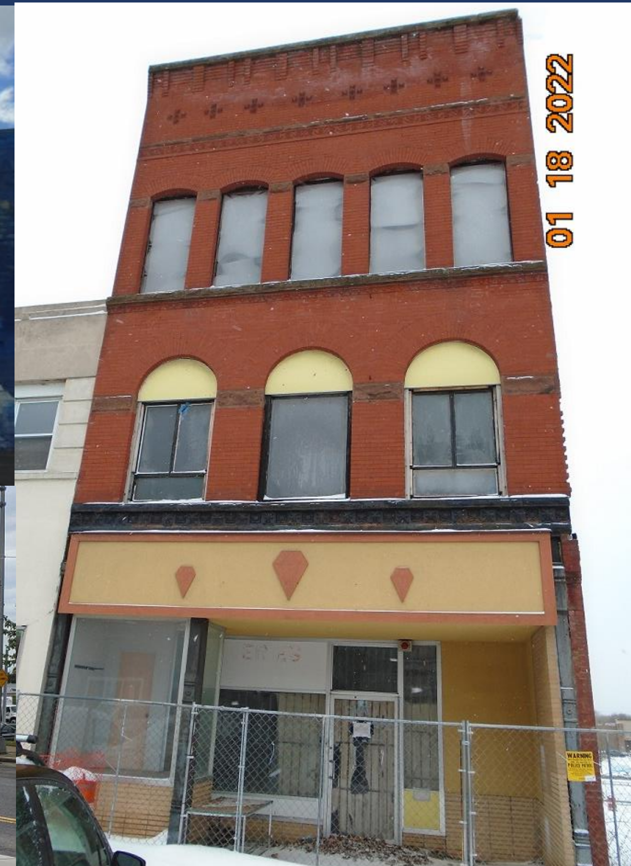

Pro Forma Financial Analysis: 233 W Dominick Street Redevelopment

Prepared by:

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Prepared for:

ROME the copper city

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Executive Summary

MRB Group was engaged by the City of Rome, NY to conduct a pro forma financial analysis to understand the feasibility for redevelopment of the building located at 233 W Dominick Street in the City of Rome. The building has been mostly vacant for multiple years, and the City recently foreclosed on the property. The City intends to sell or transfer the property to a developer for redevelopment into a mixed-use building.

The analysis described on the following pages considers the current proposed plans, which envision two retail units on the basement level with access from the back of the building, one commercial office unit on the first floor, and five residential units on the second and third floors. The basement and first floors also include storage areas for use by tenants. The proposed redevelopment would require a total estimated investment of $3,315,160, including $565,000 of structural repairs and façade work to create window openings along the west elevation of the building.

At the conclusion of this analysis, we found that a number of incentives would be required to satisfy both bank financing thresholds and a reasonable return for the presumed developer. In particular, Restore NY funding in the amount of $2,000,000 would be necessary to create the conditions to satisfy the required debt service ratio for lenders and to generate a positive, but not excessive, internal rate of return for a developer.

Without Restore NY funding, the project would not be able to support sufficient financing, and would likely remain vacant, undeveloped, and off the tax rolls under City ownership.

Analysis & Assumptions

To assess the redevelopment feasibility for 233 W Dominick Street, we assembled a set of information and assumptions to build out a 10-year financial pro forma. This information set includes construction and development costs, projected income streams, projected operating expenses, project financing, and refinancing or sale of the property in Year 10.

Construction & Development Costs

The table below outlines the assumptions regarding the construction and development costs of the project, including number and square footage of each type of unit, assumed per-square foot cost of build out for each type of space, anticipated façade and site work costs, estimated abatement costs, and estimated soft costs and contingency. The development costs also include purchase of the property for the amount of back taxes owed ($14,500) and a modest developer fee. These add up to a total development cost of $3,315,160.

Construction	Construction Cost	Units	% of Project	Est. Space (sf)	Cost per SF
· Residential	$829,378	5	42%	4,147	$ 200
· Commercial - office	$409,896	1	18%	1,822	$ 225
· Commercial - retail	$335,456	2	15%	1,491	$ 225
· Storage & Common	$124,572		25%	2,491	$ 50
· Allowance - façade	$300,000				
· Site & Structural Work	$265,000				
· Hazardous Materials Remediation	$140,000				
· Soft Costs	$339,645				
· Contingency & Cost Escalation	$356,713				
· **Total**	**$3,100,660**				
Total Construction	**$3,100,660**				
Property Sale Price	**$14,500**				
Developer Fee	**$200,000**				
Total Project	**$3,315,160**				

Income	
Residential	
Total Residential Units	5
Monthly Rent (avg)	$1,100
Total Monthly Rental Income	$5,500
Annual Rent Increase	3%
Year 1 Gross Annual Income	**$66,000**
Commercial - Office	
Total Commercial Units	1
Total Size (SF)	1,822
Annual Rent (SF)	$15.00
Annual Rent Increase	3%
Year 1 Gross Annual Income	**$27,326**
Commercial - Retail	
Total Commercial Units	2
Total Size (SF)	1,491
Annual Rent (SF)	$10.00
Annual Rent Increase	3%
Year 1 Gross Annual Income	**$14,909**
Assumed Residential Vacancy	5%
Assumed Office/Retail Vacancy	5%

Income Potential

To understand the potential operating income from the future occupants of the building, we utilized data from CoStar and our familiarity with similar projects in Rome and other similar cities to estimate rental rates for the different unit types. Rental rates were not assigned for storage or common areas, as they are considered ancillary uses.

We assumed all units would be completely refurbished to new-build quality. We also took the downtown location and street frontage on W Dominick into account for the commercial office and residential units. New-build quality and a downtown location were also considered for the retail units, but the rental rate was discounted to the low end of market rate for the area due to its basement location and lack of frontage of W Dominick Street. These units are only visible and accessible from the back side of the building off of Erie Boulevard. One potential retail unit is also completely internal to the building, and thus doesn't have any frontage unless both retail units are leased by the same tenant. In the pro forma, attached as Appendix A, we also assumed a 5% vacancy rate and 3% annual rental increase.

The above assumptions, estimated rental rates, and Year 1 Gross Income for each unit type are shown in the table to the left. The total revenue generating potential of the proposed redeveloped building in Year 1 is $108,236 if fully occupied, or $102,824 at 5% vacancy.

Operating Expenses

Operating expenses were estimated assuming triple net leases for retail and commercial office units and residential rental rates inclusive of property taxes and insurance. It was assumed that water and sewer would be included in rental rates for all units, and that all other utilities (electric, gas, internet, etc.) would be paid by tenants separate from rent. As such, the operating expenses for the building include: property taxes, insurance, and repairs and maintenance for the residential, common, and storage areas; water and sewer for all units; a management fee at 5% of effective gross income; and a contribution to reserves to fund future capital or replacement expenses related to residential units (e.g. appliance replacement).

Property taxes were estimated assuming a new assessed value of $350,000[1] after completion of the renovation. It also assumes a PILOT agreement from the Oneida County Industrial Development Agency based on the Tier 1 Exemption Schedule for Market Rate Housing Development Initiatives as outlined in their Uniform Tax Exemption and Agency Benefits Policy. The schedule was applied using a base assessment of $14,500, the purchase price of the property, and assumes a 3% annual increase in tax rates.

Operating Expenses	Year 1	Year 0
Property Taxes		
Combined Rate per $1,000 AV	65.96642	64.045068
Assessed Value	$350,000	$14,500
Annual City, County & School Taxes (no PILOT)	$22,416	**$929**
Annual City, County & School Taxes (PILOT)	**$957**	
Taxes due Residential	$399	$387
Taxes due Storage & Common	$239	$233
Water/Sewer		
Gal Per Day per Res Unit	100	
Occupied Units (apply assumed vacancy)	4.75	
Residential (gal) Day	475	
Estimated Office Use per day	150	
Estimated Retail Use per day	150	
Average Usage per Month (gal)	23,250	
Average Usage per Month (cubic feet)	3,108	
Rate Per 100 cubic feet	$2.50	
Monthly Usage Charge	$581	
Total Monthly	$581	
Total Annual	**$6,975**	
Total Utilities	**$6,975**	

The pro forma, attached as Appendix A, applies a 3% increase per year to all costs. In Year 1, these expenses totaled $18,984. By Year 10 the expenses increase to $41,727, primarily due to the property tax liability increasing in line with the PILOT schedule (see tables on next page). In Year 11 and beyond, the property would be fully taxable and as such could expect ongoing operating expenses of $45,000+.

[1] This new assessed value is an estimation only. The actual future assessment of the property will be based on actual building and market conditions at the time that the renovation is completed.

Operating Expenses		Year 0	Year 1	Year 10
Taxes (Residential, storage, and common)		$ 929	$ 638	$ 18,170
Insurance - Residential (per unit)	$600	$ -	$ 3,000	$ 3,914
Repairs & Maintenance- Residential (% of Effective Gross Income)	3%	$ -	$ 1,980	$ 2,583
Management (% of Effective Gross Income)	5%	$ -	$ 5,141	$ 6,708
Utilities		$ -	$ 6,975	$ 9,101
Reserves (per residential unit)	$250	$ -	$ 1,250	$ 1,250
Expense inflator	3%			

Project Financing

This project will require multiple financing sources to be viable. In addition to the PILOT agreement explained in the Operating Expenses section above, the project will also likely need an equity investment by the developer, bank financing, and a Restore NY grant. At this time, it is our understanding that the building is not eligible for Historic Tax Credits. The analysis assumes that bank financing will be broken into two parts: Construction financing during the redevelopment phase, then conversion to permanent financing for the operational phase (Years 1 through 10). The analysis assumes that the permanent financing will be amortized over 20 years at a rate of 6.75%, but that the building will be refinanced or sold in Year 10 to generate the return to the developer. Given this, it is anticipated that the permanent financing will require debt service of $43,484 per year.

This combination of financing resources results in a sufficient debt service coverage above 1.25 throughout the life of the project, thus making bank financing viable. It also allows for positive cash flow throughout operational years.

Project Financing	
Project Cost	$3,315,160
% Equity	20%
Equity Contribution	$663,032
Restore NY	$2,000,000
Deferred Developer Fee	$200,000
Amount Financed for Construction	$452,128
Construction Period (Year 0)	
Construction Rate	5.0%
Construction Period Interest	$22,606
Permanent Financing (Year 1+)	
Loan Origination Fee %	1.5%
Loan Origination Fee	$6,782
Total Financial Costs	$29,388
% Financing of Financial Costs	60%
Amount Financed for Financial Costs	$17,633
Interest Rate	6.75%
Term	20
Principal	$469,761
Annual Debt Service Payment	($43,484)

Conclusions

At the end of Year 10, the remaining principal on the loan would be $308,976. Assuming a Cap Rate of 8.13% and operating income of $92,435, the sale value of the building should be approximately $1,137,476. After commission and retiring the loan, sale proceeds would be $805,751. This, along with positive returns in Years 1 through 10, would generate a 5.94% internal rate of return for the developer. This is a low return compared to other projects of this nature, so we do not believe this return is excessive for a project of this nature.

Year 10 - Sale of Project	
Net Operating Income Year 10	$92,435
Cap Rate	8.13%
Sale Value	$1,137,476
Sale Commission Rate	2.0%
Sale Commission	$22,750
Remaining Principal on Debt	$308,976
Sale Proceeds	$805,751

A pro forma showing cashflows and debt service without Restore NY grant funding is attached as Appendix B. This pro forma shows that, without the Restore NY grant, the principal amount of permanent financing would increase to $2,547,761 and have debt service of $235,838 annually. At this level, the building would generate negative cashflows, debt service ratios below 0.4, and negative sale proceeds in Year 10 resulting in a net loss to the developer. These conditions would make it highly unlikely, if not impossible, to secure financing and attract a developer for the project.

As such, the analysis indicates the following factors would need to be true in order for the redevelopment of 233 W Dominick Street to be viable:

- Restore NY funding in the amount of $2,000,000
- A Tier 1 PILOT agreement from the Oneida County IDA
- A developer with sufficient resources to provide over $660,000 of equity and accept a return of less than 6%

Without any one of these conditions, a redevelopment project of this scale is unlikely for 233 W Dominick Street.

Appendix A: Pro Forma with Restore NY Funding

Pro Forma Analysis

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Gross Income											
3%	Residential	$ -	$ 66,000	$ 67,980	$ 70,019	$ 72,120	$ 74,284	$ 76,512	$ 78,807	$ 81,172	$ 83,607	$ 86,115
3%	Commercial - Office	$ -	$ 27,326	$ 28,146	$ 28,991	$ 29,860	$ 30,756	$ 31,679	$ 32,629	$ 33,608	$ 34,616	$ 35,655
3%	Commercial - Retail	$ -	$ 14,909	$ 15,356	$ 15,817	$ 16,292	$ 16,780	$ 17,284	$ 17,802	$ 18,336	$ 18,886	$ 19,453
Gross Income		**$ -**	**$ 108,236**	**$ 111,483**	**$ 114,827**	**$ 118,272**	**$ 121,820**	**$ 125,475**	**$ 129,239**	**$ 133,116**	**$ 137,110**	**$ 141,223**
	Less: Vacancy and Credit Loss											
5%	Residential	$ -	$ 3,300	$ 3,399	$ 3,501	$ 3,606	$ 3,714	$ 3,826	$ 3,940	$ 4,059	$ 4,180	$ 4,306
5%	Commercial (Office & Retail)	$ -	$ 2,112	$ 2,175	$ 2,240	$ 2,308	$ 2,377	$ 2,448	$ 2,522	$ 2,597	$ 2,675	$ 2,755
Effective Income		**$ -**	**$ 102,824**	**$ 105,909**	**$ 109,086**	**$ 112,358**	**$ 115,729**	**$ 119,201**	**$ 122,777**	**$ 126,460**	**$ 130,254**	**$ 134,162**
	Less: Operating Expenses											
	Taxes (Residential, Storage, Common)	$ 620	$ 638	$ 657	$ 677	$ 697	$ 4,872	$ 9,298	$ 9,576	$ 14,403	$ 17,641	$ 18,170
	Insurance (Residential)	$ -	$ 3,000	$ 3,090	$ 3,183	$ 3,278	$ 3,377	$ 3,478	$ 3,582	$ 3,690	$ 3,800	$ 3,914
	Repairs & Maintenance (Residential)	$ -	$ 1,980	$ 2,039	$ 2,101	$ 2,164	$ 2,229	$ 2,295	$ 2,364	$ 2,435	$ 2,508	$ 2,583
	Management	$ -	$ 5,141	$ 5,295	$ 5,454	$ 5,618	$ 5,786	$ 5,960	$ 6,139	$ 6,323	$ 6,513	$ 6,708
	Reserves	$ -	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250
	Utilities	$ -	$ 6,975	$ 7,184	$ 7,400	$ 7,622	$ 7,850	$ 8,086	$ 8,329	$ 8,578	$ 8,836	$ 9,101
Net Operating Income		**$ (620)**	**$ 83,840**	**$ 86,392**	**$ 89,021**	**$ 91,730**	**$ 90,365**	**$ 88,834**	**$ 91,537**	**$ 89,781**	**$ 89,706**	**$ 92,435**
	Debt Service	$ -	$ (43,484)	$ (43,484)	$ (43,484)	$ (43,484)	$ (43,484)	$ (43,484)	$ (43,484)	$ (43,484)	$ (43,484)	$ (43,484)
	Permanent Financing Draw		$ 469,761									
	Construction Financing Draw	$ 452,128	$ (452,128)									
	Restore NY Grant		$ 2,000,000									
	Sale Proceeds											$ 805,751
	Land Cost	$ (14,500)										
	Construction & Site Prep	$ (3,100,660)										
	Loan Origination Fee	$ (6,782)										
	Developer Fee		$ (200,000)									
	Construction Period Interest	$ (22,606)										
Pre-Tax Cash Flow		**$ (2,693,040)**	**$ 1,857,988**	**$ 42,908**	**$ 45,537**	**$ 48,245**	**$ 46,880**	**$ 45,350**	**$ 48,053**	**$ 46,297**	**$ 46,222**	**$ 854,701**
Cash Flow To/From Developer		$ (2,693,040)	$ 2,057,988	$ 42,908	$ 45,537	$ 48,245	$ 46,880	$ 45,350	$ 48,053	$ 46,297	$ 46,222	$ 854,701
	Debt Service Coverage (1.25 min)		1.93	1.99	2.05	2.11	2.08	2.04	2.11	2.06	2.06	2.13
	IRR	5.94%										
	Cap Rate	8.13%										

Appendix B: Pro Forma without Restore NY Funding

Pro Forma Analysis

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Gross Income											
3% Residential	$ -	$ 66,000	$ 67,980	$ 70,019	$ 72,120	$ 74,284	$ 76,512	$ 78,807	$ 81,172	$ 83,607	$ 86,115
3% Commercial - Office	$ -	$ 27,326	$ 28,146	$ 28,991	$ 29,860	$ 30,756	$ 31,679	$ 32,629	$ 33,608	$ 34,616	$ 35,655
3% Commercial - Retail	$ -	$ 14,909	$ 15,356	$ 15,817	$ 16,292	$ 16,780	$ 17,284	$ 17,802	$ 18,336	$ 18,886	$ 19,453
Gross Income	**$ -**	**$ 108,236**	**$ 111,483**	**$ 114,827**	**$ 118,272**	**$ 121,820**	**$ 125,475**	**$ 129,239**	**$ 133,116**	**$ 137,110**	**$ 141,223**
Less: Vacancy and Credit Loss											
5% Residential	$ -	$ 3,300	$ 3,399	$ 3,501	$ 3,606	$ 3,714	$ 3,826	$ 3,940	$ 4,059	$ 4,180	$ 4,306
5% Commercial (Office & Retail)	$ -	$ 2,112	$ 2,175	$ 2,240	$ 2,308	$ 2,377	$ 2,448	$ 2,522	$ 2,597	$ 2,675	$ 2,755
Effective Income	**$ -**	**$ 102,824**	**$ 105,909**	**$ 109,086**	**$ 112,358**	**$ 115,729**	**$ 119,201**	**$ 122,777**	**$ 126,460**	**$ 130,254**	**$ 134,162**
Less: Operating Expenses											
Taxes (Residential, Storage, Common)	$ 620	$ 638	$ 657	$ 677	$ 697	$ 4,872	$ 9,298	$ 9,576	$ 14,403	$ 17,641	$ 18,170
Insurance (Residential)	$ -	$ 3,000	$ 3,090	$ 3,183	$ 3,278	$ 3,377	$ 3,478	$ 3,582	$ 3,690	$ 3,800	$ 3,914
Repairs & Maintenance (Residential)	$ -	$ 1,980	$ 2,039	$ 2,101	$ 2,164	$ 2,229	$ 2,295	$ 2,364	$ 2,435	$ 2,508	$ 2,583
Management	$ -	$ 5,141	$ 5,295	$ 5,454	$ 5,618	$ 5,786	$ 5,960	$ 6,139	$ 6,323	$ 6,513	$ 6,708
Reserves	$ -	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250	$ 1,250
Utilities	$ -	$ 6,975	$ 7,184	$ 7,400	$ 7,622	$ 7,850	$ 8,086	$ 8,329	$ 8,578	$ 8,836	$ 9,101
Net Operating Income	**$ (620)**	**$ 83,840**	**$ 86,392**	**$ 89,021**	**$ 91,730**	**$ 90,365**	**$ 88,834**	**$ 91,537**	**$ 89,781**	**$ 89,706**	**$ 92,435**
Debt Service	$ -	$ (235,838)	$ (235,838)	$ (235,838)	$ (235,838)	$ (235,838)	$ (235,838)	$ (235,838)	$ (235,838)	$ (235,838)	$ (235,838)
Permanent Financing Draw		$ 2,547,761									
Construction Financing Draw	$ 2,452,128	$ (2,452,128)									
Restore NY Grant		$ -									
Sale Proceeds											$ (561,012)
Land Cost	$ (14,500)										
Construction & Site Prep	$ (3,100,660)										
Loan Origination Fee	$ (36,782)										
Developer Fee		$ (200,000)									
Construction Period Interest	$ (122,606)										
Pre-Tax Cash Flow	**$ (823,040)**	**$ (256,365)**	**$ (149,446)**	**$ (146,816)**	**$ (144,108)**	**$ (145,473)**	**$ (147,004)**	**$ (144,301)**	**$ (146,057)**	**$ (146,131)**	**$ (704,415)**
Cash Flow To/From Developer	$ (823,040)	$ (56,365)	$ (149,446)	$ (146,816)	$ (144,108)	$ (145,473)	$ (147,004)	$ (144,301)	$ (146,057)	$ (146,131)	$ (704,415)
Debt Service Coverage (1.25 min)		0.36	0.37	0.38	0.39	0.38	0.38	0.39	0.38	0.38	0.39
IRR	unable to compute negative return										
Cap Rate	8.13%										