HTRZ Proposal Review

Governor's Office of Economic Opportunity
Salt Lake City Central HTRZ Review

December 26, 2024

ZIONS PUBLIC FINANCE, INC.

REVIEW OF SALT LAKE CITY 200 WEST 900 SOUTH STATION HTRZ PROPOSAL

This independent review of the proposed Salt Lake Central HTRZ by Zions Public Finance, Inc. (ZPFI) is prepared in accordance with Utah Code 63N-3-604(3)(b) which requires a gap analysis that includes the following elements:

(i) A description of the planned development;
(ii) A market analysis relative to other comparable project developments included in or adjacent to the municipality or public transit county absent the proposed housing and transit reinvestment zone;
(iii) An evaluation of the proposal to and a determination of the adequacy and efficiency of the proposal;
(iv) An evaluation of the proposed increment capture needed to cover the enhanced development costs associated with the housing and transit reinvestment zone proposal and enable the proposed development to occur; and
(v) Based on the market analysis and other findings, an opinion relative to the appropriate amount of potential public financing reasonably determined to be necessary to achieve the objectives described in Subsection 63N-3-603(1).

Description of the Planned Development

Salt Lake City ("City") proposes that the 162 included parcels would be split across two, 25-year phases per parcel for tax increment collection. The City anticipates the following development will occur within the areas shown in Figure 1 although no specific projects on individual sites are identified.

TABLE 1: PROPOSED DEVELOPMENT PLAN

Type	Phase 1	Phase 2	Total
Residential	3,073 units	2,721 units	5,794 units
Commercial	403,775 sq. ft.	161,584 sq. ft.	565,359 sq. ft.
Light Industrial "Maker Space"	-	59,000 sq. ft.	59,000 sq. ft.
Office	1,017,449 sq. ft.	2,275,785 sq. ft.	3,293,234 sq. ft.
Hotel	150 rooms	175 rooms	325 rooms
Structured Parking	2,547 stalls	2,956 stalls	5,503 stalls

The HTRZ is located within ½-mile of the Salt Lake Central Station — the "Intermodal Hub" served by UTA's Frontrunner and TRAX as well as Amtrak's California Zephyr and various bus services — and is located within an opportunity zone. The HTRZ parcels comprise 116.71 developable acres,

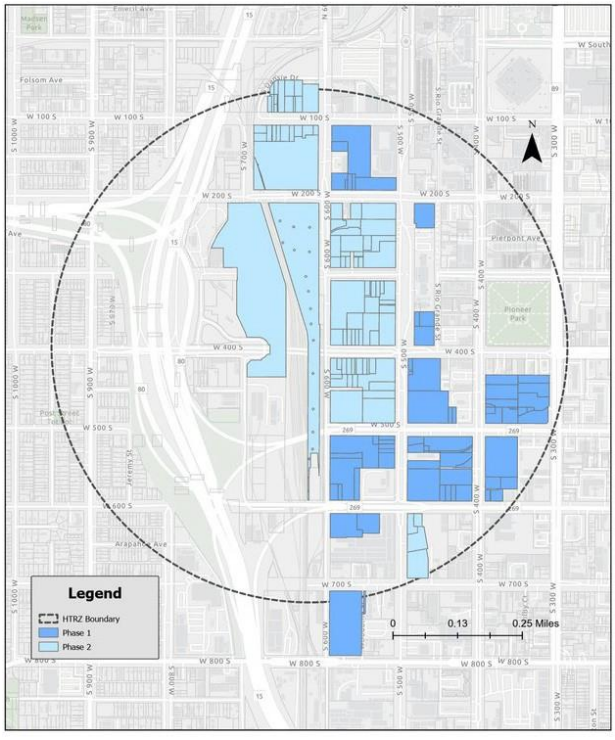

FIGURE 1: MAP OF PARCEL AREA

RDA and 25.79 acres owned by UTA. According to the Applicant, residential development is likely on 59.8 percent of the developable acreage. Therefore, roughly 69.8 acres are slated for residential development. With 5,794 housing units anticipated, this results in a density of 83.02 units per acre on the 69.8 residential acres.

The Application states that 174 housing units (3.0 percent of proposed units) will be attainable for households making 60% or less of AMI while 521 housing units (9.0 percent of proposed units) will be attainable for households making 80% or less of AMI.

Market Analysis Relative to Other Comparable Project Developments Included in or Adjacent to the Municipality or Public Transit County Absent the Proposed Housing and Transit Reinvestment Zone

Comparative Projects
The Salt Lake City RDA has provided the following projects that have market relevance to the SL Central station area.

One project of particular relevance is Liberty Corner, located at 300 West and 1300 South, which requested public assistance for 200 units of affordable housing, with many of the units being deeply affordable.

- 78 units at 61-80% of AMI
- 78 units at 41-60% of AMI
- 44 units at <40% of AMI
- 7,950 sf of daycare space with capacity for 160 children

Cowboy Partners, the developer of Liberty Corners, requested the following amounts which are in addition to tax credits and developer equity.

- $6,530,640 from Salt Lake County HTF
- $460,000 from Salt Lake County HOME
- $6,100,000 from Salt Lake City RDA
- $2,000,000 from Olene Walker NHTF
- $200,000 Olene Walker LIH
- $1,500,000 from UCNS HOME

In 2024, Salt Lake City and the Salt Lake City RDA allocated $17.7 million in funding to support the construction and preservation of affordable housing. These funds will be used for 14 projects that will yield 1,549 total residential units ranging in affordability and size. The project locations stretch across the City from 1900 West to 1100 East, and 2600 South to 400 North. Of the total units, 130 will be rented at rates affordable to those making 40% or less of the area median income (AMI) as established by the U.S. Department of Housing and Urban Development (HUD), and 264 units will have 3- and 4-bedroom layouts appropriate for families. Only nine of the 1,549 total units will be rented at market rates, with 163 reserved for those making 61-80% AMI. The 14 projects are:

- Norbridge Court (511 W. 200 South)

- New City Plaza Apartments (1966 S. 200 East)
- 515 Tower – Conversion Phase I (515 E. 100 South)
- 2nd South Apartments (934-948 W. 200 South)
- The Catherine – Phase 1 (1881 W. North Temple)
- The Catherine – Phase 2 (1881 W. North Temple)
- Citizens West 4 (515 W. 300 North)
- Fairmont Heights, (2557 S. 1100 East)
- Project Open 3 (529 W. 400 North)
- Pharos Apartments (915 W. 200 North)
- Book Cliffs Lodge (1159 S. West Temple)
- Liberty Corner (1265 S. 300 West)
- 9Ten West (910 W. North Temple)
- Alliance House 1805 Rebuild (805 S. Main Street)

Further examples of Salt Lake City support for higher-density mixed-use projects are included below. These are projects that are considered not to have occurred without public assistance. Projects within the ½-mile radius of Salt Lake Central Station are listed in bold below:

- RDA Examples of Higher Density Mixed-Use Projects:
    - The Aster: 265 S State Street
        - https://www.sltrib.com/news/2023/05/03/see-inside-aster-downtown-salt-lake/
        - RDA Support: Received a reduced land acquisition cost, seller's note, and construction to permanent low interest loans. Includes affordable housing.
    - Spark: 1490 W North Temple
        - https://ksltv.com/528837/former-north-temple-motel-location-transforms-into-affordable-apartments/
        - RDA Support: Received a reduced land acquisition cost, seller's note, and construction to permanent low interest loans. Includes affordable housing.
    - Harvest at Marmalade: 550 North 300 West
        - RDA project including: townhomes, apartments, a library, commercial space and a large plaza/park space.
        - RDA Support: The RDA provided reduced land acquisition costs and recently completed the Marmalade Plaza open space.
    - West Quarter: 300 W @ 105 S (one block outside of Station Area radius)
        - RDA Support: $15 million via a tax increment reimbursement agreement
        - https://thewestquarter.com/
    - Liberty Corner: 1265 South 300 West
        - Mixed use including commercial space and 200 units with family-sized and deeply affordable units. See attached summary sheet for more information.
        - RDA Support: Approved for a gap financing low interest construction to permanent loan through the RDA's HDLP in January 2023. Includes affordable housing.
    - Art Space:
        - Received a tax Increment reimbursement agreement
        - https://www.artspaceutah.org/
        - Portfolio includes seven properties, including four within the Salt Lake Central station area radius, all of which include affordable housing.
            - Artspace Bridge Projects at 511 West 200 South

        - 62 two- and three-bedroom units affordable between 35 and 55 percent of AMI[1]
        - 20,000 square feet of office commercial space (office and retail)[1]
    - Artspace City Center at 230 South 500 West
        - 18 live/work townhouses and 20,000 commercial square feet (gallery and office space)[1]
    - Artspace Macaroni Flats at 244 South 500 West
        - 13 one and two bedroom apartments[1]
        - 5,000 square feet of commercial office space[1]
    - Artspace Rubber Company at 353 West 200 South
        - 53 one, two, and three bedroom units[1]
        - 10,000 square feet of commercial space, including storefront retail and a community market[1]
- Paperbox Lofts: 340 West 200 South (within one block from Station Area radius)
    - RDA Support: $3.2 million land write-down. Includes affordable housing.
- The Exchange: 340 East 400 South
    - RDA Support: $3 million
- Diamond Rail: 535 West 300 North
    - RDA Support: $1 million. Includes affordable housing.

Other benefits include Low-Income Housing Tax Credits (LIHTC) and benefits from being located in an Opportunity Zone.

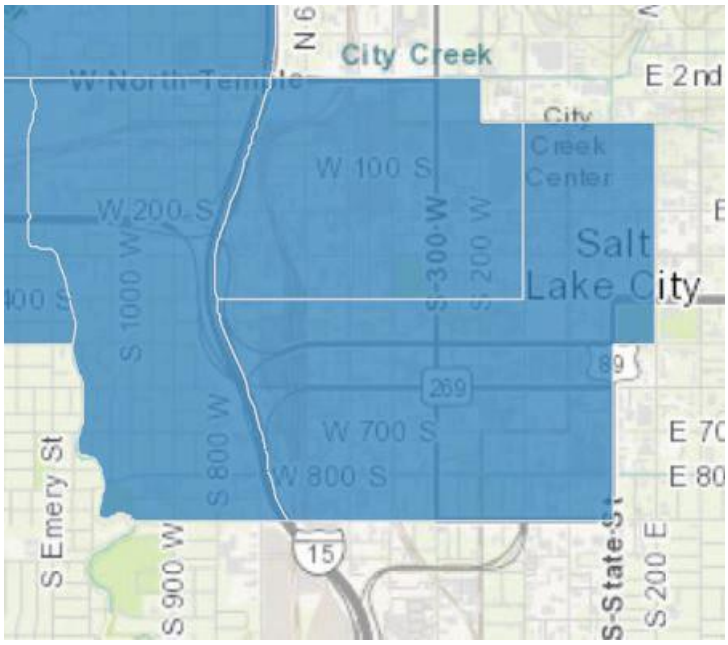

FIGURE 2: PROXIMATE OPPORTUNITY ZONES

Rent Comparison

The Applicant uses an average rent of $1,983 based on 1-bedroom apartments in Salt Lake County from Cushman & Wakefield's Mid-Year 2023 Multifamily Report, inflated for the Downtown submarket based on estimates from CBRE's 2023 Multifamily Report. The Application's vacancy rate (2.50 percent) is for Salt Lake County overall, from Cushman & Wakefield's Mid-Year 2023 Multifamily Report. However, the market has shifted since 2023, with higher vacancy rates and lower asking rents. CBRE's Q3 2024 Multifamily Figures estimate the Downtown submarket to have an overall average rent of $1,738 and a vacancy rate of 7.1 percent. For the County overall, the vacancy rate was 6.2 percent. Multifamily starts have slowed in response to higher vacancy rates and stabilizing rents.

[1] ArtspaceUtah.org, accessed 12/05/2024

An Evaluation of the Proposal to and a Determination of the Adequacy and Efficiency of the Proposal

This section evaluates whether or not the Proposal has met all of the requirements of Utah Code 63N-3-604(a) which requires the following elements:

(i) Demonstrates that the proposed housing and transit reinvestment zone will meet the objectives described in Subsection 63N-3-603(1);

(ii) Explains how the municipality or public transit county will achieve the requirements of Subsection 63N-3-603(2)(a)(i);

(iii) Defines the specific transportation infrastructure needs, if any, and proposed improvements;

(iv) Defines the boundaries of:
   a. The housing and transit reinvestment zone; and
   b. The sales and use tax boundary corresponding to the housing and transit reinvestment zone boundary, as described in Section 63N-3-610;

(v) Includes maps of the proposed housing and transit reinvestment zone to illustrate:
   a. The proposed boundary and radius from a public transit hub;
   b. Proposed housing density within the housing and transit reinvestment zone; and
   c. Existing zoning and proposed zoning changes related to the housing and transit reinvestment zone;

(vi) Identifies any development impediments that prevent the development from being a market-rate investment and proposed strategies for addressing each one;

(vii) Describes the proposed development plan, including the requirements described in Subsections 63N-3-603(2) and (4);

(viii) Establishes a base year and collection period to calculate the tax increment within the housing and transit reinvestment zone;

(ix) Establishes a sales and use tax base year to calculate the sales and use tax increment within the housing and transit reinvestment zone in accordance with Section 63N-3-610;

(x) Describes projected maximum revenues generated and the amount of tax increment capture from each taxing entity and proposed expenditures of revenue derived from the housing and transit reinvestment zone;

(xi) Includes an analysis of other applicable or eligible incentives, grants, or sources of revenue that can be used to reduce the finance gap;

(xii) Evaluates possible benefits to active and public transportation availability and impacts on air quality;

(xiii) Proposes a finance schedule to align expected revenue with required financing costs and payments;

(xiv) Provides a pro-forma for the planned development that
   a. Satisfies the requirements described in Subsections 63N-3-603(2), (3), and (4); and
   b. Includes data showing the cost difference between what type of development could feasibly be developed absent the housing and transit reinvestment zone tax increment and the type of development that is proposed to be developed with the housing and transit reinvestment zone tax increment; and

(xv) For a housing and transit reinvestment zone at a commuter rail station, light rail station, or bus rapid transit station that is proposed and not in public transit service operation as of the date of submission of the proposal, demonstrates that the proposed station is:

a. Included as needed in phase one of a metropolitan planning organization's adopted long-range transportation plan and in phase one of the relevant public transit district's adopted long-range plan; and
b. Reasonably anticipated to be constructed in the near future.

The following section briefly summarizes how the Proposal has adequately responded to each of these elements as required by law.

(i) Demonstrates that the proposed housing and transit reinvestment zone will meet the objectives described in Subsection 63N-3-603(1)

(a) Higher utilization of public transit:
Existing land uses around the station include many vacant and underimproved parcels which detract from transit usage. Build-out of the development plans, including 5,794 residential units, nearly 3.3 million square feet of office space, and 325 hotel rooms within a ½ mile radius, will drive additional transit ridership.

(b) Increasing availability of housing, including affordable housing;
The Proposal includes 12 percent affordable units (695) targeting households making 80 percent or less of AMI. Specifically, 3 percent of units (174) will be affordable at or below 60 percent of AMI and 9 percent (521) will be affordable between 60 and 80 percent of AMI. Overall, the application identifies 5,794 new residential units.

(c) Improving efficiencies in parking and transportation, including walkability
The Applicant plans for a shared parking garage that concentrates parking at the perimeter of the plan area in order to reduce vehicle-pedestrian conflicts and improve walkability. The structured parking will also serve transit users looking to park-and-ride at Salt Lake Central station.

(d) Overcoming development impediments and market conditions
The Applicant discusses demand for development with completion prior to the 2034 Winter Olympics and stalling of market-driven projects due to sustained high interest rates. The applicant anticipates that tax increment will encourage development to start and complete more quickly, due to direct reimbursement to developers as well as improvements to infrastructure.

(e) Conservation of water resources through efficient land use;
The higher-density development will reduce the amount of individual green space requiring irrigation, as compared to a baseline of traditional single-family development. Concentration of parking in the planned central garage can reduce overall impervious surface coverage, as compared to a surface-parked baseline scenario, thereby also reducing stormwater runoff.

(f) Improving air quality by reducing fuel consumption and motor vehicle trips;
Co-location of various land uses including residential, office, and retail, within walking distance, as well as the potential for increased transit ridership, will reduce vehicle trips and fuel consumption.

(g) Encouraging transformative mixed-use development and investment in transportation and public infrastructure in strategic areas;
The Plan is for transformative mixed-use development including public infrastructure improvements such as mid-block connections, safe pedestrian and bicycle connections, and shared parking facilities.

(h) Strategic land use planning in major transit investment corridors;
The proposed HTRZ encompasses Salt Lake Central Station and the planned Rio Grande District, which connect national rail, regional commuter rail, light rail, and bus routes in an intermodal hub. The applicant anticipates that development within the HTRZ will support investment in active transportation infrastructure.

(i) Increasing access to employment and educational opportunities;
New office, makers space, hotel and retail square footage will increase overall employment within the HTRZ boundary. Locating these uses near critical transit connections, including UTA Frontrunner and multiple TRAX and bus routes, will help to increase access to employment. New residential units may help serve demand for students enrolling at nearby University of Utah, also accessible via UTA transit routes.

(j) Increasing access to childcare.
The applicant notes that tax increment could be used to incentivize the inclusion of child care facilities within residential and commercial developments within the HTRZ but does not provide specific plans. However, the mixed-use zoning in place or proposed for the HTRZ would allow for childcare facilities throughout the area.

(ii) Explains how the municipality or public transit county will achieve the requirements of Subsection 63N-3-603(2)(a)(i)

(a) At least 12 percent of the proposed dwelling units are affordable
The Proposal includes 12 percent affordable units (695) targeting households making 80 percent or less of AMI. Specifically, 3 percent of units (174) will be affordable at or below 60 percent of AMI and 9 percent (521) will be affordable between 60 and 80 percent of AMI.

(b) At least 51 percent of the developable area includes residential uses with an average density of 50 units or greater
Approximately 69.8 acres are designated residential, or 59.8 percent of the 116.71 total developable acres in the HTRZ. With a total of 5,794 residential units, the density of the residential acres is 83.02 units per acre on the 69.8 residential acres.

(c) Includes mixed-use development
The Proposal includes 5,794 residential units, nearly 3.3 million square feet of office space and 325 hotel rooms.

(d) A mix of dwelling units to ensure that a reasonable percentage of units has more than one bedroom.
The Applicant has adopted a "Housing Development Funding Strategy" for FY2025 that prioritizes units with three or more bedrooms for RDA funding programs. The Proposal does not identify specific requirements related to bedrooms counts for tax increment

reimbursement, except that the affordable units must be distributed across bedroom counts in proportion to the other units within a project.

(iii) *Defines the specific transportation infrastructure needs, if any, and proposed improvements;*
While the Proposal does not identify a specific share of the increment that will go toward transportation infrastructure, it does identify plans for reconstructed streets and new mid-block streets. The Applicant estimates that that the cost of planned utility and streetscape upgrades within the Rio Grande District — just one portion of the HTRZ overall — will be $25 million.

(iv) *Defines the boundaries of:*

a. *The housing and transit reinvestment zone; and*
The Proposal includes a map of the proposed boundaries. The map is included as Figure 1 in this Review.

b. *The sales and use tax boundary corresponding to the housing and transit reinvestment zone boundary, as described in Section 63N-3-610;*
The Proposal clearly sets forth the boundaries, as well as listing the parcels to be included in the HTRZ. The Sales & Use tax boundary is somewhat different from the HTRZ boundary and is included here. The boundary was formed in consultation with the Utah State Tax Commission.

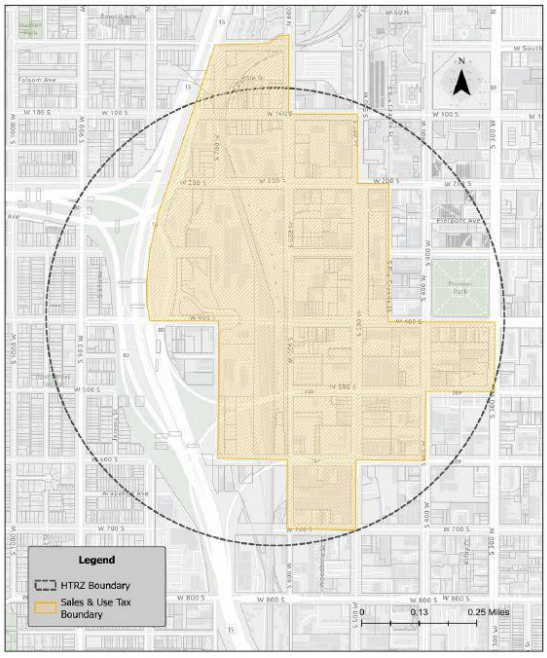

FIGURE3: SALES & USE TAX BOUNDARY

(v) *Includes specified maps*
Boundary maps of tax increment and sales and use tax areas have been included. A housing density map visualizing proposed dwelling units per acre within the tax increment parcels was also provided. A map of existing zoning and proposed rezoning within tax increment parcels is included in the Application.

(vi) *Identifies any development impediments that prevent the development from being a market-rate investment and proposed strategies for addressing each one;*
The Application sets forth the following market impediments and assumes that HTRZ tax increment could help to alleviate these obstacles:

1) A high-water table and potential for soil liquefication within the Rio Grande District necessitate additional engineering and earthquake mitigation infrastructure, especially for buildings over seven stories such as proposed for the enhanced development scenario.
2) Anticipated construction costs with higher-density development and parking structures.
3) Reduced rents and profit margins from the inclusion of affordable housing, with rent loss estimates provided in Attachment D to the Proposal.

(vii) Describes the proposed development plan, including the requirements described in Subsections 63N-3-603(2) and (4);

The requirements described in 63N-3-603(2) were met and discussed under (ii) above. As for the requirements described in 63N-3-603(4), the Proposal describes a HTRZ comprising 116.71 developable acres, not exceeding a ½ mile radius of the Salt Lake Central commuter rail station, which is within an Opportunity Zone in a first-class city having a population of 199,708 persons[2] within a county of the first class. The Applicant proposes an 80 percent participation rate for the seven taxing entities across two collection periods of 25 consecutive years for a total period of 28 years.

(viii) Establishes a base year and collection period to calculate the tax increment within the housing and transit reinvestment zone;

The Proposal includes a tax increment budget as Attachment C in the Application. The base year values for each of the two project phases are identified, comprising a collection period of 25 years for each parcel for a total of 28 collection years for the entire project area. Appendix A to this document contains a re-creation of tax increment projections given the development proposed in the Application.

(ix) Establishes a sales and use tax base year to calculate the sales and use tax increment within the housing and transit reinvestment zone in accordance with Section 63N-3-610;

The Applicant includes sales and use tax projections in a spreadsheet included as Attachment E, including a taxable sales base year value from 2023.

(x) Describes projected maximum revenues generated and the amount of tax increment capture from each taxing entity and proposed expenditures of revenue derived from the housing and transit reinvestment zone;

Attachment C to the Application shows the amount of anticipated tax increment generated by each taxing entity. Tax increment calculations have also been performed by ZPFI and included in Appendix A and are similar to those provided by the Applicant.

(xi) Includes an analysis of other applicable or eligible incentives, grants, or sources of revenue that can be used to reduce the finance gap;

The Application includes other potential funding sources such as LIHTC, Salt Lake City Housing Development Loan Program, the Transit Transportation Investment Fund, Utah State Infrastructure Bank, EPA Brownfields Revolving Loan Fund, Salt Lake City Neighborhood Building Improvement Program, Salt Lake Economic Development Loan Fund, and the Commercial Property Assessed Clean Energy program. However, no dollar participation amounts are attached to any of these programs.

(xii) Evaluates possible benefits to active and public transportation availability and impacts on air quality;

The Applicant plans for a shared parking garage that concentrates parking at the perimeter of the plan area in order to reduce vehicle-pedestrian conflicts and improve walkability. The structured parking will also serve transit users looking to park-and-ride at Salt Lake Central station. Planned co-location of various land uses including residential, office, and retail, within

[2] 2020 Decennial Census

walking distance, may reduce vehicle trips and fuel consumption to benefit air quality and support adoption of active and public transportation options.

(xiii) Proposes a finance schedule to align expected revenue with required financing costs and payments;

The Application doesn't include a specific financing schedule, but Attachment C shows the amounts available for projects each year, assuming that the Applicant receives the full 80 percent requested each year.

(xiv) Provides a pro-forma for the planned development including the cost differential between surface parked multi-family development and enhanced development that satisfies the requirements described in Subsections 63N-3-603(2), (3) and (4); and includes data showing the cost difference between what type of development could feasibly be developed absent the housing and transit reinvestment zone tax increment and the type of development that is proposed to be developed with the housing and transit reinvestment zone tax increment;

No pro forma for the planned development is provided as specific development plans are unknown at this time. Attachment D in the Application provides estimates of market rents, income-restricted rents at 60 and 80 percent of AMI, and the resultant gap (loss in rents) between market-driven and enhanced-affordability developments assuming the absorption schedule in Appendix D.

(xvi) For a housing and transit reinvestment zone at a commuter rail station, light rail station, or bus rapid transit station that is proposed and not in public transit service operation as of the date of submission of the proposal, demonstrates that the proposed station is: (A) included as needed in phase one of a metropolitan planning organization's adopted long-range transportation plan and in phase one of the relevant public transit district's adopted long-range plan; and (B) reasonably anticipated to be constructed in the near future.

The Salt Lake Central Station ("Intermodal Hub") is already in service as of the date of submission of the proposal.

An Evaluation of the Proposed Increment Capture Needed to Cover the Enhanced Development Costs Associated with the Housing and Transit Reinvestment Zone Proposal and Enable the Proposed Development to Occur

This section discusses added costs to development in this area from parking structures, construction costs with higher-density structures, affordable housing units (lower rent returns) and public infrastructure costs.

Parking Structures

A shared parking structure is planned that will concentrate parking at the perimeter of the District to reduce internal traffic, conflicts with pedestrians and bicyclists, and the amount of land devoted to parking at each individual development site. This would be a 510-stall parking structure at an estimated cost of $35 million which equates to roughly $68,000 per stall. The cost is reflective of the difficult soil conditions in the area. In comparison, surface parking stalls cost about $3,500, exclusive of land, for total construction costs of $1,785,000. However, there are increased land costs with surface parking. Assuming 150 stalls per acre, surface parking would require 3.4 acres. In comparison, a structured parking stall could fit on one acre of land. As shown in Table 2, the structured parking planned for the HTRZ would cost about $17,375,000 more than surface parking.

TABLE 2: SURFACE PARKING COSTS V. STRUCTURED PARKING COSTS

	Surface Parking	Structured Parking
Land Cost per Acre	$6,600,000	$6,600,000*
Total Parking Stalls	510	510
Stalls per Acre	150	510
Acres Required	3.4	1.0
Total Land Cost	$22,440,000	$6,600,000
Construction Cost per Stall	$3,500	$68,627
Construction Cost	$1,785,000	$35,000,000
Total Cost - Land and Construction	$24,225,000	$41,600,000
*Land cost provided by Applicant		

Affordable Housing Units

Developers need to be incentivized to build affordable housing units because a developer receives lower rents for affordable units as compared to market rents and incurs additional costs for administration and bookkeeping. Based on HUD guidelines, a household should not spend more than 30 percent of total household income on housing costs, including utilities, to be considered affordable.

The Applicant proposes 5,793 residential units of which 174 will be affordable to households making 60 percent of Area Median Income (AMI) and 521 will be affordable for households making 80 percent of AMI. Therefore, 3 percent of all housing units will be affordable to 60 percent of AMI and 9 percent will be affordable to those with 80 percent of AMI.

The average rent in Salt Lake City varies depending on the number of bedrooms in a unit as well as the data source for average rent. According to the Applicant,

> *The Cushman & Wakefield 2023 Multifamily Report indicates that the average monthly Salt Lake County one-bedroom rental rate is $1,514. In their Mid-Year Apartment Market Report, CBRE noted that the "Downtown submarket has the highest rents at $2,058 representing a weighted average of units with a rental rate 20% to 42% higher than suburban markets." Using these two data sources, the average Salt Lake County monthly rent for a one-bedroom apartment was inflated by 31% to account for the difference between rental rates in downtown Salt Lake City and those in Salt Lake County as a whole. Therefore, monthly rent was estimated to average $1,983 for a one-bedroom apartment in this downtown neighborhood.*

However, based on CBRE Q3 2024 Salt Lake City Multifamily Report, rental rates have declined slightly since 2023. The average rent for the Salt Lake City downtown area is $1,738 with a 7.1 percent vacancy rate. This is $245 lower than the monthly average used by the Applicant. Therefore, recognizing that the loss in profitability with affordable housing varies significantly based on the difference in rent between market rate and affordable rents, ZPFI has calculated a range of impacts based on the range in rent rates. ZPFI has used the Novogradac affordable rents of $1,699 for 80 percent of AMI and $1,238 for 60 percent of AMI, the same source and figures used by the Applicant.

The Applicant shows a rent gap of $114 million over the 28-year time period of this analysis which includes phases 1 and 2. Using the lower rent rate of CBRE ($1,738) results in a loss of only $50 million over 28 years. The Applicant doesn't calculate a net present value (NPV) but ZPFI estimates (using the higher rent numbers of the Applicant) that the rent loss, discounted at 4 percent would be about $64 million and that it would be about $56 million if discounted at 5 percent. In summary, the range of loss in rents ranges between $25 million and $64 million in net present value terms or between $50 million and $114 million total over 28 years.

TABLE 3: COMPARISON OF HOUSING GAP - LOSS OF RENTS

	Applicant	Lower Rent Estimate
Average Market Monthly Rent	$1,983	$1,738
Total Rent Loss	$114,382,742	$50,476,575
Rent Loss NPV at 4%	NA*	$28,087,337
Rent Loss NPV at 5%	NA**	$24,653,399
*ZPFI estimates $64 million **ZPFI estimates $56 million		

ZPFI has also calculated the loss of profitability using both the higher and lower rent ranges, using a different methodology that calculates net operating income (NOI) and then uses cap rates to estimate market values.

Cap rates vary significantly based on property location, age, type of multifamily, lease terms, tenants, etc., but recent conversations with developers in the area suggest that a cap rate of 5 percent is fairly reflective of current market conditions.

TABLE 4: COMPARISON OF HOUSING GAP – HIGHER AVERAGE MARKET RENTS

Capitalization Rate	Market NOI	Value	Per Unit	Affordable NOI	Affordable Value	Loss in Value
4.0%	$111,284,948	$2,782,123,703	$480,256	$107,645,691	$2,691,142,270	($90,981,433)
4.5%	$111,284,948	$2,472,998,847	$426,894	$107,645,691	$2,392,126,462	($80,872,385)
5.0%	$111,284,948	$2,225,698,963	$384,205	$107,645,691	$2,152,913,816	($72,785,147)
6.0%	$111,284,948	$1,854,749,135	$320,171	$107,645,691	$1,794,094,846	($60,654,289)

Based on the above analysis with a higher rent rate of $1,983 and a 5.0 percent cap rate, the loss in value is estimated at approximately $73 million. Using the lower rent rate of $1,738 results in a loss in value of only about $28 million.

TABLE 5: COMPARISON OF HOUSING GAP – LOWER AVERAGE MARKET RENTS

Capitalization Rate	Market NOI	Value	Per Unit	Affordable NOI	Affordable Value	Loss in Value
4.0%	$93,422,395	$2,335,559,871	$403,169	$92,015,443	$2,300,386,069	($35,173,802)
4.5%	$93,422,395	$2,076,053,218	$358,373	$92,015,443	$2,044,787,616	($31,265,602)
5.0%	$93,422,395	$1,868,447,897	$322,535	$92,015,443	$1,840,308,855	($28,139,042)
6.0%	$93,422,395	$1,557,039,914	$268,780	$92,015,443	$1,533,590,712	($23,449,201)

Therefore, using both methodologies, and the range of lower and higher rent rates, results in a loss of value between $25 million and $73 million depending on market conditions.

Public Infrastructure Costs

The Applicant has provided a good understanding of and vision for public infrastructure and amenities in the area. The Applicant states,

> *A priority of the proposed HTRZ is to facilitate the buildout of two downtown projects that together have the potential to serve as the model of urban transit-oriented development for the State of Utah: the redevelopment of the RDA's Rio Grande District assemblage and UTA's Salt Lake Central Station area to the west.*

Public infrastructure costs associated with renovation of these areas, as well as the rest of the HTRZ include:

- Land acquisition of 5 acres at a cost of approximately $6.6 million per acre based on recent appraisals prepared for the RDA;
- Planned 5+ mile urban trail and linear park system that will encircle downtown Salt Lake City that will include land acquisition, as well as the adaptation of 60 acres of existing street space to include more trees, shade, comfortable options and a variety of transportation choices. These improvements are estimated to cost $8-$10 million per block on approximately 6 blocks;
- Streetscape and utility upgrades at an estimated cost of $181.7 million.

Construction Costs

Construction costs will be higher in this area for several reasons, including:

- Stabilization enhancements and additional engineering of structures for the high-water table and soil liquefaction in the area;
- Some structures may require a base isolator system; and
- Buildings taller than 7 stories, which are anticipated in the area, have added costs for concrete and steel, as well as the need for elevator and safety systems.

The Applicant provides the following analysis of increased construction costs:

TABLE 6: APPLICANT'S ANALYSIS OF ENHANCED COSTS

	Difference	Average HTRZ Cost	Units	HTRZ Construction Costs	Market Driven Cost	Units	Market Construction Costs
Residential Unit	$1,050,465,417	$408,821	5,793	$2,368,467,599	$350,000	3,766	$1,318,002,182
Office Space (sf)	$1,043,652,228	$512	3,293,234	$1,685,832,849	$300	2,140,602	$642,180,621
Commercial	$100,727,196	$373	565,358	$210,972,040	$300	367,483	$110,244,844
Hotel	$50,360,196	$382,454	325	$124,297,696	$350,000	211	$73,937,500
Makers Space	$20,816,449	$353	59,000	$20,816,449	$300		
TOTAL	**$2,266,021,486**			**$4,410,386,633**			**$2,144,365,147**

The above analysis overstates the cost difference between market driven and enhanced construction. For example, it compares construction of 3,766 market driven residential units to the cost of constructing 5,793 enhanced units - a difference of 2,027 units. The approach used by the Applicant assumes that the "gap" should pay not only for the cost difference in the 3,766 units[1] but also the entire cost ($408,211) of

[1] The Applicant has identified the cost difference between market-driven and enhanced residential construction as the difference between $350,000 and $408,211 per unit, or $58,211.

the additional 2,027 units. The correct approach is to look at the cost gap, per unit, between market driven and enhanced construction and then apply to the entire number of enhanced units. The analysis below assumes average market rents of $1,983 as set forth by the Applicant, a stabilized vacancy rate of five percent and enhanced construction costs of $408,125 per residential unit as suggested by the Applicant.

TABLE 7: RESIDENTIAL MARKET VALUATION – NO SUBSIDY

Capitalization Rate	Value	Per Unit	Cost per Unit	Value Spread With Costs/Per Unit	Loss per SF	Total Loss at 5,793 Units	Profit Margin
4.5%	$42,751,449	$427,514	$408,125	$19,389	$24	$112,323,309	4.8%
5.00%	$38,476,304	$384,763	$408,125	($23,362)	($29)	($135,335,834)	-5.7%
5.5%	$34,978,458	$349,785	$408,125	($58,340)	($72)	($337,966,043)	-14.3%
6.0%	$32,063,587	$320,636	$408,125	($87,489)	($107)	($506,824,549)	-21.4%

Current market cap rates in Salt Lake City are around 5.0 percent, depending on the condition and location of the property. As the table shows, enhanced residential construction is not feasible in today's market. With a subsidy of $80,000 per unit for enhanced construction costs, enhanced residential construction would be in the feasibility range of most developers.

TABLE 8: RESIDENTIAL MARKET VALUATION

Capitalization Rate	Value	Per Unit	Cost per Unit	Value Spread With Costs/Per Unit	Loss per SF	Total Loss at 5,793 Units	Profit Margin
4.5%	$42,751,449	$427,514	$328,125	$99,389	$122	$575,763,309	30.3%
5.00%	$38,476,304	$384,763	$328,125	$56,638	$69	$328,104,166	17.3%
5.5%	$34,978,458	$349,785	$328,125	$21,660	$27	$125,473,957	6.6%
6.0%	$32,063,587	$320,636	$328,125	($7,489)	($9)	($43,384,549)	-2.3%

The Applicant further assumes that all 5,793 residential units will be enhanced construction, which would result in a total gap of $463.4 million.[2] However, based on Exhibit B in the Application, it is unclear whether all of the projects would have sufficient height to require enhanced construction costs. Perhaps the unusual soil conditions in much of the area will create the need for enhanced costs on all construction but this is not entirely clear.

The same analysis holds true for office construction where the Applicant assumes that funds are needed for not only the enhanced costs but also for the entire additional 1,152,632 sf of office space (see Table 6). It is difficult to evaluate the current office market due to the high vacancy rates. For purposes of analysis, however, we have assumed a stabilized vacancy rate of 7 percent and an average rent rate of $34.16 NNN (Cushman & Wakefield, Q3 2024 Office Market Report). Clearly, given current rent rates and high construction costs, the office market is just not feasible without significant subsidy.

TABLE 9: OFFICE MARKET VALUATION WITHOUT SUBSIDY

Capitalization Rate	Potential Value	Potential Costs	Spread	Profit % of Costs
6.0%	$1,262,299,227	$1,686,135,808	-$423,836,581	-25.1%
6.5%	$1,165,199,286	$1,686,135,808	-$520,936,522	-30.9%
7.0%	$1,081,970,766	$1,686,135,808	-$604,165,042	-35.8%
7.5%	$1,009,839,381	$1,686,135,808	-$676,296,427	-40.1%
8.0%	$946,724,420	$1,686,135,808	-$739,411,388	-43.9%

[2] Calculated as 5,793 units multiplied by $80,000.

Given cap rates currently around 7 percent, enhanced office construction would begin to be in the feasible range with a subsidy of $220 per square foot, **but only if vacancy rates decline significantly.**

TABLE 10: OFFICE MARKET VALUATION -

Capitalization Rate	Potential Value	Potential Costs	Spread	Profit % of Costs
6.0%	$1,262,299,227	$961,624,328	$300,674,899	31.3%
6.5%	$1,165,199,286	$961,624,328	$203,574,958	21.2%
7.0%	$1,081,970,766	$961,624,328	$120,346,438	12.5%
7.5%	$1,009,839,381	$961,624,328	$48,215,053	5.0%
8.0%	$946,724,420	$961,624,328	-$14,899,908	-1.5%

Assuming that all 3,293,234 sf of office space are enhanced construction would require a total subsidy of nearly $524 million. Again, Appendix B of the Application does not clearly show which projects will require enhanced construction support. As stated previously, the assumption is made that all projects in Appendix B will have enhanced costs.

The same issues are present with the commercial space, hotel and makers space as presented by the Applicant.

Based on the Market Analysis and Other Findings, an Opinion Relative to the Appropriate Amount of Potential Public Financing Reasonably Determined to be Necessary to Achieve the Objectives Described in Subsection 63N-3-603(1)

Tax Increment Projections

The tax increment projections made by the Applicant and ZPFI, based on the development schedule proposed by the Applicant, are similar. Tax increment projections, at 80 percent contribution for 25 years per parcel are expected to range between about $536 million and $578 million with a net present value of between $313 million and $329 million. ZPFI's tax increment projections are included in detail in Appendix A.

TABLE 11: COMPARATIVE TAX INCREMENT PROJECTIONS

	Applicant	ZPFI
Total to RDA after 2% Administrative Fee	$578,322,947	$536,102,878
Net Present Value (NPV)	$329,004,500	$312,878,710

The assumptions used for tax increment projections are shown in Table 7 below.

TABLE 12: ASSUMPTIONS FOR TAX INCREMENT PROJECTIONS

	Units	Cost per Unit	Construction Cost	Assessed Value*
Phase 1				
Residential Units	3,073	$400,000	$1,229,200,000	$676,060,000
Commercial SF	403,775	$350	$141,321,250	$113,057,000
Office SF	1,017,449	$500	$508,724,500	$406,979,600

	Units	Cost per Unit	Construction Cost	Assessed Value*
Hotel Rooms	150	$350,000	$52,500,000	$42,000,000
Structure Park Stalls	2,547	$50,000	$127,350,000	$101,880,000
TOTAL			$2,059,095,750	$1,339,976,600
Phase 2				
Residential Units	2,721	$400,000	$1,088,400,000	$598,620,000
Commercial SF	161,584	$350	$56,554,400	$45,243,520
Makers Space	59,000	$350	$20,650,000	$16,520,000
Office SF	2,275,785	$500	$1,137,892,500	$910,314,000
Hotel Rooms	175	$350,000	$61,250,000	$49,000,000
Structure Park Stalls	2,956	$50,000	$147,800,000	$118,240,000
TOTAL			**$2,512,546,900**	**$1,737,937,520**

*Primary residential is taxed at 55 percent of market value. While commercial is taxed at 100 percent of market value, the Applicant discounted all commercial by 20 percent to reflect potentially lower estimates by the Assessor's Office.

Gap Analysis

The Applicant has provided many areas in which tax increment would be useful to helping it reach its vision for the HTRZ area. And, there is a significant difference between the maximum gap[3] that could occur and the tax increment that would be generated (roughly $550 million). As presently calculated, the maximum gap is roughly three times the amount of increment that would be generated in the HTRZ.[4]

TABLE 13: SUMMARY OF GAP ANALYSIS

Description	Gap
Parking	$115,239,294
Affordable Housing	$73,000,000
Land Acquisition - 5 acres at $6.6M per acre	$33,000,000
Green Loop - 6 blocks at $10M per acre	$60,000,000
Streetscape & Utility Upgrades	$181,590,434
Enhanced Construction Cost - Residential	$463,440,000
Enhanced Construction Cost - Office	$724,511,480
TOTAL	**$1,650,781,208**

The Committee will need to decide how much specificity it requires in use of the increment as it determines the amount of increment to be allocated to this HTRZ. For example, it may require more specificity in terms of actual streetscape and utility upgrade costs, green loop improvements or the number of residential and office projects that actually move forward and that have enhanced construction costs. Nearly 44 percent of the costs shown in Table 13 are attributable to future office development which may not occur anytime in the near term.

Certainly, the Central Salt Lake HTRZ area is a key transit area surrounding the intermodal hub with the potential to create a large number of jobs in the area and residential units near transit.

[3] Assumes that all projects in Appendix B of the Application require enhanced construction costs.
[4] The Applicant has also included, in its Addendum, enhanced construction costs for a potential hotel and makers space but not enough detail is provided to determine if enhanced costs are applicable.