



April 18, 2023

Michael Lambert
Preservation Planner
City of Geneva
22 South First Street
Geneva, IL 60134

Dear Mr. Lambert:

Teska Associates, Inc. and The Planera Group were retained by the City of Geneva to review the pro forma and economic feasibility analysis presented in the Application for Demolition of a Designated Property at 4 East State Street, City of Geneva.

In particular, we were retained to investigate whether, according to Ordinance 10-6-10, the “demolition shall be considered only when all other redevelopment options for a building, structure, object, improvement, or site have been exhausted.”

Teska and Planera reviewed materials submitted by the Applicant, testimony at the Public Hearing on January 18, 2023, the AltusWorks Building Assessment and past studies and documents conducted regarding the property. We also interviewed the Applicant and fourteen other developers, real estate and historic preservation experts.

As part of our scope of work, we analyzed the pro forma submitted by the Applicant. We also developed a series of alternative approaches that would include renovation and reuse of the historic building as well as the full site.

The methodology of the report is summarized in Section 1, key findings and conclusions in Section 2, detailed analysis of the pro forma and alternative scenarios in Section 3, summary of findings from research and interviews in Section 4 and line-by line analysis of the pro forma in Section 5 and a listing of our sources in Section 6.

Sincerely,

Scott Goldstein FAICP LEED AP
Principal
Teska Associates, Inc.

Terri Haymaker
Principal
The Planera Group

1 APPROACH AND METHODOLOGY

Teska Associates and The Planera Group approached this assignment, analyzing the 4 East State Street proposed development, by applying our collective community and real estate development knowledge and experience with a variety of redevelopment project types including historic properties. The evaluation of the financial viability of the proposed renovation and the larger subject property, the pro forma analysis for various development scenarios, and the creation of potential redevelopment strategies were informed by our planning and economic development experience. Identifying best practices in development strategies and applicable financial resources were enhanced by interviews with fourteen external historic preservation, real estate development, and financial incentives practitioners.

The framework for our approach and methodology is the Historic Preservation Commission's responsibility and authority to review the proposed demolition of the 4 East State Street property. City of Geneva Municipal Code section 10-6-10: Demolition of Designated Properties details the procedure and criteria for reviewing a requested demolition for historic landmarks and historic district properties. The Historic Preservation Commission convened a public hearing on January 18, 2023, to review the Applicant's request to demolish 4 East State Street using provisions set out in the Ordinance.

The Applicant has followed the procedures identified in Section A. Procedure for Historic Landmarks and Historic Properties. As part of the process, the Applicant provided a "detailed cost estimate for the rehabilitation of the improvement, property, or site, prepared by a design professional or licensed contractor with expertise in the renovation of existing and/or historic properties." The Applicant also provided a one-page pro forma summary of the cost of renovating, financing and operating the historic building.

The criteria in the ordinance for granting a demolition permit are:

"The commission may grant a demolition request for a historic landmark or a property within a historic district if, upon review of all testimony, the maintenance, use, and/or alteration of the property would cause immediate and substantial hardship for the owners of record because rehabilitation in a manner which preserves the architectural, historic, or structural integrity of the property either: Is infeasible from a technical, mechanical, or structural perspective; or would leave the property with no reasonable economic value because it would require an unreasonable expenditure when accounting for such factors as current market value, permitted uses of the property, and/or the cost of compliance with local, state, and federal codes applicable to the property."

In the first section of 10-6-10, the ordinance states:

"demolition shall be considered only when all other redevelopment options for a building, structure, object, improvement, or site have been exhausted."

The landmarked building is part of a larger parcel, PIN 12002-353-008. Per the ordinance, this analysis focuses on redevelopment options of both the "building" and the "site." Interviews with developers who have renovated other historic buildings have found that a small historic building such as the existing landmarked building may be economically feasible as part of a larger development.

As the historic building is part of a larger parcel with a single owner, this analysis considers all reasonable uses of both the building and the site, including the fact that the site is already entitled for as-of-right development for a 50-foot high structure with no setbacks or massing limitations.

In addition, the Applicant has previously expressed their intent to develop the site and participated in a public charrette process considering redevelopment options for the site in 2019. The results of the charrette are public and were considered as a part this analysis, although there is no assumption that the proposals developed at that time are the current plans for the Applicant nor would necessarily be approved by the City of Geneva. Note that the Applicant has not provided current plans for the remainder of the site. As such, Teska and Planera have analyzed as-of-right entitlement for the site as well as modifications of the results of the public charrette process to meet concerns regarding height and density. For the sake of analysis, we define “Full Site” as including 4 East State St. and 12 East State St. as both properties were part of the public charrette process and the Applicant has site control of both properties.

Methodology

Teska and Planera conducted this analysis:

1. We began by reviewing the pro forma analysis and materials submitted by the Applicant to the City of Geneva Historic Preservation Commission including:
 - a. January 18, 2023 Agenda Packet
 - b. Historic Landmark Ordinance 2018-09 and Ordinance 2022-23
 - c. 4 East State Street Application Dated October 11, 2022
 - d. Department of Community Development Planning Division – Historic Properties Letter to David A. Patzelt, Representative, Shodeen Family Foundation, Dated October 25, 2022
 - e. Memorandum to City of Geneva Community Development Department Dated November 22, 2022
 - f. Letter to Michael Lambert, Preservation Planner, City of Geneva, Illinois Dated December 8, 2022
 - g. Building Assessment Report prepared by AltusWorks, Inc., August 17, 2022
 - h. Evolution and Preliminary Historic Significance Evaluation of the Former Mill Race Inn Property, 4 East State Street, Original Draft January 15, 2014, latest Staff Comments and Corrections, June 3, 2021
2. Teska and Planera reviewed additional documentation provided by the City of Geneva including, but not limited to:
 - a. Charrette Summary, 2019
 - b. Mill Race Redevelopment Presentation to Committee of the Whole, November 30, 2020
3. Teska and Planera interviewed David Patzelt, Shodeen Foundation representative on March 29, 2023
4. Teska and Planera reviewed materials submitted by David Patzelt, Shodeen Foundation:
 - a. Copy of City Ordinance with notes 032923
 - b. David Patzelt email dated 032923
5. Teska and Planera conducted interviews with historic preservation, architecture, development and real estate experts to review the assumptions in the pro forma and discuss alternative uses of the building and site to understand the availability of possible public and private funding sources and the feasibility of the renovation and reuse of the building and site, particularly with a phased approach to development.

6. Teska and Planera investigated other comparable examples of historic renovation, reuse, and mixed-use developments
7. Teska and Planera investigated financing and cost assumptions such as cap rates, interest rates, infrastructure costs, operating costs and other variables presented in the Applicant's pro forma
8. Teska and Planera investigated alternative uses of the building and site including as of right development of the site, charrette options that were developed in 2019 and other planned development options

2 SUMMARY OF KEY FINDINGS

A. Analysis of Developer's Pro Forma Scenarios 1)A and 1B)

- Teska and Planera reviewed construction cost comparisons between the Applicant's submittal and a higher estimate prepared by AltusWorks and found that several infrastructure expenses were shown as additional line items in the Applicant Pro Forma were redundant with the AltusWorks construction estimate.
- The value of land included in the Applicant submittal was significantly higher than market value based on the limitations of development of the site.
- Based on these changes, we estimate Total Development Cost to be approximately \$1.9 million.
- We analyzed two alternatives to the Applicant's Submittal:
 - Scenario 1)A includes \$201,000 in TIF subsidies equal to the increment projected by the site and \$190,000 of Federal Historic Tax Credits. Annual ROI would be 1.3%, essentially a "break-even" scenario with a nominal return. There would also be a 10% Developers Fee. Note that if historic tax credits can not be secured, a larger TIF investment would be needed.
 - Scenario 1)B includes \$1,525,000 in TIF subsidy, equal to 3.6% of the increment generated by the Full Site and \$190,000 of federal historic tax credits. This public private partnership would yield an ROI of 10.6% for the historic building on its own, within industry standards for ROI on public private partnerships (typically 10%-12%).
- There may be other advantages for each scenario including exploration of a Preservation Easement for the historic portion of the property, which could provide a tax benefit for the property owner.

B. Comparison of Four-Story As-of-Right Development with or without Historic Building Renovation (Scenarios 2)A and 2)B)

- We analyzed the potential of a four-story, as-of-right development which could be developed on the Full Site - a modified version of the final recommendation of the charrette that would include 96 apartments and 8 townhomes (compared with 116 apartments and 8 townhomes)
- Distinguishable from the development of a five-story building indicated in the Charrette, there would be no fifth story in this scenario so it would meet the City's height limit of 50 feet. The 2-story wing at the site of the historic building shown in the charrette recommendation would also not be developed
- We looked at two scenarios. Scenario 2)A would be a 4-Story Building with the historic building versus Scenario 2)B which would be the same 4-Story Building but without the historic building
- Scenario 2)A would include \$201,000 of TIF funds and \$190,000 of historic tax credits
- Scenario 2)B would not include any TIF or historic tax credits as the building would not be saved.
- The ROI for both scenarios would be very similar. Scenario 2)A would have a ROI of 16.4% versus a ROI of 16.65% for Scenario 2B. This is largely because the difference in cost between the two scenarios of approximately \$1.2 million for building renovations would be very small relative to the approximate \$41 million total development cost and, as shown above, renovating the historic building would largely be a break-even investment.
- Note that the historic tax credits are minimal compared to the financial stack needed for the Full Site development and would not have a material impact on the ROI if they could not be obtained.

C. Comparison of Four-Story with Partial Fifth Floor with or without Historic Building Renovation (Scenario 3)A and 3)B)

- The final scenarios we investigated included the possibility of 4-Story building with 8 penthouses on a fifth story at the southern portion of the building (so as not to be visible from State Street). This scenario would require a planned development or a zoning variance as it would be taller than 50 feet.
- We looked at two scenarios. Scenario 3)A would be a 4-story, 96 apartments, 8 townhomes plus 8 penthouses with the renovated historic building compared with Scenario 3)B which would be the same residential building but without the renovation of the historic building.
- Both scenarios yielded market-rate ROI performance. Scenario 3)A, with the historic building renovation, would yield 17.7% ROI compared with Scenario 3)B, without the historic building, would yield 18.85% ROI.
- Scenario 3)A would not require any public subsidies, but does assume a height variance for a partial 5th Floor that could be designed to be set back and not visible from State St. This scenario would yield just 1% lower ROI for the Full Site redevelopment without renovating the historic building.

D. Conclusions

- A stand-alone reuse of the historic building as submitted by the Applicant would provide “break-even” results with a modest return of 1.4% annually. There may be some benefits to proceeding with the renovation, such as creating a durable asset for the foundation that currently owns the site. If the site is privately developed, the developer could also investigate a Preservation Easement that could provide a tax credit based on the development potential for the site.
- A stand-alone renovation for the historic building could benefit from a public-private partnership. An investment of \$1.5 million in TIF assistance to cover the historic building’s renovation (equal to 3.5% of the total development cost of the Full Site) would yield public benefits of the permanent renovation of the historic building, tax increment that could be used for other improvements in the district and private benefit of a 10.6% ROI for the historic building to the property owner, well within industry standards for a public private partnership. The Developer would also accrue market-rate returns (approximately 16%-17% ROI) for the development of the remainder of the Full Site.
- An as-of-right 4-Story Residential Development on the Full Site is expected to return 16%-17% ROI with modest with modest public investments including \$201,000 of TIF (equal to the amount projected to be generated by the historic building alone) and \$190,000 federal historic tax credits.
- A planned development of the Full Site including renovating the historic building that would allow a partial 5th Floor set-back from State St. would earn approximately 17% ROI without any public subsidies, and just 1% lower ROI for the same-scale development without renovating the historic building.

Based on this analysis, we find that there are financially viable uses of the property given a range of public private alternatives.

3 PRO FORMA REVIEW AND ALTERNATIVE SCENARIOS

A. ANALYSIS OF APPLICANT PRO FORMA SUBMITTAL

Teska and Planera reviewed the Applicants' Pro Forma submittal. The pro forma submitted by the Applicant estimates the Total Development Costs including construction estimates prepared by AltusWorks, operating earnings through payment of rent, the estimate for taking a loan to pay for a portion of the development costs, and an evaluation of the expected Return on Investment (ROI).

Page | 7

Key findings:

- Teska and Planera reviewed the construction costs submitted by the Applicant and compared with a higher estimate from AltusWorks that was brought to our attention by the Applicant during our interview. We found that the higher estimate included many of the separate infrastructure line items in the original Applicant Submittal. In both cases, total construction costs are between \$1.62 and \$1.68 million.
- Most of the line items detailed by the Applicant follow industry standards with the exception of land costs. Due to constraints on the land including landmarked status of the building and the renovation costs to modernize the building, we conclude that the value of the historic portion of the parcel is primarily vested in the development potential of the vacant land outside of the landmarked portion.
- Based on our review of the pro forma, the annual ROI of the historic building on its own would be approximately 1.4% annually. This would equate to a "break even" scenario, but may have some advantages to the property owner which is a foundation. Other scenarios that follow will detail alternative approaches that would include the full parcel and would offer substantially higher returns.
- The ROI of the value of the property in year ten that includes Net Present Value (NPV) of Net Operating Income over the ten-year period plus the residual value of the building in year 10 would be 24.7% return over equity investment.
- In addition to annual ROI, there may be additional advantages to the Applicant through a preservation easement. If the site is developed by a private entity, it could seek a Preservation Easement that could receive a tax deduction based on the value of the potential development rights that would not be built due to the landmark status of the property. In order to qualify, the property would need to be listed on the Federal Register of Historic Properties. (See Section 3) Note that we did not quantify these benefits.

Table 1: Applicant Submittal

		Teska and Planera Comments
BOX 1 - CONSTRUCTION		
Construction Cost	\$1,157,836	Renovation Costs Only
Tenant Improvements	\$72,900	\$60 per sq ft may be high
Professional fees	\$54,633	Included in Altus \$1.4 M
Site Improvement Costs	\$179,350	Included in Altus \$1.4 M
City Permit Fees	\$67,653	City could reduce some fees
Builders Risk Insurance	\$35,327	
Construction Contingency	\$57,892	Included in Altus \$1.4 M
Projected Construction Cost	\$1,625,591	13% contingency in Altus \$1.4 M
Loan Fees and Property Taxes	\$33,700	Loan may not be needed
Developer Fee	\$169,299	10% Developer Fee
Land	\$500,000	Minimal stand-alone land value with current landmark restrictions
Estimated Total Development Cost	\$2,362,290	Compare with Scenario 1)A and 1)B
BOX 2 - OPERATIONS		
Historic Building Annual Rent	\$24,300	\$20 rent PSF is reasonable
Vacancy	\$4,041	10% vacancy assumed may be high if the owner is also the lessee
NOI - Historic Building	\$20,259	
BOX 3 - COMMERCIAL LOAN		
Estimated Loan	\$203,000	Loan may not be advisable with lower projected development cost
Annual Payment	\$16,448	
BOX 4 - REQUIRED EQUITY		
Estimated Total Cost	\$2,362,290	
Estimated Contribution from City (TIF)	0	Applicant has not requested funds
Estimated Historic Tax Credit	0	Applicant has not pursued
Net Cost	\$2,362,290	
Estimated Loan	\$200,000	May not be needed (See Scenarios 1)A and 1)B)
Equity Needed	\$2,162,290	Lower equity estimated in Scenarios 1)A and 1)B
NOI	\$20,259	
Annual Debt Service	\$16,207	May not be needed
Net Cash Flow After Debt Service	\$4,052	
ROI: NOI/Equity	0.2%	1.4% (See Scenario 1)A)
ROI: 10 Year NPV + Residual Value/Equity		24.7%

B. COMMENTS AND ANALYSIS

BOX 1 - CONSTRUCTION

a. Construction Budget

Applicant Submittal showed construction costs to be \$1,157,836. Applicant subsequently identified a higher cost estimate in the AltusWorks Mill Race Inn Building Assessment Report on page 2 of 8 of the Cost Estimate (page 99 of the 4 East State Street Application dated October 11, 2022.) We compared the Applicant Submittal of \$1.15 million to the AltusWorks estimate of \$1.46 million to the and found that the higher estimate included the following items that were identified separately in the Applicant submittal:

- Dem & Hazard Material Removal
- Sanitary Service
- Water Service
- Asphalt Parking
- Sidewalk & Curb
- NICOR
- Construction Contingency

Table 2: Construction and Infrastructure Cost Comparisons

	Applicant Submittal	AltusWorks \$1.4 M Construction Estimate
CONSTRUCTION - HISTORIC BUILDING		
Est. Cost PSF	\$953	\$1,203
Construction Cost	\$1,157,836	\$1,461,849
Tenant Improvements	\$72,900	\$72,900
Professional fees	\$54,633	\$54,633
Site Improvement Costs	\$179,350	\$15,000
> Demo & Hazard Material Removal	\$87,150	\$0*
> Sanitary Service	\$20,000	\$0*
> Water Service	\$17,000	\$0*
> Asphalt Parking	\$25,000	\$0*
> Sidewalk & Curb	\$10,000	\$0*
> Landscaping	\$15,000	\$15,000
> NICOR	\$5,200	\$0**
City Permit Fees	\$67,653	\$40,000***
Builders Risk Insurance	\$35,327	\$35,327
Construction Contingency	\$57,892	\$0****
Projected Construction and Infrastructure Cost - Historic Building	\$1,625,591	\$1,679,709

Notes:

* Included in AltusWorks \$1.4 M estimate

** AltusWorks Assessment Report notes no gas service would be needed for the building

*** Assumes reduced City Permit Fees

**** AltusWorks includes a higher, 13% construction contingency compared with 5% in Applicant Submittal

Therefore, the total estimate for Construction Costs in the Applicant Submittal was \$1,625,591 compared with \$1,679,709 using the higher AltusWorks construction estimate that includes these items. We found, however, that the higher cost estimate did not substantially change the total projected construction costs.

b. Land Costs

Land for parking and drive access: the budget model assumes \$500,000 in land costs for the historic site,, parking and access to the site. The estimate for land value is based on other properties that were identified by the Applicant that are not subject to landmark restrictions. In addition, the City has offered access to its parking lot on the adjacent block, across Bennett Street, which could serve as parking for the office use proposed for the 4 East State Street building, which would mean that auto access from Bennett Street to the historic building would not be necessary.

Based on interviews with other developers and real estate professionals, it is our view that the value of the property as it stands now with the landmarked restriction has lower market value than a prorated portion of the Full Site. As shown in further sections of this report, the market value for development is primarily attributable to the remainder of the site. Furthermore, the property is shown with a \$1 price on a sign on the building and there have been no known offers for the historic building. Based on these factors, the property has minimal land value separate from the full development site. We estimate the value to be \$50,000 in the scenarios that follow in Section 3)C, but an appraisal would be needed to determine market value for the land with the landmark status in place.

c. Permit fees

Permit Fees are included but could be reduced with permit waivers or reduced fees if the City would consider a request.

d. Loan

The Applicant Submittal details three approaches to determine the bankable value of a loan (See Section 5). Based on reduced equity requirements delineated in Scenarios 1)A and 1)B, we question whether a \$200,000 loan with associated fees would benefit the feasibility of renovating the property.

e. Leasing Fees

Leasing fees can be eliminated as a commercial broker is unlikely to be used to secure the tenant, particularly if the assumed lessee is the same as the owner of the property.

BOX 2 - OPERATIONS

- a. Rent estimated at \$20/SF is typical office rents in the surrounding area.
- b. Vacancy Rate of a building with only one tenant space is a more difficult assumption to quantify; however, 10% is an industry standard vacancy rate.

BOX 3 - POSSIBLE LOAN

Decreasing construction-related costs (Box 1) and increasing equity (Box 4) into the project capital stack can reduce the need for project loan.

BOX 4 – REQUIRED EQUITY

Expanding the available funding options can attract new sources into the project's capital stack. The City may consider offering TIF assistance, permit waivers, and other local incentives. There are three possible historic preservation resources are Federal Historic Tax Credits, State Historic Tax Credits, and Preservation Easement Donation. Further exploration of possible funding sources is required to determine eligibility and applicability. Our review of the property in other scenarios focuses on TIF and Federal Historic Tax Credits. As a conservative estimate, we only consider the use of Federal Historic Tax Credits, and not State Historic Tax Credits which are competitively awarded.

BOX 5 – RETURN ON INVESTMENT (ROI)

There are several ways to determine ROI:

- a. The Applicant has calculated the ROI as Net Operating Income / Equity Investment at 0.2%. As will be shown in the next section of this analysis, utilizing approximately \$201,000 in TIF increment, or 11% of total development cost of the historic building, plus Federal Historic Tax Credits, would result in a modest return of 1.4% annually. Alternatively, if this project were a part of an as-of-right development of the full site plus the corner site, the annual return would be approximately 10% (See Section 3C, Scenario 1)A)
- b. A second method of calculating ROI is to look at the value of a revenue stream over a given period of time plus the residual value of the property compared with the initial equity investment. The ROI of the value of the property in year ten that includes Net Present Value (NPV) of Net Operating Income over the ten-year period plus the residual value of the building in year 10 would be 24.7% return over equity investment.
- c. In addition to annual ROI, there may be additional financial advantages to the Applicant through a Preservation Easement, This could provide a tax deduction based on the value of the foregone development potential for the site that would be donated through the Preservation Easement. (See Section 4D)

C. STAND-ALONE RENOVATION WITH TIF INVESTMENT

Teska and Planera analyzed two alternative scenarios to analyzing the ROI for renovating and reoccupying the existing structure as a stand-alone-project. Both scenarios include estimated Federal Historic Tax Credits. Scenario 1)A includes TIF investment equal to the increment that would be generated by the historic building alone. Scenario 1)B includes TIF investment based on projected increment generated by development of the Full Site.

For the sake of this analysis “Full Site” corresponds to the 2-acre parcel with the address of 4. East State Street as well as the property at 12 East State St. that was included in the 2019 Charrette Process and that the Applicant has site control.

Key findings:

- The Total Development Cost in both scenarios would be approximately \$1.9 million.
- Both scenarios would take advantage of Federal Historic Tax Credits equal to approximately \$190,000. This estimate is based on program parameters and typical applicability of equity generation of \$0.80 for every \$1.00 of tax credit. We have only included Federal Historic Tax Credits in the analysis. Due to the competitive nature of State Historic Tax Credits, we have not included any revenue from this source.
- In Scenario 1)A, TIF investments would be approximately \$201,000, equal to the amount of increment generated through the historic building property alone. Note that this assumes that property taxes will continue to be paid on the historic building site.
- In Scenario 1)B, the City could consider allocating TIF investments based on the increment generated by redevelopment of the entire site, in order to support the renovating and preservation of the historic building. In this scenario, a \$1.525 million TIF investment would be funded through the \$5.2 million in projected TIF increment generated by the Full Site. This would equate to 3.6% of the total development cost of the Full Site.
- ROI of Scenario 1)A would be 1.3% annually, while 10 Year ROI of net operating income plus residual value compared with equity investment would be 24.7%. We would consider this return to be “break even,” but there may be advantages such as donating a Preservation Easement that would provide a tax deduction based on the development rights of the property without the landmarked property.
- ROI of Scenario 1)B would be 10.6% annually. Based on interviews with developers and real estate professionals, a return of 10%-12% is a typical return for a public private partnership. The Applicant would still be able to derive higher market-rate returns of between 16%-18% for the remainder of the site, as detailed in further sections of this report.

Table 3: Stand-Alone Scenarios	Scenario 1)A Stand-Alone with TIF and Historic Tax Credits	Scenario 1)B Stand-Alone with TIF Increment Based on Full Site Development
CONSTRUCTION - HISTORIC BUILDING		
Construction Cost	\$1,461,849	\$1,461,849
Tenant Improvements	\$72,900	\$72,900
Professional fees	\$54,633	\$54,633
Site Improvement Costs	\$15,000	\$15,000
City Permit Fees	\$40,000	\$40,000
Builders Risk Insurance	\$35,327	\$35,327
Projected Construction Cost	\$1,679,709	\$1,679,709
Developer Fee	\$169,841	\$169,841
Land	\$50,000	\$50,000
Estimated Total Development Cost	\$1,918,250	\$1,918,250
2. OPERATIONS		
Historic Building Annual Rent	\$24,300	\$24,300
Vacancy	\$4,041	\$4,041
NOI - Historic Building	\$20,259	\$20,259
3. COMMERCIAL LOAN		
Estimated Loan	\$0	\$0
Annual Payment	\$0	\$0
4. REQUIRED EQUITY		
Estimated Total Cost	\$1,918,250	\$1,918,250
Estimated Contribution from City (TIF)	\$201,689	\$1,525,000
Estimated Historic Tax Credit	\$190,580	\$190,580
Net Cost to Owner	\$1,525,981	\$202,670
Estimated Loan	\$0	\$0
Equity Needed	\$1,525,981	\$202,670
5. RETURN ON INVESTMENT - BASED ON ANNUAL RENT		
NOI	\$20,259	\$20,259
Annual Debt Service	\$0	\$0
Net Cash Flow After Debt Service	\$20,259	\$20,259
ROI	1.3%	10.6%

D. 4-STORY AS-OF-RIGHT DEVELOPMENT WITH HISTORIC RENOVATION AND WITHOUT RENOVATION

Teska and Planera also analyzed alternative scenarios based on the Full Site at 4 East State St. and 12 East State St.

Page | 14

While no proposed plan has been submitted by the property owner for the full property surrounding the existing building, Teska and Planera analyzed an as-of-right 4-story development that would meet zoning requirements. We based this scenario on zoning parameters and a reduced version of the 2019 Charrette Final Recommendation by removing the fifth floor and the two-story wing that would have been located at the historic building site, or 20 of the units.

Key Findings:

- We analyzed the potential of a four-story, as-of-right development could be developed on the Full Site.
- A modified version of the final recommendation of the charrette was reviewed that would include 96 apartments and 8 townhomes (compared with 116 apartments and 8 townhomes)
- There would be no fifth story in this scenario so it would meet the City's height limit of 50 feet. The 2-story wing at the site of the historic building would also be removed
- We looked at two scenarios. Scenario 2)A would be a 4-Story Building with the historic building versus Scenario 2)B which would be the same 4-Story Building but without the historic building
- Scenario 2)A would include \$201,000 of TIF funds and \$190,000 of Federal Historic Tax Credits.
- Scenario 2)B would not include any TIF or historic tax credits as the building would not be saved
- The ROI for both scenarios is very similar. Scenario 2)A would have a ROI of 16.4% versus a ROI of 16.65% for Scenario 2B. This is largely because the difference in cost between the two scenarios of approximately \$1.2 million would be very small relative to the approximate \$41 million total development cost and that the renovation of the historic building would largely be "break even."



Figure 1: 4-Story Modification of Charrette Final Recommendation: Fifth floor apartments and 2-story wing (shown in pink) were removed for this analysis

Table 4: 4-Story As-of-Right Scenarios

	Scenario 2)A 4-Story Building <u>with</u> Historic Renovation	Scenario 2)B 4-Story Building <u>without</u> Historic Renovation
CONSTRUCTION		
Construction Cost - Historic Building¹	\$1,264,085	\$0
Land – 4 E. State and 12 E. State	\$3,251,613	\$3,251,613
Residential Development Costs	\$37,791,000	\$37,791,000
Estimated Total Development Cost	\$42,433,106	\$41,042,613
2. OPERATIONS		
NOI - Historic Building	\$20,259	\$0
NOI - Residential	\$1,968,000	\$1,968,000
3. COMMERCIAL LOAN		
Estimated Loan	\$31,530,628	\$30,781,960
Payment	\$212,897	\$207,842
4. REQUIRED EQUITY		
Estimated Total Cost	\$42,433,106	\$41,042,613
Estimated Contribution from City (TIF)	\$201,689	0
Estimated Historic Tax Credit	\$190,580	0
Net Cost to Owner	\$42,040,838	\$41,042,613
Estimated Loan	\$31,530,628	\$30,781,960
Equity Needed	\$10,510,209	\$10,260,653
5. RETURN ON INVESTMENT		
Annual NOI	\$1,988,259	\$1,968,000
Annual Debt Service	\$212,897	\$207,842
Net Cash Flow After Debt Service	\$1,775,362	\$1,760,158
ROI – Net Cash Flow / Equity	16.40%	16.65%

¹ Construction costs for the historic property only include renovation expenses as infrastructure costs are included in the Full Site Residential Development Costs.

E. 4-STORY PLANNED DEVELOPMENT WITH PARTIAL FIFTH FLOOR

Key Findings

- The final scenarios we investigated would be for 4-Story building with 8 penthouses on a fifth story at the southern portion of the building so as not to be visible from State Street. This scenario would require a planned development or a height variance as it would be approximately 58 feet in certain areas rather than 50 feet.
- Scenario 3)A would be a 4-story, 96 apartments, 8 townhomes plus 8 penthouses with the renovated historic building compared with Scenario 3)B which would be the same building but without the historic building renovation.
- Neither scenario would include TIF or historic tax credits.
- Scenario 3)A, with the historic building renovation, would earn a ROI of 17.70% ROI compared with Scenario 3)B which would earn 18.85% without the historic building renovation.
- Scenario 3)A would not require any public subsidies, but does assume a height variance for a partial 5th Floor that could be designed to be set back and not visible from State St. This scenario would yield just 1% lower ROI for the Full Site redevelopment which would not include renovating the historic building.



Figure 2:4-Story Planned Development with Partial Fifth Floor Set Back from State St.

TABLE 5: 4-STORY BUILDING WITH PARTIAL 5TH STORY

	3)A 4-Story with Penthouses and Historic Building	3)B 4-Story with Penthouses without Historic Building
1. CONSTRUCTION		
Projected Construction Cost - Historic Building ²	\$1,264,026	\$0
Land	\$3,251,613	\$3,251,613
Residential Development Costs	\$40,014,000	\$40,014,000
Estimated Total Development Cost	\$44,991,541	\$43,265,613
2. OPERATIONS		
NOI - Historic Building	\$20,259	\$0
NOI - Residential	\$2,258,400	\$2,258,400
3. COMMERCIAL LOAN		
Estimated Loan	\$33,743,656	\$32,449,210
Annual Payment	\$227,839	\$219,099
4. REQUIRED EQUITY		
Estimated Total Cost	\$44,991,541	\$43,265,613
Estimated Contribution from City (TIF)	\$0	\$0
Estimated Historic Tax Credit	\$0	\$0
Net Cost	\$44,991,541	\$43,265,613
Estimated Loan	\$33,743,656	\$32,449,210
Equity Needed	\$11,247,885	\$10,816,403
5. RETURN ON INVESTMENT		
NOI	\$2,278,659	\$2,258,400
Annual Debt Service	\$227,839	\$219,099
Net Cash Flow After Debt Service	\$2,050,820	\$2,039,301
ROI	17.70%	18.85%

² Construction costs for the historic property only include renovation expenses as infrastructure costs are included in the Full Site Residential Development Costs.

4 SUMMARY OF FINDINGS FROM RESEARCH AND INTERVIEWS

A. DEVELOPMENT PROJECTS WITH HISTORIC STRUCTURES AND NEW CONSTRUCTION

Projects including both renovation of existing structures and new construction can create interesting and appealing development projects. They do include more challenges and requiring developers to plan for and be prepared to adapt project parameters as unexpected problems arise. Projects with both renovation and new construction are more likely to be phased as well.

B. PHASING AND SHARED DEVELOPMENT COSTS

Phased Developments:

Larger redevelopment projects are typically built in phases. The phased approach enables developers to proceed with development at a manageable pace. This allows developers to attract capital and secure financing, prepare more accurate project costs based on current construction conditions, and propose program and land uses which are in line with the current state of the market. Utilizing a phased approach requires identifying the site development costs for the entire property and determining the allocation of site development costs across each individual development opportunities. For this Subject Property, the development could either start with the historic building, or begin with the larger development of the site that would bring in needed revenue and returns to fund the renovation. If the property owner chooses the latter, the City could consider employing a Developer Agreement or Performance Bond to guarantee the historic rehabilitation occurs.

Phasing Site Development Cost Strategy:

The typical approach to site development costs in a phased development project uses a pro rata distribution tied to the square footage (SF) of each individual site. The site development costs are prepared based on the infrastructure and site development scope of work required for the entire development. This can include site grading, common landscaped areas, environmental remediation, water, sewer and other utilities, and public right-of-way improvements, such as sidewalks, new curb cuts, or street repaving. The total site development costs are a calculation of total site costs divided by the total property square footage, creating a specific amount per square foot (\$PSF). The property-wide \$PSF is then allocated to each individual parcel based on the SF size of the individual site.

This pro rata method of distributing site costs is the standard approach developers take with phased development projects. Most sources of capital seek to finance the cost allocation to the individual project their loan is funding as that project is providing the estimated future revenue to repay the loan. The pro rata approach is also used to ensure later phases are paying for their fair share of any site development costs that are spread across the multiple uses and buildings on the site, particularly if the full improvements are implemented at the initiation of the first project.

If one of the phases of a multi-phase development site has a tighter profit margin than the others, it may be desirable and logical for the development team to plan that phase to be built later to mitigate financial risk. If that later phase is comprised of the project's public benefit like roadways

and community spaces, government entities have required a performance bond equal to the value of the improvement be posted to guarantee the public benefits have the necessary funds during the later phase.

Alternative Site Development Allocation:

There are alternatives to the typical pro rata allocation method. While not used frequently, there are cases when site development costs for the entire property can be more heavily weighted for the initial development project. If some portion of the infrastructure for the entire site is needed to initiate the first project, (such as sewer, water, site grading), the costs for the entire site can be added to the budget of the first project. If this is the approach, then developers may create a redevelopment agreement assigned to ensure future development projects pay their responsible costs. If there is a likelihood the later individual projects may not move forward, the site-wide costs may be allocated to the initial project. If the initial project is of a higher priority or profile than the other development sites and thereby may attract more capital or additional funding sources, developers may attribute a larger or even the full property infrastructure and site development costs to the first project to be developed.

C. PUBLIC PRIVATE PROJECTS

Governmental entities can provide either up-front funding or as reimbursement on completed projects. Determining the most beneficial approach for both public and private entities is based on a number of conditions.

- Current existence of financial incentives vs. longer-term availability of public funds
- Ratio of public funds to private funds or the percentage of public funds within the total project budget
- Cost of and access to capital based on market conditions
- Site infrastructure development costs
- Ease and ability to monetize public benefits
- Likelihood of leveraging additional redevelopment and tax base off-site.

The greater public participation and the earlier availability of the subsidy are key to attracting private development and can incentivize competitive interest in the development opportunity and the creation of development momentum. This is often described, positively, as “priming the pump.” Public subsidy for site infrastructure, particularly on a large scale, can help fill a gap for development projects.

Governmental entities and developers can partner to achieve mutual redevelopment goals within specific development opportunities. The partnership can enable the public sector to accomplish its community development objectives, while creating a desirable project to attract private investment. The two parties can enter into a redevelopment agreement detailing the manner of project assistance, including the amount and source of public funds or any assistance with governmental approvals, as well as the public benefit to be gained within the redevelopment project.

Providing a desirable return on investment is important to attract developers to carry out the public-private development project. Securing tangible community benefits is crucial to the public approval of the level of public assistance within development projects. Based on interviews and industry standards, typical returns for Public Private Partnerships are in the 10%-12% range.

D. GRANTS AND PUBLIC SOURCES OF REVENUE

There are multiple sources of funding for development, particularly helpful for defraying the costs to renovate historic buildings. These funding sources exist at the local, state and federal levels.

Local Incentives

Page | 20

The City of Geneva has incentives available to consider applied to the renovation of the existing 4 East State Street building. The City may consider offering TIF, sales tax rebates, reduced permit fees, or waivers of connection fees, where applicable.

Tax Increment Financing

Tax Increment Financing (TIF) is a financial tool used by local governments to fund economic development and is based on the theory that new development can pay for itself. An initial investment in an area, often in the form of infrastructure, induces property value growth which increases property tax revenue. The revenue increase is, in turn, used to pay for that initial investment. TIF is often labeled as “self-financing,” due to the use of future revenue to pay current costs. In addition to site infrastructure, historic preservation and community benefits are key uses within TIF allocations.

The 4 East State Street property is located in the Geneva Fox River TIF District. Due to the designation of this particular TIF district, offering TIF assistance may require the developer to make the improvements up front and receive TIF funding in the as increment is accrued into the TIF District. The cost of improvements may exceed the expected revenue for this individual site—the TIF-eligible project costs may need to be funded from the entire site or from district-wide increment. If the district-wide funds are not available, the City may want to consider issuing TIF debt to front fund the project costs with payback coming from future, accrued TIF funds. In this case, the City would have the anticipated revenue from the Full Site through creating a developers agreement with the Developer to fund the historic renovation at 4 East State Street.

We project a total of \$201,000 in TIF increment of the historic property alone compared with \$5.2 million in increment from the development of the Full Site.

Historic Preservation Funding Sources

The historic preservation funding sources described here require the designation of the former Mill Race Inn for the National Register of Historic Places. The eligibility for National Register designation should be explored and evaluated by the Illinois State Historic Preservation Office (SHPO) and the National Parks Service.

Federal and State Historic Tax Credits

The Federal and State Historic Tax Credit (HTC) programs support private investment into projects that rehabilitate historic and older buildings – commercial, industrial, hotels, residential rental and other income-producing uses – while maintaining their historic character. The benefit from the tax credits is reducing the amount of tax to be owed by income-producing entities. For redevelopment projects, the benefit is the ability to bring additional equity into the project capital stack. The tax credits can be offered to corporate investors reducing their tax liability in change for the project equity, via the tax credit syndication process. Given the legal and accounting process to create the tax credit

structure, most redevelopment projects tend to be greater than \$10 million in total project costs.

To be eligible for tax credits, buildings must be listed on the National Register of Historic Places, a process which is facilitated through the Illinois State Historic Preservation Office (SHPO). The Federal tax credit is 20 percent of the projects qualifying rehabilitation costs. The Illinois tax credit is 25 percent. In tax credit syndication projects, it's typical the investment creates \$0.80 in equity per \$1.00 of tax credit. The State tax credit is competitive as there is a cap on the overall program funds approved. The State has identified 5 priorities for tax credit project funding:

- The building was previously owned by governmental entity (such as a school)
- The site is in a low/moderate income census tract
- An area declared as a federal emergency disaster area
- In a County that borders another State with a historic tax credit program
- The development team includes a community development entity or non-profit organization

Given the State Historic Tax Credit program is competitive, and this development scenario only has the possibility of meeting one of the criteria, our analysis only assumed Federal Historic Tax Credits.

Preservation Easement Donation

Preservation easements function similarly to conservation and utility easements which provide access to the land and restrictions on development to an entity other than the property owner. Examples include easements to utility companies and to land conservation trusts for preservation of natural resources. The preservation easement provides a qualified historic preservation non-profit the ability to review and approve any future alterations. Preservation easements run with the land, continuing even when land is sold to a subsequent property owner. The benefit of the preservation easement is to allow the property owner to receive a charitable federal donation based on the determined value of the easement.

Landmarks Illinois Historic Preservation Grants

Landmarks Illinois, a non-profit organization promoting preservation, restoration and adaptive reuse of buildings and sites, offers multiple grants for historic preservation, two of which could be considered for the renovation of the Former Mill Race Inn. The grants target buildings which are in danger of demolition.

- Preservation Heritage Fund Grant
- The Barbara C. And Thomas E. Donnelley II Preservation Fund Grant

These grants can be used for planning and predevelopment services and are not available for hard costs. Landmarks Illinois makes these grants available for municipalities to support saving historic buildings. They could be considered to be structured as pass-thru grants for private efforts to save a historic building. As an example for 4 East State Street, the grants could support the National Register application process.

Additional Funding Sources

There are multiple opportunities for additional funding sources. Below are two non-traditional sources to consider.

Community Development Financial Institutions

Community Development Financial Institutions (CDFIs) offer access to capital for entities, typically for non-profits, to initiate development projects with a community benefit. CDFI's have funded the renovation of historic properties.

Property Assessed Clean Energy Program

Commercial Property Assessed Clean Energy Program (C-PACE) is an appealing financing source, offering commercial property owners secure long-term, fixed-rate financing for the cost of energy efficiency, clean energy, and climate resiliency building improvements for both renovation and new construction. The financing is repaid through a voluntary assessment on property tax bills. Non-profits may also qualify if their property is able to receive special assessments on their tax bill. Building owners can see an additional benefit as the eligible improvements can address deferred maintenance and result in improved building operations. Communities benefit when projects contribute to local environmental conservancy and resiliency, and renewable energy goals.

E. COMPARABLE DEVELOPMENT SCENARIOS

Teska and Planera researched real estate development resources and interviewed historic preservation professionals from outside of the Geneva area to identify comparable development projects, for both projects with historic structures which included new construction as well as projects with multiple phases. The results of this research produced projects that can serve to be informational as to the many variations for preserving historic buildings within larger development sites.

The majority of the projects with both renovation of historic structures and new construction were comprised of larger historic structures with new construction equal to or less than the size of the existing building, often times as additions or modifications to the historic structure. Another factor



to consider in finding comparable projects is the small size (1,200 SF) of the former Mill Race Inn. There are few historic buildings of this square footage which have been showcased for their completed renovation; however additional examples exist.

The Texaco Station, Decatur, is an example of a small building on a commercial corridor, preserved and in use as a private office. [Texaco Station, Decatur | Landmarks Illinois \(shown at left\)](#)

An example of a CDFI supporting the renovation of historic building, one that houses non-profits, is the Nichols Tower in the Homan Square community in Chicago. While at a larger scale than 4 East State Street, it shows a possible model for historic preservation. [Nichols Tower | Foundation for Homan Square](#)

There are two examples in Chicago which include the renovation of a historic building followed by new construction of a larger development. They include phasing the site and infrastructure development at the project onset, the cost of which is later allocated to individual sites within the overall property. It's important to note that while the scale of these two projects is not comparable to the 4 East State Street property, the overall project strategy is. The Lincoln Yards project on the North Side includes the renovation of a historic firehouse, which now serves as the marketing office and event space, for the multi-phased development project. The marketing office does not create a source of revenue for the overall development. Its renovation costs were absorbed within the large project development budget. [Lincoln Yards Visitor Center](#). The Bronzeville Lakefront development on Chicago's south side will redevelop the site of the former Michael Reese, via a multi-phase development strategy. The development plan includes saving and renovating the long-vacant Singer Pavilion. Both of these projects received municipal assistance for the overall project.

Two national projects that have capitalized on their history as historic waterfront developments including restoring and reusing vacant buildings can be used as examples for preserving and programming the 4 East State Street. The renovation of a former oyster shucking shed into a new oyster bar and restaurant in the large Washington DC Wharf redevelopment project includes a smaller scale historic preservation project within a larger redevelopment site at key waterfront location. [Rappahannock Oyster Bar | DC Wharf](#). Often times, preservation of an existing building is best met by constructing an addition to the historic structure, with varying levels of modification and preservation to the historic building. This may take the form of preserving the façade of the existing, historic building into a new structure. [Water Works Pavilion | Minneapolis Riverfront](#)

These examples represent a sample of comparable projects, and while none is a perfect match, these are projects which can provide context and inspiration into the 4 East State Street project.

5 DETAILED PRO FORMA REVIEW

A. LINE BY LINE REVIEW OF APPLICANT'S SUBMISSION

BOX 1 - CONSTRUCTION

Renovation Cost

- Demo and Hazard Material Removal are actual costs incurred prior. They are also already included in the AltusWorks \$1.4 million estimates.
- General Conditions: Construction projects typical budgeted for 4-6 % of total construction costs. This would equate to \$58,000-\$88,000. General Conditions include the resources needed to manage construction projects, such as trash removal, construction project management and administration services. They
- Insurance: Builders Risk Insurance helps protect buildings under construction, including materials, supplies, equipment.
- A construction contingency of 5.0% is not needed as the total construction-related cost of \$1,563,019, based on the AltusWorks estimate of \$1,461, 849 already includes 10% design contingency and 13% construction contingency.

Professional Fees

- Loan fees and interest costs can be eliminated if financing is not required for this project.
- Lease fees are costs incurred when using commercial brokers to secure a tenant. The tenant of the space is the same as the property owner, so there won't be a broker fee.

Site Development & Infrastructure

- Utilities: This project budget includes a total of \$32,200 with a scope attributed to the entire development site. The budget for a large development site would typically include a \$25,000 allowance for utilities. Utility hookups are included in the AltusWorks \$1.4 million estimate.

Land Costs

- The land cost estimate for the historic site assumes full development potential of the site rather than historic reuse of the building. Due to restrictions on the property, the value of the land is primarily vested in the vacant land of the Full Site that does not have these restrictions.

Permits

- Permit fees are included but could be reduced with reduced permit fees or permit waivers if the City would consider a request.

Contingency

- A construction contingency of 5.0% is duplicative as the total construction-related cost of \$1,563,019, based on the AltusWorks estimate of \$1.4 million already includes 10% design contingency and 13% construction contingency.
- Developer Fees: Typical developer fee is around 3-5%. This budget includes a 10% fee, although this may be warranted due to the small site.

BOX 2 - OPERATIONS

Rent

- Typical commercial rents in downtown and surrounding commercial corridors can see rent for office space at the \$20/psf in the pro forma
- A vacancy rate is listed at 10%, which may be high as the tenant is the same entity as the property owner.
- CAM – Common Area Maintenance: includes costs associated with maintaining a property such as landscaping, shoveling, and management fees.
- Property Taxes – The site currently is paying taxes despite being owned by a not-for-profit entity. Other alternatives could be explored in which the Foundation applies for property tax exempt status if no TIF increment from the historic property were included in the calculations.

Net Operating Income (NOI) is the difference between rent and expenses.

BOX 3 - POSSIBLE LOAN

Estimated Loan Annual Payment and Loan Amount

- There are three calculations that were performed to determine the annual loan payment, and the corresponding loan amount. There are two possible loan calculations (LTV and DSCR) that would produce an annual loan payment less than NOI. The third (LTC) produces a loan amount greatly exceeding NOI, which is not feasible. However, the two possible loan calculations are both showing below market rate returns.
 - Loan to Value (LTV). The annual loan amount is calculated based on a Cap Rate which is a percentage used to calculate the building value, post-completion, using the NOI as the formula basis. The 7.5% cap rate is typical for office properties.
 - Debt Service Coverage Ratio (DSCR). This calculation uses the target debt service coverage of 1.25, assuming the rent covers 1.25 over the loan amount.
 - Loan to Cost (LTC). This shows a loan based on the total project cost. The proforma includes a loan to cover 75% of project costs. A typical larger-scale development will secure a 80% loan. However, for this proforma, a loan of that size produces a debt service significantly greater than the NOI, so is not a feasible method to determine loan amount.

Box 4 – REQUIRED EQUITY

Estimated Total Cost

- The amount is drawn from the Estimated Total Cost in Construction (Box 1)

Estimated Contribution from City

- This is assumed to be \$0 and is identified an area for discussion on the proforma. There are sources (TIF, Historic Preservation, and others) which can be explored.

Page | 26

Estimated Loan

- The estimated loan was calculated in Possible Loan – Box 3 and is one of the calculations performed to determine optimal loan amount.

Equity Needed

- The projected amount of equity needed to fund the project. This amount is based on assumptions that no subsidy is pursued and that a loan is needed. Alternate proformas performed by Teska and Planera show alternative project costs that change the amount of equity and financing.

Box 5 – RETURN ON INVESTMENT (ROI)

- This pro forma's ROI shows the return on the investment (equity) relative to the value of the operations cash flow (NOI) after annual debt service (Net Cash Flow). This pro forma is calculating ROI in one of several ways to determine ROI, as described in our analysis in Section 3.

6 SOURCES

List of Interviews

Campbell Coyle
Celadon Partners
Colliers
DLA Piper US LLP
Farpoint Development
IFF
Inland Green Capital LLC
Institute of Cultural Affairs
Krueck Sexton Partners
Landmarks Illinois
Ramsey Historical Consultants
Shodeen Group LLC
URBAN ReSOLVE
The Chicago Consultants Studio (CCS)
The Richard H. Driehaus Foundation

Information on Financial Assumptions:

[Tax Increment Financing – Illinois Department of Commerce and Economic Opportunity](#)

[Financial Resources for Historic Places - Landmarks Illinois](#)

[Easements - Preservation Leadership Forum - A Program of the National Trust for Historic Preservation \(savingplaces.org\)](#)

[Commercial Property Assessed Clean Energy - Illinois Finance Authority](#)

[Commercial Mortgage Calculator](#)

[Kane County GIS](#)

[Kane County Assessment](#)

Report Limitations

The assumptions in the report are based on industry standards, results of interviews, and market information. The sources of the assumptions are delineated in the report. While these assumptions are based on industry standards, they present scenarios representing a range of reasonable forecasts. The analysis in this report is intended for use by review of local government reviewing the project and should not be used for any other purposes.

-----End of Report-----