



MEMORANDUM

To: Tompkins County Industrial Development Agency
From: Heather McDaniel, President
Date: July 12, 2023
Re: 602 W Buffalo (The Citizen) 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 602 W Buffalo QOZB, LLC, has requested the 10-year financial need incentive for the Citizen, a five-story building that will contain 80 residential units on four floors and two commercial spaces, a community room and 26 covered parking spaces on the ground floor, located at 602 W. Buffalo Street, Ithaca. 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 10% of total project costs, which includes furniture, fixtures, and equipment, project amenities, and a 3% contingency. In addition, there is an estimated \$1.8 million in financing fees and carrying 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 lower than downtown rents, ranging from \$2.81 to \$2.93 per square foot. Apartments range from 597 square feet for a studio to 1,040 square feet for a two-bedroom unit. There is a projected 3% residential vacancy rate. The return-on-investment calculation did not change appreciably if I add back in the revenue from the projected vacancy to account for the likelihood that the project will not have any vacancies. Other sources of revenue are from parking and retail rents, which account for just 4% of total revenue.

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 5.81% interest rate, which is a reasonable projection for permanent financing rates in another year or two.

The projected property tax payments are accurately reflected in the proforma both with and without the 10-year financial incentive requested by the applicant.

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 w/out incentive	.98%	1.64%	2.57%	3.24%	3.93%	4.64%	5.37%	6.12%	6.88%	7.67%
Equity w/incentive	8.02%	9.32%	9.72%	9.73%	9.70%	9.61%	9.46%	9.26%	8.99%	8.66%