



January 2005

The Rehabilitation of the John H. McClatchy Building: A Study of the Financial Impact of Preservation Incentives

Stephen B. Ujifusa
University of Pennsylvania

Follow this and additional works at: http://repository.upenn.edu/hp_theses

Ujifusa, Stephen B., "The Rehabilitation of the John H. McClatchy Building: A Study of the Financial Impact of Preservation Incentives" (2005). *Theses (Historic Preservation)*. 42.
http://repository.upenn.edu/hp_theses/42

Presented to the Faculties of the University of Pennsylvania in Partial Fulfillment of the Requirements for the Degree of Master of Science in Historic Preservation 2005.

Advisor: Donovan D. Rykpema

This paper is posted at ScholarlyCommons. http://repository.upenn.edu/hp_theses/42
For more information, please contact libraryrepository@pobox.upenn.edu.

The Rehabilitation of the John H. McClatchy Building: A Study of the Financial Impact of Preservation Incentives

Comments

Presented to the Faculties of the University of Pennsylvania in Partial Fulfillment of the Requirements for the Degree of Master of Science in Historic Preservation 2005.

Advisor: Donovan D. Rykpema

THE REHABILITATION OF THE JOHN H. MCCLATCHY BUILDING:
A STUDY OF THE FINANCIAL IMPACT OF PRESERVATION INCENTIVES

Steven Brooks Ujifusa

A THESIS

in

Historic Preservation

Presented to the Faculties of the University of Pennsylvania in
Partial Fulfillment of the Requirements for the Degree of

MASTER OF SCIENCE IN HISTORIC PRESERVATION

2005

Advisor
Donovan D. Rykpema
Lecturer in Historic Preservation

Reader
John C. Keene
Professor of City Planning

Program Chair
Frank G. Matero
Professor of Architecture

DEDICATION:

To my parents Amy and Grant Ujifusa

ACKNOWLEDGEMENTS:

Donovan D. Rypkema, M.S.

John C. Keene, J.D., M.C.P.

Randall F. Mason, Ph.D

Lynne B. Sagalyn, Ph.D

Lindsay Falck, B.Arch, M.C.U.P.

Witold Rybczynski, M.Arch

Paul Sehnert, Director of Real Estate Development, University of Pennsylvania

Benjamin Willner, Willner Realty and Development

Jeffrey Gentile, Director of Licenses and Inspections, Upper Darby Township

The Preservation Alliance for Greater Philadelphia

WXPN 88.5 FM

The University of Pennsylvania Glee Club

The Philomathean Society of the University of Pennsylvania

TABLE OF CONTENTS

INTRODUCTION	1
CHAPTER 1: An Overview of the John H. McClatchy Building and an Introduction to Financial Terminology	
I. Introduction: The John H. McClatchy Building, A History.....	9
II. Definition of Terms	
A. The Rehabilitation.....	15
B. The Pro Forma.....	15
C. Financing the Project.....	17
D. Metrics Used to Measure Return on Investment.....	19
III. The Initial Rehabilitation Scenario	
A. A Comparable Rehabilitation: The Hajoca Building, Philadelphia.....	20
B. The Initial McClatchy Building Rehabilitation Deal Structure.....	22
CHAPTER 2: The Impact of Available Preservation Incentives	
I. Introduction.....	28
II. The Federal Investment Tax Credit.....	29
III. LERTA (Local Economic Recovery Tax Act).....	36
IV. Donation of Façade Easement and Deduction of Its Value.....	39
V. \$100,000 Grant from the National Trust for Historic Preservation.....	44
CHAPTER 3: The Impact of Potential Preservation Incentives	
I. Introduction.....	46
II. The Pennsylvania State Historic Investment Tax Credit.....	46
III. Waiver of 6% State Tax on Sales and Labor.....	54
IV. 4% Low Interest Loan from State Fund.....	55
CHAPTER 4: Final Analysis and Conclusions	
I. Impact of Combinations of Incentives.....	59
II. Summary of Incentives Matrix in Appendix I	
A. Available Incentives.....	63
B. Potential Incentives.....	65
III. Closing Thoughts.....	66

Appendix I: Financial Impacts of Individual Incentives and Three Combinations of Incentives.....	72
Appendix II: Financials for Initial Rehabilitation Scenario.....	75
Appendix III: Financials for Federal Investment Tax Credit (ITC).....	83
Appendix IV: Financials with Federal and Proposed State Investment Tax Credits.....	93
Appendix V: Financials for LERTA.....	112
Appendix VI: Financials for a \$450,000 Low Interest Loan at 4%.....	119
Appendix VII: Financials for the Waiver of 6% Sales and Labor Tax.....	125
Appendix VIII: Financials for the Donation of Façade Easement at 11% of Fair Market Value.....	131
Appendix IX: Financials for the Donation of Façade Easement at 5% of Fair Market Value as Proposed by the Grassley-Baucus Legislation.....	134
Appendix X: Financials for \$100,000 Grant from the National Trust for Historic Preservation.....	137
Appendix XI: Financials for Three Combinations of Preservation Incentives.....	143
Appendix XII: Illustrations.....	162
Appendix XIII: Financials for the Rehabilitation of the Hajoca Building, Philadelphia, PA.....	172

LIST OF TABLES

Table I.....	26
Table II.....	27
Table III.....	32
Table IV.....	34
Table V.....	35
Table VI.....	36
Table VII.....	38
Table VIII.....	39
Table IX.....	40
Table X.....	41
Table XI.....	45
Table XII.....	48
Table XIII.....	49
Table XIV.....	50
Table XV.....	51
Table XVI.....	52
Table XVII.....	53
Table XVIII.....	54
Table XIX.....	56
Table XX.....	60
Table XXI.....	61
Table XXII.....	62
Table XXIII.....	63

LIST OF FIGURES

Figure 1.....10
Figure 2.....13

INTRODUCTION

“Buildings, all buildings, are economic vessels. No buildings – not churches, post offices, mints, factories, houses—are without functional purposes with some sort of economic justification.”¹

-Arthur Cotton Moore, author of **The Historic Buildings of Washington, D.C.**

The modern preservation movement began in part as a reaction against modern real estate development. In 1960, Pennsylvania Station in New York was demolished, but not before preservationists waged an intense and emotional battle against the developers and business interests behind them. Preservationists thought of important structures in terms of cultural heritage, values preservation, cultural landscapes and architectural integrity. They saw the destruction of one of the finest and most magnificent as an act of irreparable harm inflicted on the city of New York. Developers thought of a building’s net operating income, residual value, operating expenses, and rent per square foot. They saw Penn Station as an expensive millstone around the neck of the troubled Pennsylvania Railroad and a best-use opportunity to develop the site for the benefit the railroad and its shareholders. Since the 1960s, the movement to save America's architectural heritage has broadened from “a small group of history-minded preservationists to a large movement with a wide and varied constituency,”² and real estate developers and preservationists have increasingly come to need each despite their longstanding philosophical and aesthetic differences.

¹ As quoted by Barbaralee Diamondstein, *Buildings Reborn: New Uses, Old Places* (New York: Harper and Row), 1978, 25.

²Thomas J. Martin and Melvin A. Gamzon. *Adaptive Reuse* (Washington, D.C.: The Urban Land Institute), 1978, 1.

The late 1970s brought forth a flurry of economic incentives that were meant to stimulate private investment in America's historic structures. According to David Listokin in his paper *Living Cities*, "First granted by the 1976 Tax Reform Act, tax incentives for preservation activity were expanded by the Economic Recovery Act (ERTA) of 1981, which provides for Investment Tax Credits (ITC) for the rehabilitation of income-producing buildings."³ The original federal ITC allowed developers to take a 25% tax credit on certain rehabilitation costs of buildings listed on the National Register and supervised by the National Park Service. The real estate community quickly took notice of these attractive incentives. To quote a 1978 Urban Land Institute study on adaptive reuse: "Over the last few years changing economic conditions—rising costs, decreasing availability of developable properties, and fewer attractive large-scale development ventures—have forced real estate professionals to seek alternatives which will maximize investment objectives."⁴

Much has changed economically and politically since the pioneering days of privately-funded preservation, most notably a reduction of the historic ITC tax credit that provided much needed equity for expensive adaptive reuse projects. In 1986, the tax credit was trimmed from 25% to 20% of rehabilitation costs, and limitations on the use of the credit against personal income have made it more difficult to raise equity from smaller individual investors. However, the continued interest in adaptive reuse and rehabilitation by private firms has continued to make these projects viable and attractive alternatives to traditional developments. It is still federal, state, and local incentives that often make such projects possible. According to preservation consultant Donovan

³ David Listokin, *Living Cities* (New York: Priority Press Publications, 1985). 55

⁴ *Ibid* 1

Rypkema in his article *Preserving for Profit*, “These local incentives have aided preservation projects in two ways. First, the incentives themselves add to the net return from the property after completion. Second, the sheer existence of the incentives and their promotion by preservation advocates have attracted the attention of developers who in the past would not have considered anything but new construction projects.”⁵

New York City has been the leader in the historic preservation movement. According to Barbaralee Diamondstein in her 1978 book Buildings Reborn: New Uses, Old Places, “By one estimate, it [New York] has succeeded in designating three times as many landmarks and four times as many historic districts as 14 cities whose combined population is twice New York’s.”⁶ Nearly 30 years later, some of the most expensive neighborhoods in New York City, namely the Upper East Side, the Upper West Side, Greenwich Village, SoHo, Park Slope, and Brooklyn Heights, are protected by the New York City Landmarks Preservation Commission. But it was private money--both from individual homeowners and real estate investors--that made their rejuvenation possible. To quote Jonathan Morse, one-time president of the New York Squash and Racquet Club, concerning the landmark club’s 1915 McKim, Mead and White structure on Park Avenue: “It is not landmarking that makes it possible to preserve a building; it is the money that makes that building economically viable.”⁷ Morse, who was also an architect and real estate developer, threatened to build a gigantic tower on top of the Racquet Club to block sight lines from a new Fisher Brothers office building. The Fisher Brothers then paid a substantial sum to the club to stop Morse, thus solving some of the

⁵ Donovan Rypkema, “Preserving for Profit” (Urban Land Archives, December 1998).

⁶ Diamondstein 19

⁷ As quoted by Theodore Steinberg. *Slide Mountain, or The Folly of Owning Nature*, Berkeley: The University of California Press, 1995. <http://www.ucpress.edu/books/pages/6459/6459.ch05.html>

club's financial problems. It is finding the nexus between economic justification and architectural significance that has proved to be a central challenge in the rehabilitation of historic buildings, especially if they are privately-owned, income-producing structures.

Philadelphia, like New York, also boasts a rich architectural legacy. Adaptive reuse projects continue in Philadelphia despite rising construction costs. One of the most notable examples is the newly reopened and renovated Old Original Bookbinder's restaurant in Old City. The project was structured in an unusual manner. Because the rambling, historic agglomeration of structures was to have a block of new condominiums added to the rear, the National Park Service initially denied approval for historic ITCs. This was because the new construction was not eligible and because tax credit projects have to be income-producing, long term investments. Condominiums do not fall under this rubric. Nonetheless, the developers, Renaissance Properties, were able to convince the National Park Service to change its mind. According to Citizens Bank:

Construction financing for the \$21 million project is being provided by Citizens Bank and The Philadelphia Industrial Development Corporation and will include an additional \$800,000 for interior renovation of Bookbinder's. Additionally, Citizens Bank purchased \$1.8 million in tax credits to preserve a historic building in Society Hill.⁸

Old Original Bookbinder's reopened in February of 2005. This unusual deal structure, that combined federal tax credit subsidy and for-profit development, allowed Philadelphia to retain one of its most famous culinary and cultural landmarks in the heart of the revitalized Old City district. This is just one example of how preservation and adaptive reuse projects, especially ones that involve significant community landmarks that still operate as income-producing properties, require at least some extra economic incentives to make them competitive with newer construction or simple demolition.

⁸ http://www.citizensbank.com/aboutus/news/061303_bookbinders.asp

There are also more conventional projects; namely the gut-rehabilitations of old factories and warehouses. Famed developer Carl Dranoff has recently opened his newest creation: the resurrected Victor Building in Camden, New Jersey as luxury rental loft space. Financed in part with federal historic ITC equity, this factory rehabilitation is part of a comprehensive plan to revitalize the Camden waterfront. According to the June 15, 2003, Philadelphia Inquirer, Dranoff remains optimistic about the Philadelphia's urban population and hence the sorts of people he hopes will want to inhabit his historic rehabilitation projects: "Developer Carl Dranoff said that, after Boston, Philadelphia is home to the largest confluence of universities in the United States. While 40 percent of the MBAs coming out of Harvard remain in the Boston area after graduation, only 6 percent of Wharton graduates (which includes Dranoff) do. 'We've got a lot going for us,' Dranoff said of Philadelphia. 'The weakness is that we haven't been able to get it together in a coherent package.'"⁹

This thesis aims to examine the financial impacts of a variety of preservation incentives, both real and theoretical, on a building that sits not in a redeveloping central city, but rather in an older, inner ring suburb. Historic preservation, adaptive reuse, and rehabilitation have entered the main stream of urban real estate development in the central business districts of cities such as Philadelphia, New York, Boston, and Washington, D.C. However, economically viable historic preservation in suburban locations, especially older, first ring, suburbs such as Upper Darby, where the subject of this thesis is located, is a relatively new frontier. Upper Darby, Pennsylvania, is one of many first ring suburbs in the nation that grew and prospered during the first half of the 20th century, but which in the past few decades have experienced economic stagnation

⁹Alan J. Heavens, "Phila's Challenge: Lure New Residents." The Philadelphia *Inquirer*, June 15, 2003.

and decline in both residential and commercial properties. Although much has been written about the positive impacts of historic preservation tax incentives, there has been little research analyzing the direct financial impact of the incentives on specific projects. The John H. McClatchy Building in Upper Darby interests both preservationists and real estate professionals. For preservationists, it is a superior example of Art Deco commercial architecture. For real estate professionals, it represents a potential investment opportunity. For people in all fields, it is a laboratory subject that will quantify the impact of historic preservation incentives. In addition, the paper will evaluate the effect they have on the economic viability of rehabilitation, that crucial factor emphasized by Jonathan Morse regarding the New York Squash and Racquet Club.

The first chapter of this thesis will lay out the history of the John H. McClatchy Building, as well as its significance both as a work of architecture and to the township of Upper Darby. This chapter will provide an introduction to the terminology used in the financial analysis of the rehabilitation of the structure and the impact of preservation incentives. It will provide the underlying assumptions used in the analysis, and then provide an initial rehabilitation scenario without any preservation incentives. Using these assumptions and initial rehabilitation scenario, the second chapter will go on to analyze the impact of available, individual preservation-based incentives on three metrics: first year yield, internal rate of return (IRR) and cash-on-cash return. These incentives will include the federal historic investment tax credit, the donation of a façade easement, and Delaware County's Local Economic Recovery Tax Act (LERTA). The third chapter will analyze the impact of potential preservation incentives on the same three metrics of return. These potential preservation incentives include the proposed Pennsylvania

historic investment tax credit, a waiver on the 6% tax on sales and labor for historic rehabilitation projects, and a 4% low interest loan from the state modeled on the New Jersey preservation program. The scenarios are backed up by full sets of financial statements in the appendices. The fourth chapter and conclusion will then analyze the financial impact of three combinations of these incentives, and then make recommendations on what policies should be undertaken as to facilitate an economically justifiable rehabilitation of the John H. McClatchy Building and other historic structures.

Ultimately, this thesis has number broader goals. The first is to argue that in order for historic preservation to continue at the private level, existing preservation incentives must be supported. The second is to argue for the adoption of additional incentives to stimulate investment. The third and most important is to provide a bridge between the preservation and real estate worlds. For the preservationist, financial knowledge and terminology are required to buttress arguments for incentives to help in the rehabilitation of architecturally significant buildings. For real estate professionals, especially those who own older structures, this thesis will examine this vacant four story office and retail structure as a potential investment opportunity. It will also offer a preservationist's perspective on the financial value of saving historic buildings, and arm those in the real estate field with lobbying tools to encourage the maintenance and creation of incentives that might change a decision to preserve from a "no-go" to a "go."

Finally, there is the fate McClatchy Building itself, a magnificent example of 1920s Art Deco architecture that is at the heart of the largest first-class township in Pennsylvania. Given the correct circumstances and timing, this now vacant building can

once again become a visually and economically vibrant anchor of Upper Darby, and an example of what hard-headed historic preservation can accomplish.

CHAPTER 1

AN OVERVIEW THE JOHN H. McCLATCHY BUILDING AND

INTRODUCTION TO FINANCIAL TERMINOLOGY

I. The John H. McClatchy Building: A History

The John H. McClatchy Building sits just outside of a city that has seen a great resurgence in its historic center. Center City Philadelphia is booming. According to the November 2004 issue of Philadelphia Magazine:

Center City's young people represent a dream demographic, according to census data analyzed by the Center City District: exceedingly well-educated (79 percent of 25-to-34-year-olds have undergraduate degrees or more, three times the citywide number) and loaded (average salary is \$58,250). Center City is being rebuilt in their image, and starting to feel in places more and more like Brooklyn's Williamsburg or Miami's South Beach or a college town like Cambridge, and less and less like Philadelphia.¹⁰

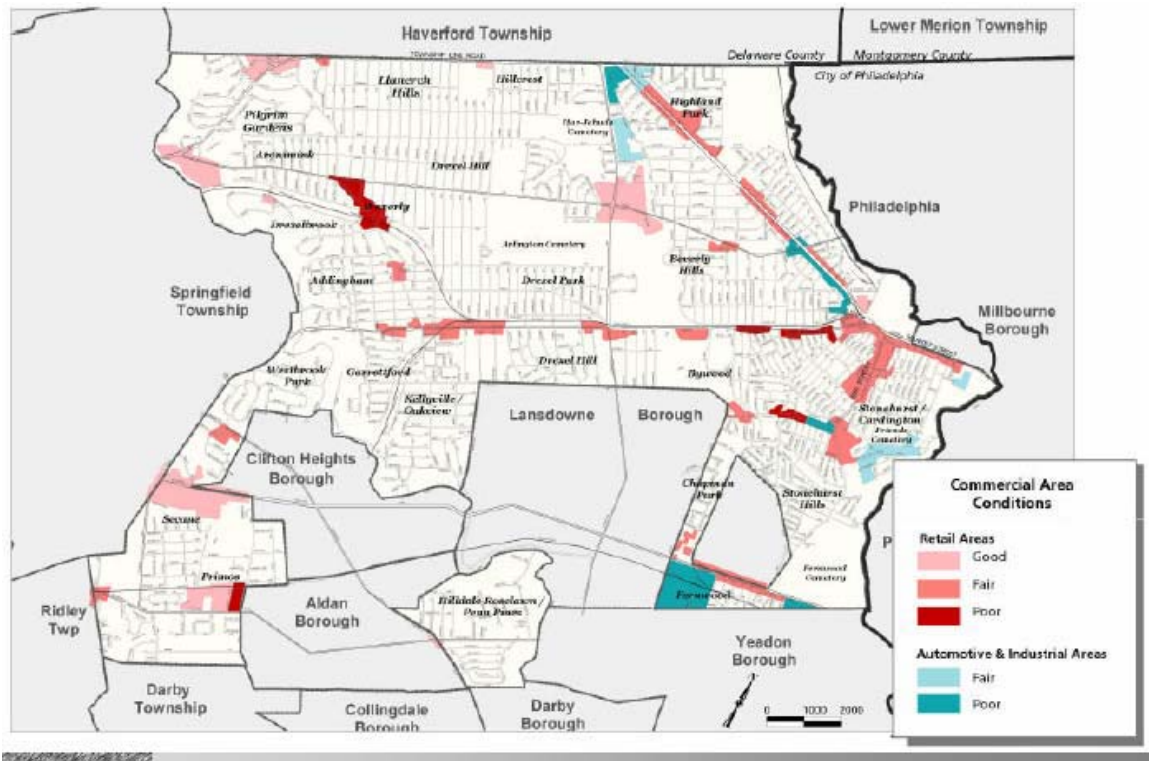
However, Philadelphia as a whole continues to lose population as middle class families flee to the suburbs. The city was a pioneer of the suburban movement that began in the late nineteenth century and remains vibrant to the present day; the Main Line suburbs, for example, are thriving. The Main Line got its name from the four trunk railroad lines from Philadelphia to Chicago. These suburbs had their origins in the 1880s, when the Pennsylvania Railroad purchased large tracts of farmland just outside of the city limits and laid out the still-elegant communities of Merion, Bryn Mawr, Villanova, and Wayne for the white collar upper-middle class and the old money Philadelphia families.

According to American historian Kenneth Jackson in his landmark 1985 book Crabgrass Frontier: The Suburbanization of the United States: “Affluent towns grew phenomenally

¹⁰ Sarah Isenberg. “20-Something Invasion,” *Philadelphia Magazine*, November 2004

in the last quarter of the 19th century, and by 1900 places that hardly anyone had heard of twenty five years before—like Fernwood, Darby, Overbrook, Ardmore, Haverford, and

Figure 1.



Map of Upper Darby Township from the 2004 Comprehensive Plan
 The McClatchy Building is situated at the corner of 69th and Market Streets at the eastern end of the township.¹¹

Bryn Mawr in the Philadelphia area alone—had become synonymous with stylish living. The term ‘Main Line’ derives from the Philadelphia experience.”¹² These communities boast some of the most well-preserved and prestigious historic residential properties in the nation.

Upper Darby represents a less elite form of early 20th century suburbanization. It is not located on the Main Line, but rather at the western terminus of the Market Street

¹¹ *Comprehensive Plan for Upper Darby*, Wallace, Roberts and Todd LLC, 2004, 3-1.

¹² Kenneth T. Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press), 1985. 91.

elevated train line just west of the Philadelphia city limits. In the 1910s and 1920s, suburban life became accessible to new segments of the middle class. Upper Darby grew and prospered in those two decades as a middle class residential neighborhood and shopping district. Developers such as John H. McClatchy took advantage of the townships open farmland and access to the Market Street elevated and constructed large numbers of affordable suburban homes. Although a substantial number of twins and single family detached were constructed, there were also a substantial number of row houses similar to those in Philadelphia proper. This middle class suburb could also support a shopping district that closely mirrored central city shopping districts such as Philadelphia's Chestnut Street, providing residents with department stores, independent retailers, office space, and entertainment.

To quote the Brookings Institution's report Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania with respect to older, inner ring communities such as Upper Darby: "As recently as 1950, nearly 80 percent of Pennsylvanians chose to live in towns, rural and urban boroughs, or inner ring townships that housed people of varying ages and incomes. Back then, everyone from factory managers and middle class families to the elderly and young worker sought out close-knit communities that promoted 'upward mobility and gave everyone a stake in maintaining public order,' as observes the Pottstown author Thomas Hylton, who grew up in an apartment building in Reading."¹³ Unlike its more modern suburban cousins, Upper Darby's initial layout was oriented to the pedestrian rather than the automobile, giving it a distinctly urban rather than suburban feel. This is especially apparent in residential areas near the commercial center, where

¹³ Bruce Katz, *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania* (Washington, D.C.: The Brookings Institution) 2004, 51.

houses are predominantly twins or row houses and are generally more up-to-date versions of their 19th century cousins in Philadelphia.

In the mid-1920s, flush with capital from the sale of thousands of units of middle class housing in Upper Darby, John H. McClatchy started to build a fanciful yet practical tribute to himself and his business. He hired the firm of William Steele and Sons to construct a centerpiece for his 69th Street shopping district that would serve as office space for his development firm, prime space for retailers, and an architectural showstopper and a tourist attraction. The four story mixed use commercial building used a format commonly found in suburban shopping districts of the era. The ground floor was devoted to retail space. The building's second story--with its high ceilings and enormous arched windows—has a largely open floor plate that was also used for retail space. The third and fourth floors were heavily partitioned office space. With the exception of the central stairwell, the interior finishes were quite plain and utilitarian.¹⁴ Naturally, this was good business sense in the 1920s just as it is today in suburban office parks. Plain interiors could be easily adapted to the needs and tastes of various retail and office tenants.

The striking originality and panache of the McClatchy Building lie on its exterior, which can be described as theatrical -- essentially an Art Deco movie palace turned inside-out (see Figure 2). The facades facing 69th and Market Streets are clad in textured polychrome terra cotta tiles in shades of yellow, cream, and blue. And perhaps taking a cue from New York's Pennsylvania Station, stylized eagles are perched on the rooftop.

¹⁴ Fisher, Penny E and John R. Lilly. "John H. McClatchy Building," National Register of Historic Places Registration Form, United States Department of the Interior, National Park Service, March 2002, Section 7, page 3.

But the most distinctive feature of the building was its ten-minute synchronized light show that played off the building's façade at night. Multi-colored stained glass pilasters on the side of the building were also illuminated by light bulbs from within, creating a stunning glowing effect.

Figure 2



The John H. McClatchy Building in a tinted photograph, c. 1930.¹⁵

In the mid-1980s, most of the buildings in the 69th Street shopping district, including the John H. McClatchy Building, were purchased by real estate investor Morris Willner. Willner Realty and Development remade the 69th Street into a budget-oriented shopping district that served residents of West Philadelphia and the surrounding communities. Today 69th Street is lined mainly with fast food restaurants, shoe stores, and clothing shops, and the retail space in this district is approximately 95% leased, with

¹⁵ Dietrich Neumann. *Architecture of the Night: The Illuminated Building* (New York: Prestel), 2002. 56.

its tenants selling goods at a “a price point lower than Center City and Springfield Township.”¹⁶ The side streets are home to small ethnic stores and restaurants. Although hardly Chestnut Hill or Wayne, Upper Darby’s shopping district, to quote the comprehensive plan: “has its own clearly-defined market niche of loyal customers and has been very successful in catering to its needs.”¹⁷ There of course none of the antique stores and coffee shops that line the streets of the Main Line. Although most of the retail space along 69th Street is leased, a casual glance reveals that Upper Darby’s antiquated office stock has high levels of vacancy.

Upper Darby has not prospered from the influx of affluence that has benefited both Center City Philadelphia and the Main Line suburbs. Upper Darby follows a trend similar to many older communities described in the Brookings Institutions new report: “Slow overall growth, combined with the state’s suburban-tilted development pattern, ensures that older neighborhoods must contend with soft real estate markets, a lack of newer housing, and elevated vacancy rates.”¹⁸ The new comprehensive plan as prepared by Wallace Roberts and Todd recommends that much of the eastern half of the township is in need of economic revitalization (see figure 1): “Neighborhoods that fall into the ‘reinvestment category’ are those in which major population and housing shifts have already occurred. They are characterized by decreasing rates of owner occupancy and increasing poverty rates. In some cases, the housing value may have declined as well.”¹⁹ The John H. McClatchy Building sits at the center of one of these proposed investment zones.

¹⁶ Wallace, Roberts and Todd. *Upper Darby Comprehensive Plan*, 2004. 3-8.

¹⁷ Ibid.

¹⁸ Katz 51

¹⁹ Wallace Roberts and Todd, 3-2.

In 2000, the John H. McClatchy Building, which housed the headquarters of Willner Realty, suffered a fire that severely damaged the basement, and has been sitting almost entirely vacant ever since. The McClatchy Building is now poised to be rehabilitated as the center of a new Market Street Gateway that aims to upgrade the downtown of Upper Darby. This is where a developer can come in with a set of proposals and capital in order to make rehabilitation a profitable reality.

II. Definition of Real Estate Financial Terms

In order to make the analysis understandable to both preservationists and real estate professionals, it is necessary to define a number of the financial terms and metrics that will be used in the following chapters. With the exception of a few terms, the definitions are from Barron's *Dictionary of Real Estate Terms, Sixth Edition* with additional, pertinent explanations.

A. The Rehabilitation

Hard Costs: Costs associated with the purchasing and installation of materials, construction labor, and other onsite activity.

Soft Costs: Costs not associated directly with onsite work, such as architectural and engineering fees.

Contingency: Because so much can easily go wrong in construction, an additional amount of money is factored into the construction budget, usually a percentage of hard costs, to cover unforeseen problems such as cost overruns and delays.

B. The Pro Forma

Cash Flow: Periodic amounts available to an equity investor after deducting all periodic cash payments from rental income.

Discount Rate: “A compound interest rate used to convert expected future income into a present value.”²⁰ The discount rate used in evaluating the project is the rate of return that an investor can expect for an investment of similar risk. Since it was decided that choosing a discount rate on this property was too arbitrary, it was decided to leave out this form of analysis. Nonetheless, it is a key concept in real estate finance.

Discounted Cash Flow: “A method of investment analysis in which anticipated future cash income from investment is estimated and converted into a rate of return on initial investment based on the time value of money. In addition, when a required rate of return is specified, a net present value of the investment can be estimated.”²¹ In short, a discounted cash flow analysis gives the present value of future streams of income.

After-Tax Cash Flow: “cash flow from income producing property, less income taxes, if any, attributable to the property’s income. If there is a tax loss that can provide a tax saving from the shelter of income earned outside the property, that savings is added to the cash flow that is earned by the property.”²² It is this income stream that goes into the equity holder’s pocket.

Operating Expenses: “Amounts paid to maintain property, such as property taxes, maintenance, hazard insurance.”²³ Operating expenses also exclude utilities and depreciation. In the case of many commercial properties, tenants are responsible for reimbursing the landlord for their pro rata share of operating expenses.

Net Operating Income (NOI): “Income from the property or business after operating expenses have been deducted, but before deducting income taxes and financing expenses

²⁰Jack P. Friedman, Jack C. Harris, and J. Bruce Lindeman, *Dictionary of Real Estate Terms* (Hauppauge: Barron’s Educational Series, Inc.), 131

²¹ Ibid

²² Ibid 14

²³ Ibid 317

(interest and principal payments). The formula is: $NOI = \text{gross income} - \text{operating expenses}$.²⁴ It is this income stream that is used to determine the terminal value of a property.

Tax abatement: “a reduction in amount or intensity. This usually applies to county and local property taxes, and reductions or eliminations of them over a specified period of time. The reductions are meant to serve as incentives to developers to improve the attractiveness of the project.

C. Financing the project

Equity: “the interest or value that the owner has in real estate over and above the liens against it.”²⁵ More broadly speaking, equity capital is the amount of money raised either by the developer himself and/or outside investors who are promised a certain percentage of the after-tax cash flows and proceeds from the sale of the building. In the case of historic tax credit projects, the funds provided by the tax credits can serve as the developer’s or outside investor’s equity. Equity has a higher expected return than debt because it follows debt in seniority should the project fail.

Debt Capital: “money loaned on a long-term basis and used to buy an investment such as real estate.”²⁶ This is also known as leverage. By borrowing money to purchase and/or rehabilitate a property rather than paying all cash, a developer can substantially increased his return on equity. Annual payments to pay off this debt are called debt service.

²⁴ Ibid 306

²⁵ Ibid 154

²⁶ Ibid 116

Amortization Period: “the time it takes to retire debt through periodic payments. Also known as the full amortization term.”²⁷ The amount of time that the principal owed is diminished by debt service payments. The amortization term of a mortgage can range anywhere from 10 to 30 years. The property can be sold before the amortization, and the proceeds from the sale are used to pay off the remaining principal of the mortgage.

Debt Coverage Ratio: “The relationship between net operating income (NOI) and annual debt service (ADS). Often used as an underwriting criterion for income property mortgage loans.”²⁸ $DCR = NOI/ADS$. According to GMAC, 1.25 is generally the minimum acceptable DCR for a lender.²⁹ The lender wants to be sure that there is enough of an allowance for vacancy, unforeseen repairs, and other additional reductions in NOI.

Tax Credit: “a direct reduction against income tax liability that would otherwise be due. Contrast with tax deductions that reduce taxable income. Example: tax credits that are available to real estate owners include: Rehabilitation tax credits for older properties and historic structures, low income housing.”³⁰ The Federal historic tax credits are more commonly known as investment tax credits, or ITCs. When calculating the value of these ITCs to the developer, 20% of hard and soft rehabilitation costs can be used as a credit against the developer’s income taxes. This money can be used by the developer as equity financing. There are three circumstances in which the developer can use the tax credits against his own income taxes. The first is if it is a full time, private real estate

²⁷ Ibid 24

²⁸ Ibid 116

²⁹ <http://www.gmaccm.com/gmaccm/CommercialRealEstateFinancing/Guidelines/Industrial-Construction.asp?img=1>

³⁰ Friedman, Harris and Lindeman, 444

development firm with other income-producing properties. The second is if the project is under the control of a corporate entity with large amounts of taxable income. The third is if the developer is not in the real estate business fulltime but rather has passive activity from sources that might include other real estate holdings. If the developer is a non-profit entity such as a university and therefore cannot use the tax credits against its income, it can then offer these tax credits to an outside investor, who then becomes an equity investor in the project. The common term for this transaction used in the rest of the paper is “selling” the tax credits. Most tax credit projects are sold after the minimum five year holding period, and the tax credit equity then gets returned to the outside investor. The five year minimum holding period is meant to prevent over speculation, or flipping, of these properties.

Debt/Equity Ratio: “the relationship of these components of purchase capital,”³¹ or the amount of debt over the amount of equity used to finance a real estate project. $D/E \text{ ratio} = \text{amount of debt used for project} / \text{amount of equity used for project}$. A typical D/E ratio is 3.00. A variation of this metric is the **Loan-to-Value Ratio (LTV)**, which will be used consistently in this study. This is the amount of debt financing over the total value of the project. The typical level LTV ratio is .75.

D. Metrics used to measure return on investment

Cash-on-Cash Return: “equals net operating income minus debt service, divided by equity invested.”³²

Capitalization Rate (Cap Rate): “a rate of return used to derive the capital value of an income stream. $\text{Value} = \text{annual income} / \text{capitalization rate}$.”³³ The lower the cap rate, the

³¹ Ibid 116

³² Ibid 75

stronger the market. Ideally, one should buy a property at a high cap rate and sell at a low one.

Yield: “The ratio of stabilized net operating income (NOI) over the total cost of the project.”³⁴ A good indicator of whether or not this project produces sufficient return, excluding financing.

Net Present Value: A method of determining whether expected performance of proposed investment promises to be adequate.”³⁵ The future income streams are discounted using a set discount rate, and then the initial cost of undertaking the venture is subtracted from the sum of these future cash flows. The future income streams are discounted using a set discount rate, and then the initial cost of undertaking the venture is subtracted from the sum of these future cash flows. Although a common metric used to measure performance, it was decided that finding an appropriate discount rate for this project was too arbitrary, so it has largely been excluded from this study.

Internal Rate of Return (IRR): “the true annual rate of earnings on an investment. Equates the value of cash returns with cash invested. Considers the application of compound interest factors. Requires a trial-and-error method for solution.”³⁶ IRR requires that some level of equity is invested in the project, and is particularly useful when terminal value is factored into the equation for overall returns.

III. The Initial Rehabilitation Scenario

A. Comparable Rehabilitation: The Hajoca Building, Philadelphia

³³ Ibid 72

³⁴ Ibid 487

³⁵ Ibid 306

³⁶ Ibid 236

A financial analysis for a historic rehabilitation of the John H. McClatchy Building requires looking at a similar project that was either completed or well-underway. The University of Pennsylvania has been involved in two such innovative historic rehabilitations crucial to revitalizing West Philadelphia. The two most high profile projects are the joint ventures with noted Philadelphia developer Carl Dranoff: The Left Bank and the Hajoca Building. Both of these formerly dilapidated Art Deco industrial buildings are owned by the University of Pennsylvania and ground-leased to Carl Dranoff. The Hajoca Building provided the basis for the debt financing terms for the project rehabilitation of the John H. McClatchy Building.

The Hajoca Building, a 1930 Art Deco structure that formerly served as manufacturing and showroom space for a large plumbing manufacturer, is located next to the railroad trestle at 30th and Walnut. It is of the same 1920s vintage to the McClatchy Building, and at 41,889 square feet, it is almost the same size (see Appendix XII). Both structures are empty shells with relatively unremarkable interior features. There are some key differences, however. First, the Hajoca Building's location at 30th and Walnut leaves it relatively isolated from surrounding commercial life. The McClatchy Building is one of the central landmarks of its area. Second, the McClatchy Building's exterior, with its terra cotta cladding and filigreed glass and metal pilasters is much more elaborate than the Hajoca Building's, which is lightly carved limestone.

Cooperating with Carl Dranoff, WXPB and World Café Live, the University of Pennsylvania decided that ultimately the best use for this structure would be as a cultural and entertainment complex. The ground floor would serve as a state-of-the-art performance space, with a large, cabaret-style theatre, bar, and recording studio. The

second floor, which is at street level with the Walnut Street overpass, would house a café and offices for WXPB, the University of Pennsylvania's non-profit, Indie rock music station.

Paul Sehnert, Director of Real Estate, released the financials for the rehabilitation of the Hajoca Building to the author during the initial stages of research. Partly because of the high costs of purchasing and installing high quality A/V equipment and interior finishes, the Hajoca Building rehabilitation cost a grand total of \$13 million dollars, or \$319 per square foot. The project was financed with \$6.4 million of debt, \$5 million in equity, and \$2.1 million of historic investment tax credits valued at 93% of rehabilitation costs. The terms of the debt financing were 25 years at 7%. The entire financial structure and National Register application form is provided in Appendix XII

B. The Initial McClatchy Building Rehabilitation Deal Structure

The assumptions behind the financial analysis of the John H. McClatchy Building are based on information provided by Benjamin Willner of Willner Realty and Development, the current owner of the structure. The four story retail and office structure has 12,400 square feet of retail space, with 600 square feet reserved for the lobby. The second floor has an open floor plate of 13,000 square feet and a soaring ceiling that shows almost no structural supports. The third (10,000 square feet) and fourth (9,000 square feet) stories are partitioned into small office spaces. Aside from the staircase, the interior finishes of the building are not particularly notable, allowing the building to be gutted and thoroughly modernized without too much concern for historic interiors. A full set of floor plans are provided in Appendix XI. The following pages

include the assumptions, source and use of funds, pro forma, and cash flow statement for the initial rehabilitation scenario of the rehabilitation of the John H. McClatchy Building.

According to Benjamin Willner, the rehabilitation of the structure would cost from \$2.0 to \$2.5 million, or about \$54 per square foot. However, when Lindsay Falck, lecturer at the University of Pennsylvania's School of Design, assessed the exterior condition of the structure, he felt that Willner's estimate was far too low. This was also the view of Jeffrey Gentile, P.E., Director of Licenses and Inspections for Upper Darby Township. Falck estimated that a proper, full renovation of the structure would cost in the approximately \$150 per square foot, or about \$6.5 million. The building is currently assessed at only \$226,600 in its fire-damaged state, in all likelihood a percentage of the property's fair market value.

For the purposes of my analysis, I used the current \$226,600 assessment as the acquisition cost of the building. Although this is an arbitrary number that probably does not reflect the true market value, it was decided to choose this figure for simplicity's sake. Before the fire, it was assessed by Upper Darby at \$1.5 million. Based on the Hajoca Building figures, soft costs are predicted to be 24% of the \$5,500,000 total rehabilitation cost, or \$1,320,000. Since the McClatchy Building has been sitting largely vacant for five years and needs a substantial amount of renovation, a generous 10% contingency, or \$550,000, has been factored into the rehabilitation budget. In order to for the DCR to remain at 1.25 with a 2/3 LTV ratio, the maximum rehabilitation budget was set at a total of \$6,221,660, or \$139 per square foot. Based on the previously-mentioned figures from the Hajoca Building, the estimate hard costs for the rehabilitation of the McClatchy Building are 76% of the total \$5,500,000 total rehabilitation cost, or

\$4,184,440. The estimated reassessed value after renovation is \$1.6 million, as the structure is assessed by Upper Darby at only a percentage of its fair market value.

The next step in the analysis was to create a stabilized pro forma for a rehabilitated and operating John H. McClatchy Building in order to calculate the maximum amount of debt the building could carry to fund the project. According to Benjamin Willner, the building was fully leased at the time of the fire in 2000. Despite the current high rates of vacancy in Upper Darby's old commercial core, a fully-leased McClatchy Building in the future would seem to make commercial sense because of the building's prime location next to the 69th Street Terminal. In fact, Willner Realty and Development had its headquarters in the building at the time of the fire. Willner estimated that the \$30 per square foot would be an appropriate figure for retail space rent given the building's location, and further estimated that \$12 per square foot is an appropriate figure for office space rent given the slow office market in the area. The projected gross income (PGI) was then adjusted for a very conservative 15% vacancy rate. The first year effective gross income (EGI) was calculated to be \$678,300.

The operating expenses as quoted by Willner Realty were \$160,000, with a tenant reimbursement of \$86,064 for electric bills. Property and school taxes for Upper Darby totaled \$62,390 (using the estimated rehabilitation assessment of \$1.6 million), and Delaware County real estate taxes came to \$7,894. These figures used the mill rates for Upper Darby school, township and Delaware real estate taxes of 24.05, 11.12, and 4.45 mills, respectively. After these expenses, the first year stabilized net operating income (NOI) of is \$448,734. Using a \$6.2 million outlay that includes both acquisition and rehabilitation, the NOI translates to a first year yield of 7.15% (\$448,734 divided by a

project cost of \$6,221,660). The low yield and high cost of a McClatchy project make it an ideal candidate to assess the impact of preservation incentives, especially because of the structure's central location in an older, inner-ring suburb.

The next step of the analysis was to estimate the financing of the rehabilitation. Assuming that the building would be financed with 1/3 equity and 2/3 debt, the mortgage payment on a loan of \$4,184,440 with a term of 25 years and a 7% interest rate translated to an annual debt service payment of \$359,059, which is the maximum that a lender would allow with a 1.25 DCR. These terms are identical to those of the Hajoca Building in West Philadelphia. For simplicity's sake, no mezzanine financing or construction loan was factored into the debt financing. After debt service, the building produced a first year cash flow of \$81,472, translating to a cash-on-cash yield of 4.29 % on \$2,092,220 of equity invested by the developer (\$81,472 divided by \$2,092,220). Assuming a sale in seven years and factoring in net sales proceeds of \$1,003,449, the internal rate of return for the investment is -4.07%. These results assume that market conditions in Upper Darby remain stable -- a 3.5% inflation rate, 3.0% annual rent increase, and a 3.5% annual increase in operating expenses.

Finally, the terminal value at year 7 was calculated. Since the McClatchy Building is slated to be sold in year 7, the terminal or sale value of the property is based on the following year's project NOI, the cap rate used is a conservative 11%. This produces a terminal value of \$4,718,674, or a projected year 8 NOI of \$540,974 over 11%. Net sales proceeds following taxes, repayment of mortgage balance, and broker fees totaled \$1,003,449. Under this initial scenario, with a negative IRR, a cash-on-cash return comparable to a risk-free 10 year U.S. treasury note, and the inherently high

project risks, there is no economic justification for rehabilitating the McClatchy Building. The sections that follow will look at how the utilization of current and potential incentives might impact economic justification of the envisioned project, saddled with an initial rehabilitation scenario with unattractive metrics.

Table I
Assumptions on Which the Analysis is Based

Rehabilitation costs	
Acquisition cost @ current assessment by Upper Darby Township	\$ 226,660
Hard and soft rehabilitation costs	\$ 5,500,000
Contingency @ 10% of rehab costs	\$ 550,000
Total costs	\$ 6,276,660
Financing	
Equity financing (1/3)	\$ 2,092,220
Debt financing (2/3)	\$ 4,184,440
DCR	1.25
Permanent mortgage	\$ 4,184,440
Rate	7.00%
Term (years)	25
Debt-to-Equity ratio	2.00
Permanent annual mortgage payment	\$ (359,069)
Assessment values	
Current assessment	\$ 226,660
Value of land and structure before the fire as assessed by Upper Darby Township	\$1,508,275
Estimated assessed value of land and structure after rehabilitation	\$ 1,600,000
Township Millage Rate	11.12
Upper Darby School District Millage Rate	24.05
Delaware County Millage Rate	4.45
Federal income tax	35%
State income tax	9.99%
Valuation of Federal ITC at 85%	\$ 935,000
Valuation of PA Historic ITC at 80%	\$ 880,000
Building specifications	
Retail square footage	
Ground Floor Retail	12,400
Second Floor Retail	13,000
Lobby/Common Area	600
Total	<u>26,000</u>
Office square footage	
Third Floor	10,000
Fourth Floor	9,000
Total	<u>19,000</u>
Annual operating expenses in 2004	\$ 160,000
Vacancy rate at stabilization	15%
Annual rent increases	3.0%
Annual expense increases	3.5%
Annual Township and School Taxes	\$ (56,272)
Annual Delaware County Taxes	\$ (7,120)
Annual real estate tax increase	3.5%

Table II
Initial Rehabilitation Scenario

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		81,472		81,472
2		84,406		84,406
3		87,283		87,283
4		90,092		90,092
5		92,821		92,821
6		95,460		95,460
7		97,993	1,003,449	1,101,441
	<u>\$ (2,092,220)</u>	<u>\$ 629,526</u>	<u>\$ 1,003,449</u>	<u>\$ (459,245)</u>
	INTERNAL RATE OF RETURN			-4.07%
	YEAR 1 YIELD			7.15%
	YEAR 1 CASH-ON-CASH RETURN			4.29%

The full financial statements for this scenario are provided in Appendix II.

CHAPTER 2

THE IMPACT OF AVAILABLE PRESERVATION INCENTIVES

I. Introduction

In 1978, at the birth of the adaptive reuse/historic investment tax credit development movement, the Urban Land Institute stated:

Because the reuse of significant architectural or historic buildings is thought to further public aims, it is often possible for such projects to obtain various kinds of financial and planning support from the public sector. These supports take many forms, but most are related either to the type of use (for example, when the provision of subsidized housing is involved) or to the overall development of an area. This latter public concern is typically expressed in terms of tax incentives or abatements and public infrastructural improvements related to various redevelopment factors. The factors of public support can be critically important to the financial success or failure of a project.³⁷

One reason the John H. McClatchy sat vacant and fire-damaged for four years is the dearth of public policy incentives meant quickly correct this situation. Although 69th and Market is hardly Walnut and Broad, the building's location makes it one of the most valuable pieces of commercial real estate in Upper Darby. And architectural significance aside, the building has been recognized by the township as crucial to the revitalization of the community's shopping district. If there is a property where Upper Darby's revitalization is to begin, that property is the McClatchy Building. Because the federal government has drastically cut back urban renewal funding since the 1950s and 60s, the state and local governments must ensure that a project such as the rehabilitation of the McClatchy Building provides a reasonable return to the developer given the obvious risks involved. At the same time, state and local authorities cannot line, and cannot perceived to be lining, a developer's pocket at the expense of other needed public expenditures such

³⁷ Urban Land Institute, *Adaptive Reuse* 3.

as education and social services. In any case, the truth is that money to be spent on historic preservation is especially difficult to obtain during a time in which state and local governments are suffering severe budget shortfalls. The federal government's budget looks no better.

But for those interested in economics, historic preservation is not simply a cosmetic public benefit, but part-and-parcel of a sound, municipal economic redevelopment strategy. According to the Twentieth Century Fund Task Force on Urban Preservation Policies: "Preserving historic resources in urban areas has many virtues: it creates variety; it provides a sense of community; it affords access to air and light. But over and above these intrinsic values, preservation is an important tool for land use planning, especially in densely populated sections of our cities."³⁸

This chapter will be a quantitative analysis of the impact on three crucial metrics of various preservation incentives that were used at the end of the last chapter for the base case scenario: internal rate of return (IRR), yield, and cash-on-cash return utilizing the assumptions, pro forma, and financing utilized for the initial rehabilitation scenario. Cash flow summaries for each scenario will be displayed opposite the summary of results. Other financial statements, namely the source and use of funds, mortgage amortization schedule, depreciation statement, pro forma, and cash flow projections, are provided in the appendices.

II. The Federal Historic Investment Tax Credit

The National Historic Preservation Act, passed in 1966, gave birth to the National Register of Historic Places. The act gave the symbolic register financial teeth in 1976

³⁸ *Report of the Twentieth Century Task Force on Urban Preservation Policies* (New York: Priory Press Publications), 1985, 5.

when it gave developers a substantial financial incentive to rehabilitate existing structures older than fifty years old that were also listed in the National Register. The rehabilitation must be substantial, meaning that the costs must exceed the adjusted basis of the building, and the process must be overseen and approved by the Department of the Interior to ensure that the preservation of the historic fabric. The 25% Federal Investment Tax Credit (ITC) on rehabilitation costs, granted by the Economic Recovery Tax Act of 1981, helped make once economically unattractive historic rehabilitations not only feasible, but economically quite profitable.³⁹ However, in 1986, in response to the use of investment tax credit projects as tax shelters by high income passive investors, the federal government cracked down on the use of tax credit financing for historic preservation as part of a broad scheme to reduce tax shelters for the affluent. The Tax Reform Act of 1986 reduced the investment tax credit from 25% to 20% of certain rehabilitation costs. In addition, rehabilitation projects need to be very large to justify the packaging and sale of the credits to large, outside investors.

The application of federal tax credits on a project such as the one under discussion would have particularly potent effect, especially in a relatively stagnant community such as Upper Darby. The McClatchy Building would serve as a development catalyst. According to David Listokin, “the ‘substantial rehabilitation’ test” can restrict eligibility for the ITC in strong real estate markets where purchase prices and, therefore, the adjusted basis, are high.”⁴⁰ Listokin then quotes from a report from the Advisory Council on Historic Preservation that notes that “In New York City, only thirteen applications

³⁹ David Listokin, *Living Cities* (New York: Priory Press Publications), 1985, 54.

⁴⁰ Ibid 56

were submitted for the 25 percent credit in 1982. By comparison, 38 projects were submitted from Albany.”⁴¹

Upper Darby is much more like Albany than New York City. Given the fire-damaged state of the McClatchy building and the depressed state of commercial values around it, a rehabilitation of structure at \$139 per square foot costing \$6.2 million in all would easily pass the substantial rehabilitation/adjusted basis test.

Although Willner Realty and Development has applied for the listing of the McClatchy Building on the National Register in order to benefit from the tax credit financing, Benjamin Willner expressed concern about too much government supervision in the rehabilitation process. He cites, for example, possible increased supervision and requirements from both the State Historic Preservation Office and the National Park Service to follow the Secretary of Interior’s preservation standards. This could increase the time frame and cost of the project.

If the developer is unable to use the tax credits against other sources of income, he can “sell” them to outside investors. In the case of the Hajoca Building, the non-profit University of Pennsylvania sold its tax credits under the following conditions. Valued at 93% of rehabilitation costs, the tax credits were sold and 3% of their valuation was distributed annually by the university to the historic tax credit purchasers of after-tax cash flow. For the McClatchy Building tax credits, the Federal tax credits are valued at 85% and 3% of their value is distributed from the after-tax cash flow to the ITC investor. At the time of sale, seven years from year one, the value of the tax credit is then deducted from the sales proceeds.

⁴¹ Ibid

Assuming that a developer can use the tax credits against other income instead of having to sell them to outside investors, the metrics are particularly favorable for the rehabilitation of the McClatchy Building. Valuing the federal tax credits at 85% of rehabilitation costs, the tax credit equity comes down to \$935,000, which can be used in two ways: the tax credits can be deducted from the developer's income tax or sold to outside equity investors with enough taxable income to benefit from the tax shelter. According to Paul Sehnert, Director of Facilities and Real Estate at the University of Pennsylvania, most historic tax projects are wound down after the five year holding period required by law. But on the advice of Donovan Rypkema, the holding period for hypothetical project in question was extended to seven years, allowing for a greater percentage of the mortgage to be paid off before the sale.

Table III
*Scenario 1A: Federal ITCs Used to Reduce Developer's
Cash Equity Contribution While Maintaining a 2/3 LTV; Retained by Developer*

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (1,157,220)	\$ -		\$ (1,157,220)
1		69,487		69,487
2		72,421		72,421
3		75,298		75,298
4		78,107		78,107
5		80,837		80,837
6		83,475		83,475
7		86,008	1,169,439	1,255,447
	<u>\$ (1,157,220)</u>	<u>\$ 545,633</u>	<u>\$ 1,169,439</u>	<u>\$ 557,852</u>
	INTERNAL RATE OF RETURN			6.80%
	YEAR 1 YIELD			8.40%
	YEAR 1 CASH-ON-CASH RETURN			6.00%

The full financial statements for all Federal ITC scenarios are provided in Appendix III.

First, this scenario assumes that the banks would be willing to underwrite as much as 2/3 (or 67%) of such a substantial rehabilitation. Second, it is assumed that the banks would continue to charge an interest rate of 7% for a project such as this. Rather than trying to guess what interest rate would be used on this project (probably higher than 7%), it was decided for simplicity's sake to use the same loan terms for the Hajoca rehabilitation. Third, it is assumed that the project goes without any delays or cost overruns, leases up on schedule, and sells at an 11% cap rate. Finally, it is assumed that the developer will be rich enough or large enough to use the Federal tax credits against the taxes on other sources of his income.

In this scenario, IRR is raised by from negative -4.07% to 6.80% because of the halving of the amount of developer's cash equity required for this project. Cash-on-cash return also goes up for the same reason. Yield goes up to 8.40% from 7.15% because the tax equity is subtracted from the total costs to the developer. Although this still remains a relatively unattractive project because of its high risk and relatively low returns (6% cash-on-cash and 6.80% IRR), the transformation from a negative to a positive IRR and cash-on-cash return illustrate the power of the federal ITC. This scenario also demonstrates the need for new incentives to push the project forward.

Table IV

Scenario 1B: Federal ITC Used to Reduce Developer's Cash Equity Contribution While Maintaining a 2/3 LTV; Sold to Outside Investor

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (1,157,220)	\$ -		\$ (1,157,220)
1		41,437		41,437
2		44,371		44,371
3		47,248		47,248
4		50,057		50,057
5		52,787		52,787
6		55,425		55,425
7		57,958	234,439	292,397
	<u>\$ (1,157,220)</u>	<u>\$ 349,283</u>	<u>\$ 234,439</u>	<u>\$ (573,498)</u>
	INTERNAL RATE OF RETURN			-11.5%
	YEAR 1 YIELD			8.40%
	YEAR 1 CASH-ON-CASH RETURN			3.58%

If the developer either does not have enough income tax that can be offset by the \$935,000 tax credits or is a non-profit entity, then he can sell the tax credits to an outside investor. However, this assumes that it can still contribute \$549,465 in equity. Under this scenario, the tax credits are purchased and 3% of their value is paid out each year from the after-tax cash flows. The IRR is now even worse than it was in the initial rehabilitation scenario (-11.5%) because so much of the cash flows from this project come from the sale of the building in year 7 as opposed to the income generated. The ITC investor receives \$935,000 out of the sales proceeds in addition to the annual distributions from after tax cash flow, which translates to 3% of the value of the ITC. There is only a cushion of \$244,439 between what the property will sell for less the mortgage and the tax credit investor's share of the proceeds. If the property were to drop

in value even slightly, then the developer will not just lose his own money, but will find owe a substantial amount to both the debt and the ITC equity investors.

Table V
Scenario 2A: Federal ITC Used to Reduce Debt Financing; Retained by Developer

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		117,002		117,002
2		120,453		120,453
3		123,883		123,883
4		127,284		127,284
5		130,648		130,648
6		133,964		133,964
7		137,222	1,976,508	2,113,730
	<u>\$ (2,092,220)</u>	<u>\$ 890,456</u>	<u>\$ 448,734</u>	<u>\$ 774,744</u>
	INTERNAL RATE OF RETURN			5.37%
	YEAR 1 YIELD			8.40%
	YEAR 1 CASH-ON-CASH RETURN			5.59%

Another scenario for the developer is to use the federal tax credits to reduce the amount of debt financing on the project. By applying the ITCs against debt financing rather than equity, the LTV is reduced from the maximum of 67% (in order to maintain a 1.25 DCR) to 38%, or a mortgage of \$2,369,440. Although this goes against the conventional real estate wisdom of leveraging a property as much as possible in order to maximize cash-on-cash return, a project of this scale and location might have problems getting conventional financing from commercial lenders. And although this forces the developer to front twice the amount as equity as in scenario 1A and 1B, it provides a much better sense of security for the lender. In this scenario, the \$935,000 in federal ITCs can be retained by the developer. The reduced mortgage helps push IRR into positive territory and, as in the previous scenario, the ITC reduces the cost basis of the

project and pushes up yield up to 8.40%. However, the still large up-front cash equity required from the developer pushes leaves the cash-on-cash return at only 5.59%.

Table VI

Scenario 2B: Federal ITC Used to Reduce Debt Financing; Sold to Outside Investors

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		88,952		88,952
2		92,403		92,403
3		95,833		95,833
4		99,234		99,234
5		102,598		102,598
6		105,914		105,914
7		109,172	1,041,508	1,150,680
	<u>\$ (2,092,220)</u>	<u>\$ 694,106</u>	<u>\$ 1,041,508</u>	<u>\$ (356,606)</u>
	INTERNAL RATE OF RETURN			-3%
	YEAR 1 YIELD			8.40%
	YEAR 1 CASH-ON-CASH RETURN			4.25%

If the federal ITCs cannot be used by the developer and are sold to outside investors, the reduction in cash flows from operations causes cash-on-cash to drop to 4.25%. The paying out of \$935,000 from sales proceeds severely impacts net present value and leaves IRR in negative territory. This alternative lacks economic justification.

III. LERTA (Local Economic Recovery Tax Act)

The Local Economic Recovery Tax Act (LERTA) was enacted by Delaware County as a way to encourage the redevelopment of older areas. The program offers special tax assessment treatment for rehabilitated properties, and the townships and cities within the county can designate areas as LERTA districts at their discretion. LERTA is a sensible way of encouraging reinvestment in some of Delaware County's distressed

communities such as Chester. According to Wallace Roberts and Todd’s comprehensive plan for Upper Darby, “The Township currently has a Local Economic Revitalization Tax Act (LERTA) in the 69th Street area. This program should be expanded to other commercial areas in need of redevelopment, including the Gateway now underway, the West Chester Pike corridor, and the Fernwood area. The Township may also wish to introduce a Tax Increment Financing program to attract business to these areas.”⁴²

Table VII
LERTA at Full Effect

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		112,130		112,130
2		116,294		116,294
3		120,444		120,444
4		124,571		124,571
5		128,665		128,665
6		132,714		132,714
7		136,709	1,003,449	1,140,157
	<u>\$ (2,092,220)</u>	<u>\$ 871,527</u>	<u>\$ 1,003,449</u>	<u>\$ (217,244)</u>
				INTERNAL RATE OF RETURN
				-1.90%
				YEAR 1 YIELD
				8.13%
				YEAR 1 CASH-ON-CASH RETURN
				5.36%

Full financial statements for the LERTA scenarios are provided in Appendix V.

In its standard form, the LERTA program freezes a property’s assessed value before rehabilitation for the first year of operation. It then incrementally increases the property’s assessed value to a new valuation over the course of ten years. For the McClatchy Building’s first year of operation, the building will be assessed at the original \$226,600. Assuming that the building will be reassessed at \$1.6 million (it stood at \$1.5

⁴² Wallace Roberts and Todd, 4-8

million before the fire), the building will be assessed at 10% of \$1.6 million, 20% the second year, and so on. The incentive applies to county, school, and township taxes.

When placed in full effect and if there is no ITC used in the project, the LERTA program boosts IRR by 1.71% to -2.4%. The property tax relief in the pro forma creates a 0.72% rise in cash-on-cash return to 5.01%. Yield is raised by 0.98% to 8.13%, a significant raise before financing. However, it is still insufficient to make this project economically attractive, as IRR remains in negative territory and cash-on-cash return is still only 5.3%.

Table VIII
LERTA as Enacted by Upper Darby

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		103,431		103,431
2		105,354		105,354
3		102,755		102,755
4		100,113		100,113
5		97,420		97,420
6		94,662		94,662
7		98,169	1,003,449	1,101,617
	<u>\$ (2,092,220)</u>	<u>\$ 701,904</u>	<u>\$ 1,003,449</u>	<u>\$ (386,867)</u>
				INTERNAL RATE OF RETURN
				-3.46%
				YEAR 1 YIELD
				7.85%
				YEAR 1 CASH-ON-CASH RETURN
				4.94%

Upper Darby has recently enacted a somewhat more conservative form of LERTA, probably to reduce the losses from property tax revenues while still trying to stimulate reinvestment. According to Jeffrey Gentile, Director of Licenses and Inspections for Upper Darby, the township designated the 69th Street commercial corridor

as a LERTA district. However, Upper Darby modified the program, shortening the time frame to 5 years and stepping up assessments by 20% increments.

When the township's modifications are factored into the pro forma, the alterations have a negligible effect on IRR, raising it by only 0.10% above the initial rehabilitation scenario. The effects are the same for first year cash-on-cash return and yield as the original LERTA format. Although the modified format may reduce Upper Darby tax revenue loss, it also probably reduces incentives for potential developers of Upper Darby's McClatchy Building. However well-meaning the LERTA program is for the revitalization of older areas of Delaware County, it is still a relatively low impact program compared to the more complicated historic tax credit process in deciding the economic justification of a project.

IV. Donation of Façade Easement and Deduction of its Value from Federal Adjusted Gross Income

When a property owner donates a façade easement to a non-profit organization, the act essentially removes its right to demolish the property. This is written into the title of the property, and the easement is effective in perpetuity. The façade easement donation, unlike federal or state tax credit programs, does not require official governmental approval aside from the recognition of the grantee entity as a certified 501(c)3 charitable organization. In exchange for the donation of the right to prevent demolition a charity entity, the owner can claim a percentage of the fair market value of the property as an income tax deduction.

Randy Cotton, speaking for the Preservation Alliance for Greater Philadelphia, has expressed a strong interest in receiving a façade donation easement on the John H. McClatchy Building. In 2003, the owners of 1608 Chestnut Street, a William Steele-

designed building and former Moyer men’s clothing store, donated a façade easement to the Preservation Alliance for Greater Philadelphia.⁴³ The building is of similar vintage to the McClatchy Building but has a less elaborate architectural design.

Table IX
Façade donation easement

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		242,428		242,428
2		84,406		84,406
3		87,283		87,283
4		90,092		90,092
5		92,821		92,821
6		95,460		95,460
7		97,993	1,003,449	1,101,441
	<u>\$ (2,092,220)</u>	<u>\$ 790,482</u>	<u>\$ 1,003,449</u>	<u>\$ (298,289)</u>
INTERNAL RATE OF RETURN				-2.75%
YEAR 1 YIELD				7.15%
YEAR 1 CASH-ON-CASH RETURN				11.59%

The full financial statements for this scenario are provided in Appendix VIII.

The percentage of fair market value that can be taken as a tax deduction ranges from 10 to 15%. In this case, 11% of fair market value is used to value the easement, and 35% is used as the federal income tax rate. If the fair market value of the rehabilitated McClatchy Building in its first year of operation is \$4,079,000 (\$448,734 divided by an 11% cap rate), then the value of the tax savings to the developer would be (FMV x 11%) x 35%. This translates to income tax savings of \$157,042 to the developer, which has been added to year 1 yield. The above scenario assumes that there has been no significant diminution in terminal value at the end of year 7 because of this easement. In

⁴³ “Easements,” *Preservation Matters*, Winter 2003, The Preservation Alliance for Greater Philadelphia, 7.

this case, the donation of a façade easement at 11% of FMV translates to a 1.33% rise in IRR and a 7.3% rise in first year yield.

Republican Senator Chuck Grassley of Iowa, chairperson of the Senate Finance Committee, has introduced legislation that will place greater restrictions on the valuations of donated conservation easements. Advocates of the Grassley bill believe that tax breaks for people owning million dollar homes give an unfair windfall to the very wealthy. Grassley himself argues: “It’s very discouraging to find yet another example of snake oil salesmen misusing tax-exempt status and abusing the tax laws intended to encourage charitable giving, all for the purpose of making a fast buck.”⁴⁴ According to the Landmarks Preservation Council of Illinois:

On January 27th, the Congressional Joint Committee on Taxation issued a report that recommends dramatic changes to the federal tax code. If adopted, these changes would dismantle the existing federal tax incentives for preservation and conservation (open space) easements. Easements would be eliminated for any property used as a personal residence by the donor. Furthermore, the tax deductions on commercial properties would be capped at 33% of the value of the easement or 5% of the building’s fair market value, whichever figure is less. These changes would largely eliminate the economic value of the tax deduction, thereby threatening the use of easements for historic preservation and land conservation purposes.⁴⁵

There have been some examples of exploiting the façade easement system that have both soiled both historic preservation in general and historic property owners in particular.

For example, two real estate entrepreneurs, James Kearns and Steven McClain, collected 11% façade easement donations from property owners in the posh and historic Dupont

⁴⁴As quoted by Hemmy So, “Iowa Senator Threatens Tax Break Used in TriBeCa,” (*Downtown Express*, Volume 17, Issue 35) Jan. 21 - 27, 2005.

⁴⁵ http://www.landmarks.org/how_fed_issues.htm

Circle neighborhood in Washington, D.C. and placed them in a nonprofit entity with the distinguished-sound name of the National Architectural Trust. For each easement, they

Table X
Façade Easement Valuation Reform Reduces Valuation to 5% of Fair Market Value

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		154,634		154,634
2		84,406		84,406
3		87,283		87,283
4		90,092		90,092
5		92,821		92,821
6		95,460		95,460
7		97,993	1,003,449	1,101,441
	<u>\$ (2,092,220)</u>	<u>\$ 702,688</u>	<u>\$ 1,003,449</u>	<u>\$ (386,083)</u>
	INTERNAL RATE OF RETURN			-3.48%
	YEAR 1 YIELD			7.15%
	YEAR 1 CASH-ON-CASH RETURN			7.39%

The full financial statements for this scenario are provided in Appendix IXI.

would charge \$3,000 for “management” expenses. Then, according to the Washington

Post:

A year after Kearns and McClain founded the National Architectural Trust, they incorporated their for-profit company, Springfield Management Services. The new trust and the new company signed a contract, under which 44 percent of donations made to the trust in 2003 -- more than \$5.5 million -- was passed along to the for-profit company, interviews and documents show.⁴⁶

The owners of the National Architectural Trust were not making standard non-profit salaries. To quote the Post again, “The trust paid McClain \$125,000 in salary and Kearns \$50,000. The trust also paid Springfield Management \$483,000, for soliciting and

⁴⁶ Joe Stephens, “Tax Breaks Turn into Big Business.” The Washington *Post*, December 13, 2004; Page A01

processing easement donations that year.”⁴⁷ In addition, the trust funneled \$600,000 into Kearns and McClain’s for-profit venture.

Most of the clients of such ventures are well-to-do homeowners and the same kind people that invested their money in tax credit projects in the early 1980s: doctors, lawyers, and other high-income professionals who want to shelter as much as their income as possible. However, the issue begs a philosophical question as well as a financial one: what is wrong with effectively advancing the goals of historic preservation even if it is done by providing tax shelters for the well-to-do? The same issue was raised in the 1986 reform of the historic preservation tax provisions, which effectively eliminated a large source of equity for historical rehabilitation projects. The well-to-do often are the ones that own historic buildings, and have the income that make the charitable deductions valuable. Although the reform continued to shelter taxable income for doctors, lawyers and other affluent people, it created incentives for private enterprise to fund and structure projects that otherwise would have been economically unfeasible. Unlike state-sponsored preservation projects in Europe, the American preservation tradition depends very heavily on non-governmental initiatives, either by a for-profit company or a creative charitable private entity.

Philosophical questions aside, it is important for the purposes of the thesis to measure the financial impact that Grassley’s bill would have on a would-be developer for the McClatchy Building and projects like it, even though Grassley and ranking Democratic member Baucus intend to target homeowners rather than owners of income-producing properties. Assuming the Grassley-Baucus bill passes and cuts the valuation

⁴⁷ Ibid

of façade donation easements to 5% of fair market value rather than 10 to 15%, the federal tax benefit for the McClatchy project would be reduced to \$83,257.

Table X shows the effect that a 5% of FMV valuation would have on the McClatchy Building. Once again, it is assumed that the façade easement has no real effect on the terminal value of the rehabilitated property. As compared to 1.33% rise in IRR that the 11% valuation, a 5% FMV valuation only creates a 0.59% change in IRR. In addition, this scenario creates a 3.11% positive change in first year yield. For a project of this size and expense, the new façade easement valuation does not provide nearly as much financial incentive, although it is probably not as much of a make-or-break condition as the federal or proposed state ITCs. Given that the McClatchy Building is perhaps Upper Darby's signature structure, the public of Upper Darby would definitely benefit from having it protected and maintained in perpetuity.

V. \$100,000 Grant from the National Trust for Historic Preservation

The National Trust for Historic Preservation gives out grants to selected rehabilitation projects each year. In addition, a new for-profit real estate division has been established to supply equity investment to historic projects. The impact of a possible \$100,000 grant from the National Trust for Historic Preservation was factored into the initial rehabilitation scenario in order to quantify its impact. A grant from such a non-profit organization is neither equity nor debt, but rather should be classified as an "intervention fund" that simply reduces the cost of rehabilitation for projects on the National Register.

Table XI
\$100,000 Grant from the National Trust for Historic Preservation

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		80,190		80,190
2		83,124		83,124
3		86,001		86,001
4		88,810		88,810
5		91,540		91,540
6		94,178		94,178
7		96,711	1,313,913	1,410,624
	<u>\$ (2,092,220)</u>	<u>\$ 620,554</u>	<u>\$ 1,313,913</u>	<u>\$ (157,753)</u>
	INTERNAL RATE OF RETURN			-1.28%
	YEAR 1 YIELD			7.26%
	YEAR 1 CASH-ON-CASH RETURN			3.83%

The full financial statements for this scenario are provided in Appendix IX.

In the end, although the currently available incentives do make some impact on the project, those that could really make the project economically justifiable, given the current variables, are not yet in place and will be taken up in what follows.

CHAPTER 3
THE IMPACT OF POTENTIAL FINANCIAL INCENTIVES ON
THE JOHN H. MCCLATCHY BUILDING

I. Introduction

This chapter will discuss various potential incentives at the state level that might help to improve the economic conditions that affect the rehabilitation of Pennsylvania's historic structures. According to the Brookings Institution's recent analysis, a large part of the successful revitalization of the state's older cities and townships would be the result of incentives at the state level that make rehabilitation a more attractive option than simply buying countryside properties. Bruce Katz, the author of the report, concludes that:

Ultimately, then, Pennsylvania's large stock of older buildings--and the market, regulatory, and financial barriers to their reuse--deters development in the state's older cities and towns at the same time that construction on the fringe proliferates. Only by implementing policies and practices that facilitate redevelopment and market activity in older places will the Commonwealth begin to stem the deterioration that continues to threaten the state's heritage.⁴⁸

The incentives proposed in this chapter are speculative. However, the state historic investment tax credits program has been proposed in the Pennsylvania state legislature. Other incentives analyzed in this chapter are the waiver of the 6% state tax on sales and labor and a \$450,000 low interest loan from a proposed state fund.

II. The Pennsylvania State Historic Investment Tax Credit

The closest Pennsylvania had to having a powerful, comprehensive state preservation incentive program was the proposed H.B. 26 and 27, which would have provided a 20% state historic investment tax credit on rehabilitation expenses for

⁴⁸ Katz, 87.

National Register properties and empowered townships to designate buildings they felt worthy of rehabilitation. The program would also allow local governments to designate properties that are eligible for the program. The total amount of tax credits granted in a year would be capped at \$20 million and would be granted on a competitive basis.⁴⁹ No doubt because of the state's budgetary crunch, the bill was voted down last year, although it has come up once again for consideration. It would be used in conjunction with the Federal ITC.

The application of this tax credit is the most potent of the possible state level incentives. It would take the McClatchy project from the realm of low returns to moderate returns when used in concert with the federal historic investment tax credits. Four scenarios were tested with both the federal and hypothetical Pennsylvania historic investment tax credits. Scenario 1A assumed that the developer used the additional state and tax credit equity to reduce its cash equity contribution while still maintaining their 2/3 LTV. Scenario 1B also used the state and federal tax credits to reduce cash equity contribution but assumed that the developer could not use the state ITCs against its other state income taxes, but then had to sell them to an outside investor. Scenario 2A used the tax credit equity to reduce the amount of debt financing on the project and assumed that the ITC could be retained by the developer. Scenario 2B also used the ITC to reduce the amount of debt financing, but also assumed that the developer could not use the ITC against his state taxes and had to sell it to an outside investor. A conservative valuation of 80% (at the recommendation of the thesis advisor) for the state ITCs was used in the analysis. This translated into state ITCs worth \$880,000.

⁴⁹ http://www.preservationalliance.com/resources_BillSummary.php

Table XII*Scenario 1A: State and Federal ITCs**Used to Contribute to Developer's Cash Equity at 2/3 LTV; Retained by Developer*

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		81,472		81,472
2		84,406		84,406
3		87,283		87,283
4		90,092		90,092
5		92,821		92,821
6		95,460		95,460
7		97,993	1,003,449	1,101,441
	<u>\$ (277,220)</u>	<u>\$ 629,526</u>	<u>\$ 1,003,449</u>	<u>\$ 1,355,755</u>
	INTERNAL RATE OF RETURN			41.6%
	YEAR 1 YIELD			10.06%
	YEAR 1 CASH-ON-CASH RETURN			29.39%

The full financials for all Pennsylvania ITC scenarios are available in Appendix IV.

This scenario is an indication of how attractive this project might be to a developer who has enough income from other sources to use the ITCs against its state and federal income taxes. The application of the state and Federal ITCs allow it to put very little equity in the deal while still maintaining a 2/3 LTV ratio. Since the developer only has to put in \$227,220 of its own equity into the deal, the relatively small cash flows generated after the significant financing charges now create a cash-on-cash return of 41.63%. The subtraction of the value of the state and federal tax credits push the project yield to 10.06%.

Table XIII

Scenario 1B: State and Federal ITCs Used to Contribute to Developer's Cash Equity at 2/3 LTV; Sold to Outside Investors

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		27,022		27,022
2		29,956		29,956
3		32,833		32,833
4		35,642		35,642
5		38,371		38,371
6		41,010		41,010
7		43,543	(811,551)	(768,009)
	<u>\$ (277,220)</u>	<u>\$ 248,376</u>	<u>\$ (811,551)</u>	<u>\$ (840,395)</u>
INTERNAL RATE OF RETURN				N/A
YEAR 1 YIELD				10.06%
YEAR 1 CASH-ON-CASH RETURN				9.75%

The full financials for all Pennsylvania ITC scenarios are available in Appendix IV.

If the developer is unable to use the state and federal historic ITCs, then it finds itself in the uncomfortable position of having to pay out two equity positions in addition to the mortgage balance after the sale of the structure. When valued at the high 11% cap rate, the after sales net proceeds leave the developer over \$800,000 under water. This creates an incalculable IRR because one cannot have two negative cash flows in the IRR equation.

A compromise between these two scenarios can be reached in the scenario described below. Since state income taxes at 9.99% are quite low compared to the federal rate of 35%, it is most likely that the developer would be able to use the \$935,000 federal ITC against his own income taxes while a larger outside entity could use the \$880,000 in state ITC.

Table XIV

*Scenario 1C: State ITC Sold to Outside Investor;
Federal ITC Contributes to Developer's Cash Equity; 2/3 LTV Ratio Maintained*

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		55,072		55,072
2		58,006		58,006
3		60,883		60,883
4		63,692		63,692
5		66,421		66,421
6		69,060		69,060
7		71,593	123,449	195,041
	<u>\$ (277,220)</u>	<u>\$ 444,726</u>	<u>\$ 123,449</u>	<u>\$ 290,955</u>
	INTERNAL RATE OF RETURN			17.7%
	YEAR 1 YIELD			10.06%
	YEAR 1 CASH-ON-CASH RETURN			19.87%

The full financials for all Pennsylvania ITC scenarios are available in Appendix IV.

When the developer retains the \$935,000 in Federal ITCs and sells the state ITC at 80% valuation with a 3% distribution every year to the investor, the investment pictures for the McClatchy Building looks decidedly better. IRR is pushed up to 17.7%, while cash-on-cash return goes up to 19.87%. The main weakness in this deal is, once again, a possible rise in cap rates from 11%, causing terminal value to fall and wiping out the \$123,449 cushion that the developer has in net sales proceeds.

Despite the drop in returns created by using the federal ITCs to reduce debt financing in the previous chapter, it was decided to test the impact of both the federal and proposed state ITCs under Scenario 1C. Once again, even when the developer is able to use the tax credits against his other sources of income and is able to use more equity in

the deal, the results still produce a negative NPV at 14.7%. Nonetheless, the yield and IRR are still higher than they were in the base case.

Table XV
*Scenario 2A: State and Federal Tax Credits Used to
 Reduce Debt Financing; Retained by Developer*

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		159,361		159,361
2		162,295		162,295
3		165,171		165,171
4		167,980		167,980
5		170,710		170,710
6		173,348		173,348
7		175,881	2,579,059	2,754,940
	<u>\$ (2,092,220)</u>	<u>\$ 1,174,747</u>	<u>\$ 2,579,059</u>	<u>\$ 1,661,585</u>
INTERNAL RATE OF RETURN				10.39%
YEAR 1 YIELD				10.06%
YEAR 1 CASH-ON-CASH RETURN				7.62%

The full financials for all Pennsylvania ITC scenarios are available in Appendix IV.

Table XVI
*Scenario 2B: State and Federal ITCs Used to Reduce
 Debt Financing; Sold to Outside Investors*

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		104,911		104,911
2		107,845		107,845
3		110,721		110,721
4		113,530		113,530
5		116,260		116,260
6		118,898		118,898
7		121,431	764,059	885,490
	<u>\$ (2,092,220)</u>	<u>\$ 793,597</u>	<u>\$ 764,059</u>	<u>\$ (534,565)</u>
				INTERNAL RATE OF RETURN
				-5.11%
				YEAR 1 YIELD
				10.06%
				YEAR 1 CASH-ON-CASH RETURN
				5.01%

The full financials for all Pennsylvania ITC scenarios are available in Appendix IV.

Table XVII*Scenario 2C: Federal ITC Retained by Developer; State ITC Sold Outside to Investors*

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)			\$ (2,092,220)
1		\$ 132,961		132,961
2		134,245		134,245
3		137,121		137,121
4		139,930		139,930
5		142,660		142,660
6		145,298		145,298
7		147,831	1,699,059	1,846,890
	<u>\$ (2,092,220)</u>	<u>\$ 980,047</u>	<u>\$ 1,699,059</u>	<u>\$ 586,885</u>
	INTERNAL RATE OF RETURN			4.31%
	YEAR 1 YIELD			10.06%
	YEAR 1 CASH-ON-CASH RETURN			6.36%

The full financials for all Pennsylvania ITC scenarios are available in Appendix IV.

III. Waiver of 6% State Tax on Sales and Labor

Table XVIII
Waiver of 6% Tax on Sales and Labor

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (1,982,220)	\$ -		\$ (1,982,220)
1		79,326		79,326
2		82,596		82,596
3		85,804		85,804
4		88,937		88,937
5		91,983		91,983
6		94,928		94,928
7		97,759	1,650,977	1,748,735
	<u>\$ (1,982,220)</u>	<u>\$ 621,333</u>	<u>\$ 1,650,977</u>	<u>\$ 290,090</u>
				INTERNAL RATE OF RETURN 2.2%
				YEAR 1 YIELD 7.5%
				YEAR 1 CASH-ON-CASH RETURN 4.0%

Full financial statements are available in Appendix VII.

The state of Pennsylvania currently imposes a 6% tax on all sales and labor, including construction and materials. A possible incentive to encourage the rehabilitation of historic structures in Pennsylvania would be a waiver of these taxes on state certified historic rehabilitations. This is especially important considering the tax sensitivity of real estate.

In calculating the effect of this tax benefit, the hard and soft costs were all reduced to 94% of their previous value. This created a new rehabilitation budget of \$5,946,660 including a 10% contingency. By saving money on hard and soft costs, as well as reducing the size of the mortgage, the application of this incentive created a 6.30% change in IRR above the base case and a 3.26% change in first year yield.

Overall, this impact had more effect than any of the other individual incentives with the exception of the federal and proposed state ITCs.

IV. 4% Low Interest Loan from State Fund

According to the National Trust for Historic Preservation, the state of Pennsylvania supplies very few incentives for-profit historic rehabilitation projects. The only real state program that benefits charitable organizations is the Keystone Historic Preservation Grants program, which provides 50/50 matching grants ranging from \$50,000 to \$100,000 to “conservancies, educational institutions, historic preservation societies, local governments, museums, and religious institutions in existence for more than five years and open to the public for more than 100 days per year.”⁵⁰ Obviously, the McClatchy Building would not be eligible for such a grant if it were undertaken as a for-profit venture. Neither would it qualify for the Pennsylvania History and Museum Grant Program, which has similar stipulations.

Pennsylvania, with its wealth of historical structures and decaying older urban areas, is far behind states whose funding pools subsidize, albeit modestly, private, for-profit renovation and reuse. In 1989, the booming state of Texas created the Texas Preservation Trust Fund Grants, which as of 2002 dispersed \$375,000 from an interest-bearing pool to both eligible historic sites and properties. Commercial buildings were eligible for funding, along with more traditional projects such as lighthouses and archaeological sites. According to the National Trust, “Grants are awarded on a matching basis for acquisition, planning, and development.”⁵¹ South Dakota’s

⁵⁰ “State Funding for Historic Preservation: A State-by-State Summary,” National Trust for Historic Preservation, May/June 2002, 7.

⁵¹ Ibid

Deadwood Fund provides grants for the “acquisition, retention, and rehabilitation of buildings listed on the National Register.”⁵²

Table XIX
\$450,000 Low Interest Loan at 4% from the State

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		43,263		43,263
2		45,084		45,084
3		46,855		46,855
4		48,571		48,571
5		50,224		50,224
6		51,808		51,808
7		53,316	1,738,413	1,791,729
	<u>\$ (2,092,220)</u>	<u>\$ 339,121</u>	<u>\$ 1,738,413</u>	<u>\$ (14,686)</u>
				INTERNAL RATE OF RETURN
				-0.11%
				YEAR 1 YIELD
				7.15%
				YEAR 1 CASH-ON-CASH RETURN
				4.75%

The full financial statements for this scenario are provided in Appendix VI.

Pennsylvania also lacks a state-sponsored debt financing program. Debt financing can of course make or break a real estate deal, whether it is new construction or adaptive reuse. Given the great expense, architectural significance and its location, the McClatchy project deserves to become a candidate for a low interest loan. Pennsylvania’s neighbor New Jersey, which also has a significant number of older, struggling urban and suburban areas, has a \$3 million revolving loan fund that provides loans to fund the “preservation, restoration, improvement, rehabilitation, and acquisition of historic properties.” The

⁵² Ibid

minimum loan is \$25,000 and the maximum is 15% of the annual fund balance (or \$450,000 as of 2002); the maximum interest rate is 4%.⁵³

When modeling the scenario for a low interest loan, I applied the New Jersey program's criteria to the McClatchy Building. Being a major project, it was assumed that the building would receive the maximum \$450,000 loan from a \$3 million fund. The remainder of balance of the debt, \$3,829,062, is financed by a conventional 7%, 25 year loan used in the initial assumptions. Equity financing remains at \$2,107,598.

The differences made by a \$450,000 low interest loan are illustrated by the accompanying cash flow projections and cash flow summary above. Internal rate of return is boosted to 5.54%, or 3.27% above the base case scenario, and cash-on-cash return is boosted by 0.46% to 7.26%. Yield of course remains unchanged at 7.99%. Therefore, the additional of a low interest loan at the state level with a relatively small amount of money (a \$3 million revolving fund) makes a significantly larger difference than the small benefits produced by the LERTA program.

Appendix I has a chart that summarizes the impact of each preservation incentive individually on the base case scenario. Out of these proposed incentives, the one that makes the largest the largest positive is the state ITC under two circumstances. First, the project produces positive investment results when the state and federal ITCs are used to reduce equity contribution while maintaining a 2/3 LTV when both ITCs are retained by the developer. Second, they produce positive returns when the state ITC is sold to an outside investor and the federal ITC is retained by the developer. This analysis demonstrates quantitatively the impact that both local and state preservation-based incentives can have on the rehabilitation of such a significant structure as the John H.

⁵³ Ibid 5

McClatchy Building. The follow chapter will examine three combinations of incentives, as well as rank the power of the various individual incentives in terms of making this an economically justifiable project.

CHAPTER 4

FINAL ANALYSIS AND CONCLUSIONS:

I. Impact of Combinations of Incentives

This analysis of the financial impacts of preservation incentives on rehabilitation of the John H. McClatchy Building is the end is not meant to be definitive as to be illustrative. While it is important to look at each of these incentives in terms of their individual impact, it is crucial to understand how they might work in conjunction with each other in various combinations. As part of the conclusion, three sets of combinations were tested to measure what sort of effect would have on IRR, cash-on-cash return, and yield on the McClatchy Building.

As it stands, the only way that this project could be made economically justifiable is if the state were to enact the state historic ITC legislation and then the developer were able to use them against his other sources of income. Although all of the other incentives have some impact, but none as great as the roughly \$880,000 in equity generated by the valuation of these tax credits at 80% of the 20% of rehabilitation costs. All three scenarios assume that the developer can retain one or both of the state or federal ITCs, as the sale of both of them has in all cases proved to be financially unfeasible. In the end, a final analysis of the impact of preservation incentives must be seen not at an individual level, but at a general level than can be replicated in some form for other historic rehabilitation projects throughout the state.

Combination 1

The first combination of incentives assumes the following circumstances:

- The 2/3 LTV is maintained

- The Federal ITC is retained by the developer as equity
- The State ITC is retained by the developer as equity
- Delaware County’s LERTA program is enacted at full effect
- The project receives a \$100,000 grant from the National Trust for Historic Preservation.

The results are shown below in a discounted cash flow analysis. Further financials for these three combinations are shown in Appendix XI.

Table XX

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		112,130		112,130
2		116,294		116,294
3		120,444		120,444
4		124,571		124,571
5		128,665		128,665
6		132,714		132,714
7		136,709	1,526,192	1,662,901
	<u>\$ (277,220)</u>	<u>\$ 871,527</u>	<u>\$ 1,526,192</u>	<u>\$ 2,120,499</u>
INTERNAL RATE OF RETURN				54.81%
YEAR 1 YIELD				11.69%
YEAR 1 CASH-ON-CASH RETURN				40.45%

Combination 1

The second combination of incentives assumes the following circumstances:

- The 2/3 LTV is maintained
- The Federal ITC is retained by the developer as equity.
- The State ITC legislation is not passed.

- The project receives a \$450,000 loan at 4% from the state.
- Delaware County’s LERTA program remains in the modified form approved by Upper Darby Township.
- Delaware County gives the developer a \$50,000 grant to restore the McClatchy Building’s lighting system to its 1920s condition.
- The project receives a \$100,000 grant from the National Trust for Historic Preservation.

The results are shown below in a discounted cash flow analysis. Further financials are shown in Appendix XI.

Table XXI

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (1,542,320)	\$ -		\$ (1,542,320)
1		102,321		102,321
2		101,737		101,737
3		98,219		98,219
4		94,671		94,671
5		91,087		91,087
6		87,461		87,461
7		103,795	1,526,192	1,629,987
	<u>\$ (1,542,320)</u>	<u>\$ 679,291</u>	<u>\$ 1,526,192</u>	<u>\$ 663,164</u>
	INTERNAL RATE OF RETURN			6.19%
	YEAR 1 YIELD			9.73%
	YEAR 1 CASH-ON-CASH RETURN			6.63%

Combination 2

The third combination of incentives assumes the following circumstances:

- The 2/3 LTV is maintained
- The Federal ITC is retained by the developer as equity.
- The State ITC is sold to outside investors.
- LERTA is enacted at full effect.

The results are shown below in a discounted cash flow analysis. Further financials are shown in Appendix XI.

Table XXII

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		52,660		52,660
2		56,241		56,241
3		59,762		59,762
4		63,292		63,292
5		66,829		66,829
6		70,368		70,368
7		73,904	1,328,656	1,402,560
	<u>\$ (277,220)</u>	<u>\$ 443,058</u>	<u>\$ 1,328,656</u>	<u>\$ 1,494,494</u>
INTERNAL RATE OF RETURN				38.13%
YEAR 1 YIELD				11.43%
YEAR 1 CASH-ON-CASH RETURN				19.00%

Combination 3

As these three combinations prove even further, the project is made economically justifiable only if the state historic ITC credit is enacted. Despite the benefits of the other incentives that have been tested at the state and local levels, this credit is the one that can make or break the McClatchy project. It is one, I feel, crucial to the revitalization of this architectural and economic landmark in one of the state's older suburbs as it is seeking

solutions to the problems of stagnating property values, aging infrastructure, and a need for visual excitement in its urban fabric.

II. Summary of Incentives Matrix in Appendix I

Table XXIII

Ranking of the Three Most Effective Existing and Potential Incentives

Absolute increase in IRR	Change
1) Federal plus state investment tax credit	45.70%
2) Federal investment tax credit	10.87%
3) Waiver of 6% state tax on sales and labor	6.30%
Absolute increase in year 1 cash-on-cash return	Change
1) Federal plus state investment tax credit	25.10%
2) Donation of façade easement at 11% of FMV	7.30%
3) Waiver of 6% state tax on sales and labor	3.26%
Absolute increase in year 1 yield	Change
1) Federal plus state investment tax credit	2.91%
2) Federal investment tax credit	1.25%
3) LERTA at full effect	0.98%

A. Available Incentives: The Federal Investment Tax Credit, LERTA, and the Façade Easement Donation

In order to best display the effects of the various preservation incentives described in this thesis, the author has compiled a matrix of the incremental effects of each incentive on the three metrics of yield, cash-on-cash return, and internal rate of return. This matrix is included in Appendix I. The incremental changes in these three metrics are absolute rather than percentage changes.

The available incentive that makes the most significant difference in these three metrics of return is of course the federal investment tax credit. With the exception of Scenario 1B, in which the federal tax credit is sold to an outside investor, the federal ITC credit pushes IRR into positive territory, making a project like this at least somewhat

more feasible than with no incentives. The federal tax code is up for revision before the current administration leaves office, and the effect of the trimming or even the elimination of the federal historic tax credits in the name of simplification will be a real blow to projects such as this one. It is therefore urged that if the Federal government wants to maintain a policy that encourages private investment in preservation projects rather than direct federal and state funding (an even less likely option given today's budget crisis), the investment tax credit should be spared in any tax code revision. Not only does it save America's older built environment from neglect or destruction, but it also helps revitalize communities as Upper Darby by providing them with additional future tax revenues from rehabilitated, modernized properties. It also gives developers and entrepreneurs seeking challenging yet rewarding project additional opportunities. Without the federal investment tax credit, the John H. McClatchy Building would either continue to languish in its current state, be torn down and replaced by something less attractive, or repaired in a cheaper, less comprehensive fashion. And the fault would not lie with penny-pinching owners, but with economic reality. It would make no financial sense to restore it properly.

At the county level, Upper Darby's modification of LERTA to a five rather than ten year program does not make a significant incremental difference in the three measures of return: a 0.61% absolute increase in project IRR, a 0.68% absolute increase in cash-on-cash return, and a 0.70% increase in yield. If Upper Darby wants to make a real difference in revitalizing its historic commercial core, it should pass the ten year version of LERTA as enacted by Delaware County. This pushes IRR up by 2.17%, cash-on-cash return by 1.07%, and yield by 0.98%.

If there are to be any modifications to façade easements in the federal tax code, then owners of commercial properties in areas needing reinvestment such as the McClatchy Building should be allowed to make this deduction. The change in valuation from 11% to 5% of the fair market valuation cuts the IRR benefit down by nearly two thirds; from a 1.33% benefit to 0.59%. This modification also slices cash-on-cash return benefit of a façade donation easement in half; from 7.30% to 3.11%. Although façade easement reform for high value residences might be understandable, reform that can hurt the rehabilitation of historic structures such as the McClatchy Building in areas needing help is not.

*B. Potential Incentives:
Proposed State Historic Tax Credit, Low Interest Loan Fund, and
the Waiver of the 6% Sales and Labor Tax*

One small piece of reversing the trends described by Bruce Katz and the Brookings Institution's report Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania will be the enactment of incentives to make it economically more attractive to rehabilitate and redevelop the state's older historic urban and suburban areas. The McClatchy Building, as both an economically and architecturally important building for Upper Darby, could be the lynchpin of further redevelopment for the township.

The much higher cash-on-cash and IRR provided by scenarios 1A (in which the state and federal tax credits are retained by the developer) and 1B (the developer retains the federal tax credit but sells the state tax credit) should be taken with a grain of salt, as they are probably too optimistic. With \$228,000 of developer equity required to maintain a 2/3 LTV ratio, 1A produces an IRR of 41.63% and a cash-on-cash return of 29.39%. The deduction of the state investment tax credits from project cost creates a yield of

10.06% for all state historic tax credit scenarios, a significant boost from the original 7.15% with no incentives and 8.40% with the federal investment tax credit. At this point, the most realistic scenario is scenario 1C, in which the state investment tax credits are sold to an outside investor and the federal ones retained by the developer, as it is not likely that a small to moderate-sized developer would have enough income to use the credits against its state income taxes. This situation produces an IRR of 17.7% and a cash-on-cash return of 11.59%. Nonetheless, all of the scenarios provide insight into the significant impact that enacting the state historic credit legislation would have on the rehabilitation of structures such as this. By lowering the developer's at-risk capital requirement, the state historic tax credit will encourage opportunistic investors to undertake unconventional projects such as the McClatchy Building

If the state wants to achieve the most with less money than the \$11.5 million tax credit program, then it should create a \$3,000,000 low interest loan fund for historic projects that is similar to New Jersey's. A \$450,000 low interest loan at 4% makes a much bigger incremental difference than Delaware County's LERTA program. IRR is boosted by 3.96% to 4.75% and cash-on-cash return is raised by 0.47% to 4.75%. In addition, if the state wants to spend less money upfront, it could also waive the 6% sales and labor tax on a competitive, project specific basis for historic buildings in distressed or stagnant areas.

III. Closing Thoughts

The John H. McClatchy Building stands not only as an architecturally significant building, but it also is the best located structure in the entire township for an economically justifiable rehabilitation as a mixed use retail and office structure. Its

location in the middle of a reinvestment zone and across from the 69th Street Terminal makes its rehabilitation all the more crucial. Although this paper did not explore possibilities for alternative uses, it should be something that could be explored either by the township or current/future owners of the structure. Possible other uses could include a restaurant utilizing the double height second floor or some sort of more public use. Hopefully it will be a use that will manage to balance preservation and profit.

The John H. McClatchy Building dates from Upper Darby's most prosperous period, and is probably the most recognizable landmark in the township. It is a building that stands out among all the commercial buildings in the Philadelphia region in its exuberance and fantasy, despite years of alteration and damage. In addition, it is a building that would be very hard to replicate today. One day, the first impression that visitors arriving on the Market Street Elevated will have of Upper Darby will be a brilliantly-lit John H. McClatchy Building, a new beacon for the old commercial district. For the dream to be realized requires the financial and economic foresight of state, local, and federal governments to create the proper incentives to make a rehabilitation economically justifiable not just for the McClatchy Building, but for other such potential projects across the state.

BIBLIOGRAPHY

Books

Report of the Twentieth Century Task Force on Urban Preservation Policies,
New York: Priory Press Publications), 1985, 5.

Diamondstein, Barbaralee. Buildings Reborn: New Uses, Old Places, New York: Harper and Row, 1978, 25.

Jackson, Kenneth T. Crabgrass Frontier: The Suburbanization of the United States, New York: Oxford University Press, 1985. 91.

Katz, Bruce. Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania, Washington, D.C.: The Brookings Institution, 2004. 51, 87.

Martin, Thomas J. and Melvin A. Gamzon. Adaptive Reuse, Washington, D.C.: The Urban Land Institute, 1978, 1.

Neumann, Dietrich, ed. Architecture of the Night: The Illuminated Building, New York: Prestel, 2002. 56.

Rypkema, Donovan. "Preserving for Profit," Urban Land Archives, December 1998.

Steinberg, Theodore. Slide Mountain, or The Folly of Owning Nature, Berkeley: The University of California Press, 1995. Chapter 5.

Excepted from: <http://www.ucpress.edu/books/pages/6459/6459.ch05.html>

Wallace Roberts and Todd LLC, Upper Darby Comprehensive Plan, 2004. 3-1, 3-2, 3-8, 4-8.

Friedman, Jack P. and Jack C. Harris, and J. Bruce Lindeman, Dictionary of Real Estate Terms, Hauppauge: Barron's Educational Series, Inc., 14, 24, 48, 72, 75, 116, 131,

Articles and Publications

"Easements," Preservation Matters, Winter 2003, The Preservation Alliance for Greater Philadelphia, 7.

State Funding for Historic Preservation: A State-by-State Summary, National Trust for Historic Preservation, May/June 2002, 7.

Heavens, Alan J. "Phila's Challenge: Lure New Residents." The Philadelphia Inquirer, June 15, 2003.

Isenberg, Sarah. "20-Something Invasion," Philadelphia Magazine, November 2004

Listokin, David. "Living Cities," Report of the Twentieth Century Task Force on Urban Preservation Policies, New York: Priority Press Publications, 1985, 54, 55

So, Hemmy. "Iowa Senator Threatens Tax Break Used in TriBeCa," Downtown Express, Volume 17, Issue 35, Jan. 21 - 27, 2005.

Stephens, Joe. "Tax Breaks Turn into Big Business." The Washington Post, December 13, 2004; Page A01

Websites

http://www.citizensbank.com/aboutus/news/061303_bookbinders.asp

<http://www.gmaccm.com/gmaccm/CommercialRealEstateFinancing/Guidelines/Industrial-Construction.asp?img=1>

http://www.landmarks.org/how_fed_issues.htm

http://www.preservationalliance.com/resources_BillSummary.php

National Register Nomination Forms

Sehnert, Paul. "The Hajoca Corporation Building," National Register of Historic Places Registration Form, United States Department of the Interior, National Park Service, May 24, 2002.

Fisher, Penny E and John R. Lilly. "John H. McClatchy Building," National Register of Historic Places Registration Form, United States Department of the Interior, National Park Service, March 2002.

Interviews

Jeffrey Gentile, P.E., Chief of Department of Licenses and Inspections, Upper Darby Township, Upper Darby, PA, February 4, 2005.

Benjamin Willner, Willner Realty and Development, Upper Darby, PA. November 23 2004

INDEX

- 1608 Chestnut Street, 41
- 6% state tax on sales and labor, 58
- 69th Street, 12, 13, 15, 24, 37, 39, 67
- 69th Street Terminal, 24, 67
- amortization, 17, 29
- Ardmore, 10
- Art Deco, 6, 7, 12, 21
- Benjamin Willner, 31
- Brookings Institution, 11, 47, 66, 69
- Brooklyn Heights, 3
- Bryn Mawr, 10
- cap rate, 19, 25, 33, 41, 50
- capitalization Rate. See cap rate
- cash flow, 15, 16
- cash-on-cash return, 6, 19, 29, 33, 36, 39, 40, 49, 51, 58, 60, 64, 65, 66, 67
- Center City, Philadelphia, 9, 10, 14
- Congressional Joint Committee on Taxation, 42
- contingency, 23, 55
- Contingency, 15
- Crabgrass Frontier, 10, 69
- Darby, 10
- Debt, 17, 18, 19, 35, 37, 52, 53, 57
- Delaware County, 6, 24, 37, 40, 61, 62, 65, 67
- Diamondstein, Barbaralee, 1, 3
- Dranoff, Carl, 5, 21
- Economic Recovery Tax Act, 2, 30
- equity, 2, 5, 15, 16, 17, 18, 19, 20, 22, 24, 32, 33, 34, 36, 44, 45, 48, 49, 50, 52, 58, 60, 61, 63, 66
- façade easement, 6, 40, 41, 43, 45, 65
- façade easement donation, 40
- fair market value, 23, 41, 43, 44
- Falck, Lindsay, 22, 23
- Fernwood, 10, 38
- Fisher Brothers, 3
- Gentile, Jeffrey, 23, 39, 70
- Grassley, Senator Chuck, 42, 44
- Greenwich Village, 3
- Hajoca Building, 20, 21, 23, 25, 31
- hard costs, 15
- Haverford, 10
- historic preservation, 3, 5, 6, 7, 29, 30, 43, 44, 56
- investment tax credit, 2
- IRR (internal rate of return), 6, 20, 29, 33, 34, 36, 37, 39, 41, 45, 50, 51, 52, 55, 58, 60, 64, 65, 66, 67
- ITC investor, 31, 34
- Jackson, Kenneth T., 10
- John H. McClatchy Building, 6, 9, 12, 13, 14, 15, 20, 22, 23, 41, 59, 60, 67
- Katz, Bruce, 47
- leverage, 17, 36
- Listokin, David, 2, 30
- loan-to-value Ratio (LTV), 19
- Local Economic Recovery Tax Act
LERTA, 6, 37
- Market Street Elevated, 11, 68
- McClatchy, John H., 6, 7, 9, 11, 12, 13, 14, 15, 20, 21, 22, 23, 28, 41, 59, 60, 67, 68
- McKim, Mead and White, 3
- Merion, 10
- Moore, Arthur Cotton, 1
- Morse, Jonathan, 3
- National Architectural Trust, 43
- National Park Service, 2, 4, 31
- National Register of Historic Places, 2, 22, 29, 30, 31, 46, 47, 57
- National Trust for Historic Preservation., 61, 62
- Net Operating Income (NOI), 16
- New York City, 1, 2, 3, 5, 10, 12, 13, 29, 30, 31, 69, 70
- New York City Landmarks Preservation Commission, 3
- NOI, 16, 18, 20, 24, 25
- Old City, Philadelphia, 4
- Old Original Bookbinder's, 4
- operating expenses, 16
- Overbrook, 10
- Park Slope, 3
- Pennsylvania Station, 1
- Philadelphia, 4, 5, 9, 10, 12, 13, 14, 20, 25, 41, 67, 69

pro forma, 22, 23, 29, 39
rehabilitation, 15, 18, 20, 33
Rypkema, Donovan, 3, 32
Sehnert, Paul, 21, 32
soft costs, 15
SoHo, 3
South Dakota Deadwood Fund, 57
state historic investment tax credit, 47,
51, 54, 61, 62, 63.
State Historic Preservation Office, 31
tax abatement, 17
tax credit, 18, 29, 30, 47, 64, 66
terminal value, 17, 25, 41, 45, 51
Texas Preservation Trust Fund Grants,
56
The Main Line, 10, 14
The Victor Building, Camden, 5
Twentieth Century Fund Task Force on
Urban Preservation Policies, 29
University of Pennsylvania, i, iii, 21
Upper Darby, Pennsylvania, 5, 6, 8, 9,
10, 11, 12, 14, 15, 23, 24, 25, 28, 30,
31, 37, 39, 40, 45, 62, 64, 65, 66, 67,
68, 69, 70
Upper East Side, 3
Upper West Side, 3
Urban Land Institute, 1, 2, 28, 69
Villanova, 10
Wallace Roberts and Todd, 14, 38, 69
Wayne, 10, 14
William Steele and Sons, 12
Willner Realty and Development, 13, 22,
24, 31, 70
Willner, Benjamin, 22, 23, 70
Willner, Morris, 13
WXPB, iii, 21
yield, 6, 20, 24, 25, 29, 33, 36, 39, 40,
41, 45, 49, 52, 55, 58, 60, 64, 65, 66

**APPENDIX I: FINANCIAL IMPACTS OF INDIVIDUAL INCENTIVES
AND THREE COMBINATIONS OF INCENTIVES**

Table I

INCENTIVE	IRR	CHANGE	Cash-on-cash return	CHANGE	Year 1 Yield	CHANGE
Base Case Results	-4.07%		4.29%		7.15%	
Federal ITC						
Scenario 1A	6.80%	10.87%	6.00%	1.72%	8.40%	1.25%
Scenario 1B	-11.55%	-7.48%	3.58%	-0.70%	8.40%	1.25%
Scenario 2A	5.37%	9.45%	5.59%	1.31%	8.40%	1.25%
Scenario 2B	-3.11%	0.96%	4.25%	-0.03%	8.40%	1.25%
State and Federal ITC						
Scenario 1A	41.63%	45.70%	29.39%	25.10%	10.06%	2.91%
Scenario 1B	N/A	N/A	9.75%	5.46%	10.06%	2.91%
Scenario 1C	17.7%	21.74%	19.87%	15.58%	10.06%	2.91%
Scenario 2A	10.39%	14.47%	7.62%	3.33%	10.06%	2.91%
Scenario 2B	-5.11%	-1.04%	5.01%	0.73%	10.06%	2.91%
Scenario 2C	4.31%	8.39%	6.36%	2.07%	10.06%	2.91%
Other incentives						
LERTA as enacted by Upper Darby	-3.5%	0.61%	4.94%	0.66%	7.85%	0.70%
LERTA at full effect	-1.9%	2.17%	5.36%	1.07%	8.13%	0.98%
Façade Donation Easement at 11% of FMV	-2.75%	1.33%	11.59%	7.30%	7.15%	0.00%
Façade Donation Easement at 5% of FMV	-3.48%	0.59%	7.39%	3.11%	7.15%	0.00%
\$450,000 Low interest loan at 4%	-0.11%	3.96%	4.75%	0.47%	7.15%	0.00%
Waiver of PA sales tax on goods and labor	2.23%	6.30%	7.55%	3.26%	7.55%	0.40%
National Trust for Historic Preservation Grant	-1.28%	2.79%	3.83%	-0.45%	7.26%	0.12%

Impacts of Individual Preservation Incentives on Rates of Return for the Rehabilitation of the John H. McClatchy Building

Table II

Combination of Incentives (see descriptions)	IRR	CHANGE	Year 1 Cash-on-cash return	CHANGE	Year 1 Yield	CHANGE
Combination 1	54.81%	58.89%	40.45%	36.16%	11.69%	4.54%
Combination 2	6.19%	10.26%	6.63%	2.35%	9.73%	2.58%
Combination 3	38.13%	42.21%	19.00%	14.71%	11.43%	4.28%

Description of Combination 1:

Federal Level: Federal ITC Retained by Developer
 State Level: State ITC Retained by Developer
 County Level: LERTA enacted at full effect
 Non-profit level: \$100,000 grant from the National Trust for Historic Preservation

Description of Combination 2:

Federal Level: Federal ITC Retained by Developer
 State Level: 4% Low Interest Loan
 Waiver of 6% tax on sales and labor
 County Level: LERTA as currently enacted by Upper Darby
 \$50,000 grant to fix lighting system
 Non-profit level: \$100,000 grant from the National Trust for Historic Preservation

Description of Combination 3:

Federal Level: Federal ITC Retained by Developer
 State Level: State ITC Sold to Outside Investors
 County Level: LERTA at full effect

Impacts of Three Combinations of Preservation Incentives on Rates of Return on the Rehabilitation of the John H. McClatchy Building

APPENDIX II: INITIAL REHABILITATION SCENARIO

Table I

Rehabilitation costs	
Acquisition cost @ current assessment by Upper Darby Township	\$ 226,660
Hard and soft rehabilitation costs	\$ 5,500,000
Contingency @ 10% of rehab costs	\$ 550,000
Total costs	\$ 6,276,660
Financing	
Equity financing (1/3)	\$ 2,092,220
Debt financing (2/3)	\$ 4,184,440
DCR	1.25
Permanent mortgage	\$ 4,184,440
Rate	7.00%
Term (years)	25
Debt-to-Equity ratio	2.00
Permanent annual mortgage payment	\$ (359,069)
Assessment values	
Current assessment	\$ 226,660
Value of land and structure before the fire	\$ 1,508,275
as assessed by Upper Darby Township	
Estimated assessed value of land and structure after rehabilitation	\$ 1,600,000
Township Millage Rate	11.12
Upper Darby School District Millage Rate	24.05
Delaware County Millage Rate	4.45
Federal income tax	35%
State income tax	9.89%
Valuation of Federal ITC at 85%	\$ 835,000
Valuation of PA Historic ITC at 80%	\$ 880,000
Building specifications	
Retail square footage	12,400
Ground Floor Retail	13,000
Second Floor Retail	600
Lobby/Common Area	26,000
Total	56,000
Office square footage	10,000
Third Floor	9,000
Fourth Floor	19,000
Total	29,000
Annual operating expenses in 2004	\$ 160,000
Vacancy rate at stabilization	15%
Annual rent increases	3.0%
Annual expense increases	3.5%
Annual Township and School Taxes	\$ (56,272)
Annual Delaware County Taxes	\$ (7,120)
Annual real estate tax increase	3.5%

Assumptions

Table II

Source		Use of funds	
Equity	\$ 2,092,220	Acquisition	226,660
Debt		Hard costs (76%)	4,180,000
25 year mortgage at 7.00%	4,184,440	Soft costs (24%)	1,320,000
		Contingency @ 10%	550,000
Total	\$ 6,276,660	Total	\$ 6,276,660
Costs per square foot	\$ 139		139

Source and Use of Funds for Initial Rehabilitation Scenario

Table III

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage							
Beginning Mortgage Balance	\$4,184,440	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,803,982	\$3,711,191
Amortization	(\$66,158)	(\$70,789)	(\$75,744)	(\$81,047)	(\$86,720)	(\$92,790)	(\$99,286)
Year-End Mortgage Balance	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,803,982	\$3,711,191	\$3,611,906
Interest	\$292,911	\$288,280	\$283,324	\$278,022	\$272,349	\$266,279	\$259,783

BASE CASE DEPRECIATION SCHEDULE

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Depreciation Schedule							
Value of improvements less land value	\$6,050,000	\$5,889,060	\$5,728,120	\$5,567,180	\$5,406,240	\$5,245,300	\$5,084,360
39 year straight-line depreciation	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)
Adjusted basis of improvements	\$5,889,060	\$5,728,120	\$5,567,180	\$5,406,240	\$5,245,300	\$5,084,360	\$4,923,420

Loan Amortization Schedule for Initial Rehabilitation Scenario

Table IV

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Income								
Office @ \$12 psf (24,500 sf)	228,000	234,840	241,885	249,142	256,616	264,314	272,244	280,411
Retail @ \$30 psf (19,000 sf)	570,000	587,100	604,713	622,854	641,540	660,786	680,610	701,028
Projected Gross Rental Income (PGI)	\$ 798,000	\$ 821,940	\$ 846,598	\$ 871,996	\$ 898,156	\$ 925,101	\$ 952,854	\$ 981,439
Less: vacancy @ 15%	(119,700)	(123,291)	(126,990)	(130,799)	(134,723)	(138,765)	(142,928)	(147,216)
Loss factor @ 8%	(63,840)	(65,755)	(67,728)	(69,760)	(71,852)	(74,008)	(76,228)	(78,515)
Effective Gross Income (EGI)	614,460	632,894	651,881	671,437	691,580	712,328	733,697	755,708
Operating expenses	(160,000)	(167,200)	(174,724)	(182,587)	(190,803)	(199,389)	(208,362)	(208,362)
Replacement reserve @ 3.5% EGI	(21,506)	(22,151)	(22,816)	(23,500)	(24,205)	(24,931)	(25,679)	(26,450)
Upper Darby Real Estate Taxes	(62,390)	(64,573)	(66,833)	(69,173)	(71,594)	(74,099)	(76,693)	(79,377)
Delaware County Real Estate Taxes	(7,894)	(8,170)	(8,456)	(8,752)	(9,059)	(9,376)	(9,704)	(10,043)
Plus: tenant reimbursements								
Electric bills	86,064	89,076	92,194	95,421	98,760	102,217	105,795	109,497
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 89,665	\$ 100,806	\$ 112,176	\$ 123,777	\$ 135,611	\$ 147,680	\$ 159,985	\$ 181,905

Stabilized Pro Forma for Initial Rehabilitation Scenario

Table V

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 89,665	\$ 100,806	\$ 112,176	\$ 123,777	\$ 135,611	\$ 147,680	\$ 159,985	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	
Taxable income	\$ 16,389	\$ 32,807	\$ 49,796	\$ 67,384	\$ 85,596	\$ 104,462	\$ 124,010	
Federal income tax	(6,556)	(13,123)	(19,918)	(26,954)	(34,238)	(41,785)	(49,604)	
PA income tax	(1,637)	(3,277)	(4,975)	(6,732)	(8,551)	(10,436)	(12,389)	
Cash flow	\$ 81,472	\$ 84,406	\$ 87,283	\$ 90,092	\$ 92,821	\$ 95,460	\$ 97,993	

Projection of After-Tax Cash Flows for Initial Rehabilitation Scenario

Table VI

AIN-ON-SALE: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$ 4,718,674
Less Brokerage Commission	(94,373)
Net Sales Price	<u>4,624,301</u>
Less Adjusted Basis of Improvements:	
Gain-on-Sale	<u>(4,564,659)</u>
Net Gain-on-Sale	<u>59,641</u>
	<u>59,641</u>
Tax Liability @ 15%	(8,946)

Calculation of Adjusted Basis:

Improvement Costs	\$5,500,000
Application of Replacement Reserve	191,239
Accumulated Depreciation	(1,126,580)
Total Adjusted Basis	<u>4,564,659</u>

NET SALES PROCEEDS: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	4,718,674
Less Brokerage Commission	(94,373)
Net Sales Price	<u>4,624,301</u>
Less Tax Liability	(8,946)
Less Outstanding Mortgage Balance	(3,611,906)
Net Sales Proceeds	<u>1,003,449</u>

Sales Proceeds for Initial Rehabilitation Scenario

Table VII

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		81,472		81,472
2		84,406		84,406
3		87,283		87,283
4		90,092		90,092
5		92,821		92,821
6		95,460		95,460
7		97,993	1,003,449	1,101,441
	<u>\$ (2,092,220)</u>	<u>\$ 629,526</u>	<u>\$ 1,003,449</u>	<u>\$ (459,245)</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				-4.07%
				7.15%
				4.29%

Cash Flow Summary for Initial Rehabilitation Scenario

APPENDIX III: FINANCIALS FOR FEDERAL INVESTMENT TAX CREDIT (ITC)

Table I
Scenario 1: Federal ITC Used to Reduce Developer's Equity and Maintaining 2/3 LTV Ratio

SOURCE	
Equity	
Developer's Equity	\$ 1,157,220
Federal Tax Credit Equity	\$ 935,000
Debt	
25 year mortgage at 7.00%	4,184,440
Total	\$ 6,276,660
Costs per square foot	\$ 139

USE	
Acquisition	226,660
Hard costs	4,180,000
Soft costs	1,320,000
Contingency	550,000
Total	\$ 6,276,660
Costs per square foot	\$ 139

Scenario 2: Federal ITC Used to Reduce LTV Ratio

SOURCE	
Equity	
Developer's Equity	\$ 2,092,220
Federal Tax Credit Equity	\$ 935,000
Debt	
25 year mortgage at 7.00%	3,249,440
Total	\$ 6,276,660
Costs per square foot	\$ 139

USE	
Acquisition	226,660
Hard costs	4,180,000
Soft costs	1,320,000
Contingency	550,000
Total	\$ 6,276,660
Costs per square foot	\$ 139

Source and Use of Funds with Federal Investment Tax Credit (ITC)

Table II

Scenario 1: Tax Credits Used to Reduce Developer's Equity and Maintaining 2/3 LTV Ratio

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage							
Beginning Mortgage Balance	4,184,440	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,803,982	\$3,711,191
Amortization	(\$66,158)	(\$70,789)	(\$75,744)	(\$81,047)	(\$86,720)	(\$92,790)	(\$99,286)
Year-End Mortgage Balance	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,803,982	\$3,711,191	\$3,611,906
Interest	\$292,911	\$288,280	\$283,324	\$278,022	\$272,349	\$266,279	\$259,783

Scenario 2: Tax Credits Used to Reduce LTV Ratio

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage							
Beginning Mortgage Balance	3,249,440	\$3,198,065	\$3,143,093	\$3,084,273	\$3,021,336	\$2,953,994	\$2,881,937
Amortization	(51,375)	(54,972)	(58,820)	(62,937)	(67,343)	(72,057)	(77,101)
Year-End Mortgage Balance	\$3,198,065	\$3,143,093	\$3,084,273	\$3,021,336	\$2,953,994	\$2,881,937	\$2,804,837
Interest	\$227,461	\$223,865	\$220,017	\$215,899	\$211,494	\$206,780	\$201,736

Loan Amortization Schedule with Federal Investment Tax Credit (ITC)

Table III

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Value of improvements	\$5,341,660	\$5,889,060	\$5,752,094	\$5,615,129	\$5,478,163	\$5,341,197	\$5,204,232
39 year straight-line depreciation	(\$136,966)	(\$136,966)	(\$136,966)	(\$136,966)	(\$136,966)	(\$136,966)	(\$136,966)
Adjusted basis of improvements	\$5,204,694	\$5,752,094	\$5,615,129	\$5,478,163	\$5,341,197	\$5,204,232	\$5,067,266

Depreciation Schedule with Federal Investment Tax Credit (ITC)

Table IV

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 89,665	\$ 100,806	\$ 112,176	\$ 123,777	\$ 135,611	\$ 147,680	\$ 159,985	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(136,966)	(136,966)	(136,966)	(136,966)	(136,966)	(136,966)	(136,966)	(136,966)
Taxable income	\$ 40,364	\$ 56,781	\$ 73,771	\$ 91,358	\$ 109,571	\$ 128,436	\$ 147,985	
Federal income tax	(16,145)	(22,712)	(29,508)	(36,543)	(43,828)	(51,374)	(59,194)	
PA income tax	(4,032)	(5,672)	(7,370)	(9,127)	(10,946)	(12,831)	(14,784)	
Cash flow	\$ 69,487	\$ 72,421	\$ 75,298	\$ 78,107	\$ 80,837	\$ 83,475	\$ 86,008	
Less: distributions to HTC investors	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)
Final cash flow	\$ 41,437	\$ 44,371	\$ 47,248	\$ 50,057	\$ 52,787	\$ 55,425	\$ 57,958	

Projection of After-Tax Cash Flows under Scenarios 1A and 1B: Federal ITCs Used to Reduce Developer's Cash Equity Contribution While Maintaining a 2/3 LTV

Table V

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$278,836)	(\$278,836)	(\$278,836)	(\$278,836)	(\$278,836)	(\$278,836)	(\$278,836)	(\$278,836)
Before tax cash flow	\$ 169,898	\$ 181,039	\$ 192,409	\$ 204,010	\$ 215,844	\$ 227,913	\$ 240,218	
Plus:								
Mortgage Amortization	\$51,375	\$54,972	\$58,820	\$62,937	\$67,343	\$72,057	\$77,101	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(136,966)	(136,966)	(136,966)	(136,966)	(136,966)	(136,966)	(136,966)	
Taxable income	\$ 105,814	\$ 121,196	\$ 137,079	\$ 153,481	\$ 170,426	\$ 187,935	\$ 206,032	
Federal income tax	(42,325)	(48,478)	(54,831)	(61,393)	(68,170)	(75,174)	(82,413)	
PA income tax	(10,571)	(12,107)	(13,694)	(15,333)	(17,026)	(18,775)	(20,583)	
Cash flow	\$ 117,002	\$ 120,453	\$ 123,883	\$ 127,284	\$ 130,648	\$ 133,964	\$ 137,222	
Less: distributions to HTC investors	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	
Final cash flow	\$ 88,952	\$ 92,403	\$ 95,833	\$ 99,234	\$ 102,598	\$ 105,914	\$ 109,172	
Cash-on-cash yield	9.5%	9.9%	10.2%	10.6%	11.0%	11.3%	11.7%	

Projections of After-Tax Cash Flows under Scenarios 2A and 2B: Federal ITC Used to Reduce Debt Financing

Table VI

AIN-ON-SALE: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$	4,917,942
Less Brokerage Commission		(98,359)
Net Sales Price		<u>4,819,583</u>
Less Lender Participation		
Less Adjusted Basis of Improvements:		(4,564,659)
Gain-on-Sale		<u>254,924</u>
Net Gain-on-Sale		<u><u>254,924</u></u>
Tax Liability @ 15%		(38,239)

Calculation of Adjusted Basis:

Improvement Costs	\$5,500,000
Application of Replacement Reserve	191,239
Accumulated Depreciation	(1,126,580)
Total Adjusted Basis	<u><u>4,564,659</u></u>

NET SALES PROCEEDS: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	4,917,942
Less Brokerage Commission	(98,359)
Net Sales Price	<u>4,819,583</u>
Less Tax Liability	(38,239)
Less Outstanding Mortgage Balance	(3,611,906)
Less Federal ITC equity	(935,000)
Net Sales Proceeds	<u><u>234,439</u></u>

Federal Investment Tax Credit Proceeds

Table VIII

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (1,157,220)	\$ -		\$ (1,157,220)
1		41,437		41,437
2		44,371		44,371
3		47,248		47,248
4		50,057		50,057
5		52,787		52,787
6		55,425		55,425
7		57,958	234,439	292,397
	<u>\$ (1,157,220)</u>	<u>\$ 349,283</u>	<u>\$ 234,439</u>	<u>\$ (573,498)</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				-11.5%
				8.40%
				3.58%

Scenario 1B. Federal ITC Used to Reduce Developer's Cash Equity Contribution While Maintaining a 2/3 LTV; Sold to Outside Investor

Table IX

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (1,157,220)	\$ -		\$ (1,157,220)
1		41,437		41,437
2		44,371		44,371
3		47,248		47,248
4		50,057		50,057
5		52,787		52,787
6		55,425		55,425
7		57,958	234,439	292,397
			<u>\$ 234,439</u>	<u>\$ (573,498)</u>
	<u>\$ (1,157,220)</u>	<u>\$ 349,283</u>	<u>\$ 234,439</u>	<u>\$ (573,498)</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				-11.5%
				8.40%
				3.58%

Scenario 2A. Federal ITC Used to Reduce Debt Financing; Retained by Developer

Table X

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -	\$	(2,092,220)
1		88,952		88,952
2		92,403		92,403
3		95,833		95,833
4		99,234		99,234
5		102,598		102,598
6		105,914		105,914
7		109,172	1,041,508	1,150,680
	<u>\$ (2,092,220)</u>	<u>\$ 694,106</u>	<u>\$ 1,041,508</u>	<u>\$ (356,606)</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				-3%
				8.40%
				4.25%

Scenario 2B. Federal ITC Used to Reduce Debt Financing; Sold to Outside Investors

APPENDIX IV: FINANCIALS WITH FEDERAL AND PROPOSED STATE INVESTMENT TAX CREDITS

Table I

SOURCE AND USE OF FUNDS WITH STATE AND FEDERAL TAX CREDITS MAINTAINING 2/3 LTV RATIO

Source		
Federal Tax Credit Equity	\$	935,000
State Tax Credit Equity	\$	880,000
Developer's Equity	\$	277,220
Debt	\$	4,184,440
Total	\$	6,276,660
Costs per square foot	\$	139

Use of funds	
Acquisition	226,660
Hard costs	4,180,000
Soft costs	1,320,000
Contingency	550,000
Total	\$ 6,276,660

SOURCE AND USE OF FUNDS WITH STATE AND FEDERAL TAX CREDITS USED TO REDUCE LTV RATIO

Federal Tax Credit Equity	\$	935,000
State Tax Credit Equity	\$	880,000
Developer's Equity	\$	2,092,220
Debt	\$	2,369,440
Total	\$	6,276,660
Costs per square foot	\$	139

Use of funds	
Acquisition	226,660
Hard costs	4,180,000
Soft costs	1,320,000
Contingency	550,000
Total	\$ 6,276,660

Source and Use of Funds with Federal and Proposed State Investment Tax Credits (ITCs)

Table II

Scenario 1: Tax Credits Used to Reduce Developer's Equity and Maintaining 2/3 LTV

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage							
Beginning Mortgage Balance	4,184,440	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,803,982	\$3,711,191
Amortization	(\$66,158)	(\$70,789)	(\$75,744)	(\$81,047)	(\$86,720)	(\$92,790)	(\$99,286)
Year-End Mortgage Balance	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,803,982	\$3,711,191	\$3,611,906
Interest	\$292,911	\$288,280	\$283,324	\$278,022	\$272,349	\$266,279	\$259,783

Scenario 2: Tax Credits Used to Add to Developer's Equity

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage							
Beginning Mortgage Balance	2,369,440	\$2,331,978	\$2,291,894	\$2,249,003	\$2,203,111	\$2,154,005	\$2,101,463
Amortization	(37,462)	(40,084)	(42,890)	(45,893)	(49,105)	(52,542)	(56,220)
Year-End Mortgage Balance	\$2,331,978	\$2,291,894	\$2,249,003	\$2,203,111	\$2,154,005	\$2,101,463	\$2,045,242
Interest	\$165,861	\$163,238	\$160,433	\$157,430	\$154,218	\$150,780	\$147,102

Loan Amortization Schedule with Federal and State Investment Tax Credits (ITCs)

Table III

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 89,665	\$ 100,806	\$ 112,176	\$ 123,777	\$ 135,611	\$ 147,680	\$ 159,985	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 16,389	\$ 32,807	\$ 49,796	\$ 67,384	\$ 85,596	\$ 104,462	\$ 124,010	
Federal income tax	(6,556)	(13,123)	(19,918)	(26,954)	(34,238)	(41,785)	(49,604)	
PA income tax	(1,637)	(3,277)	(4,975)	(6,732)	(8,551)	(10,436)	(12,389)	
Cash flow	\$ 81,472	\$ 84,406	\$ 87,283	\$ 90,092	\$ 92,821	\$ 95,460	\$ 97,993	

**Projection of After-Tax Cash Flows for Scenario 1A:
Federal and Proposed State Investment Tax Credits (ITCs) are Retained as Developer's Equity**

Table IV

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 89,665	\$ 100,806	\$ 112,176	\$ 123,777	\$ 135,611	\$ 147,680	\$ 159,985	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 16,389	\$ 32,807	\$ 49,796	\$ 67,384	\$ 85,596	\$ 104,462	\$ 124,010	
Federal income tax	(6,556)	(13,123)	(19,918)	(26,954)	(34,238)	(41,785)	(49,604)	
PA income tax	(1,637)	(3,277)	(4,975)	(6,732)	(8,551)	(10,436)	(12,389)	
Cash flow	\$ 81,472	\$ 84,406	\$ 87,283	\$ 90,092	\$ 92,821	\$ 95,460	\$ 97,993	
Less: Distributions to ITC investors	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)
Final cash flow to developer	\$ 27,022	\$ 29,956	\$ 32,833	\$ 35,642	\$ 38,371	\$ 41,010	\$ 43,543	

**Projection of After-Tax Cash Flows for Scenario 1B: Federal and Proposed State
Investment Tax Credits (ITCs) are Sold to Outside Investors**

Table V

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054
Less debt service for construction and acquisition							
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 89,665	\$ 100,806	\$ 112,176	\$ 123,777	\$ 135,611	\$ 147,680	\$ 159,985
Plus:							
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679
Less:							
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 16,389	\$ 32,807	\$ 49,796	\$ 67,384	\$ 85,596	\$ 104,462	\$ 124,010
Federal income tax	(6,556)	(13,123)	(19,918)	(26,954)	(34,238)	(41,785)	(49,604)
PA income tax	(1,637)	(3,277)	(4,975)	(6,732)	(8,551)	(10,436)	(12,389)
Cash flow	\$ 81,472	\$ 84,406	\$ 87,283	\$ 90,092	\$ 92,821	\$ 95,460	\$ 97,993
Less distribution to state ITC investors	(26,400)	(26,400)	(26,400)	(26,400)	(26,400)	(26,400)	(26,400)
Final cash flow to developer	\$ 55,072	\$ 58,006	\$ 60,883	\$ 63,692	\$ 66,421	\$ 69,060	\$ 71,593

Projection of After-Tax Cash Flows for Scenario 1C: Federal Investment Tax Credit is Retained by the Developer, State Investment Tax Credit Sold to Outside Investor

Table VI

THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$ 4,718,674
Less Brokerage Commission	(94,373)
Net Sales Price	<u>4,624,301</u>
Less Adjusted Basis of Improvements:	
Gain-on-Sale	(4,564,659)
Less Unamortized Loan Points	59,641
Less Application of Unutilized Suspended Losses	
Net Gain-on-Sale	<u><u>59,641</u></u>
Tax Liability @ 15%	(8,946)

Calculation of Adjusted Basis:

Improvement Costs	\$5,500,000
Application of Replacement Reserve	191,239
Accumulated Depreciation	(1,126,580)
Total Adjusted Basis	<u><u>4,564,659</u></u>

NET SALES PROCEEDS: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	4,718,674
Less Brokerage Commission	(94,373)
Net Sales Price	<u>4,624,301</u>
Less Tax Liability	(8,946)
Less Outstanding Mortgage Balance	(3,611,906)
Less Federal ITC equity payout	(935,000)
Less State ITC equity payout	(880,000)
Net Sales Proceeds	<u><u>(811,551)</u></u>

Net Sale Proceeds for Scenarios 1A and 1B

Table VII

SCENARIO 1C: GAIN-ON-SALE: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$ 4,718,674
Less Brokerage Commission	<u>(94,373)</u>
Net Sales Price	<u>4,624,301</u>
Less Adjusted Basis of Improvements:	
Gain-on-Sale	<u>(4,564,659)</u>
Less Unamortized Loan Points	59,641
Less Application of Utilized Suspended Losses	0
Net Gain-on-Sale	<u>0</u>
	<u>59,641</u>
Tax Liability @ 15%	<u>(8,946)</u>

Calculation of Adjusted Basis:

Improvement Costs	\$5,500,000
Application of Replacement Reserve	191,239
Accumulated Depreciation	<u>(1,126,580)</u>
Total Adjusted Basis	<u>4,564,659</u>

NET SALES PROCEEDS: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	4,718,674
Less Brokerage Commission	<u>(94,373)</u>
Net Sales Price	<u>4,624,301</u>
Less Tax Liability	(8,946)
Less Outstanding Mortgage Balance	<u>(3,611,906)</u>
Less State ITC payout	<u>(880,000)</u>
Net Sales Proceeds	<u>123,449</u>

Net Sale Proceeds for Scenario 1C

Table VIII

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		81,472		81,472
2		84,406		84,406
3		87,283		87,283
4		90,092		90,092
5		92,821		92,821
6		95,460		95,460
7		97,993	1,003,449	1,101,441
	<u>\$ (277,220)</u>	<u>\$ 629,526</u>	<u>\$ 1,003,449</u>	<u>\$ 1,355,755</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				41.6%
				10.06%
				29.39%

Cash Flow Summary for Scenario 1A: Federal and Proposed State Investment Tax Credits (ITCs) Used to Maintain 2/3 LTV Ratio; Retained by the Developer

Table IX

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		27,022		27,022
2		29,956		29,956
3		32,833		32,833
4		35,642		35,642
5		38,371		38,371
6		41,010		41,010
7		43,543	(811,551)	(768,009)
	<u>\$ (277,220)</u>	<u>\$ 248,376</u>	<u>\$ (811,551)</u>	<u>\$ (840,395)</u>
INTERNAL RATE OF RETURN				N/A
YEAR 1 YIELD				10.06%
YEAR 1 CASH-ON-CASH RETURN				9.75%

**Cash Flow Summary for Scenario 1B: Federal and Proposed State Investment Tax Credits
Used to Maintain 2/3 LTV Ratio; Sold to Outside Investors.**

Table X

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		55,072		55,072
2		58,006		58,006
3		60,883		60,883
4		63,692		63,692
5		66,421		66,421
6		69,060		69,060
7		71,593	123,449	195,041
	<u>\$ (277,220)</u>	<u>\$ 444,726</u>	<u>\$ 123,449</u>	<u>\$ 290,955</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				17.7%
				10.06%
				19.87%

Cash Flow Summary for Scenario 1C: Federal Investment Tax Credit Retained by Developer; Proposed State Investment Tax Credit Sold to Outside Investor; 2/3 LTV Ratio Maintained

Table XI

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)
Before tax cash flow	\$ 245,411	\$ 256,552	\$ 267,922	\$ 279,523	\$ 291,357	\$ 303,426	\$ 315,731	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 172,135	\$ 188,553	\$ 205,542	\$ 223,130	\$ 241,342	\$ 260,208	\$ 279,756	
Federal income tax	(68,854)	(75,421)	(82,217)	(89,252)	(96,537)	(104,083)	(111,903)	
PA income tax	(17,196)	(18,836)	(20,534)	(22,291)	(24,110)	(25,995)	(27,948)	
Cash flow	\$ 159,361	\$ 162,295	\$ 165,171	\$ 167,980	\$ 170,710	\$ 173,348	\$ 175,881	

**Projection of After-Tax Cash Flow for Scenario 2A: Federal and Proposed State Investment
Tax Credits (ITCs) Used to Reduce LTV Ratio; Retained by the Developer**

Table XII

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)
Before tax cash flow	\$ 245,411	\$ 256,552	\$ 267,922	\$ 279,523	\$ 291,357	\$ 303,426	\$ 315,731	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 172,135	\$ 188,553	\$ 205,542	\$ 223,130	\$ 241,342	\$ 260,208	\$ 279,756	
Federal income tax	(68,854)	(75,421)	(82,217)	(89,252)	(96,537)	(104,083)	(111,903)	
PA income tax	(17,196)	(18,836)	(20,534)	(22,291)	(24,110)	(25,995)	(27,948)	
Cash flow	\$ 159,361	\$ 162,295	\$ 165,171	\$ 167,980	\$ 170,710	\$ 173,348	\$ 175,881	
Less: Distributions to ITC investors	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)	\$ (54,450)
Final cash flow to developer	\$ 104,911	\$ 107,845	\$ 110,721	\$ 113,530	\$ 116,260	\$ 118,898	\$ 121,431	

Projection of After-Tax Cash Flows for Scenario 2B: Federal and Proposed State Investment Tax Credits (ITCs) Used to Reduce LTV Ratio; Sold to Outside Investors

Table XIII

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)	(\$203,323)
Before tax cash flow	\$ 245,411	\$ 256,552	\$ 267,922	\$ 279,523	\$ 291,357	\$ 303,426	\$ 315,731	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 172,135	\$ 188,553	\$ 205,542	\$ 223,130	\$ 241,342	\$ 260,208	\$ 279,756	
Federal income tax	(68,854)	(75,421)	(82,217)	(89,252)	(96,537)	(104,083)	(111,903)	
PA income tax	(17,196)	(18,836)	(20,534)	(22,291)	(24,110)	(25,995)	(27,948)	
Cash flow	\$ 159,361	\$ 162,295	\$ 165,171	\$ 167,980	\$ 170,710	\$ 173,348	\$ 175,881	
Less: Distributions to ITC investors	\$ (26,400)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)	\$ (28,050)
Final cash flow to developer	\$ 132,961	\$ 134,245	\$ 137,121	\$ 139,930	\$ 142,660	\$ 145,298	\$ 147,831	

Projection of After-Tax Cash Flows for Scenario 2C: Federal Investment Tax Credit Retained by the Developer; Proposed State Investment Tax Credit Sold to Outside Investor; Used to Reduce LTV Ratio

Table XIV

NET SALES PROCEEDS: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$	4,718,674
Less Brokerage Commission		<u>(94,373)</u>
Net Sales Price		<u>4,624,301</u>
Less Adjusted Basis of Improvements: Gain-on-Sale		<u>(4,564,659)</u> 59,641
Less Unamortized Loan Points		
Less Application of Unutilized Suspended Losses		
Net Gain-on-Sale		<u><u>59,641</u></u>
Tax Liability @ 15%		(8,946)

Calculation of Adjusted Basis:

Improvement Costs	\$5,500,000
Application of Replacement Reserve	191,239
Accumulated Depreciation	<u>(1,126,580)</u>
Total Adjusted Basis	<u><u>4,564,659</u></u>

NET SALES PROCEEDS: CASH FLOW (INVESTMENT) ANALYSIS

Gross Sales Price	4,718,674
Less Brokerage Commission	<u>(94,373)</u>
Net Sales Price	<u>4,624,301</u>
Less Tax Liability	(8,946)
Less Outstanding Mortgage Balance	(2,045,242)
Less Federal ITC equity payout	(935,000)
Less State ITC equity payout	<u>(880,000)</u>
Net Sales Proceeds	<u><u>764,059</u></u>

**Net Sales Proceeds for Scenarios 2A and 2B
Table XV**

SCENARIO 2C: GAIN ON SALE: ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$	4,718,674
Less Brokerage Commission		(94,373)
Net Sales Price		<u>4,624,301</u>
Less Adjusted Basis of Improvements: Gain-on-Sale		<u>(4,564,659)</u> 59,641
Less Unamortized Loan Points		
Less Application of Unused Suspended Losses		
Net Gain-on-Sale		<u><u>59,641</u></u>
Tax Liability @ 15%		(8,946)

Calculation of Adjusted Basis:

Improvement Costs	\$5,500,000
Application of Replacement Reserve	191,239
Accumulated Depreciation	(1,126,580)
Total Adjusted Basis	<u><u>4,564,659</u></u>

NET SALES PROCEEDS: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	4,718,674
Less Brokerage Commission	(94,373)
Net Sales Price	<u>4,624,301</u>
Less Tax Liability	(8,946)
Less Outstanding Mortgage Balance	(2,045,242)
Less State ITC equity payout	(880,000)
Net Sales Proceeds	<u><u>1,699,059</u></u>

Net Sales Proceeds for Scenario 2C**Table XVI**

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		159,361		159,361
2		162,295		162,295
3		165,171		165,171
4		167,980		167,980
5		170,710		170,710
6		173,348		173,348
7		175,881	2,579,059	2,754,940
	<u>\$ (2,092,220)</u>	<u>\$ 1,174,747</u>	<u>\$ 2,579,059</u>	<u>\$ 1,661,585</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				10.39%
				10.06%
				7.62%

Cash Flow Summary for Scenario 2A: Federal and Proposed State Investment Tax Credits (ITCs) Used to Reduce LTV Ratio; Retained by the Developer

Table XVII

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		104,911		104,911
2		107,845		107,845
3		110,721		110,721
4		113,530		113,530
5		116,260		116,260
6		118,898		118,898
7		121,431	764,059	885,490
	<u>\$ (2,092,220)</u>	<u>\$ 793,597</u>	<u>\$ 764,059</u>	<u>\$ (534,565)</u>
	INTERNAL RATE OF RETURN			-5.11%
	YEAR 1 YIELD			10.06%
	YEAR 1 CASH-ON-CASH RETURN			5.01%

Cash Flow Summary for Scenario 2B: Federal and Proposed State Investment Tax Credits (ITCs) Used to Reduce LTV Ratio; Sold to Outside Investors

Table XVIII

APPENDIX V: LOCAL ECONOMIC REVITALIZATION TAX ACT (LERTA) FINANCIALS

Table I

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Income								
Office @ \$12 psf (24,500 sf)	228,000	234,840	241,885	249,142	256,616	264,314	272,244	280,411
Retail @ \$30 psf (19,000 sf)	570,000	587,100	604,713	622,854	641,540	660,786	680,610	701,028
Projected Gross Rental Income (PGI)	\$ 798,000	\$ 821,940	\$ 846,598	\$ 871,996	\$ 898,156	\$ 925,101	\$ 952,854	\$ 981,439
Less: vacancy @ 15%	(119,700)	(123,291)	(126,990)	(130,799)	(134,723)	(138,765)	(142,928)	(147,216)
Less: loss factor @ 8%	(63,840)	(65,755)	(67,728)	(69,760)	(71,852)	(74,008)	(76,228)	(78,515)
Effective Gross Income (EGI)	614,460	632,894	651,881	671,437	691,580	712,328	733,697	755,708
Operating expenses	(177,395)	(185,378)	(193,720)	(202,437)	(211,547)	(221,066)	(231,014)	(231,014)
Replacement reserve @ 3.5% EGI	(21,506)	(22,151)	(22,816)	(23,500)	(24,205)	(24,931)	(25,679)	(26,450)
Upper Darby Real Estate Taxes	(7,972)	(11,254)	(22,509)	(33,763)	(45,018)	(56,272)	(56,272)	(56,272)
Delaware County Real Estate Taxes	(1,009)	(1,424)	(2,848)	(4,272)	(5,696)	(7,120)	(7,120)	(7,120)
Plus: tenant reimbursements	86,064	89,076	92,194	95,421	98,760	102,217	105,795	109,497
Electric bills								
Net Operating Income (NOI)	\$ 492,643	\$ 501,763	\$ 502,182	\$ 502,885	\$ 503,875	\$ 505,155	\$ 519,406	\$ 544,350
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 133,574	\$ 142,694	\$ 143,113	\$ 143,816	\$ 144,806	\$ 146,086	\$ 160,337	\$ 185,281

Stabilized Pro Forma with LERTA as Enacted by Upper Darby

Table II

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 492,643	\$ 501,763	\$ 502,182	\$ 502,885	\$ 503,875	\$ 505,155	\$ 519,406	\$ 544,350
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 133,574	\$ 142,694	\$ 143,113	\$ 143,816	\$ 144,806	\$ 146,086	\$ 160,337	\$ 185,281
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	\$0
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	26,450
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 60,298	\$ 74,694	\$ 80,734	\$ 87,423	\$ 94,791	\$ 102,868	\$ 124,362	\$ 50,791
Federal income tax	(24,119)	(29,878)	(32,293)	(34,969)	(37,916)	(41,147)	(49,745)	(20,316)
PA income tax	(6,024)	(7,462)	(8,065)	(8,734)	(9,470)	(10,276)	(12,424)	(5,074)
Cash flow	\$ 103,431	\$ 105,354	\$ 102,755	\$ 100,113	\$ 97,420	\$ 94,662	\$ 98,169	\$ 159,891

Projection of After-Tax Cash Flow with LERTA as Enacted by Upper Darby

Table III

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		103,431		103,431
2		105,354		105,354
3		102,755		102,755
4		100,113		100,113
5		97,420		97,420
6		94,662		94,662
7		98,169	1,003,449	1,101,617
	<u>\$ (2,092,220)</u>	<u>\$ 701,904</u>	<u>\$ 1,003,449</u>	<u>\$ (386,867)</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				-3.46%
				7.85%
				4.94%

Cash Flow Summary for LERTA as Enacted by Upper Darby

Table IV

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Income								
Office @ \$12 psf (24,500 sf)	228,000	234,840	241,885	249,142	256,616	264,314	272,244	280,411
Retail @ \$30 psf (19,000 sf)	570,000	587,100	604,713	622,854	641,540	660,786	680,610	701,028
Projected Gross Rental Income (PGI)	\$ 798,000	\$ 821,940	\$ 846,598	\$ 871,996	\$ 898,156	\$ 925,101	\$ 952,854	\$ 981,439
Less: vacancy @ 15%	(119,700)	(123,291)	(126,990)	(130,799)	(134,723)	(138,765)	(142,928)	(147,216)
Less: loss factor @ 8%	(63,840)	(65,755)	(67,728)	(69,760)	(71,852)	(74,008)	(76,228)	(78,515)
Effective Gross Income (EGI)	614,460	632,894	651,881	671,437	691,580	712,328	733,697	755,708
Operating expenses	(160,000)	(167,200)	(174,724)	(182,587)	(190,803)	(199,389)	(208,362)	(208,362)
Replacement reserve @ 3.5% EGI	(21,506)	(22,151)	(22,816)	(23,500)	(24,205)	(24,931)	(25,679)	(26,450)
Upper Darby Real Estate Taxes	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)
Delaware County Real Estate Taxes	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)
Plus: tenant reimbursements	86,064	89,076	92,194	95,421	98,760	102,217	105,795	109,497
Electric bills	510,038	523,638	537,554	551,791	566,352	581,244	596,471	621,414
Net Operating Income (NOI)	\$ (\$359,069)	\$ (\$359,069)	\$ (\$359,069)	\$ (\$359,069)	\$ (\$359,069)	\$ (\$359,069)	\$ (\$359,069)	\$ (\$359,069)
Permanent mortgage								
Before tax cash flow	\$ 150,969	\$ 164,570	\$ 178,485	\$ 192,722	\$ 207,283	\$ 222,175	\$ 237,402	\$ 262,345

Stabilized Pro Forma for LERTA at Full Effect

Table V

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 510,038	\$ 523,638	\$ 537,554	\$ 551,791	\$ 566,352	\$ 581,244	\$ 596,471	\$ 621,414
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 150,969	\$ 164,570	\$ 178,485	\$ 192,722	\$ 207,283	\$ 222,175	\$ 237,402	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 77,693	\$ 96,570	\$ 116,106	\$ 136,329	\$ 157,268	\$ 178,956	\$ 201,427	
Federal income tax	(31,077)	(38,628)	(46,442)	(54,531)	(62,907)	(71,583)	(80,571)	
PA income tax	(7,762)	(9,647)	(11,599)	(13,619)	(15,711)	(17,878)	(20,123)	
Cash flow	\$ 112,130	\$ 116,294	\$ 120,444	\$ 124,571	\$ 128,665	\$ 132,714	\$ 136,709	

Projections of After-Tax Cash Flows with LERTA at Full Effect

Table VI

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		112,130		112,130
2		116,294		116,294
3		120,444		120,444
4		124,571		124,571
5		128,665		128,665
6		132,714		132,714
7		136,709	1,003,449	1,140,157
	<u>\$ (2,092,220)</u>	<u>\$ 871,527</u>	<u>\$ 1,003,449</u>	<u>\$ (217,244)</u>
	INTERNAL RATE OF RETURN			-1.90%
	YEAR 1 YIELD			8.13%
	YEAR 1 CASH-ON-CASH RETURN			5.36%

Cash Flow Summary for LERTA at Full Effect

APPENDIX VI: FINANCIALS FOR A \$450,000 LOW INTEREST LOAN AT 4%

Table I

SOURCE		USE	
Equity	\$ 2,092,220	Acquisition	226,660
Debt		Hard costs (76%)	4,180,000
Permanent mortgage	\$ 3,734,440	Soft costs (24%)	1,320,000
Low interest loan at 4%	\$ 450,000	Contingency @ 10%	550,000
Total	\$ 6,276,660	Total	\$ 6,276,660
Costs per square foot	\$ 139	Costs per square foot	\$ 139

Source and Use of Funds for 4% Low Interest Loan

Table II

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage							
Beginning Mortgage Balance	\$3,734,440	\$3,582,036	\$3,422,773	\$3,256,343	\$3,082,425	\$2,900,680	\$2,710,756
Amortization	(\$152,404)	(\$159,263)	(\$166,429)	(\$173,919)	(\$181,745)	(\$189,924)	(\$198,470)
Year-End Mortgage Balance	\$3,582,036	\$3,422,773	\$3,256,343	\$3,082,425	\$2,900,680	\$2,710,756	\$2,512,286
Interest	\$206,665	\$199,806	\$192,640	\$185,150	\$177,324	\$169,145	\$160,599
Low Interest Loan							
Beginning Mortgage Balance	\$450,000	\$439,195	\$427,957	\$416,270	\$404,115	\$391,475	\$378,328
Amortization	(\$10,805)	(\$11,238)	(\$11,687)	(\$12,155)	(\$12,641)	(\$13,146)	(\$13,672)
Year-End Mortgage Balance	\$439,195	\$427,957	\$416,270	\$404,115	\$391,475	\$378,328	\$364,656
Interest	\$18,000	\$17,568	\$17,118	\$16,651	\$16,165	\$15,659	\$15,133

Amortization Schedules for Permanent and Low Interest Loans

Table III

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition Permanent mortgage @ 7%	(\$320,454)	(\$320,454)	(\$320,454)	(\$320,454)	(\$320,454)	(\$320,454)	(\$320,454)	(\$320,454)
Less debt service for 4% low interest loan from state revolving fund	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)
Before tax cash flow	\$ 99,474	\$ 110,615	\$ 121,985	\$ 133,586	\$ 145,420	\$ 157,489	\$ 169,795	
Plus:								
Mortgage Amortization	\$152,404	\$159,263	\$166,429	\$173,919	\$181,745	\$189,924	\$198,470	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 112,445	\$ 131,089	\$ 150,291	\$ 170,065	\$ 190,431	\$ 211,404	\$ 233,004	
Federal income tax	(44,978)	(52,436)	(60,116)	(68,026)	(76,172)	(84,562)	(93,202)	
PA income tax	(11,233)	(13,096)	(15,014)	(16,990)	(19,024)	(21,119)	(23,277)	
Cash flow	\$ 43,263	\$ 45,084	\$ 46,855	\$ 48,571	\$ 50,224	\$ 51,808	\$ 53,316	

Projections of After-Tax Cash Flows for Low Interest Loan

Table IV

GAIN-ON-SALE: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$ 4,718,674
Less Brokerage Commission	(94,373)
Net Sales Price	<u>4,624,301</u>
Less Lender Participation	
Less Adjusted Basis of Improvements:	
Gain-on-Sale	(4,564,659)
Less Unamortized Loan Points	<u>59,641</u>
Less Application of Unutilized Suspended Losses	
Net Gain-on-Sale	<u><u>59,641</u></u>
Tax Liability @ 15%	(8,946)

Calculation of Adjusted Basis:

Improvement Costs	\$5,500,000
Application of Replacement Reserve	191,239
Accumulated Depreciation	(1,126,580)
Total Adjusted Basis	<u><u>4,564,659</u></u>

NET SALES PROCEEDS: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	4,718,674
Less Brokerage Commission	(94,373)
Net Sales Price	<u>4,624,301</u>
Less Lender Participation	
Less Tax Liability	(8,946)
Less Outstanding Permanent Mortgage Balance	(2,512,286)
Less Outstanding Low Interest Loan Balance	(364,656)
Net Sales Proceeds	<u><u>1,738,413</u></u>

Net Sales Proceeds for Low Interest Loan

Table V

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -	\$	(2,092,220)
1		43,263		43,263
2		45,084		45,084
3		46,855		46,855
4		48,571		48,571
5		50,224		50,224
6		51,808		51,808
7		53,316	1,738,413	1,791,729
	<u>\$ (2,092,220)</u>	<u>\$ 339,121</u>	<u>\$ 1,738,413</u>	<u>\$ (14,686)</u>
	INTERNAL RATE OF RETURN			-0.11%
	YEAR 1 YIELD			7.15%
	YEAR 1 CASH-ON-CASH RETURN			4.75%

Cash Flow Summary for Low Interest Loan

APPENDIX VII: FINANCIALS FOR THE WAIVER OF 6% SALES AND LABOR TAX

Table I

SOURCE		USE	
Equity	\$ 1,982,220	Acquisition	226,660
Debt		Hard costs	3,929,200
25 year mortgage at 7.00%	3,964,440	Soft costs	1,240,800
		Contingency	550,000
Total	\$ 5,946,660	Total	\$ 5,946,660
Costs per square foot	\$ 132	Costs per square foot	\$ 132

Source and Use of Funds for Waiver of 6% Sales and Labor Tax

Table II

Sales Tax Waiver	Year 1	Year 2	Year 3	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage								
Beginning Mortgage Balance	\$3,964,440	\$3,882,882	\$3,795,615	\$3,702,239	\$3,602,326	\$3,495,420	\$3,381,031	\$3,258,634
Amortization	(\$81,558)	(\$87,267)	(\$93,376)	(\$99,912)	(\$106,906)	(\$114,390)	(\$122,397)	(\$130,965)
Year-End Mortgage Balance	\$3,882,882	\$3,795,615	\$3,702,239	\$3,602,326	\$3,495,420	\$3,381,031	\$3,258,634	\$3,127,669
Interest	\$277,511	\$271,802	\$265,693	\$259,157	\$252,163	\$244,679	\$236,672	\$228,104
Depreciation Schedule								
Value of improvements	\$5,720,000	\$5,573,333	\$5,426,667	\$5,280,000	\$5,133,333	\$4,986,667	\$4,840,000	\$4,693,333
39 year straight-line depreciation	(\$146,667)	(\$146,667)	(\$146,667)	(\$146,667)	(\$146,667)	(\$146,667)	(\$146,667)	(\$146,667)
Adjusted basis of improvements	\$5,573,333	\$5,426,667	\$5,280,000	\$5,133,333	\$4,986,667	\$4,840,000	\$4,693,333	\$4,546,667

Loan Amortization and Depreciation Schedules for Waiver of 6% Sales and Labor Tax

Table III

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition Permanent mortgage	(\$340,191)	(\$340,191)	(\$340,191)	(\$340,191)	(\$340,191)	(\$340,191)	(\$340,191)	(\$340,191)
Before tax cash flow	\$ 108,543	\$ 119,684	\$ 131,054	\$ 142,655	\$ 154,489	\$ 166,558	\$ 178,864	
Plus:								
Mortgage Amortization	\$81,558	\$87,267	\$93,376	\$99,912	\$106,906	\$114,390	\$122,397	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(146,667)	(146,667)	(146,667)	(146,667)	(146,667)	(146,667)	(146,667)	
Taxable income	\$ 64,941	\$ 82,436	\$ 100,579	\$ 119,401	\$ 138,934	\$ 159,213	\$ 180,273	
Federal income tax	(22,729)	(28,853)	(35,203)	(41,790)	(48,627)	(55,724)	(63,096)	
PA income tax	(6,488)	(8,235)	(10,048)	(11,928)	(13,880)	(15,905)	(18,009)	
Cash flow	\$ 79,326	\$ 82,596	\$ 85,804	\$ 88,937	\$ 91,983	\$ 94,928	\$ 97,759	

Projections of After-Tax Cash Flows for Waiver of 6% Tax on Sales and Labor

Table IV

GAIN-ON-SALE: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$ 4,917,942
Less Brokerage Commission	<u>(98,359)</u>
Net Sales Price	4,819,583
Less Adjusted Basis of Improvements:	(4,546,667)
Gain-on-Sale	<u>272,917</u>
Less Unamortized Loan Points	
Less Application of Unutilized Suspended Losses	<u>272,917</u>
Net Gain-on-Sale	<u><u>272,917</u></u>
Tax Liability @ 15%	(40,938)

Calculation of Adjusted Basis:

Improvement Costs	\$226,660
Application of Replacement Reserve	1,491,426
Accumulated Depreciation	<u>(1,173,333)</u>
Total Adjusted Basis	<u><u>544,753</u></u>

GAIN-ON-SALE: THE CASH FLOW (INVESTMENT) ANALYSIS

Gross Sales Price	4,917,942
Less Brokerage Commission	<u>(98,359)</u>
Net Sales Price	4,819,583
Less Tax Liability	(40,938)
Less Outstanding Mortgage Balance	<u>(3,127,669)</u>
Net Sales Proceeds	<u><u>1,650,977</u></u>

Net Sale Proceeds

Table V

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (1,982,220)	\$ -		\$ (1,982,220)
1		79,326		79,326
2		82,596		82,596
3		85,804		85,804
4		88,937		88,937
5		91,983		91,983
6		94,928		94,928
7		97,759	1,650,977	1,748,735
	<u>\$ (1,982,220)</u>	<u>\$ 621,333</u>	<u>\$ 1,650,977</u>	<u>\$ 290,090</u>
	INTERNAL RATE OF RETURN			2.2%
	YEAR 1 YIELD			7.5%
	YEAR 1 CASH-ON-CASH RETURN			4.0%

Cash Flow Summary for Waiver of 6% Tax on Sales and Labor

APPENDIX VIII FINANCIALS FOR THE DONATION OF FAÇADE EASEMENT AT 11% OF FAIR MARKET VALUE

Table I

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 89,665	\$ 100,806	\$ 112,176	\$ 123,777	\$ 135,611	\$ 147,680	\$ 159,985	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 16,389	\$ 32,807	\$ 49,796	\$ 67,384	\$ 85,596	\$ 104,462	\$ 124,010	
Federal income tax	(6,556)	(13,123)	(19,918)	(26,954)	(34,238)	(41,785)	(49,604)	
PA income tax	(1,637)	(3,277)	(4,975)	(6,732)	(8,551)	(10,436)	(12,389)	
Tax benefit of façade easement	160,956							
Add back:								
Cash flow	\$ 242,428	\$ 84,406	\$ 87,283	\$ 90,092	\$ 92,821	\$ 95,460	\$ 97,993	

Projection of After-Tax Cash Flows for Donation of Façade Easement at 11% of Fair Market Value

Table II

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		242,428		242,428
2		84,406		84,406
3		87,283		87,283
4		90,092		90,092
5		92,821		92,821
6		95,460		95,460
7		97,993	1,003,449	1,101,441
	\$ (2,092,220)	\$ 790,482	\$ 1,003,449	\$ (298,289)
	INTERNAL RATE OF RETURN			-2.75%
	YEAR 1 YIELD			7.15%
	YEAR 1 CASH-ON-CASH RETURN			11.59%

Cash Flow Summary for Donation of Façade Easement at 11% of Fair Market Value

**APPENDIX IX: FINANCIALS FOR THE DONATION OF FAÇADE EASEMENT AT 5% OF FAIR MARKET VALUE AS
PROPOSED BY THE GRASSLEY-BAUCUS LEGISLATION**

Table I

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 89,665	\$ 100,806	\$ 112,176	\$ 123,777	\$ 135,611	\$ 147,680	\$ 159,985	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 16,389	\$ 32,807	\$ 49,796	\$ 67,384	\$ 85,596	\$ 104,462	\$ 124,010	
Federal income tax	(6,556)	(13,123)	(19,918)	(26,954)	(34,238)	(41,785)	(49,604)	
PA income tax	(1,637)	(3,277)	(4,975)	(6,732)	(8,551)	(10,436)	(12,389)	
Tax benefit of façade easement	73,162							
Add back:								
Cash flow	\$ 154,634	\$ 84,406	\$ 87,283	\$ 90,092	\$ 92,821	\$ 95,460	\$ 97,993	

Donation of Façade Easement at 5% of Fair Market Value

Table II

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		154,634		154,634
2		84,406		84,406
3		87,283		87,283
4		90,092		90,092
5		92,821		92,821
6		95,460		95,460
7		97,993	1,003,449	1,101,441
	\$ (2,092,220)	\$ 702,688	\$ 1,003,449	\$ (386,083)
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				-3.48%
				7.15%
				7.39%

Cash Flow Summary for Donation of Façade Easement at 5% of Fair Market Value

**APPENDIX X: FINANCIALS FOR \$100,000 GRANT FROM
THE NATIONAL TRUST FOR HISTORIC PRESERVATION**

Table I

SOURCE		USE	
Equity	\$ 2,092,220	Acquisition	226,660
Debt		Hard costs	4,180,000
25 year mortgage at 7.00%	4,184,440	Soft costs	1,320,000
Intervention Funds		Contingency	550,000
National Trust Grant	(\$100,000)	Less: grant	(100,000)
Total	\$ 6,176,660	Total	\$ 6,176,660
Costs psf	137	Costs psf	137

Source and Use of Funds for \$100,000 Grant from the National Trust for Historic Preservation

Table II

	Year 1	Year 2	Year 3	Year 3	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage									
Beginning Mortgage Balance	\$4,184,440	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,890,702	\$3,803,982	\$3,711,191	\$3,611,906
Amortization	(\$66,158)	(\$70,789)	(\$75,744)	(\$81,047)	(\$86,720)	(\$92,790)	(\$99,286)	(\$106,236)	(\$106,236)
Year-End Mortgage Balance	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,803,982	\$3,711,191	\$3,611,906	\$3,505,670	
Interest	\$292,911	\$288,280	\$283,324	\$278,022	\$272,349	\$266,279	\$259,783	\$252,833	
	Year 1	Year 2	Year 3	Year 3	Year 4	Year 5	Year 6	Year 7	
Depreciation Schedule									
Value of improvements	\$6,176,660	\$6,018,284	\$5,859,908	\$5,701,532	\$5,543,156	\$5,384,781	\$5,226,405	\$5,068,029	
39 year straight-line depreciation	(\$158,376)	(\$158,376)	(\$158,376)	(\$158,376)	(\$158,376)	(\$158,376)	(\$158,376)	(\$158,376)	
Adjusted basis of improvements	\$6,018,284	\$5,859,908	\$5,701,532	\$5,543,156	\$5,384,781	\$5,226,405	\$5,068,029	\$4,909,653	

Loan Amortization and Depreciation Schedule for \$100,000 Grant from National Trust for Historic Preservation

Table III
PROJECTION OF AFTER-TAX CASH FLOWS WITH \$100,000 GRANT FROM THE NATIONAL TRUST FOR HISTORIC PRESERVATION

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 448,734	\$ 459,875	\$ 471,245	\$ 482,846	\$ 494,680	\$ 506,749	\$ 519,054	\$ 540,974
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 89,665	\$ 100,806	\$ 112,176	\$ 123,777	\$ 135,611	\$ 147,680	\$ 159,985	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(158,376)	(158,376)	(158,376)	(158,376)	(158,376)	(158,376)	(158,376)	(158,376)
Taxable income	\$ 18,953	\$ 35,371	\$ 52,360	\$ 69,948	\$ 88,160	\$ 107,026	\$ 126,574	
Federal income tax	(7,581)	(14,148)	(20,944)	(27,979)	(35,264)	(42,810)	(50,630)	
PA income tax	(1,893)	(3,534)	(5,231)	(6,988)	(8,807)	(10,692)	(12,645)	
Cash flow	\$ 80,190	\$ 83,124	\$ 86,001	\$ 88,810	\$ 91,540	\$ 94,178	\$ 96,711	

Table IV

GAIN-ON-SALE: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$ 4,917,942
Less Brokerage Commission	(98,359)
Net Sales Price	<u>4,819,583</u>
Less Lender Participation	
Less Adjusted Basis of Improvements:	
Gain-on-Sale	<u>(4,909,653)</u>
Less Unamortized Loan Points	(90,069)
Less Application of Utilized Suspended Losses	
Net Gain-on-Sale	<u><u>(90,069)</u></u>
Tax Liability @ 15%	0

Calculation of Adjusted Basis:

Improvement Costs	\$226,660
Application of Replacement Reserve	(164,790)
Accumulated Depreciation	(1,267,007)
Total Adjusted Basis	<u><u>(1,205,137)</u></u>

IET SALES PROCEEDS: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	4,917,942
Less Brokerage Commission	(98,359)
Net Sales Price	<u>4,819,583</u>
Less Tax Liability	0
Less Outstanding Mortgage Balance	(3,505,670)
Net Sales Proceeds	<u><u>1,313,913</u></u>

Net Sale Proceeds for \$100,000 Grant from the National Trust for Historic Preservation

Table V

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (2,092,220)	\$ -		\$ (2,092,220)
1		80,190		80,190
2		83,124		83,124
3		86,001		86,001
4		88,810		88,810
5		91,540		91,540
6		94,178		94,178
7		96,711	1,313,913	1,410,624
	<u>\$ (2,092,220)</u>	<u>\$ 620,554</u>	<u>\$ 1,313,913</u>	<u>\$ (157,753)</u>
	INTERNAL RATE OF RETURN			-1.28%
	YEAR 1 YIELD			7.26%
	YEAR 1 CASH-ON-CASH RETURN			3.83%

Cash Flow Summary for \$100,000 Grant from the National Trust for Historic Preservation

APPENDIX XI: FINANCIALS FOR THREE COMBINATIONS OF PRESERVATION INCENTIVES

Table I

SOURCE		USE	
Equity		Acquisition	226,660
Federal Tax Credit Equity	\$ 935,000	Hard costs	4,180,000
State Tax Credit Equity	\$ 880,000	Soft costs	1,320,000
Developer's Equity	\$ 277,220	Contingency	550,000
Debt			
25 year mortgage at 7.00%	\$ 4,184,440		
Intervention Funds			
National Trust grant	\$ (100,000)		
Total	\$ 6,176,660	Total	\$ 6,276,660
Costs per square foot	\$ 137	Costs per square foot	\$ 137

Federal Level: Federal Tax Credits Retained by Developer

State Level: State Tax Credits Retained by Developer

County Level: LERTA enacted at full effect

Non-profit level: \$100,000 grant from the National Trust for Historic Preservation

Source and Use of Funds for Combination 1

Table II

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage							
Beginning Mortgage Balance	\$4,184,440	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,803,982	\$3,711,191
Amortization	(\$66,158)	(\$70,789)	(\$75,744)	(\$81,047)	(\$86,720)	(\$92,790)	(\$99,286)
Year-End Mortgage Balance	\$4,118,282	\$4,047,493	\$3,971,748	\$3,890,702	\$3,803,982	\$3,711,191	\$3,611,906
Interest							
	\$292,911	\$288,280	\$283,324	\$278,022	\$272,349	\$266,279	\$259,783
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Depreciation Schedule							
Value of improvements less land value	\$4,565,000	\$4,404,060	\$4,243,120	\$4,082,180	\$3,921,240	\$3,760,300	\$3,599,360
39 year straight-line depreciation	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)
Adjusted basis of improvements	\$4,404,060	\$4,243,120	\$4,082,180	\$3,921,240	\$3,760,300	\$3,599,360	\$3,438,420

Depreciation and Amortization Schedule for Combination 1

Table III

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Income								
Office @ \$12 psf (24,500 sf)	228,000	234,840	241,885	249,142	256,616	264,314	272,244	280,411
Retail @ \$30 psf (19,000 sf)	570,000	587,100	604,713	622,854	641,540	660,786	680,610	701,028
Projected Gross Rental Income (PGI)	\$ 798,000	\$ 821,940	\$ 846,598	\$ 871,996	\$ 898,156	\$ 925,101	\$ 952,854	\$ 981,439
Less: vacancy @ 15%	(119,700)	(123,291)	(126,990)	(130,799)	(134,723)	(138,765)	(142,928)	(147,216)
Loss factor @ 8%	(63,840)	(65,755)	(67,728)	(69,760)	(71,852)	(74,008)	(76,228)	(78,515)
Effective Gross Income (EGI)	614,460	632,894	651,881	671,437	691,580	712,328	733,697	755,708
Operating expenses	(160,000)	(167,200)	(174,724)	(182,587)	(190,803)	(199,389)	(208,362)	(208,362)
Replacement reserve @ 3.5% EGI	(21,506)	(22,151)	(22,816)	(23,500)	(24,205)	(24,931)	(25,679)	(26,450)
Upper Darby Real Estate Taxes	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)
Delaware County Real Estate Taxes	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)
Plus: tenant reimbursements								
Electric bills	86,064	89,076	92,194	95,421	98,760	102,217	105,795	109,497
Net Operating Income (NOI)	510,038	523,638	537,554	551,791	566,352	581,244	596,471	621,414

Stabilized Pro Forma for Combination 1

Table IV

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 510,038	\$ 523,638	\$ 537,554	\$ 551,791	\$ 566,352	\$ 581,244	\$ 596,471	\$ 621,414
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 150,969	\$ 164,570	\$ 178,485	\$ 192,722	\$ 207,283	\$ 222,175	\$ 237,402	
Plus:								
Mortgage Amortization	\$66,158	\$70,789	\$75,744	\$81,047	\$86,720	\$92,790	\$99,286	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	
Taxable income	\$ 77,693	\$ 96,570	\$ 116,106	\$ 136,329	\$ 157,268	\$ 178,956	\$ 201,427	
Federal income tax	(31,077)	(38,628)	(46,442)	(54,531)	(62,907)	(71,583)	(80,571)	
PA income tax	(7,762)	(9,647)	(11,599)	(13,619)	(15,711)	(17,878)	(20,123)	
Cash flow	\$ 112,130	\$ 116,294	\$ 120,444	\$ 124,571	\$ 128,665	\$ 132,714	\$ 136,709	

Projection of Cash Flows for Combination 1

Table V

NET GAIN ON SALE: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	\$ 5,649,219
Less Brokerage Commission	(112,984)
Net Sales Price	<u>5,536,234</u>
Less Adjusted Basis of Improvements:	
Gain-on-Sale	<u>(2,881,994)</u>
Net Gain-on-Sale	<u>2,654,240</u>
	<u>2,654,240</u>
Tax Liability @ 15%	(398,136)

Calculation of Adjusted Basis:

Improvement Costs	\$5,500,000
Application of Replacement Reserve	(1,491,426)
Accumulated Depreciation	(1,126,580)
Total Adjusted Basis	<u>2,881,994</u>

NET GAIN ON SALE: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	5,649,219
Less Brokerage Commission	(112,984)
Net Sales Price	<u>5,536,234</u>
Less Tax Liability	(398,136)
Less Outstanding Mortgage Balance	(3,611,906)
Net Sales Proceeds	<u>1,526,192</u>

Sales Proceeds for Combination 1

Table VI

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		112,130		112,130
2		116,294		116,294
3		120,444		120,444
4		124,571		124,571
5		128,665		128,665
6		132,714		132,714
7		136,709	1,526,192	1,662,901
	<u>\$ (277,220)</u>	<u>\$ 871,527</u>	<u>\$ 1,526,192</u>	<u>\$ 2,120,499</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				54.81%
				11.69%
				40.45%

Cash Flow Summary for Combination 1

Table VII

SOURCE	
Equity	
Federal Tax Credit Equity	\$ 878,900
Developer's Equity	\$ 1,542,320
Debt	
25 year mortgage at 7.00%	\$ 3,492,440
Low interest loan at 4.00%	\$ 450,000
Intervention Funds	
Delaware Count grant	\$50,000
National Trust Grant	100,000
Total	\$ 5,913,660
Costs per square foot	\$ 131

USE	
Acquisition	226,660
Hard costs	3,929,200
Soft costs	1,240,800
Contingency	517,000
Total	\$ 5,913,660
Costs per square foot	\$ 131

Federal Level: Federal Tax Credits Retained by Developer

State Level: 4% Low Interest Loan

Waiver of 6% tax on sales and labor

County Level: LERTA as currently enacted by Upper Darby

\$50,000 grant to fix lighting system

Non-profit level: \$100,000 grant from the National Trust for Historic Preservation

Source and Use of Funds for Combination 2

Table VIII

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage							
Beginning Mortgage Balance	\$3,492,440	\$3,332,450	\$3,161,956	\$2,983,789	\$2,797,606	\$2,603,044	\$2,399,726
Amortization	(\$159,990)	(\$170,494)	(\$178,166)	(\$186,184)	(\$194,562)	(\$203,317)	(\$212,467)
Year-End Mortgage Balance	\$3,332,450	\$3,161,956	\$2,983,789	\$2,797,606	\$2,603,044	\$2,399,726	\$2,187,260
Interest	\$139,698	\$129,194	\$121,522	\$113,504	\$105,126	\$96,371	\$87,222
Low Interest Loan							
Beginning Mortgage Balance	\$450,000	\$439,195	\$427,957	\$416,270	\$404,115	\$391,475	\$378,328
Amortization	(\$10,805)	(\$11,238)	(\$11,687)	(\$12,155)	(\$12,641)	(\$13,146)	(\$13,672)
Year-End Mortgage Balance	\$439,195	\$427,957	\$416,270	\$404,115	\$391,475	\$378,328	\$364,656
Interest	\$28,805	\$28,805	\$28,805	\$28,805	\$28,805	\$28,805	\$28,805
Depreciation Schedule							
Value of improvements less land value	\$4,291,100	\$4,130,160	\$3,969,220	\$3,808,280	\$3,647,340	\$3,486,400	\$3,325,460
39 year straight-line depreciation	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)
Adjusted basis of improvements	\$4,130,160	\$3,969,220	\$3,808,280	\$3,647,340	\$3,486,400	\$3,325,460	\$3,164,520

Loan Amortization and Depreciation Schedule for Combination 2

Table IX

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Income								
Office @ \$12 psf (24,500 sf)	228,000	234,840	241,885	249,142	256,616	264,314	272,244	280,411
Retail @ \$30 psf (19,000 sf)	570,000	587,100	604,713	622,854	641,540	660,786	680,610	701,028
Projected Gross Rental Income (PGI)	\$ 798,000	\$ 821,940	\$ 846,598	\$ 871,996	\$ 898,156	\$ 925,101	\$ 952,854	\$ 981,439
Less: vacancy @ 15%	(119,700)	(123,291)	(126,990)	(130,799)	(134,723)	(138,765)	(142,928)	(147,216)
Less: loss factor @ 8%	(63,840)	(65,755)	(67,728)	(69,760)	(71,852)	(74,008)	(76,228)	(78,515)
Effective Gross Income (EGI)	614,460	632,894	651,881	671,437	691,580	712,328	733,697	755,708
Operating expenses	(177,395)	(185,378)	(193,720)	(202,437)	(211,547)	(221,066)	(231,014)	(231,014)
Replacement reserve @ 3.5% EGI	(21,506)	(22,151)	(22,816)	(23,500)	(24,205)	(24,931)	(25,679)	(26,450)
Upper Darby Real Estate Taxes	(7,972)	(11,254)	(22,509)	(33,763)	(45,018)	(56,272)	(56,272)	(56,272)
Delaware County Real Estate Taxes	(1,009)	(1,424)	(2,848)	(4,272)	(5,696)	(7,120)	(7,120)	(7,120)
Plus: tenant reimbursements								
Electric bills	86,064	89,076	92,194	95,421	98,760	102,217	105,795	109,497
Net Operating Income (NOI)	\$ 492,643	\$ 501,763	\$ 502,182	\$ 502,885	\$ 503,875	\$ 505,155	\$ 519,406	\$ 544,350

Stabilized Pro Forma for Combination 2

Table X

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 492,643	\$ 501,763	\$ 502,182	\$ 502,885	\$ 503,875	\$ 505,155	\$ 519,406	\$ 544,350
Less debt service for construction and acquisition								
Permanent mortgage	(299,688)	(\$299,688)	(\$299,688)	(\$299,688)	(\$299,688)	(\$299,688)	(\$299,688)	(\$299,688)
Low interest loan	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)	(\$28,805)
Before tax cash flow	\$ 192,955	\$ 202,075	\$ 202,494	\$ 203,197	\$ 204,187	\$ 205,467	\$ 219,718	
Plus:								
Mortgage Amortization								
Permanent Mortgage	\$159,990	\$170,494	\$178,166	\$186,184	\$194,562	\$203,317	\$212,467	
Low Interest Loan	\$10,805	\$11,238	\$11,687	\$12,155	\$12,641	\$13,146	(\$13,672)	
Replacement Reserve	(21,506)	(22,151)	(22,816)	(23,500)	(24,205)	(24,931)	(25,679)	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	
Taxable income	\$ 181,304	\$ 200,715	\$ 208,592	\$ 217,095	\$ 226,244	\$ 236,059	\$ 231,893	
Federal income tax	(72,522)	(80,286)	(83,437)	(86,838)	(90,498)	(94,424)	(92,757)	
PA income tax	(18,112)	(20,051)	(20,838)	(21,688)	(22,602)	(23,582)	(23,166)	
Cash flow	\$ 102,321	\$ 101,737	\$ 98,219	\$ 94,671	\$ 91,087	\$ 87,461	\$ 103,795	

Projection of After-Tax Cash Flow for Combination 2

Table XI

NET GAIN-ON-SALE: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 1% Cap Rate	\$ 4,948,634
Less Brokerage Commission	(98,973)
Net Sales Price	<u>4,849,661</u>

Less Adjusted Basis of Improvements:

Gain-on-Sale	<u>(3,355,759)</u>
Net Gain-on-Sale	<u>1,493,901</u>
	<u>1,493,901</u>

Tax Liability @ 15%

(224,085)

Calculation of Adjusted Basis:

Improvement Costs	\$4,291,100
Application of Replacement Reserve	191,239
Accumulated Depreciation	(1,126,580)
Total Adjusted Basis	<u>3,355,759</u>

NET GAIN-ON-SALE: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	4,948,634
Less Brokerage Commission	(98,973)
Net Sales Price	<u>4,849,661</u>

Less Tax Liability

(224,085)

Less Outstanding Mortgage Balance

(3,611,906)

Net Sales Proceeds

1,013,670

Sales Proceeds for Combination 2

Table XII

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (1,542,320)	\$ -		\$ (1,542,320)
1		102,321		102,321
2		101,737		101,737
3		98,219		98,219
4		94,671		94,671
5		91,087		91,087
6		87,461		87,461
7		103,795	1,526,192	1,629,987
	<u>\$ (1,542,320)</u>	<u>\$ 679,291</u>	<u>\$ 1,526,192</u>	<u>\$ 663,164</u>
	INTERNAL RATE OF RETURN			6.19%
	YEAR 1 YIELD			9.73%
	YEAR 1 CASH-ON-CASH RETURN			6.63%

Cash Flow Summary for Combination 2

Table XIII

SOURCE		USE	
Equity		Acquisition	226,660
Federal ITC Equity	\$ 935,000	Hard costs	4,180,000
State ITC Equity	\$ 880,000	Soft costs	1,320,000
Developer's Equity	\$ 277,220	Contingency	550,000
Debt			
25 year mortgage at 7.00%	\$ 4,184,440		
Total	\$ 6,276,660	Total	\$ 6,276,660
Costs per square foot	\$ 139	Costs per square foot	\$ 139

Description of Combination 3:

Federal Level: Federal Tax Credits Retained by Developer
 State Level: State ITCs Sold to Outside Investors
 County Level: LERTA at full effect

Source and Use of Funds for Combination 3

Table XIV

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Permanent Mortgage							
Beginning Mortgage Balance	\$4,184,440	\$4,052,130	\$3,914,021	\$3,769,698	\$3,618,880	\$3,461,275	\$3,296,579
Amortization	(\$132,310)	(\$138,108)	(\$144,323)	(\$150,818)	(\$157,605)	(\$164,697)	(\$172,108)
Year-End Mortgage Balance	\$4,052,130	\$3,914,021	\$3,769,698	\$3,618,880	\$3,461,275	\$3,296,579	\$3,124,470
Interest	\$167,378	\$161,580	\$155,365	\$148,870	\$142,083	\$134,991	\$127,580
Depreciation Schedule							
Value of improvements less land value	\$4,291,100	\$4,130,160	\$3,969,220	\$3,808,280	\$3,647,340	\$3,486,400	\$3,325,460
39 year straight-line depreciation	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)	(\$160,940)
Adjusted basis of improvements	\$4,130,160	\$3,969,220	\$3,808,280	\$3,647,340	\$3,486,400	\$3,325,460	\$3,164,520

Loan Amortization and Depreciation Schedule for Combination 3

Table XV

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Income								
Office @ \$12 psf (24,500 sf)	228,000	234,840	241,885	249,142	256,616	264,314	272,244	280,411
Retail @ \$30 psf (19,000 sf)	570,000	587,100	604,713	622,854	641,540	660,786	680,610	701,028
Projected Gross Rental Income (PGI)	\$ 798,000	\$ 821,940	\$ 846,598	\$ 871,996	\$ 898,156	\$ 925,101	\$ 952,854	\$ 981,439
Less: vacancy @ 15%	(119,700)	(123,291)	(126,990)	(130,799)	(134,723)	(138,765)	(142,928)	(147,216)
Less: loss factor @ 8%	(63,840)	(65,755)	(67,728)	(69,760)	(71,852)	(74,008)	(76,228)	(78,515)
Effective Gross Income (EGI)	614,460	632,894	651,881	671,437	691,580	712,328	733,697	755,708
Operating expenses	(160,000)	(167,200)	(174,724)	(182,587)	(190,803)	(199,389)	(208,362)	(208,362)
Replacement reserve @ 3.5% EGI	(21,506)	(22,151)	(22,816)	(23,500)	(24,205)	(24,931)	(25,679)	(26,450)
Upper Darby Real Estate Taxes	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)	(7,972)
Delaware County Real Estate Taxes	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)
Plus: tenant reimbursements	86,064	89,076	92,194	95,421	98,760	102,217	105,795	109,497
Electric bills	510,038	523,638	537,554	551,791	566,352	581,244	596,471	621,414
Net Operating Income (NOI)	\$ 510,038	\$ 523,638	\$ 537,554	\$ 551,791	\$ 566,352	\$ 581,244	\$ 596,471	\$ 621,414
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 150,969	\$ 164,570	\$ 178,485	\$ 192,722	\$ 207,283	\$ 222,175	\$ 237,402	\$ 262,345

Stabilized Pro Forma for Combination 3

Table XVI

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Operating Income (NOI)	\$ 510,038	\$ 523,638	\$ 537,554	\$ 551,791	\$ 566,352	\$ 581,244	\$ 596,471	\$ 621,414
Less debt service for construction and acquisition								
Permanent mortgage	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)	(\$359,069)
Before tax cash flow	\$ 150,969	\$ 164,570	\$ 178,485	\$ 192,722	\$ 207,283	\$ 222,175	\$ 237,402	
Plus:								
Mortgage Amortization	\$132,310	\$138,108	\$144,323	\$150,818	\$157,605	\$164,697	\$172,108	
Replacement Reserve	21,506	22,151	22,816	23,500	24,205	24,931	25,679	
Less:								
Depreciation	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)	(160,940)
Taxable income	\$ 143,845	\$ 163,889	\$ 184,685	\$ 206,100	\$ 228,153	\$ 250,863	\$ 274,249	
Federal income tax	(57,538)	(65,556)	(73,874)	(82,440)	(91,261)	(100,345)	(109,700)	
PA income tax	(14,370)	(16,373)	(18,450)	(20,589)	(22,792)	(25,061)	(27,398)	
Cash flow	\$ 79,060	\$ 82,641	\$ 86,162	\$ 89,692	\$ 93,229	\$ 96,768	\$ 100,304	
Less distributions to State ITC investors	(26,400)	(26,400)	(26,400)	(26,400)	(26,400)	(26,400)	(26,400)	(26,400)
Final cash flow to the developer	\$ 52,660	\$ 56,241	\$ 59,762	\$ 63,292	\$ 66,829	\$ 70,368	\$ 73,904	

Projection of After-Tax Cash Flows for Combination 3

Table XVII

AIN-ON-SALE: THE ACCOUNTING ANALYSIS

Gross Sales Price @ 11% Cap Rate	5,649,219
Less Brokerage Commission	(112,984)
Net Sales Price	5,536,234
Less Adjusted Basis of Improvements: Gain-on-Sale	(4,182,181)
Less Unamortized Loan Points	1,354,054
Less Application of Unutilized Suspended Losses	
Net Gain-on-Sale	1,354,054
Tax Liability @ 15%	(\$203,108)
Calculation of Adjusted Basis: Improvement Costs	\$5,500,000
Application of Replacement Reserve	(191,239)
Accumulated Depreciation	(1,126,580)
Total Adjusted Basis	4,182,181

ET SALES PROCEEDS: THE INVESTMENT (CASH FLOW) ANALYSIS

Gross Sales Price	5,649,219
Less Brokerage Commission	(112,984)
Net Sales Price	5,536,234
Less Tax Liability	(\$203,108)
Less Outstanding Mortgage Balance	(3,124,470)
Less Federal Tax Credit Equity:	(880,000)
Net Sales Proceeds	1,328,656

Sales Proceeds for Combination 3

Table XVIII

TIME PERIOD	EQUITY INVESTMENT	ANNUAL AFTER-TAX CASH FLOW	AFTER-TAX NET SALES PROCEEDS	TOTAL AFTER-TAX CASH FLOW
0	\$ (277,220)	\$ -		\$ (277,220)
1		52,660		52,660
2		56,241		56,241
3		59,762		59,762
4		63,292		63,292
5		66,829		66,829
6		70,368		70,368
7		73,904	1,328,656	1,402,560
	<u>\$ (277,220)</u>	<u>\$ 443,058</u>	<u>\$ 1,328,656</u>	<u>\$ 1,494,494</u>
INTERNAL RATE OF RETURN				
YEAR 1 YIELD				
YEAR 1 CASH-ON-CASH RETURN				
				38.13%
				11.43%
				19.00%

Cash Flow Summary for Combination 3

**APPENDIX XII:
ILLUSTRATIONS**



Figure 1. Market Street Façade, looking south (photograph by author)



Figure 2. 69th Street Façade, looking northwest (photograph by author)



Figure 3. Ludlow Street Façade, looking northwest (photograph by author)



Figure 4. Close-up of third floor, Market Street façade (photograph by author)



Figure 5. Second and third stories, as viewed from 69th Street (photograph by author)



Figure 6. Southeast corner. The only occupied retail space (photograph by author)



Figure 7. 69th Street Entrance (photograph by author)



Figure 8. Lighting pilaster (photograph by author)



Figure 9. Through the glass doors into the lobby (photograph by author)

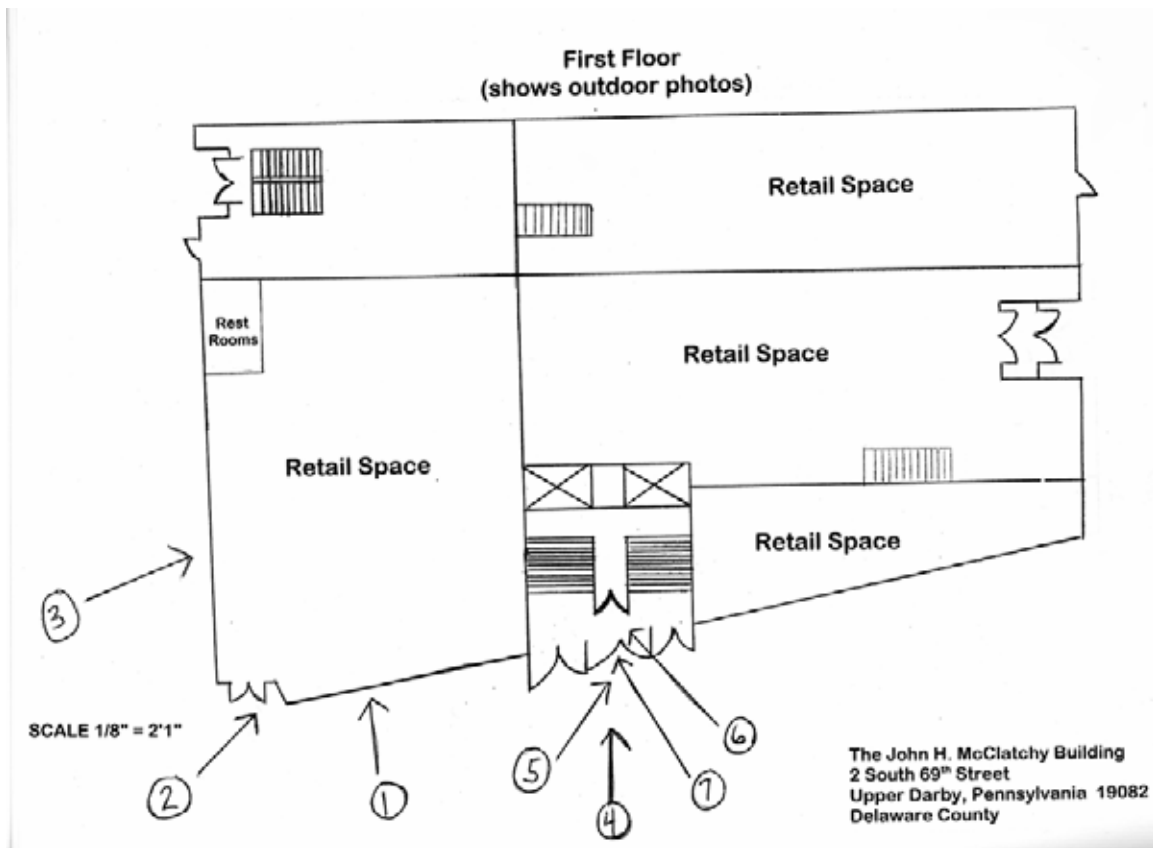


Figure 10. Ground floor plan

Source:

Fisher, Penny E and John R. Lilly. "John H. McClatchy Building," National Register of Historic Places Registration Form, United States Department of the Interior, National Park Service, March 2002.

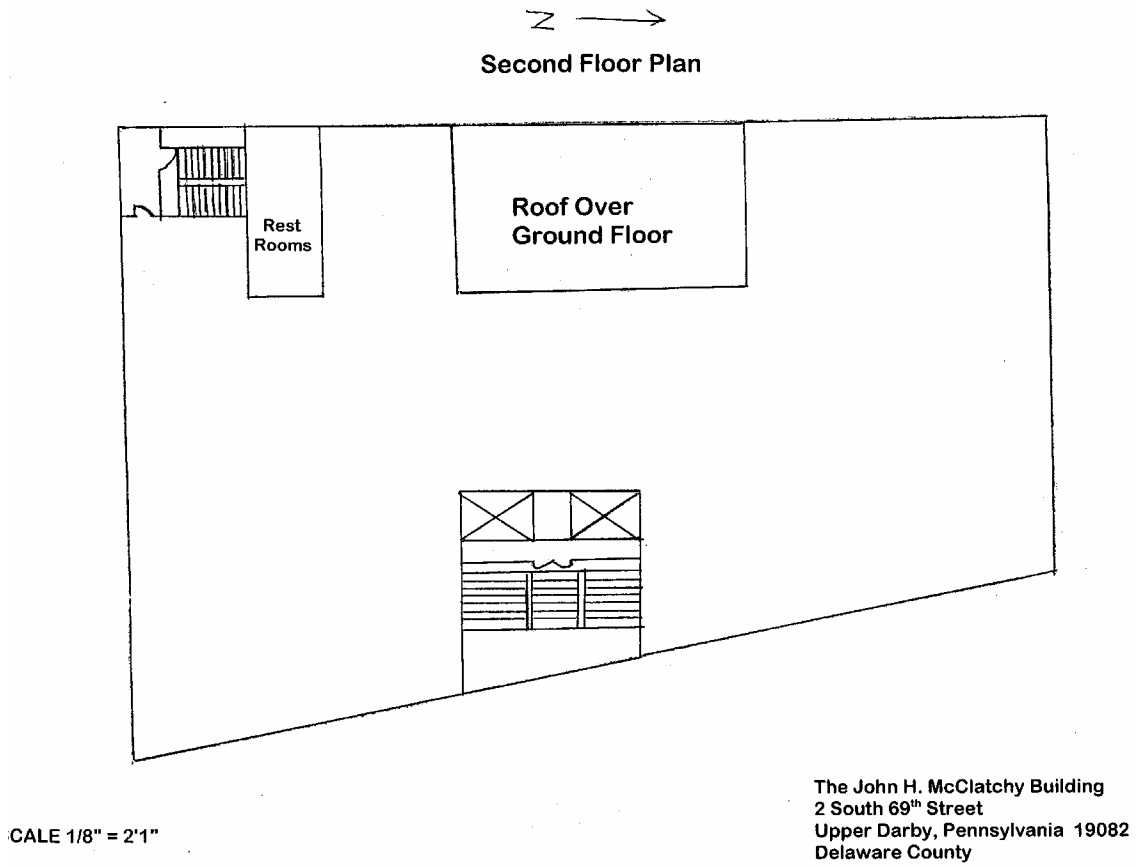


Figure 11. Second floor plan

Source:

Fisher, Penny E and John R. Lilly. "John H. McClatchy Building," National Register of Historic Places Registration Form, United States Department of the Interior, National Park Service, March 2002.

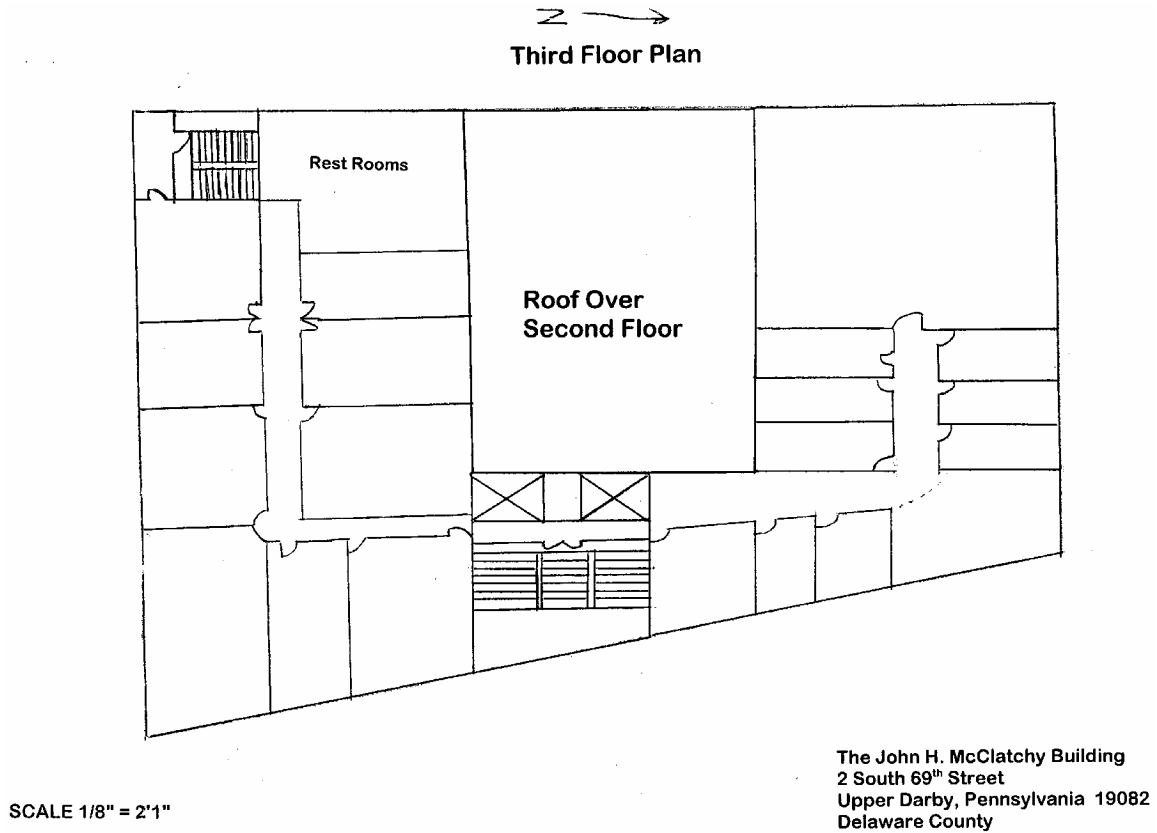


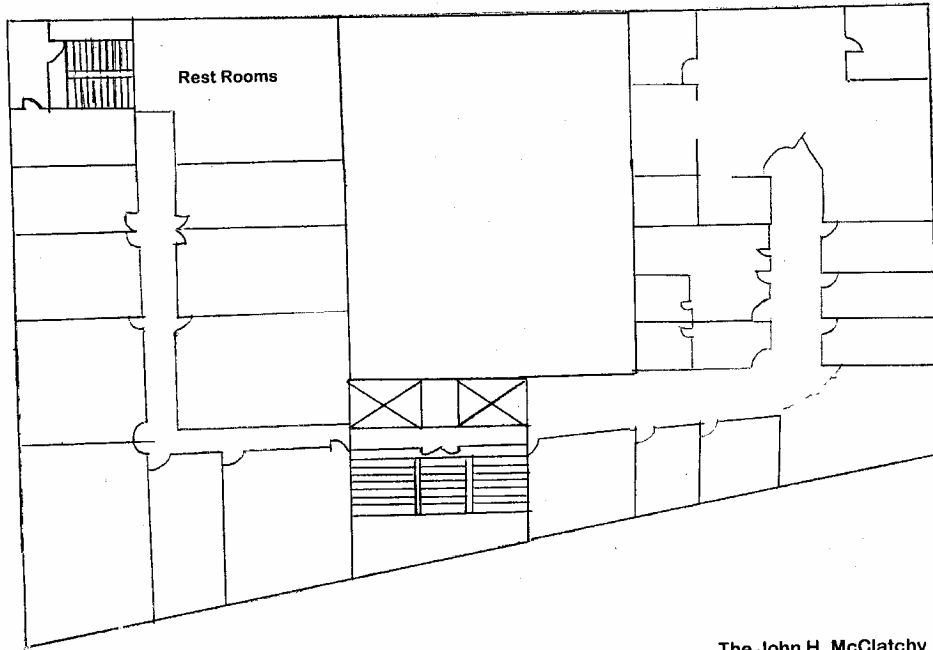
Figure 12. Third floor plan

Source:

Fisher, Penny E and John R. Lilly. "John H. McClatchy Building," National Register of Historic Places Registration Form, United States Department of the Interior, National Park Service, March 2002.



Fourth Floor Plan



SCALE 1/8" = 1'-0"

The John H. McClatchy Building
2 South 69th Street
Upper Darby, Pennsylvania 19082
Delaware County

Figure 14. Fourth floor plan

Source:

Fisher, Penny E and John R. Lilly. "John H. McClatchy Building," National Register of Historic Places Registration Form, United States Department of the Interior, National Park Service, March 2002.

APPENDIX XIII:
FINANCIALS FOR THE REHABILITATION OF THE HAJOCA BUILDING
PHILADELPHIA, PA

Courtesy of Paul Sehnert and the Department of Facilities and Real Estate
The University of Pennsylvania

Table I

A: Statistical Information:

Rentable residential floor area:	
WXPN	16,541 sf
World Café	17,003 sf
Common Area	8,345 sf
Gross Floor Area:	41,889 sf
Start Date:	7/1/2003
Completion Date:	6/30/2004

B: Development Cost Schedule:	<u>Gross SF</u>	<u>Costs 8/6/02</u>	<u>Costs 2/28/03</u>	<u>Costs 3/7/03</u>	<u>8/6/02-2/28/03</u>	<u>2/28/02-3/7/03</u>	<u>Cost per SF</u>	
Hard costs - Intech	41,889	7,700,000	8,500,000	8,200,000	800,000	(300,000)	202.92	
World Café - Kitchen et al	41,889	0	400,000	400,000	400,000	0	9.55	
WXPN - wiring	41,889	0	0	0	0	0	0.00	
Hard costs - Total	41,889	7,700,000	8,900,000	8,600,000	1,200,000	(300,000)	212.47	
Architecture, engineering, consulting costs	41,889	400,000	625,000	625,000	225,000	0	14.92	
Appraisal, inspections & other 3rd party costs	41,889	20,000	20,000	20,000	0	0	0.48	
Building permit	41,889	50,000	50,000	50,000	0	0	1.19	
Brokerage commission	41,889	35,000	35,000	0	0	(35,000)	0.84	
Construction interest	41,889	200,000	200,000	225,000	0	25,000	4.77	
Developer fee	41,889	1,000,000	500,000	500,000	(500,000)	0	11.94	
Environmental abatement	41,889	100,000	100,000	100,000	0	0	2.39	
Evergreen Fund (PIDC)	41,889	175,000	175,000	175,000	0	0	4.18	
FF and E - WXPN	41,889	1,350,000	1,350,000	1,350,000	0	0	32.23	
Insurance, taxes, utilities during construction	41,889	150,000	150,000	150,000	0	0	3.58	
Legal and accounting	41,889	300,000	350,000	350,000	50,000	0	8.36	
Points	41,889	75,000	84,000	84,000	9,000	0	2.01	
Penn fee	41,889	100,000	0	0	(100,000)	0	0.00	
Project management	41,889	250,000	250,000	200,000	0	(50,000)	5.97	
Title and closing costs	41,889	50,000	50,000	50,000	0	0	1.19	
Subtotal-Hard and Soft	41,889	<u>11,955,000</u>	<u>12,839,000</u>	<u>12,479,000</u>	<u>884,000</u>	<u>(360,000)</u>	<u>306.50</u>	
Contingency	5%	41,889	471,500	520,700	502,700	49,200	(18,000)	12.43
Total Development Cost	41,889	<u>12,426,500</u>	<u>13,359,700</u>	<u>12,981,700</u>	<u>933,200</u>	<u>(378,000)</u>	<u>318.93</u>	

Rounded Development Cost **12,425,000** **13,400,000** **13,000,000** **319.89**

C. Project Operations (Stabilized-2006)

Rent - WXPN (Penn)	425,000	
Rent - World Café	375,000	
Total Income	800,000	
Operating Expenses	(53,045)	
Management Fee (3%)	(24,000)	
Ground Lease	(50,000)	
Replacement Reserve	(25,000)	
Debt Service	(542,806)	7.0%, 25 years
Cash Flow After Debt Service	105,149	
Distributions to HTC Investor	63,000	
Surplus (deficit)	42,149	

D: Capital Structure:

	<u>8/6/02</u>	<u>2/28/2003</u>	<u>3/7/2003</u>
Sale of Historic Tax Credits	2,000,000	2,100,000	2,100,000
Shortfall	0	400,000	0
Deferred Developer Fee	1,000,000	500,000	500,000
Loan - First Mortgage	5,425,000	6,400,000	6,400,000
WXPN	3,000,000	3,000,000	3,000,000
World Café	1,000,000	1,000,000	1,000,000
Total	<u>12,425,000</u>	<u>13,400,000</u>	<u>13,000,000</u>

Statistical Information

Table II

ASSUMPTIONS:	<u>Total</u>		
Development Cost:	13,000,000		
Debt:	6,400,000		
Loan:	7.00%	25	years
Debt Service	(542,806)		
Equity :	2,100,000		
Replacement Reserve:	(25,000)		
Development Fee:	500,000		

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Rent - WXP (penn)	425,000	425,000	425,000	450,000	450,000	450,000	475,000	475,000	475,000	500,000
Rent - World Café	<u>325,000</u>	<u>325,000</u>	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>
Total Income	750,000	750,000	800,000	825,000	825,000	825,000	850,000	850,000	850,000	875,000
Operating Expenses	(50,000)	(51,500)	(53,045)	(54,636)	(56,275)	(57,964)	(59,703)	(61,494)	(63,339)	(65,239)
Management Fee (3%)	(22,500)	(22,500)	(24,000)	(24,750)	(24,750)	(24,750)	(25,500)	(25,500)	(25,500)	(26,250)
Net Operating Income	677,500	676,000	722,955	745,614	743,975	742,286	764,797	763,006	761,161	783,511
Ground Lease	0	0	0	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Replacement Reserve	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Cash Flow Before Debt Service	652,500	651,000	697,955	670,614	668,975	667,286	689,797	688,006	686,161	708,511
Debt Service	(542,806)	(542,806)	(542,806)	(542,806)	(542,806)	(542,806)	(542,806)	(542,806)	(542,806)	(542,806)
Cash Flow After Debt Service	109,694	108,194	155,149	127,807	126,168	124,480	146,991	145,200	143,355	165,705
Distributions to HTC Investor	<u>63,000</u>	<u>63,000</u>	<u>63,000</u>	<u>63,000</u>	<u>63,000</u>	<u>63,000</u>	<u>63,000</u>	<u>63,000</u>	<u>63,000</u>	<u>63,000</u>
Surplus	46,694	45,194	92,149	64,807	63,168	61,480	83,991	82,200	80,355	102,705
Surplus (cumulative)	46,694	91,887	184,036	248,843	312,011	373,491	457,482	539,682	620,037	722,742
Debt Service Coverage	1.20	1.20	1.29	1.24	1.23	1.23	1.27	1.27	1.26	1.31

Pro Forma

Table III

A. Draw Schedule

<u>Month</u>	<u>Expense</u>	<u>Loan Bal.</u>	<u>Interest</u>
1	533,333	533,333	
2	533,333	1,066,667	3,111
3	533,333	1,600,000	6,222
4	533,333	2,133,333	9,333
5	533,333	2,666,667	12,444
6	533,333	3,200,000	15,556
7	533,333	3,733,333	18,667
8	533,333	4,266,667	21,778
9	533,333	4,800,000	24,889
10	533,333	5,333,333	28,000
11	533,333	5,866,667	31,111
12	533,333	6,400,000	34,222
Total	6,400,000		205,333
Rounded Total			200,000
interest rate @	7.00%		

B. Points

PIDC	2.00%	2,000,000	40,000
First Motgage	1.00%	4,400,000	44,000
Total			84,000

Draw Schedule

Table IV

	<u>Design</u>	<u>Construction</u>	<u>Total</u>
Architect			
Base contract	510,000	60,000	570,000
MEP	NA	NA	NA
Structural	NA	NA	NA
Elevator	NA	NA	NA
Lighting	NA	NA	NA
Civil Engineering	NA	NA	NA
Acoustical	NA	NA	NA
Subtotal	510,000	60,000	570,000
Reproduceables	<u>20,000</u>	<u>10,000</u>	<u>30,000</u>
Total	530,000	70,000	600,000
Historic Consultant (Part 3)			5,000
Testing and inspections			20,000
Grand Total			625,000

Design and Construction Fees

Table V

Hard costs	8,500,000	100%	8,500,000
Architecture, engineering, consulting costs	625,000	100%	625,000
Appraisal, inspections and other third party costs	20,000	0%	0
Brokerage commission	50,000	0%	0
Building permit	35,000	100%	35,000
Construction interest	200,000	100%	200,000
Developer fee	500,000	100%	500,000
Environmental abatement	100,000	100%	100,000
Evergreen Fund	175,000	0%	0
FF and E - WXP	1,350,000	50%	675,000 x
Insurance, taxes, utilities during construction	150,000	0%	0
Legal and accounting	350,000	50%	175,000
Points	84,000	0%	0
Penn Fee	0	100%	0
Project management	250,000	100%	250,000
Title and closing costs	50,000	100%	50,000
Subtotal-Hard and Soft	<u>12,439,000</u>		<u>11,110,000</u>
Contingency	520,700	100%	520,700
Total Development Cost	<u>12,959,700</u>		<u>11,630,700</u>
ITC @			20%
ITC Amount			2,326,140
ITC Valuation % @	93%		2,163,310
Rounded amount			2,100,000
			1650000
			675000

Investment Tax Credit Calculations