CITY OF REDMOND

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URBAN RENEWAL DISTRICT AGENCY BOARD

October 26, 2021
Virtual Meeting • www.redmondoregon.gov/CityCouncilLive

BOARD MEMBERS

George Endicott
Chair

Jay Patrick
Board President

Jon Bullock
Member

Krisanna Clark-Endicott
Member

Clifford Evelyn
Member

Ed Fitch
Member

Shannon Wedding
Member

OCTOBER 26, 2021	SPECIAL MEETING AGENDA	FOLLOWING P.M. COUNCIL MEETING

I. CALL TO ORDER / ESTABLISH A QUORUM

II. MINUTES

A. Minutes of June 22, 2021, Agency Board Meeting

III. PRESENTATIONS

A. 4th Quarter Financial Report

IV. ACTION ITEMS

A. $245,430 loan to Arome Holdings LLC for improvements to the Arch Building at 432 SW 6th Street. Purpose: Residential housing.

V. OTHER BUSINESS

A. Downtown Update

VI. ADJOURN

DRAFT

SPECIAL CITY OF REDMOND URBAN RENEWAL DISTRICT AGENCY BOARD MEETING WAS HELD JUNE 22, 2021, VIA GOTOMEETING.

BOARD MEMBERS PRESENT: **Jon Bullock – Krisanna Clark-Endicott – George Endicott – Clifford Evelyn – Ed Fitch – Jay Patrick – Shannon Wedding**

MEDIA PRESENT: **None**

Chair Endicott called the meeting to order at 8:10 p.m. and established a quorum.

MINUTES
A. Minutes of June 8, 2021, Special Urban Renewal Agency Board Meeting

Clark-Endicott moved, seconded by Patrick, to approve the minutes, motion passed. (Bullock-yes, Clark-Endicott-yes, Endicott-yes, Evelyn-yes, Fitch-yes, Patrick-yes, Wedding-yes)

PRESENTATIONS
A. Downtown Urban Renewal District Update

Economic Development/Urban Renewal Program Manager Chuck Arnold and Urban Renewal Program Analyst Meghan Gassner provided the Board with an Urban Renewal 2020 Year in Review. Highlights included an overview of the district, its top priorities, strategies, and programs. Ms. Gassner reported that over the last eight years, the District has invested $21 million of Urban Renewal funding which contributed to an increase to the tax base of $98 million. She said that for more than twenty years the Downtown Urban Renewal District Tax Base has grown by over 6 percent per year. Key outcomes for Fiscal Year (FY) 2020/21 were to increase parking supply, midtown housing and redevelopment, and continuing to support the improvement of property values through the Property Assistance Program. The District offers the following:

Loan Funding Sources
- Industrial Employment (up to $2,500-$7,500 per job created)
- Property Rehabilitation (up to $100,000)
- Restaurant Capital Improvements (up to 20 percent per first $50,000; 50 percent per next $80,000)
- Housing Resources (up to 20 percent of construction costs)

Grant Programs
- Free Design Assistance (up to 15 hours with local architects and engineers)
- Façade Rehabilitation (up to $4,000 for building facades, signage, and historic rehabilitation)
- Small Projects (up to $5,000 for awnings, windows, sidewalks, and landscaping)
- Fire Safety & Accessibility (up to $7,500 for Americans with Disabilities Act improvements, building systems, and environmental cleanup)

Ms. Gassner stated that during FY 2020/2021, the District issued twenty grants and loans for a total investment of $227,000 which helped leverage $3.8 million in improvements. Currently there are twenty-one projects in the pipeline waiting to receive funding.

Mr. Arnold addressed the District's business support in response to COVID-19 which included listening to the needs (rallies and focus groups), funding ($630,000 to over 100 businesses), and free Personal Protective Equipment distribution (257,000 units to 375+ businesses benefitting 3,100+ employees).

Current and future projects were presented by Mr. Arnold and include housing incentives, a family entertainment center, Property Assistance Program, Midtown Place, and increasing free public parking. Ms. Gassner reported on the South 97 Urban Renewal District's priorities which include improvements to the corridor, employment land infrastructure, and public/private partnerships with the goal of growing the valuation of the properties within its boundaries. She said that the current projection for the growth of the valuation is six times the current valuation.

In response to Chair Endicott's request for an update on the family entertainment center, Mr. Arnold indicated there are two projects in the works: a family entertainment center (bowling alley or go carts, etc.) and a family recreation center (water park, etc.). Board Member Fitch opined there is a critical need for a family entertainment center and encouraged this to be a strong priority. Board Member Clark-Endicott expressed appreciation for the hard work Mr. Arnold, Ms. Gassner, and the Downtown Urban Renewal Advisory Committee members have put into revitalizing Redmond.

ACTION ITEMS

A. Change Order #1 with McKenzie Cascade for construction of public parking lot at SW 4th and Evergreen: $33,891.48 (DU2002)

Mr. Arnold and City Engineer Mike Caccavano requested approval of Change Order #1 in the amount of $33,891.48 to the contract with McKenzie Cascade for the SW 4th Street and SW Evergreen Avenue parking lot project. The change order includes additional paint striping, driveway apron improvements, sidewalk extension, tree relocation, and sidewalk pavers to replace the grass that was originally installed. SW 4th Street does not have specific design standards in terms of sidewalk and landscaping like SW 5th and 6th Streets. The change order is necessary for modifications that reflect the increased pedestrian traffic along SW 4th Street.

In response to questions from Chair Endicott, Mr. Caccavano stated the Parks Division has indicated it is difficult to re-use sod, but they plan on salvaging the irrigation materials. Board Member Evelyn asked what the City can do in the future to ensure a similar instance does not occur. Mr. Caccavano explained a standard is needed for streetscape and that writing the standard will be a joint effort between Engineering, Community Development, and Urban Renewal. Mr. Witcosky will follow-up to make sure that standard is created.

Bullock moved, seconded by Evelyn, to approve Change Order #1 with McKenzie Cascade in the not to exceed amount of $33,891.48 and authorize the City Manager to execute the change order, motion passed. (Bullock-yes, Clark-Endicott-yes, Endicott-yes, Evelyn-yes, Fitch-yes, Patrick-yes, Wedding-yes)

OTHER BUSINESS

Mr. Arnold provided a brief update on the old bank building in the downtown core.

There being no further business, the meeting was adjourned at 8:40 p.m.

Prepared by Kelly Morse, City Recorder

APPROVED by the Board and SIGNED by the Chair this 26th day of October 2021.

____
George Endicott, Chair

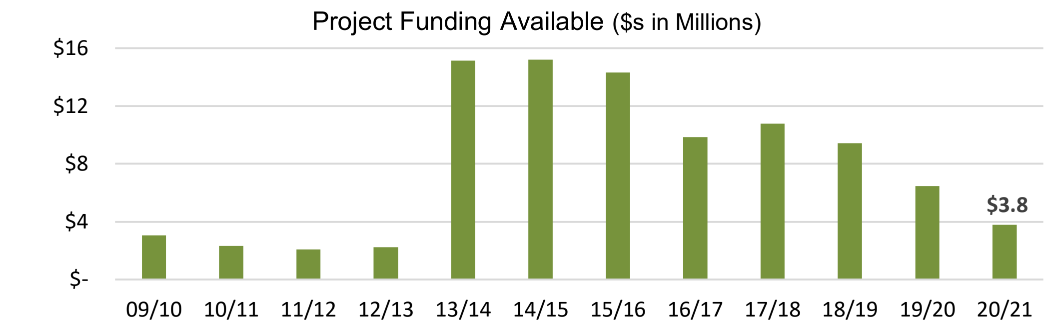
ATTEST:

____
Kelly Morse, City Recorder

Downtown Urban Renewal - Financial Overview

4Q FY20/21
(Preliminary / Un-Audited)

Maximum Indebtedness:	Plan	Current	Remaining
	$121 million	$48 million	$73 million



Key Financial Highlights

* Property Tax Increment: Assessed Value: +7.6% (bgt +6.2%), +$197k vs. bgt.
* $1.5M for parking lot construction on the Former City Hall property and 4th & Evergreen
* $653k paid to workforce housing development Midtown Place
* $69k of loan funding distributed to construction of Medical Building expansion
* Additional project financing not needed until 21/22 - 22/23 time frame

Financial Performance ($ in Millions)

*Activity **	YTD	Budget	YTD / Bgt	ITD	Plan	To Go
Project Administration	$ 0.466	$ 2.571	18%	$ 3.671	$ 8.427	$ 4.757
Property Assistance Program	$ 0.090	$ 0.364	25%	$ 1.223	$ 4.906	$ 3.683
City Hall	$ -	$ -	N/A	$ 2.300	$ 1.547	$ (0.753)
Housing Development Opportunity Fund	$ 0.912	$ 3.668	25%	$ 1.994	$ 10.369	$ 8.375
Circulation Study	$ -	$ 0.050	0%	$ -	$ 0.139	$ 0.139
Highway 97 Reroute Beautification **	$ -	$ -	N/A	$ 0.670	$ 0.807	$ 0.137
Business Park Master Plan	$ -	$ -	N/A	$ -	$ 0.165	$ 0.165
Wayfinding	$ -	$ -	N/A	$ 0.046	$ 0.026	$ (0.021)
Business Development Services	$ 0.001	$ 0.010	10%	$ 0.031	$ 0.160	$ 0.128
Restaurant Capital Improvements	$ -	$ 0.101	0%	$ 0.055	$ 0.160	$ 0.104
Alternative Mobility Project	$ 0.026	$ 0.063	42%	$ 0.267	$ 3.564	$ 3.297
Business/Medical Park Development	$ 0.069	$ 0.740	9%	$ 0.701	$ 7.489	$ 6.788
Industrial Opportunity Fund	$ -	$ 0.202	0%	$ 0.115	$ 2.718	$ 2.603
Redevelopment Opportunity Fund	$ 0.032	$ 4.216	1%	$ 5.328	$ 22.635	$ 17.307
Evergreen Streetscape Improvements	$ -	$ 0.040	0%	$ 0.031	$ 0.102	$ 0.071
Circulation Improvements	$ -	$ 0.001	0%	$ 0.120	$ 7.662	$ 7.542
Public Open Space	$ 0.002	$ -	N/A	$ 3.527	$ 4.858	$ 1.331
Public Parking	$ 1.536	$ 2.110	73%	$ 1.883	$ 17.392	$ 15.509
TOTAL EXPENDITURES	***$ 3.135***	***$ 14.135***	***22%***	***$ 21.962***	***$ 93.125***	***$ 71.163***

* Activities = 12th Amendment, ITD = Since 2012 (12th Amendment went into effect), Plan = 12th Amendment with approved adjustments

** ITD and Plan includes $150k of Truck Reroute Bypass Activity funding which remained prior to the 12th Amendment

Key Statistics ($ in Millions)

Tax Increment (TI) Collections		
FY20/21 (YTD)	$	3.509
FY20/21 (Projection)	**$**	**3.509**
FY20/21 (Budget)	$	3.312
FY19/20	$	3.304
FY18/19	$	3.087

Assessed Value (AV) Growth	
Plan Inception Avg.	**5.7%**
5 Year Avg.	**6.2%**
FY20/21	**5.7%**
FY19/20	3.9%
FY18/19	6.0%

Other Assessed Value Metrics		
Total AV	$	305.3
Incremental AV	**$**	**232.5**
Frozen Base	$	72.8

Foregone Share of $1 Dollar Spent		
Education	$	0.37
City of Redmond	$	0.28
Deschutes County	$	0.21
Redmond Fire & Resc.	$	0.11
Redmond Park & Rec	$	0.02

Debt Metrics ($s in Millions)		
New Debt Capacity	**$**	**11.0**
Outstanding Debt	$	13.0
Annual Debt Service	$	1.6
Average Interest Rate		4.3%
Final Maturity (Years)		10
Debt Coverage Ratio		1.54

Project Administration / Expenses	
FY20/21 (YTD)	15%
FY19/20	10%
FY18/19	13%

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STAFF REPORT

DATE:	October 26, 2021
TO:	Redmond Urban Renewal Agency Board
THROUGH:	Keith Witcosky, City Manager John Roberts, Deputy City Manager Chuck Arnold, Economic Development/Urban Renewal Program Manager
FROM:	Meghan Gassner, Urban Renewal Program Analyst
SUBJECT:	$245,430 loan to Arome Holdings LLC for improvements to the Arch Building at 432 SW 6th Street. Purpose: Residential housing.

Addresses Council Goal:

4. Economic Development: Develop and maintain an environment that promotes and supports a strong, healthy, and diverse economic base.
C.i. Provide incentive programs that are regionally and nationally competitive and targeted towards businesses that create family-wage jobs.

9. Urban Renewal: Deploy resources to encourage investment and advance the goals of the City's urban renewal areas.

Downtown Urban Renewal Plan: Create a readily identifiable city center that is vibrant with a mixture of offices, specialty shops, entertainment, family amenities, housing and other commercial uses.

Report in Brief:

This item requests the Urban Renewal Agency Board authorize a Loan Agreement with Arome Holdings, LLC for an urban renewal investment of up to $245,430 in support of the residential phase of the rehabilitation of the Arch Building located at 432 SW 6th Street (Project).

Background:

The Downtown Urban Renewal Plan includes $8.45M in the Housing Opportunity Revolving Loan Fund (Program) to stimulate housing redevelopment in the Downtown Urban Renewal District. The Program purpose is to provide gap financing for housing projects in the district. The goal is to create increased assessed value through investment in downtown properties (through housing), and strengthen the residential presence in downtown by attracting new residents.

Program applicants are required to address two or more urban renewal strategy goals to qualify for loan funding (*see Program Description, Exhibit 1*).

The Project:
The Arch Building is in a prominent location downtown, directly adjacent to the Redmond Arch on 6th Street. The Project has been divided into two phases. Phase One of the Project, the retail phase, received a $98,000 urban renewal investment. The scope includes first-floor retail space. These are underway and completion is expected in calendar year 2021. The investment was approved by the Urban Renewal Agency Board in April 2021.

The Phase 2 Proposal:
The residential renovations will convert the second floor of the building to seven modern 1 bed/1 bath apartments and one studio apartment, each approximately 450 square feet. This complete renovation is required. The scope comprises replacement and upgrades to plumbing, electrical, and mechanical. The units will have an open concept

layout and will incorporate the historical architectural elements of the building.

Total Project costs for Phase Two are estimated to be $865,430.

Sources include:
Developer equity: $270,000
Private loan: $350,000
Urban Renewal loan: $245,430
TOTAL: $865,430

<u>Benefits:</u>
The Arch Building has been vacant for nearly a decade. Deferred maintenance has led to its deterioration and visual blight. The Project will not only activate a key building, it will also increase the number of high-density housing units in the Downtown Urban Renewal District, bringing more “feet on the street” and potential customers to downtown shops and restaurants.

The Project meets the following Housing Opportunity Revolving Loan Program Goals:

1. **Eliminates conditions of blight.** Due to the long-term vacancy and lack of maintenance, the Arch Building has deteriorated significantly. The renovation and rehabilitation will activate the building and significantly enhance the visual appearance of a key property downtown.
2. **Promotes economic development.** The Project not only provides housing, but also adds additional retail to downtown, creating a new location for the community to gather and shop.
3. **Stimulates additional private investment.** The Project will increase the number of residents living, shopping, and dining downtown, stimulating additional investment into our downtown.
4. **Create jobs.** The Project is expected to provide six new jobs.

The Project also meets several Redmond Comprehensive Plan 2040 goals related to housing development, including:

- A wider range of types of housing development within Redmond to meet the housing needs of all income levels in both existing neighborhoods and new residential areas.
- Development of higher density multifamily housing in High Density overlay zone.
- Development of mixed-use multifamily housing in commercial zones.

The increase in assessed value will lead to a 40% growth in property taxes from the property; and an additional $8,210 in property tax increment. The Developer estimates nearly $600,000 will be spent in Phase Two construction costs with local construction companies.

One of the goals of urban renewal financing is to leverage at least four dollars of private investment for each dollar of urban renewal funding. The construction investment alone in this Project (Phase One and Phase Two combined), will leverage $4.18 in new private capital for each Urban Renewal public dollar invested.

<u>Financial Review of the Proposal:</u>
Redmond Urban Renewal Agency Staff engaged the Downtown Urban Renewal Advisory Committee (DURAC) Finance Subcommittee to review the Proposal, including the Developer’s financial capacity. The subcommittee members have direct experience in financial and business operations. The proposal and proforma was stress tested to determine the feasibility of the Project, capability of the Developer, and public investment risk.

The subcommittee then recommended it for approval by DURAC, which in turn is recommending the Board's approval on October 26.

The loan will be subject to the following terms:

- Standard loan amount of up to **$245,430**, at **3.25%** (Wall Street Prime rate).
- Funding is only accessible for construction costs via a reimbursement process.
- **Interest-only** payments for a **15-year term,** with a balloon payment owing at the end of the term (per the

Housing Opportunity Revolving Loan Fund Program standards).

- Urban Renewal funding is accessed last in the capital stack.
- Work progress and budget updates will be provided from the contractor when requested by Urban Renewal staff or on a mutually agreed upon regular schedule.
- Notice will be provided to UR Staff if any additional debt over $25,000 is incurred on the Project.
- Date Down Endorsements will be provided prior to loan draws.

Developer Obligations:

- Renovate the Arch Building with modern residential units as detailed in the Proposal (*see Exhibit 2*);
- Provide regular reports to Urban Renewal staff on schedule, budget, and progress of the Project during construction.

RURA Obligations:

- Provide access to up to $245,430 of loan funding;
- Urban Renewal staff engage in project team and general contractor meetings as needed to assure the Project stays on track to be completed.

Project Confidence:
Using the Project Confidence Level Rating Index (*see Exhibit 3*), staff confidence in the Project estimate at this time is moderate. The Project scope and specifications are generally defined, but lack detail at this stage. It is expected as the Project moves through construction, the scope will be further understood and staff confidence will increase to high-optimal.

Key Milestones:

May 2021:	Phase 1 (Retail) demolition and construction initiated
November 2021:	Phase 1 project completion
October 2021:	Phase 2 (Residential) construction begins
July 2022	Phase 2 construction complete and units available for lease

Discussion:
Constructed in 1924, the Arch Building is approximately 15,000 square feet and is comprised of three 5,000 square foot stories. It was last occupied by a gym, a second-hand store, and a teen nightclub, but has been vacant for approximately ten years. Over the years, the building has suffered from significant deferred maintenance and other major systems issues associated with the long-term vacancy. These conditions have made leasing prohibitive.

In April 2021, RURA approved an investment of up to $98,000 for construction of the Phase One retail portion of this Project. To help mitigate the risk of the urban renewal public funding, the request was split into two tranches: $49,000 as an interest-bearing repayable loan, known as the standard loan; and $49,000 as a forgivable loan, the obligation of which is reduced annually each year the retail space remains active.

In addition to this funding request for the residential phase, the Developer has also applied for the Systems Development Charge (SDC) Buydown program. This program provides grant funding for SDC charges related to the development of high-density housing. The Buydown includes $5,000 per unit for the development of three or more units on a single property. The Project qualifies for a grant of $40,000. This request can be approved administratively by staff if all program criteria are met.

Project Costs

Phase 1 Retail (including acquisition):	$912,000
Phase 2 Residential:	$865,430
Total Project Costs:	$1,777,198

Urban Renewal Funding

Phase 1 Retail Loans (Approved by RURA)	$98,000 *($49,000 forgivable; $49,000 standard)*
Phase 2 Residential Loan	$245,430
Phase 2 Residential SDC Buydown Grant	$40,000
Total Urban Renewal Funding:	$383,430

RURA loans and grants for both phases total $383,430 and would be matched by $1.4M from the applicant. Urban Renewal funding is 22% of the total $1.77M Project cost.

Fiscal Impact:
Funding is available for this Project through the Housing Opportunity Revolving Loan Fund. The Fund has $8.45M remaining. If funded, there are no anticipated short-term impacts (1 to 5 years) to other planned projects. The loan funding would be repaid to RURA to be reinvested in other projects.

Alternative Courses of Action:

1. Approve an urban renewal investment of up to $245,430 and authorize the City Manager to enter into a loan agreement with Arome Holdings LLC for the Phase Two renovation and development of the Arch Building property at 432 SW 6th Street.
2. Request more information.
3. Do not approve entering into a loan agreement.

Recommendation / Suggested Motion:
"I move to authorize the City Manager to enter into a loan agreement of up to $245,430 with Arome Holdings LLC for the Phase Two residential renovation of the Arch Building property at 432 SW 6th Street."

City of Redmond Urban Renewal Agency

Housing Opportunity Revolving Loan Program

Purpose:

This program is structured to stimulate housing redevelopment in the Redmond Downtown Urban Renewal District by providing an ongoing source of gap financing for new housing construction that provide an immediate increase in assessed value, promote development and redevelopment, increase the number of high density housing units in the Redmond Downtown Urban Renewal District and support additional goals identified in the Redmond Downtown Urban Renewal Plan, the Downtown Redmond Urban Renewal Development Strategy, and the Redmond Center City Housing Study. The goals of this program are to strengthen the residential presence in downtown by attracting new residents and private housing investment.

Qualifying Projects:

Qualifying projects must satisfy ALL of the following conditions:

- Be located within the boundaries of the Downtown Redmond Urban Renewal District. (Please see attached map.)
- Consist of new housing construction, including single-family housing, multi-housing, Accessory Dwelling Units, etc.
- Leverage at least four dollars of private investment for each dollar of urban renewal financing.
- Achieve the following objectives articulated in the Redmond Center City Housing Study:
  - ☐ Eliminate blighted conditions including vacant and underutilized parcels, buildings experiencing disinvestment, and deteriorated neighborhoods.
  - ☐ Provide residents increased options to live in areas where they can conveniently access services with reduced reliance on private automobiles.
  - ☐ Provide housing products that meet the needs of well represented as well as underrepresented members of the community including families, work force and retirees.
  - ☐ Provide the area's pedestrian oriented central business district an enhanced customer base – thereby supporting a more vital and diverse central business core which can better serve and attract residents, employees, and visitors.
  - ☐ Foster higher density housing in areas of the community where it can be most efficiently served with utilities and infrastructure, including alternative modes of travel.
- Address two or more of the following urban renewal strategy goals:
  - **Eliminating conditions of blight -** Projects that address blighted conditions including underutilized land and/or deteriorated buildings and structures.
  - **Promoting Redmond's economic development** - Projects that enhance the District's attractiveness as a place to live, work, or seek entertainment.
  - **Stimulating additional private investment -** Projects expected to generate further private investment beyond that directly associated with the project (such as a major anchor retailer, employer, or entertainment expected to generate ancillary investment).
  - **Creating jobs -** Projects that will bring new employers to the community.
  - **Focusing on families -** Qualifying projects should enhance Redmond's attractiveness and amenity value for families.

ARCH BUILDING PROJECT PHASE 2

Executive Summary

The Project

The Arch Building Project seeks to revive the vacant building at 432 SW 6th St. Once renovated, this building, situated directly at the Redmond Arch, has the potential to be a catalyst for additional private investment and community engagement in the City's downtown core. The project is being led by a husband-and-wife team that operate both a real estate investing business and a brick-and-mortar retail business, making them ideally suited for this mixed-use opportunity. Phase 1 of the project, which is underway and has been partially funded by City loans, involves improvements to the first-floor retail space which the owners intend to occupy with a second installment of their gourmet food and kitchenware store called Arome. Phase 2 of the project proposes to convert the vacant second floor to seven 1bed/1bath apartments and one studio apartment. The basement will be utilized primarily as the hub of Arome's growing online business, but will also feature eight storage rooms, one for each second-floor apartment.

Phase 2 of the project will involve extensive interior remodeling and updating of the building systems. The goal of Phase 2 is for the apartments to be complete in July 2022.

ARCH BUILDING - PHASE 2 PROJECT COSTS	
SOFT COSTS	
Design Fees	$47,860
Permits	$10,505
SDCs*	$25,175
Insurance	$5,000
Short Term Financing Interest	$30,000
Subtotal	$118,540
CONSTRUCTION COSTS	
Demolition	$20,000
Utilities	$56,000
Building Systems	$36,500
Rough Carpentry	$53,000
Electrical	$50,000
Plumbing	$56,000
HVAC	$28,000
Insulation	$14,400
Drywall	$50,000
Paint	$20,000
Finishes	$120,850
Appliances	$27,000
Building Envelope	$66,500
Subtotal	$598,250
CONTRACTOR PROFIT & OVERHEAD	$71,790
CONTINGENCY	$76,850
TOTAL PHASE 2 PROJECT COST	**$865,430**

*Remaining after SDC Buydown Program

Request for City Support

While the owners are making a substantial personal investment in the project, this project will not be possible without significant public financial support. The table below describes the overall financial structure of the project and the requested funds.

Arch Building Project- Phase 2 Financial Structure		
Owner's Initial Equity Position	$270,000	Phase 2 Only
Private Construction Loan	$350,000	
Total Project Cost	$865,430	
Funding Gap	*$245,430*	
Standard City Loan	$245,430	
Loan to Cost Ratio	28%	
Arch Building Overall Long-Term Private Debt Upon Refinance (Retail & Residential)	$1,200,000	Combined Phase 1 & 2
Total Gross Income	$173,100	
Total Operating Expenses	$33,590	
Total Net Operating Income	$139,510	
Private Debt Service (4.75% @ 25 year am)	$82,092	
City Debt Service (3% for 30 years)	$14,868	
Cashflow	$42,550	
DSCR	1.44	

Project Plan

The section describes the condition of the existing building and the proposed project plan including type of development, and the scope and schedule of repairs and renovation.

Existing Building

The Arch building is a 15,000 square foot building constructed in 1924 in what is known locally as the Early 20th Century Commercial style. It is comprised of three 5,000 square foot stories and was last occupied by a gym, a second-hand store, and a teen nightclub, but has been vacant for approximately ten years. In that time the building has suffered from deferred maintenance and issues associated with long-term vacancy.

Building Exterior. The building's front façade is the original brick and is in generally good condition. The rear brick façade has suffered some water damage and will likely require partial reconstruction. Water damage appears to be a result of clogged scuppers that failed to direct drainage away from the building, which resulted in damage to the brick-and-mortar exterior. The building's roof is a Howe truss type and has had a secondary roof structure constructed over it, presumably to enhance drainage. The roof structure is in excellent condition.

Existing Building Front

Existing Building Rear View

Building Interior. The second floor of the Arch Building is comprised of a large open area with another room partitioned, and men's and women's locker room facilities, all of which have drop acoustic ceilings. The southeast corner of the second floor has water damage which was caused by exterior drainage entering the building due to clogged scuppers. The windows are of mixed vintage and there is evidence of water intrusion from the ceiling and windows.

Building Systems. The primary building systems include HVAC, plumbing and electrical:

- **HVAC.** There are two AHUs in the attic space for heating and cooling. The AHUs will be replaced with individual HVAC systems for each apartment.
- **Plumbing.** The building's water supply is comprised of two 1-inch metered water supply connections and a 4-inch fire service line. The waste drain system drains by gravity to the existing City-owned sanitary sewer line in the alley behind the building. Extensive plumbing upgrades are expected as a part of this project and are described in the following sections.

- **Electrical.** The main exterior electrical panel has been upgraded in last couple of decades. There are three existing 200 Amp service meters at the rear of the building. Multiple sub-panels in the building interior are from past eras and will need to be upgraded. The wiring is mostly modern, grounded, romex, but will require extensive replacement to serve the new floor plan.

Planned Use

The second floor will be converted to seven 1 bed/1 bath apartments and one studio apartment. There will be a shared laundry room featuring two pairs of washers and dryers. A portion of the building's basement will be converted into 5' x 10' storage units, one for each apartment.

Code Study

Tekneek Architecture was hired to perform a code study to provide an understanding of how existing code requirements apply to the scope of this project and identify needed improvements to the structure and building systems. Arome has also investigated required licenses and code requirements for operation of the retail space. The code study is currently in progress and contains the following elements:

- Structural loading requirements driven by usage
  - The proposed residential use is considered a lower loading rate than the current commercial rating, and the structure is therefore adequate.
- Fire separation and suppression
  - Fire separation will be required between the main and second floors
  - Each of the residential units must be separate by a 2-hour fire wall
  - The existing 4" sprinkler supply has sufficient pressure and flow to serve the combined commercial and residential uses.
- Egress
  - Egress from each of the residential units must be fulfilled by a fire-rated hallway leading to each of the two stairways/exits.
- Energy Code
  - 2020 Energy Code will require provisions for a future solar power system, automated lighting controls, and other efficiency meaures
- Water demand
  - One of the two existing 1-inch domestic water services will be allocated to the retail space and the other will be upgraded to 1-1/2-inches and allocated to the second-floor apartments.
- Sewer loading
  - The existing 4" sewer connection is adequate to handle the increased loading from the retail buildout and second floor apartments
- Electrical loading
  - A new 3-phase service drop will be installed on the rear of the building and the eight second floor residential units will be sub-metered with 100A breaker panels located in each unit.
  - The main floor retail and basement will each have separate electric meters and 200 Amp services.

Renovation Plan

Phase 2 of the Arch Building Project will involve a complete interior renovation of the 5,000 SF second floor of the building. All building systems, including plumbing, electrical, and mechanical will undergo major upgrades to support the residential use. The space will be renovated to create eight modern apartments, each approximately 450 SF. A shared laundry room with two washing machines and two clothes dryers will be located at the rear corner of the second floor adjacent to the stairs.

The apartments will have an open concept layout and will incorporate historic architectural elements:

The residential conversion scope of work will involve:

- Removal of the drop ceilings, opening existing trusses to the interior space
- New electrical and plumbing throughout. Each unit will be individually metered.
- Fire suppression sprinklers
- Each unit will be served by a mini-split HVAC unit
- Full kitchens and bathrooms
- Window replacement
- Refinishing of existing hardwood floors
- Finishes including light fixtures, hardware and trim
- Laundry room buildout

Schedule

Phase 1 of the Arch Building Project is underway and will be completed in November 2021. Phase 2 construction will begin in October 2021. To capture the benefit of opening for the Christmas shopping season the retail space is anticipating opening by November 2021. We anticipate Phase 2 will be complete and units ready for rent in July 2022.

Construction Cost Estimate

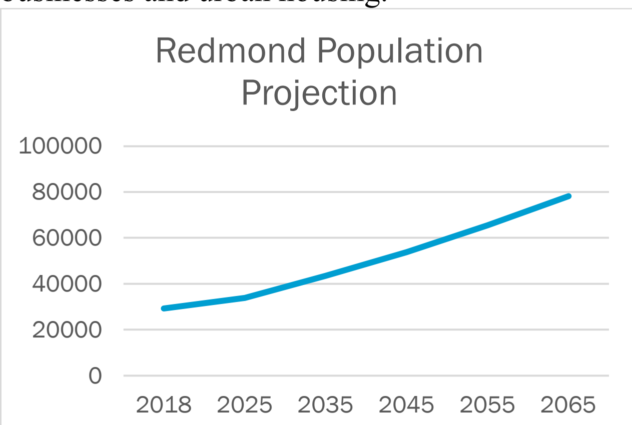
ARCH BUILDING - PHASE 2 PROJECT COSTS	
SOFT COSTS	
Design Fees	$47,860
Permits	$10,505
SDCs*	$25,175
Insurance	$5,000
Short Term Financing Interest	$30,000
Subtotal	$118,540
CONSTRUCTION COSTS	
Demolition	$20,000
Utilities	$56,000
Building Systems	$36,500
Rough Carpentry	$53,000
Electrical	$50,000
Plumbing	$56,000
HVAC	$28,000
Insulation	$14,400
Drywall	$50,000
Paint	$20,000
Finishes	$120,850
Appliances	$27,000
Building Envelope	$66,500
Subtotal	$598,250
CONTRACTOR PROFIT & OVERHEAD	$71,790
CONTINGENCY	$76,850
TOTAL PHASE 2 PROJECT COST	**$865,430**

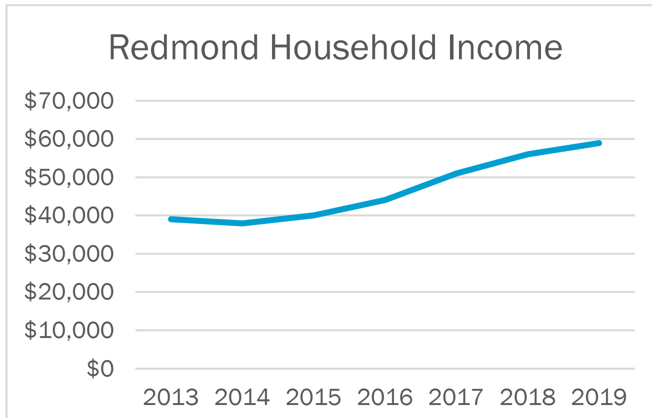
Market and Financial Analysis

The section describes the current economic environment of Redmond, the financial projections for the retail business and the proforma for the completed Arch Building Project.

Redmond Market

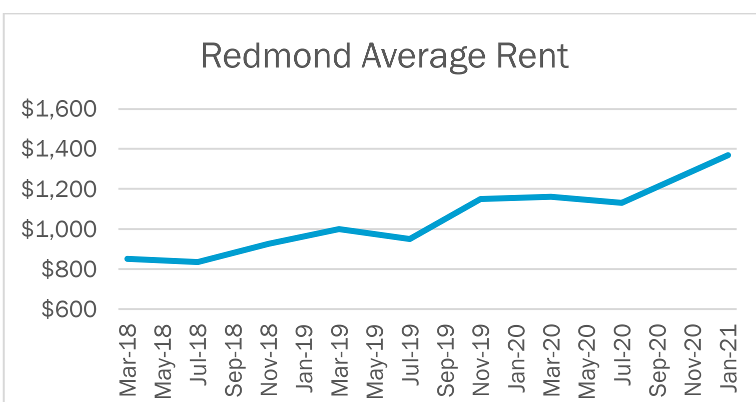
Redmond is a fast-growing, semi-rural City with several desirable attributes for investors and business owners. Population projections and rising incomes support expectations for a growing demand for retail businesses and urban housing.





Rental Projections

Redmond is a strong rental market with low inventory, particularly in downtown. The rental vacancy rate in Redmond, for units that are available for rent and not for sale, is below 2%. Monthly rental rates have been steadily increasing due to the high demand over the last several years as well as newer, nicer rentals that have some to market. The average 1-bedroom unit rent is $850/month, but this number is heavily skewed downward by the high number of older, smaller apartments in relatively poor condition. Our market research, which includes an assessment of currently advertised rates and discussions with property managers in the area, indicates that the Arch Building Apartments will rent for $1100-1200/month, plus utilities.



Arch Building Proforma

The tables below show the expected gross and net income for the entire Arch Building Project for the years 2022-2024. We expect a rapid stabilization of the building due to already having a retail tenant in place and the anticipated high demand for the apartments.

INCOME

				2023		2024	
Tenant	Unit Qty	Units	$/Unit	Monthly	Annual	Monthly	Annual
1st Floor & Basement Retail	7500	SF	$0.75	$5,625	$67,500	$5,625	$67,500
2nd Floor	8	EACH	$1,100.00	$8,800	$105,600	$8,800	$105,600
			Gross Income	**$14,425**	**$173,100**	**$14,425**	**$173,100**

EXPENSES

		2023		2024	
Expense Category	Assumptions	Monthly	Annual	Monthly	Annual
Private Debt Service	$1,200,000 @ 4.75%, 25 year Amor.	$6,841	$82,092	$6,841	$82,092
City Debt Service	$276,000 @ 3.0%, 30 year Amor.	$1,239	$14,868	$1,239	$14,868
Maintenance	5% total gross rev	$721	$8,655	$721	$8,655
Taxes	$8000/ year	$667	$8,000	$667	$8,000
Insurance	$3,000/year	$250	$3,000	$250	$3,000
Cap Ex	5% total gross rev	$721	$8,655	$721	$8,655
Vacancy	5% gross residential rev	$440	$5,280	$440	$5,280

OPERATING BUDGET

	2023	2024
Gross Income	$173,100	$173,100
Operating Expenses	$33,590	$33,590
Net Operating Income	$139,510	$139,510
Private Debt Service	$82,092	$82,092
City Debt Service	$14,868	$14,868
Cashflow	$42,550	$42,550
DSCR	1.44	1.44

Arch Building Valuation

Commercial real estate appraisals typically consider three valuation approaches and the assigned valuation is a weighted average of those three approaches.

Cost Approach

The cost approach is based on the proposition that the informed purchaser would pay no more for the subject than the cost to produce a substitute property with equivalent utility. This approach is particularly applicable when the property being appraised involves relatively new improvements that represent the highest and best use of the land, or when it is improved with relatively unique or specialized improvements for which there exist few sales or leases of comparable properties.

Assuming the lot is valued at $250,000 and a cost of construction of $210/SF for 10,000 finished SF, the replacement cost of the completed Arch Building Project is $2,350,000

Sales Comparison Approach

The sales comparison approach utilizes sales of comparable properties, adjusted for differences, to indicate a value for the subject. Valuation is typically accomplished using physical units of comparison such as price per square foot, price per unit, price per floor, etc., or economic units of comparison such as gross rent multiplier. Adjustments are applied to the physical units of comparison derived from the comparable sale. The unit of comparison chosen for the subject is then used to yield a total value. Economic units of comparison are not adjusted, but rather analyzed as to relevant differences, with the final estimate derived based on the general comparisons.

With the 5000 SF first floor valued at $110/SF, each residential unit valued at $190,000, and ignoring the basement, the completed Arch Building Project would have a market value of $2,070,000.

Income Capitalization Approach

The income capitalization approach reflects the subject's income-producing capabilities. This approach is based on the assumption that value is created by the expectation of benefits to be derived in the future. Specifically estimated is the amount an investor would be willing to pay to receive an income stream plus reversion value from a property over a period of time.

At an Capitalization rate of 6.0%, which represents a blended value for the retail and residential uses, a stabilized NOI of $139,510 results in a valuation for the completed Arch Building project of $2,325,000.

Reconciliation of Value

The three valuation approaches indicate a value of the completed Arch Building project ranging from $2.07M-$2.35M.

Long-Term Financing

The applicants intend to consolidate the various loans used to acquire and improve the property into a single commercial real estate loan upon completion of the project and lease up of the residential units. The proforma previously presented assumes that all debt on the property, with the exception of City loans, would be converted into a single loan of approximately $1.2M with a typical commercial 10-15 term amortized at 25 years. The applicants have approached several commercial lenders who have quoted a maximum loan to value ratio of 70%. In order to clear all debt, with the exception of City loans, the completed project must only achieve an appraised value of $1,714,000.

Request for City Support

We are grateful that the Urban Renewal Agency has expressed interest in helping us achieve our goals with this project. We are requesting financial assistance in the total amount of $227,730, which is roughly equal to our cash investment in the residential renovation costs. Though promising, the renovation of this building is an extremely complex and expensive endeavor. The Urban Renewal Agency's assistance with funding is critical to the project's feasibility.

Proposed Financial Structure

We are proposing the following financial structure for the project:

Arch Building Project- Phase 2 Financial Structure		
Owner's Initial Equity Position	$270,000	Phase 2 Only
Private Construction Loan	$350,000	
Total Project Cost	$865,430	
Funding Gap	*$245,430*	
Standard City Loan	$245,430	
Loan to Cost Ratio	28%	
Arch Building Overall Long-Term Private Debt Upon Refinance (Retail & Residential)	$1,200,000	Combined Phase 1 & 2
Total Gross Income	$173,100	
Total Operating Expenses	$33,590	
Total Net Operating Income	$139,510	
Private Debt Service (4.75% @ 25 year am)	$82,092	
City Debt Service (3% for 30 years)	$14,868	
Cashflow	$42,550	
DSCR	1.44	

Proposed Loan Terms

We are proposing the following terms for the Urban Renewal Agency's loans for the Phase 2:

- Standard Loan-$245,430- 3% APR for 30 years

Project Estimate Confidence Level Rating Index Defined

COMPLETE	○ Final payment made. ○ Post project assessment completed comparing project estimate, amount of contract award and total amount of change orders issued during project. ○ Total project costs reported.

OPTIMAL	○ Project scope and specifications clearly understood and well defined. ○ Clear understanding of materials, size and quantities needed to execute job. ○ Schedule and special site conditions understood. ○ Project estimate unlikely to change (generally at 90% or greater design and engineering phase). ○ Total Project contingencies (including project management, design, engineering, plus construction) range between 10%-15%.

HIGH	○ Project scope and specifications nearly complete but still subject to change (70%–90% design and engineering phase) ○ Materials, size and quantities needed to execute job have been defined but subject to minor changes. ○ Schedule understood. ○ Total Project contingencies (including project management, design, engineering, plus construction) may range between 20%-30%.

MODERATE	○ Project scope defined but lacks details. ○ Project specifications incomplete (60%-70% design and engineering phase). ○ Total Project contingencies (including project management, design, engineering, plus construction) may range between 30%-40%.

LOW	○ Project scope is a conceptual "vision" with limited detail. ○ Project cost is an educated guesstimate. Limited technical information available and/or limited analysis performed. ○ Specifications still in infancy stage. (Less than 50% design and engineering phase). ○ Total Project contingencies (including project management, design, engineering, plus construction) may range up to or exceed 50%.

Arch Building Project Phase 2

Phase 1 Update

- Demo complete
- Framing complete
- Plumbing rough in complete
- Hardwood floor refinishing complete
- Drywall began 10/11
- On track for 11/26 opening

2nd Floor Existing Conditions

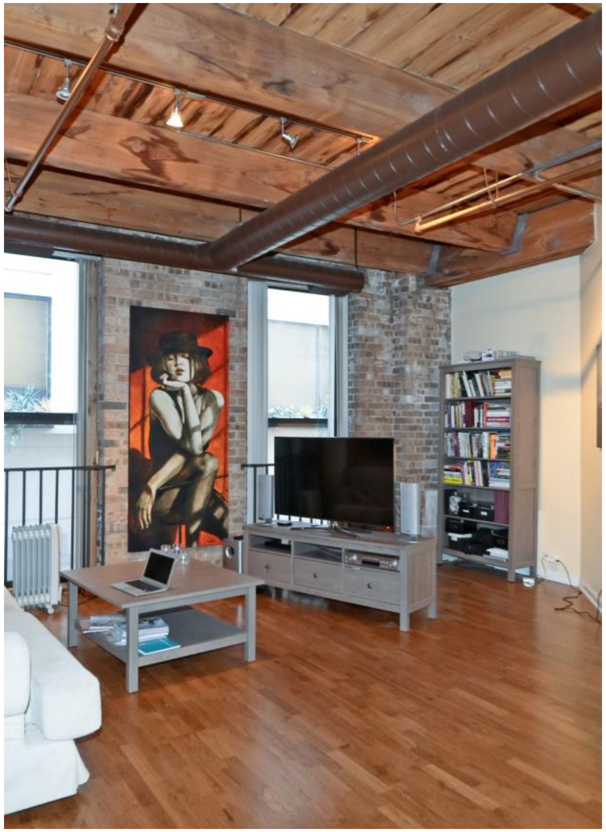
- 2nd Floor most recently used as fitness center (Class A-3). Vacant 10+ years.
- Mostly open floor plan, no structural obstructions
- Acoustical ceiling
- Old, leaky windows
- Plaster walls
- Limited sprinklering
- Non-compliant rear stairs

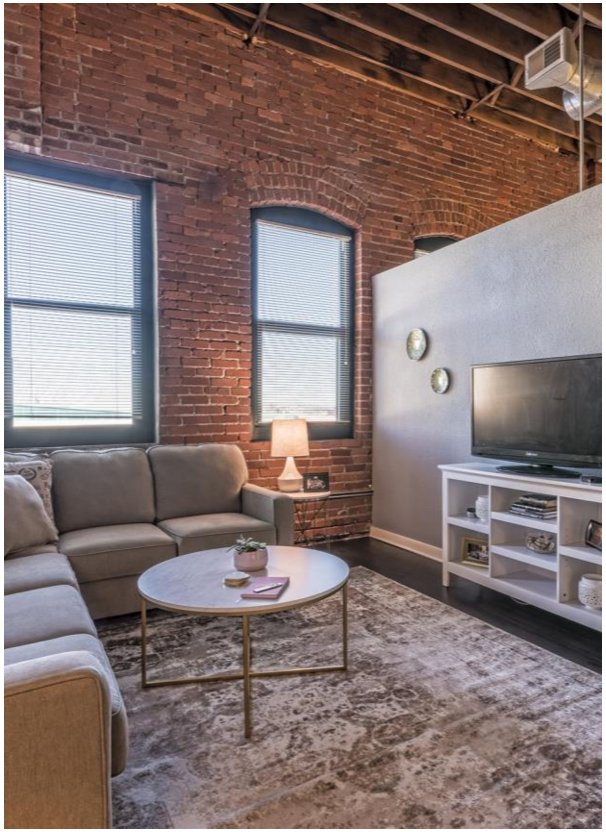
2nd floor of Arch Building is approximately 5000 square feet

Project Plan

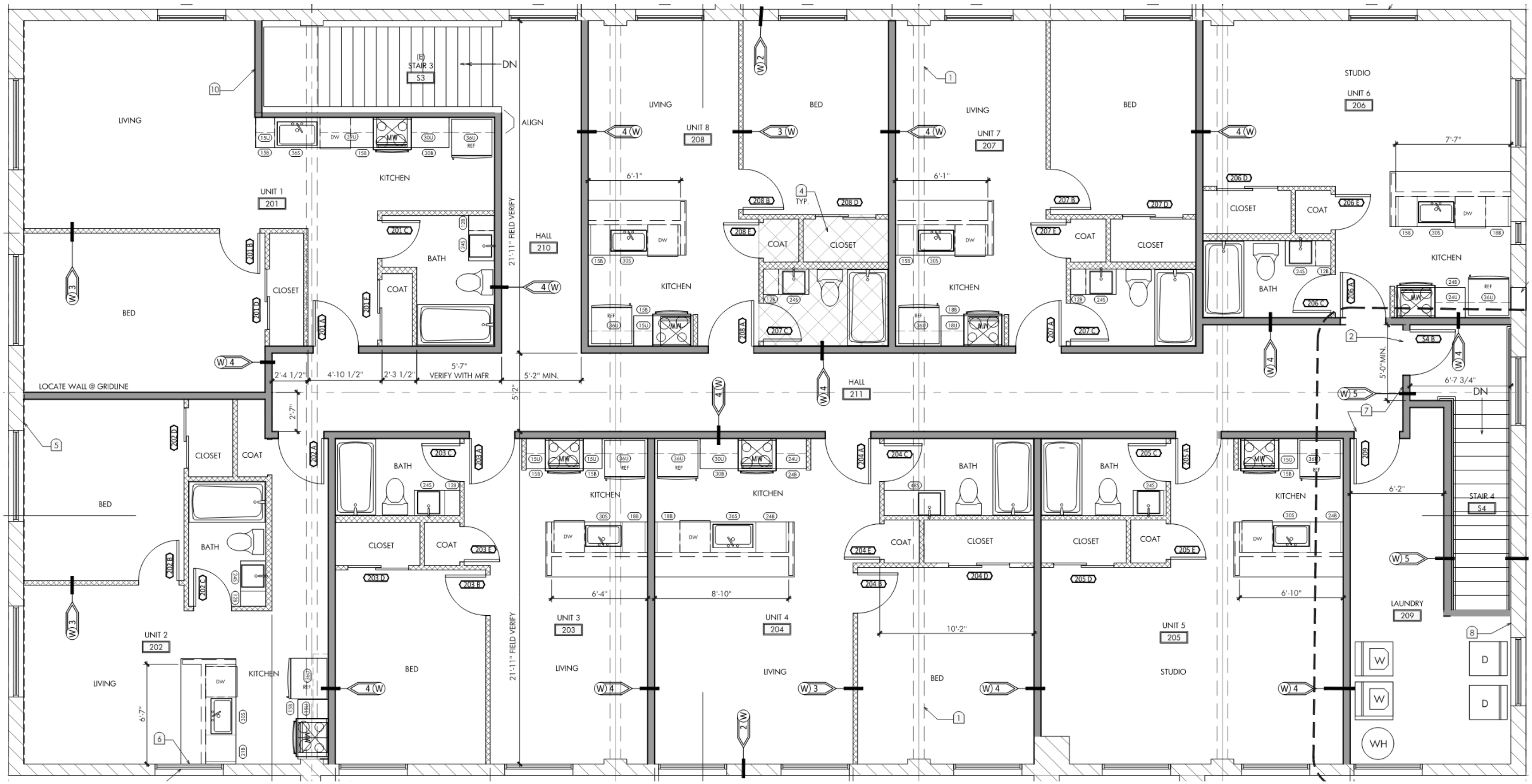
- Conversion to eight residential units
- Six 1 bed/1 bath, Two Studios, Averaging ~ 400 square feet
- Shared Laundry
- High ceilings, original hardwoods, exposed brick
- Energy efficient and eco-friendly materials
- Storage unit included for each unit

Design Concept



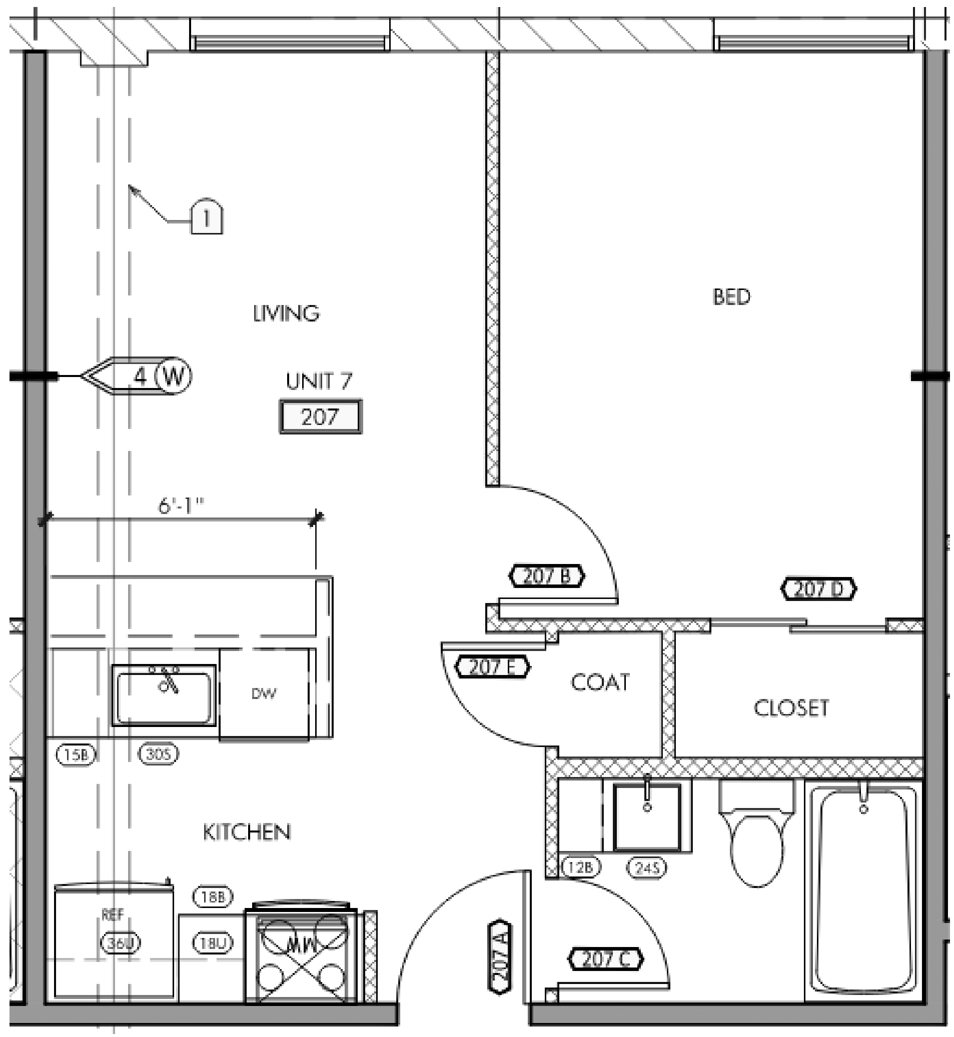


Floorplan

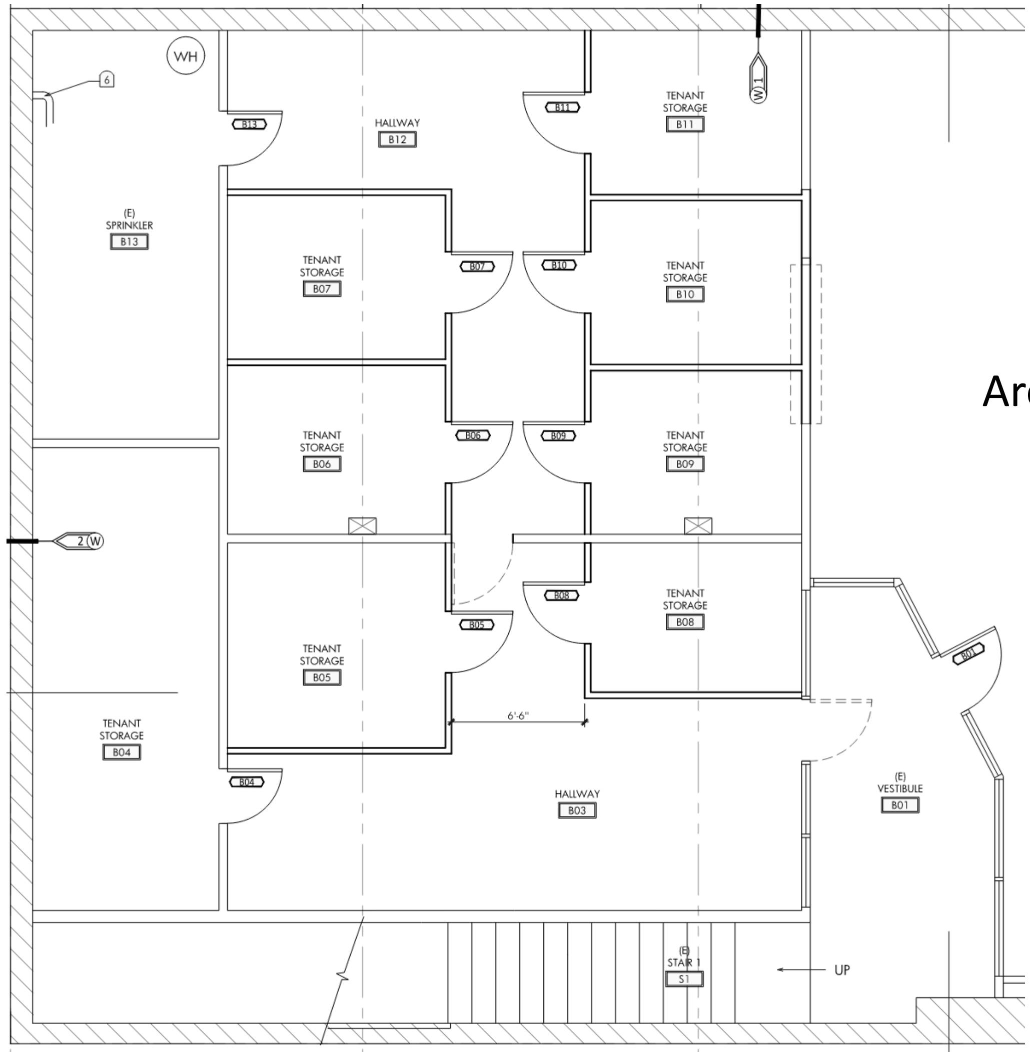


STAIR 3
S3
DN
ALIGN
LIVING
UNIT 1
201
KITCHEN
BED
CLOSET
COAT
BATH
HALL
210
21'-11" FIELD VERIFY
LOCATE WALL @ GRIDLINE
2'-4 1/2"
4'-10 1/2"
2'-3 1/2"
5'-7" VERIFY WITH MFR
5'-2" MIN.
5'-2"
2'-7"
UNIT 8
208
6'-1"
TYP.
UNIT 7
207
UNIT 6
206
STUDIO
7'-7"
HALL
211
5'-0" MIN.
6'-7 3/4"
STAIR 4
S4
6'-2"
LAUNDRY
209
UNIT 2
202
6'-7"
UNIT 3
203
6'-4"
8'-10"
UNIT 4
204
10'-2"
UNIT 5
205
6'-10"
WH

Typical Apartment



Basement Storage



6th St

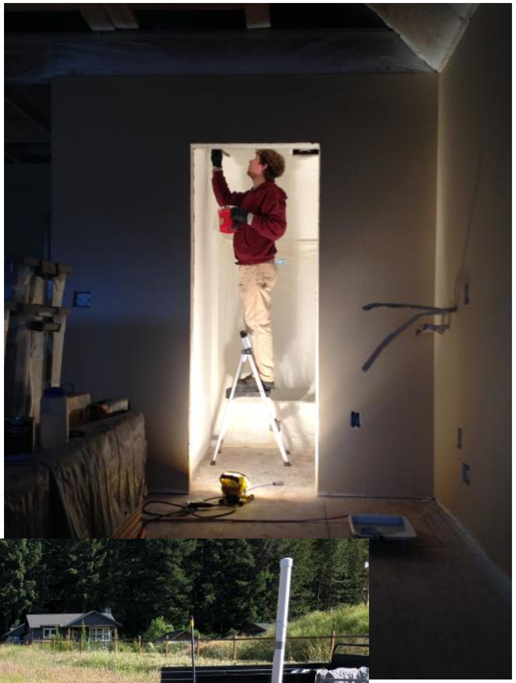
Arome Storage

Major Upgrades

- Electrical – New building feed, eight meters, individual internet
- Plumbing –Each unit will have its own water heater and a metered water service
- Fire Protection - Sprinklers throughout, fire alarm
- HVAC – Each unit will have its own heat and AC
- Sound Separation – Insulated walls with sound-deadening mats
- Egress – New rear stairs to meet code
- Building Envelope - New roof and windows planned as part of Phase 1

The Owners

- Both licensed Professional Engineers, Civil/Environmental
- Extensive construction and remodeling experience
- Seasoned investors
- Experienced property managers
- Experience with tiny homes/apartments
- Business owners



Questions?

"We create our buildings and then they create us. Likewise, we construct our circle of friends and our communities and then they construct us."
— Frank Lloyd Wright.

WHAT'S NEW DOWNTOWN

DEVELOPMENT ACTIVITY - 2021

REDMOND URBAN RENEWAL AGENCY BOARD
OCTOBER 26, 2021


BAXTER BUILDERS


NO TRESPASSING


NW Greenwood Ave


TERRA


Wayfarer


axis salon
627


Halo