

Fostering Housing Development

REVIEW OF IDA BENEFITS IN SUPPORT OF MIXED-
INCOME MULTIFAMILY PROJECTS IN BROOKHAVEN

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PREPARED FOR:

Brookhaven Industrial
Development Agency



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EXECUTIVE SUMMARY

The Brookhaven Industrial Development Agency (IDA) considers supporting the town's workforce as part of its mission, and this extends to helping to secure the population with sufficient housing at an affordable price. Furthering this goal, the IDA has provided tax exemptions to a number of investors and developers who wish to construct new residential properties but find that their plans would otherwise not succeed financially.

As part of the agreement reached between the IDA and developers, new apartment projects are required to set aside 10% of their rental units for households earning 80% or less of the Area Median Income (AMI as determined by HUD) and an additional 10% for households earning 120% or less of AMI. In addition, these units must charge rents that are affordable to these income-qualified households.

Builders report that their projects would not be able to move ahead without the IDA's support. Meanwhile, the agency's board and staff seek to ensure that the benefits provided to support a property's financial viability, in turn, deliver the type of housing needed within the community. This study addresses this issue by quantifying the dollar value of the tax exemptions granted to developers through these programs. It then goes on to explore policy changes that might expand the benefits flowing to the broader community.

Baseline Prototype Scenario

The initial steps involve generating the specifications of a prototype multifamily development including all elements needed to create a financial pro forma of the project. Information required for this task comes from several real estate and construction information service providers which was then verified and augmented through conversations with developers currently engaged in multifamily projects within Brookhaven. This prototype project includes 120 units with 80% (96 units) dedicated to market-rate rentals. An additional 20% of units conform to the required inclusion of affordable (12) and workforce (12) units — along with commensurate affordable rental rates.

Affordability Requirements

For affordable housing, rental rates are tied to the Area Median Income (AMI), a specific figure published annually by HUD for each metropolitan area. Households eligible for residency in limited-income housing must meet specific income requirements. The Town of Brookhaven requires that 5% of all units in a new rental development be reserved for households making just 50% of the AMI, and an additional 5% of all units for households with income registering at 65% of AMI or below. In addition, in order to qualify for benefits provided by the Brookhaven IDA, an additional 10% of units must be allocated to households making 120% or less of the AMI.

Furthermore, the rental rate for affordable units is set at 30% of a household's income. The consideration is that if housing costs exceed 30% of income, the remaining funds become insufficient to afford other necessities such as food and healthcare.

The Baseline Prototype buildout scenario includes all of these features – 5% of units dedicated to households with income at or below 50% of AMI, 5% for households at or below 65% of AMI, and 10% of units set aside for households at 120% of AMI or below.



Results of the pro forma show that, despite the exceptionally high cost of construction on Long Island, a new multifamily rental development can still register as a profitable financial endeavor, but only after receiving sufficient support IDA in the form of tax exemptions. This is due to similarly elevated rental rates, which provide sufficient cash flow to cover the costs of financing and property operations while still yielding adequate financial returns to qualify as a viable investment: Internal Rate of Return (IRR - a financial measure indicating the amount of future

Definitions — IRR and MIRR:

Two key financial measures used in the report are the Internal Rate of Return (IRR) and the Modified Internal Rate of Return (MIRR). In evaluating a project's anticipated financial performance, the values these measures take on indicate how profitable a potential investment is expected to be.

Internal Rate of Return (IRR) tells you the percent return that can be expected each year from a proposed investment. After investing in a project, the IRR is the rate at which your investment grows over time. A higher IRR means a better return on your money.

Modified Internal Rate of Return (MIRR) is similar to IRR but slightly more complex. Like IRR, it anticipates the financial returns or profits of an investment. In addition, the MIRR then takes into account reinvesting those profits into a separate, lower return investment such as a savings account .

income produced as a result of an initial investment) for the prototype project measures 15.4% — well above the benchmark 12.5% yield required by investors. This financial return would not be possible, however, without the several benefits provided by the IDA.

Key finding #1 — Requiring 10% of units to be set aside to serve households with income levels equal to 120% of AMI provides no benefit to these households with respect to pricing. The Area Median Income (AMI) in Brookhaven, as determined by HUD, registers quite high on Long Island. For a household with earnings 20% over the AMI, the calculated rental rate for an “affordable” unit registers well above the prevailing market rate. As a result, these households are simply charged market rates with no tangible savings provided by the policy.

Note that, while this policy may provide no pricing benefits to those households at or below 120% of AMI, it does still ensure that they will have a certain portion of units set aside, helping to provide at least some degree of enhanced availability. In addition, for those very high-end developments with rental rates averaging well over the 120% AMI affordable range, there is indeed a benefit to these households, thanks to both availability and pricing.

Key finding #2 — Tax exemptions provided by the IDA are crucial to the financial feasibility of the project. This confirms the sentiment shared by all developers interviewed for this study, that without the tax exemptions for the mortgage recording tax, sales tax, and property tax exemptions, the project would be untenable. Pro forma results show that without these IDA benefits, IRR and MIRR would fall below 4%, and the project would require gap funding on the order of \$5.8M in order to move ahead.

The Total Development Cost of the prototype project without financial support is \$42.7M. Just over the construction period, the IDA's sales tax and mortgage recording tax savings total \$2.7M, reducing the overall development cost to \$40.0M—an immediate 6% savings.



Providing the project with a PILOT results in an average annual reduction in operating costs of \$565,000 over the 15-year term or nearly \$8.5M over the course of the agreement. Even after discounting¹, this reduction in expenses offers a Net Present Value of nearly \$4.6M.

Combined, these significant short- and long-term savings allow a developer to secure project financing that would not otherwise be available without the IDA benefits.

Value to Developer of Brookhaven IDA

Tax Exemptions

| Construction Period | |
|------------------------------------|--------------------|
| Sales Tax | \$2,414,100 |
| Mortgage Recording | \$240,000 |
| Total - Construction Period | \$2,654,100 |
| Percent of Total Development Costs | 6.2% |
| Ongoing 15 Year PILOT Agreement | |
| Average Annual Benefit | \$565,033 |
| Cumulative Benefit | \$8,475,502 |
| Net Present Value* | \$4,589,058 |

*Note: NPV calculated at 12.5% discount rate

Source: Camoin Associates

¹ Discounting is a financial calculation that consolidates an income stream to a single value, based around the time-value of money



Alternative Scenarios

With the Baseline Scenario in place, Camoin Associates' Financial Feasibility Model allows for the examination of alternative configurations for the project. Adjusting parameters such as workforce rental rates or the proportion of workforce units required for the project yields changes to the financial pro forma and provides an understanding of how differing policies might impact profitability.

1) Lowering the AMI limit for workforce affordable housing units

One of the requirements for consideration of tax benefits from the IDA is that 10% of all rental units are to be priced at rates affordable to households making 120% or less of the AMI. As noted, the calculated rental rate for these households based on AMI is, in fact, *higher* than the prevailing market rate. With respect to pricing, the policy does not benefit these households as they are still charged the market rate.

Note that, while this policy may provide no pricing benefits to those households at or below 120% of AMI, it does still ensure that they will have a certain portion of units set aside, helping to provide at least some degree of enhanced availability. In addition, for those very high-end developments with rental rates averaging well over the 120% AMI affordable range, there is indeed a benefit to these households, thanks to both availability and pricing.

One consideration in expanding benefits to the community then is to lower the income-based requirement for workforce units for IDA applicant's development projects. In the case of the prototype project, adjusting this threshold from 120% of AMI down to 100% of AMI would provide no benefit to households renting a one-bedroom unit as these rents would continue holding at the market rate of \$2,920/month. The price for a two-bedroom unit, however, would fall to \$3,325/month, providing an 11% reduction for residents of these units. Note that, as these workforce units represent only 10% of the total, the annualized rent per square foot over *all* 120 units would dip by a modest 1%.

Workforce Rental Rates by Adjusted AMI Levels

| Workforce AMI Basis | One-Bedroom | Two-Bedroom | Overall Annualized Rent/SF* |
|------------------------------|------------------------|-------------|-----------------------------|
| | Workforce Rental Rates | | |
| Market Rate | \$2,920 | \$3,740 | |
| 120% of AMI (Baseline)** | \$2,920 | \$3,740 | \$39.79 |
| 100% of AMI | \$2,920 | \$3,325 | \$39.45 |
| 80% of AMI | \$2,345 | \$2,655 | \$38.68 |
| Percent Change from Baseline | | | |
| 100% of AMI | 0.0% | -11.1% | -0.8% |
| 80% of AMI | -19.7% | -29.0% | -2.8% |

***Note:** Overall rental rate/sf/year for entire property and used as pro forma input - based on 10% affordable, 10% workforce, and 80% market rate units

****Note:** As rental rate based on 120% of AMI registers above market rate, market rate is substituted

Source: Camoin Associates

Reducing the required AMI threshold to 80% would, in fact, provide a notably greater benefit to those workforce residents. One-bedroom units would be reduced by 20% from the Baseline Scenario to \$2,345/month. The savings



for those occupying the two-bedroom units, however, would be even greater with rates reduced to \$2,655 — 29% below the Baseline. Note that with the workforce units priced significantly lower, overall revenues per square foot per year for the development (across the entire 120-unit project) would fall by just under 3% from the Baseline Scenario.

Key finding #3 — The project remains profitable even when the AMI threshold for workforce units is reduced to 80% of AMI. The results of these adjustments showed that, even when reducing the potential income accruing from 10% of all units dedicated to workforce housing, the project remained financially feasible with both IRR and MIRR both holding above 12.5%, the benchmark value required to ensure financial viability to investors and developers. Confirming that these configurations provided the financial wherewithal to attract investment, the Net Present Value (NPV) registers over \$1.5M for the 100% AMI scenario and nearly \$900,000 for the 80% AMI scenario. While lower than the baseline \$2.0M, these figures show sufficient cash flow to produce a viable investment.

Pro Forma Impact - Reduced Workforce AMI Scenarios

| Workforce Percent of AMI | Internal Rate of Return (IRR) | Modified Internal Rate of Return (MIRR) | Net Present Value |
|--------------------------|-------------------------------|---|-------------------|
| 120% of AMI (Baseline) | 15.4% | 14.1% | \$1,964,413 |
| 100% of AMI | 14.8% | 13.6% | \$1,527,489 |
| 80% of AMI | 13.8% | 12.8% | \$884,607 |

Source: Camoin Associates

Based on these results, **for the balance of this analysis, the income threshold for workforce housing is set to 80% of AMI.** This level is shown to provide a demonstrable benefit to lower-income households while remaining sufficiently profitable and financially viable for a developer.

2) Increasing the proportion of required workforce units

A separate but related parameter of the IDA’s workforce housing requirement is the proportion of units dedicated to these households. The current policy calls for these to represent 10% of the total. There is an option to increase this figure, however. Using the Camoin Associates’ Financial Feasibility Model to measure profitability, the mix of market rate, workforce, and affordable units is adjusted in the prototype development project. This involves shifting the workforce proportion from 10% to 20% and then to 30%. These adjustments come at the expense of fewer market-rate units while the affordable segment (5% of units at 50% of AMI and 5% of units at 65% of AMI) remains fixed at 10%.

Expanded Workforce Unit Scenarios - Annualized Rent Per Square Foot Measures

| | Overall Annualized Rent/SF* | Percent Change from Baseline |
|-------------------------------------|-----------------------------|------------------------------|
| Baseline Scenario - 10% at 120% AMI | \$39.79 | |
| 10% Workforce at 80% AMI | \$38.68 | -2.8% |
| 20% Workforce at 80% AMI | \$37.57 | -5.6% |
| 30% Workforce at 80% AMI | \$36.45 | -8.4% |

Note: Overall rental rate/sf/year for entire property - used as pro forma input

Source: Camoin Associates



The implications for project revenues under these differing set-aside regimes show that annualized rent per square foot drops by around 6% for the 20% workforce set-aside regime as compared to the Baseline Scenario (10% at 120% of AMI) and by over 8% from the Baseline Scenario when reserving 30% of units as workforce housing.

Key finding #4 — Combined with reducing the threshold for workforce units to 80% of AMI, expanding the proportion of required workforce units from 10% to 20% or 30% is not financially viable. As borne out by the Camoin Associates’ Financial Feasibility Model, these income reductions for the overall project proved untenable. With 20% of units dedicated to workforce housing (with rents based on 80% of AMI), both IRR and MIRR dropped below the required 12.5% threshold of profitability. In addition, in order to move ahead with a project carrying these specifications, an additional financial contribution of \$38,000 in gap funding would be required to make the project “pencil out.”

Pro Forma Impact - Increased Workforce Units Scenarios

| Workforce Percent of AMI | Internal Rate of Return (IRR) | Modified Internal Rate of Return (MIRR) | Net Present Value |
|--------------------------|-------------------------------|---|-------------------|
| 10% Workforce at 80% AMI | 13.8% | 12.8% | \$884,607 |
| 20% Workforce at 80% AMI | 12.4% | 11.7% | -\$38,308 |
| 30% Workforce at 80% AMI | 11.0% | 10.5% | -\$962,759 |

Source: Camoin Associates

Requiring a full 30% of units to be priced for and available as workforce units produces financial measures that are even less attractive. In this instance, IRR and MIRR drop to 11% or less, while the required gap funding jumps to nearly \$1M to become financially viable.

3) Increasing the term of a PILOT agreement

Another tool available to the IDA involves the length of PILOT agreements granted to builders applying for support. While these may generally span up to 15 years, the option remains to extend this highly valuable benefit for longer periods.

Compared to the original prototype project, pro forma analysis showed that, even when dropping the income threshold of workforce rentals to 80% (while also maintaining IDA tax benefits), the project remained financially viable with sufficient income to cover all costs while also providing sufficient returns to justify investment in the property. Increasing the required number of units to be included as workforce housing, however, proved beyond the project’s cash flow to maintain viability and attract investment.

Under these same specifications of increasing the proportion of workforce residents to 20% and 30% of all units, the Camoin Associates’ Financial Feasibility Model calculated the impact of extending the timeframe of a PILOT agreement from 15 to 20 years.



Key finding #5 — Extending the term of a PILOT agreement may allow for a development that might otherwise be untenable to become financially viable — specifically, those projects that include an increased proportion of workforce units. Specifying that 20% of units in the prototype project are dedicated to households with income registering at 80% of AMI initially resulted in financial returns insufficient to justify developer investment. Extending the PILOT timeframe from 15 to 20 years, however, provides enough additional cash flow to increase returns above the threshold level of 12.5% for both IRR (14.2%) and MIRR (13.2%) — figures that are, in fact, higher than were calculated for a property with just 10% of units dedicated to workforce housing but on a 15-year PILOT.

Pro Forma Impact - Increased Workforce Units Scenarios

| Workforce Percent of AMI | Term of PILOT | Internal Rate of Return (IRR) | Modified Internal Rate of Return (MIRR) | Net Present Value |
|--------------------------|---------------|-------------------------------|---|-------------------|
| 10% Workforce at 80% AMI | 15 Yrs | 13.8% | 12.8% | \$884,607 |
| 20% Workforce at 80% AMI | 15 Yrs | 12.4% | 11.7% | -\$38,308 |
| 30% Workforce at 80% AMI | 15 Yrs | 11.0% | 10.5% | -\$962,759 |
| 10% Workforce at 80% AMI | 20 Yrs | 15.5% | 14.3% | \$2,096,286 |
| 20% Workforce at 80% AMI | 20 Yrs | 14.2% | 13.2% | \$1,144,444 |
| 30% Workforce at 80% AMI | 20 Yrs | 12.8% | 12.1% | \$192,603 |

Source: Camoin Associates

In total, these findings indicate that the IDA has the ability to broaden its support of moderate-income households. The primary tools—AMI limits for workforce units, the proportion of required workforce units, and the terms of PILOT agreements—can be adjusted in various ways to better align with community needs while remaining attractive to developers. Further, the IDA may choose to explore additional paths to support workforce housing such as providing bond financing in order to direct investment towards more affordable multifamily development.

All told, **four specific configurations of the prototype project proved to be financially viable** — all of which required the full complement of IDA benefits.

- 1) **The Baseline Scenario** — reflecting current policies, this requires setting aside 10% of all units for workforce housing, reserved for households making 120% of AMI (with no benefit to the workforce). This includes a 15-year PILOT.
- 2) **Workforce AMI at 100%** — reducing the income threshold to 100% of AMI for workforce units provides for a modest decrease in two-family workforce rental rates.
- 3) **Workforce AMI at 80%** — reducing the income threshold to 80% of AMI for workforce units provides a notable savings to all residents meeting that criterion.
- 4) **Workforce AMI at 80% with 20% of units plus 20-year PILOT** — doubles the number of available workforce units. Requires that the term of the PILOT agreement be extended to 20 years.

Financially Viable Project Configurations

| | Exemptions | | Term of PILOT | Workforce Pct of AMI | Units - Percent Share | | |
|---------------------------|---------------|-----------|---------------|----------------------|-----------------------|-----------|------------|
| | Mtg Recording | Sales Tax | | | Market Rate | Workforce | Affordable |
| Baseline Scenario | Yes | Yes | 15 Yrs | 120% | 80% | 10% | 10% |
| Workforce AMI - 100% | Yes | Yes | 15 Yrs | 100% | 80% | 10% | 10% |
| Workforce AMI - 80% | Yes | Yes | 15 Yrs | 80% | 80% | 10% | 10% |
| 20% Workforce/20 Yr PILOT | Yes | Yes | 20 Yrs | 80% | 70% | 20% | 10% |

Source: Camoin Associates



Additional Comments

While the Brookhaven IDA currently leverages its influence in providing tax relief to developers of multifamily residential properties, additional measures are available to potentially benefit a greater number and broader range of town residents facing financial difficulties in securing affordable apartments.

The current policy of requiring 10% of all units be set aside as workforce housing to households making 120% of AMI has shown to be ineffectual. Income levels in Brookhaven are sufficiently high that the calculated affordable rental rate for a household meeting this criterion already registers above the market rental rate. As such, units set aside for these households are simply rented at the market rate with no actual benefit being provided to these residents.

This study explored alternative requirements that the Brookhaven IDA might consider to better serve the town's middle-income residents. Analysis using Camoin Associates' Financial Feasibility Model demonstrated that lowering the AMI threshold for workforce housing from 120% to 100% and further, to 80%, allowed the project to serve a broader range of the community while maintaining profitability to the developer — MIRR held above the required 12.5% figure in both of these cases.

With this adjustment, however, the policy still provided only 12 units with workforce-affordable pricing in the prototype project. Increasing the required proportion to 20% and 30% would raise the number of workforce households served to 24 or 36 households but imposing this percentage of lower-priced units significantly reduced the project's potential income. The result of these changes is shown to make the project no longer financially viable. The MIRR dropped below 12% in both of these scenarios, indicating insufficient financial returns to attract investment in the project if these requirements were imposed. In addition, these scenarios resulted in negative NPV figures, calling for additional gap funding beyond the equity levels required by a commercial lender.

Increasing the number of available workforce-dedicated units to a wider number of households may, however, remain an achievable goal for the IDA. Increasing the timeframe of a project's PILOT agreement is shown to provide significant benefits to a developer. For the modeled project, extending the PILOT to 20 years presented notably higher investment returns while also elevating the projected NPV. Specifically, for the scenario providing for 20% of units to be dedicated to workforce housing (along with the AMI threshold for these units set to 80% of AMI), shifting to the PILOT to 20-year timeframe boosted financial return measures well into the range of financial viability for both IRR (14.2%) and MIRR (13.2%). What's more, this scenario presents an NPV of over \$1.1M.

Pro Forma Impact - Increased Workforce Units Scenarios

| Workforce Percent of AMI | Term of PILOT | Internal Rate of Return (IRR) | Modified Internal Rate of Return (MIRR) | Net Present Value |
|---------------------------------|---------------|-------------------------------|---|--------------------|
| 10% Workforce at 120% AMI* | 15 Yrs | 15.4% | 14.1% | \$1,964,413 |
| 10% Workforce at 100% AMI | 15 Yrs | 14.8% | 13.6% | \$1,527,489 |
| 10% Workforce at 80% AMI | 15 Yrs | 13.8% | 12.8% | \$884,607 |
| 20% Workforce at 80% AMI | 15 Yrs | 12.4% | 11.7% | -\$38,308 |
| 30% Workforce at 80% AMI | 15 Yrs | 11.0% | 10.5% | -\$962,759 |
| 10% Workforce at 80% AMI | 20 Yrs | 15.5% | 14.3% | \$2,096,286 |
| 20% Workforce at 80% AMI | 20 Yrs | 14.2% | 13.2% | \$1,144,444 |
| 30% Workforce at 80% AMI | 20 Yrs | 12.8% | 12.1% | \$192,603 |

*Note: Baseline Prototype Scenario

Source: Camoin Associates



While these results support the notion that the IDA has the ability to provide greater support for moderate-income households in the community, they identify but one particular scenario. Adjustments to the primary tools presented in this analysis — AMI limits for workforce units, the proportion of required workforce units, and the term of PILOT agreements provided by the IDA — need not follow these exact parameters. As determined by the IDA and its Board, these tools may be reworked into any number of configurations as may best serve the community and remain acceptable to developers seeking support.

There may also be other approaches for the organization to explore in these efforts. For example, there is precedent for the IDA to provide bond financing in order to support proposed development. The lending rates paid by builders play a central role in determining what projects a developer will find as worthwhile investments. To the extent that the IDA might reduce these costs, through bond funding or otherwise, the types of development can be greatly influenced. This might include directing projects toward certain locations as well as defining the proportion, pricing, or other characteristics of affordable units required to secure funding assistance.

As a final note, the figures and findings in this report provide guidance as to how the IDA might reevaluate the requirements in their UTEP. The specific financial figures and dollar values cited, however, are subject to frequent change. Interest rates and the cost of building materials, for instance, are subject to frequent change. This study reports funding levels and internal rates of return based on the prevailing market environment during the first half of 2025. The IDA is encouraged to remain aware of the general market conditions influencing residential construction and to re-evaluate specific policy requirements with regularity.



BASELINE PROJECT PARAMETERS

With the intention of evaluating the financial performance of a typical market-rate residential development, a prototypical apartment development (the “project”) is specified, designed to accurately represent the financial considerations of an actual multifamily residential development.

Once established, alternative scenarios are evaluated, and the financial performance of the project can be compared to this initial Baseline Prototype Scenario.

DEVELOPMENT SPECIFICATIONS

The development supposed for this analysis includes 45 one-bedroom units at 800 sf per unit and 75 two-bedroom units, each measuring 1,100 sf, for a total of 120 apartments totaling 118,500 sf of rentable space. Specifications also call for 5% of the development for common spaces, bringing the total area up to 124,700 sf. The two buildings envisioned in the project are constructed with a brick veneer over reinforced concrete.

Parking for 180 vehicles is also factored into the total cost estimates.

DEVELOPMENT COSTS AND FINANCIAL METRICS

Project Construction Costs

Construction costs for the prototype apartment development and parking area are derived from the 2025 edition of the Square Foot Costs with RSMMeans Data report, published by Gordian.

For this scale of project, costs range from \$255/sf for an economical synthetic stucco finish to over \$311/sf for precast concrete. The market-rate structures of this analysis are intended to demand premium rental rates and a higher-end brick veneer over reinforced concrete is specified. After a location adjustment, RSMMeans reports the cost for this type of development at \$293/sf.

The project also imagines 180 parking spaces (1.5 spaces per unit). Again, based on location-adjusted figures from RSMMeans, these register as \$2,280 per space.

Construction Costs for the Town of Brookhaven - 2025

| | |
|-----------------------------------|---------|
| Multifamily Cost per Square Foot* | \$293 |
| Parking Cost per Space** | \$2,280 |

***Note:** Brick veneer over concrete for 4 to 7 story structures with 55,000 to 60,000 sf

****Note:** 4" paving over 6" of gravel

Source: RSMMeans - 1Q2025



Rental Rates

Rental revenues accruing to the prototype project are modeled off of the mix of unit size (one- and two-bedrooms) and pricing regime (market rate and affordable). Market-based figures are driven by observed rental rates currently seen within Brookhaven, data from CoStar, and input from interviewed developers. Meanwhile, affordable rates are derived based on calculations prescribed by HUD.

Market-Based Rental Rates

Market-based rental rates are derived by multiplying unit area (sf) times an estimated measure of rental rate per sf. A review of properties listed by CoStar provided measures of rental rates per square foot for individual properties along with market area averages. This information established a range of rates, bracketing the high and low bounds of this cost measure. In addition, interviewed developers provided a range of rates they are, or plan to be, charging. These figures also served as guidelines for the appropriate rates to model for this analysis.

Pricing per square foot in Brookhaven at properties developed over the past five years range from \$2.59/sf to \$3.83/sf with a median level of \$3.18/sf. In this analysis, the modeled development seeks to attract premium rental rates and ought to register per-square-foot figures toward the higher end of this range.

The values used in estimating market-based rental rates for this study fall within the higher range between the market median and the maximum observed values. One-bedroom rentals are assigned a rate of \$3.65/sf with two-bedroom units garnering \$3.40/sf.

Market Rental Rates

| CoStar Rent/SF | |
|-------------------------------------|---------|
| Min | \$2.59 |
| Max | \$3.83 |
| Median | \$3.18 |
| Housing Study Assumptions Rent/SF | |
| One-Bedroom | \$3.65 |
| Two-Bedroom | \$3.40 |
| Housing Study Assumptions Rent/Unit | |
| One-Bedroom | \$2,920 |
| Two-Bedroom | \$3,740 |

Source: CoStar, Camoin Associates

Based on these values, the modeled monthly rental rates for this study are set to **\$2,920 for a one-bedroom unit and \$3,740 for a two-bedroom unit**. These figures are consistent with rates posted for newer properties on Apartments.com and fall somewhat below the rates targeted by developers interviewed for this analysis.



About AMI – Area Median Income

Area Median Income, or AMI, is the midpoint of all household incomes in a specific area — half of households earn more, and half earn less. It is calculated and published each year by the federal government and adjusted for both location and household size.

Communities use AMI to decide who qualifies for affordable housing. For example, a family earning 80% of the AMI might qualify for workforce housing, while one earning 50% or less could be eligible for deeper affordability. Rents for these homes are then set so that families don't spend more than 30% of their income on housing. This creates a fair and consistent way to match housing costs to what local residents can actually afford.

For Brookhaven, the AMI for a family of four is \$164,900. As an example, a family of four with an income of \$131,900 (80% of AMI), would qualify for affordable housing. Further, their rent would be set to 30% of their income, or \$3,300/month ($0.3 * \$131,900 / 12$ months).

Analysis around housing and prices typically references AMI and percentages of AMI. This is useful as any particular AMI percentage (50%, 80%, 120%,...) will, in practice, be converted to differing levels based up on the persons per household. In addition, AMI levels are adjusted annually by HUD. References to AMI percent can easily be discussed and analyzed over time. Centering these items around actual dollar figures, however, would make it difficult to compare year-to-year shifts and even harder to set policies designed to be applied to differing household sizes over an extended period of time.

Actual Income Levels Corresponding to HUD AMI Brackets for Brookhaven - 2024

| Household Size (persons/hhld) | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Extremely Low 30% | \$32,800 | \$37,500 | \$42,200 | \$46,850 | \$50,600 | \$54,350 | \$58,100 | \$61,850 |
| Very Low 50% | \$54,700 | \$62,500 | \$70,300 | \$78,100 | \$84,350 | \$90,600 | \$96,850 | \$103,100 |
| Affordable 80% | \$87,500 | \$100,000 | \$112,500 | \$124,950 | \$134,950 | \$144,950 | \$154,950 | \$164,950 |
| Median (100%) | \$109,350 | \$124,950 | \$140,600 | \$156,200 | \$168,700 | \$181,200 | \$193,700 | \$206,200 |
| Workforce 120% | \$131,200 | \$149,950 | \$168,700 | \$187,450 | \$202,450 | \$217,450 | \$232,450 | \$247,450 |

Source: HUD, Camoin Associates



Affordable Rental Rates

For affordable housing, rental rates are tied to the Area Median Income (AMI), a figure published annually by HUD. The affordable rental rate then varies, depending on the number of people in the household. For example, the 2024 100% AMI applicable to Brookhaven ranges from \$109,350 for a single-person household up to \$181,200 for a six-person household.

Households eligible for residency in limited-income housing will meet specific income requirements. The Town of Brookhaven requires that 5% of all units in a new rental development be reserved for households making just 50% of the AMI and an additional 5% of all units for households with income registering at 65% of AMI or below. From the apartment owner’s point of view, this effectively ensures that 10% of new units will be priced at a rate consistent with a household at 57.5% of AMI — the mid-point of the two affordable measures. (Note that in the villages, the 50% and 65% requirements are not in effect. For these areas, the requirement is that 10% of units be set aside for households making 80% of AMI.)

Furthermore, in order to qualify for benefits provided by the Brookhaven IDA, an additional 10% of units must be allocated to households making 120% or less of the AMI.

For households renting a unit designated as affordable, the maximum income is effectively 57.5% of the AMI (e.g., \$89,815 for a family of four). Rental rates are then set to 30% of a household’s income (e.g., \$2,020 for four-person households seeking affordable housing).

Similarly, the same 30% factor is applied to the household income level for those households making 120% of AMI, yielding the appropriate monthly rental rates (e.g., \$4,690 for a four-person household).

Adjusted Household Income Limits by Persons per Household- 2024

| | 1 Person | 2 Person | 3 Person | 4 Person | 5 Person | 6 Person |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Area Median Income (100% AMI) | \$109,350 | \$124,950 | \$140,600 | \$156,200 | \$168,700 | \$181,200 |
| Workforce Housing - Household Incomes 120% of AMI | | | | | | |
| Income at 120% of AMI | \$131,280 | \$150,000 | \$168,720 | \$187,440 | \$202,440 | \$217,440 |
| Affordable Monthly Rent | \$3,280 | \$3,750 | \$4,220 | \$4,690 | \$5,060 | \$5,440 |
| Affordable Housing - Household Incomes 57.5% of AMI | | | | | | |
| Income at 50% to 65% of AMI | \$62,905 | \$71,875 | \$80,845 | \$89,815 | \$97,003 | \$104,190 |
| Affordable Monthly Rent | \$1,570 | \$1,800 | \$2,020 | \$2,250 | \$2,430 | \$2,600 |

Source: HUD, Camoin Associates

Calculating Affordable Monthly Rental Rates

A certain proportion of newly developed multifamily rental units may be set aside for affordable and workforce housing. In the case of Brookhaven, the affordable units are set aside for households earning 50% or 65% of the Area Median Income (AMI), while workforce units go to those earning 120% of AMI.

Rental rates for these units are then calculated so as to remain within the means of these households. Based on guidance from HUD, the maximum affordable rent is set at 30% of a household’s income. The consideration is that when housing costs exceed 30% of income, the remaining funds become insufficient to afford other necessities such as food and healthcare.

In the case of Brookhaven, a two-person household with income registering 120% of AMI (\$150,000) would qualify for a workforce unit and the rental rate would be capped at \$3,750.



When modeling rental revenues for affordable housing developments, households of differing sizes need to be allocated to the available rental units. For this study, the assumption is that half of all one-bedroom units are single-person occupancy, with the balance being two-person households. This implies a rental rate for one-bedroom units of \$1,685 for affordable housing — the midpoint between one- and two-person households. Similarly, the average household size in two-bedroom units is assumed to be 2.5 people, yielding an affordable rental rate of \$1,910.

Modeled Affordable Rental Rates by Size of Unit

| | One-Bedroom | Two-Bedroom |
|-------------------------|-------------|-------------|
| Average Household Size | 1.5 | 2.5 |
| Workforce Monthly Rent | \$3,515 | \$3,985 |
| Affordable Monthly Rent | \$1,685 | \$1,910 |

Source: Camoin Associates

Comparable calculations provide workforce (120% of AMI) rental rates of \$3,515 for a one-bedroom unit and \$3,985 for a two-bedroom unit. As it turns out, **the 120% of AMI rental rates register above the current market rates.** As such, they are not binding on the part of the property owner in terms of pricing who, by **simply renting units at prevailing market rates, satisfies the 120% requirement.** Note that while the residents of these set-aside units will be paying market-level rents, the condition that their income remains within 120% of AMI remains. To that extent, an assurance that at least a portion of the property's tenants are of a moderate-income level remains in place. In addition, for those very high-end developments with rental rates well above the general market level, the requirement of offering 10% of units that are affordable to households making 120% of AMI will, indeed, open up housing for a segment of the community that would otherwise be priced out of these developments.



Project Financing Parameters

Values required for this financial analysis were drawn from multiple sources.

- Realtyrates.com is a real estate financial market data source that provides multiple measures used in determining the financial feasibility of the envisioned development (vintage 1Q2025 used for this study).
- CoStar supplies data reflecting building stock, absorption, and vacancies but they also provide financial measures as used in this report.
- The multifamily capital provider, apartmentloanstore.com, facilitates financing from a wide range of lenders. They also publish several metrics associated with commercial lending.
- In conversations with officers of several development firms currently building multifamily properties in Brookhaven, a great deal of insight was shared including the terms of their most recently negotiated construction period and permanent loans. In some instances, the actual reported values in use by these local developers is used to determine the inputs used for the Camoin Associates' Financial Feasibility Model.

Financial Metrics - 1Q2025

| Lending | |
|----------------------|--------|
| Construction | 7.5% |
| Permanent | 6.2% |
| Additional Measures | |
| Term | 30 Yrs |
| Loan Origination Fee | 1.0% |
| L/V Ratio | 80.0% |
| Equity Contribution | 20.0% |
| Debt Coverage Ratio | 120.0% |
| Cap Rate | 5.5% |

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

Financial Metrics

- Lending rates and term reflect figures cited by interviewees and posted on apartmentloanstore.com and register within the range cited by realtyrates.com.
- The Loan-to-Value measure indicates the amount that a lender is willing to loan to a developer. The balance of the financing must be supplied by the developer or some other source. The figure used for this analysis is based on values published by both realtyrates.com and apartmentloanstore.com.
- Debt Service Coverage Ratio (DSCR) measures a borrower's ability to repay a loan. Lenders will require Net Operating Income (NOI) to exceed monthly loan payments by a certain minimal percentage. A project with NOI measuring 20% greater than the monthly loan payment rates a DSCR value of 1.2. The level presented is based on developer interviews and falls within the range posted by realtyrates.com
- The Cap Rate or Capitalization Rate is an assessment of a property's yield over one year. This figure is used to estimate the full market value of a development based on the property's income stream once completed. This value is based on developer interviews and registers somewhat above those cited by CoStar but below the figures reported by realtyrates.com.



Occupancy

Rental properties are leased and occupied by paying tenants. As tenants turn over, properties may periodically be vacant. In addition, tenants may, at times, miss their monthly payments. To account for occasional vacancies and periodic non-payment (Credit Loss), estimated gross revenues include a 5% reduction below total potential revenue levels.

Operating Expenses

Operating expenses for multifamily developments are derived from CoStar data for the region. These include the summed costs of property insurance, utilities, repairs and maintenance, janitorial, management fees, employee compensation, marketing, professional fees, administrative costs, and other expenses. Note that for this study, **Operating Costs exclude property taxes**. Over the past five-year timeframe, annual costs have averaged \$7,750 per residential unit (\$646 monthly). This compares to rental rates of \$32,200 annually (\$2,680 per month) yielding an Operating Expense Rate (excluding taxes) of 24.1%.

Regional Five-Year Average Operating Expenses and Rental Rates

| | Apartments |
|----------------------------|--------------|
| Operating Expenses | \$7,748 |
| Rental Revenues | \$32,201 |
| OpEx Pct of Revenue | 24.1% |

Source: CoStar



Mill Rates and Tax Exemptions

With a vast number of districts associated with Brookhaven's many schools, libraries, and towns, combined with multiple lighting, water, sewer, and garbage districts, calculating a representative mill rate for the prototype project under consideration becomes a daunting task. For more details, see:

<https://www.brookhavenny.gov/DocumentCenter/View/1108/2024-to-2025-Tax-Rate-Sheet-PDF>

Rather than attempting to generate accurate tax rates across the entire town (including factoring in the appropriate equalization rate), a sampling of several operating apartments within the town provided a representative measure of the effective tax rate seen by existing multifamily properties. The median value of these properties registered an effective tax rate of 2.374% for 2024-2025 (a mill rate of \$23.74 per \$1,000 of equalized valuation). This is the value used in the following analysis to calculate annual real estate property taxes.

Perhaps the most powerful tool available to the Brookhaven IDA is the ability to provide temporary property tax exemptions in the form of PILOTs (payment in lieu of taxes) that can greatly benefit a potential developer. Depending on the location and other factors surrounding the planned development, these benefits generally extend for 7 to 15 years. Beginning with the developer paying taxes equivalent to just the amount levied on the land and pre-existing improvements in the first year, payments then ramp up over the course of the PILOT such that they rise to 100% of conventionally assessed taxes at the completion of the program.

In addition, the Brookhaven IDA can grant exemptions for sales tax and a partial exemption on mortgage recording taxes. Combined, these tax exemptions have proven highly valuable to developers, making it much easier for a planned residential project to move forward.



BASELINE PROTOTYPE SCENARIO

FINANCIAL FEASIBILITY ASSESSMENT — BASELINE PROTOTYPE SCENARIO

Units and Area

The prototype project used as a basis of this study includes two structures, each with 60 rental apartment units. The 45 one-bedroom units are specified as 800 sf while the 75 two-bedroom units are 1,100 sf each. This yields a total rentable area of 118,500 sf. An additional 5% of common areas are added, giving the overall project a total gross area of 124,700 sf.

Prototype Development Units and Area

| | One- Bedroom | Two- Bedroom | Total |
|------------------|-------------------------|-------------------------|-------------------|
| Number of Units | 45 Units | 75 Units | 120 Units |
| Area per Unit | 800 sf | 1,100 sf | 988 sf |
| Rentable Area | 36,000 sf | 82,500 sf | 118,500 sf |
| Common Area | | | 6,200 sf |
| Total Gross Area | | | 124,700 sf |

Source: Camoin Associates



Total Project Costs

The project envisions 120 units with a total built area of 124,700 sf. RSMMeans data shows the cost of construction for this type of development in Brookhaven as \$293/sf, giving the structures a total construction cost of \$36.6M. In addition, the project includes 1.5 parking spaces per unit for a total of 180 spaces. At \$2,280/space (RSMMeans), the full cost of the parking area totals \$410,400.

A review of properties available for sale in Brookhaven showed an average price of approximately \$450,000/acre. A particular site on Montauk Highway in Moriches serves as the basis of this analysis. The 7+ acre site is priced at \$3M (\$414,000/acre). Allowing an additional \$600,000 for site work (20% of the original purchase price) and another \$50,000 for sewer hookup, total site acquisition and preparation is \$3,650,000. For the prototype project, this amounts to just over \$30,000/unit.

Additional fees include professional fees (architectural, engineering, and legal), the IDA fees, and payment of a portion of the mortgage recording tax. Combined, these total \$2.0M.

Finally, the inclusion of sales and mortgage recording tax exemptions provided by the IDA results in significant cost reductions, totaling nearly \$2.7M.

In sum, the Total Development Cost (TDC) for this configuration comes to \$40.0M and this is the amount used to populate the Camoin Associates' Financial Feasibility Model. Note that for the 120-unit project, the final cost per unit registers \$333,000, a figure on par with levels cited in developer interviews as their target cost-per-unit.

Baseline Development Scenario

| | Units | Area | Cost | Total Cost |
|---|-------|------------|-----------------------|---------------------|
| Apartment Units | 120 | 124,700 sf | \$293/sf | \$36,567,500 |
| Parking Spaces | 180 | | \$2,280/space | \$410,400 |
| Site Acquisition and Sitework | | 7 acres | \$30,417/unit | \$3,650,000 |
| Additional Fees and Costs | | | | \$2,033,800 |
| Less Sales Tax and Mortgage Recording Fee Exemption | | | | (\$2,654,100) |
| Total Development Costs | | | \$333,400/Unit | \$40,007,600 |

Source: RSMMeans, Camoin Associates

Regarding Sewer Costs

Developers interviewed for this project reported widely varying cost estimates for wastewater treatment and/or disposal at their projects. While one cited a recent expenditure of \$5M for a system to support an on-going multifamily project, another reported that hooking up to a neighboring facility cost only \$40,000.

The \$50,000 price used for this analysis stands at the lower end of this broad spectrum. More broadly, however, the cost structure used in the analysis yields an *overall* cost per unit of \$333,400 — notably above the \$300,000 per unit figure that many developers aim for.

Reevaluation of the wastewater treatment costs might suggest higher spending levels on that particular component of the development scenario, but this would further increase the overall cost per unit beyond a reasonable level. As such, the analysis holds with the more modest sewer/wastewater cost estimate.



Rental Rates — Baseline Prototype Scenario

This scenario envisions 10% of all units (12 in total) being dedicated to affordability with rental rates based on 30% of an income registering at 57.5% of AMI (5% at 50% and 5% at 65%) as is required of projects outside of the villages. The IDA also requires an additional 10% (12 units) to be priced at a rate affordable to households making 120% of AMI. As noted, this level is, in fact, greater than the prevailing market rate. As such, this segment of demand is assessed at the market rental rate in the Camoin Associates' Financial Feasibility Model. The balance of residents are also charged market rates.

Based on this pricing and mix of units, the effective average rental rate registers as \$3,274 per month. For the full 124,700 sf of the outlined development, this provides \$39.79 per rentable square foot at full occupancy. This is the figure used to populate the Camoin Associates' Financial Feasibility Model.

Prototype Development Rental Rates

| | One- Bedroom | Two- Bedroom | Total |
|-------------------------------------|-----------------|-----------------|----------------|
| Apartment Units | | | |
| Market Rate | 36 | 60 | 96 |
| Workforce (120% of AMI) | 4 | 8 | 12 |
| Affordable (57.5% of AMI) | 5 | 7 | 12 |
| Total | 45 | 75 | 120 |
| Rental Rates | | | |
| Market Rate | \$2,920 | \$3,740 | \$3,433 |
| Workforce (120% of AMI) | \$2,920 | \$3,740 | \$3,467 |
| Affordable (57.5% of AMI) | \$1,685 | \$1,910 | \$1,816 |
| Average | \$2,783 | \$3,569 | \$3,274 |
| Average Rental Rate/SF*/Year | | | \$39.79 |

***Note:** Rentable SF rather than Gross SF

Source: Camoin Associates



Brookhaven IDA Tax Exemptions

The IDA has the ability to waive certain construction period expenses usually incurred by developers including the exemption of sales taxes and a portion of the mortgage recording tax. For the Baseline Prototype Scenario of the project, the sales tax exemption savings exceed \$2.4M, while waiving a portion of the mortgage recording tax would provide an additional one-time benefit worth \$240,000. Combined, these construction period benefits total \$2.7M.

Value of Brookhaven IDA Construction Period Tax Exemptions

| | |
|-----------------------|--------------------|
| Sales Tax | \$2,414,100 |
| Mortgage Recording | \$241,300 |
| Total Benefits | \$2,655,400 |

Source: Camoin Associates

In addition, the IDA can also establish PILOT agreements which typically set a payment in lieu of property taxes in the initial year equal to the land tax alone or to the land and improvements tax prior to development. The PILOT then allows for the payment to steadily increase in a linear fashion such that, by the end of the PILOT, the rate has risen to 100% of the assessed value.

These PILOT arrangements typically run between seven and fifteen years. For the purposes of this analysis, a 15-year PILOT is assumed. At full valuation, the project would incur a tax bill of \$1.0M in the first year, scaling up to over \$1.4M after 15 years. Under the PILOT agreement, payments begin at less than \$83,000 in the first year and trend upward from there with savings to the developer diminishing over time. Near-term savings are remarkable, measuring nearly \$1M in the first year. In total, over the 15-year timeframe, savings total nearly \$8.5M. What's more, the Net Present Value (NPV) of this savings stream would be valued at nearly \$4.6M.

Benefits Accruing Due to PILOT

| Year | Full Taxation | 15 Year PILOT | |
|--|------------------|---------------|--------------------|
| | | Payments | Savings |
| 1 | \$1,041,692 | \$83,335 | \$958,356 |
| 2 | \$1,062,525 | \$149,816 | \$912,709 |
| 3 | \$1,083,776 | \$218,923 | \$864,853 |
| 4 | \$1,105,451 | \$290,734 | \$814,718 |
| 5 | \$1,127,561 | \$365,330 | \$762,231 |
| 6 | \$1,150,112 | \$442,793 | \$707,319 |
| 7 | \$1,173,114 | \$523,209 | \$649,905 |
| 8 | \$1,196,576 | \$606,664 | \$589,912 |
| 9 | \$1,220,508 | \$693,248 | \$527,259 |
| 10 | \$1,244,918 | \$783,053 | \$461,865 |
| 11 | \$1,269,816 | \$876,173 | \$393,643 |
| 12 | \$1,295,213 | \$972,705 | \$322,508 |
| 13 | \$1,321,117 | \$1,072,747 | \$248,370 |
| 14 | \$1,347,539 | \$1,176,402 | \$171,137 |
| 15 | \$1,374,490 | \$1,283,774 | \$90,716 |
| Total (Summed) Benefits | | | \$8,475,502 |
| Average Annual Benefit (over term of PILOT) | | | \$565,033 |
| NPV of Benefits (12.5% discount rate) | | | \$4,589,058 |

Source: Camoin Associates



Consolidated Financial Assumptions — Baseline Prototype Scenario

The values discussed above are used as assumptions to populate the Camoin Associates' Financial Feasibility Model. This includes square footage, construction CPSF, rental rates, tax rates, and the operating expense percentage. Financing assumptions include a 20% equity contribution that a lender would require to fund the construction, equal to \$7.5M.

Note that the tax rate for a residential development in this location would typically measure \$23.74 per \$1,000 of appraised value (2.374%). This level of taxation is tempered over time, however, based on the assumption of a 15-year PILOT.

Other financing elements are as seen above. Note also that, based on the estimated income stream from the envisioned buildout scenario with conventional lending criteria, this project would qualify for a loan totaling \$40.0M during the construction phase and \$43.9M once construction is completed.

| Assumptions - Baseline Prototype Scenario | | | |
|---|---------------------|--------------------------|---------------------|
| Project Information | | Annual Expenses | |
| Use Type 1: | 120 Apts | Property Tax Rate | 2.374% |
| Rentable SF: | 118,500 | PILOT Term (Years) | 15 |
| Common Area SF | 6,200 | OpEx (Excl Prop Tax) | 24.1% |
| Total Square Feet | 124,700 | | |
| Use Type 2: | Parking | Financing | |
| Spaces/Unit: | 1.5 | Equity Contribution (%) | 20% |
| Construction Cost per SF | \$293 | Equity Contribution (\$) | \$8,001,520 |
| Parking Cost per Space | \$2,280 | Max Loan to Value | 80% |
| Total Building Costs | \$36,977,900 | Const. Loan | \$32,006,080 |
| Acquisition Cost & Site Work | \$3,650,000 | Const. Period Int. Rt. | 7.50% |
| Additional Fees | \$2,033,800 | Permanent Loan | \$34,406,536 |
| Less Tax Exemptions | -\$2,654,100 | Permanent Loan Int. Rt. | 6.20% |
| Total Development Cost | \$40,007,600 | Loan Term (Years) | 30 |
| | | Capitalization Rate | 5.5% |
| | | Required DSCR | 1.20 |
| Revenue and Performance | | | |
| Rental Rate/Gross SF/Yr | \$37.81 | | |
| Rental Rate/Rentable SF/Yr | \$39.79 | | |
| Vacancy and Credit Loss | 5.0% | | |



Financial Performance — Baseline Prototype Scenario

Pro forma results show gross revenues reaching their fully anticipated level after three years when the project reaches full occupancy, measuring \$4.6M. Meanwhile, real estate taxes remain significantly reduced early in the projected timeframe, holding below \$300,000 for the first several years of operation. After factoring in additional operating expenses, Net Operating Income (NOI) approaches or exceeds \$3.2M annually for most all of the initial 10-year timeframe.

The initial period (Year 0) sees capital expenses reflecting the construction spending of \$40.0M, matched with the construction period loan of \$32.0M (owner equity of 8.0M makes up the balance of construction costs). The ten-year timeframe shows steady financing charges of \$2.2M, capped by sale proceeds of \$16.4M.

Over the ten-year pro forma period, the project generates positive cash flow with NOI significantly exceeding the cost of financing. The result is **DSCR measures registering at or above the required 1.20** for most of the period.

This steady cash flow, followed by net sales proceeds at reversion, yields a healthy **15.4% Internal Rate of Return (IRR)**, well above the target figure of 12.5% (based on prevailing discount rates reported by realtyrates.com). Similarly, the more conservative **Modified Internal Rate of Return (MIRR) stands at a reasonable 14.1%** — also registering above the target level. In addition, the overall project offers a **Net Present Value (NPV) of \$2.0M**. Due to the project's profitability, financing would be entirely facilitated by the private market, and **no Gap Funding would be required**.

Financial Pro Forma - Baseline Prototype Scenario

| | Effective Expenses | | | Net Operating Income (NOI) | Capital Expenses | | | Financing Cash Flow | Net Cash Flow | Debt Service Coverage Ratio (DSCR) |
|--|--------------------|-------------------|--------------|----------------------------|------------------|---------------------|--------------|---------------------|---------------|------------------------------------|
| | Gross Income | Real Estate Taxes | Other OpEx | | Cash Flow | Loan/Sales Proceeds | Debt Service | | | |
| Year 0-Const Period | | | | | -\$40,007,600 | \$32,006,080 | | \$32,006,080 | -\$8,001,520 | |
| Year 1 | \$3,172,789 | -\$83,335 | -\$725,464 | \$2,363,989 | | | | -\$2,553,322 | -\$189,333 | 0.93 |
| Year 2 | \$4,163,445 | -\$146,879 | -\$957,613 | \$3,058,954 | | | | -\$2,553,322 | \$505,632 | 1.20 |
| Year 3 | \$4,605,527 | -\$210,422 | -\$1,065,562 | \$3,329,544 | | | | -\$2,553,322 | \$776,222 | 1.30 |
| Year 4 | \$4,670,005 | -\$273,965 | -\$1,086,873 | \$3,309,167 | | | | -\$2,553,322 | \$755,845 | 1.30 |
| Year 5 | \$4,735,385 | -\$337,508 | -\$1,108,611 | \$3,289,266 | | | | -\$2,553,322 | \$735,944 | 1.29 |
| Year 6 | \$4,801,680 | -\$401,051 | -\$1,130,783 | \$3,269,846 | | | | -\$2,553,322 | \$716,524 | 1.28 |
| Year 7 | \$4,868,904 | -\$464,594 | -\$1,153,398 | \$3,250,911 | | | | -\$2,553,322 | \$697,589 | 1.27 |
| Year 8 | \$4,937,068 | -\$528,138 | -\$1,176,466 | \$3,232,464 | | | | -\$2,553,322 | \$679,142 | 1.27 |
| Year 9 | \$5,006,187 | -\$591,681 | -\$1,199,996 | \$3,214,511 | | | | -\$2,553,322 | \$661,189 | 1.26 |
| Year 10 (Sale) | \$5,076,274 | -\$655,224 | -\$1,223,996 | \$3,197,054 | | \$22,594,827 | -\$2,553,322 | \$20,041,505 | \$23,238,559 | 1.25 |
| Internal Rate of Return (IRR) | | | | 15.4% | | | | | | |
| Modified Internal Rate of Return (MIRR) | | | | 14.1% | | | | | | |
| Target IRR | | | | 12.5% | | | | | | |
| Net Present Value (NPV) | | | | \$1,964,413 | | | | | | |
| Funding Gap | | | | - | | | | | | |

Source: Camoin Associates

This Baseline Prototypical Scenario now serves as the standard by which alternative scenarios may be evaluated



The Role of IDA Incentives — Baseline Prototype Scenario

As developers who were interviewed repeatedly stated, **this project would not prove viable without the incentives provided by the IDA. Thanks to the sales tax exemption and mortgage recording tax exemption, total development costs are decreased by nearly \$2.7M — a 6% reduction.**

The role of the 15-year PILOT adds even greater value to the project's financial feasibility. While the pro forma is structured such that it terminates after ten years in a projected property sale, a comparison of taxes levied on this project with and without the PILOT reveals its notable value.

Value to Developer of Brookhaven IDA

Tax Exemptions

| Construction Period | |
|------------------------------------|--------------------|
| Sales Tax | \$2,414,100 |
| Mortgage Recording | \$240,000 |
| Total - Construction Period | \$2,654,100 |
| Percent of Total Development Costs | 6.2% |
| Ongoing 15 Year PILOT Agreement | |
| Average Annual Benefit | \$565,033 |
| Cumulative Benefit | \$8,475,502 |
| Net Present Value* | \$4,589,058 |

*Note: NPV calculated at 12.5% discount rate

Source: Camoin Associates

Full taxation for the project without IDA incentives would warrant payments starting at \$1.0M in the first year, totaling \$18.0M over a fifteen-year period. A fifteen-year PILOT over that same timeframe, after allowing for the property valuation prior to development, reduces cumulative payments to just \$9.5M - a \$8.5M reduction. What's more, **the fifteen-year PILOT provides an NPV of \$4.6M at the time of construction.** Anticipation of this benefit also figures directly into the projected market value of the development, allowing for the project to be fully financed through commercial lenders.



Note that a seven-year PILOT also provides for a significantly stronger flow of funds, though the total (summed) benefit (\$4.0M) stands at less than half of what is seen for the 15-year benefit (\$8.5M). The NPV also registers at a lower level, dropping to \$2.8M. While this benefit provided by the seven-year PILOT remains significant, it does not provide sufficient support in the case of the Baseline Prototype Scenario to make the project financially sound. Configuring the project with a 7-year PILOT yielded an IRR of only 10.9% (below the target level of 12.5%) and would require additional outside funding of more than \$950,000 in gap funding before the project would become attractive to a developer.

Benefits Accruing Due to PILOT

| Year | Full | 15 Year PILOT | | 7 Year PILOT | |
|--|-------------|---------------|--------------------|--------------|--------------------|
| | Taxation | Payments | Savings | Payments | Savings |
| 1 | \$1,041,692 | \$83,335 | \$958,356 | \$83,335 | \$958,356 |
| 2 | \$1,062,525 | \$149,816 | \$912,709 | \$224,648 | \$837,877 |
| 3 | \$1,083,776 | \$218,923 | \$864,853 | \$371,580 | \$712,196 |
| 4 | \$1,105,451 | \$290,734 | \$814,718 | \$524,300 | \$581,152 |
| 5 | \$1,127,561 | \$365,330 | \$762,231 | \$682,980 | \$444,581 |
| 6 | \$1,150,112 | \$442,793 | \$707,319 | \$847,797 | \$302,315 |
| 7 | \$1,173,114 | \$523,209 | \$649,905 | \$1,018,933 | \$154,181 |
| 8 | \$1,196,576 | \$606,664 | \$589,912 | \$1,196,576 | \$0 |
| 9 | \$1,220,508 | \$693,248 | \$527,259 | \$1,220,508 | \$0 |
| 10 | \$1,244,918 | \$783,053 | \$461,865 | \$1,244,918 | \$0 |
| 11 | \$1,269,816 | \$876,173 | \$393,643 | \$1,269,816 | \$0 |
| 12 | \$1,295,213 | \$972,705 | \$322,508 | \$1,295,213 | \$0 |
| 13 | \$1,321,117 | \$1,072,747 | \$248,370 | \$1,321,117 | \$0 |
| 14 | \$1,347,539 | \$1,176,402 | \$171,137 | \$1,347,539 | \$0 |
| 15 | \$1,374,490 | \$1,283,774 | \$90,716 | \$1,374,490 | \$0 |
| Total (Summed) Benefits | | | \$8,475,502 | | \$3,990,658 |
| Average Annual Benefit (over term of PILOT) | | | \$565,033 | | \$570,094 |
| NPV of Benefits (12.5% discount rate) | | | \$4,589,058 | | \$2,840,343 |

Source: Camoin Associates



Combined, the benefits provided by the Brookhaven IDA prove to be essential for the financial feasibility of the Baseline Prototype Scenario version of the project. **Removing these tax breaks resulted in an estimated IRR and MIRR of under 4%**, making this an unattractive venture for any potential developer. In addition, **the project would require additional gap funding of nearly \$5.8M** to become financially viable and move forward.

Financial Measures for Prototype Project with No IDA Benefits

| | |
|---|--------------|
| Internal Rate of Return (IRR) | 3.6% |
| Modified Internal Rate of Return (MIRR) | 3.7% |
| Net Present Value (NPV) | -\$5,757,460 |

***Note:** NPV calculated at 12.5% discount rate

Source: Camoin Associates



ALTERNATIVE DEVELOPMENT SCENARIOS

Analysis of the Baseline Prototype Scenario of the project illustrates the importance of IDA support to the financial feasibility of new multifamily residential construction. The specifications of this example include the requirements imposed by the town that 5% of all units be made available to households with incomes measuring 50% of AMI and an additional 5% to households with incomes measuring 65% of AMI. These units must then be priced affordably to these occupants.

Beyond this requirement, an additional prerequisite presented by the IDA in order to secure a variety of tax exemptions is to make a further 10% of workforce housing units available to households earning at or below the 120% of AMI. Based on this measure, however, the condition of affordable pricing is not binding for the workforce units in that the implied level of affordable rents exceeds the prevailing market-based rental rate.

There are two primary areas in which the IDA can influence the composition of newly developed multifamily housing. These are:

- 1) Requirements around included affordable housing — this includes i) the percentage of units that must be priced and made available to specific households and ii) the specific AMI level identified by the IDA as being served
- 2) Terms of the property tax abatement offered to developers — this is centered around the terms of PILOT agreements

Required Affordable Housing Specification Adjustments

Policies regarding units set aside for affordable housing may include the AMI level to be addressed and the percentage of units required at that level. The two areas of investigation will therefore include:

- Adjustments to the AMI requirements — As the current 120% of AMI level is not binding, this study will examine the affordability of development with this income level requirement reduced.
- Adjustments to the percentage of affordable units required — While the current condition calls for a total of 20% of units dedicated to affordable rates, the model is used to determine how that percentage might be adjusted to increase affordable units while still allowing for developments to remain financially feasible.

PILOT Specification Adjustments

In the case of the Baseline Prototype Scenario, the project proved to be financially viable in large part due to the assumption of a 15-year PILOT. It was also found that the project was not financially feasible if the term of the PILOT was reduced to just 7 years.

While the IDA may not generally extend PILOTs beyond 15 years, this benefit might be offered as an incentive to increase the type or number of affordable units within a development. This is considered in combination with a revision of the AMI limits required by the IDA.



IMPACT OF REDUCED AMI LEVELS

An initial and straightforward adjustment in IDA requirements to examine is the impact of lowering the workforce AMI level from 120% to 100% and 80%. As the rental rates reported for the 120% AMI bracket exceeded the market rate, the units set aside for workforce housing were originally priced at the market rates, providing no benefit to moderate-income households.

Reducing the workforce housing AMI requirement to 100% yields one-bedroom rental rates that remain above market rates, resulting in no downward adjustment for these units. For two-bedroom units, however, lowering the threshold income qualifying level to 100% of AMI results in an 11% releveling. As the workforce housing segment represents only 10% of units in these scenarios, the broader impact on annualized rent/sf (the actual figure used to populate the Camoin Associates' Financial Feasibility Model) posts only a modest 0.8% dip. This percentage decline, in turn, flows through to the final revenues accrued to the property owner.

Resetting the workforce housing AMI level to 80% brings about a more sizeable adjustment to one-bedroom units, measuring 20% below the baseline while two-bedroom unit pricing is diminished by 29% from the baseline levels. These revised rental rates would clearly set rental rates that are affordable to a much wider proportion of Brookhaven residents. Again, with these workforce units representing just 10% of the total 120 units, the overall annualized rent per square foot is reduced by just 2.8% to \$38.68.

Workforce Rental Rates by Adjusted AMI Levels

| Workforce AMI Basis | One- | Two- | Overall Annualized Rent/SF* |
|------------------------------|---------|---------|-----------------------------|
| | Bedroom | Bedroom | |
| Workforce Rental Rates | | | |
| Market Rate | \$2,920 | \$3,740 | |
| 120% of AMI (Baseline)** | \$2,920 | \$3,740 | \$39.79 |
| 100% of AMI | \$2,920 | \$3,325 | \$39.45 |
| 80% of AMI | \$2,345 | \$2,655 | \$38.68 |
| Percent Change from Baseline | | | |
| 100% of AMI | 0.0% | -11.1% | -0.8% |
| 80% of AMI | -19.7% | -29.0% | -2.8% |

***Note:** Overall rental rate/sf/year for entire property - used as pro forma input

****Note:** As rental rate based on 120% of AMI registers above market rate, market rate is substituted

Source: Camoin Associates



Based on model results, even with a 10% segment of residents paying rates affordable to households making 80% of AMI, revenues remain entirely sufficient to yield reasonable financial results, with the IRR holding above 15% and the MIRR at 13% — both registering sufficiently above the prevailing market discount rate of 12.5% to indicate a reasonable financial proposition. Meanwhile, the pro forma continues to signal a profitable proposition even with workforce units reserved for households at the 80% AMI level, as NPV stands at nearly \$900,000 under this scenario.

The implication is that **the IDA may reevaluate the income bracket requirements** for proposed multifamily developments seeking financial assistance. For a truly cost-effective project, taking this modest step would not press the development into non-viability.

Pro Forma Impact - Reduced Workforce AMI Scenarios

| Workforce Percent of AMI | Internal Rate of Return (IRR) | Modified Internal Rate of Return (MIRR) | Net Present Value |
|-----------------------------|----------------------------------|--|----------------------|
| 120% of AMI (Baseline) | 15.4% | 14.1% | \$1,964,413 |
| 100% of AMI | 14.8% | 13.6% | \$1,527,489 |
| 80% of AMI | 13.8% | 12.8% | \$884,607 |

Source: Camoin Associates



IMPACT OF INCREASED WORKFORCE UNITS

A separate requirement available to the IDA in seeking to meet the housing needs of moderate-income households is simply to require a greater share of units within a multifamily development to be dedicated to workforce households. While lowering the percentage of AMI required to qualify for workforce-priced apartments lowers rental rates for those units, increasing the proportion dedicated to affordability directly increases the supply of these units.

Holding the percentage of AMI required to qualify for workforce housing at 80%, the Camoin Associates' Financial Feasibility Model is able to quantify the viability of several scenarios, each based on differing levels of required workforce units. While the current requirement calls for these units to make up 10% of the total, alternate scenarios include the requirement of increasing this share. With the total number of units remaining fixed at 120, this would require a commensurate reduction in the number of market-based units.

Increasing the number of workforce-based units also reduces the average rental rate along with the potential revenue that might be accrued by the property. Requiring that 20% of units be dedicated to workforce rates drops the annualized rental rate per square foot down to \$37.57, a 5.6% decrease from the Baseline Prototype Scenario. For the scenario where the share of workforce units climbs to 30%, this reduction in rental rates drops even further, down by 8.4% from the Baseline to \$36.45.

Expanded Workforce Unit Scenarios

| | One- Bedroom | Two- Bedroom | Total | Percentage | Overall Annualized Rent/SF* | Percent Change from Baseline |
|---------------------------------|-----------------|-----------------|-------|------------|-----------------------------------|------------------------------------|
| 10% Workforce at 80% AMI | | | | | | |
| Market Rate | 36 | 60 | 96 | 80.0% | | |
| Workforce (80% of AMI) | 4 | 8 | 12 | 10.0% | | |
| Affordable (57.5% of AMI) | 5 | 7 | 12 | 10.0% | | |
| Total | 45 | 75 | 120 | 100.0% | \$38.68 | -2.8% |
| 20% Workforce at 80% AMI | | | | | | |
| Market Rate | 32 | 52 | 84 | 70.0% | | |
| Workforce (80% of AMI) | 8 | 16 | 24 | 20.0% | | |
| Affordable (57.5% of AMI) | 5 | 7 | 12 | 10.0% | | |
| Total | 45 | 75 | 120 | 100.0% | \$37.57 | -5.6% |
| 30% Workforce at 80% AMI | | | | | | |
| Market Rate | 28 | 44 | 72 | 60.0% | | |
| Workforce (80% of AMI) | 12 | 24 | 36 | 30.0% | | |
| Affordable (57.5% of AMI) | 5 | 7 | 12 | 10.0% | | |
| Total | 45 | 75 | 120 | 100.0% | \$36.45 | -8.4% |

*Note: Overall rental rate/sf/year for entire property - used as pro forma input

Source: Camoin Associates



The modeled results of a 10% workforce share at 80% of AMI remain as seen in the examination of differing AMI settings with a 13.8% IRR, a 12.8% MIRR, and an NPV of \$885,000.

Increasing the required proportion of 80% AMI units to 20% provides an additional 12 affordable units for a total of 36 units within the 120-unit development. The impact on profitability, however, is significant with IRR dropping by over 1% to 12.4%, falling below the 12.5% discount rate used as the standard of financial viability. In addition, MIRR drops even lower to 11.7%. These returns would likely discourage developer involvement in a project with this workforce housing requirement, but the project would also require an additional \$38,000 in investor equity to move forward.

Raising the share of required workforce units up to 30%, the project no longer provides sufficient cash flow to cover the cost of financing — the DSCR drops below 1.20 over the entire projected timeframe. The IRR in this scenario falls to just 11.0% and the MIRR drops even lower to just 10.5% — well below the target figure of 12.5%. This alone would make the project unappealing to a developer, but the project would also require an additional injection of \$1.0M to be viable — on top of the 20% equity already required of the developer. Clearly, imposing this degree of increased workforce housing presents a financial proposition with absolutely no appeal to either investors or developers.

Pro Forma Impact - Increased Workforce Units Scenarios

| Workforce Percent of AMI | Internal Rate of Return (IRR) | Modified Internal Rate of Return (MIRR) | Net Present Value |
|--------------------------|-------------------------------|---|-------------------|
| 10% Workforce at 80% AMI | 13.8% | 12.8% | \$884,607 |
| 20% Workforce at 80% AMI | 12.4% | 11.7% | -\$38,308 |
| 30% Workforce at 80% AMI | 11.0% | 10.5% | -\$962,759 |

Source: Camoin Associates



EXTENSION OF PILOT TERM

The Brookhaven IDA holds an exceptionally powerful tool to encourage development activity in its ability to provide developers with PILOT agreements. This tax exemption program has been demonstrated to shift an entirely unviable project to one that provides sufficient revenues and return on investment to be entirely financially feasible.

The term of PILOT agreements provided by the IDA for market rate housing typically extends no more than 15 years. This study, however, examines how a longer-term PILOT might influence the financial prospects of the project requiring a greater share of workforce housing than currently seen in IDA agreements.

As seen above, even with a 15-year PILOT, reducing the income requirement of workforce units to 80% of AMI while also raising the proportion of these workforce units to 20% of the total results in a financially unattractive investment proposition. Furthermore, a requirement that 30% of units be dedicated to workforce housing is shown to be entirely unviable.

Consideration of extending the term of a PILOT agreement to those investments providing for a greater share of workforce housing, however, opens the possibility of making more affordable units available in developments that may not otherwise have been viable.

Using the Baseline Prototypical project as an example, the 15-year PILOT provides for savings of nearly \$8.5M over the course of the program with an NPV of nearly \$4.6M. Extending that term to 20 years, however, provides a value that is notably greater. For this project, the cumulative tax savings grow by 35% to nearly \$11.5M with NPV increasing 16% to nearly \$5.3M

As the IDA searches for methods of increasing affordable housing within the Town, offering an extended term for PILOTs may provide the added incentive required to prompt developers to agree to the inclusion of a greater share of these types of units.

Benefits Accruing Due to PILOT

| Year | Full Taxation | 15 Year PILOT | | 20 Year PILOT | |
|--|------------------|---------------|--------------------|---------------|---------------------|
| | | Payments | Savings | Payments | Savings |
| 1 | \$1,041,692 | \$83,335 | \$958,356 | \$83,335 | \$958,356 |
| 2 | \$1,062,525 | \$149,816 | \$912,709 | \$133,878 | \$928,647 |
| 3 | \$1,083,776 | \$218,923 | \$864,853 | \$186,409 | \$897,366 |
| 4 | \$1,105,451 | \$290,734 | \$814,718 | \$240,988 | \$864,463 |
| 5 | \$1,127,561 | \$365,330 | \$762,231 | \$297,676 | \$829,885 |
| 6 | \$1,150,112 | \$442,793 | \$707,319 | \$356,535 | \$793,577 |
| 7 | \$1,173,114 | \$523,209 | \$649,905 | \$417,629 | \$755,485 |
| 8 | \$1,196,576 | \$606,664 | \$589,912 | \$481,024 | \$715,553 |
| 9 | \$1,220,508 | \$693,248 | \$527,259 | \$546,787 | \$673,720 |
| 10 | \$1,244,918 | \$783,053 | \$461,865 | \$614,989 | \$629,928 |
| 11 | \$1,269,816 | \$876,173 | \$393,643 | \$685,701 | \$584,115 |
| 12 | \$1,295,213 | \$972,705 | \$322,508 | \$758,995 | \$536,218 |
| 13 | \$1,321,117 | \$1,072,747 | \$248,370 | \$834,946 | \$486,171 |
| 14 | \$1,347,539 | \$1,176,402 | \$171,137 | \$913,632 | \$433,908 |
| 15 | \$1,374,490 | \$1,283,774 | \$90,716 | \$995,131 | \$379,359 |
| 16 | \$1,401,980 | \$1,401,980 | \$0 | \$1,079,524 | \$322,455 |
| 17 | \$1,430,019 | \$1,430,019 | \$0 | \$1,166,896 | \$263,124 |
| 18 | \$1,458,620 | \$1,458,620 | \$0 | \$1,257,330 | \$201,290 |
| 19 | \$1,487,792 | \$1,487,792 | \$0 | \$1,350,915 | \$136,877 |
| 20 | \$1,517,548 | \$1,517,548 | \$0 | \$1,447,741 | \$69,807 |
| Total (Summed) Benefits | | | \$8,475,502 | | \$11,460,305 |
| Average Annual Benefit (over term of PILOT) | | | \$565,033 | | \$573,015 |
| NPV of Benefits (12.5% discount rate) | | | \$4,589,058 | | \$5,318,690 |

Source: Camoin Associates



Adjusting the number of years provided by a PILOT in the Camoin Associates’ Financial Feasibility Model demonstrates how extending this tax exemption can affect the profitability of a potential development project.

After lowering the income level for those households qualifying for workforce housing to 80% of AMI, the modeled property outlined for this study continued to provide sufficient returns and justify development. Extending the number of required workforce units from 10% to 20%, however, reduced income to the point where the financial returns no longer justified investment in the project — IRR falls to 12.4% and MIRR declines to 11.7%.

Extending the term of the PILOT to 20 years, however, increased cash flow sufficiently throughout the evaluation timeframe such that MIRR jumps to 13.2%, a 1.5% higher rate than seen under the prior regime. The IRR witnessed a similar increase, jumping to 14.2% while the NPV climbed to nearly \$1.1M.

Increasing the PILOT to 20 years also improved the financial outlook for the scenario requiring that 30% of units be dedicated to workforce housing (with an 80% AMI limit), but returns remained insufficient to warrant development under these requirements.

Pro Forma Impact - Increased Workforce Units Scenarios

| Workforce Percent of AMI | Term of PILOT | Internal Rate of Return (IRR) | Modified Internal Rate of Return (MIRR) | Net Present Value |
|--------------------------|---------------|-------------------------------|---|-------------------|
| 10% Workforce at 80% AMI | 15 Yrs | 13.8% | 12.8% | \$884,607 |
| 20% Workforce at 80% AMI | 15 Yrs | 12.4% | 11.7% | -\$38,308 |
| 30% Workforce at 80% AMI | 15 Yrs | 11.0% | 10.5% | -\$962,759 |
| 10% Workforce at 80% AMI | 20 Yrs | 15.5% | 14.3% | \$2,096,286 |
| 20% Workforce at 80% AMI | 20 Yrs | 14.2% | 13.2% | \$1,144,444 |
| 30% Workforce at 80% AMI | 20 Yrs | 12.8% | 12.1% | \$192,603 |

Source: Camoin Associates



SUMMARY REVIEW

The Brookhaven IDA's current policy requiring 10% of multifamily units to be designated as workforce housing at 120% of AMI has proven ineffective, as rental rates at this threshold often match market prices, offering no real benefit to middle-income residents with respect to pricing². This study explored alternative approaches and found that lowering the AMI threshold to 100% or 80% would improve affordability while still maintaining project profitability. However, simply reducing the AMI threshold did not significantly increase the number of affordable units.

Increasing the workforce housing requirement to 20% or 30% would provide affordability to a greater number of households but significantly reduce project viability, as lower rental income led to insufficient financial returns and negative NPV, requiring additional funding. A more sustainable solution might involve extending the duration of PILOT agreements. Modeling showed that a 20-year PILOT term allowed a project with 20% workforce housing at an 80% AMI threshold level to remain financially viable, achieving financial returns and a strongly positive NPV.

Pro Forma Impact - Increased Workforce Units Scenarios

| Workforce Percent of AMI | Term of PILOT | Internal Rate of Return (IRR) | Modified Internal Rate of Return (MIRR) | Net Present Value |
|---------------------------------|---------------|-------------------------------|---|--------------------|
| 10% Workforce at 120% AMI* | 15 Yrs | 15.4% | 14.1% | \$1,964,413 |
| 10% Workforce at 100% AMI | 15 Yrs | 14.8% | 13.6% | \$1,527,489 |
| 10% Workforce at 80% AMI | 15 Yrs | 13.8% | 12.8% | \$884,607 |
| 20% Workforce at 80% AMI | 15 Yrs | 12.4% | 11.7% | -\$38,308 |
| 30% Workforce at 80% AMI | 15 Yrs | 11.0% | 10.5% | -\$962,759 |
| 10% Workforce at 80% AMI | 20 Yrs | 15.5% | 14.3% | \$2,096,286 |
| 20% Workforce at 80% AMI | 20 Yrs | 14.2% | 13.2% | \$1,144,444 |
| 30% Workforce at 80% AMI | 20 Yrs | 12.8% | 12.1% | \$192,603 |

*Note: Baseline Prototype Scenario

Source: Camoin Associates

The IDA has flexibility in shaping its policies to balance community needs with developer incentives. Adjustments to AMI limits, workforce unit proportions, and PILOT terms can be customized to achieve optimal results.

² *Note that, while this policy may provide no pricing benefits to those households at or below 120% of AMI, it does still ensure that they will have a certain portion of units set aside, helping to provide at least some degree of enhanced availability. In addition, for those very high-end developments with rental rates averaging well over the 120% AMI affordable range, there is indeed a benefit to these households, thanks to both availability and pricing.



ADDENDUM — FURTHER EXPLORATION

Beyond the analysis and findings above, the Brookhaven IDA requested additional exploration of the housing requirements for the workforce segment of their UTEP offerings. For developments outside of the villages, the current policy calls for:

- i) 5% of all units receiving benefits to be set aside for households with incomes of 50% of AMI or less,
- ii) 5% of all units receiving benefits to be set aside for households with incomes of 65% of AMI or less, and
- iii) 10% of all units receiving benefits to be set aside for households with incomes of 120% of AMI or less.
This is the "Workforce Segment".

The two specific areas of inquiry focus on the third (iii) portion of the IDA requirements. Specifically, the request is to evaluate the impact of alternative specifications around the workforce housing requirements (120% of AMI or less).

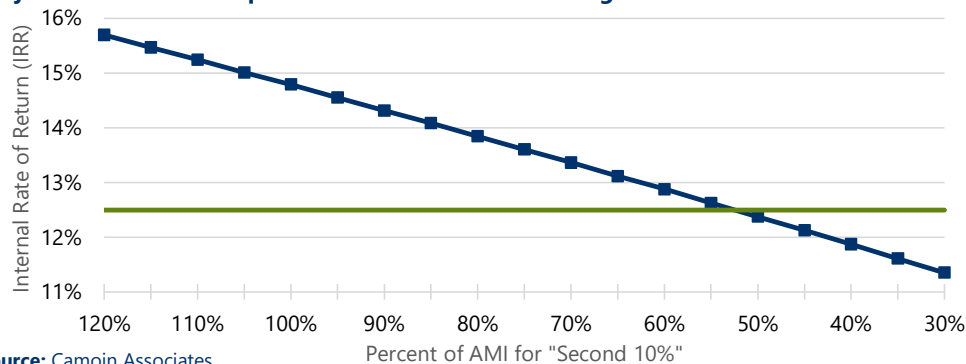
Examine in greater detail the effect of adjusting the AMI requirement of the Workforce Segment of set-aside units on a developer's potential Internal Rate of Return

As seen in the analysis presented in the main body of the study above, lowering the income limit of the Workforce Segment from its current 120% of AMI yields a notable decrease in financial returns to the developer as measured by anticipated IRR. This review expands on this finding by positing a wide range of AMI levels on this Workforce Segment and evaluating the resulting IRR.

The result of this exercise demonstrates a linear path of declining IRR measures as the AMI requirement is reduced. At the current 120% level, the Baseline model shows returns of 15.4%. Reducing the income requirement to 100% and then 80% of AMI yields IRR values of 14.8% and 13.8%, respectively. These figures are reported above in the main body of the report, and these values were reproduced in this addendum analysis. Calculating IRR figures following a prescribed series of AMI requirements in increments of 5%, IRR finally reached as low as 11.4% when the AMI cap was set to 30%.

At present, the required yield sought by developers to financially justify an investment is 12.5%. The Camoin Associates' Financial Feasibility Model showed that adequate returns were, in fact, achievable even when the Workforce Segment (or "Second 10%") of tenants was reduced to 55% of AMI. That is, multifamily property development can still remain profitable in Brookhaven even when a full 20% of all units (both the "First 10%" plus the Workforce Segment) are set aside for households with incomes of 60% of AMI or below. Note that this Workforce Segment set to 55% of AMI is strikingly low compared to the current requirement of 120%.

Project IRR and AMI Requirement for the Workforce Segment



Source: Camoin Associates

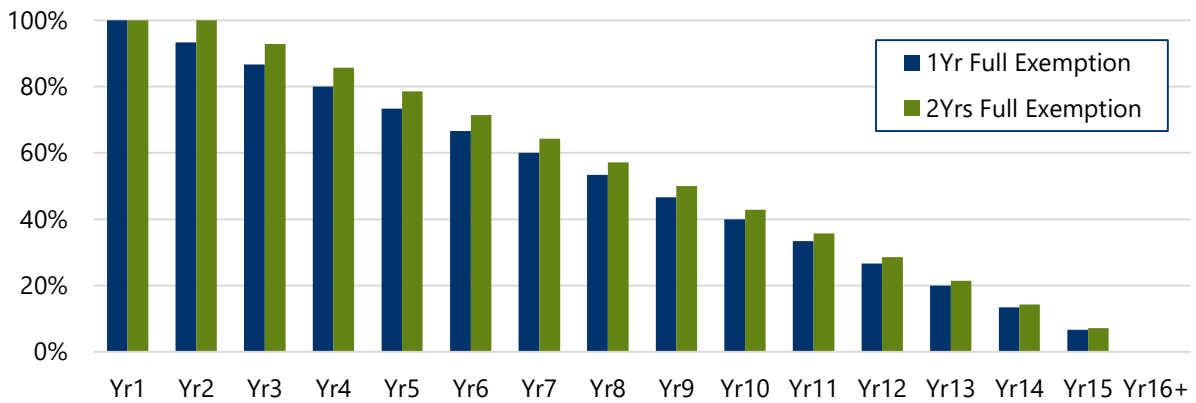


Examine potential financial returns when the timeframe for full exemption is extended from one year to two years.

Under the Baseline build-out scenario, the PILOT is structured such that, for the first year, the added improvement valuation of the development receives a 100% reduction in its tax liability. That is, no taxes are paid on the developed property in year one beyond what would have been charged on the property prior to the new investments (the original improvement assessed value).

With a 15-year PILOT agreement, in the second year, the PILOT is equal to 7% of the property’s new valuation. An additional 7% is added each year, so that, by year 15, the PILOT is 93% of the property’s improved valuation. As the agreement expires in year 16, the property is no longer eligible for a PILOT, and the appropriate taxes are levied on the property, reflecting assessments on 100% of the improvement valuation. The scenario under review here considers the somewhat different scenario in which the initial 100% exemption period is extended from one year to two years. Similar to the original structure, the amount of exemption then declines each year but at a slightly quicker pace, such that it reaches 0% by year 16 and beyond.

Percent Exemption Schedule - 15 Year PILOT



As seen in the main body of the study above, requiring the Workforce Segment of units to be affordable to households making 80% of AMI yielded an internal rate of return of 13.8%. Using this same structure but extending the timeframe of full exemption in the PILOT from one year to two years results in a notable increase in cash flow (especially in the initial years), and this, in turn, pushes IRR up by an additional one-half of one percentage point to 14.3%. In this case, the project was already in a position to be financially viable to a developer, and the restructured PILOT would serve as a welcome but unneeded bonus from the IDC.

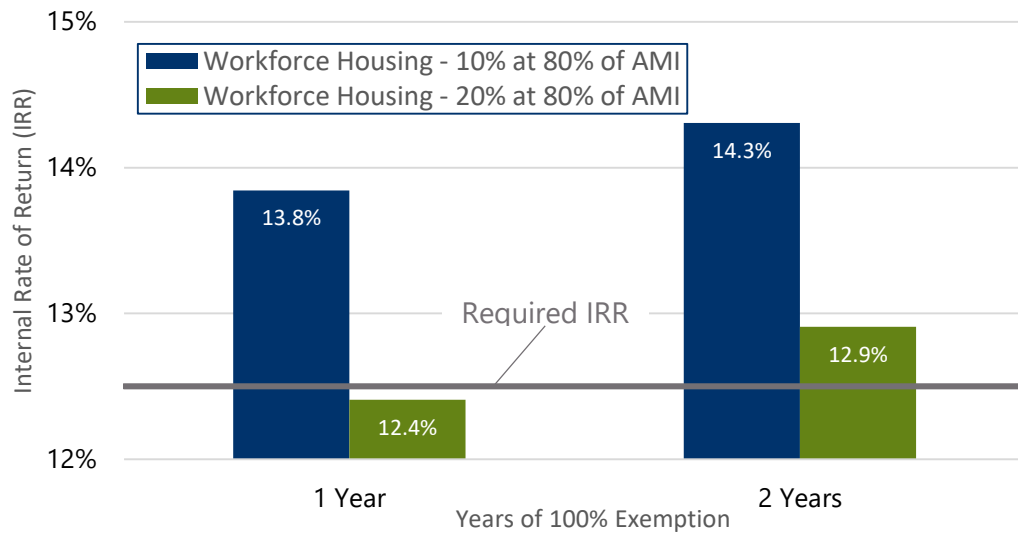
The study above, however, also reviews the possibility of expanding the Workforce Segment to a broader requirement of providing up to 20% of units available to households earning 80% of AMI. This is on top of the separate standing requirement that the “First 10%” of units be made available to even lower-income households.

The study above also reviewed requiring this level of affordability for a full 30% of new housing units, and it shows that this measure limits available cash flow sufficiently to drive IRR down to 12.4% — just below the level needed to entice a developer into moving ahead with the project. It was also shown, however, that extending the term of the PILOT from 15 to 20 years allowed the project’s measured IRR to climb by nearly two full percentage points, up to 14.2%.



Based on this configuration of a 20% Workforce Segment with an income limit of 80% of AMI, Camoin Associates' Financial Feasibility Model shows that extending the 100% exemption from one year to two years is again sufficient to boost anticipated earnings above the developer-required threshold. In this instance, IRR rises by 50 basis points from 12.4% with one year of full exemption to 12.9% when extended to two years.

Impact of Extending Full Exemption from One to Two Years



Source: Camoin Associates

As seen in the body of the full report, expanding the Workforce Segment to 20% of units with income requirements of 80% of AMI or below became financially viable by extending the term of the PILOT from 15 years to 20 years. This additional analysis points out that a similar result can occur when keeping the PILOT at a 15-year term but increasing the initial 100% exemption period from one year to two.

Most generally, the overall implication of this addendum and the report overall is that the IDA has options available in order to promote residential development. By the way it chooses to specify certain parameters of its UTEP, it can influence the availability of housing for lower-income households in the town based on the mandates included in these policies.



APPENDIX: DATA SOURCES



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Research Analyst

Service Lines



Strategic and Organizational Planning



Economic and Fiscal Impact Analysis



Real Estate Development Analytics and Advisory



Housing Needs Assessment



Prospecting and Business Attraction



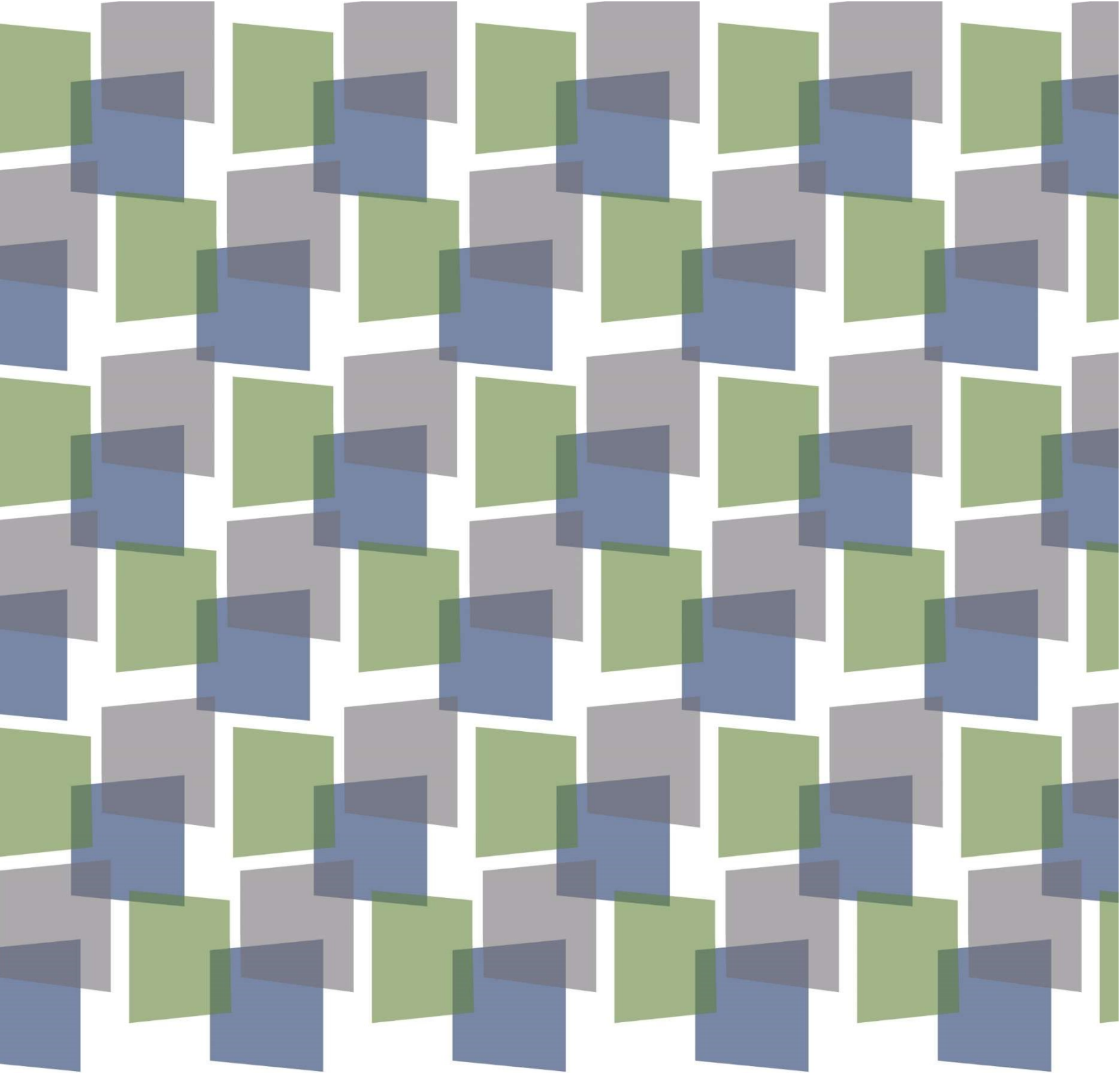
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