

Memorandum

To: Tompkins County Industrial Development Agency
From: Heather McDaniel
Date: May 8, 2019
Re: Library Place 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.”

Frost Travis, on behalf of the Ex Libris, LLC (Library Place), has requested the 10-year financial need 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 projected construction cost is \$27,080,000. The total square footage of the project is roughly 88,000 square feet. Costs are approximately \$300 per square foot. The total construction costs are reasonable for the project with the amenities planned including balconies and outdoor space as well as shared space on each floor that includes dining areas, a library, and screening room. The developer fee has been reduced and is now at 2.5%, which is generally lower than the standard 3% to 4% fee.

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 rental rates for the one and two bedroom units are in the same range as other recent market rate projects (City Centre and Harold’s Square). The three bedroom units are slightly above market. However, this project is unique in the on site amenities that are provided and a la carte

Tompkins County Area Development

health services, which are not offered in other market rate buildings. Focus groups have helped to establish a rental rate and mix of amenities that are desired. The vacancy rate is projected at 3%, which is lower than recent projects. The projected expenses are based on actual expenses at other Travis/Hyde properties. The projected debt service is accurate, based on the terms and conditions of the proposed financing package. The property tax assumptions are accurate, assuming the enhanced energy incentive is approved.

Return on Investment

The applicant provided a return on total investment analysis that I reviewed. The return on investment was calculated in three formats: net operating income (revenue) minus projected debt service divided by total project costs; net operating income minus projected debt service divided by the total amount financed; and net operating income minus projected debt service divided by equity invested.

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.

In all cases, the return on investment is below the 20% annually required by the CIITAP application to demonstrate financial need.

Return On:	Year 1	Year 2	Year 3	Year 4	Year 5
Total Investment	1.5%	1.5%	1.6%	1.6%	1.6%
\$ Leveraged	1.9%	1.9%	1.9%	1.9%	2.0%
Equity Invested	8.3%	8.3%	8.5%	8.5%	8.6%