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High-rise project uses innovative financing

Union finance and tax breaks needed to make the deal pencil out

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Getting a high-rise condo project off the ground can be a tough a task. It takes experience, salesmanship, a good location, and most of all -- money.

Most lenders are unwilling, however, to provide a construction loan until 75 percent or more of the project is under hard contract. But reaching that point can be tricky.

Start-up costs include everything from architectural and engineering plans to zoning and permitting approval. And a project needs cash in hand to open a sales center, hire a staff, draft floor plans, place advertising and pay broker commissions.

And when a project does qualify for a loan, it doesn't cover everything. Construction loans underwrite about 70 percent of the total building costs. That means developers must make-up the difference themselves, or take out another loan.

The property, if owned outright, can sometimes be used as collateral. Yet it still may not be enough.

"There are 60,000 condominium and 19,000 condo-hotel units currently proposed, planned or under construction in the Las Vegas Valley," said [John Restrepo](#), principal of [Restrepo Consulting Group](#), a local real estate research firm. "But we anticipate that less than 25 percent of those units will be built in the next five years."

Allure Las Vegas is one of the few to make the cut. The Fifield Companies of Chicago has used some unique funding mechanisms to turn the 41-story twin towers on Sahara Avenue, just west of Las Vegas Boulevard, into a reality.

The first 428-unit concrete-and-glass building broke ground on September 1. It's now at 12 stories and rising, and expected to reach completion in September 2007. The company is preparing to break ground on a second tower with 472 units in September that will finish in 2008.

Although Fifield has developed more than 50 high rises valued at over \$3 billion throughout the country, this is the group's first Las Vegas project. Fifield acquired the 3.86 acre building site from Andrew Fonfa, president of ABF Realty and Investments, who was made a project partner in exchange for his parcel, which was valued at \$18.5 million, or \$4.79 million per acre.

Fifield also partnered with Los Angeles-based CB Richard Ellis Strategic Partners III that provided start-up capital and a portion of construction financing in return for also becoming a project partner. The three entities are known as SP Sahara Development LLC.

Together the consortium acquired roughly \$129 million in construction financing from ULLICO (the Union Labor Life Insurance Company), a \$5 billion union-owned holding company that provides insurance and financial services. The loan was approved after the project was 65 percent under hard contract.

Although the sale requirement is slightly lower than other institutional lenders, it came with the condition that only union laborers build the project. Bovis Lend Lease, New York, is the general contractor, with M.J. Dean Construction of Las Vegas as its concrete subcontractor. Both are union builders.

Yet the loan only covers 67.8 percent of phase one's \$190 million price tag. The rest is coming from the joint-venture's pocket.

The project is also receiving additional aid in the form of tax increment financing (TIF) from the city of Las Vegas Redevelopment Agency. The city has the ability to offers incentives to projects located inside its 3,200-acre redevelopment area, which includes downtown, portions of West Las Vegas and the Eastern Avenue corridor.

Essentially, developers can apply to be reimbursed for items deemed to be of redevelopment benefit such as roads, landscaping, sidewalks and utility lines.

Allure, for example, is bringing water, sewer, gas, and fiber optic lines from points as much as a half mile away. The project, as a result, can be repaid for that work. But the deductions stop once the lines reach the project site since it is a private development.

"Tax increment financing is designed to encourage development that would not otherwise occur," said Mayor Oscar Goodman. "Instead of providing upfront financial incentives to fill in the funding gap of a developer's proposed project, tax increment financing is only awarded when a project is completed and only for the increased assessed property value the project generates."

The TIF program rewards developers for making infrastructure improvements because it raises property values, while making it more attractive for other projects. It uses tax money from the difference in the original and enhanced property values to reimburse developers.

Up to 41 percent of the tax increment can be rebated annually to a project developer. Another 18 percent goes toward affordable housing and the rest goes back to the Redevelopment Agency to support other projects.

"The problem with being the first guy on the block is that I'm providing all of the infrastructure for the next guy down the road," said Alan Schachtman, Fifield's senior vice president. "There is a lot that goes into putting one of these projects together, and you have to know what you're doing in order to make it work."

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