

Government of the District of Columbia  
Office of the Chief Financial Officer



**Natwar M. Gandhi**  
Chief Financial Officer

**TAX ABATEMENT FINANCIAL ANALYSIS**

**TO:** **The Honorable Vincent C. Gray**  
**Mayor, District of Columbia**

**The Honorable Phil Mendelson**  
**Chairman, Council of the District of Columbia**

**FROM:** **Natwar M. Gandhi**  
**Chief Financial Officer**

A handwritten signature in black ink, appearing to read 'ng', with a long horizontal stroke extending to the right.

**DATE:** **November 9, 2012**

**SUBJECT:** **“Howard Town Center Real Property Tax Abatement Act of 2012”**

**REFERENCE:** **Bill 19-1010**

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**Findings**

The real property tax abatement proposed by Bill 19-1010 is not necessary for the site to be developed as the proposed “Howard Town Center” mixed-use project. This finding is based on information submitted to the Office of the Chief Financial Officer (OCFO) by the project developer.

The legislation would fully abate real property taxes at the site for 10 years, beginning with the issuance of a certificate of occupancy, subject to a total cap of \$11 million. The average annual value of the abatement over the 10-year period is \$1.1 million.

Please refer to the OCFO’s separate Fiscal Impact Statement for the effect of the proposed legislation on the District’s FY 2013 through FY 2016 budget and financial plan.

**Background**

The proposed Bill 19-1010 would exempt the property located at Lots 930 and 933 in Square 2877 from real property taxes beginning at the issuance of certificate of occupancy (which is expected to occur in FY 2015) and continuing for a period of 10 years, subject to an overall abatement value of \$11 million.

The planned development of the property, to be called Howard Town Center, incorporates 445 rental apartments, approximately 74,000 square-foot of retail space including a full-service grocery

store, and 320 underground parking spaces. 80% of the apartments will be leased at market rates and 20% will be designated as affordable units for persons earning up to 50% of Area Median Income. The property is owned by Howard University and has been ground-leased, and developed by, the joint venture Howard Town Center Developer, LLC, which includes The Cohen Companies, The Robert Bobb Group, Marshall Purnell, and Timothy Kissler of CastleRock Partners.

### **Financial Analysis**

The Exemptions and Abatements Information Requirements Act of 2011 requires the information and analysis provided by the OCFO that is found below.

#### Terms of the Exemption of Abatement

The legislation specifies that the property will receive a tax exemption beginning with the issuance of a final certificate of occupancy for the mixed-use property to be developed on the site; compliance with sections of the DC Code<sup>1</sup> regarding First Source Employment and set-asides for Certified Business Enterprises; and requirements that 51% of construction and permanent jobs on the site be filled by District residents. Further, the legislation states that the abatement could not be offered prior to October 1, 2014 and could not exceed a value of \$11 million in the aggregate.

Given that the developer’s current schedule assumes completion of the properties in November 2014, the abatement first applies in FY 2015. The total estimated value of the real property tax exemption from FY 2013 through FY 2024 is \$11 million.

#### Annual Proposed Value of the Exemption or Abatement

<b>Projected Value of Tax Exemption</b>						
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017 – FY 2024</b>	<b>Total FY 2013 – FY 2024</b>
Real Property Tax Exemption	\$0	\$0	\$1,118,000	\$1,325,000	\$8,557,000	\$11,000,000

#### Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by the project sponsor is in the attached document.

#### Financial Analysis

1. *Review and Analysis of the Financial Condition of the Recipient and Advisory Opinion Stating Whether or Not It Is Likely that the Recipient Could Be Reasonably Expected to Meet Its Fiscal Needs without the Proposed Exemption or Abatement.*

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<sup>1</sup> §2-219.03 and §2-218.46

Howard Town Center Developer provided the OCFO with a development budget, projected cash flows and a rent level analysis for similarly-situated market apartments. The developer submitted the following sources and uses for the project:

<b>SOURCES</b>	
First Mortgage	\$ 101,750,000
Equity	43,564,979
<b>Total Sources</b>	<u>\$145,314,979</u>
<b>USES</b>	
Initial Ground Lease Payment	\$ 2,000,000
Construction Costs	110,877,655
Soft Costs	15,677,002
Interest & Financing	10,499,303
Developer Fee	6,261,019
<b>Total Uses</b>	<u>\$ 145,314,979</u>

However, the OCFO finds that the amount of equity required from traditional, return-motivated equity investors is overstated, since the project includes 20% affordable units and could therefore benefit from the use of Low-Income Housing Tax Credit (LIHTC) financing. While the developer states that it has not yet been able to attract an offer from a LIHTC equity investor, indicators of current market demand for such credits are strong and the OCFO expects that such a commitment should be forthcoming. Additionally, the developer should be able to defer a portion of its developer fee, as is often seen in LIHTC deals. The OCFO estimates the project could be financed as follows:

<b>SOURCES</b>	
First Mortgage	\$ 101,750,000
LIHTC equity	5,800,000
Other equity	34,634,470
Deferred Developer Fee	3,130,510
<b>Total Sources</b>	<u>\$145,314,979</u>

While the developer states that interest from debt and equity providers is contingent on receiving a tax abatement, the OCFO finds that the developer has estimated rents for the project that are below rents at comparable properties. The OCFO estimates that completion of lender’s and investor’s due diligence (including a market study for the project) will show that the project can achieve higher rents. The additional income that can be generated by such higher rents should be sufficient to pay real property taxes, provide ample debt service coverage to the lender, as well as offer an attractive return to potential equity investors. Therefore the OCFO finds that the tax abatement is not necessary to attract the necessary debt and equity commitments for the project to move forward.

*2. Estimate of the Amount of Exemption or Abatement Necessary to Enable the Project to Be Financed*

Based on our analysis of the materials provided, the OCFO finds that no abatement is necessary in order for the project to be financed.

*3. Assessment of the Developer’s Documentation of Efforts to Seek Alternate Financing and the Factors that Limit the Developer’s Ability to Obtain Adequate Financing*

While the developer has not finalized an application to the DC Housing Finance Agency to receive a financing commitment that can be combined with an allocation of Low Income Housing Tax Credits, the project’s affordable units meet the agency’s criteria for financing combined with a LIHTC allocation. The sale of such credits should provide at least \$5.8 million of financing for the project and fill much of the perceived financing gap targeted by the tax abatement legislation.