

# UTEP Considerations of High-End Residential Developments

FURTHER STUDY OF POLICY OPTIONS FOR  
MULTIFAMILY PROJECTS IN BROOKHAVEN

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## PREPARED FOR:

Brookhaven Industrial  
Development Agency



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# EXECUTIVE SUMMARY

The July 2025 report prepared by Camoin Associates studied the influence that the Brookhaven IDA’s tax benefits have on the financial viability of a multifamily residential development project, examining the implications of potentially adjusting those policies to better serve the community at large. Specific key findings include:

- **IDA incentives materially drive feasibility** — Sales and mortgage recording tax exemptions, along with PILOT agreements, significantly reduce upfront and ongoing costs sufficiently to benefit a prototypical project above standard feasibility thresholds, and without these incentives, the prototype would not meet typical benchmarks.
- **Lowering workforce affordability from 120% AMI to 80% AMI remained feasible** — The analysis also found the prototype project’s Internal Rate of Return (IRR) stayed above the feasibility threshold of 12.5% and Net Present Value (NPV) remained positive even when the required workforce set aside provided for households was set in accordance with incomes at or below 80% AMI.

Following on from that analysis, the IDA has posed additional questions regarding how to best structure any changes to their Uniform Tax Exemption Policy (UTEP). This additional analysis seeks to determine i) whether high-end, luxury-positioned projects actually require subsidies given the premium rental rates they command, and ii) whether an overall rent cap for IDA-assisted projects might better target public benefits toward moderate- and middle-income households without reducing overall housing production.

To address these lines of inquiry, this analysis builds on the pro forma structure created in the original July 2025 analysis and tests a set of scenarios that vary the availability and structure of IDA benefits, affordability set-asides, and rent constraints. This review is directly tied to the desire to ensure that those projects receiving IDA support truly meet the “but for” criteria and to guide the IDA in remaining focused on projects that both require support to proceed *and* advance workforce-oriented housing objectives.

Organizationally, these inquiries are broken into two distinct lines of analysis. Part 1 addresses the necessity of IDA support for high-end, luxury multifamily developments, while Part 2 goes on to measure the financial impacts of imposing a rental rate cap on projects seeking IDA assistance.

## **Part 1 — High-end development: incentives remain a pivotal financial area of support —**

Constructing a financial pro forma for a prototypical high-end, luxury multifamily development involved making several adjustments to the conventional specifications that were the basis of the original 2025 analysis. This new prototype increases unit sizes by about 18%, while raising construction costs per square foot by 7% to \$315. It also assumes higher luxury rental rates of \$3,800 for one-bedroom units and \$5,070 per month for two-bedroom units — about 34% higher than seen for the conventional buildout analysis but only 10% higher on a per square footage basis.

Including typical IDA benefits—mortgage recording tax exemption, sales tax exemption, and a 15-year PILOT—the high-end baseline scenario remains financially feasible. Under the anticipated UTEP update, the project incorporates the following affordability requirements:

- 5% of units affordable to households at or below 50% AMI
- 5% of units affordable to households at or below 65% AMI
- 10% of units affordable to households at or below 80% AMI (updated UTEP workforce requirement)

With the standard IDA benefits and requirements in place, the revised high-end scenario (1.1 below) produces an IRR of 17.3% (well above the 12.5% feasibility threshold), and an NPV of approximately \$4.3 million.



Removing the 10% workforce set-aside further increases returns, raising the IRR to 20.0% and the NPV to \$7.1 million (scenario 1.2). This shows how the availability of IDA incentives and the presence or absence of workforce requirements interact to shape the project's financial outlook.

Overall, the Part 1 scenario testing provided three **key findings regarding luxury developments** charging prevailing high-end rental rates:

- **PILOT availability remains a decisive factor, despite notably higher revenue.**
- **Sales and mortgage tax exemptions also provide a meaningful benefit, but to a lesser degree.**
- **Removing the workforce housing requirement increases returns but does not eliminate dependency on PILOT support.**

Eliminating or shortening the PILOT quickly degrades returns on the high-end project to below feasibility thresholds, even when the requirement to include workforce units is removed. A 15-year PILOT without sales and mortgage tax exemptions (scenario 1.3) remains viable with an IRR of 17.0% and an NPV of \$4.3M, while shortening this to a 7-year PILOT (scenario 1.4) remains financially viable but yields returns just slightly over the minimum required thresholds, with the IRR dropping to 12.7%, and the NPV registering \$207,000.

Returns become notably inadequate to justify investment, however, when the PILOT agreement is eliminated entirely — even when the construction-period tax exemptions remain (IRR of 11.5% and NPV of negative \$1.0M in scenario 1.5). Finally, when all IDA benefits are removed (scenario 1.6), the measures of financial viability degrade even further with an IRR of 8.5% and an NPV of negative \$3.7M.

These results indicate that **high-end, luxury-oriented developments continue to require IDA tax support just as more conventional projects to remain financially feasible** — *at least when charging the currently prevailing rental rates.*

### High-End Development Financial Feasibility by Degree of IDA Support

Scenario	Workforce			Internal Rate		
	Housing Requirement	Mtg Rec/Sales Tax Exemptions	PILOT Term	of Return (IRR)	Net Present Value (NPV)	Financially Viable
Conventional Build Baseline	Yes	\$2,449,900	15	13.8%	\$884,600	Yes
1.1-High-End Baseline	Yes	\$3,545,900	15	17.3%	\$4,301,500	Yes
1.2-No Workforce Requirements With Short-Term Exemptions 15 Yr PILOT	No	\$3,545,900	15	20.0%	\$7,075,300	Yes
1.3-No Short-Term Exemptions 15 Yr PILOT	No	\$0	15	17.0%	\$4,324,500	Yes
1.4-No Short-Term Exemptions 7 Yr PILOT	No	\$0	7	12.7%	\$207,300	Yes
1.5-With Short-Term Exemptions No PILOT	No	\$3,545,900	0	11.5%	-\$951,900	No
1.6-No Short-Term Exemptions No PILOT	No	\$0	0	8.5%	-\$3,700,500	No

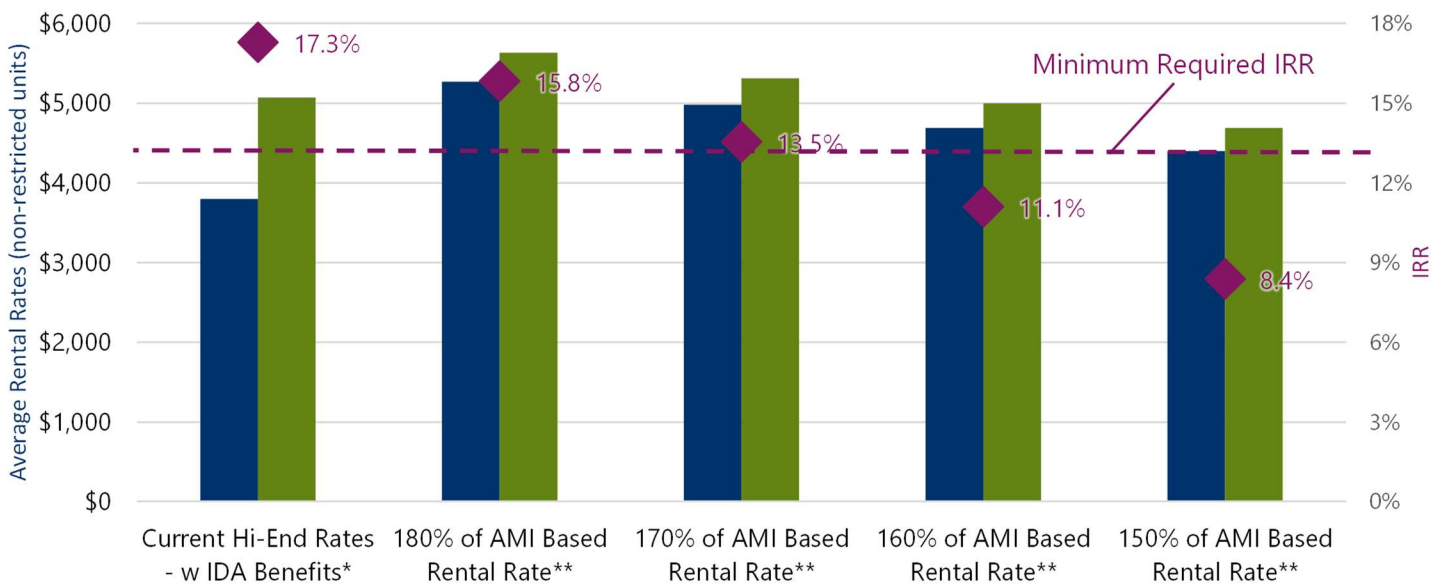
Source: Camoin Associates



**Part 2 — Introducing maximum rental rate threshold for IDA funding eligibility** — This portion of the report extends this analysis by identifying the specific rental levels at which luxury projects can proceed without IDA benefits, thereby informing the appropriate level at which an *average* rent cap might be set.

This intention would be to structure the maximum rental rate such that IDA benefits continue to support moderate-income projects without suppressing overall development. Modeling shows that, for high-end projects without IDA support, financial feasibility is reached only when average rents measure levels consistent with approximately 170% of AMI, well above prevailing luxury market rental rates which equate to a 130% of AMI level. Rents tied to a level of income measuring 160% of AMI or below produce IRRs below the 12.5% threshold, along with negative NPVs, indicating such projects would not proceed without incentives.

**High-End Development - IRR by AMI Based Rental Rates**



\*Note: Incl 10% set aside for 80% AMI households, plus IDA benefits

\*\* Note: No 10% set aside for 80% AMI households, no IDA benefits

Source: Camoin Associates



These results identify a clear tipping point. Conventional projects, and those with moderately finer finishes and greater amenities **priced at or below roughly 160% of AMI, only remain feasible with standard IDA benefits** (even without a 10% set aside for 80% AMI households), while **an ultra-high-end development targeting rents at or above the 170%-of-AMI range is able to achieve financial viability without subsidy**. An average rent cap applied to the market-rate units of IDA-assisted projects can therefore distinguish between developments that require public support and those that can proceed independently, while preserving flexibility in unit mix and maintaining overall housing production.

Note, however, that during the course of this analysis, no properties were identified that charge this level of rent. The Carriage House project may well charge \$7,500 for its most high-end units, but the average reported rental rate drops to \$4,100 — well below the \$5,000 *average* rate that would be seen at a property charging above a cap limiting the average to levels consistent with 170% of AMI.



**Policy Considerations** — The results of analysis found in Part 2 of this report demonstrate how an average rent cap might allow the IDA to better align incentives with its workforce-housing mission while also avoiding unintended reductions in housing production. A suggested feasibility boundary emerges as part of this analysis: projects with average market-segment rents at or below 150% to 160% of AMI require standard IDA benefits to be viable, whereas high-end developments capable of achieving rents at or above 170% of AMI are able to proceed without public assistance.

An average-rent cap applied to market-rate units could provide an effective mechanism for sorting projects into these categories. With a cap applied to the *weighted average* rather than to *each* unit individually, developers could retain flexibility in unit mix and amenity levels, reducing the risk of distortions that might otherwise suppress production. This approach encourages proposals that remain consistent with workforce-oriented rent levels while allowing ultra-premium projects to move forward independently when market conditions support higher pricing.

Taken together, the findings suggest that a well-calibrated average rent cap can focus IDA resources on projects that both require public support and meet community affordability goals. At the same time, the policy creates a transparent and predictable framework that limits subsidy exposure to high-end developments with the wherewithal to proceed without IDA support.

If the IDA elects to proceed with an income-restricted component within its incentive framework, **an eligibility cap consistent with this analytical workup suggests a level of 150% to 160% of AMI**. A threshold at this level would better align affordability requirements with prevailing construction costs and achievable market rents, particularly for newly constructed multifamily housing, while still advancing workforce housing objectives. Setting the threshold below this level risks undermining project feasibility and deterring participation altogether; by contrast, a 150% AMI standard preserves the practical viability of development while targeting households that are increasingly priced out of new housing opportunities in the region.

It may be, however, that **imposing this type of rental rate threshold might not result in a substantive change in development activity in Brookhaven**. Further analysis would be required to determine whether existing or planned properties currently charge, or intend to charge, rents at or above a \$5,000 cap. Absent such conditions, this approach would be unlikely to prompt any meaningful reconfiguration of projects expected to move forward.

Note, as well, that imposing a lower affordability threshold could constrain the development of high-end properties. A rental rate cap, for example, set at 130% of AMI as a condition of IDA support, would likely preclude most luxury-oriented development. In response, developers pursuing this segment would either need to reconfigure projects to support more moderate pricing or redirect investment to markets offering more favorable conditions.



# PROJECT OUTLINE

## Background

Camoin Associates conducted a series of financial feasibility scenarios in July 2025 to evaluate the Town of Brookhaven IDA’s incentive programs in supporting new multifamily residential development. This analysis defined a prototypical project using prevailing financial assumptions (lending rates, capitalization rate), market characteristics (unit sizes, rental rates, operating expenses), construction parameters (land and construction costs), and IDA-related policy considerations, including tax benefits and associated requirements. Based on these inputs, and informed by consultation with local sector experts, a baseline financial pro forma was developed to assess market feasibility, including required returns, debt service capacity, and related financial indicators.

Using this baseline, the Camoin Associates Financial Feasibility Model was applied to test the effects of modifying or removing IDA incentives and affordability requirements.

The resulting financial analysis identified several key findings related to the feasibility of residential development. Two findings are particularly relevant to subsequent analysis:

- **IDA tax exemptions materially affect feasibility** — Sales tax and mortgage recording tax exemptions, along with PILOT agreements, reduce both upfront and long-term project costs and support financing structures that would otherwise be difficult to achieve. Absent these incentives, the prototype project would not meet standard feasibility thresholds. Consistent with developer statements, without the benefits provided by the IDA, the typical residential development could not move forward.
- **Lower workforce housing income limits remain feasible under the prototype scenario** — Reducing the workforce housing threshold from 120% to 80% of Area Median Income (AMI) did not materially impair project feasibility, with the IRR remaining above the 12.5% benchmark, and Net Present Value (NPV) remaining positive.

Based on these findings, the Brookhaven IDA anticipates revising its Uniform Tax Exemption Policy (UTEP), reducing the workforce housing set-aside requirement such that 10% of all units be priced affordably and made available to households earning at or below 80% of AMI, as defined by HUD. This requirement is in addition to the Town’s separate, townwide mandates that 5% of units be reserved for households earning at or below 50% of AMI and an additional 5% be reserved for households earning at or below 65% of AMI.

These policy determinations were informed by Camoin Associates’ analysis of a prototypical development characterized by prevailing market rental rates and unit sizes *typical* of recent or ongoing multifamily projects within the Town.

## Need for additional analysis

Not all multifamily developments, however, align with these assumptions. In particular, some projects are designed to serve a narrower segment of the market, offering larger units, higher-end finishes, and more extensive amenities, and with rents set at premium levels well above those affordable to most Brookhaven households.

The presence of these upscale developments raises the question of whether luxury-oriented multifamily projects that command premium rents require public subsidy to be financially viable. While the IDA remains focused on



supporting housing opportunities for local workers, it is also committed to providing financial assistance to only those projects that would not otherwise proceed. Consistent with the “but for” standard, subsidies are intended to provide for development that would not occur in the absence of IDA support. Accordingly, this analysis examines whether IDA assistance is, in fact, necessary for high-end developments to achieve sufficient profitability to move forward.



# PART 1 — FINANCIAL MEASURES OF HIGH-END RENTAL DEVELOPMENT

In contrast to the multifamily development specified in the original July 2025 study, the following analysis evaluates the financial returns of a new, more luxurious rental property. While many elements of the original specification remain in place, several components have been reevaluated in order to define a new high-end baseline development scenario.

Having established this revised baseline, alternative scenarios are then evaluated, with the financial performance of each configuration compared to this initial high-end prototype.

## MAINTAINING CONSISTENCY WITH ORIGINAL ANALYSIS

To the extent possible, specifications of the new multifamily development mirror those of the original July 2025 analysis, introducing as few variable changes as necessary. This approach enables the most consistent comparison between results.

**Site Expenses** — The price of land and site preparation remains unchanged from the original July 2025 analysis at \$3.65M, as does the inclusion of 180 parking spaces and the associated development cost of \$410,000. Architectural, engineering, and legal costs (listed below as “Additional Fees”) of \$2.03M are likewise held consistent with the prior study.

**General Scope** — As with the original analysis, the development assumes a 120-unit multifamily project consisting of 45 one-bedroom units and 75 two-bedroom units, for a total of 120 apartments.

**Operating Expenses** — Operating expenses per unit are also carried over from the original July 2025 study. Despite the higher anticipated development costs and rental rates, it is assumed that utilities, repairs and maintenance, and general administrative expenses would not scale proportionally with construction costs or rental income. To minimize the number of adjusted variables, operating expenses are therefore held constant at \$8,300 per unit in the first year of operation. Holding expenses constant while revenues increase results in a lower operating expense ratio: whereas the original study reflected operating expenses equal to 24% of revenue, the revised high-end baseline reflects an operating expense ratio of roughly 20%.



**Project Financing Parameters** — Financial assumptions were drawn from multiple sources, including RealtyRates.com, CoStar, ApartmentLoanStore.com, and discussions with officers at several development firms. These parameters are listed below but for additional detail on these elements, please refer to the original report as provided to the Brookhaven IDA, Fostering Housing Development (July 2025). To maintain consistency, financing assumptions from the original study are applied unchanged in this follow-up analysis.

**Financial Metrics - 1Q2025**

<b>Lending</b>	
Construction	7.5%
Permanent	6.2%
<b>Additional Measures</b>	
Term	30 Yrs
Loan Origination Fee	1.0%
L/V Ratio	80.0%
Equity Contribution	20.0%
Debt Coverage Ratio	1.20
Cap Rate	5.5%

**Source:** realtyrates.com, CoStar, apartmentloanstore.com, Developer Interviews

**Occupancy** — To account for periodic vacancy and non-payment, estimated gross revenues include a 5% reduction from total potential revenue, consistent with the original study.

**Mill Rates** — An effective tax rate of 2.374% (equivalent to \$23.74 per \$1,000 of equalized valuation) is again applied to calculate annual property taxes.



**Affordable Unit Rental Rates** — The Town of Brookhaven requires new multifamily developments to reserve 5% of units for households earning at or below 50% of Area Median Income (AMI) and an additional 5% for households earning at or below 65% of AMI. Affordable rents are defined as 30% of household income. To qualify for IDA support, developments must also reserve an additional 10% of units at a workforce affordability level. In line with anticipated revisions to the Uniform Tax Exemption Policy (UTEP), this threshold is set to 80% of AMI.

For consistency with the July 2025 analysis, the same affordable rental rates are applied in the high-end development scenarios, based on HUD-published AMI figures. Although market-rate units are larger and command higher rents under the revised specifications, affordability requirements constrain rents for income-restricted units to the same levels used previously.

**Affordable Rental Rates by Size of Unit**

	<b>One-Bedroom</b>	<b>Two-Bedroom</b>
Income at 50% of AMI	\$1,465	\$1,660
Income at 65% of AMI	\$1,905	\$2,155
Income at 80% of AMI	\$2,345	\$2,655

**Note:** Household size for one-bedroom units assumed at 1.5 persons and two-bedroom units at 2.5 persons.

**Source:** Camoin Associates



## ADJUSTED HIGH-END PROJECT SPECIFICATIONS

**Increased Unit Size** — The original analysis assumed average unit sizes of 800 square feet for one-bedroom units and 1,100 square feet for two-bedroom units. A review of recent luxury projects indicates unit sizes are approximately 18% larger. For this analysis, one-bedroom units are increased to 950 square feet and two-bedroom units to 1,300 square feet, resulting in a total living area of 140,300 sf. While the original conventional quality analysis called for an additional 5% of space for common areas, under this high-end specification, that figure is increased to 10%. This yields a total building area of 155,900 square feet.

**Cost of development** — The original construction cost assumption of \$293 per square foot was based on RSMean data and corroborated through local market review. Review of more expensive build quality, also available through RSMean, in combination with materials provided by the IDA for high-end residential developments, indicate that luxury construction costs are higher, averaging approximately \$315 per square foot due to upgraded materials and finishes.

Under the original analysis, the average development cost was approximately \$356,000 per unit. Under the revised high-end specification, average cost increases to \$460,000 per unit. While higher than the earlier estimate, this figure remains consistent with comparable luxury developments in the area, where per-unit costs range from \$400,000 to \$585,000.

**Rental Rates for Financial Analysis - Conventional Quality and High-End Properties**

Area Calculations	Conventional Quality Property			High-End Property		
	1BR	2BR	Wtd Avg	1BR	2BR	Wtd Avg
Number of Units	45	75	120	45	75	120
<b>Unit Size (sf)</b>	<b>800</b>	<b>1,100</b>	<b>988</b>	<b>950</b>	<b>1,300</b>	<b>1,169</b>
Total Area (sf)	36,000	82,500	118,500	42,750	97,500	140,250
Common Spaces (5%/10%)			6,200			15,600
<b>Total Building Area (sf)</b>			<b>124,700</b>			<b>155,850</b>
Cost Calculations						
Building CPSF			\$293			\$315
Total Building Cost			\$36,567,500			\$49,092,800
Parking*			\$410,400			\$410,400
Acquisition Cost & Site Work			\$3,650,000			\$3,650,000
Additional Fees			\$2,033,800			\$2,033,800
<b>Total Cost of Construction</b>			<b>\$42,661,700</b>			<b>\$55,187,000</b>
<b>Average Cost Per Unit</b>			<b>\$355,500</b>			<b>\$459,900</b>

\*Note: 1.5 parking spaces/unit at \$2,280/space

Source: Camoin Associates



**Rental Rates** — Similar to the cost per square foot of development, the rental rates per square foot are notably higher for luxury rentals as compared to those found in the broader market. Based on CoStar and other sources, the original July 2025 analysis assumed market rents of \$3.65 per square foot per month for one-bedroom units and \$3.40 for two-bedroom units, yielding monthly rents of \$2,920 and \$3,740, respectively. For the high-end analysis, comparable luxury properties were reviewed, indicating rents of approximately \$4.00 per square foot for one-bedroom units and \$3.90 per square foot for two-bedroom units.

When applied to the larger unit sizes, these rates produce monthly rents of \$3,800 for one-bedroom units and \$5,070 for two-bedroom units.

**Rental Rates for Financial Analysis - Conventional Quality and High-End Properties**

Rental Rate Calculations	Conventional Quality Property*			High-End Property		
	1BR	2BR	Wtd Avg	1BR	2BR	Wtd Avg
Mkt Rental Rate/SF	\$3.65	\$3.40	\$3.48	\$4.00	\$3.90	\$3.93
Unit Size (sf)	800	1,100	988	950	1,300	1,169
<b>Mkt Rental Rate/Unit</b>	<b>\$2,920</b>	<b>\$3,740</b>	<b>\$3,433</b>	<b>\$3,800</b>	<b>\$5,070</b>	<b>\$4,594</b>

\*Note: Conventional quality figures are as seen in the original July 2025 report

Source: Camoin Associates



## A NEW HIGH-END BASELINE FINANCIAL ANALYSIS

To evaluate the feasibility of high-end development, a revised baseline pro forma was constructed reflecting higher construction costs, larger units, and elevated rental rates. All other financial parameters — lending terms and return thresholds — remain unchanged from the July 2025 study.

Under the revised UTEP framework, the high-end baseline includes the same affordability requirements: 5% of units at or below 50% of AMI, 5% at or below 65% of AMI, and 10% at or below 80% of AMI. With these assumptions, the high-end baseline yields an IRR of 17.3% and an NPV of approximately \$4.3M — nearly five times the level seen under the conventional build scenario. This reflects a higher revenues stream that more than offsets the increase in construction and financing costs.

**Pro Forma Results - Conventional and High-End Build Level Benefits and Returns**

	10% Workforce Pct of AMI	PILOT	Construction Period Benefits	Internal Rate of Return (IRR)	Net Present Value (NPV)
<b>Conventional build level and rental rates</b>					
Original Study Baseline	120% of AMI	15 Yrs	\$2,654,100	15.4%	\$1,964,400
New IDA UTEP	80% of AMI	15 Yrs	\$2,449,900	13.8%	\$884,600
<b>High-End build level and rental rates</b>					
New High-End Baseline	80% of AMI	15 Yrs	\$3,545,900	17.3%	\$4,299,400

Source: Camoin Associates

## ALTERNATIVE SCENARIOS

As anticipated, financial returns for the high-end multifamily development exceed those of the more conventional project. Given that IDA tax exemptions are intended to support the provision of affordable housing for area workers, it is unclear whether applying these incentives to high-end luxury developments — affordable only to the highest-income households — advances that objective.

To evaluate this issue, additional scenarios assess the financial viability of high-end multifamily development based on differing degrees of IDA support, including the removal of mortgage recording and sales tax exemptions, and the shortening or removal of PILOT agreements. In these scenarios, the 10% workforce housing requirement tied to IDA participation is eliminated, allowing those units to be rented at market rates, while the Town’s requirements that 5% of units serve households at or below 50% of AMI and an additional 5% serve households at or below 65% of AMI remain in effect. With varying configurations of IDA benefits, alternative scenarios are evaluated using the Camoin Associates Financial Feasibility Model, assessing their viability based on projected IRR and NPV.

**Scenario Descriptions** — Beyond the conventional buildout scenario, six distinct configurations of the high-end development were constructed, measuring the impact of IDA support on the financial viability of the high-end multifamily rental project. These are:

- 1.1) The **high-end baseline** scenario with costs and rental rates described above represents a development taking advantage of all of the IDA’s typical benefits, including the mortgage recording tax and sales tax exemptions, as well as a 15-year PILOT agreement. This scenario is highly successful in terms of financial returns, with an IRR of 17.3% and an NPV of \$4.3M.
- 1.2) Similar to the high-end baseline but **without providing for workforce housing**. Not surprisingly, removing the workforce housing requirement but retaining all available IDA benefits proves even more financially



rewarding — allowing an additional 10% of units to be rented at market rates boosts IRR to 20.0% and elevates NPV to \$7.1M.

**1.3) No mortgage recording or sales tax exemptions** are provided, but this configuration **maintains a 15-year PILOT** agreement. There is no workforce housing set-aside. This scenario remains viable with a healthy 17.0% IRR and an NPV of nearly \$4.3M.

**1.4) No mortgage recording or sales tax exemptions** are provided, but this configuration **maintains a 7-year PILOT** agreement. There is no workforce housing set-aside. Under this scenario, IRR drops to 12.7% and the NPV falls to just \$207,000 placing this configuration on the borderline of financial feasibility.

Eliminating the PILOT proves to be the factor with the most pronounced impact on project viability.

**1.5) Maintaining the mortgage recording and sales tax exemptions, but no PILOT agreement is included.** There is no workforce housing set-aside. These conditions prove untenable, with IPR dropping below 12% and NPV registering a negative \$1.0M.

**1.6) No mortgage recording or sales tax exemptions are included, and there is no PILOT agreement.** There is no workforce housing set-aside. The IRR continues to fall, dropping below 9% and NPV measuring a negative \$3.7M.

### High-End Development Financial Feasibility by Degree of IDA Support

Scenario	Workforce			Internal Rate		
	Housing Requirement	Mtg Rec/Sales Tax Exemptions	PILOT Term	of Return (IRR)	Net Present Value (NPV)	Financially Viable
Conventional Build Baseline	Yes	\$2,449,900	15	13.8%	\$884,600	Yes
1.1-High-End Baseline	Yes	\$3,545,900	15	17.3%	\$4,301,500	Yes
1.2-No Workforce Requirements With Short-Term Exemptions						
15 Yr PILOT	No	\$3,545,900	15	20.0%	\$7,075,300	Yes
1.3-No Short-Term Exemptions 15 Yr PILOT	No	\$0	15	17.0%	\$4,324,500	Yes
1.4-No Short-Term Exemptions 7 Yr PILOT	No	\$0	7	12.7%	\$207,300	Yes
1.5-With Short-Term Exemptions No PILOT	No	\$3,545,900	0	11.5%	-\$951,900	No
1.6-No Short-Term Exemptions No PILOT	No	\$0	0	8.5%	-\$3,700,500	No

Source: Camoin Associates



**Limited Opportunities for Segmenting Projects at Prevailing High-End Rental Rates** — The IDA supports multifamily residential development to the extent that it advances the availability of workforce housing. Although town requirements and anticipated UTEP policies require that 20% of units in IDA-assisted projects be income-restricted, there is concern that, in some cases, incentives could extend financial benefits to developments that might otherwise proceed without public support.

This analysis shows that high-end multifamily developments generate higher returns than more conventional projects when leased at prevailing luxury rental rates. Even so, the assumption that such developments would remain financially viable without IDA assistance if the 10% workforce housing requirement were removed is not supported by these findings. As with conventional projects, IDA incentives remain a determining factor in enabling high-end developments to proceed.

While upscale multifamily projects produce substantially higher gross revenues, they also incur significantly higher construction and financing costs. These added costs offset much of the revenue gain, such that net operating income at current high-end market rents is insufficient to support development without IDA assistance in the form of near-term tax exemptions and a structured PILOT agreement, even in the absence of the 10% workforce housing set-aside.

## POLICY IMPLICATIONS

This analysis indicates that IDA incentives play a determining role in the feasibility of high-end multifamily rental development under current market conditions, just as with conventional buildout scenarios. Although luxury-oriented projects can generate higher gross revenues than conventional developments, these gains are largely offset by higher construction and financing costs. As a result, even high-end developments generally require a combination of tax exemptions and a structured PILOT agreement to achieve minimum feasibility thresholds at prevailing market rents.

These findings raise important considerations regarding the application of IDA incentives. While current Town requirements and anticipated UTEP policies call for 20 percent of units in IDA-assisted projects to be income-restricted, the analysis indicates that high-end developments may still require public support even in the absence of workforce housing requirements. This suggests that assumptions regarding the ability of luxury projects to proceed without assistance at prevailing high-end rental rates may be overstated.

If high-end developments were deemed ineligible for IDA incentives, developers would retain the ability to adjust their investment strategies toward projects that do qualify for such benefits. This could in turn redirect development activity toward project types and affordability configurations aligned with IDA eligibility criteria, thereby influencing the composition of future housing supply. This dynamic indicates that incentive eligibility criteria can shape not only whether development occurs, but also the form it takes.

Accordingly, continued application of a clear “but for” standard, coupled with periodic review of incentive eligibility and affordability requirements, can help ensure that IDA resources are directed toward projects that both require public support and advance the Town’s housing objectives. This approach supports accountability while allowing flexibility to respond to changing market conditions.



# PART 2 — POTENTIAL FOR AN OVERALL CAP ON RENTAL RATES

As discussed in Part 1, high-end developments that command premium market-rate rents are not capable of achieving financial viability without the support of IDA benefits. It is certainly the case, however, that were rental rates sufficiently high, a high-end luxury development could then provide a sufficient return on investment to justify moving ahead with development.

With the goal of determining the level of rental rates that *would* allow a high-end project to become profitable, several additional scenarios were studied using the Camoin Associates Financial Feasibility Model. For the scenarios presented in Part 2, most inputs (unit size, total construction costs, financing terms, etc.) remained unchanged from those seen in the Part 1 analysis. For these scenarios, however, *no* IDA benefits are included in their financial review — neither exemption of sales and mortgage recording taxes, nor reduced effective property tax burdens in the form of a PILOT agreement. In addition, rental rates used for these configurations are tied to an affordable level for households making notably above-average incomes. In this case, affordability refers to rental rates equal to 30% of total household income.

## IMPOSING A CAP ON AVERAGE RENTAL RATES

The analysis above shows how, even with rental rates attuned to levels consistent with prevailing high-end, luxury rental properties, loss of IDA benefits results in a significant decline in potential financial returns and NPV. Clearly, rental rates would need to rise well above current levels seen at high-end developments to overcome these financial shortfalls. This section reviews rental rates set based on affordability at much higher income levels — from 180% of AMI down to 150% of AMI.

Note that these scenarios evaluate scenarios reviewing *average* rental rates across *all* market-rate units within the development. In this type of regime, some individual units may rent at levels above the defined cap, as long as the weighted average complies with the overall price ceiling. For example, if the average rent cap is \$4,500, a project could include some units at \$5,200, offset by others at \$4,000 such that the overall maximum average level be maintained.

**Scenario Descriptions and Returns** — Financial measures for the high-end buildout scenarios without IDA support are reviewed alongside relevant specifications from Part 1 regarding pricing, IRR, and NPV. These are:

- 2.1)** The **High-End Buildout Baseline with IDA support** scenario (same as 1.1 in Part 1) reflects conditions under the anticipated IDA UTEP regime with 10% of units set aside and priced affordably for households making 80% of AMI or less, along town requirements of 5% of units reserved for both i) households at or below 50% of AMI and ii) households at or below 65% of AMI. The remaining 80% of the unit's rents are set at the prevailing high-end market rate level. Results show an IRR of 17.3% and an NPV of \$4.3M.
- 2.2)** The scenario with **no Construction Period Exemptions, no PILOT, and rents set to prevailing high-end market rates** (same as 1.6 in Part 1) is shown to not be financially viable with an IRR of 8.5% and a NPV of *negative* -\$3.7M.
- 2.3)** A configuration that also receives no IDA provided benefits but includes **rents aligned with household income at 180% of AMI** yields an IRR of 15.8%, well above the required 12.5% minimum, while also



achieving a NPV of \$3.6M. This scenario would be attractive to developers and investors *if* they were assured that these rental rates could be achieved.

- 2.4)** A scenario similar to (3) but with **rents aligned with household income at 170% of AMI** yields an IRR of 13.5%, still above the required 12.5% minimum, while also producing a positive NPV of \$1.1M.
- 2.5)** This scenario drops **rents to a level aligned with household income at 160% of AMI**. At this point, given the lack of IDA assistance, the project becomes non-viable financially. The measure of IRR declines to 11.1% — now below the minimum 12.5% return, and NVP shifts to a *negative*\$1.4M.
- 2.6)** Again, reducing modeled **rental rates to a pace consistent with incomes at 150% of AMI** yields unsatisfactory results with respect to financial returns. IRR drops further, to just 8.4% while NPV falls even more sharply, measuring -3.8M.

**Financial Feasibility with Rental Rates Set by AMI Percentage Basis**

Configuration	IDA Provided Benefits	1-Bedroom Rental Rate	2-Bedroom Rental Rate	Internal Rate of Return (IRR)	Net Present Value (NPV)	Financially Viable
<b>Market Rate Based Rentals - Includes all IDA Benefits</b>						
2.1-High-End Baseline (1.1 above - Approx 130% of AMI level)	Const. Period Exemptions/PILOT	\$3,800	\$5,070	17.3%	\$4,301,500	Yes
2.2-No Short-Term Exemptions No PILOT (1.6 above)	Constr Period Exemptions Only	\$3,800	\$5,070	8.5%	-\$3,700,500	No
<b>AMI Based Rental Rates - No Short-Term Tax Exemptions and No PILOT*</b>						
2.3-AMI 180%*	None	\$5,270	\$5,630	15.8%	\$3,600,200	Yes
2.4-AMI 170%*	None	\$4,980	\$5,310	13.5%	\$1,086,300	Yes
2.5-AMI 160%*	None	\$4,690	\$5,000	11.1%	-\$1,376,500	No
2.6-AMI 150%*	None	\$4,400	\$4,690	8.4%	-\$3,839,200	No

**\*Note:** These developments include 5% set-asides for households at 50% and 65% of AMI, but *not* an additional 10% for households at 80% of AMI.

Beyond the scenario maintaining IDA benefits (2.1 — the same as 1.1 in the prior discussion), the analysis shows that, in fact, a project *might* be feasible without IDA support. Under the circumstances where one- and two-bedroom units are rented for \$5,000 or more per month (scenarios 2.3 and 2.4). As rental rates drop below this level by just a few hundred dollars per month, however, investment returns become insufficient to warrant private funding (scenario 2.5 and 2.6).

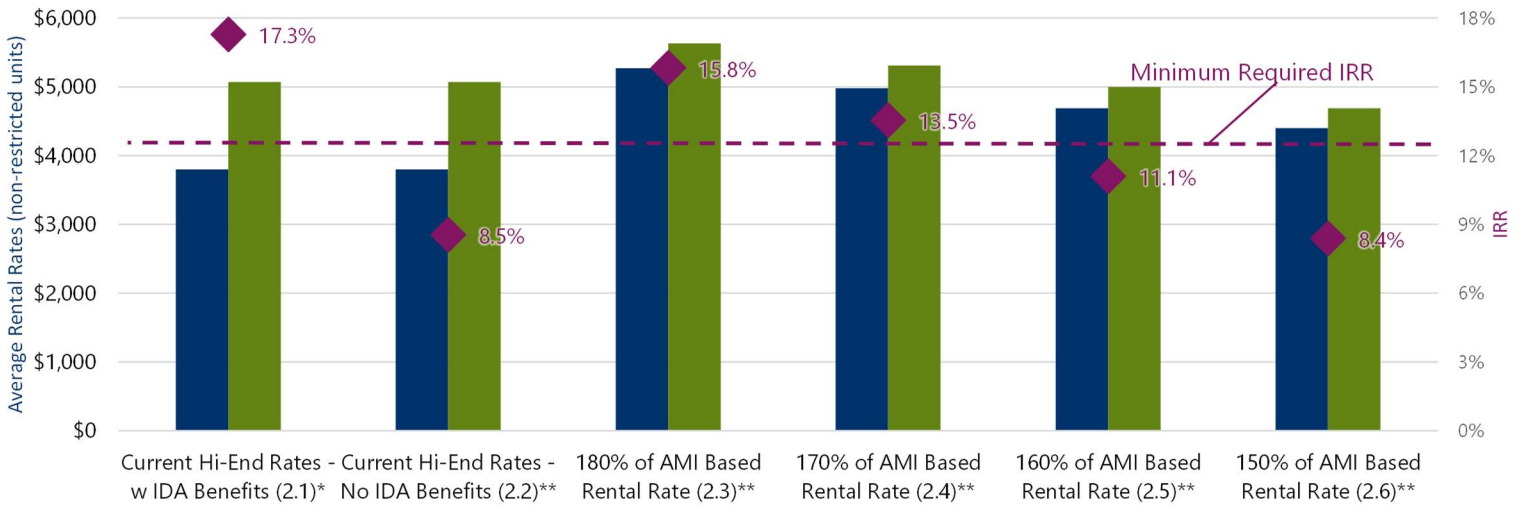
**Implications of these results** — it appears that, were rental rates to become sufficiently high (consistent with roughly 170% of AMI in the above analysis), a high-end luxury rental development will achieve financial returns adequate to warrant investor investment. A development with rental rates below this level, even those approaching \$5,000 per month, however, would still require IDA support in order to provide sufficient returns to investors.

While the IDA may choose to implement a limit on rental rates for those developments receiving a package of benefits, depending on the level chosen for this cap, a certain proportion of high-end developments would likely not move forward.

As an example, imposing a maximum rental rate for those projects receiving IDA benefits at levels consistent with 150% of AMI, those projects planning to charge roughly \$4,500 or less per unit on average would still remain financially viable, assuming they received the typical package of IDA benefits. Meanwhile, those projects with market



**High-End Development - IRR by AMI Based Rental Rates**



**\*Note: Incl 10% set aside for 80% AMI households, plus IDA benefits**  
**\*\* Note: No 10% set aside for 80% AMI households, no IDA benefits**  
**Source: Camoin Associates**

■ 1-BR Rental Rate (Left) ■ 2-BR Rental Rate (Left) ◆ IRR (Right)

rate units somewhat over \$5,000 per month or higher, *without* IDA benefits, would also provide sufficient returns to warrant investment. It would then be those products representing the middle range, with rents between \$4,500 and \$5,000 per month, that might not move ahead. An example of this type of averaging can be seen in the planned development of the Patchogue Carriage House development. Some of the “priciest few upgraded 2-bedroom units” are slated to rent for as much as \$7,500, while the overall average rental rate is quoted as measuring around \$4,100.

## POLICY IMPLICATIONS

Taken together, the analysis reveals a consistent pattern in how multifamily projects respond to IDA support and varying rent environments. Across both conventional and high-end development types, the PILOT structure remains the central determinant of financial feasibility. Removing or shortening this benefit reliably pushes projects below standard return thresholds, demonstrating that IDA incentives continue to act as the primary enabling mechanism for new construction. This holds true even for luxury buildings, where elevated rents do not compensate for higher construction and financing costs under prevailing market conditions.



At the same time, the results show that high-end projects are not inherently unable to stand on their own; rather, their viability depends on reaching rent levels significantly above those currently observed in the Brookhaven market. When rents rise to roughly 170% of AMI — well into the \$5,000-plus monthly range — returns finally become sufficient to justify private investment without public support. Below this threshold, even rents approaching the upper end of today’s luxury segment fail to clear the required return benchmarks. This creates a natural financial boundary: extremely high-rent luxury developments will have the financial strength to proceed independently, while the vast majority of projects remain sensitive to the presence or absence of the IDA’s tax framework.

**How an Average Rent Cap Might Works**

**What the cap applies to:** The cap limits the average rent across all market-rate units, not each unit individually. Developers may charge higher rents for some units as long as others offset them and the weighted average stays below the cap.

**Example - Average Cap = \$4,500:**  
 40 units at \$4,000  
 40 units at \$4,600  
 16 units at \$5,200  
 Average =  $(40 \times \$4,000) + (40 \times \$4,600) + (16 \times \$5,200) / 96 = \$4,475$

Result: Project complies with  $\$4,475 < \$4,500$ , even though some units are priced well above the cap.

**Why it matters:** This approach maintains flexibility in unit mix while ensuring IDA-assisted projects stay aligned with affordability goals.

These dynamics point toward a practical policy strategy centered on the use of a rental cap to distinguish between projects that truly require public support and those that do not. Setting a cap on *average* rental rates near the affordability level associated with 150% of AMI provides a useful equilibrium point: projects operating at or below this level remain financially feasible when paired with the IDA’s standard incentive package, while those seeking to charge rents above the 170%-of-AMI threshold can still proceed but would do so outside the IDA program. This approach creates a predictable sorting mechanism—projects aligned with moderate-income rent levels continue to rely on IDA benefits, while the highest-rent developments operate independently of public subsidy.

Importantly, the design of the cap matters as much as the level at which it is set. Applying the cap to the average rent across market-rate units, rather than requiring every unit to comply individually, preserves flexibility for developers. This structure allows a mix of unit types, sizes, and amenity levels, enabling some units to rent above the cap as long as others fall sufficiently below it. Such flexibility reduces the risk of distorting product mix or suppressing overall housing production, while still ensuring that the average pricing of IDA-assisted projects remains aligned with the community’s affordability objectives.

In essence, the findings make clear that the IDA can use a well-calibrated rent-cap policy to focus its resources on the segment of the market where public support meaningfully alters project outcomes. At the same time, the policy avoids restricting the highest-end developments, which can proceed on their own when rents reach the level required to offset the loss of incentives. This creates a balanced system in which incentives are neither over-applied nor withdrawn in a way that could dampen overall housing production.

## Recommendations

**Should the IDA choose to adopt an average rent cap for market-rate units, this would be set at roughly 150% to 160% of AMI**, paired with the standard 15-year PILOT. This combination maintains feasibility for projects that support moderate-income housing goals, while allowing ultra-high-rent luxury developments to proceed without



subsidy when their rents exceed the 170%-of-AMI threshold. The result is an understandable, predictable, and efficient policy framework that aligns public incentives with public purpose while supporting further residential production.

As a final consideration, it should be recognized that the imposition of a rental rate threshold may not, in practice, result in a material change in development activity in Brookhaven. Further evaluation would be required to determine whether existing or proposed projects currently charge, or intend to charge, rents at or above a \$5,000 cap. In the absence of such conditions, the introduction of this threshold would be unlikely to prompt meaningful reconfiguration of projects anticipated to move forward.

At the same time, the **adoption of a more restrictive affordability threshold could materially constrain high-end development**. For example, conditioning IDA support on a rental rate cap set at 130 percent of AMI would likely preclude most all luxury-oriented projects. In such cases, developers would be faced with a choice between reconfiguring projects to accommodate more moderate pricing or redirecting investment to jurisdictions offering more favorable development conditions.



# APPENDIX: DATA SOURCES



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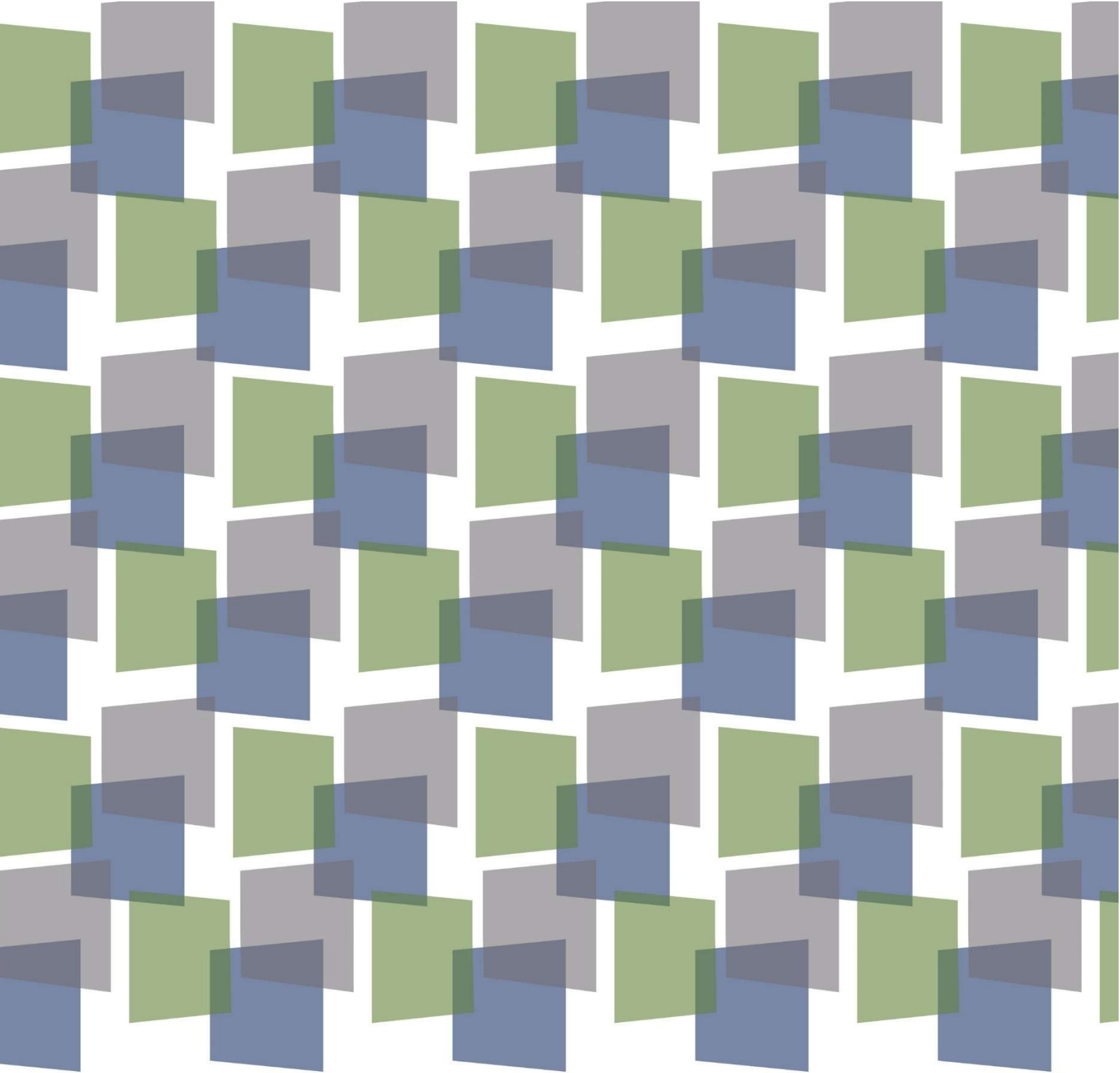


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