PREPARED FOR:

Town of Brookhaven Industrial Development Authority
One Independence Hill
Farmingville, New York 11738

Reasonableness Assessment for Financial Assistance

SUN RIVER TOWN HOMES

SUN RIVER TOWN HOMES, LLC.

JANUARY 20, 2021

PREPARED BY:

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ECONOMIC DEVELOPMENT

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ABOUT CAMOIN 310

Camoin 310 has provided economic development consulting services to municipalities, economic development agencies, and private enterprises since 1999. Through the services offered, Camoin 310 has had the opportunity to serve EDOs and local and state governments from Maine to California; corporations and organizations that include Lowes Home Improvement, FedEx, Amazon, Volvo (Nova Bus) and the New York Islanders; as well as private developers proposing projects in excess of $6 billion. Our reputation for detailed, place-specific, and accurate analysis has led to projects in 32 states and garnered attention from national media outlets including Marketplace (NPR), Crain's New York Business, Forbes magazine, The New York Times, and The Wall Street Journal. Additionally, our marketing strategies have helped our clients gain both national and local media coverage for their projects in order to build public support and leverage additional funding. We are based in Saratoga Springs, NY, with regional offices in Portland, ME; Boston, MA; Richmond, VA and Brattleboro, VT. To learn more about our experience and projects in all of our service lines, please visit our website at **www.camoinassociates.com**. You can also find us on Twitter **@camoinassociate** and on **Facebook and LinkedIn**.

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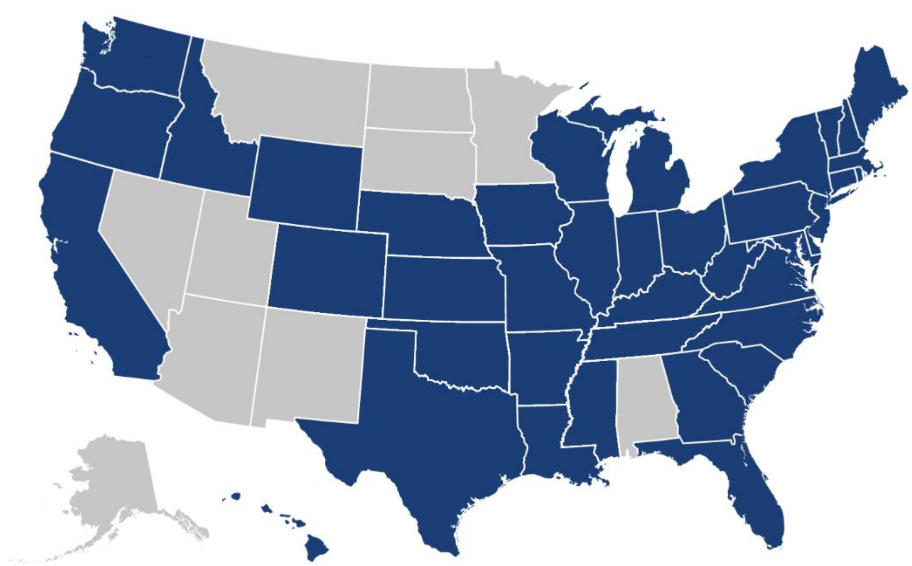

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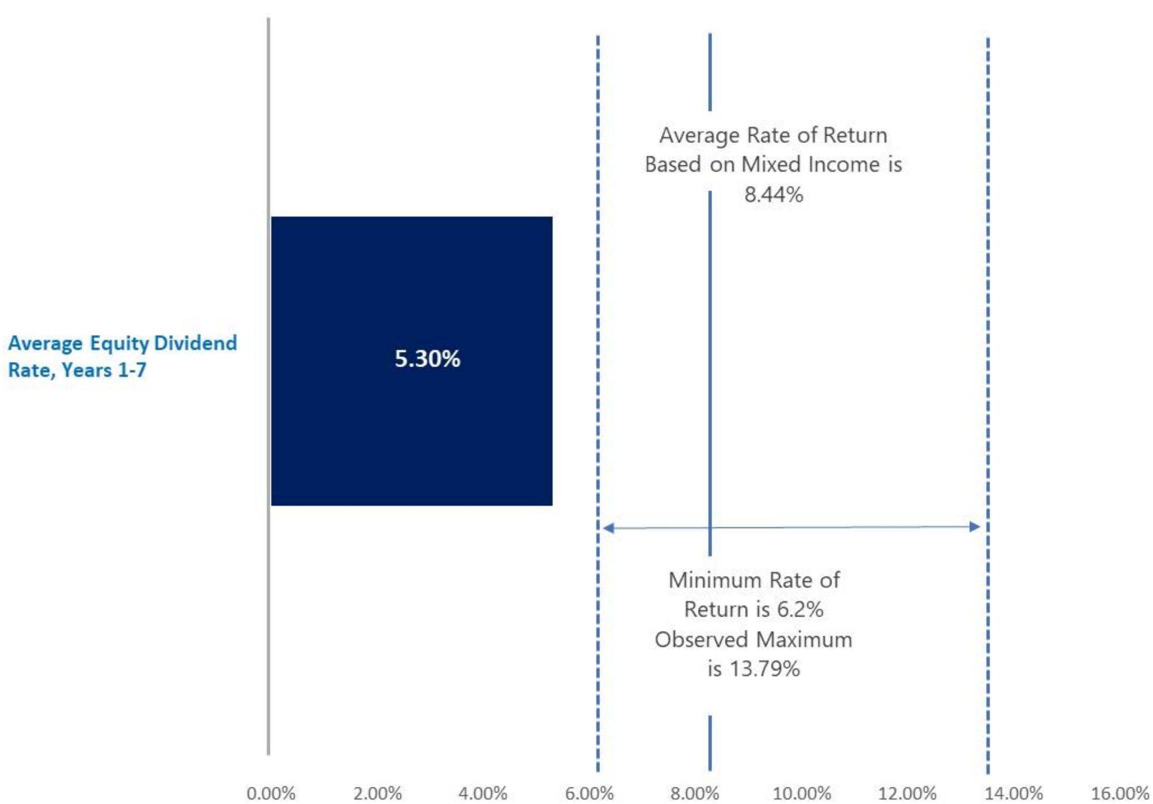
Summary of Results and Returns

Camoin 310 was commissioned by the Brookhaven Industrial Development Agency (IDA) to review the reasonableness of a request for financial assistance for the Sun River Town Homes housing project (Project), proposed by Sun River Town Homes, LLC. (Applicant), and to recommend a PILOT structure for the IDA's review.

We conducted our analysis using assumptions that the Applicant provided and compared expenses and net operating income to current market benchmarks. We concluded that financial assistance is essential to the Project's viability, and reviewed and confirmed the Applicant's requested PILOT schedule for the IDA's review. It reduces annual property tax expenses of the Project enough to deliver a rate of return that is anticipated to be slightly lower than the current market but still acceptable to the Applicant. As shown in the Project's cash flows in Attachment 1, the equity dividend rates for the first two years are 6.49% and 6.16%, respectively, and exceed the minimum.

The Applicant requested a 7-year PILOT and included proposed payments in its pro forma financial analysis submitted January 5, 2021. Camoin 310 estimated the Project's rate of return by calculating an average equity dividend rate of 5.3% over 7 years. This is lower than the market minimum of 6.2% but not unusual for projects with an affordable component.[1] Returns and benchmarks are shown in the chart below. Details are shown in the tables on the next page. The rental category "Garden Apartments" also includes townhomes.

Rate of Return and Benchmarks for Suburban Garden Apartments



[1] Source: RealtyRates *Investor Survey* Q4 2020

The requested 7-year PILOT was developed to conform to the town's Uniform Tax Exemption Policy by escalating taxes over time, ending with 80% of taxes in year 7 prior to full tax payments in year 8 after the PILOT ends. The town will receive nearly $2.6 million of net new taxes over 7 years, on a present value basis.

Table 2

Equity Dividend Rate Metrics			
Using Weighted-Average Based on Renter Type			
	Units	Investment by Type	Average Return
Affordable	26	$2,875,460	4.00%
Market Rate	99	$10,948,867	9.61%
	125	$13,824,327	8.44%

Benchmarks: RealtyRates. Calculations: Camoin 310

Table 1

PILOT Summary	
Term in Years	7
Taxes Owed if No PILOT	$ 6,281,445
Less: PILOT Payments	$(2,649,463)
Value of Tax Exemption	$ 3,631,983
Net New Town Tax Revenue	$ 2,568,963

Discounted Present Value at 2%

As noted above, the Return on Investment as measured by average equity dividend rates is somewhat below what would be expected for a similar project in the current market, except for the first two years. This is not unusual for affordable housing projects, where rental income is constrained. Debt service coverage meets market benchmarks by exceeding 1.10 in all years, and matches the current average of 1.43. The PILOT significantly improves project feasibility, compared with no PILOT, as shown in Table 3.

Table 3

Summary of Investment Returns			
Measure	With PILOT	No PILOT	Benchmark
Project Cost	$ 38,770,685	$ 38,770,685	
Loan Amount	$ 24,946,358	$ 24,946,358	
Developer Investment	$ 13,824,327	$ 13,824,327	
Loan to Value (Loan / Project Cost)	64.34%	64.34%	75.00%
Equity as % of Project Costs	35.66%	35.66%	25.00%
Equity Dividend Rates, Benchmark			
Average Equity Dividend Rate Years 1-7	5.30%	1.30%	8.44%
Present Value Cashflow, Years 1-7	$ 4,776,329	$ 1,144,347	
Debt Service Coverage			
Average	1.43	1.11	1.43
Range	1.28 to 1.53	1.05 to 1.16	1.10 to 1.86

Benchmarks: RealtyRates Investor Survey.

The Sun River Town Homes Project

Project Ownership, Description, and Tax Exemption Request

Sun River Town Homes, LLC. proposes to develop 26.9 acres of vacant parcels north of Sunrise Highway, between Jerusalem Hollow Road and Moriches-Middle Island Road into a 125-unit mixed-income rental community. 99 units will be offered at market rates and 26 will be set aside for tenants at either 80% or 120% of Area Median Income for Suffolk County. Residents will have access to the amenities at the existing Villas at Pine Hills community, including a pool and outdoor recreation space. The Project is within three school districts: Eastport-South Manor, Center Moriches, and William Floyd.

The total Project cost is $38,770,685, of which $33,131,236, or just over 85%, is construction and site work[2]. The project is expected to be completed in the third quarter of 2021 and begin leasing immediately.

The Applicant has requested a Payment-in-Lieu-of-Taxes (PILOT) agreement from the Town of Brookhaven IDA, as analyzed in this report. Mortgage recording tax and sales and use tax exemptions are also requested in the Project's Application to the IDA but are not analyzed in this report.

Camoin 310 Scope of Services

To assist with its evaluation of Sun River Town Homes, LLC.'s request, Camoin 310 was commissioned by the IDA to:

- *Test Assumptions* by comparing rents, operating costs, and vacancy rates to real estate benchmarks for similar projects and noting any significant differences.
- Review the *Financing Plan* and perform an objective third-party evaluation of the estimated return on investment (ROI) to the Applicant. We also analyze whether the terms of the long-term debt are within market benchmarks for bank financing.
- Prepare a *PILOT Recommendation* including a proposed schedule for the IDA's review that would result in a return that is within what would normally be anticipated in the current market for a similar project.

Camoin 310 prepares an XL workbook designed to collect key information about pro forma project cashflows, sources and uses of funds, and financing terms. This is sent to the developer or project owner by the IDA and the completed workbook is forwarded to Camoin 310 for use in our analysis.

Sources Consulted

- Application dated November 19th, 2020.
- Project financing and annual cashflow workbook submitted by the Developer in January, 2021.
- Real estate tax information and estimates received from the Town of Brookhaven, January, 2021.
- RealtyRates.com's "Investor Survey" and "Market Survey," 4th Quarter 2020.

[2] Construction costs from pro forma operations workbook submitted by the Applicant on January 5, 2021.

Testing of Assumptions

Project Operating Performance

We evaluated key assumptions used in the Applicant's submitted project cashflows. Table 4 below presents the anticipated income and expenses in Year 5, when the construction is complete, and occupancy is stabilized.

The Project's operating costs were benchmarked against the costs of all apartments in the northeast, which encompasses both market rate and affordable units. We also examined the expected terms of the bank financing. We find these assumptions to be within an acceptable range of market benchmarks.

- The vacancy allowance of 3.8% slightly lower than the benchmark.
- Effective Gross Income (EGI) is 96% compared with 94% for the benchmark.
- Operating expenses as a percent of Effective Gross Income (EGI) are 26%, lower than the benchmark of 37%. With the addition of real property tax payments under the PILOT agreement, Net Operating Income is 59%, lower than the benchmark of 63%. Since 26, or 21%, of the units are anticipated to be leased at affordable rents instead of market rate levels, this is not unexpected.
- There is no benchmark for debt service, calculated as 44% of EGI.

Table 4

Comparison of Income and Expenses to Benchmarks

	Stabilization, Year 5		Benchmark
Income before Vacancy Adjustment	$ 4,058,991	--	--
Vacancy Allowance	3.28%	--	3.34%
Calculation of Net Operating Income and Expense Ratios		As a % of Asking Rent	
Effective Gross Income (EGI), Net of Vacancy	$ 3,904,749	96%	94%
		As a % of EGI	
Operating Expenses and Reserve	$ (1,003,290)	26%	37%
Real Property Taxes	$ (501,722)	13%	--
Net Operating Income	$ 2,399,738	59%	63%
Annual Financing Costs, Long Term Debt			
Principal and Interest	$ (1,699,712)	44%	--
Cashflow after Operating Costs, Taxes, Debt	$ 700,026	18%	--

Source for Benchmarks: RealtyRates.

Rent

The table below presents the annual rental amounts for the units. The proposed development will consist of 99 market rate units, and 26 affordable units for households with income capped at 80% and 120% of Area Median Income[3] for a total of 125 units.

Anticipated rents are shown in Table 5, below. Using the annual rent per unit, Camoin 310 calculated annual household income for the units, assuming 30% of income is spent on rent. The US Census calculates a Median Household Income for the Town of Brookhaven of $101,031, and the US Dept. of Housing and Urban Development (HUD) establishes an Area Median Income at a higher $126,600. By both measures the market rate units are affordable in this range. Estimated average annual income for the affordable units is also calculated. HUD establishes a range of between $70,960 for a single-person household and $100,640 for a 4-person household. The affordable units are accessible to households in these income ranges.

Table 5

Annual Rental Income and Average Household Income

	Unit Type	Number of Units	Rent/Month	Rent/Year Each Unit	Average Income (1)
Market Rate	2BR Ranch	12	$ 2,600	$ 31,200	$ 104,000
	2BRLower Flat	30	$ 2,339	$ 28,068	$ 93,560
	3BR Upper Flat	24	$ 2,357	$ 28,284	$ 94,280
	3BR Townhouse	33	$ 3,100	$ 37,200	$ 124,000
		99			
Affordable	2BR @ 80%	5	$ 1,507	$ 18,084	$ 60,280
	3BR @ 80%	8	$ 1,943	$ 23,316	$ 77,720
	2BR @ 120%	5	$ 1,905	$ 22,860	$ 76,200
	3BR @ 120%	8	$ 2,456	$ 29,472	$ 98,240
		26			

(1) Average income is amount needed to pay no more than 30% of income as rent.

[3] Based on Applicant Pro-Forma inputs.

Financing Plan

Sources and Uses of Funds

The Sources and Uses of Funds table shows the total project costs, including land acquisition and construction. It is worth noting that the loan-to-value ratio of 64% is lower than the market benchmark of 73%, indicating less leverage and more equity than average.

Camoin 310 confirmed the Applicant's debt service schedule using the stated loan terms of a 5.5% interest rate over 30 years, with 12 payments per year. According to RealtyRates, interest rates range from a minimum of 2.06% to a maximum of 6.93%, and amortizations between 15 and 40 years, placing the loan terms within current benchmarks.

Table 6

Sources and Uses of Funds		
Sources of Funds		
Bank Financing	$24,946,358	64%
Equity and Working Capital	$13,824,327	36%
Total Sources	$38,770,685	100%
Uses of Funds		
Real Property Acquisition and Closing	$2,960,551	8%
Soft and Transaction Costs	$2,678,898	7%
Total Construction and Site Work	$33,131,236	85%
Total Uses	$38,770,685	100%

Source: Applicant

Estimation of Market Value

An estimated market value of the project was calculated for the purposes of this analysis only, as the Applicant has not indicated a sale. We calculate the sale value using the Net Operating Income (NOI) method using current capitalization and tax rates[4]. Because the long term debt amortizes over 30 years, the outstanding principal is calculated and assumed to be repaid with sale proceeds net of a 2.5% sales commission rate.

Table 7

Calculation of Market Value at 7 Years *Assumes Sale Based on Projected Cashflow without PILOT*		
Pre Tax Net Operating Income (NOI)	$	3,008,420
NOI after Full Taxes	$	1,990,857
Capitalization Rate		7.47%
Reversion (Sale) Value (NOI/Cap Rate)	$	40,273,355
Sale Commission Rate		2.50%
Sale Commission Cost	$	(1,006,834)
Loan Payoff	$	22,156,329
Net Sale Proceeds	$	61,422,850

Source: Applicant, RealtyRates. Calculations: Camoin 310

[4] NOI ÷ Capitalization Rate = Sale Value.

PILOT Recommendation

Camoin 310 recommends a PILOT schedule that is expected reduce taxes sufficiently to support the Project's financial viability, while enabling the Town of Brookhaven to meet its own revenue needs. We developed a customized PILOT schedule that conforms to a 7-year maximum term, and escalates to 80% of taxes in the last year of the PILOT. Full taxes are anticipated to be paid in year 8. We developed the PILOT schedule using the following steps:

1. *Determine the Project's need for assistance*. We created a comparison pro forma where full taxes were paid, and calculated that (1) the average return on equity of 1.30% was too low for the Project to be viable, and (2) the Project would not generate enough revenue to meet the minimum debt service coverage ratio of 1.1 until year 4, making it unlikely to obtain financing.
2. *Reduce the percent of taxes paid to achieve a reasonable rate of return for the Developer and still capture new tax revenues for the Town*. We created a schedule where the Developer pays an increasing percent of full taxes, starting with 10% in the first year and ending with 80% in year 7. It is assumed that the PILOT will take effect when the Project is complete and the improved assessed value has been established.

   Increasing the percent paid provides the greatest benefit in the early years of the project when operations are beginning and fixed costs for debt service are a greater proportion of expenses. By paying 80% of full taxes in year 7, the Project avoids a large tax increase at the end of the PILOT.

   The use of percentages is to construct the PILOT and provide perspective on the PILOT compared to full taxes. The IDA can implement this structure as set forth in its Uniform Tax Exemption Policy by having the PILOT agreement establish fixed dollar amounts for the escalating payments.

The proposed 7-year PILOT schedule is presented in Table 8 below.

Table 8

Recommended PILOT Schedule for Sun River
Total Estimated PILOT Savings to Project, Present Value: $3,631,983
Net New Taxes with PILOT, Present Value: $2,568,963

PILOT/ Tax Year	Land Tax	Improvement Tax	Total Tax (Land + Improvement)	Improvement Phase-In	Improvement PILOT as % of Total Tax	Improvement PILOT, Est. Payments	Total PILOT (Land + Improvement PILOT)	Project w/out PILOT at 2% increases	Estimated PILOT Saving	Property without Project at 2%	Net New Taxes from Project w/PILOT
Current	*$ 11,500*	$ -	*$ 11,500*								
PILOT/Tax Year 1	$ 11,730	$ 903,566	$ 915,296	100%	10%	$ 90,357	$ 102,087	$ 915,296	$ 813,210	$ 11,730	$ 90,357
PILOT/Tax Year 2	$ 11,965	$ 921,638	$ 933,602	100%	20%	$ 184,328	$ 196,292	$ 933,602	$ 737,310	$ 11,965	$ 184,328
PILOT/Tax Year 3	$ 12,204	$ 940,070	$ 952,274	100%	30%	$ 282,021	$ 294,225	$ 952,274	$ 658,049	$ 12,204	$ 282,021
PILOT/Tax Year 4	$ 12,448	$ 958,872	$ 971,320	100%	40%	$ 383,549	$ 395,997	$ 971,320	$ 575,323	$ 12,448	$ 383,549
PILOT/Tax Year 5	$ 12,697	$ 978,049	$ 990,746	100%	50%	$ 489,025	$ 501,722	$ 990,746	$ 489,025	$ 12,697	$ 489,025
PILOT/Tax Year 6	$ 12,951	$ 997,610	$ 1,010,561	100%	60%	$ 598,566	$ 611,517	$ 1,010,561	$ 399,044	$ 12,951	$ 598,566
PILOT/Tax Year 7	$ 13,210	$ 1,017,563	$ 1,030,772	100%	80%	$ 814,050	$ 827,260	$ 1,030,772	$ 203,513	$ 13,210	$ 814,050
Totals	$ 87,204	$ 5,813,802	$ 6,804,572			$ 2,841,895	$ 2,929,099	$ 6,804,572	$ 3,875,474	$ 87,204	$ 2,841,895
Present Value of Totals, 2% Discount	$ 80,499	$ 5,421,398	$ 6,281,445			$ 2,568,963	$ 2,649,463	$ 6,281,445	$ 3,631,983	$ 80,499	$ 2,568,963
						Percent of Total Taxes Paid, Gross	43%	Percent Saving, Gross	57%		
						Percent of Total Taxes Paid, Present Value	42%	Percent Savings, Present Value	58%		

Attachment 1: Estimated Annual Cashflows

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Operating Cash Flow							
Residential Income							
Gross Operating Income	$ 3,749,880	$ 3,824,878	$ 3,901,375	$ 3,979,403	$ 4,058,991	$ 4,140,171	$ 4,222,974
Less: Vacancy Allowance 3.28%	$ (142,495)	$ (145,345)	$ (148,252)	$ (151,217)	$ (154,242)	$ (157,326)	$ (160,473)
Net Rental Income	$ 3,607,385	$ 3,679,532	$ 3,753,123	$ 3,828,185	$ 3,904,749	$ 3,982,844	$ 4,062,501
Effective Gross Income (EGI)	$ 3,607,385	$ 3,679,532	$ 3,753,123	$ 3,828,185	$ 3,904,749	$ 3,982,844	$ 4,062,501
Operating Expenses							
Salaries and Wages	$ 237,500	$ 243,438	$ 249,523	$ 255,762	$ 262,156	$ 268,709	$ 275,427
Maintenance	$ 587,056	$ 601,732	$ 616,776	$ 632,195	$ 648,000	$ 664,200	$ 680,805
Deposit to replacement reserve	$ 31,250	$ 32,031	$ 32,832	$ 33,653	$ 34,494	$ 35,357	$ 36,240
Insurance	$ 53,125	$ 54,453	$ 55,814	$ 57,210	$ 58,640	$ 60,106	$ 61,609
Operating Expenses	$ 908,931	$ 931,654	$ 954,946	$ 978,819	$ 1,003,290	$ 1,028,372	$ 1,054,081
Pre-Tax Operating Income	$ 2,698,454	$ 2,747,878	$ 2,798,177	$ 2,849,366	$ 2,901,459	$ 2,954,472	$ 3,008,420
Real Property Taxes							
PILOT	$ 102,087	$ 196,292	$ 294,225	$ 395,997	$ 501,722	$ 611,517	$ 827,260
Total Real Property Taxes	$ 102,087	$ 196,292	$ 294,225	$ 395,997	$ 501,722	$ 611,517	$ 827,260
Net Operating Income (NOI)	**$ 2,596,367**	**$ 2,551,586**	**$ 2,503,952**	**$ 2,453,369**	**$ 2,399,738**	**$ 2,342,955**	**$ 2,181,160**
Financing Cash Flow							
Interest Payment	$ 1,363,662	$ 1,344,707	$ 1,324,681	$ 1,303,527	$ 1,281,179	$ 1,257,570	$ 1,232,630
Principal Payment	$ 336,050	$ 355,006	$ 375,031	$ 396,185	$ 418,533	$ 442,142	$ 467,082
Debt Service	$ 1,699,712	$ 1,699,712	$ 1,699,712	$ 1,699,712	$ 1,699,712	$ 1,699,712	$ 1,699,712
Cash Flow After Financing and Reserve	**$ 896,655**	**$ 851,874**	**$ 804,240**	**$ 753,657**	**$ 700,026**	**$ 643,243**	**$ 481,448**
Annual Equity Dividend Rates	6.49%	6.16%	5.82%	5.45%	5.06%	4.65%	3.48%
Debt Service Coverage Ratio (DSCR)	1.53	1.50	1.47	1.44	1.41	1.38	1.28

Appendix A: Benchmark Definitions

Internal Rate of Return (IRR): The return on an investment, calculated as the rate that reconciles the beginning value (or initial investment) with intermediate cashflows and the ending value. IRR assumes that all cashflows are reinvested in the project at the same rate of return. The rate of return is constant for the entire period being measured. (Source: RealtyRates.com)

Modified Internal Rate of Return (MIRR): Similar to the IRR, the MIRR is calculated as the rate that reconciles beginning value, ending value, and intermediate cashflows, producing a single rate of return for the entire period measured. Unlike the IRR, the MIRR assumes the intermediate cashflows are withdrawn and invested at some other rate (for example a US Treasury security) by the investor. This is considered a more accurate measure, since it recognizes that intermediate cashflows occur over time and do not actually earn the same rate of return as the initial investment. This reflects the actual market risk associated with intermediate cashflows. (Source: RealtyRates.com)

Equity Dividend Rate: This is calculated as the rate of return on the equity component of a project. It is calculated as follows: (Source: RealtyRates.com)

Equity Dividend / Equity Investment = Equity Dividend Rate,

where Equity Dividend = Net Operating Income – Debt Service.

An Annual Equity Dividend Rate is calculated for each year's NOI. Camoin 310 also calculates average Equity Dividend Ratios at the end of 10- 15- and 20-year investment periods.

Debt Service Coverage Ratio (DSCR): The ratio of annual debt repayment, including principal and interest, to total Net Operating Income (NOI). (Source: RealtyRates.com)

Net Operating Income (NOI): Income net of all operating costs including vacancy and collection loss but not including debt service. Appraisers also typically expense reserves for repairs and replacements. However, because reserves are not usually reported along with other transaction data, RealtyRates.com tracks lender requirements but does not include them in calculations. (Source: RealtyRates.com)

Overall Capitalization Rate (OAR): Ratio of Net Operating Income to property value or sales price. (Source: RealtyRates.com)

OAR = NOI / Property value or sales price

Note: To derive a future sales price, Camoin 310 divides NOI by a Capitalization Rate using either a market benchmark for OAR or a client- or Developer-provided rate. This "reverses" the OAR equation to calculate a sales price based on investment return requirements for market conditions.

Leading action to

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