.

General Contractor

Jacksonville based Summit Contracting, Marc Padgett, President and CEO, is shown to be the GC on the project. Summit reports having built in excess of 300 multifamily projects nationwide, representing over 90,000 completed units. Further, Summit has constructed over 10 million square feet of commercial projects in the form of office, warehouse, retail, hotel, and various multi-use developments throughout the country.

Architect

Dasher-Hurst Architects, Tom Hurst, AIA, Principal. A co-founding principal at Dasher Hurst Architects, Tom Hurst has a diverse, award-winning portfolio of work that includes commercial, hospitality, institutional, and residential structures. He is recognized as a leader in the field of historic preservation and adaptive reuse and has worked tirelessly to promote redevelopment efforts in downtown Jacksonville. Tom is active in the local chapter of the American Institute of Architects and is Past President (2013) of the Jacksonville Chapter. He is a Registered Architect and Interior Designer in Florida, a LEED® Accredited Professional, and a member of the National Trust for Historic Preservation.

Pro Forma Operations

- As reflected in the Developer's pro forma, the CNB new construction component is expected to generate Effective Gross Income of $1.85 million in its first full year of operation with growth modeled at 2.5% in subsequent years. This estimate includes residential rent assumptions of $2.10 sf to $2.69 sf with an average of $2.29 sf. Vacancy rates initiate at 17% drops to 10% in year two, and then to 5% for the remaining years in the ten-year pro forma.
- Other income is based in parking revenue at $125 per month and is established at just over $620 thousand annually in year one increases to just over $775 thousand by year ten. This estimate was based on providing 150 spaces to JFRD, where if reduced to 120 spaces, Other Income increases to $675 thousand in year one and increases to $850 thousand by year ten. This adjustment is incorporated in the remainder of these comments.
- Total operating expenses are estimated at approximately 45.7% of revenues initially, dropping to 36.6% by year ten.
- Management fee is modeled at 2.0 – 2.8% of Effective Gross Income.
- Replacement reserves are modeled at $240 to $285 per unit, per year.
- Net Operating Income, without incentives, is estimated to be $1.06 million in the first year of stabilized operations providing debt service coverage of 0.71X and Yield on Cost of 2.69%. Over ten years, NOI improves to $2.00 million providing debt service coverage of 1.36X and Yield on Cost of 5.12%.
- Net Operating Income, inclusive of the 75%/15-year REV Grant incentive, is estimated to be $1.29 million in the first year of stabilized operations providing debt service coverage of 0.89X and Yield on Cost of 3.29%. Over ten years, NOI improves to $2.29 million providing debt service coverage of 1.36X and Yield on Cost of 5.12%.

Capital Considerations

- Total development costs as presented equals $39,227,136. Notably, on a per square foot or per unit basis the calculation far exceeds recent developments due to the higher number of spaces found in the structured parking garage (4.7 spaces per dwelling unit, as compared with 1-1.5 spaces in other developments). However, net of structured parking garage costs, the development costs of the proposed multifamily development alone are estimated at $285 per square foot or $252,503 per unit, inclusive of land.

- Net of $2.4 million contribution from the JFRD for 120 parking spaces, developer fee, finance costs, reserves, market studies, and similar costs deemed to not directly add to the taxable value of the development, underwritten development costs for purposes of the REV grant total $34,822,136.
- As found in the Sources and Uses for the development, land is shown to be $2 million, split equally between the multifamily and the parking garage. Neither an appraisal nor purchase price was provided to support this value of $59 per square foot, which approaches the $60 per square foot found in developments along the St. Johns River.
- Total equity to be injected is shown to be $5.28 million; 14.0% of TDC.
- Construction and permanent debt on the development is shown to be limited to $29.94 million, 79.6% of TDC.

REV Calculation:

The table following outlines the program parameters of the DIA Market Rate Multifamily Housing REV Grant program. Under this program, applicants are limited to a maximum of 75% REV for a period of fifteen years, and requests beyond these limits requires approval by the City of Jacksonville City Council. In scoring the project proposal, the Development achieves a score of 50%.

Program Parameters	Development Metrics	Point Eligibility
5% for every 25 units produced in Downtown Jacksonville (not to exceed a factor of 30%); plus	103	20%
15% for the development of City-owned lazy / underutilized assets; plus	N/A	0%
10% for a mixed use development for each 2,500 square feet of retail/office/commercial space (not to exceed 20%); plus	0	0%
10% if the Developer documents they are working with an employer or Non-profit organization to provide other housing incentives for Downtown; plus	N/A	0%
15% for the development of green space and amenities for residents; plus		15%
15% for a project located in a DIA designated Strategic Housing Area (an "SHA").	Yes Central Core	15%
TOTAL		50%

However, as the proposed development is also undertaking additional development activity to meet the needs on the JFRD with no ongoing costs for maintenance or operation, an additional REV amount of 25% is proposed for a total of 75%. As additional information, the full project will also be providing 36 additional residential units not captured here, along with more than 5,000 square feet of commercial/retail space along W. Duval Street also not captured in the metric above.

As calculated, a 75%/15-year REV equals $4,110,000 (rounded), based upon the Applicant property value assumptions, underwritten development cost of $34,822,136, and tangible personal property of $200,000. Under these assumptions and requirements, the estimated ROI on the City's investment is 1.33X.

If the discretionary 25% of the REV is not approved, the 50%/15-year REV equals $2,740,000 (rounded), and the ROI increases to 2.00X.

Lowering the property value 25% to approximately $45 per square foot, provides underwritten development cost of $34,369,965 and lowers the 75%/15-year REV to $4,050,000 (rounded).

With the REV calculation established at 50%/15-year, the REV Grant amount drops to $2,700,000.

Recommendation:

DIA Staff recommends approval of a Market-Rate Multifamily REV Grant in the amount of $4,050,000, which eliminates $2.4 million from the development budget for the proposed JFRD contribution towards construction costs, eliminates certain soft costs such as developer fee and reserves detailed elsewhere, and incorporates a reduction in the underlying land value by 25% in the calculations.

Additional terms and conditions as outlined on the attached Exhibit A Term Sheet.