NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

MEMORANDUM

TO: Members of the Authority

FROM: Caren S. Franzini
Chief Executive Officer

DATE: May 10, 2010

SUBJECT: Urban Transit Hub Tax Credit Program
Transit Village Associates LLC

Request

The Members are asked to approve the Urban Transit Hub Tax Credit (UTHTC) Program residential application for **Transit Village Associates, LLC** for a tax credit amount not to exceed **$55,100,000,** which represents **20%** of the Total Eligible Capital Investment of **$275,500,000.**

Project Background

The New Brunswick Development Corporation (DEVCO) is a not for profit real estate development company founded to initiate redevelopment projects and to serve as the vehicle for public and private investment in the City of New Brunswick. It has overseen more than $1.6 billion of investment since it was founded in the mid seventies. Christopher Paladino is its President and Ira Novak is its Chairman. The Project, which consists of 3 phases of development, has received redevelopment approval and is the cornerstone of the Downtown Transit Village Redevelopment Initiative. The applicant, Transit Village Associates L.L.C., was created by DEVCO as a holding company for three development LLCs; Brunswick Housing Urban Renewal, LLC for the Arts complex, Ferren Urban Renewal LLC for the Ferren complex and Somerset Street Urban Renewal associates LLC for the Gateway complex.

In January 2010, the Members approved the issuance of $21,860,000 of UTHTC tax credits for the Somerset Street Urban Renewal LLC for the Gateway portion of the Transit Village project. Devco has submitted a new application as Transit Village Associates L.L.C. requesting consideration for its Gateway, Ferren and Arts facilities to be considered as a single project under the complex provision of the UTHTC program. Staff has reviewed the definition of the complex with the Division of Law and believes that these facilities exhibit sufficient common characteristics to meet the requirements to be considered as a complex under the Statute. These characteristics include the proximity, continuity of development and ownership structures, shared amenities, and consistency with a master redevelopment plan. On approval of the Transit Village Associates application, the Somerset Street Urban Renewal LLC approval will be withdrawn.

The Transit Village application contemplates the development of three complexes totaling $326 million of investments known as Gateway, Ferren and Arts (the "Project"). Each complex is mixed use with the inclusion of retail, affordable and market rate residential and commercial activities including an urban grocery store. The New Brunswick Parking Authority, Pennrose Development and Rutgers have all agreed to have interests in portions of the completed projects. Pennrose Properties is one of the most prolific mixed-income residential developers in the nation, having developed over 11,000 units. In total the three facilities will add over 375 residential units, 170,000 square feet of retail and amenities space and almost 50,000 square feet of office space to the downtown core of New Brunswick. Residential is the predominate use in the Transit Village application and as such can be considered under the residential portion of the UTHTC, allowing for up to 20% of eligible costs to be issued as credits.

Authority staff has undertaken a pro-forma review of the applicant's combined financials which shows the need for the UTHTC benefit in order to make the project move forward. Specifically, without the UTHTC, the pro forma showed a .84% unleveraged internal rate of return and a 4.05% cash on cash yield, making it infeasible for a developer to advance the project. However, with the benefit of the UTHTC for 20% of eligible costs, the project returns improve to a 8.22% unleveraged internal rate of return and a 6.67% cash on cash yield. This is within the market range and will enable the project to move forward. As a result of this review, it is recommended that the board approve a 20% tax credit not to exceed $55,100,000, to be taken over 10 years. Pursuant to the Statute, the approval would be subject to either the City of New Brunswick obtaining COAH Substantive Certification, the applicant building a 20% affordable housing component into the project, or a finding by the Attorney General's office that the project is not obligated to provide affordable units.

Recommendation

Staff has reviewed the application for consistency with the Act and rules implementing the UTHTC Program (N.J.A.C:19:31-9) and recommends approval of the application for a tax credit amount not to exceed **$55,100,000** which represents **20%** of the Total Eligible Capital Investment which is $275,500,000. Ten percent of this amount will be issued annually over ten years. EDA will provide the applicant with an approval letter for the total amount of the credit. Upon project completion, the Authority shall issue a tax credit certificate based on the final qualified costs, not to exceed the approved amount. The tax credit certificate shall indicate that the applicant may take one tenth of the total credit annually over ten years when accompanied by a letter issued by EDA indicating the project is compliant with program guidelines. This approval is subject to the proposed program rule amendments becoming final, with the applicant at risk if the proposed amendments implementing the program are not adopted.

The approval of this project under the UTHTC program is contingent upon the Applicant meeting the following conditions regarding the Project. :

1. Financing commitments for all funding sources for the Project by April 30, 2011;
2. Evidence of site control and site plan approval for all properties within the Project by April 30, 2011;
3. Written commitment from the New Brunswick Parking Authority and financing commitments from all funding sources regarding the purchase of a portion of the Gateway component of the Project comprised of the Parking Garage in the amount of $46,916,745; and a portion of the Ferren component of the Project comprised of the Parking Garage and the commercial space in the amount, not to exceed $79,824,022 by April 30, 2011;
4. Written commitment from Rutgers University and financing commitments from all funding sources regarding the purchase of a portion of the Gateway component of the Project comprised of residential units and commercial space in the amount of $15,870.01 by April 30, 2011; and
5. Written commitments of New Market Tax Credit allocation and investors sufficient to allow financing of the project by December 30, 2010.

Alex Pavlovsky
Senior Urban Development Officer

Tim Lizura
Senior Vice President, Business Development

Lori Matheus
Vice President Business Development