



MEMORANDUM

To: Tompkins County Industrial Development Agency
From: Heather McDaniel, President
Date: March 8, 2023
Re: 121-125 Lake Street, LLC (The Breeze) determination of financial need

The 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 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 10% in each of the first ten years.

Todd Fox, on behalf of 1221-125 Lake Street, LLC, requested the 10-year financial need incentive. The applicant provided a full financial package that includes a construction budget and a 10-year operating pro forma along with the assumptions used to develop the pro forma including residential and commercial rental income, mortgage assumptions, and tax payment scenarios with and without incentive. I have 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 10% in each of the first ten 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

Construction costs are approximately \$206 per square foot. There is a 5% construction contingency. Total construction costs are reasonable for a residential project. Soft costs are roughly 9% of total project costs, which includes furniture, fixtures, and equipment, project amenities, and a 3% contingency. In addition, there is an estimated \$3 million in brownfield cleanup costs.

Operating Pro forma

I received and reviewed a ten-year operating pro forma with the proposed tax incentive along with related assumptions. The per square foot residential rental rates are consistent with current downtown market rents. They range from \$3.94 to \$4.00 per square foot for a one-bedroom unit and a similar range for a 2-bedroom unit. There is projected 2% residential vacancy rate. The return-on-investment calculation did not change if I added back in the revenue from the projected vacancy. Other sources of revenue are from parking, which accounts for only 5% of revenue. There is no commercial revenue projected.

Expenses are typical of a residential rental property and projected to increase 3% annually. Management fees are reasonable. The debt service is projected with a 4.8% interest rate, which is a full percentage point below current rates. I did not adjust the interest rate for the return-on-investment calculation, recognizing that the ROI would be

much lower, and still make the applicant eligible for financial need.

The projected property tax payments accurately reflected the 10-year financial need projections that I prepared for the applicant. The operating proforma included one pre-stabilized (partial) operating year and nine full operating years. If a tenth year were requested, I am confident the return on investment would remain below the required 10% in that final year. I did not request the additional projection.

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 return on investment is below the 10% annually required by the CIITAP to demonstrate financial need.

Return On:	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6	Yr. 7	Yr. 8	Yr. 9	Yr. 10
Equity	3.64%	4.04%	4.29%	4.5%	4.68%	4.82%	4.91%	4.96%	4.96%	Assumed less than 10%