camoin associates
ECONOMIC DEVELOPMENT

MEMORANDUM

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To: Bergmann Associates
From: Dan Stevens, Camoin Associates
Date: November, 2016
Re: Rod Mill Site – Financial Pro Forma Analysis

Framework of the Analysis & Key Findings

Camoin Associates has prepared a pro forma cash flow statement for the "Rod Mill" site located within the Downtown Rome BOA study area in the City of Rome, New York. The purpose of this analysis is to determine the financial feasibility of a brewery/restaurant development. We determined if market lease rates will achieve an acceptable rate of return and make the project feasible for both a private developer and the bank financing the project. Key assumptions are as follows.

- New build of 14,000 square feet facility
- A total of 4,000 square feet of restaurant space and 10,000 square feet of industrial space

Financial Assumptions

Assumptions that went into this analysis were developed based on information provided to Camoin Associates by Bergmann Associates, as well as market research conducted by Camoin. A complete list of these assumptions is provided in the attached tables, with key assumptions crucial to the financial feasibility analysis below:

- **Construction Costs** – Bergmann provided construction cost estimates of $250 per square foot for the restaurant portion which will have higher-end finishes compared to the industrial portion. It is assumed that the industrial portion will be built with an average construction cost of $125 per square foot. This cost is exclusive of site work and soft costs. An additional 10% was added for site work and an additional 20% for soft costs. We assume that the City will sell the land to the developer at a subsidized discount of 50% of market value.
- **Financing** – We assumed a loan amount of 55% of the development cost, with an interest rate of 6.5% amortized over 18 years. These are terms based on national averages for restaurant development.[1]
- **Capitalization Rate** – We assumed a 11.5% capitalization rate[2] (the rate of return based on the expected net operating income the property will generate). This figure is used to calculate sale proceeds. At the end of year 10, we assume the property is sold, generating $1.25 million net of commission and after paying off all remaining debt.

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[1] RealtyRates.com Investor Survey
[2] Based on national averages from RealtyRates.com Investor Survey

- **Lease Rates** –We assume a gross rental rate of $25 per-square foot per-year.

Feasibility Tests

- **Developer:** One of the key benchmarks a developer uses to judge the feasibility of a project is IRR (Internal Rate of Return). A developer typically looks for a return above what could be gained through a "safe" investment over the same amount of time. The threshold depends on the level of risk associated with the project, but typically falls around the 12% mark. The IRR minimum for restaurant development nationally is 7.2% while the average IRR is 15%. Industrial IRR rates are slightly lower with a minimum of 5.6% and average of 11.6%.

  The pro forma analysis showed that the IRR for a developer undertaking the brewery/restaurant project would be approximately 7.6%, which is close to the national minimum suggesting it would be difficult to find a developer to build the project, but perhaps not impossible.

- **Bank:** The debt service coverage ratio (DSCR) is a measure of the resources available to pay debt service (calculated as the ratio of net operating income to debt service payments). Nationally, banks are typically requiring a ratio of at least 1.40. The average DSCR of this would project is estimated to be 1.4. Therefore, the project would likely be bankable.

Incentive Scenario:

The project may be eligible for a PILOT through the Oneida County Industrial Development Agency. As a beverage producer, the project may be eligible for the PILOT schedule available to industrial and manufacturing projects. The PILOT schedule provides an abatement of 66.7% for the first five years and 33.3% for years six through ten. This would provide a total abatement over ten years of approximately $375,000.

If the project receives this PILOT, the feasibility of the project would be the following:

- **Developer:** The IRR for the project becomes 11.2%, making it more attractive from a private investment standpoint.

- **Bank:** The average DSCR under this scenario is 1.6. Therefore, with the PILOT, the project would be bankable by a comfortable margin.