

## Memorandum

To: Tompkins County Industrial Development Agency  
From: Heather McDaniel  
Date: January 10, 2018  
Re: 323 Taughannock Determination of Financial Need

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The City of Ithaca Community Investment Incentive Tax Abatement Program (CIITAP) allows an applicant to “request an enhanced property tax abatement that begins at 100% in year one and decreases in equal increments over ten (10) years if the applicant can demonstrate financial need as determined by a review by IDA administrative staff of the project pro forma and demonstration of an annual return on investment less than 20% in each of the first five years.”

Steve Flash, on behalf of 323T, LLC requested the enhanced abatement and provided me with the construction budget and assumptions, a ten-year operating pro forma, the assumptions used to develop the pro forma including rent rolls and mortgage data, and a calculation of return on investment. I have reviewed the documentation and determined that:

1. The developer’s financial projections are reasonable
2. The developer’s assumptions are reasonable
3. The developer’s Return on Investment is less than 20% in each of the first five years

***It is my recommendation that the applicant has demonstrated financial need as outlined in the CIITAP guidelines and is eligible for the enhanced abatement.*** Following is a brief review of my analysis:

### Development Costs

I received and reviewed a copy of the construction budget. The total projected cost of the 16 unit housing development on the inlet is \$4,614,574 of that total hard construction costs are \$3,888,767. The total square footage of the project is roughly 20,174 square feet. Projected costs are \$192 per square foot with the contingency projected. The total construction costs are reasonable, particularly with the difficult soils on the inlet and the significant upfront investment in renewable energy (off-site solar) and energy saving measures.

### Operating Pro forma

I received and reviewed a ten-year operating pro forma and related material detailing the assumptions used to develop the pro forma. The studio rent rates are at market rate and the 2 bedroom units are about 3 to 4% above recent projects downtown. I don’t think this is significant particularly given the location on the waterfront and these units are significantly larger than downtown two bedrooms and have two floors,

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offering the possibility of live, work, retail space. As an example, a two-bedroom unit at Gateway is 1,200 square feet and the proposed units are 1,700 and 2,071 square feet. The vacancy rate projected is 5 percent, which is normal for a pro forma budget even though Ithaca's vacancy rates downtown are much lower. The expenses are reasonable for items including real estate taxes, maintenance, insurance, etc. There is a 3% management fee, which is adequate in the marketplace.

### Return on Investment

The applicant provided a return on total investment analysis that I reviewed and determined to be reasonable. I added back in savings from the proposed enhanced energy incentive and re-calculated a simple levered return on cash flow that was a little higher than provided, but still well within the program requirements.

The net operating income was determined to be reasonable based on the analysis of the operating pro forma. The debt service assumptions are reasonable based on my discussions with the applicant and recent discussion/knowledge about commercial real estate financing.

The return on investment is below the 20% annually required by the CIITAP application to demonstrate financial need.

### Return on Investment (cash flow/equity investment)

|                       | <b>Year 1</b> | <b>Year 2</b> | <b>Year 3</b> | <b>Year 4</b> | <b>Year 5</b> |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Levered Return</b> | 9.7%          | 10.3%         | 10.8%         | 10.7%         | 11.2%         |