

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



PROJECT APPLICANT AND NAME

BGMaySt, LLC – THE LANDMARK AT HUNTINGTON STATION

LOCATION

New York Avenue, Huntington Station, New York 11746

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 Tax

January 25, 2022



I. PROJECT SUMMARY

The BGMaySt, LLC (the “Developer”) submitted a Uniform Joint Application for tax assistance in December 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 the Suffolk County Office of Economic Development and Planning. 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, mixed-income development on New York Avenue in Huntington Station. The 21,525 square foot project with a budget of \$7.32 million will comprise sixteen (16) mixed-income units and approximately 3,400 square feet of ground floor commercial/retail space on a vacant 0.53-acre lot. The residential program includes thirteen (13) market rate one-bedroom units and three (3) one-bedroom affordable units restricted to households earning less than 80% of area median income (AMI).

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 15-year schedule, a term that is in conformance 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 two other mixed-use, mixed-income developments in Huntington Station and supported by the IDA.

The residential program is summarized as follows:

THE LANDMARK HUNTINGTON STATION DEVELOPLMENT PROGRAM							
First Floor	Units	SF / Unit	Total SF	Rent/Unit	Rent/SF	Mo Rent	Annual Rent
Affordable 1 BR	3	648	1,944	\$1,850	\$2.85	\$5,550	\$66,600
1 BR Medium	3	750	2,250	\$2,650	\$3.53	\$7,950	\$95,400
1 BR Large	1	918	918	\$2,750	\$3.00	\$2,750	\$33,000
2-BR	1	1103	1,103	\$3,400	\$3.08	\$3,400	\$40,800
Second Floor							
1 BR Large w/ Loft	1	934	934	\$3,100	\$3.32	\$3,100	\$37,200
1 BR Medium w/ Loft	3	761	2,283	\$3,200	\$4.20	\$9,600	\$115,200
1 BR Reg w/ Loft	3	661	1,983	\$2,900	\$4.39	\$8,700	\$104,400
2 BR w/ Loft	1	1127	1,127	\$3,500	\$3.11	\$3,500	\$42,000
Total	16		12,542			\$19,650	\$534,600

II. SOURCES & USES

The development will be financed with a conventional debt and equity capital stack. The budget is \$7,315,500, equivalent to a “per unit” cost of \$457,219. While somewhat high, the development costs have reportedly increased by 20% or more due mostly to increases of building materials. The high construction costs are also attributed to having to provide parking within the structure, as opposed to exterior surface parking. Considering the above, the development budget is relatively comparable to



similar-sized residential and/or mixed-use buildings being constructed or proposed to be constructed on Long Island.

The sources and uses are summarized below. NDC applied a standard 65%/35% debt/equity capital structure, typical of sources of funds available during the construction period.

USES OF FUNDS	Amount	Per Unit	Per SF	%
Acquisition	\$700,000	\$43,750	\$33	10%
Site Costs	\$796,000	\$49,750	\$37	11%
Hard Costs	\$4,267,000	\$266,688	\$198	58%
Soft Costs	\$1,552,500	\$97,031	\$72	21%
TOTAL	\$7,315,500	\$457,219	\$340	100%
SOURCES OF FUNDS	Amount	Per Unit	%	
Commercial Loan	\$4,755,075	\$297,192	65%	
Developer Equity	\$2,560,425	\$160,027	35%	
TOTAL	\$7,315,500	\$457,219	100%	

III. SUMMARIZED BENEFITS PACKAGE

TAX BENEFIT SUMMARY			
SALES TAX EXEMPTION		IDA RELATED PROPERTY TAXES	
Construction	\$5,063,000	Base Taxes	\$2,034
% Attributed to Material	<u>60.00%</u>	Improvement Taxes	<u>\$89,509</u>
Building Materials	\$3,037,800	As Complete Taxes	\$91,543
Sales Tax	<u>8.6250%</u>	15 year phase-in as per schedule in Appendix 1	
Sales Tax Savings	\$262,010		
MORTGAGE RECORDING TAX			
Non-manufacturing Equipment	\$300,000	Mortgage *	\$6,214,475
Sales Tax	<u>8.6250%</u>	Mortgage Recording Tax rate - MTA Tax	<u>0.75%</u>
Sales Tax Savings	\$25,875	Mortgage Recording Tax Savings	\$46,609
		<i>*applicant's targeted permanent loan</i>	
Total Sales Tax Savings	\$287,885		

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:

- Debt and equity capital structure reflective of similar projects
 - Conventional debt financing 65% of the project
 - Developer equity financing 35% of the project
- Permanent loan assumptions that are in line with the current market for similar projects
 - Residential Vacancy Rate at 5.00%
 - Adjusting operating expense, exclusive of real estate taxes, to \$5,500/unit
- Adjusting revenue growth to 2.00% annually
- Adjusting expense growth to 3.00% annually
- Projecting terminal value of project using a 6% cap rate



Rents are consistent with other comparable developments. The average market rate residential rents are \$3.52/SF and the average monthly rent per market rate unit is \$2,438 per unit and \$1,850 per affordable unit (\$2.85/SF). The NDC adjusted operating expenses of \$5,500 per unit, exclusive of real estate taxes, are within the range of reasonableness. 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. The below stabilized pro forma below factors the average PILOT (\$55,740 annually or \$3,484 per unit) paid during the PILOT term.

STABILIZED OPERATING PROFORMA	Amount	Comment(s)	
Gross Market Residential Income	\$468,000	\$2,438 avg. rent	
Gross Affordable Residential Income	\$66,600	\$1,850 avg. rent	
Gross Commercial Income	\$119,000	\$35 PSF	
Less Residential Vacancy	(\$26,730)	5%	
Less Commercial vacancy	(\$11,900)	10%	
Effective Gross Income	\$614,970		
Operating Expenses Exclusive of RE Taxes	(\$88,000)	\$5,500 per unit	
RE Taxes (PILOT)	(\$55,740)	\$3,484 per unit	avg. during term
Total Operating expenses	(\$143,740)	\$8,984 per unit	
Net Operating Income	\$471,230		
Debt Service	<u>(\$306,315)</u>		
Cash Flow	\$164,915		
METRICS	Project	Typical	
Yield to Cost	6.44%	>6.5%	
Cash on Cash	6.44%	>6.5%	
Debt Coverage Ratio	1.54	> 1.25	
Internal Rate of Return	12.50%	> 12%	

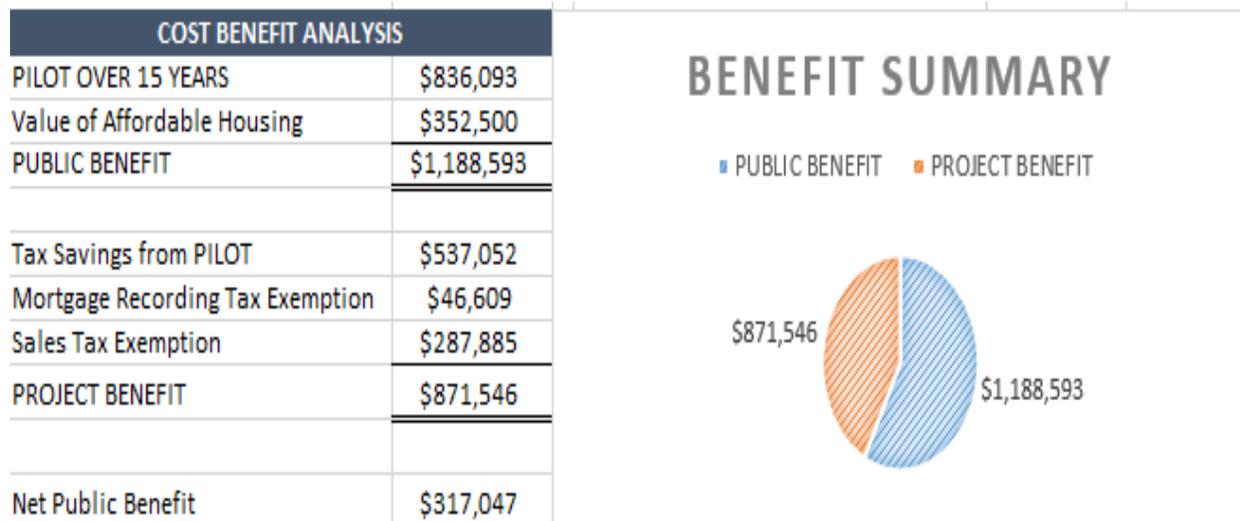
There is not undue enrichment as a result of this financial incentive package. Without the proposed 15-year PILOT schedule, the development would not be financially feasible. More specifically, with taxes at full assessment being equal to \$5,721 per residential unit, the rental income stream would not be sufficient to attract the necessary debt and equity to cover the development costs.

V. COST / BENEFIT ANALYSIS

The below analysis shows a positive net public value of \$317,000. The public benefits included are the aggregate PILOT payments paid during the term as well as the value accorded for the three affordable units priced below 80% AMI. The IDA assistance package yields total tax savings through the PILOT and exemptions on sales tax and mortgage recording tax, as detailed in the below chart.

Per the schedule included as part of Appendix 1 on page 6, the real estate tax revenue increases substantially during the term. The average annual PILOT paid during the term is approximately \$55,740, equivalent to approximately \$3,500 per unit annually. The average annual PILOT (\$55,740) is a **27X** multiplier above the \$2,034 currently paid on the vacant properties. The total projected increment over the current taxes paid to the taxing jurisdictions during the 15-year PILOT exceeds \$805,000.

This project will replace vacant land with an amenity-filled building that is expected to improve the Huntington Station landscape and add considerable disposable income to the local market.





APPENDIX 1: PILOT SCHEDULE

The Landmark at Huntington Station							
	Units		16				
	Gross SF		21,525				
	Land Assessment (2 parcels)		\$500				
	Base Taxes		\$2,034				
	New Assessment		\$22,500				
	Tax Rate (Per \$100)		\$406.86				
	Taxes w Improvements		\$91,543				
	As Complete Taxes/GSF		\$4.25				
	As Complete Taxes/Unit		\$5,721				
PILOT Schedule							
Year	Base Taxes	Improvement Taxes	Full Taxes	Abatement	Savings	PILOT	Increment
	a	b	c	d	e	f	g
			a + b = c		b * d = e	c - e = f	f - a = g
1	\$2,034	\$89,509	\$91,543	75.00%	\$67,132	\$24,411	\$22,377
2	\$2,034	\$89,509	\$91,543	70.00%	\$62,656	\$28,887	\$26,853
3	\$2,034	\$89,509	\$91,543	65.00%	\$58,181	\$33,362	\$31,328
4	\$2,034	\$89,509	\$91,543	60.00%	\$53,705	\$37,838	\$35,803
5	\$2,034	\$89,509	\$91,543	55.00%	\$49,230	\$42,313	\$40,279
6	\$2,034	\$89,509	\$91,543	50.00%	\$44,754	\$46,789	\$44,754
7	\$2,034	\$89,509	\$91,543	45.00%	\$40,279	\$51,264	\$49,230
8	\$2,034	\$89,509	\$91,543	40.00%	\$35,803	\$55,740	\$53,705
9	\$2,034	\$89,509	\$91,543	35.00%	\$31,328	\$60,215	\$58,181
10	\$2,034	\$89,509	\$91,543	30.00%	\$26,853	\$64,690	\$62,656
11	\$2,034	\$89,509	\$91,543	25.00%	\$22,377	\$69,166	\$67,132
12	\$2,034	\$89,509	\$91,543	20.00%	\$17,902	\$73,641	\$71,607
13	\$2,034	\$89,509	\$91,543	15.00%	\$13,426	\$78,117	\$76,082
14	\$2,034	\$89,509	\$91,543	10.00%	\$8,951	\$82,592	\$80,558
15	\$2,034	\$89,509	\$91,543	5.00%	\$4,475	\$87,068	\$85,033
	\$30,514		\$1,373,145		\$537,052	\$836,093	\$805,578
	<i>* tax rate subject to change during term of PILOT</i>				39%	61%	



APPENDNIX 2: 15 YEAR OPERATING PROFORMA

15 YEAR PROFORMA																		
THE LANDMARK HUNTINGTON STATION																		
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Gross Market Residential Income	2.00%		468,000	477,360	486,907	496,645	506,578	516,710	527,044	537,585	548,337	559,303	570,489	581,899	593,537	605,408	617,516	
Gross Affordable Residential Income	2.00%		66,600	67,932	69,291	70,676	72,090	73,532	75,002	76,502	78,033	79,593	81,185	82,809	84,465	86,154	87,877	
Gross Commercial Income	2.00%		119,000	121,380	123,808	126,284	128,809	131,386	134,013	136,694	139,427	142,216	145,060	147,962	150,921	153,939	157,018	
Less Residential Vacancy	5.00%		(26,730)	(27,265)	(27,810)	(28,366)	(28,933)	(29,512)	(30,102)	(30,704)	(31,318)	(31,945)	(32,584)	(33,235)	(33,900)	(34,578)	(35,270)	
Less Commercial Vacancy	10.00%		(11,900)	(12,138)	(12,381)	(12,628)	(12,881)	(13,139)	(13,401)	(13,669)	(13,943)	(14,222)	(14,506)	(14,796)	(15,092)	(15,394)	(15,702)	
Effective Gross Income			614,970	627,269	639,815	652,611	665,663	678,977	692,556	706,407	720,535	734,946	749,645	764,638	779,931	795,529	811,440	
Expenses Excl of RE Taxes/Reserves	3.00%		(88,000)	(90,640)	(93,359)	(96,160)	(99,045)	(102,016)	(105,077)	(108,229)	(111,476)	(114,820)	(118,265)	(121,813)	(125,467)	(129,231)	(133,108)	
RE Taxes (PILOT)			(24,411)	(28,887)	(33,362)	(37,838)	(42,313)	(46,789)	(51,264)	(60,215)	(60,215)	(64,690)	(73,641)	(73,641)	(78,117)	(82,592)	(87,068)	
Total Operating expenses			(112,411)	(119,527)	(126,722)	(133,998)	(141,358)	(148,805)	(156,341)	(168,444)	(171,691)	(179,510)	(191,906)	(195,454)	(203,584)	(211,823)	(220,175)	
Net Operating Income			502,559	507,743	513,093	518,613	524,305	530,172	536,215	537,963	548,845	555,436	557,739	569,184	576,347	583,706	591,264	
Debt Service			(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	(306,315)	
Cash Flow			196,243	201,427	206,778	212,298	217,990	223,857	229,900	231,648	242,529	249,120	251,424	262,869	270,032	277,391	284,949	
DCR			1.64	1.66	1.68	1.69	1.71	1.73	1.75	1.76	1.79	1.81	1.82	1.86	1.88	1.91	1.93	
Cash on Cash			7.66%	7.87%	8.08%	8.29%	8.51%	8.74%	8.98%	9.05%	9.47%	9.73%	9.82%	10.27%	10.55%	10.83%	11.13%	
Valuation - Cap Rate:	6.00%																9,854,407	
Outstanding Loan Balance:																		(\$3,275,616)
Broker Fee																		(295,632)
Net Sales Proceeds																		6,283,158
Benefit Stream		(\$2,560,425)	\$196,243	\$201,427	\$206,778	\$212,298	\$217,990	\$223,857	\$229,900	\$231,648	\$242,529	\$249,120	\$251,424	\$262,869	\$270,032	\$277,391	\$6,568,107	
Internal Rate of Return	12.50%																	

**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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