

An abstract graphic at the top of the page. It features three overlapping, semi-transparent circles in shades of gray. In the background, there is a silhouette of a city skyline with various skyscrapers of different heights and widths.

# **But-For Analysis**

Latitude Phase II by Enclave Property Management  
City of Grand Forks, North Dakota

Dated: January 26, 2026

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## Executive Summary

The City of Grand Forks (the “City”) retained Baker Tilly Municipal Advisors (“BTMA”) to review a request for public financial assistance from Enclave Property Management (the “Applicant”). The Applicant has proposed the construction of a new multi-family housing development with 76 total housing units comprising a mix of studio, 1, 2, and 3-bedroom units (the “Project”). The Project will include 4 stories with the first floor including tuck under parking spaces. Each floor is approximately 25,000 square feet for a total building square footage of 101,680 on a 2.61-acre lot.






The Applicant has requested public financial assistance for the Project of a 5-year 100% property tax exemption of the new building value (the “Incentive”). The City seeks to understand whether the Project reasonably requires the requested financial assistance. Prior to approving a property tax incentive and providing public assistance for a project, the City must make several findings, including the “but for” test which is to find: that the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future, therefore making tax increment financing public assistance necessary for the project to proceed. The Applicant has provided financial information demonstrating that the operating cash flow requires annual property tax exemption to decrease total operating expenses. Financial assistance through property tax exemption will allow the projected revenues to support annual operating expenses and debt service, while providing a reasonable return on investment. The “but-for” test is used to determine whether a project is likely to proceed as proposed without public financial assistance.

Generally, the profitability measurement used to evaluate the need for assistance is the IRR return on investment, termed the internal rate of return (“IRR” or “Return”). To determine the likelihood that the Project would be undertaken without the Incentive, an estimated IRR without Incentive is compared to a Return sought by investors in similar projects in the current marketplace. Another measurement that is used to analyze financial needs and is a measure of project feasibility is the Debt Coverage Ratio (DCR), which is a calculation detailing the ratio by which operating income exceeds the debt-service payments for the project. If the DCR is greater than 1.0 it indicates the project has operating income that is greater than the debt-service payment by some margin; conversely if the DCR is less than 1.0 it indicates the project is incapable of meeting its debt-service payment and would need to seek additional revenue sources in order to pay its debt. Typical lending standards will require a DCR of significantly greater than 1.0 as a measure of cushion in the event actual revenues and expenses are different than projected. The Applicant’s operating proforma includes DCR that is greater with financial assistance and provides cash flow at the minimum level of coverage required by lenders for project financing. Without property tax exemption, the DCR is projected to be lower due to increased operating expenses.

BTMA reviewed the Applicant’s pro forma and the underlying assumptions regarding Project financing, construction costs and operations. The financial needs analysis illustrates that the Project is not projected to be financially feasible without some level of financial assistance through property exemption based on the current financing structure as proposed by the Applicant due to reduced DCR for financing lenders and IRR for potential investors. Additional discussion of the financial analysis is included within the report. The Incentive as requested would provide property tax exemption that the Project will need to generate sufficient cash flow to support operating expenses, debt repayment and investor returns. It is important to note that the financial analysis includes a review of the Project with and without the requested Incentive, and provides

## PURPOSE AND APPROACH

sensitivity as to the level of recommended public assistance. The term of the Incentive as a 5-year property tax exemption will result in the construction of 76 new housing units. A summary of the Report's key points is also included below.

 Project Description	<i>Support adding 76 market rate housing units in the City of Grand Forks</i>
 Assistance Request	<i>A maximum 5-year term of 100% property tax exemption (PILOT) - consider reduced percentage exemption based on long term financing terms</i>
 Project Cost Analysis	<i>Estimates are sensitive to financing assumptions, including debt coverage, interest rates, capitalization rates and total project costs/funding sources</i>
 Operating Revenues and Expenditures	<i>The Applicant's operating revenues and expenditures are considered reasonable with no proposed changes from BTMA</i>
 Conclusion	<i>The Project would not proceed in the current market without the requested Incentive</i>

## Purpose and Approach

BTMA evaluated Project information provided by the Applicant - including Project financing, timing, revenues and operating costs- to measure the Applicant's expected profit relative to Project risks. If it is assumed that the Project is owned and operated as an investment, a measure of return can be calculated considering the time value of money and an assumed sale of the asset(s) at an appropriate market price. This analysis is termed the internal rate of return ("IRR" or "Return") and estimates the profitability of an investment. To determine the likelihood that the Project would be undertaken without public assistance, the Applicant's estimated levered IRR, without assistance, is compared to the Return sought by investors for like projects in the current marketplace, as represented as a property tax exemption.

## Disclosure and Reliance

This analysis is not an opinion of the Project's feasibility, including the likelihood the relevant trade area will absorb the Project during the development period forecast by the Applicant. Rather, BTMA was engaged to independently review the Applicant's assumptions for the Project and determine whether the Project would likely realize an acceptable market rate of return in the current marketplace. BTMA has based this analysis upon projections provided by the Applicant. BTMA has completed due diligence to review the Applicant's projections using its institutional knowledge and, where applicable, third-party sources. BTMA utilized the Applicant's projections as provided unless otherwise noted.

Where BTMA suggests alternative projections or assumptions, the reason and source of the proposed alternatives are described. Projecting outcomes for projects of this nature involves subjective judgment

which may or may not prove correct. BTMA makes no representations or warranties, expressed or implied, as to the predictive accuracy of this analysis, and nothing herein is, or shall be relied upon as, a representation or warranty with respect to future results.

BTMA has no financial interest in the Project, the Applicant, or any entities affiliated with the Project or the request for public incentives.

### Background

The City of Grand Forks (the “City”) has received a request for financial assistance from Enclave Property Management for the construction of a new 76-unit multifamily residential rental housing project with a mix of studio, 1, 2, and 3-bedroom units with 23 tuck under parking spaces and 30 detached garage stalls. The total estimated development cost is approximately \$16,585,000. To support the application for public financial assistance, the developer has provided financial information including sources and uses of funds and operating proforma with financing assumptions to illustrate the projected financial performance of the Project both with and without financial incentives from the City of Grand Forks. The operating proforma is based on projected revenues and expenses from the residential apartment units following construction, occupancy and stabilization and anticipated terms for construction financing, refinance to permanent loan and investor returns.

### Description of Assistance Request

The Applicant has requested public financial support through annual property tax exemption for 5 years to complete the Project as proposed and be financially feasible. Analysis of the Applicant’s operating proformas with and without assistance provides a range of projected returns to investors and an understanding as to the need for assistance. Certain assumptions were made based upon information provided by the Applicant: Substantial changes to these assumptions would likely have an impact on analysis of the proposed project.

- debt and equity amounts
- lease rates for residential apartments
- vacancy rates
- annual revenue and operating expense inflators
- estimated project costs, including developer fee

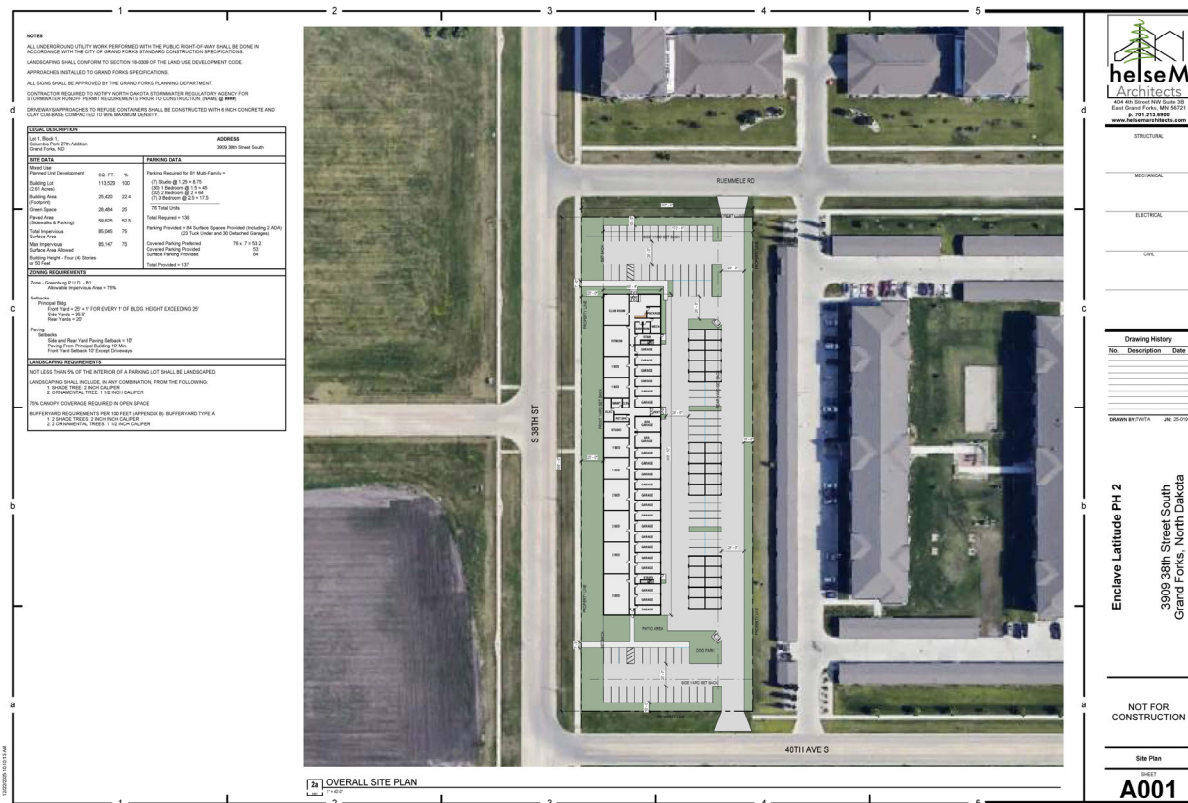
The Applicant’s upfront sources and uses statement and operating proformas with and without assistance incorporate certain assumptions relative to cash flow performance of the Project. They include private debt financing of approximately 70% with remaining 30% equity based on the \$18,565,000 project. The projected debt coverage ratio (DCR) is expected to meet minimum thresholds as required by Project financing lender with assistance. Property tax exemption as requested provides the cash flow necessary to achieve required DCR and minimum IRR target returns. A reduced property tax exemption may still allow minimum DCR levels, subject to long term interest rates; however, the projected IRR would be lower than minimum investor levels and the Developer has indicated may impact ability of the Project to proceed as proposed.

# The Project

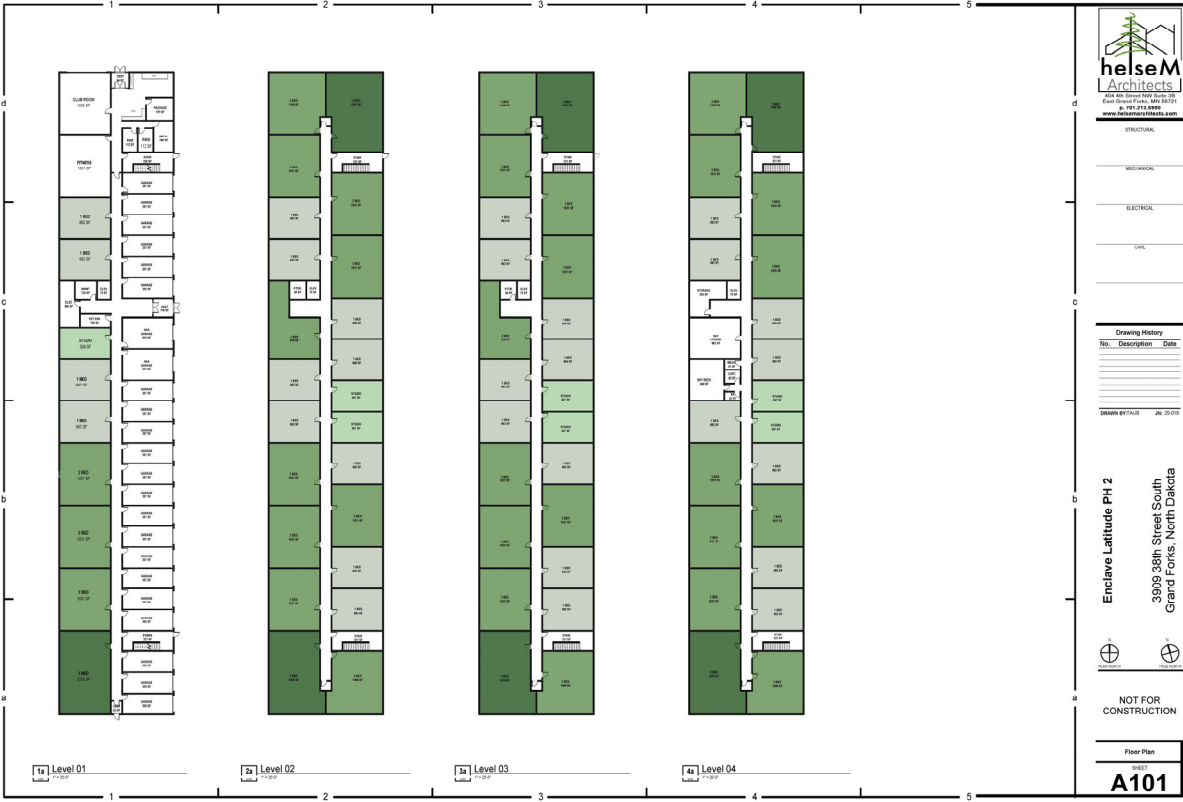
The Applicant has proposed a four-story, 76-unit multifamily residential building as phase 2 of the Latitude apartments. The Project will have a range of units between studio, 1, 2, and 3-bedroom units with market rate rents. This translates to monthly gross rents on floors 1-3 ranging from \$1,195 for studio, \$1,395 for one bedroom, \$1,760 for two bedroom, and \$2,025 for three bedroom apartments units. The fourth floor of the Project is expected to have slightly higher rents that incorporate additional amenities specific to the tenants including a sky lounge and sky deck and monthly gross rents for floor 4 would range from \$1,225 for studio, \$1,425 for one bedroom, \$1,775 for two bedroom, and \$2,100 for three bedroom apartments units..

Preliminary renderings of the development are provided below for reference.

## Proposed Layout



THE PROJECT



Total sources and uses for the Applicant’s request are outlined in the following table. Note that the sources of financing include private debt and equity based on a ratio of 70%/30%, respectively. The construction financing loan is based on 70% LTC, 6% interest rate, 60 month term, 36 month interest only and 30 year amortization. The permanent financing assumes loan refinance with analyzed on a loan-to-value and minimum DCR ratio of 1.20x. The permanent financing includes a 30-year amortization schedule with anticipated future interest rate adjustment of 5%.

Sources	Amount	% of Project Total	Status
First Mortgage	11,609,500	70%	
Equity	4,975,000	30%	
<b>Total</b>	<b>16,585,000</b>	<b>100%</b>	

Uses	Amount	% of Project Total	\$ Per Unit
Land Acquisition	750,602	4.53%	\$9,876
Construction	13,488,288	81.33%	\$177,477
Soft Costs	1,011,261	6.10%	\$13,306
Developer Fee	714,500	4.31%	\$9,401
Financing Costs	620,349	3.74%	\$8,162
<b>Total</b>	<b>\$16,585,000</b>	<b>100%</b>	<b>\$218,224</b>

### *Review of Project Costs and Uses*

#### *Construction Costs*

The Applicant's estimated construction costs are approximately \$13,488,288. To provide a cost comparison, BTMA utilizes the RSMeans Data from Gordian to estimate the cost of constructing a new multi-family development with similar characteristics to the proposed Project. RSMeans provides accurate and regularly updated construction cost estimates which can be used as a reference point to verify the reasonableness of the Applicant's estimated costs. PSF estimates can vary widely depending on the building material and type of framing used. Given that the Project is still in preliminary design stages, BTMA created three separate cost models. All models share the baseline assumptions of a building of similar size as 101,680 square feet, four story multifamily building with high quality type 5 construction. The PSF cost is estimated to range between \$150.00 at the low end and \$190.00 at the highest with midpoint estimate around \$170.00. The Project construction cost PSF is \$135 and on the lower range; however, with related soft costs close to the lower range. The Applicant's reported PSF generally falls within the lower observed range and is therefore considered reasonable.

#### *Financing Assumptions*

There are generally two ways in which assistance can be provided for most projects, either upfront or on a property tax exemption basis. With upfront financing, the City would finance a portion of the initial project costs through the issuance of bonds or as an internal loan. Future revenues would be collected by the City and used to pay debt service on the bonds or repayment of the internal loan. With tax exemption, the developer would finance all project costs upfront and would receive an annual property tax exemption to provide additional cash flow to repay the private financing (debt and equity).

Property tax exemption is generally more acceptable than upfront financing for the City because it shifts the risk to the developer. The City is not reliant on a revenue stream to repay an obligation and instead the corresponding property taxes to be paid and property tax exemption (partial or full) for the Project are aligned. However, in some cases property tax exemption may not be financially feasible. With bonds, the City would still need to make debt service payments and would have to use other sources to fill any shortfall of revenues. With internal financing, the City repays the loan with future revenue collections and may risk not repaying itself in full if revenues are not sufficient. There are security provisions that can be included with upfront financing that results in mitigating, reducing and limiting potential City risk.

The primary financing structure for the project has been requested and proposed as annual property tax exemption for the Project for 100% and up to five years

For the private financing component, the developer would finance all costs upfront through a combination of bank financing and equity and would receive annual property tax exemption to assist with project cash flow as needed to repay debt obligations and provide adequate investor returns. Estimated taxable value of the apartment building and land upon completion is \$11,000,000 (\$10,400,000 building improvement and \$600,000 land) with estimated annual total taxes of the incremental building portion of approximately \$170,000. The current estimated taxable value of the land is \$401,000. The Applicant has estimated annual taxes of \$11,478 based on existing land value. Only taxes generated by the new building may be included in the property tax exemption with taxes generated from the land as required to be paid.

## REVIEW OF APPLICANT'S FINANCIAL MODEL

### Review of Applicant's Financial Model

The Applicant provided a pro forma and sizing model detailing timing, financing, operating revenues and expenditures and assumptions for the Project. Utilizing the baseline pro forma provided by the Applicant, BTMA calculated the internal rate of return with and without the requested Incentive. The Return realized by the Applicant is a result of the assumptions used in the creation of the operating pro forma and sizing model. Therefore, several steps must be taken to analyze the reasonableness of the assumptions used.

#### *Step One – Evaluate Operating Revenues and Expenditures*

##### *Operating Revenues*

The Applicant's expected unit mix and gross rents are as follows:

Market Rate Housing Units						
Unit Type	# of Units	Sq. Feet	Monthly Rent	\$ PSF	Total Monthly	Total Annual
Studio	4	535	\$1,195	\$2.23	\$5,975	\$71,700
1 BR	22	720	\$1,395	\$1.94	\$30,690	\$368,280
2 BR	23	1071	\$1,750	\$1.63	\$40,250	\$483,000
3 BR	5	1435	\$2,025	\$1.41	\$10,125	\$121,500
Studio	2	535	\$1,225	\$2.29	\$2,450	\$29,400
1 BR SkeDeck	8	720	\$1,425	\$1.98	\$11,400	\$136,800
2 BR SkeDeck	9	1071	\$1,775	\$1.66	\$15,975	\$191,700
3 BR SkeDeck	2	1435	\$2,100	\$1.46	\$4,200	\$50,400
<b>Total</b>	<b>76</b>				<b>\$121,065</b>	<b>\$1,452,780</b>

To evaluate the Applicant's rent and vacancy assumptions, BTMA compares the Applicant's estimates to market data available from CoStar. CoStar groups cities, villages, and towns by markets and submarkets. The Applicant also provided an initial market assessment for general occupancy rental housing in the City. Costar reports the historical and current key performance indicators for the Grand Forks submarket that can be used to compare to the projected performance of the Project.

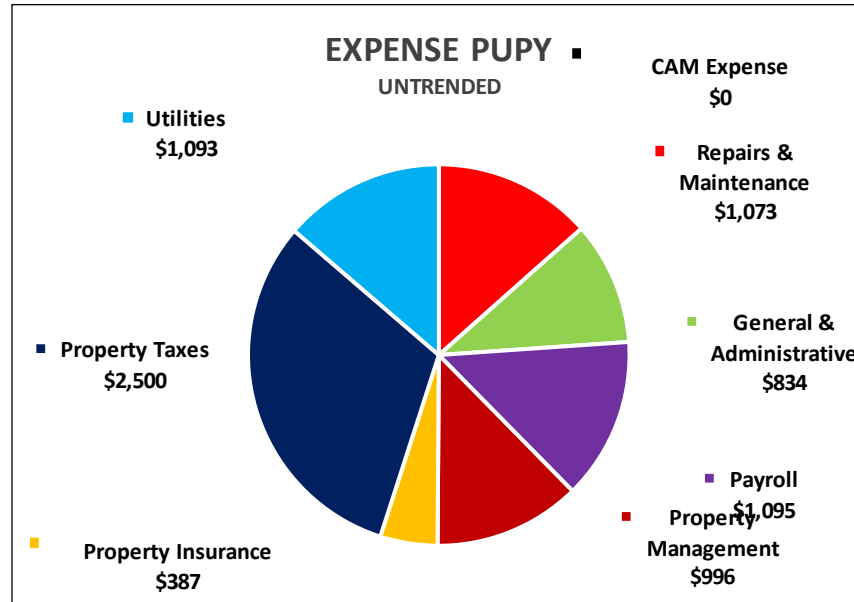
When forecasting future vacancy rates and growth of rental rates, the Applicant assumed 5.00% for stabilized future vacancy rates which is slightly lower than the forecasted average vacancy of 5.9%. The Applicant has assumed annual growth trends for annual rent increases of 3% year 1, 1% year 2, 3% years 3-5 and 2.5% years 7 and beyond with operating expense increases of 3% in all years. The operating proforma with assistance and the property tax exemption includes a net operating income (NOI) of the Project that is available to support debt service payments and must meet minimum cash flow requirements to demonstrate a minimum debt coverage ratio (DCR) upon conversion to permanent financing as required by the potential lender terms.

## REVIEW OF APPLICANT'S FINANCIAL MODEL

The submarket historical average for rent growth has been approximately 1.2% with future forecasts from CoStar to be slightly higher at 2.7% annually. The Applicant's assumption for growth are generally considered reasonable and no modification or adjustment is suggested.

### *Operating Expenditures*

The Applicant's operating pro forma expenditures are summarized as follows.



### *Private Debt Financing*

The Applicant has represented debt financing assumptions that include a construction loan amount based on 70% LTC, 6% interest rate, 60 month term, 36 month interest only and 30 year amortization. Permanent financing assumes loan refinance that would be analyzed on a loan-to-value and minimum DCR ratios as required by the Project lender. The permanent financing includes a 30-year amortization schedule with anticipated interest rate of 5%. The refinanced loan with 5% interest would increase and allow for the takeout of a portion of the initial equity investment to maximum DCR based on available cash flow. This is expected to increase equity returns of the Project. Without the property tax exemption and reduced cashflow, the Project will be subject to permanent interest rates and ability of the Project to support long term debt service payments .

### *Step Two – Evaluate Hypothetical Sale Assumptions*

The second step in analyzing the return to the Applicant is to determine the value of a hypothetical sale of the assets in the final year of the operating pro forma. The determination of the potential market value of the Project, through a hypothetical sale, is necessary as it allows for the inclusion of the value of the assets in the rate of return calculation. The calculation of an IRR without the hypothetical sale would result in an understated return. The assumption of a hypothetical sale should not be interpreted to convey that the Applicant intends to sell elements of the Project proposed for ownership and operation at the assumed or any other date.

It should be noted that BTMA generally evaluates requests with the hypothetical sale in years 10 and 15. For the purpose of providing a more comprehensive analysis, we provide the estimated IRR assuming the standard ten-year period along with a 5-year scenario based on the terms of the proposed property tax exemption.

The critical assumption when valuing the asset at the time of the hypothetical sale is the capitalization rate. The estimated net operating income is divided by the capitalization rate, which results in the assumed fair market value of the asset. The capitalization rate is intended to represent the yield of an investment over one year and is also a useful measure of risk.

BTMA compared the forecasted Project Returns and evaluated the capitalization rates based on third-party reference, the *PwC Real Estate Investor Survey, Fourth Quarter 2025*, a national survey which publishes data on the commercial real estate marketplace sampled from active investors. BTMA also compared the PWC Survey's cap rate to the Grand Forks submarket and the broader market for multifamily buildings.

The comparisons illustrate the difference in the distribution of cap rate data from CoStar specifically for 4 & 5-star buildings in the Grand Forks area compared to the overall distribution of cap rates in the area. We assumed this would likely be a "4 & 5-star building" as similar buildings tend to reflect luxury apartment buildings with upscale amenities and high-quality finishes.

Capitalization rates in the Grand Forks area can also be compared to the surrounding submarkets with ranges between 6.5% and 8.5% since 2019. CoStar forecasts that cap rates for this particular submarket will remain somewhat elevated compared to surrounding areas well into 2029 at approximately 7.50%. According to the PWC Survey, capitalization rates for the national apartment market in Q4 of 2025 range between 4.00-6.5% with an average of 5.23%. The Developer utilized a cap rate of 5.5% and a cap rate between 5.5% and 6.5% would be an appropriate assumption for the terminal cap rate. The higher range is based on the assumption of slightly elevated cap rates in the Grand Forks area compared to the national average.

### **Financial Needs Analysis**

Upon approval of a TIF project, the City must make several findings, including the "but for" test: that the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future. The Applicant has stated the assistance is necessary due to the financing costs related to construction of the housing units and inability of the Project to support those costs upon completion. The current estimated project costs are in excess of the estimated future value of the building upon development. Based on the Applicant's stated position relative to the need for financial assistance, the City could make its "but for" finding and provide property tax exemption. The City may also consider an appropriate level of assistance for the Project based on the information submitted by the Applicant. The current request is for a 5-year 100% property tax exemption.

Following thorough evaluation of the Project as provided allows the City to be prepared to make an informed "but-for" decision based on the likelihood of the project needing assistance, as well as the appropriate level of assistance. To complete this analysis, we reviewed the Applicant's provided operating proforma and

constructed similar project proformas, showing a result if the Applicant received the assistance and showing a result if the Applicant did not receive assistance. Our analysis of the proformas included a review of the development budget, projected operating revenues and expenditures, and the project's capacity to support annual debt service on the construction and permanent loan. The purpose of evaluating the operating proformas is to understand the potential performance of the project through initial development and completion (stabilization) and the operation of the enterprise over a 5 and 10-year period.

### Internal Rate of Return

The profitability measurement used to evaluate the need for assistance is the return on investment, termed the internal rate of return ("IRR" or "Return"). To determine the likelihood that the Project would be undertaken without the Incentive, the Applicant's estimated IRR without Incentive is compared to the Return sought by investors in similar projects in the current marketplace. Typically, BTMA will evaluate the unlevered return to those reported in the *PWC Survey*. The "unlevered" return assumes that any debt used to finance the Project would otherwise require an infusion of additional equity from the Applicant. Levered benchmarks are not readily available, but the benchmark unlevered returns from the *PWC Survey* can be converted to a levered return to provide an alternative benchmark.

Without the Incentive, the projected IRR of the Project is projected to be below the estimated range of returns that investors are seeking in the multifamily asset class, according to the Q4 2025 PWC Survey, and assumed to limit investor participation in the Project. It is also important to note in the IRR calculations that without the Incentive, the cash flow is projected to be lower and may impact ability of the Project without assistance to support the needed level of debt financing. Decreasing the level of debt to a feasible amount supported by the cash flows to meet minimum DCR would require an increased equity investment amount, expected to result in a further reduced IRR than what is projected. In summary the projected IRRs as illustrated are expected to be further below the lower boundary minimum IRR levels. In addition, a 100% property tax exemption over 5 years with lower interest rates may result in higher DCR and reduced equity injections that may result in an IRR that is above the upper boundary.

### Conclusion

BTMA determined that the proposed Project without the requested incentive has a forecasted Return that is below the national average benchmark return, making it unlikely that the Project would be undertaken without the requested Incentive in the current market. The significant variables impacting the return are tied to the market's current elevated cost of capital (interest rates) and the level of financing that can be supported by current market rate rents.

BTMA's conclusions are based on the evaluation of the information provided by the Applicant and sensitized to a band of market ranges that approximate a reasonable range of the Applicant's expected terms of financing. The terms of financing, and therefore the returns contemplated in this analysis are preliminary and subject to change.

# Appendix

### Appendix – Data Sources

#### CoStar Group

[www.costar.com](http://www.costar.com)

CoStar Group (NASDAQ: CSGP) is a leading global provider of commercial and residential real estate information, analytics, and online marketplaces. Included in the S&P 500 Index and the NASDAQ 100, CoStar has provided data and information services for over 37 years to the commercial real estate market. The platform allows access to a comprehensive inventory of over 7 million properties, twenty million lease and sale comparables, and 8.3 million commercial tenants.

#### PwC Investor Survey

[www.pwc.com](http://www.pwc.com)

The PwC Investor Survey is a trusted source of research and investment criteria. For over 35 years, the PwC Investor Survey has provided data and insights for commercial real estate investors. The PwC Investor Survey includes regional and national data for investor expectations concerning commercial real estate and is published on a quarterly basis. Survey participants represent a cross-section of major institutional equity real estate investors who invest primarily in institutional-grade property. Survey results are intended to be interpreted as expectations and does not reflect actual property performance.

#### RS Means

[www.rsmeans.com](http://www.rsmeans.com)

Gordian is a leading provider of facility and construction cost data, software and services for all phases of the building lifecycle. A pioneer of Job Order Contracting (JOC), Gordian's offerings also include proprietary RSMeans Data and facility intelligence solutions. The RS Means square foot estimator uses a predictive pricing model based on national, regional, and local data for a variety of commercial real estate developments.

### Appendix – Glossary of Terms

<b>Basis Point</b>	1/100th of a percentage point (0.01%)
<b>Capitalization Rate (Cap Rate)</b>	The relationship between a single year's net operating income expectancy and the market price or value. Also a useful measure of risk.
<b>Development Land / Pad Sites</b>	Land that has been purchased, readied for development (i.e. entitlements and infrastructure), and subsequently sold to builders.
<b>Developer's Fee / Profit</b>	A market-derived figure that reflects the amount a developer expects to receive for their contribution to a project and risk.
<b>Discount Rate</b>	Assumed rate of return used to discount future cash flows back to their present value.
<b>Equity</b>	Cash provided by the Developer for the Project or share of ownership.
<b>Levered Return</b>	The use of borrowed funds to increase the yield (return) that would otherwise be realized on an equity investment when there is no debt financing (see "Unlevered Return").
<b>Management Fee</b>	An expense representing the sum paid for or the value of management services, including incentives, expressed as a percentage of total revenue.
<b>Net Lease</b>	A lease in which the landlord passes all expenses on to the tenant. As an investment, an income-producing property leased, often for 20 years or longer, to a creditworthy tenant.
<b>Net Operating Income (NOI)</b>	Income remaining after deduction of all the property's operating expenses.
<b>Operating Expenses</b>	The ongoing expenditures incurred during the ordinary course of business necessary to maintain and continue the production of gross revenues, not including reserves, debt service, and capital costs.
<b>Replacement Reserve</b>	Amount allocated for periodic replacement of building components during a property's economic life.
<b>Tenant Improvement Allowance</b>	A dollar amount (usually expressed as an amount per square foot) provided to the tenant by the landlord for the construction of tenant improvements, which may or may not equal the cost of remodeling.
<b>Unlevered Return</b>	Assumes that a Project is financed and completed entirely with cash from the Developer and no debt. BTMA's preferred approach when estimating the internal rate of return.