

CLERK'S OFFICE  
**AMENDED AND APPROVED**  
Date: 11-17-98

Submitted by: Chairman of the Assembly  
at the Request of the Mayor  
Prepared by: Department of Finance  
For Reading: November 17, 1998

ANCHORAGE, ALASKA  
AR NO. 98-363

A RESOLUTION OF THE MUNICIPALITY OF ANCHORAGE GRANTING MARC MARLOW A FIVE-YEAR REAL PROPERTY TAX EXEMPTION AND A FIVE-YEAR TAX DEFERRAL CONSECUTIVE TO THE EXEMPTION FOR DETERIORATED PROPERTY, SUBJECT TO CONDITIONS PRECEDENT.

WHEREAS, AO 98-135(S-1) allows the Assembly to grant consecutive, partial five-year exemption and ~~partial~~ five-year deferral from real property taxes for areas designated as deteriorated; and

WHEREAS, AO 98-136(S) designated all the property between Cordova and Eagle Streets and 3<sup>rd</sup> and 4<sup>th</sup> Avenues as a Deteriorated Area; and

WHEREAS, by an application attached hereto as Exhibit A. incorporated herein by reference (herein "Application"), Marc Marlow has applied for consecutive 99% five-year exemption and ~~99%~~ five-year deferral from real property taxes for all property between Cordova and Eagle Streets and 3<sup>rd</sup> and 4<sup>th</sup> Avenues; and

WHEREAS, Marc Marlow owns or has options to buy all property between Cordova and Eagle Streets and 3<sup>rd</sup> and 4<sup>th</sup> Avenues; and

WHEREAS, Marc Marlow has stated his intended purpose is to renovate the structure known as the McKay Building into residential units and retail space as described in the "Property and Project Description" of the Brian R. O'Conner, MAI and Scott A. Wilson, *Market & Feasibility Study of the Proposed: McKay Building Renovation Project, East Fourth Avenue and Denali Street, Anchorage, Alaska*, May 22, 1998, Ref. No. 98-075, hereinafter referred to as the "Feasibility Study" and attached as Exhibit A. to the Assembly Memorandum accompanying this ordinance;

NOW, THEREFORE, THE ANCHORAGE ASSEMBLY RESOLVES:

or a business entity which he controls and is the majority owner  
Section 1. That, based on the representations in the Application and the Feasibility Study, the Municipality hereby grants to Marc Marlow a 99% five-year exemption from followed by a ~~99%~~ five-year deferral, beginning upon expiration of the exemption, of real property taxes for all property between Cordova and Eagle Streets and 3<sup>rd</sup> and 4<sup>th</sup> Avenues subject to the following conditions precedent to the effectiveness of the exemption and deferral:

- or a business entity which he controls and is the majority owner
- That title to all property be in the name of Marc Marlow, and

That substantial renovation on the structure known as the McKay Building begin by July 1, 1999; and

That the McKay Building will be converted into residential units and retail space as described in the "Property and Project Description" section of the Feasibility Study; and


- That the property between Cordova and Eagle Streets and 3<sup>rd</sup> and 4<sup>th</sup> Avenues be replatted into three lots as stated in Mr. Marlow's application for tax exemption and deferral; and

That AMC 12.35 comply with State law.

- That the Municipal Attorney issue a written opinion that AMC 12.35 is in compliance with State law; and
- That Mr. Marlow complies with all other conditions of AMC 12.35.

Section 2. This resolution shall take effect immediately upon approval by the Anchorage Municipal Assembly.

PASSED AND APPROVED by the Anchorage Assembly this 17<sup>th</sup> day of November, 1998.

  
\_\_\_\_\_  
the Assembly

ATTEST:

  
\_\_\_\_\_  
Municipal Clerk



# MUNICIPALITY OF ANCHORAGE

## ASSEMBLY MEMORANDUM

No. AM 1073-98

Meeting Date: November 17, 1998

**From:** Mayor

**Subject:** Application for Tax Exemption and Tax Deferral for Deteriorated Property

In September the Assembly approved changes to the Anchorage Municipal Code that allowed for consecutive partial exemption and partial deferral of real property taxes for property designated as deteriorated (AO 98-135[S-1]). The Assembly also designated as Deteriorated Area all the property between Cordova and Eagle Streets and 3<sup>rd</sup> and 4<sup>th</sup> Avenues (AO 98-136[S]). Mr. Marc Marlow, in accordance with AMC 12.35, applied to the Chief Fiscal Officer for an exemption for 99% of the property taxes due for a period of five years and a tax deferral for a period of five years commencing upon the exhaustion of the tax exemption for all property between Cordova and Eagle Streets and 3<sup>rd</sup> and 4<sup>th</sup> Avenues. The Administration has reviewed Mr. Marlow's application, discussed it with him and now recommends the Assembly approve his application for exemption and deferral subject to the following conditions precedent to the effectiveness of the exemption and deferral:

That Mr. Marlow secure title to all the property between Cordova and Eagle Streets and 3<sup>rd</sup> and 4<sup>th</sup> Avenues. Mr. Marlow currently owns or has options to buy all the property identified above. If he cannot get title to all the property, he will be unable to renovate the structure known as the McKay Building.

That substantial renovation on the structure known as the McKay Building begin by July 1, 1999. Mr. Marlow has stated he needs the exemption and deferral to secure the financing to renovate the McKay Building into quality apartments. Mr. Marlow has indicated substantial renovation will begin in the summer of 1999.

That the McKay Building be converted into quality apartments. AO 98-136(S) indicated that the substantial renovation on the McKay Building would end up with quality apartments. The feasibility report prepared by O'Connor Consulting Group, LLC evaluated the feasibility of a high rise apartment complex. They concluded the project of quality apartments was feasible if the MOA granted both a five-year tax exemption and a five-year tax deferral. If something other than a quality high-rise apartment is constructed, the feasibility is in question.

That the property between Cordova and Eagle Streets and 3<sup>rd</sup> and 4<sup>th</sup> Avenues be replatted into three lots as stated in Mr. Marlow's application for tax exemption and deferral. In Mr. Marlow's application he indicated he was going to replat the area into three lots. Since State law has restrictions on what can qualify for exemption and that a piece of property can be granted only one exemption, this replatting must occur first to allow the granting of the exemption and deferral.

That AMC 12.35 comply with State law.

- That the Municipal Attorney issue a written opinion that AMC 12.35 is in compliance with State law. The Municipal Attorney has advised the Administration that AMC 12.35 currently does not comply with State law. Mr. Marlow has indicated he will attempt to have the State law changed in the next session.

These conditions were developed with Mr. Marlow's input and concurrence per the Brian R. O'Conner, MAI and Scott A. Wilson, *Market & Feasibility Study of the Proposed: McKay Building Renovation Project, East Fourth Avenue and Denali Street, Anchorage, Alaska*, May 22, 1998, Ref. No. 98-075 attached hereto as Exhibit A. and incorporated herein by reference.

The Administration recommends approval of AR No. 98- 363

Concurrence:

  
George Vakalis  
Municipal Manager


Prepared by:

  
Soren Orley  
Chief Fiscal Officer

Respectfully submitted,

  
Rick Mystrom  
Mayor

Concurrence:

  
Elaine Christian  
Executive Manager



O'CONNOR  
CONSULTING  
GROUP, LLC

500 UNION STREET  
SUITE 650  
SEATTLE, WA 98101

June 25, 1998  
Ref. No. 98-075

Mr. John G. Henkle  
SEATTLE MORTGAGE  
1800 - 112<sup>th</sup> Avenue NE, Suite 300  
Bellevue, Washington 98006

**RE** Market and Feasibility Study of the Proposed McKay Building Renovation Project  
in Anchorage, Alaska.

Dear Mr. Henkle:

In accordance with your request, we have performed a review of the subject's immediate market area and have provided a detailed market and feasibility study for the proposed development scenario. This study provides an analysis of current and anticipated market conditions for the proposed use of the subject property as a high-rise apartment building.

Please understand that this report is not intended to serve as an appraisal of the subject property's site or proposed improvements. While a range of investment values are estimated within this analysis, these are intended to serve as a basis for determining a likely range of investment yields produced by the development process. We believe that the range of investment values estimated has a high probability of encompassing the market value of the proposed development at completion of construction and would, therefore, provide a reasonable basis of reviewing the investment potential of the development.

Specifically, it should be noted that the range of investment values and performance statistics have been based on a review of preliminary plans, specifications, and costs for the proposed improvements as provided by the developer. A variety of economic, demographic, and market data has also been reviewed for the purposes of estimating the market rents and operating expenses of the completed development, as well as a range of capitalization rates, absorption rates, and other investment criteria. The reliability of the analyses undertaken are limited by the preliminary nature of the improvement plans, appropriate comparable data, and the lack of correlating analyses (i.e., Cost and Sales Comparison Approach) which are typically included in a self-contained appraisal report. Please note specific assumptions and limiting conditions that are referenced within the body and addenda of the attached feasibility report.

In regards to market balance and effective demand for the subject, our review of current and anticipated apartment market conditions suggests that there will be sufficient demand for the subject units to provide reasonable absorption at the time of completion.

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A number of factors contribute to this conclusion. These include a forecast for continued stability in the regional economy and housing markets, favorable demographic demand factors, and long-term downtown housing needs. These factors are expected to produce a climate that is favorable for new development.

A number of specific marketability issues have been raised in this analysis. A high-rise apartment building, such as the subject, represents a significant departure from the vast majority of this market's inventory. Development of this kind is generally produced at that point in a city's life cycle where land development pressures and "cosmopolitan" urban energy begins to emerge. The process of such "in-fill" development necessarily begins in marginal neighborhoods where vacant, well depreciated, low intensity improvements are found. These transitional neighborhoods give rise to concerns over market appeal; however, it is our belief that appropriate marketing, design, and management solutions exist that can easily mitigate these issues. A number of these solutions are highlighted in the body of the report.

In terms of financial feasibility, our analysis of the project's investment potential leads to a general, if conditional, assessment. Three particular factors play a significant role in this judgement. First, we have undertaken to work with the developer in order to optimize the unit mix and efficiency of the architectural plan. It is our belief that the average unit size of the project must stay at or below approximately 650 square feet and that corresponding building efficiency ratios must remain near or above 80% in order to produce the highest possible income. Naturally, the buildout of the units and common areas should be commensurate with these rent levels and have been assumed to exceed the standard for the market.

Of the two remaining factors that will help ensure the project's success, the most critical would appear to be the tax abatement program that has been approved for use in developments such as the subject. While specific approval for its application in the subject's case has not been made as of completion of this analysis, it is considered likely. In terms of significance, we believe that the benefit of the ten-year program, whether calculated as a net present value or as an annual boost to equity cash flow, comprises between 50% and 100% of the venture's investment returns. Finally, to a lesser extent, the advantageous HUD financing plays a secondary, but contributory role to the improvements as well.



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We hope the report that follows will provide an appropriate foundation for your underwriting process. Please call if we can be of further assistance or clarify any questions you may have.

Sincerely,

***O'CONNOR CONSULTING GROUP, LLC***



Brian R. O'Connor, MAI



Scott A. Wilson, Associate

