

**COST BENEFIT ANALYSIS
SUBSTANTIATION OF NEED FOR TOWN OF SUFFOLK IDA FINANCIAL ASSISTANCE**



PROJECT APPLICANT AND NAME
BGNYAVE, LLC – NORTHRIDGE SQUARE II

LOCATION
New York Avenue, Huntington Station, New York (no address)

PROJECT DESCRIPTION
New Construction of a 16-unit mixed-income/mixed-use building

REQUESTED FINANCIAL ASSISTANCE
Payment in Lieu of Taxes (PILOT)
Exemption on Sales Tax of Building Materials
Exemption on Mortgage Recording Sales Tax

March 25, 2021



I. PROJECT SUMMARY

The BGN YAVE, LLC (the “Developer”) submitted a Uniform Joint Application for tax assistance in February 2021. The application requests a sales tax and a mortgage recording tax exemption in addition to a payment in-lieu of taxes (“PILOT”).

The National Development Council (“NDC”) has an on-going engagement with Suffolk County Office of Economic Development. As part of the contract, Suffolk County Industrial Development Agency (the “IDA”) occasionally requests NDC to review applications for tax assistance. The purpose of this report is to describe NDC’s project understanding and findings.

The Developer proposes constructing a mixed-use development on New York Avenue, Huntington Station, New York (no address). The \$5.74 million 20,377 square foot project will comprise sixteen mixed-income units on a 0.75-acre vacant lot and approximately 2,800 square feet of commercial/retail space. The residential program includes thirteen (13) market rate one-BR units and three (3) 1-BR affordable units restricted to households earnings less than 80% or less of Fair Market Rent.

The Developer requested a payment in lieu of taxes (PILOT), as well as exemptions on sales tax and mortgage recording tax. The PILOT is proposed with a schedule that is consistent with the IDA’s Uniform Tax Exemption Policy (UTEP).

The managing member of the Developer, Grant Havasy, is an experienced developer with a recent track record of completing comparable developments in the immediate marketplace, including the new construction of a mixed-use development located at 1046 New York Avenue, Huntington Station, in May 2018. The program is summarized as follows:

NORTHRIDGE SQUARE II DEVELOPMENT PROGRAM					
	Units	SF	Rent	Rent/SF	Mo Rent
1BR	13	655	\$2,400	\$3.66	\$31,200
1-BR Affordable	3	561	\$1,207	\$2.15	\$3,621
Total	16				\$34,821
Net Retail SF	2,800		\$25		

II. SOURCES & USES

The development will be financed with a conventional debt and equity capital stack. The budget is \$5,742,800, equivalent to a “per unit” cost of \$358,925. The sources and uses are summarized on the next page. The development budget is relatively comparable to similarly sized residential and/or mixed-use buildings being constructed or proposed to be constructed in Long Island.

USES OF FUNDS	Amount	Per Unit	Per SF	%
Acquisition	\$400,000	\$25,000	\$20	7%
Carry Costs	\$116,500	\$7,281	\$6	2%
Non-manufacturing Equipment	\$210,600	\$13,163	\$10	4%
Site Costs	\$560,000	\$35,000	\$28	10%
Construction	\$3,059,400	\$191,213	\$150	53%
Parking Costs	\$100,000	\$6,250	\$5	2%
Soft Costs	\$696,300	\$43,519	\$34	12%
Financing Costs	\$350,000	\$21,875	\$17	6%
Developer Fee	\$250,000	\$15,625	\$12	4%
TOTAL	\$5,742,800	\$358,925	\$282	100%
SOURCES OF FUNDS	Amount	Per Unit	%	
Commercial Loan	\$4,500,000	\$281,250	78%	
Developer Equity	\$1,242,800	\$77,675	22%	
TOTAL	\$5,742,800	\$358,925	100%	
GAP	\$0			

III. SUMMARIZED BENEFITS PACKAGE

TAX ESTIMATE SUMMARY			
SALES TAX EXEMPTION		IDA RELATED PROPERTY TAXES	
Construction	\$3,719,400	Current Taxes	\$3,758
% Attributed to Material	<u>60.00%</u>	As Complete Taxes	\$86,000
Building Materials	\$2,231,640	15 year phase-in as per schedule in Appendix 1	
Sales Tax	<u>8.6250%</u>		
Sales Tax Savings	\$192,479		
Non-manufacturing Equipment	\$210,600	MORTGAGE RECORDING TAX	
Sales Tax	<u>8.6250%</u>	Mortgage	\$4,500,000
Sales Tax Savings	\$18,164	Mortgage Recording Tax rate - MTA Tax	<u>0.75%</u>
		Mortgage Recording Tax Savings	\$33,750
Total Sales Tax Savings	\$210,643		

IV. SUMMARY OF NDC ANALYSIS

NDC based its analysis on the revenue assumptions provided by the Developer in the IDA application. For consistency with other IDA reviews, NDC adjusted the pro forma provided by the developer with the following assumptions:

- Permanent loan assumptions that are in line with the current market for similar projects
 - Residential Vacancy Rate at 5.00%
 - Adjusting Interest Rate to 5.00%
 - Adjusting operating expense, exclusive of real estate taxes, to \$4,900/unit
- Adjusting revenue growth to 3% annually
- Adjusting expense growth to 3% annually
- Projecting terminal value of project using a 6% cap rate

Rents are consistent with other comparable developments. Market rate residential rents exceed \$3.60/SF and the average monthly rent per market rate unit is \$2,400 per unit and \$1,207 per affordable unit (\$2.15/SF). Operating expenses at \$4,900 per unit, exclusive of real estate taxes, are on the low side but



the developer claims that operating efficiencies will be realized by using an affiliated property management company that manages several nearby properties.

Returns from the project, with the proposed projected PILOT schedule, are modest yet sufficient to establish financial feasibility. There is not undue enrichment as a result of this financial incentive package. Without the proposed 15-year PILOT schedule, the development would not be financially feasible. More specifically, with taxes at full assessment being equal to \$5,375 per residential unit, the rental income stream would not be sufficient to attract the necessary debt and equity to cover the development costs.

STABILIZED OPERATING PROFORMA	Amount	Comment(s)
Gross Residential Income	\$374,400	\$2,400 avg. rent
Gross Workforce Rent	\$43,452	\$1,207 avg. rent
Gross Commercial Income	\$70,000	\$25 PSF
Less Residential Vacancy	(\$18,720)	5%
Less Commercial vacancy	(\$7,000)	10%
Effective Gross Income	\$462,132	
Operating Expenses Exclusive of RE Taxes	(\$78,400)	\$4,900 per unit
RE Taxes	(\$21,500)	\$1,344 per unit
Total Operating expenses	(\$99,900)	\$6,244 per unit
Net Operating Income	\$362,232	
Debt Service	(\$289,884)	
Cash Flow	\$72,348	
METRICS	Project	Typical
Yield to Cost	6.31%	>6.5%
Cash on Cash	5.82%	>6.5%
Debt Coverage Ratio	1.25	> 1.25
Internal Rate of Return	14.86%	

V. COST / BENEFIT ANALYSIS

The below analysis shows a positive net public value when taking into account the total PILOT paid compared to the PILOT savings. Per the schedule included as part of Appendix 1, the real estate tax revenue increases more than 5.7X in the first year and escalates per the 15-year abatement phase-in schedule. The total projected increment over the current taxes paid to the town during the 15-year PILOT is more than \$700,000.

In addition to the benefits described below, the project will create 75 temporary construction jobs, replace vacant land with an amenity-filled building that is expected to improve the Huntington Station landscape, and add considerable disposable income for the Town of Huntington.

Last, the project will create 3 affordable workforce housing units that are restricted to 80% of Fair Market Rent. Per the town code, affordability is tied to HUD Fair Market Rent instead of the Area Median Income (AMI), which provides a deeper discount to the maximum allowable affordable rent. The workforce residents will be charged a maximum monthly rent of approximately \$1,207, instead of \$1,899 under the AMI affordability standard.

COST BENEFIT ANALYSIS			
PILOT OVER 15 YEARS			\$773,999
Less Abatement			(\$515,999)
Net Tax Abatement Benefit			\$258,000



APPENDIX 1: PILOT SCHEDULE

Northridge Square II								
	Units					16		
	Gross SF					20,337		
	Existing Assessment					\$925		
	New Assessment					\$21,168	(Estimate)	
	Tax Rate (Per \$100)					\$406.27		
	Taxes w Improvements					\$86,000		
	As Complete Taxes GSF					\$4.23		
	As Complete Taxes/Unit					\$5,375		
PILOT Schedule								
Year	Current taxes	New Assessment	Tax Rate *	Taxes w Improvements	Abatement	Savings	PILOT	Increment
1	\$3,758	\$21,168	\$4.0627	\$86,000	75.00%	(\$64,500)	\$21,500	\$17,742
2	\$3,758	\$21,168	\$4.0627	\$86,000	70.00%	(\$60,200)	\$25,800	\$22,042
3	\$3,758	\$21,168	\$4.0627	\$86,000	65.00%	(\$55,900)	\$30,100	\$26,342
4	\$3,758	\$21,168	\$4.0627	\$86,000	60.00%	(\$51,600)	\$34,400	\$30,642
5	\$3,758	\$21,168	\$4.0627	\$86,000	55.00%	(\$47,300)	\$38,700	\$34,942
6	\$3,758	\$21,168	\$4.0627	\$86,000	50.00%	(\$43,000)	\$43,000	\$39,242
7	\$3,758	\$21,168	\$4.0627	\$86,000	45.00%	(\$38,700)	\$47,300	\$43,542
8	\$3,758	\$21,168	\$4.0627	\$86,000	40.00%	(\$34,400)	\$51,600	\$47,842
9	\$3,758	\$21,168	\$4.0627	\$86,000	35.00%	(\$30,100)	\$55,900	\$52,142
10	\$3,758	\$21,168	\$4.0627	\$86,000	30.00%	(\$25,800)	\$60,200	\$56,442
11	\$3,758	\$21,168	\$4.0627	\$86,000	25.00%	(\$21,500)	\$64,500	\$60,742
12	\$3,758	\$21,168	\$4.0627	\$86,000	20.00%	(\$17,200)	\$68,800	\$65,042
13	\$3,758	\$21,168	\$4.0627	\$86,000	15.00%	(\$12,900)	\$73,100	\$69,342
14	\$3,758	\$21,168	\$4.0627	\$86,000	10.00%	(\$8,600)	\$77,400	\$73,642
15	\$3,758	\$21,168	\$4.0627	<u>\$86,000</u>	5.00%	<u>(\$4,300)</u>	<u>\$81,700</u>	<u>\$77,942</u>
				\$1,289,998		(\$515,999)	\$773,999	\$717,628
* tax rate subject to change during term of PILOT						40%	60%	



APPENDIX 2: 15 YEAR OPERATING PROFORMA

15 YEAR PROFORMA																		
Northridge Square II																		
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Gross Market Residential Income	3.00%		374,400	385,632	397,201	409,117	421,390	434,032	447,053	460,465	474,279	488,507	503,162	518,257	533,805	549,819	566,314	
Gross Workforce Residential Income	2.00%		43,452	44,321	45,207	46,112	47,034	47,975	48,934	49,913	50,911	51,929	52,968	54,027	55,108	56,210	57,334	
Gross Commercial Income	2.00%		70,000	72,100	74,263	76,491	78,786	81,149	83,584	86,091	88,674	91,334	94,074	96,896	99,803	102,797	105,881	
Less Residential Vacancy	5.00%		(18,720)	(19,282)	(19,860)	(20,456)	(21,070)	(21,702)	(22,353)	(23,023)	(23,714)	(24,425)	(25,158)	(25,913)	(26,690)	(27,491)	(28,316)	
Less Commercial Vacancy	10.00%		(7,000)	(7,210)	(7,426)	(7,649)	(7,879)	(8,115)	(8,358)	(8,609)	(8,867)	(9,133)	(9,407)	(9,690)	(9,980)	(10,280)	(10,588)	
Effective Gross Income			462,132	475,561	489,385	503,615	518,262	533,339	548,860	564,836	581,282	598,212	615,639	633,578	652,045	671,055	690,625	
Expenses Excl of RE Taxes/Reserves	3.00%		(78,400)	(80,752)	(83,175)	(85,670)	(88,240)	(90,887)	(93,614)	(96,422)	(99,315)	(102,294)	(105,363)	(108,524)	(111,780)	(115,133)	(118,587)	
RE Taxes			(21,500)	(25,800)	(30,100)	(34,400)	(38,700)	(43,000)	(47,300)	(55,900)	(55,900)	(60,200)	(68,800)	(68,800)	(73,100)	(77,400)	(81,700)	
Total Operating expenses			(99,900)	(106,552)	(113,275)	(120,070)	(126,940)	(133,887)	(140,914)	(152,322)	(155,215)	(162,494)	(174,163)	(177,324)	(184,880)	(192,533)	(200,287)	
Net Operating Income			362,232	369,009	376,111	383,545	391,322	399,452	407,946	412,514	426,068	435,717	441,476	456,254	467,166	478,523	490,338	
Debt Service			(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	(289,884)	
Cash Flow			72,348	79,126	86,227	93,661	101,438	109,569	118,063	122,631	136,184	145,834	151,592	166,371	177,282	188,639	200,454	
DCR			1.25	1.27	1.30	1.32	1.35	1.38	1.41	1.42	1.47	1.50	1.52	1.57	1.61	1.65	1.69	
Cash on Cash			5.82%	6.37%	6.94%	7.54%	8.16%	8.82%	9.50%	9.87%	10.96%	11.73%	12.20%	13.39%	14.26%	15.18%	16.13%	
Valuation - Cap Rate:	6.00%																8,172,302	
Outstanding Loan Balance:																		(\$3,099,903)
Broker Fee																		(245,169)
Net Sales Proceeds																		4,827,230
Benefit Stream		(\$1,242,800)	\$72,348	\$79,126	\$86,227	\$93,661	\$101,438	\$109,569	\$118,063	\$122,631	\$136,184	\$145,834	\$151,592	\$166,371	\$177,282	\$188,639	\$5,027,684	
Internal Rate of Return	14.86%																	



APPENDIX 3 NDC DISCLAIMER

Standard disclaimer regarding NDC’s compliance with Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) and amended Section 15B of the Securities and Exchange Act of 1934 (“Exchange Act”):

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