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

Rendering of Proposed Residence Inn by Marriott

PROJECT APPLICANT AND NAME

Residence Inn by Marriott
500 Broadhollow, LLC

LOCATION

500 Broadhollow Road; Melville, NY 11747

PROJECT DESCRIPTION

143 Room Extended-Stay Hotel

REQUESTED FINANCIAL ASSISTANCE

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

May 18, 2022

The National Development Council ("NDC") has an on-going engagement with Suffolk County Department of Economic Development and Planning (the County). NDC is a national not-for-profit economic development entity that provides development finance advisory services to municipalities throughout the country. NDC is routinely requested to analyze financial structures of proposed developments and determine the appropriateness of direct financial assistance or incentives. As part of the contract with the County, Suffolk County Industrial Development Agency (the "IDA") occasionally requests NDC to review applications for tax assistance. The purpose of this memo is to describe NDC's project understanding and findings regarding the proposed Huntington Village Hotel Partners, LLC project.

I. PROJECT SUMMARY

500 Broadhollow, LLC (the "applicant" and "developer"), is applying for financial assistance for a proposed extended-stay hotel project in Melville, NY.

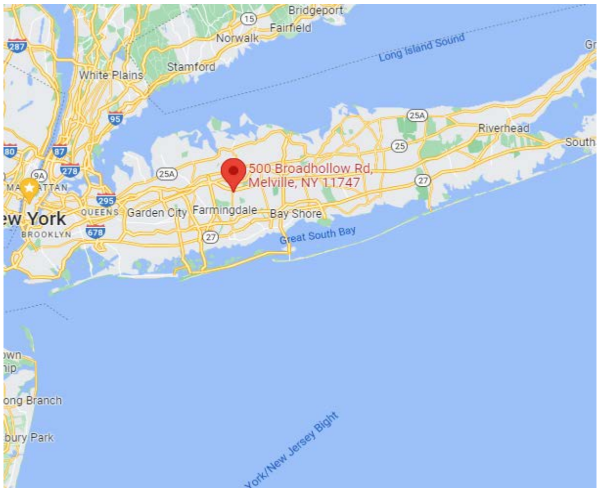
Additional Digital Rendering of Residence Inn Exterior

The application requests a sales tax and a mortgage recording tax exemption in addition to a payment in-lieu of taxes ("PILOT"). The company is newly formed entity to develop the proposed extended-stay hotel in Melville. The proposed Residence Inn by Marriott will operate as the most recently built hotel in the Melville and Plainview hamlets within the Town of Huntington. A newly constructed lodging facility with a strong national brand affiliation and modern designs and décor is anticipated to attract leisure and corporate-transient travelers.

The group's principal investors, Rosario Cassata and George Tsunis, are two accomplished Long Island-based developers well experienced with hotel development. Cassata has developed and currently operates more than 1,100 residential rental units across Suffolk County and Tsunis has developed, acquired, repositioned, renovated, and operated hotels throughout the Northeast for the last 14 years and is currently managing ten flag (Marriott, Hilton, InterContinental Hotels Group (IHG)) properties.

The Developer requested a property tax exemption in the form of a 20-year PILOT. After a review of the application, a 15-year PILOT is proposed with a schedule that starts with a 90% abatement for the first two years of operations. In its third operating year, the abatement drops to 50% and decreases by an even 4.0% annually over the remainder of the 15-year period.

The project site, which includes a vacant one-story office building, is now under contract for purchase by the developer. The subject site was last purchased in 1979 by Gershon Gershoni Diamond Corporation, which has owned it since that time.



Melville, NY

Satellite Image of Site

The subject parcel is a 3.0-acre site containing a vacant one-story office building that will be demolished by the applicant and replaced with a 103,555 square foot, four-story, 143-room extended stay hotel. The property will include a breakfast dining area, 620 square feet of meeting space, an outdoor pool, an outdoor sundeck, an outdoor patio and barbecue area, a fitness room, a lobby workstation, a market pantry, and a guest laundry room. The property will also contain 148 surface level parking spaces.


View of Subject Site from Western Edge

View of Neighborhood

II. SOURCES & USES

The developer hopes to be able 143-room extended-stay hotel development will be financed with a conventional debt (66%) and equity (34%) capital structure. The developer reports that securing financing for new hotels, with the hospitality industry reeling from the severe market impacts from COVID-19, is highly challenging. It reports that the commercial lending market has adjusted underwriting standards for risk mitigation and that commercial construction debt may be sized at lower (50% – 60%) loan to cost ratios, thereby increasing investment equity requirements. The budget is approximately $39.4 million.

The summarized sources and uses are presented below.

USES OF FUNDS	Amount	Per Unit	%
Acquisition Related Costs	$8,580,000	$60,000	22%
Building Construction	$25,000,000	$174,825	63%
Furniture Fixtures and Equipment	$4,500,000	$31,469	11%
Soft Costs	$600,000	$4,196	2%
Financing Costs	$400,000	$2,797	1%
Legal/Closing Costs	$300,000	$2,098	1%
TOTAL	**$39,380,000**	**$275,385**	**100%**
SOURCES OF FUNDS	Amount	Per Unit	%
Loan	$26,000,000	$181,818	66%
Equity	$13,380,000	$93,566	34%
TOTAL	**$39,380,000**	**$275,385**	**100%**

The development budget measured in absolute dollars ($39.4 million) and cost per key ($275K) are high, above what other comparable hotels that have been placed into the market in recent past. The development team attributes the high costs to land costs ($60K per key) as well as soaring construction costs and building material costs. The developer has not yet closed on the land. It has an option and is subject to securing the necessary financing.

III. SUMMARIZED BENEFITS PACKAGE

The Town of Huntington Assessor's Office Tax Estimate itemizes "as-is" taxes currently at $15,693, and based upon the proposed improvements, the "as complete" taxes would be $411,505. NDC used the Town Assessor estimates in its analysis. Paying full taxes at the estimated amount from year 1, before the property reaches stabilization, would render the extended-stay hotel development financially challenging. Without a PILOT schedule that provides a reasonable phase-in schedule to full taxes, the developer would have difficulty accessing the necessary debt and equity, as some of the underwriting and market investment return metrics fall short of expectations.

The Tax Benefit Summary below includes the PILOT as recommended as part of this analysis, as well as the estimated materials sales tax and mortgage recording tax exemptions.

TAX BENEFIT SUMMARY					
IDA RELATED PROPERTY TAXES			**SALES TAX EXEMPTION**		
Current Taxes	$26,155		Construction Cost		$25,000,000
As Complete Taxes @ 2022 rate	$411,505		Value of Building Materials	60%	$15,000,000
Multiplier	15.73 x		Equipment		$4,500,000
PILOT Over 15 Year Term	$4,074,771		Sales Tax Rate		8.625%
PILOT Savings Over Term	$2,097,804		Value of Exemption on Building Materials		$1,681,875
MORTGAGE RECORDING TAX					
Mortgage	$26,000,000				
Mortgage Recording Tax	0.75%				
Value of Exemption	$195,000				

The proposed PILOT schedule, as detailed in Appendix 1, commences at a 90% abatement for the first two operating years before decreasing to 50% in the third year, after which it phases in evenly at 4.0% annually over the balance of the 15-year period.

With the PILOT and the abatement schedule, the tax increment is significant. The PILOT increases revenue to the taxing jurisdictions by more than 200% in the first year (the base tax is $15.6K and the first year PILOT payment is $55.2K). Over $4.0 million in real estate tax revenue is realized over the 15-year term. The average annual PILOT ($271K) paid over the term is a 17X multiplier above the $15.6K current real estate taxes. The PILOT paid over the term is 66% of estimated full taxes, meaning that the project realizes a 34% savings during the term.

IV. SUMMARY OF NDC ANALYSIS

NDC based its analysis on revenue assumptions by averaging the numbers provided by the Developer in the original IDA application and those seen in the HVS Consulting report. HVS Consulting prepared a Market Study dated May 12, 2022, for the proposed hotel project. As part of this analysis, NDC reviewed the report and compared the income and expense projections and assumptions from the market study with those submitted by the developer as part of the IDA application process. There are some major differences between the two resulting from different combinations of anticipated occupancy and average daily rates. HVS Consulting assumptions are more in line with the industry operating without COVID-19, whereas the Developer's numbers give COVID-19 factors heavier consideration. To reconcile the difference, NDC used a mid-range between the reported average daily rate (ADR), occupancy assumptions, and Revenue Per Available Room (RevPAR).

The development is projected to stabilize in year three of the projections contained in the market study, whereas the developer submitted projections have the occupancy rate increasing continuously through years 1-20. During years 1-4 in the developer's proforma, the estimated occupancy rates and resulting Revenue Per Available Room (RevPAR) of vary significantly from what is reported in the market study. According to the Developer, those variations are a result of COVID-19 and its effects on the hotel industry. By projected year fifteen, the developer's occupancy rates, ADRs, RevPARs, and operating expenses are more closely aligned other comparable developments as reported in the HVS Market Study. The income, operating expense assumptions and reserves reflected in the proforma, reviewed as part of this analysis, are less what was reported for comparable properties in the HVS study. As a result, NDC adjusted its proforma by averaging the numbers submitted by the developer and HVS Market Study.

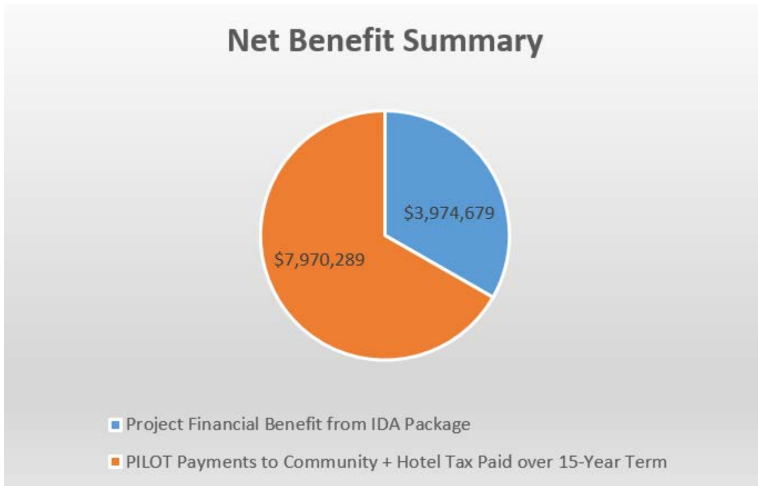
STABILIZED OPERATING PRO FORMA (THIRD YEAR)							
	WITHOUT PILOT		***WITH 15 Yr PILOT***		***WITH 15 Yr PILOT (Average Over Term)***		
Department Revenue	$7,661,182		$7,661,182		$7,661,182		
Other Income	$101,502		$101,502		$101,502		
Gross Income	$7,762,684		$7,762,684		$7,762,684		
Departmental Expenses	($1,802,495)		($1,683,177)		($1,683,177)		
Undistributed Dept Expenses	($2,080,399)		($2,080,399)		($2,080,399)		
Gross Profit	$3,879,789		$3,879,789		$3,879,789		
Management Fee	($271,694)		($271,694)		*(271,694)*		
Net Income	$3,369,253		$3,369,253		$3,369,253		
Insurance	($90,000)		($90,000)		($90,000)		
RE Taxes/PILOT	($411,505)		($213,599)		(271,651)		
Reserve	($310,507)		($310,507)		($310,507)		
EBITDA	$2,557,241		$2,755,147		$2,697,095		
Debt Service	($1,674,883)		($1,674,883)		($1,674,883)		
Cash Flow	$882,358		$1,080,264		$1,022,211		
METRICS	***WITHOUT PILOT***		***WITH 15 Yr PILOT***		***WITH 15 Yr PILOT (Average Over Term)***		***Typical in Market for Comparable Projects***
DCR	1.53		1.64		1.61		>1.25
Cash on Cash	7%		8%		8%		>8%
Yield to Cost	6%		7%		7%		>8%
Levered IRR	12%		14%		14%		>15%

Financial returns from the project, with the proposed PILOT schedule as projected, are modest yet sufficient to establish financial feasibility. Commercial hotel developments, due to a higher risk profile, typically require higher return metrics than a residential development. Without the proposed PILOT schedule, the development is marginal and challenging to assemble the requisite capital stack.

V. BENEFIT SUMMARY

The below analysis shows a positive net public value. Besides factoring the PILOT increment, NDC included the Suffolk County hotel occupancy tax, at 3% of the per-diem rental rate charged for each room, in its analysis of the project public benefit. The project benefit are savings realized from the PILOT as well as the exemptions on the mortgage recording tax and sales tax on building materials.

BENEFIT SUMMARY		
PILOT Over 15-Year Term	$4,074,771	
Hotel Tax Paid Over 15-Year Term	$3,895,518	
Total Public Benefit from Project		**$7,970,289**
Sales Tax Exemption	$1,681,875	
Mortgage Recording Tax Exemption	$195,000	
RE Property Tax Savings through 15-Year PILOT	$2,097,804	
Total Project Financial Benefit from IDA Package		**$3,974,679**
Public Benefits In Excess of Project Benefit		**$3,995,611**



Not captured in the above graph are the new jobs to be created and intangible benefits of the proposed project. The applicant expects thirty-two full-time equivalent jobs related to operations. The project will also revitalize an empty and under-utilized property in Melville, and as a hotel development, there is no additional burden to the local school district. The project will help bring tourism to the area and provide much-needed hotel services to the area.

APPENDIX 1: PILOT STRUCTURE

Tax Assumptions	
Hotel Rooms	143
Base Taxes	$15,693
Improvement Taxes	$395,812
As Complete Taxes	$411,505
Taxes Per Unit	$2,878

15 Year Schedule

Year	Base Taxes	Improvement Taxes	Full Taxes	Abatement	Savings	PILOT	Increment
Construction	$15,693					$15,693	
Construction	$15,693					$15,693	
1	$15,693	$395,812	$411,505	90%	($356,231)	$55,274	$39,581
2	$15,693	$395,812	$411,505	90%	($356,231)	$55,274	$39,581
3	$15,693	$395,812	$411,505	50%	($197,906)	$213,599	$197,906
4	$15,693	$395,812	$411,505	46%	($182,682)	$228,823	$213,130
5	$15,693	$395,812	$411,505	42%	($167,459)	$244,046	$228,353
6	$15,693	$395,812	$411,505	38%	($152,235)	$259,270	$243,577
7	$15,693	$395,812	$411,505	35%	($137,012)	$274,493	$258,800
8	$15,693	$395,812	$411,505	31%	($121,788)	$289,717	$274,024
9	$15,693	$395,812	$411,505	27%	($106,565)	$304,940	$289,247
10	$15,693	$395,812	$411,505	23%	($91,341)	$320,164	$304,471
11	$15,693	$395,812	$411,505	19%	($76,118)	$335,387	$319,694
12	$15,693	$395,812	$411,505	15%	($60,894)	$350,611	$334,918
13	$15,693	$395,812	$411,505	12%	($45,671)	$365,834	$350,141
14	$15,693	$395,812	$411,505	8%	($30,447)	$381,058	$365,365
15	$15,693	$395,812	$411,505	4%	($15,224)	$396,281	$380,588
	$235,395	$5,937,180	$6,172,575		($2,097,804)	$4,074,771	$3,839,376
					34% of full taxes	66% of full taxes	
						$271,651 annual avg.	
						$1,900 per unit annually	

STANDARD DISCLOSURE

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"):

The National Development Council is not a Registered Municipal Advisor as defined in Dodd-Frank and the Exchange Act and therefore cannot provide advice to a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including structure, timing, terms or other similar matters concerning such financial products or issues.

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