



MEMORANDUM

To: Tompkins County Industrial Development Agency
From: Heather McDaniel, President
Date: November 11, 2020
Re: Carpenter Park Mixed Use Determination of Financial Need

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.”

Andrew Bodewes at Park Grove Realty, on behalf of PG Carpenter Park Mixed Use, LLC, has requested the 10-year financial need abatement and provided me with the construction budget, a 14-year operating pro forma, the assumptions used to develop the pro forma including residential and commercial rental assumptions, the financing structure, 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 projected hard construction cost is \$39,285,107. The total square footage of the project is roughly 303,000 square feet. Construction costs are approximately \$131 per square foot, which is lower than other recent projects but reasonable considering there is no basement and larger footprint units to spread the site work costs over. The total construction costs are reasonable for a mixed used project that includes retail/ commercial leveled parking, and housing. Soft costs are roughly 5.5% and include a market study. There is no developer fee.

Operating Pro forma

I received and reviewed a fourteen-year operating pro forma and related material detailing the assumptions. The rental rates range from \$2.10 to \$2.86 per square foot based on size and location of the residential units, which is lower than recent downtown rental rates. Units are, on average, larger in square footage than downtown projects. The vacancy rate is projected at 5% for the residential units and 10% for the commercial space, which is typical for recent projects and provides an adequate cushion that lenders require. The projected expenses are based on

actual expenses at other properties that are operated by the development team. The projected debt service is reflective of commercial lending rates. The property tax assumptions are accurate, assuming the enhanced energy incentive is approved.

Return on Investment

The applicant provided a cash on cash return on total investment analysis that I reviewed.

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 demonstrate financial need.

Return On:	Year 1	Year 2	Year 3	Year 4	Year 5
Equity Invested	6%	6%	7%	8%	8%