

Upstairs Fund

Program Guidelines

Overview

The Upstairs Fund is intended to stimulate the economic revitalization of downtown Pittsburgh by creating the opportunity for downtown housing among the buildings with vacant upper floors. These residential developments will create a diverse, lower cost supply of housing that will attract residents to the downtown. To accomplish this goal, the Upstairs Fund will provide financing for building owners and developers who intend to convert vacant and/or under-utilized upper floors of downtown buildings to residential uses. The Upstairs Fund provides gap financing for financially-viable conversion projects.

The Upstairs Fund is part of the Pittsburgh Downtown Partnership's Vacant Upper Floors Initiative and its overall strategy to promote economic development in the Golden Triangle.

These guidelines are intended to inform potential applicants about the program and the expectations and requirements for successful projects.

Funding, Ownership, and Organization

The Upstairs Fund is a private development fund owned by the Pittsburgh Downtown Partnership. It is funded through investments by public and private investors, including the Heinz Endowments, McCune Foundation, and the City of Pittsburgh's Urban Redevelopment Authority.

The Upstairs Fund is administered by the Pittsburgh Downtown Partnership.

Eligibility

The following criteria will be used to determine whether a project application is eligible for an Upstairs Loan:

- **Area Eligibility:** Upstairs Fund projects must be located within downtown Pittsburgh within the PDP BID boundaries.
- **Eligible Real Estate:** Upstairs Fund projects may have up to eight (8) floors of potential residential development. The renovations of the commercial areas of building (e.g. first floor retail) are not eligible.
- **Applicants:** Eligible applicants may include owners of real estate and developers with an equitable interest in eligible real estate.
- **Gap Financing:** The Upstairs Fund is intended to finance the “project gap,” that is, the amount between the Total Project Cost and the amount that a private lender is willing to lend to the project.

Other Eligibility Requirements

In addition to the eligibility requirements above, each Upstairs Fund applicant and loan recipient are expected to comply with the following:

- No conflict of interest with the property owner and developer either directly with Fund investors, ownership or management or related parties.
- The applicant must not be delinquent or in default on federal, state, or local taxes or existing private or publicly financed loan and will be required to sign an affidavit to that effect.
- The proprietor, partner, or director or any shareholder of the project must not have been convicted of a felony.

Eligible Activities

It is expected that priority will be given the following eligible uses of loan proceeds from the Upstairs Fund:

- 1) Fire Suppression
- 2) Fire Escape
- 3) Upper Floor Egress
- 4) Elevator installation or upgrade
- 5) Roof repair or replacement

On a case-by-case basis, the following additional uses of funds may be considered:

- 1) Parking dedicated to the planned residential units.
- 2) Façade/Historic Restoration related to the residential upper floors.
- 3) Environmental Clean-up
- 4) Mechanical systems installation, upgrade, and distribution systems
- 5) Green building systems and associated costs and fees consistent with approved level of LEED Certification
- 6) Soft Costs, including legal, design, engineering, survey, financing, developer fees and lease-up loss costs

The costs associated with projects that involve commercial renovations (e.g. first floor retail, etc) will be allocated on a cost basis, where possible. Otherwise, eligible costs for the Upstairs Fund will be allocated on a square floor prorata basis.

The primary target market for the Upstairs Fund will be buildings under development by their current owners or in partnership with their current owners. The advantage of this arrangement is to keep the overall project cost as low as possible by eliminating the costs of acquiring downtown properties. As a result, acquisition costs will not be financed using the Upstairs Fund.

Loan proceeds may not be used for: refinancing existing debts or distribution or payment to the owners, partners, shareholders, or beneficiaries of the applicant or members of their families, exclusive those costs identified above.

Loan Parameters

Following is a guide for the loan parameters for the Upstairs Fund. All loans terms will commercially-reasonable based on the local market conditions. The actual payments may vary based on the specific financial conditions of each project. In addition, structuring of one or more Notes with varying payment terms under a Loan Agreement with a borrower may be considered based on the financial projections and the specific assets being financed.

- **Loan Size**: The maximum loan amount will be up to:
 1. 50% of the Total Project Cost or
 2. \$500,000 or
 3. \$75,000 per residential unit, whichever is less.
- **Loan Security**: The loan will be secured primarily with the project assets (land and building). If necessary, other assets, which may include, but are not limited to, personal guarantees and/or other assets may be requested.
- **Subordination**: The loan may be subordinated to other private debt, except for debt provided by the owner or the developer, if any.
- **Term**: The loan term may not extend beyond 2023. Amortizations may extend to 25 Years, with a balloon payment due at Term.
- **Interest Rate**: The base interest rate may be initially set no lower than the participating private lender's interest rate or the prevailing prime interest rate at the time of the loan commitment, whichever is less. Typically, the interest rate will escalate once the project stabilizes. The schedule for the interest rate escalation will be set to encourage refinancing and early repayment of the Upstairs Loan.
- **Deferral**: Deferrals of principal and interest and interest only payments are available, based on projected cash flow in the project. Typically, deferrals may not exceed five (5) years. Simple interest will accrue during the deferral period.
- **Payment**: Typically, principal and accrued interest will be amortized and be due monthly commencing no later than the end of the deferral period. Under special circumstances, the Upstairs Fund will work out a payment schedule based on the economics of the specific projects. However, no distribution of equity payments may be made to the project owners until the Upstairs Fund is repaid.

Additional Conditions

The following conditions apply to Upstairs Loans:

- **Equity Requirements**: Each project will contain a minimum equity investment by the applicant of ten percent (10%) of the

Total Project Cost. The equity may be invested in cash or the value of the real estate, as determined by a current MAI Appraisal.

- Insurance: The borrower will be required to maintain insurance providing adequate coverage against fire, hazard, extended coverage, and public liability in a form and substance satisfactory to the PDP, naming PDP as Mortgagee (where applicable), Lender Loss Payee, and additional insured. Further, title insurance and collateral assignment of life insurance may be required as necessary.
- Refinancing or Sale: Upon refinancing or sale of the project, all outstanding principal and accrued interest, if any, will be due immediately.
- Fees: Each Upstairs Loan applicant and loan recipient, where applicable, must pay the following fees:
 1. Application Fee: The Application Fee of \$150 is non-refundable. This fee counts towards the applicant's equity requirement or may be financed as an eligible project cost.
 2. Due Diligence Fee: One-half percent of the total Upstairs Fund loans, which may be financed as part of the total project cost.
 3. Loan Servicing Fee: Upstairs Loans are assessed an annual loan servicing fee of one-quarter percent of the outstanding principal, commencing at the end of the deferral period, if any.
 4. Construction Inspection Fee: One-half percent of the principal, if the Upstairs Fund is applied towards construction costs and no other construction inspection is done in conjunction with a private lender.
 5. Filing Fees: All filing fees will be the responsibility of the applicant (e.g. mortgages, UCCs, Assignment of Leases and Rents, etc.)

Conditions of the Loan

Each Upstairs Loan must meet the following conditions:

1. Upstairs Fund projects may have up to eight (8) floors of

- potential residential development, including no more than one (1) residential unit that is occupied by the real estate owner or the developer less than the number of floors being renovated. (For example, a six story building with 5 potential residential floors must create at least 4 residential units for rent or sale.)
2. The applicant must create at least 1 residential unit per \$75,000 loaned.
 3. The applicant must submit a plan of minority-owned and woman-owned business enterprise participation in the project, including construction and on-going operations. As part of this plan, the applicant will coordinate contracting and subcontracting opportunities through the sheltered bond program.
 4. Where applicable, use of loan funds must comply with Federal, State and local regulations concerning historic properties and environmental review. Applicants are required to adhere to historic renovation standards on certified properties or properties within the historic districts.
 5. The applicant must deploy green building methods and systems leading to a LEED certification for the project upon completion of renovations. This may require registration with the United States Green Building Council. LEED certification may be inappropriate, impossible, or economically infeasible for some projects. In these cases, the projects must demonstrate a plan for maximum green building compliance that is feasible or relevant for the specific project. As needed, PDP reserves the right to have the applicant and/or the developer consult with a green building advisor to assist with the highest level of LEED certification
 6. PDP reserves the right to require loan applicants to find and use technical assistance in such areas as planning, design, historic restoration, marketing, leasing, accounting, property management. When determined appropriate, the PDP will contract with a third-party provider for this technical assistance.

Standard Application Evaluation Criteria

Successful applications to the Upstairs Fund will have gone through a competitive process. Each application will be evaluated according to following criteria:

Owner/Developer Evaluation

The historical performance of the developer, if applicable, and the proposed owners will be evaluated to assess the likelihood of success. Specifically, this evaluation will include:

1. **Financial Condition:** If applicable, this may involve an evaluation of the financial performance and condition of the owners and/or principals involved in the project.
2. **Development Team:** This involves a review of the experience of the project team, including engineers, planners, architects, contractors, and project managers.
3. **Management Ability:** This involves an evaluation of the general experience and skills of the management and partners. This includes general real estate experience, if any, as well as specialized operating experience in multi-occupancy, residential real estate development.

Project Evaluation

The merits of the proposed uses of the funds will also be assessed to determine the ability to repay the loan. The Upstairs Fund is designed as a revolving loan fund; therefore, special emphasis will be given to projects that can return the Upstairs Funds quickly. Specifically, this evaluation will include:

1. **Projected Income and Expenses:** This involves an assessment of the validity and risk of the income and expense projections. The projected income statement should demonstrate that the project is feasible, given the participation of the Upstairs Fund.
2. **Value of the Assets and Collateral:** Appraisals, when appropriate, will be required to assist in evaluating the loan security.
3. **Market plan:** An analysis of the developer's plan to market the project, including the target rent or sales levels and the methods to market for qualified buyers.

Community Benefit Evaluation

Loan applications will be evaluated and prioritized based on the overall impacts on the economic revitalization goals of the Vacant Upper Floors Initiative, including the following community benefits:

1. The need for the Loan. (e.g. the inability of the project to proceed with out the Upstairs Fund participation)
2. The Upstairs Loan amount per residential unit.
3. The percentage of units that will be available at rents or sales prices that can be afforded by the workforce (80%-120% of the Household Median).
4. The level of and support of participation by minority-and woman-owned business enterprises in all aspects of the project.
5. Participation level in a green building program and/or certification.
6. Renovations that comply with historic restoration standards.
7. The impact on the revitalization of the downtown neighborhood and quality of life.