

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



Rendering of Proposed Luxury Hotel

PROJECT APPLICANT AND NAME

Seven Beach Lane
WHBH Holdings, LLC

LOCATION

7 Beach Lane; Westhampton Beach, NY 11978

PROJECT DESCRIPTION

16 Room Boutique Luxury Hotel

REQUESTED FINANCIAL ASSISTANCE

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

August 11, 2022

[UPDATE]

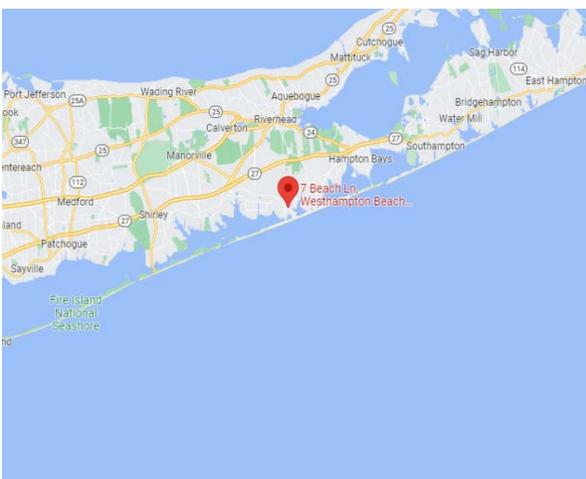
The National Development Council (“NDC”) has an on-going engagement with Suffolk County Department of Economic Development and Planning (the County). NDC is a national not-for-profit economic development entity that provides development finance advisory services to municipalities throughout the country. 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 WHBH Holdings, LLC project.

I. PROJECT SUMMARY

WHBH Holdings, LLC (the “Applicant” and “Developer”), is applying for financial assistance for a proposed boutique luxury hotel project in the incorporated village of Westhampton Beach, within the Town of Southampton, Suffolk County, NY. The application requests a sales tax exemption, a mortgage recording tax exemption, and a payment in-lieu of taxes (“PILOT”).

The subject parcel is a 1.03-acre site containing The Grassmere Inn, a former 19-room bed and breakfast-style inn that has been kept in a state of disrepair for over twenty years. The Developer proposes to redevelop the building into a 16-room luxury hotel with an outdoor pool, bar, indoor and outdoor restaurant, lounge area with firepit, and outdoor fitness area. This would be the first luxury hotel in Westhampton Beach. The property is located on the eastern side of the village’s historic downtown center and one-quarter mile north of Rogers Beach. The Developer recently renovated another old hotel, The Fire Island Hotel and Resort in the Town of Brookhaven, and successfully redeveloped it into The Fire Island Beach House. As a result, the Developer has confidence in their business plan for the proposed project.

The Developer requested a property tax exemption in the form of a 20-year PILOT. After a review of the application, a 10-year PILOT is proposed in line with the IDA’s Uniform Tax Exemption Policy (UTEP) 485 (b) Formula: a 10-year PILOT starting at 50% abatement and declining 5.0% per year thereafter.



Westhampton Beach, NY



Satellite Image of Site

Renovation is expected to commence in September of 2022 and be completed in time for a mid-2023 opening. The property will be managed by Life House Hotels. As it stands, the hotel will be open from March 1st – January 5th, with the decision on the balance of January and February to be determined.

II. SOURCES & USES

The Developer intends to finance the 16-room luxury hotel with a conventional debt (65%) and equity (35%) capital structure. Equity will be split between investor equity (28%) and general partner equity (7%). The budget is approximately \$11.6 million.

The summarized sources and uses are presented below.

USES OF FUNDS	Amount	Per Key	Per GSF	%
Acquisition Related Costs	\$2,142,621	\$133,914	\$232	18%
Renovation of Existing Structure	\$3,178,301	\$198,644	\$344	27%
Construction of New Structure	\$3,178,301	\$198,644	\$344	27%
Furniture Fixtures and Equipment	\$801,362	\$50,085	\$87	7%
Soft Costs	\$1,536,202	\$96,013	\$166	13%
Finance Costs	\$120,000	\$7,500	\$13	1%
Reserves	\$640,000	\$40,000	\$69	6%
TOTAL	\$11,596,788	\$724,799	\$1,254	100%

SOURCES OF FUNDS	Amount	Per Key	Per GSF	%
Loan	\$7,500,000	\$468,750	\$811	65%
Investor Equity	\$3,298,678	\$206,167	\$357	28%
GP Equity	\$798,109	\$49,882	\$86	7%
TOTAL	\$11,596,788	\$724,799	\$1,254	100%

The redevelopment budget measured in absolute dollars (\$11.6 million), costs per gross square foot (\$1,245/SF), and cost per key (\$724K) are high, above what other comparable hotels that have been placed into the market in recent past. This can be attributed to the high costs of land (\$133K per key) as well as soaring construction costs and building material costs. Additionally, given the building was constructed in the 19th century, certain precautions need to be taken. The Developer intends to preserve the Victorian aesthetic by inserting a steel skeleton into the frame of the building, given the structural integrity of the building is in extremely poor condition.

III. SUMMARIZED BENEFITS PACKAGE

The Town of Southampton Consolidated Real Property Tax Bill itemizes “as-is” taxes currently at \$18,332. An assessment provided by Certilman, Balin, Adler, and Hyman LLP estimates that based upon the proposed improvements, the “as complete” taxes, including County, Town, and Village, would be \$100,000. NDC used this estimate in its analysis. The Tax Benefit Summary on the following page 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		\$18,332	Construction Cost		\$6,356,603
As Complete Taxes @ 2022 rate		\$100,000	Value of Building Materials	60%	\$3,813,962
Multiplier		5.45 x	FF&E		\$935,891
PILOT Savings Over Term		\$224,587	Eligible for Sales Tax Exemption		\$4,749,853
			Sales Tax Rate		<u>8.625%</u>
MORTGAGE RECORDING TAX			Value of Exemption on Building Materials		\$409,675
Mortgage		\$7,500,000			
Mortgage Recording Tax		<u>0.75%</u>			
Value of Exemption		\$56,250			

The proposed PILOT schedule, as detailed in Appendix 1, follows the IDA’s UTEP 485 (b) formula and commences at a 50% abatement in the first operating year before phasing in evenly at 5.0% annually over the balance of the 10-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 300% in the first year (the base tax is \$18.3K and the first year PILOT payment is \$59.2K). Over \$775,000 in real estate tax revenue is realized over the 10-year term. The average annual PILOT (\$77.5K) paid over the term is a 4.2X multiplier above the \$18.3K current real estate taxes. The PILOT paid over the term is 78% of estimated full taxes, meaning that the project realizes a 22% savings during the term.

IV. SUMMARY OF NDC ANALYSIS

NDC based its analysis on the revenue assumptions provided in the IDA application. For consistency with other IDA reviews, NDC adjusted the permanent loan assumptions provided by the Developer to be more in line with the current market for similar projects (5.50% over 20 years, with first two years of construction to be interest-only payments). Additionally, HVS Consulting prepared a Market Study dated July 6, 2022, for the proposed hotel project. Developer-submitted Revenue Per Available Room (RevPar) estimates are in line with the HVS report in the second year of operations at \$239 and \$242, respectively. However, beginning Year 3, the Developer’s RevPar and Department Revenue are slightly aggressive compared to what is seen in the HVS report. In addition, the applicant anticipates substantial income (>50% of total revenue) from food and beverage sales

Financial returns from the project, with the proposed PILOT schedule as projected, are reasonable and in line with market expectations for a hospitality property, and do not constitute undue enrichment. Commercial hotel developments, due to a higher risk profile, typically require higher return metrics than a residential development. The IDA’s UTEP 485 (b) formula is a standard incentive for commercial developments to help secure necessary financing. The PILOT and IDA package is a productive incentive package to assist with project economics and offset the higher risk of undertaking an extremely expensive product in the risky hospitality industry for which private capital is less readily available.

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, in addition to the exemptions on the mortgage recording tax and sales tax on building materials.

BENEFIT SUMMARY		
PILOT Payments Over 10-Year Term	\$775,413	
Hotel Tax Paid Over 10-Year Term	<u>\$432,071</u>	
Total Public Benefit from Project		\$1,207,484
Sales Tax Exemption	\$409,675	
Mortgage Recording Tax Exemption	\$56,250	
RE Property Tax Savings through 10-Year PILOT	<u>\$224,587</u>	
Total Project Financial Benefit from IDA Package		\$690,512
Public Benefits In Excess of Project Benefits		\$516,972



Not captured in the above graph are the new jobs to be created and intangible benefits of the proposed project. The applicant expects seven (7) full-time equivalent jobs related to operations. The project will also revitalize an under-utilized property in Westhampton Beach, and as a hotel development, there is no additional burden to the local school district. The project will help bring tourism and provide much-needed hotel services to the area. The market study conducted by HVS suggested that the majority of the rooms will be expected to be filled by guests from outside of Long Island as there is currently a shortage of hospitality properties in eastern Long Island.

APPENDIX 1: PILOT SCHEDULE

Tax Assumptions			PILOT Terms				
Hotel Rooms	16				Starting Abatement	50%	
Base Taxes	\$18,332				PILOT Term	10	
Improvement Taxes	\$81,668				Decrease % Per Year	5.00%	
As Complete Taxes	\$100,000						
Taxes Per Unit	\$6,250						
<i>0.00% escalator</i>							
10-Year PILOT Schedule							
Year	Base Taxes	Improvement Taxes	Full Taxes	Abatement	Savings	PILOT	Increment
Construction	\$18,332					\$18,332	
Construction	\$18,332					\$18,332	
1	\$18,332	\$81,668	\$100,000	50.00%	(\$40,834)	\$59,166	\$40,834
2	\$18,332	\$81,668	\$100,000	45.00%	(\$36,751)	\$63,249	\$44,917
3	\$18,332	\$81,668	\$100,000	40.00%	(\$32,667)	\$67,333	\$49,001
4	\$18,332	\$81,668	\$100,000	35.00%	(\$28,584)	\$71,416	\$53,084
5	\$18,332	\$81,668	\$100,000	30.00%	(\$24,500)	\$75,500	\$57,168
6	\$18,332	\$81,668	\$100,000	25.00%	(\$20,417)	\$79,583	\$61,251
7	\$18,332	\$81,668	\$100,000	20.00%	(\$16,334)	\$83,666	\$65,334
8	\$18,332	\$81,668	\$100,000	15.00%	(\$12,250)	\$87,750	\$69,418
9	\$18,332	\$81,668	\$100,000	10.00%	(\$8,167)	\$91,833	\$73,501
10	\$18,332	\$81,668	\$100,000	5.00%	(\$4,083)	\$95,917	\$77,585
	\$183,319	\$816,681	\$1,000,000		(\$224,587)	\$775,413	\$592,094
					22% of full taxes	78% of full taxes	
						\$77,541 annual avg.	
						\$4,846 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.

The general information contained in this document is factual in nature and consistent with current market conditions and does not contain or express subjective assumptions, opinions, or views, or constitute a recommendation, either express or implied, upon which a municipal entity or obligated person may rely with respect to municipal products or the issuance of municipal securities.

In connection with these matters, it is expressly understood by all parties that NDC is not acting as your agent, advisor, municipal advisor, or fiduciary. NDC may have financial and other interests that differ from yours. You should discuss the information contained herein with your own municipal, financial, legal, accounting, tax, and/or other advisors, as applicable, to the extent that you deem appropriate.