PREPARED FOR:
Village of Port Chester Industrial Development Agency
222 Grace Church Street
Port Chester, NY 10573

Reasonableness Assessment for Financial Assistance – Update for 20-Year PILOT

PORT CHESTER HOLDINGS I
27-45 NORTH MAIN STREET
JANUARY 7, 2022

PREPARED BY:

camoin associates

Storrs ASSOCIATES

ABOUT CAMOIN ASSOCIATES

Camoin Associates has provided economic development consulting services to municipalities, economic development agencies, and private enterprises since 1999. Through the services offered, Camoin Associates has had the opportunity to serve EDOs and local and state governments from Maine to California; corporations and organizations that include Lowes Home Improvement, FedEx, Amazon, Volvo (Nova Bus) and the New York Islanders; as well as private developers proposing projects in excess of $6 billion. Our reputation for detailed, place-specific, and accurate analysis has led to projects in 40 states and garnered attention from national media outlets including Marketplace (NPR), Crain's New York Business, Forbes magazine, The New York Times, and The Wall Street Journal. Additionally, our marketing strategies have helped our clients gain both national and local media coverage for their projects in order to build public support and leverage additional funding. We are based in Saratoga Springs, NY, with regional offices in Portland, ME; Boston, MA; Richmond, VA and Brattleboro, VT. To learn more about our experience and projects in all of our service lines, please visit our website at www.camoinassociates.com. You can also find us on Twitter @camoinassociate and on Facebook.

ABOUT STORRS ASSOCIATES, LLC

Storrs Associates, LLC is a partner and advisor to public and private entities seeking to encourage economic growth and to make direct public and private investments. We deliver client-driven, high quality advice, customized analyses and reports, public speaking and learning sessions, and transaction management. Victoria Storrs, the company President, founded the firm in 2021 to provide direct, responsive service to municipal governments and the public and private organizations who work with and for them. She has worked with municipal governments for more than 20 years, beginning as an investment banker at First Albany Corporation and managing debt financings for state public authorities. She taught money and capital markets at the State University of New York at Albany School of Business, and has been a development finance and economic development consultant for more than seven years, including five years at Camoin Associates. You can learn more at **www.storrsassociates.com** and on **LinkedIn**.

THE PROJECT TEAM

Camoin Associates

Rachel Selsky
Vice President, Project Principal

Storrs Associates

Victoria Storrs
President and Founder

EXECUTIVE SUMMARY

Project Description

In December of 2021, the Village of Port Chester Industrial Development Agency (Agency) received an update to the application for financial assistance from Port Chester Holdings I, LLC for the construction of a mixed-use development (Project) which features:

- 182 market rate apartments
- 21 income-restricted apartments affordable to households earning up to 70% of Area Median Income
- 9,957 square feet of retail space
- 144 parking spaces
- Location at 27-45 North Main Street and 28 Adee Street.

The Project represents a $89,191,260 investment and is anticipated by the Applicant to retain 15 jobs and add 20 new jobs, plus 350 construction jobs during the construction period.

Request for Financial Assistance

Port Chester Holdings I, LLC initially requested a 20-year PILOT, and the Agency approved a 15-year PILOT. Port Chester Holdings has provided updated construction costs and a revised pro forma statement of operations to support its request for a longer PILOT schedule. The Agency has asked that a 20-year PILOT be reevaluated and compared to a 15-year, which is presented in a companion report.

- 20 years reduced taxes through a PILOT agreement
- Mortgage Tax Exemption
- Sales and Use Tax Exemption on construction materials

Purpose of this Analysis

In order to evaluate the Project with the new data, the Agency has re-engaged Camoin Associates, working with Storrs Associates, to analyze the Project in light of the new information and deliver an analysis and opinion to answer three important questions:

Are the operating assumptions such as rent, vacancy, and expenses, within norms for the region?

Is the assistance necessary for the Project to be financially feasible, and therefore undertaken by the Applicant?

If assistance is awarded, will the Applicant's rate of return on investment be similar to market expectations for similar projects in the region, and therefore reasonable?

This analysis concludes that the answer to each of these questions is yes: the assumptions are within norms, the assistance is necessary to Project feasibility, and the rate of return to the Applicant is similar to market expectations and therefore reasonable.

The 20-year PILOT enables the Project to meet rate of return benchmarks. This report finds it is therefore feasible.

As part of this review, the project team benchmarks operations using regional data from CoStar, and financial assumptions and returns from RealtyRates.com.

Components of this Report

RATE OF RETURN

An estimated return on investment to the Applicant is calculated using data from the application, plus an operating pro forma and capital structure also submitted by the Applicant. This analysis measures whether the financial assistance is necessary and reasonable.

Financial performance with and without a PILOT is estimated over the full PILOT period. Three metrics are used to evaluate outcomes:

The Equity Dividend Rate is net cashflow for each year, divided by the initial equity investment. Averages are calculated for time periods to summarize performance over time. Equity Dividend Rates are benchmarked using current market information from RealtyRates.com for similar projects in the region. Equity Dividend Rates that are close to the benchmarks indicate a Project outcome in line with the current market, and the Applicant is earning a reasonable return. Very low or negative rates indicate the Project is unlikely to be undertaken if compared to other possible investments.

Cumulative Cash Flow shows net cashflow to the Project's investor over time. It is useful to note cashflow differences between a PILOT and No PILOT scenario, as this is another indicator of whether the Applicant is earning a return. No benchmarks are published.

Debt Service Coverage estimates how well Project's net income, after taxes, supports repayment of debt. Benchmarks are from RealtyRates.com based on current bank practices.

Table 1

Comparison of Return on Investment - 20 Year PILOT

	Commercial PILOT	No PILOT
Equity Dividend Rates: Benchmarks 6.10% to 14.45%		
Average Years 1-5	4.06%	1.68%
Average Years 6-10	6.99%	3.61%
Average Years 11 - 20	9.50%	7.98%
Average, 20 Years	7.51%	5.72%
Cumulative Cash Flow		
End of Year 5	$ 7,247,954	$ (699,141)
End of Year 10	$ 19,710,576	$ 5,733,704
End of Year 20	$ 53,616,401	$ 34,214,143
Debt Service Coverage: Benchmarks 1.10 to 1.86		
Average	1.78	1.56
Minimum	0.69	1.08
Maximum	2.17	2.14

Benchmarks from RealtyRates for Q4 2021

Results Summary

The Applicant anticipates that the Project will not be fully occupied in Year 1, resulting in a net loss regardless of the tax abatement.

- **Equity Dividend Rates** are based on an initial investment of $35,676,504. For the No PILOT scenario they are below the benchmarks for the first ten years. With the Commercial PILOT structure, taxes are reduced sufficiently to improve performance and deliver returns that are within the desired range, but do not exceed the benchmarks. This suggests a PILOT is necessary and allows the Project to deliver returns similar to other projects in the region.
- **Cumulative Cash Flow** is positive for all 5-year periods with a PILOT, but without a PILOT the Project's Year 1 loss is not made up until Year 6. With the PILOT this is made up by the end of Year 2.
- **Debt Service Coverage** meets benchmarks only with a PILOT.
- **This analysis concludes that the assistance is necessary to Project feasibility, and the average rate of return to the Applicant is within market expectations and therefore reasonable. The Project is feasible.**

OPERATING ASSUMPTIONS

Operating assumptions were compared to real estate provider CoStar estimates for rent and vacancy during 2021 in Westchester County.

Results Summary

The residential vacancy rate of 5% is within Costar's expectation for the county, 7.9 % to 10%. Commercial rent per square foot matches the county average, and the Applicant does not project vacancy.

The ability of households in Westchester County to afford either market rate or affordable apartments was estimated by calculating the income necessary to pay no more than 30% of income on rent. The rents for affordable apartments are accessible to households earning no more than 60% of Area Median Income (AMI) the county for a studio, and 70% for 1- and 2- bedroom units.

Table 2

Retail Square Footage and Rent, and Parking Use

Commercial	Square Feet (SF)	Rent/SF	Rent/Year	Evaluation Using CoStar
Retail/Restaurant	9,957	$ 30	$ 298,710	Same
Westchester County Rent/SF, 2021 est.		$ 30		
Year 2 Vacancy Rate in Project Pro Forma	0.0%		$ 246,582	High
Westchester County Vacancy Rate	4.8%			
Parking	Spots	Rent/Month	Rent/Year	
All Parking	144	$ 150	$ 259,200	n/a

Source of rent and vacancy: Applicant. Vacancy Rates from CoStar 2021 estimates for Westchester County.

Table 3

2021 Maximum Income Guidelines for Westchester County

	60% AMI	*Calculated: 70%*	80% AMI
1 person	$ 53,550	*$ 62,475*	$ 71,400
2 person	$ 61,200	*$ 71,400*	$ 81,600
3 person	$ 68,850	*$ 80,325*	$ 91,800

Source: Westchester.gov

Table 4

Apartment Unit Type, Rent, and Household Income

Residential	Unit Type	Number of Units	Rent/Month	Rent/Year	Estimated Household Income (1)	Percent of Households Affording these Rents (2)
Market Rate, 90% of Units	Studio	45	$ 1,968	$ 23,616	$ 78,720	59%
	1BR	97	$ 2,965	$ 35,580	$ 118,600	32%
	2BR	40	$ 4,050	$ 48,600	$ 162,000	22%
Market Rate Weighted Average Rent per Month			*$ 2,957*			
Westchester County Rent per Month, 2021 est.			*$ 2,231*	*($2.62/SF)*		Affordable at Area Median Income of (3):
Affordable, 10% of Units	Studio (1 person)	5	$ 1,306	$ 15,672	$ 52,240	60%
	1BR (2 persons)	11	$ 1,633	$ 19,596	$ 65,320	70%
	2BR (3 persons)	5	$ 1,960	$ 23,520	$ 78,400	70%

Vacancy rate for all units is 5%, below the estimate of 7.6% for the county.

Source of rent and vacancy: Applicant. Vacancy Rates from CoStar 2021 estimates for Westchester County.

(1) Income needed to pay no more than 30% on rent, calculated by Storrs Associates

(2) Source: US Census Table S1901, 5-Year American Community Survey for Westchester County. The percent of households earning at least the estimate is shown.

(3) Estimated Household Income compared with 2021 Maximum Income Guidelines for Westchester County for each number of persons. For example, Estimated Household Income for a studio is below the 60% limit.

OPERATING PERFORMANCE

Operating performance of the Project is measured using Year 5 of the Applicant's pro forma. Gross revenue and expenses both escalate at 3% per year. One adjustment was made to the pro forma for the purposes of this report:

1. The Applicant's financing terms specify a monthly amortization. Debt service was recalculated to amortize monthly, not annually as shown in the pro forma, resulting in a slightly lower annual payment.

Results Summary

Operating performance and assumptions about residential vacancy are below the 2021 estimate for the county. This is reasonable given the demand for new construction, compared with older units. The benchmark includes units of varying age, location, and quality, not just new construction.

Net Operating Income (NOI) as a percentage of Gross Operating Income is a measure of project performance, and is benchmarked by RealtyRates. Before paying debt service, the Project exceeds the benchmark, delivering 69% compared with 56%.

Debt service for this Project slightly exceeds total Operating Expenses and Reserve. An NOI that also includes the Debt Service drops to 27% of Gross Operating Income.

Table 5

Operations Snapshot, Year 5, 20-Year PILOT

	Project Performance	Project Performance as a % of Income	Benchmark Performance	Benchmark Source	Evaluation
Calculation of Net Operating Income					
Gross Operating Income	$ 8,173,750	n/a			n/a
Vacancy Rate	5%	n/a	7.9% to 10%	CoStar, Camoin 310	Within Range
Calculation of Net Operating Income, Retail and Parking					
Gross Operating Income	$ 752,930	n/a	n/a	n/a	n/a
Vacancy Rate	*0.0%*	n/a	4.8%	CoStar	Below Target
Effective Gross Income (EGI), All Uses (1)	$ 8,517,993	95%	91%	RealtyRates	Within Range
Operating Expenses and Reserve	$ (2,240,472)	25%	44%	RealtyRates	More Efficient
Real Property Taxes	$ (626,133)	7%	n/a	n/a	n/a
Net Operating Income	$ 5,651,388	69%	56%	RealtyRates	More Efficient
Less: Debt Service	$ (3,447,345)	n/a	n/a	See Comparison of Returns for Coverage	
NOI after Debt Service	$ 2,204,043	27%	0%	RealtyRates	Less Efficient
Cashflow after Operating Costs, Taxes, Debt	$ 2,204,043	25%	n/a	n/a	n/a

Source: Applicant. Benchmarks from RealtyRates (performance) and CoStar (vacancy). Evaluation by Storrs Associates.

(1) Net of vacancy.

PILOT SCHEDULE – 20 YEARS

The Village of Port Chester Industrial Development Agency's Uniform Tax Exemption Policy (UTEP) provides for PILOTs that are comprised of the future taxes on a Base Value reflecting current parcel status, and on Added Value reflecting the new investment in improvements because of the Project. Port Chester Holdings I is evaluated using a Commercial PILOT.

Steps in this Analysis:

1. Calculate the taxes on the Base Value and escalate it by 1% annually.
2. Calculate future taxes using the Added Value of improvements provided by the Town of Rye Assessor, and an aggregated tax rate provided by the Agency for Year 1.
3. Escalate taxes on the Added Value by 1% annually.
4. Add taxes on the Base Value and Added Value to calculate taxes estimated to be paid by the Project if no PILOT is awarded.

The estimate of full taxes without a PILOT and the proposed PILOT schedule are presented on the next page.

Table 6

Estimated Taxes after Project Completion, with Comparisons to PILOT

Basic Assumptions about Added Value of Assessment		
Full Market Value Estimate from Assessor	$	62,114,030
Less: Current Value	$	(7,970,400)
Calculated Added Value	$	54,143,630
Est. Aggregated Tax Rate for County, Town, Village and School	$	32.01
Estimated Taxes on Added Value	$	1,732,968

Term = 20 Years		Taxes	Percent of Full Taxes
Full Taxes	$	43,775,444	100%
Less: PILOT Pmts	$	(24,373,186)	56%
= Abatement	**$**	**19,402,258**	**44%**

Full Taxes without PILOT				
PILOT Year	Tax Year Ending	A1 Estimated Full Taxes on Base Value +1% Escalator	A2 Estimated Full Taxes on Added Value +1% Escalator	A = A1 + A2 Estimated Full Taxes on Base + Added Value
1	12/31/2022	$255,108	$1,732,968	$1,988,076
2	12/31/2023	257,659	1,750,298	2,007,956
3	12/31/2024	260,235	1,767,801	2,028,036
4	12/31/2025	262,838	1,785,479	2,048,316
5	12/31/2026	265,466	1,803,333	2,068,799
6	12/31/2027	268,121	1,821,367	2,089,487
7	12/31/2028	270,802	1,839,580	2,110,382
8	12/31/2029	273,510	1,857,976	2,131,486
9	12/31/2030	276,245	1,876,556	2,152,801
10	12/31/2031	279,007	1,895,322	2,174,329
11	12/31/2032	281,797	1,914,275	2,196,072
12	12/31/2033	284,615	1,933,418	2,218,033
13	12/31/2034	287,462	1,952,752	2,240,213
14	12/31/2035	290,336	1,972,279	2,262,615
15	12/31/2036	293,240	1,992,002	2,285,242
16	12/31/2037	296,172	2,011,922	2,308,094
17	12/31/2038	299,134	2,032,041	2,331,175
18	12/31/2039	302,125	2,052,362	2,354,487
19	12/31/2040	305,146	2,072,885	2,378,032
20	12/31/2041	308,198	2,093,614	2,401,812
Totals		**$5,617,214**	**$38,158,230**	**$43,775,444**

Commercial UTEP Comparison to Full Taxes					
PILOT Year	Tax Year Ending	B = A1 + (A2 x D) Estimated PILOT Payment (Base + Added)	C = A - B Abatement/ Foregone revenue: Full taxes - PILOT	D = B/A PILOT as a % of Full Taxes	E = C/A Abatement/ Foregone Revenue as a % of Full Taxes
1	12/31/2022	$255,108	$1,732,968	*0%*	100%
2	12/31/2023	345,174	1,662,783	*5%*	95%
3	12/31/2024	437,015	1,591,021	*10%*	90%
4	12/31/2025	530,659	1,517,657	*15%*	85%
5	12/31/2026	626,133	1,442,667	*20%*	80%
6	12/31/2027	723,462	1,366,025	*25%*	75%
7	12/31/2028	822,676	1,287,706	*30%*	70%
8	12/31/2029	923,802	1,207,685	*35%*	65%
9	12/31/2030	1,026,867	1,125,934	*40%*	60%
10	12/31/2031	1,131,902	1,042,427	*45%*	55%
11	12/31/2032	1,238,935	957,137	*50%*	50%
12	12/31/2033	1,347,995	870,038	*55%*	45%
13	12/31/2034	1,459,113	781,101	*60%*	40%
14	12/31/2035	1,572,318	690,298	*65%*	35%
15	12/31/2036	1,687,641	597,601	*70%*	30%
16	12/31/2037	1,805,113	502,981	*75%*	25%
17	12/31/2038	1,924,767	406,408	*80%*	20%
18	12/31/2039	2,046,632	307,854	*85%*	15%
19	12/31/2040	2,170,743	207,289	*90%*	10%
20	12/31/2041	2,297,131	104,681	*95%*	5%
Totals		**$24,373,186**	**$19,402,258**	**56%**	**44%**

FINANCING PLAN

The Sources and Uses of Funds, Table 7, shows the total project costs and capital structure of debt and equity. Compared with the first pro forma submitted, construction costs have risen from $69,894,337 to $77,966,260. The Applicant proposes to increase its equity contribution from 35% to 40%, and its bank financing by $787,187, to fund the added costs.

Table 8 shows information used to estimate the debt. Storrs Associates structured a long-term loan that amortizes monthly, as stated in the Applicant's pro forma.

An estimated market value of the Project was calculated for the purposes of this analysis only, as the Applicant has not indicated a sale. As shown in Table 9, a sale value is calculated using the Net Operating Income (NOI) method using current capitalization and tax rates[1]. Because the long term debt amortizes over 30 years, the outstanding principal is calculated and assumed to be repaid with sale proceeds. Fees and taxes associated with a real estate sale are not included.

Table 7

Sources and Uses of Funds

Sources of Funds			
Bank Financing	$	53,514,756	60%
Equity and Working Capital	$	35,676,504	40%
Total Sources	$	89,191,260	100%
Uses of Funds			
Total Acquisition and Transaction Costs	$	11,225,000	13%
Total Construction Costs	$	77,966,260	87%
Total Uses of Funds	$	89,191,260	100%

Source: Applicant

Table 8

Terms of the Debt Financing

		Terms	Benchmark	Evaluation
Terms of Senior Debt				
Amount Borrowed	$	53,514,756	n/a	
Loan to Total Project Cost		60%	80% to 40%	Within Range
Annual Interest Rate		5.00%	2.27% to 7.32%	Within Range
Maturity in Years		30	15 to 40	Within Range
Annual Principal and Interest	$	3,447,345	n/a	

Benchmarks: RealtyRates.

Sources: Storrs Associates calculated periodic payments using terms from Applicant.

Table 9

Calculation of Market Value at 20 Years

Assumes Sale Price Based on Projected Project Income

Net Operating Income (NOI) after full tax	$7,378,361
Reversion Capitalization Rate (Cap Rate)	7.70%
Reversion (Sale) Value (NOI/Cap Rate)	$95,822,874
Loan Payoff	($27,085,032)
Net Sale Proceeds	$68,737,842

Source: Applicant. Calculations: Storrs Associates

Sources for Cap Rate: Storrs Associates based on RealtyRates.com.

[1] NOI ÷ Capitalization Rate = Sale Value. The Capitalization Rate used is a weighted-average of RealtyRates.com's benchmarks for apartments and retail.

Appendix A: Scope of Services

To assist with its evaluation of Tarry Lighthouse LLC's request for financial assistance, Camoin Associates was commissioned by the Village of Port Chester Industrial Development Agency to conduct the above analyses. Camoin Associates engaged Storrs Associates, LLC, as a subcontractor. The analysis is comprised of four tasks:

- *Test Assumptions* by comparing rents, operating costs, and vacancy rates to real estate benchmarks for similar projects and noting any significant differences. Operating performance and net income are also evaluated.
- *Review the Financing Plan* and perform an objective third-party evaluation of the estimated return on investment (ROI) to the Applicant with and without a PILOT agreement. We also analyze whether the capital structure and terms of the long-term debt are within market benchmarks for obtaining bank financing.
- *Evaluate the effects of one or more PILOTs* recommended by the Agency and determine whether the PILOT(s) would result in a return that is within what would normally be anticipated in the current market for a similar project.
- *Provide an objective, third-party opinion* about the need for and reasonableness of the financial assistance.

Camoin Associates prepares an XL workbook designed to collect key information about pro forma project cashflows, sources and uses of funds, and financing terms as a supplement to the original application. This is sent to the developer or project owner by the IDA and the completed workbook is forwarded for use in the analysis.

Sources Consulted

- Application dated August 4, 2021.
- Project financing and annual cashflow workbook submitted by the Applicant in December, 2021.
- Real estate tax information and estimates received from the Agency, including anticipated future assessed value of the Project.
- CoStar data for multifamily projects in Westchester County from 2018 through the first quarter of 2021.
- CoStar data for retail projects in Westchester County from 2018 through the first quarter of 2021.
- RealtyRates.com's "Investor Survey" and "Market Survey," 4th Quarter 2021.

RealtyRates.com™

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Appendix B: Definitions

Equity Dividend Rate: This is calculated as the rate of return on the equity component of a project. It is calculated as follows: (Source: RealtyRates.com)

Equity Dividend / Equity Investment = Equity Dividend Rate, where Equity Dividend = Net Operating Income – Debt Service.

Debt Service Coverage Ratio (DSCR): The ratio of annual debt repayment, including principal and interest, to total Net Operating Income (NOI). (Source: RealtyRates.com)

Net Operating Income (NOI): Income net of all operating costs including vacancy and collection loss but not including debt service. Appraisers also typically expense reserves for repairs and replacements. However, because reserves are not usually reported along with other transaction data, RealtyRates.com tracks lender requirements but does not include them in calculations. (Source: RealtyRates.com)

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