

# REQUEST FOR TAX INCREMENT FINANCING

615 Briggs Street and  
526 Briggs Street



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# OVERVIEW

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## TOWN OF ERIE URA PROJECT REVIEW

### PURPOSE

- Two projects have submitted a request for TIF revenue in order to support the redevelopment of two sites in Historic Old Town
- This analysis provides a summary of EPS's review of both projects as well as conclusions and recommendations for each

### PRESENTATION OVERVIEW

- About Economic & Planning Systems
- Proposed Project Overview
- Market Trends
- Additional Key Considerations
- Conclusions and Recommendations

# EPS

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REAL ESTATE ECONOMICS

PUBLIC FINANCE

LAND USE & TRANSPORTATION

ECONOMIC DEVELOPMENT & REVITALIZATION

FISCAL & ECONOMIC IMPACT ANALYSIS

HOUSING POLICY

PUBLIC PRIVATE PARTNERSHIPS (P3)

PARKS & OPEN SPACE ECONOMICS



# PROJECT OVERVIEW

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## 526 BRIGGS AND 615 BRIGGS

### 526 Briggs Street

- **Existing Use:** General office
- **Proposed Use:** Office space and Mexican and Japanese inspired restaurant called the Birdhouse
- **Area:** 1,452 sf office space and 3,605 restaurant space for a total of 5,057 sf
- **Rental Rate:** Project is estimated to be able to achieve a weighted average rental rate of \$20.56/sf (NNN)
- **Annual Sales:** At stabilization, the restaurant space is estimated to achieve \$450/sf per year or roughly \$1.6M per year

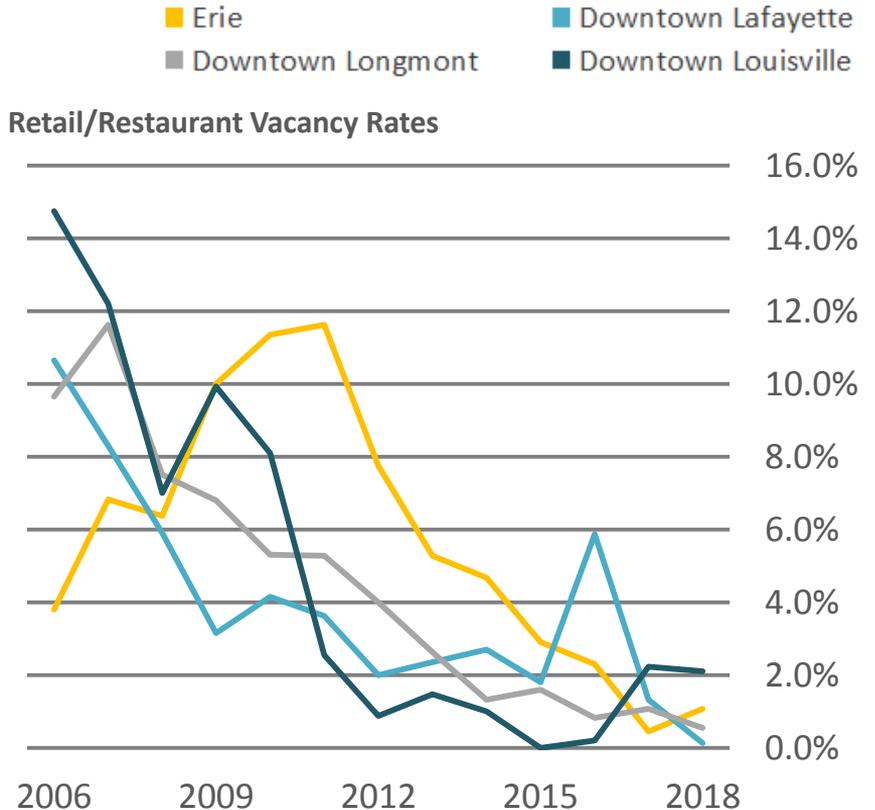
### 615 Briggs Street

- **Existing Use:** Single family mobile home
- **Proposed Use:** Mixed-use project that includes restaurant, retail, and office
- **Area:** Total rentable building area of 8,110 sf and total building area of 10,134 sf
- **Rental Rate:** Project is estimated to be able to achieve an average rental rate of \$20.26/sf (NNN)
- **Annual Sales:** At stabilization, restaurant space is estimated to be able to achieve \$350/sf and retail space is estimated at a conservative \$100/sf. Combined annual sales are estimated at roughly \$1.4M

# RETAIL/RESTAURANT VACANCY RATES

## MARKET OVERVIEW

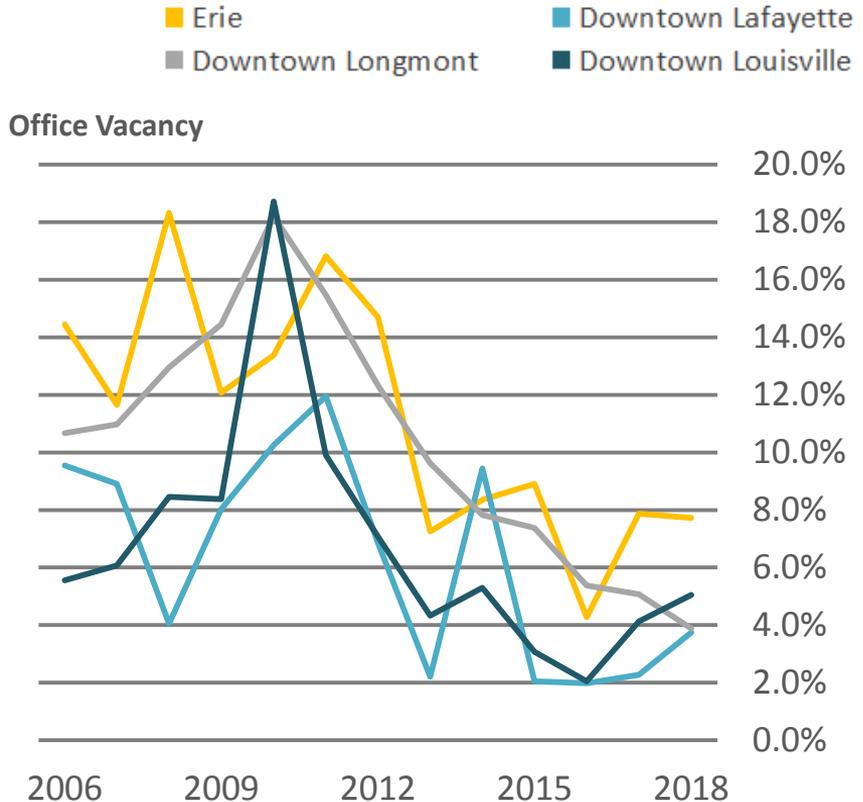
- Dropping vacancy rates indicate strong markets in downtown locations in peer communities
- Consistent pressure on inventory since the end of the Great Recession
- Current rates in Erie are roughly 1.0%
- In a healthy retail real estate market vacancy rates typically range from 5.0% to 10.0%. Anything below 5.0% generally represents a market that is supply constrained



# OFFICE VACANCY RATES

## MARKET OVERVIEW

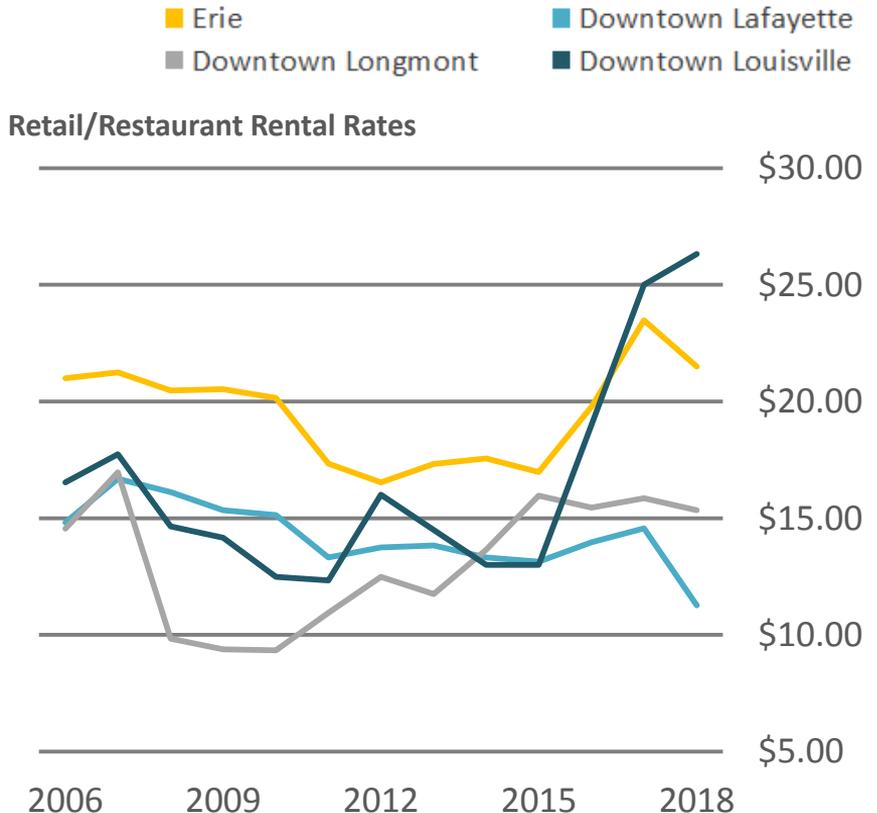
- Similar to the retail market, vacancy rates for office space have declined since 2010/2011
- In Erie, current vacancy rates are just under 8.0%
- For office space, vacancy rates typically range from 8.0% to 12.0%
- Current vacancy rates for office space also indicate a constrained market, although not at the level of retail/restaurant space



# RETAIL/RESTAURANT RENTAL RATES

## MARKET OVERVIEW

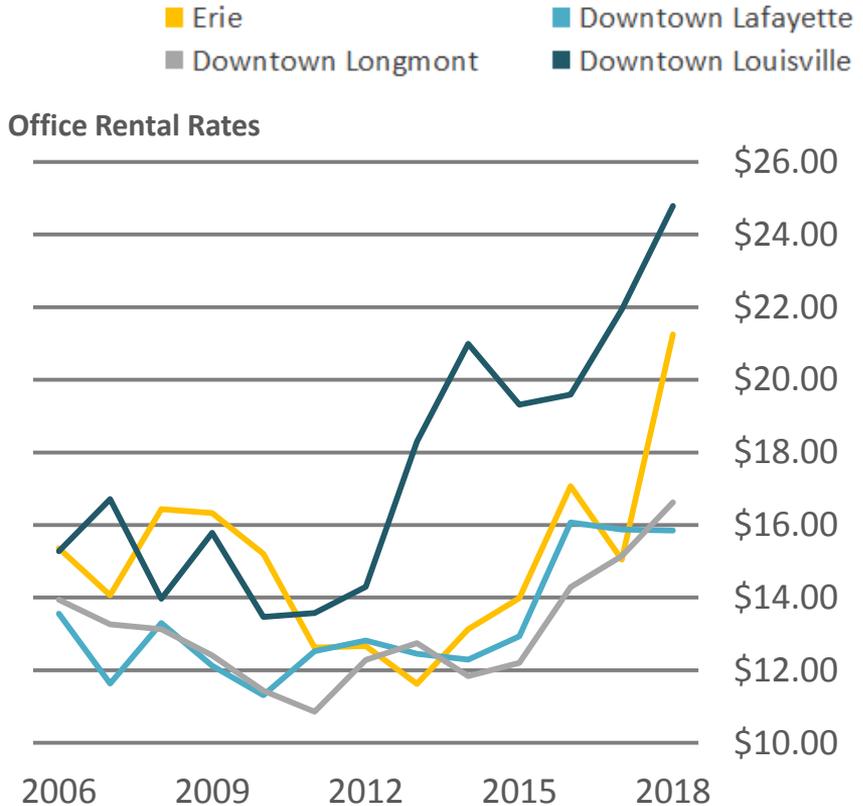
- Average rental rates in Erie are currently estimated at \$21.50/sf (NNN)
- Rental rates in comparable communities range from roughly \$12/sf to \$26/sf
- For new comparable projects, retail/restaurant rental rates typically range from \$20–\$25/sf (NNN)
- In addition to the difference in the market strength, data also reflect a range in the quality and age of product.
- Estimated Rental Rates (weighted average of different uses):
  - 526 Briggs: \$20.56/sf (NNN)
  - 615 Briggs: \$20.33/sf (NNN)



# OFFICE MARKET RENTAL RATES

## MARKET OVERVIEW

- Average rental rates in Erie are currently estimated at \$21.25/sf (NNN)
- Rental rates in comparable communities range from roughly \$16/sf to \$25/sf
- For new comparable projects, office are estimated to have a slight discount compared to retail/restaurant rates and are estimated to range from \$18–\$23/sf (NNN)



# KEY CONSIDERATIONS

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## 526 BRIGGS AND 615 BRIGGS

- **Both projects help to achieve the goals of the URA** by reducing blight, increasing reinvestment in the historic downtown, and helping to catalyze additional redevelopment in the plan area.
- **Opportunity to support local businesses** that will develop/own/operate these business over the long-run.
- **Capitalize on market interest in downtown Erie** and continue to support downtown as an emerging market for commercial development.
- **Proportional distribution of public revenues** to help catalyze redevelopment and to provide additional revenues to the URA. URA is estimated to receive 65% to 73% of total sales tax and property tax increment generated by both projects.

# CONCLUSIONS AND RECOMMENDATIONS

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## 526 BRIGGS AND 615 BRIGGS

### Summary of Request

#### 526 Briggs

- Request for \$420,000 in public investment from the URA
- 100% of sales tax over a 7-year period

#### 615 Briggs

- Request for \$430,000 in public investment from the URA
- 100% of property tax increment over a 10-year period

### EPS Review and Recommendations

- Both projects have a clear funding gap based on the multiple criteria used to evaluate the financial performance of each project.
- The funding request submitted by each development team falls within a reasonable range of the estimated funding gap for each project.
- The terms of the reimbursement agreement are fair and reasonable and provide both projects with sufficient public investment in order to close the estimated funding gap.

# APPENDIX

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## TOEURA PROJECT REVIEW

# HISTORIC OLD TOWN ERIE URBAN RENEWAL PLAN

## PLAN AREA

### Purpose

- To reduce, eliminate and prevent the spread of blight within the Area and to stimulate growth and investment within the Area boundaries.

### Financing Mechanisms

- Approved to utilize property tax increment and sales tax for properties located in the plan area.
- It is at the discretion of the Authority to determine the appropriate projects, funding periods, and revenue sharing amounts.
- Approved November, 2013
- 25 Year TIF Clock (exp. 2038)



Historic Downtown Study Area Parcels  
Historic District Boundary

# DEVELOPMENT FINANCIAL FEASIBILITY

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## METHODOLOGY

This analysis relies on two estimates of project feasibility. Both approaches provide an estimated project funding gap and a range in potential gap closure.

### Return on Cost (ROC)

- Evaluation of the static performance of the project that is based on an estimate of stabilized net operating income (NOI) divided by total project costs.
- The return on cost necessary to achieve project feasibility for these two projects is estimated to range from 7.5% to 8.5%.

### Net Present Value (NPV)

- The NPV is estimated by applying an appropriate discount rate to the annual project cash flows. The discount rate is used to bring future cash flows to a current net present value.
- The discount rate reflects the weighted average cost of capital and accounts for industry standards for return to debt and equity. The discount rate for these projects is estimated to range from 10.5% to 11.5%.

# PROJECT PERFORMANCE

## WITH AND WITHOUT PUBLIC SUBSIDY

### 526 Briggs Street

- Total Project Costs: Estimated at \$1.6M
- Net Operating Income: Estimated at roughly \$94,200 per year.
- Performance without public subsidy:
  - Return on Cost: 5.86%
  - Internal Rate of Return: 5.67%
  - Rates of return indicate that “but-for” the investment of public resources the project will not move forward.
- EPS Estimated Project Gap:
  - Estimated to range from **\$455,200 to \$467,000**
  - Public investment increases the financial performance of the project to a level that achieves project feasibility.

### 615 Briggs Street

- Total Project Costs: Estimated at \$2.0M
- Net Operating Income: Estimated at roughly \$148,600 per year.
- Performance without public subsidy:
  - Return on Cost: 7.34%
  - Internal Rate of Return: 8.65%
  - Rates of return indicate that “but-for” the investment of public resources the project will not move forward.
- EPS Estimated Project Gap:
  - Estimated to range from **\$325,000 to \$347,000**
  - Public investment increases the financial performance of the project to a level that achieves project feasibility.

# DEVELOPMENT FINANCIAL FEASIBILITY

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## METHODOLOGY

- Future public revenues are discounted at a 5.0% rate to bring them to a present value.
- Alternative approach for each project that uses the present value of future public revenues to close the gap.

### 526 Briggs Street

- Gap Range: \$455,200 – \$467,000
- Provide 100% of sales tax over a 7-year period
- Public Investment:
  - Present Value: \$341,100
  - Nominal Value: \$413,100
- Public Revenues (Sales/Property Tax):
  - Present Value: \$625,600
  - Nominal Value: \$1.2M
  - 65% of total revenue

### 615 Briggs Street

- Gap Range: \$325,000 – \$347,000
- Provide 100% of property tax increment over a 10-year period
- Public Investment:
  - Present Value: \$321,300
  - Nominal Value: \$451,700
- Public Revenues (Sales/Property Tax):
  - Present Value: \$888,300
  - Nominal Value: \$1.5M
  - 73% of total revenue