



MEMORANDUM

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

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Framework of the Analysis & Key Findings

Camoin Associates has prepared a pro forma cash flow statement for a 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 three potential redevelopment projects on the site. 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. The key findings are shown in the table below:

Summary Table: Rome Turney Redevelopment Scenario Feasibility Analysis				
	Development Scenario			
	1. Adaptive Reuse - Mixed-Use Residential	2. New-Build Mixed-Use	3. Commercial New-Build	4. Industrial/Flex New Build
Project Description	Rehabilitate the existing building to about 80 to 90 market-rate apartments with ground floor commercial space.	Demolish the existing building and build a new 130,000 square foot mixed-use residential building with 115-120 market rate apartments with ground floor commercial space.	Demolish the existing building and develop 3 commercial buildings: 2 restaurants and 1 retail building	Demolish the existing building and develop 90,000 square feet of light industrial/flex space.
Private Developer Feasibility	This project is feasible from a developer perspective with an IRR of 13.8%	The project is feasible for a developer if it receives assistance such as an OCIDA PILOT	The project is not feasible even with a reasonable subsidy	The project is not feasible even with a reasonable subsidy
Bank Financing Feasibility	Bankable without subsidy	Bankable – but only with subsidy such as PILOT	Not bankable – even with a reasonable subsidy	Not bankable – even with a reasonable subsidy
Conclusion	Feasible	Feasible with Subsidy	Not Feasible	Not Feasible



Scenario 1 – Adaptive Reuse – Mixed-Use Residential

In this scenario, the existing Rome Turney building is rehabilitated into a mixed-use building consisting of market-rate apartments and a small amount of ground floor retail. Key details about this scenario are as follows:

- Adaptive Re-use of 106,000 square feet (90,000 square feet rentable space)
- Approximately 80 to 90 high-end residential apartments with larger-than-average floor plans, and potential live/work or loft units. Finishes would include things such as hardwood floors, stainless steel appliances, and granite countertops.
- The primary target market for the units are future workers at the Marcy Nanocenter, Griffiss Technology Park, and the major new medical campus in Utica.
- There will be approximately 4,500 square of general retail/commercial space suitable for businesses such as a café, coffee shop, retail shop, etc.

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 Associates. 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/rehab cost estimates of \$75 per square foot, 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.
- **Brownfield Tax Credits** – The Project would likely be eligible for Brownfield Tax Credits under New York State’s Brownfield Cleanup Program (BCP). Based on the eligibility guidelines and a clean-up cost of \$300,000 (incurred by the developer), that the project developer would receive approximately \$1 million in BCP tax credits.
- **Financing** – We assumed a loan amount of 73% of the development cost, with an interest rate of 4.5% amortized over 26 years. These are terms based on national averages for apartment development.¹
- **Capitalization Rate** – We assumed an 8% capitalization rate² (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 \$6.3 million net of commission and after paying off all remaining debt.
- **Lease Rates** – For the residential apartments we assume a monthly rental rate of \$1.30 per square foot based on an analysis of comparable properties. As an example, this would translate into an 800 square foot, 1-bedroom apartment with rent of \$1,120 per month or a 1,000 square-foot, 2-bedroom apartment with rent of \$1,400 per month. We assume a gross rental

¹ RealtyRates.com Investor Survey

² Based on national averages from RealtyRates.com Investor Survey



rate of \$18 per-square foot per-year for the retail space based on our analysis of comparable properties.

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 “safe” investments over the same amount of time. The threshold depends on the level of risk associated with the project, but as of the 3rd quarter of 2016, the national average for apartment development is 10.3%.³ The IRR for a developer doing this adaptive re-use project would be approximately 18%, exceeding the IRR threshold. Therefore, this project is considered feasible from a private developer perspective.
- **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. Based on the projected debt service and net operating income, the DSCR will average 1.58. Therefore, the project appears to be bankable.

Conclusion: Feasible

A mixed-use adaptive reuse of the Rome Turney building appears to be a financially feasible project from a developer and bank financing perspective, based on the assumptions described above.

³ Realty Rates Investor Survey, Q3 2016



Scenario 2 – New Build – Mixed-Use Residential

In this scenario the existing Rome Turney building is demolished and a new mixed-use building is constructed consisting of market-rate apartments and a small amount of ground floor retail/commercial space. Key details about this scenario are as follows:

- New construction of 130,000 square feet (110,500 square feet rentable space)
- Approximately 115 to 120 high-end residential apartments with larger-than-average floor plans, and potential live/work or loft units. Finishes would include things such as hardwood floors, stainless steel appliances, and granite countertops.
- The primary target market for the units are future workers at the Marcy Nanocenter, Griffiss Technology Park, and the major new medical campus in Utica.
- There will be approximately 5,500 square of general retail/commercial space suitable for businesses such as a café, coffee shop, retail shop, etc.

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 Associates. 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 \$100 per square foot, 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.
- **Brownfield Tax Credits** – The Project would likely be eligible for Brownfield Tax Credits under New York State’s Brownfield Cleanup Program. Based on the eligibility guidelines and a clean-up cost of \$300,000 (incurred by the developer), that the project developer would receive approximately \$1 million in BCP tax credits.
- **Financing** – We assumed a loan amount of 73% of the development cost, with an interest rate of 4.5% amortized over 26 years. These are terms based on national averages for apartment development.⁴
- **Capitalization Rate** – We assumed an 8% capitalization rate⁵ (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 \$5.5 million in revenue net of commission and paying off all remaining debt.
- **Lease Rates** – For the residential apartments we assume a monthly rental rate of \$1.40 per square foot based on an analysis of comparable properties. As an example, this would translate into an 800 square foot, 1-bedroom apartment with rent of \$1,120 per month or a 1,000 square-foot, 2-bedroom apartment with rent of \$1,400 per month. We assume a gross rental

⁴ RealtyRates.com Investor Survey

⁵ Based on national averages from RealtyRates.com Investor Survey



rate of \$18 per-square foot per-year for the retail space based on our analysis of comparable properties.

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 as of the 3rd quarter of 2016, the national average for apartment development is 10.3%.⁶ The IRR for a developer doing this project would be 6.4%. Therefore, this project is not feasible from a private developer perspective.
- **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 DSCR for the project is 1.22. Therefore, the project does not generate enough revenue to meet the typical DSCR threshold and a bank is unlikely to finance the project.

Incentive Scenario:

The project appears to be eligible for a PILOT through the Oneida County Industrial Development Agency. In 2015, the IDA created a policy to encourage development of specific types of market rate rental housing. Eligible projects include apartments, townhouses, condominiums, loft-style housing, and new urbanism type of housing development. Projects must have a minimum of five (5) units in a renovation or conversion of a building and twenty-four (24) units for new construction to qualify.

Two levels of PILOT exemption schedules are available based on a scoring system. Based on the project assumptions, the development would likely qualify for the Tier 1 PILOT. The average property tax abatement over 10-years is about 62%.

If the project receives a Tier 1 PILOT, the feasibility of the project would be the following:

- **Developer:** The IRR for the project is 12.5%, meaning a developer would likely invest in this project.
- **Bank:** The DSCR under this scenario is 1.5. Therefore, with the PILOT, the project is bankable.

Conclusion: Feasible with Subsidy

A mixed-use adaptive reuse of the Rome Turney building appears to be a financially feasible project from a developer and bank financing perspective if a subsidy is provided, such as the OCIDA PILOT.

⁶ Realty Rates Investor Survey, Q3 2016



Scenario 3 – New Build – Commercial New-Build

In this scenario the existing Rome Turney building is demolished and three parcels are made available for traditional commercial development including two restaurants and one retail building. Key details about this scenario are as follows:

- New construction of 27,000 square feet
- Three commercial parcels
- Two restaurants of 6,500 SF each
- One retail building of 14,000 SF

Financial Assumptions

- **Construction Costs** – Bergmann provided construction cost estimates of \$250 per square foot, inclusive of site work and soft costs. We assume that the City will sell the land to the developer at a subsidized discount of 50% of market value.
- **Brownfield Tax Credits** – The Project would likely be eligible for Brownfield Tax Credits under New York State’s Brownfield Cleanup Program (BCP). Based on the eligibility guidelines and a clean-up cost of \$300,000, that the project developer would receive approximately \$1 million in BCP tax credits.
- **Financing** – We assumed a loan amount of 68% of the development cost, with an interest rate of 6.0% amortized over 23 years. These are terms based on national averages for restaurant and retail development.⁷
- **Capitalization Rate** – We assumed a 10% capitalization rate⁸ (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 properties are sold.
- **Lease Rates** – We assume a gross rental rate of \$18 per-square foot per-year for the retail space and \$20 per-square foot per-year for the restaurant space based on our analysis of comparable properties.

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 nationally the average rate is 11.9% for retail and 14.5% for restaurants. The IRR for a developer doing this project would be negative, meaning a developer would lose money on the investment. Therefore, this project is not feasible from a private developer perspective.
- **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,

⁷ RealtyRates.com Investor Survey

⁸ Based on national averages from RealtyRates.com Investor Survey



banks are requiring a ratio of at least 1.15 for restaurants and 1.05 for retail (these are absolute minimums). The DSCR is 0.7, and therefore the project does not generate enough revenue to cover the debt service on the project and a bank would not finance the project.

Incentive Scenario:

It appears the project would be eligible for a 5-year OCIDA retail PILOT, which would offer an average tax abatement of 35% during that period worth \$264,100. Even with that incentive the project would not be feasible from a developer or bank perspective. A significant funding gap of \$2.8 million would still exist after the PILOT and therefore the project is not considered feasible.

Conclusion: Not Feasible

A mixed-use adaptive reuse of the Rome Turney building appears to not be a financially feasible project from a developer and bank financing perspective even if a subsidy is provided, such as the OCIDA PILOT.



Scenario 4 – Industrial/Flex

In this scenario the existing Rome Turney building is demolished and a new industrial/flex building is constructed. Key details about this scenario are as follows:

- New construction of 90,000 square feet
- Industrial/Flex space (Flex = combination of light industrial/office)

Financial Assumptions

- **Construction Costs** – Bergmann provided construction cost estimates of \$150 per square foot, inclusive of site work and soft costs. We assume that the City will sell the land to the developer at a subsidized discount of 50% of market value.
- **Brownfield Tax Credits** – The Project would likely be eligible for Brownfield Tax Credits under New York State’s Brownfield Cleanup Program (BCP). Based on the eligibility guidelines and a clean-up cost of \$300,000, that the project developer would receive approximately \$1 million in BCP tax credits.
- **Financing** – We assumed a loan amount of 70% of the development cost, with an interest rate of 4.9% amortized over 25 years. These are terms based on national averages for restaurant and retail development.⁹
- **Capitalization Rate** – We assumed a 9% capitalization rate¹⁰ (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 properties are sold.
- **Lease Rates** – We assume a gross rental rate of \$10 per-square foot per-year based on our analysis of comparable properties.

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 “safe” investments over the same amount of time. The threshold depends on the level of risk associated with the project, but nationally the average rate is 11.5% for flex space.¹¹ The IRR for a developer doing this project would be negative, meaning a developer would lose money on the investment. Therefore, this project is not feasible from a private developer perspective.
- **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 requiring a ratio of at least 1.15 for industrial projects at a minimum, while the average is 1.5. The DSCR is 0.9, and therefore the project does not generate enough revenue to cover the debt service on the project and a bank would not finance the project.

⁹ RealtyRates.com Investor Survey

¹⁰ Based on national averages from RealtyRates.com Investor Survey

¹¹ RealtyRates.com Investor Survey



Incentive Scenario:

It appears the project would be eligible for a 10-year OCIDA industrial PILOT, which would offer an average tax abatement of 50% during that period worth \$858,000. Even with that incentive the project would not be feasible from a developer or bank perspective. A significant funding gap of \$3.9 million would still exist after the PILOT and therefore the project is not considered feasible.