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April 19th, 2022

Redevelopment Authority of La Crosse  
200 La Crosse Street  
La Crosse, WI 54601



VIA

**RE: Termination of Planning Option Agreement for purchase of Riverpoint Development**

Dear Redevelopment Authority,

We regret to inform you that due to recent developments in the construction and lending environments our proposed affordable housing development in the Riverpoint District is no longer viable. As a result, we made the difficult decision to terminate the Planning Option Agreement with the Redevelopment Authority dated July 22<sup>nd</sup>, 2021. We appreciate the opportunity to work in your community and hope to pursue affordable housing in Lacrosse in the future.

Sincerely,  
**MWF Properties, Inc.**

A handwritten signature in black ink, appearing to read "C. Stokka", written over a light blue horizontal line.

Christopher Stokka  
Vice President

# TIF Requests and Land Write Downs

- Valuation of real estate:
  - **Net Operating Income (NOI) / Capitalization Rate = Value**
- NOI is all the operating revenues minus all the operating expenses
- The Cap Rate is an interest rate. Dividing by a decimal is equivalent to multiplying by a whole number. 10% cap rate is a 10 multiple. 8.125% cap rate is a 12 multiple. 5% cap rate is a 20 multiple.
- The Capitalization Rate is a market appropriate rate for the return on an investment (riskier assets have higher cap rates, safer investments have lower cap rates).
- TIF dollars are fungible (mutually interchangeable) with all other dollars in the development costs
- If the development costs more than its value, that is the first evidence that a TIF is going to be required to get the development in the market

# TIF Requests and Land Write Downs

- **Assumptions**

- 250 units with a 835 square foot average
- Blended rate of \$2.00 per square foot
- Total revenue =  $250 * 835 * \$2.00 * 12 \text{ months} = \$5,010,000$
- Assume an operating expense ratio of 38%
  - **$\$5,010,000 * (1-.38) = \$3,106,200 = \text{NOI}$**
- Value = NOI / Cap Rate
  - A Cap Rate of 6% is very reasonable at this time
  - **$\$3,106,200 / 6\% = \$51,770,000 = \text{VALUE}$**

# TIF Requests and Land Write Downs

- Development project costs are going to be ~\$250,000+ per unit with extraordinary construction costs and needing to build “structured” parking (one or two levels of parking with a precast roof) and the current construction costs increase
  - The development is probably going to cost **\$62,500,000**
- The units aren't assessed by the city at the project's development costs
  - They get assessed at roughly \$150,000 per unit
- That means the increment generated is \$37,500,000
  - **10% of that number is \$3,750,000**

# TIF Requests and Land Write Downs

- **Project Costs are greater than Project Value**
  - ~\$62,500,000 > ~\$51,770,000
    - The difference is \$10,730,000
    - The EDC's potential TIF is \$3,750,000
  - That doesn't reconcile to get the project built
- **On the baseline, for these assumptions, \$10,730,000 is 28.6% of the increment generated or 17.2% of development costs**

# TIF Requests and Land Write Downs

- The EDC is going to get far larger TIF requests than 10% of increment from the River Point District developers
  - I made a presentation this morning to the EDC to get them ready to invest more deeply in the city's neighborhoods
- Typically, the regional developers (Merge, F Street) get land write downs associated with their TIF requests
- The IRR conversations are going to be handled through the Development Agreement down the line and through Ehler's, not tonight
- **If the development budgets out more than it's worth, that is prima facie evidence that a TIF is going to be required to get that development in the current market.**

# LAND AND INCENTIVE COMPS



City	State	Project Size	Site Description	Units	Commercial	Parking Notes	Land Size	Land Price	Total Incentive (Approximate)	Incentive as % of Project Cost (Approximate)	Incentive Notes
Stevens Point	WI	\$35 million	The site is adjacent to a new hotel development and sits one block from Main Street. The downtown is a significant employment center and the site is approximately 1 mile from University of Wisconsin - Stevens Point's campus. It is approximately 3 blocks from the riverfront and riverwalk.	211	29,000	City has a zero parking requirement and excess parking (1000+ stalls) in the immediate area	3.95 acres	Free Land	\$8.75 million	25%	\$3 million up-front incentive + incremental pay as you go; CDI grant recipient
Oshkosh	WI	\$40 million	This development includes three sites totaling over 5 acres, one of the sites is located on the waterfront. The site is less than a 10 minute walk to Main Street and less than 1 mile from University of Wisconsin - Oshkosh's campus.	240	39,000	We will provide surface parking to meet city requirements	5.82 acres	Free Land	\$10 million	25%	TIF 88% for up to 27 years; CDI grant recipient
Eau Claire	WI	\$12.75 million	The site is an underutilized city parking lot near the confluence of the Eau Claire & Chippewa Rivers. Downtown Eau Claire has been recognized nationally for its arts, music, & culture blended throughout downtown. Merge won this project by RFP.	76	11,000	40 stalls below grade, 40 stalls at grade, 25 stalls reserved in North Barstow Parking Ramp	0.95 acres	\$500,000 with extended payment terms	\$2.25 million	18%	\$1.0 million up-front incentive; CDI grant recipient
Ashwaubenon	WI	\$11 million	The project site is located in the former industrial area near the Village's Sports & Entertainment District. The project includes a commercial climbing gym.	88	14,500	At grade parking provided per development plan	1.1 acres	Free Land	\$2.0 million	18%	\$1.75 million up-front incentive; CDI grant recipient