

Heatherwood Expansion Project Economic Impact Analysis

Prepared by:



Prepared for:
Sun River Town Homes, LLC

Date:
January 25, 2021

Executive Summary

The Heatherwood Expansion Project consists of a 125-unit rental town home development (the "Project") in the Town of Brookhaven on land owned by Sun River Town Homes, LLC (the "Site"), consisting of 13 units reserved for households earning up to 120% of the area median income (AMI), 13 units reserved for households earning up to 80% of AMI, and 99 market-rate units.

The following analysis included an examination of the local market's ability to support the Project and the expected economic impacts associated with the Project on the County and the Town. MRB Group modeled the economic impacts of the construction of the Project in terms of direct and indirect jobs and earnings in the region. We also modeled the annual economic impacts post-construction, which are based on our estimates of "net new" household spending from future occupants of the Site.

Market Review Conclusions

From a real estate market point of view, the Project appears to be well positioned in a market characterized by strong fundamentals. Over the last ten years, vacancy rates have typically remained around 4% in the multifamily rental market, despite a steady stream of new unit deliveries. In the last 12 months, there have been considerably more deliveries than on average over the last 10 years, but even those new projects have shown good absorption characteristics, despite the COVID-19 pandemic.

When looking at comparable properties, two similar projects in the Town have very recently been delivered and have shown positive leasing trends, again despite the pandemic. The Project has many amenities and is priced competitively. The Project also contains very attractively priced "affordable" units that should immediately be absorbed. We therefore conclude that the market data appear to support the Project's success.

Economic Impacts

During the construction of the Project, MRB Group has estimated that 157 on-site jobs will be created, plus 55 indirect jobs, for a total of 212 new jobs collectively earning \$15.3 million in wages.

Upon completion of the Project, we estimate a total of 61 ongoing (permanent) jobs will be created in the Town due to the spending of the new households, with total annual earnings of \$2.6 million.¹

Summary of Economic Impacts

| | Direct | Indirect | Total |
|--------------------|--------------|-------------|--------------|
| Construction Jobs | 157 | 55 | 212 |
| Construction Wages | \$10,020,308 | \$5,286,352 | \$15,306,660 |
| Ongoing Jobs | 48 | 13 | 61 |
| Ongoing Wages | \$1,815,374 | \$747,407 | \$2,562,781 |

¹ Note that the direct and indirect "Construction Jobs" and "Construction Wages" shown are with respect to Suffolk County (the "County"), as such jobs tend to be pulled from a larger labor shed. The direct and indirect "Ongoing Jobs" and "Ongoing Wages" shown are with respect to the Town.

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Introduction

The Heatherwood Expansion Project consists of a 125-unit rental town home development (the "Project") in the Town of Brookhaven on land owned by Sun River Town Homes, LLC (the "Site"), with 13 units reserved for households earning up to 120% of the area median income (AMI), 13 units reserved for households earning up to 80% of AMI, and 99 market-rate units.

The following analysis included an examination of the local market's ability to support the Project and the expected economic impacts associated with the Project on the County and the Town. MRB Group modeled the economic impacts of the construction of the Project in terms of direct and indirect jobs and earnings in the region. We also modeled the annual economic impacts post-construction, which are based on our estimates of "net new" household spending from future occupants of the Site.

Multifamily Real Estate Market Review

Demographics

Current trends in demographic data suggest that, over the next five years, the Town’s population, number of households, number of families, and number of owner-occupied housing units will decline slightly. Conversely, renter-occupied housing units, average household size, and median age are all projected to increase slightly through 2025. With owner-occupied housing units projected to decline and renter-occupied units expected to rise, the data suggests a shift in consumer demand toward rental units.

Local Real Estate Market

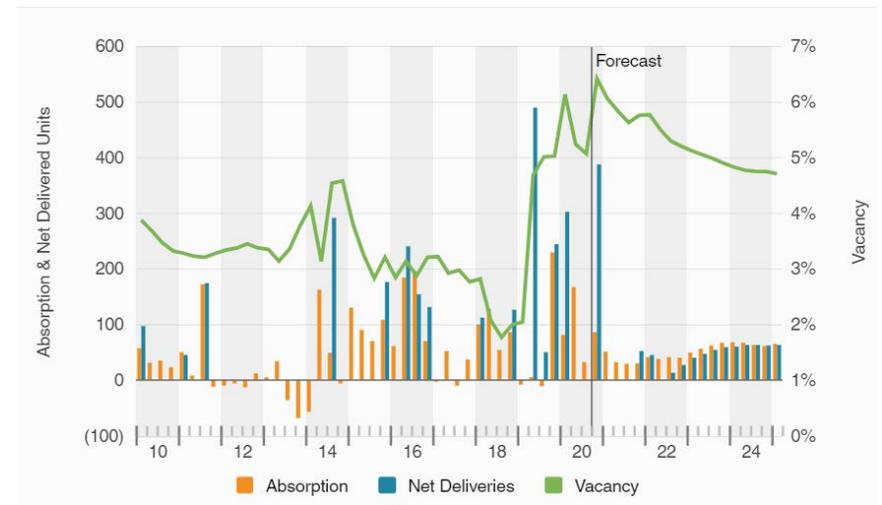
The Town of Brookhaven’s multifamily real estate market is characterized by persistently strong fundamentals. Over the last 10 years, multifamily (for-rent and for-sale) vacancy rates have consistently been below 4%. Market data suggests that historical vacancy rates rose above 4% temporarily around 2014, largely driven by new deliveries. Since Q3 2018, several residential development projects have brought over 1,000 rental units to the market that are currently being absorbed.

According to CoStar, our real estate data provider, there are another 387 units to be delivered in Q4 2020, adding to the supply. Historical data from 2010 have shown that newly delivered units are quickly absorbed in the area’s otherwise tight housing market. Vacancy rates for the Town’s multifamily units are forecasted to reach as high a 6%+ in early 2021, as a result of the new deliveries and presumably the short-lived demand shocks from the COVID-19 pandemic, before returning to sub-5% rates over the subsequent two years.

Demographic Summary, Town of Brookhaven

| Item | 2020 | 2025 | 2020-2025 (%) |
|--|---------|---------|---------------|
| Population | 490,627 | 487,870 | -0.6% |
| Households | 164,463 | 163,381 | -0.7% |
| Families | 120,538 | 119,400 | -0.9% |
| Average Household Size | 2.89 | 2.90 | 0.3% |
| Owner-Occupied Housing Units (Estimate) | 128,864 | 127,570 | -1.0% |
| Renter-Occupied Housing Units (Estimate) | 35,567 | 35,749 | 0.5% |
| Median Age | 40.2 | 41.0 | 2.0% |

Absorption, Net Deliveries & Vacancy



Source: CoStar

According to five-year estimates (2014-2018) from the American Community Survey, there were approximately 176,000 residential units in the Town of Brookhaven in 2020. Nearly 20% of the Town’s housing stock is renter-occupied, with approximately 34,000 renter-occupied units. The share of renter-occupied units in the Town is largely consistent with that of the County and Long Island as a whole.

Rental Housing Units

| | Renter-Occupied Units | % of All Occupied Units | Total Housing Units |
|----------------|-----------------------|-------------------------|---------------------|
| Brookhaven | 34,128 | 19.4% | 175,772 |
| Suffolk County | 97,084 | 16.9% | 575,162 |
| Long Island | 183,800 | 17.6% | 1,046,997 |

Source: ESRI, 2014 - 2018 ACS; Long Island includes Nassau and Suffolk Counties

Affordability

To determine to demand for rental units in the Town, MRB assessed the housing affordability of owner-occupied housing options. “House and Home Expenditures,” shown in the table to the right, encompass annual spending of households on mortgage, insurance, tax, and property maintenance. The Spending Potential Index (SPI) is a composite measure of household expenditures for the specified region as compared to national averages. For the Town, owner-occupied dwellings have significantly higher home expenditures and spending potential as compared to national averages. This SPI figure again demonstrates that housing is in short supply/high demand in the Town, indicating that any new market-rate or affordable units would attract net new households to the area. The picture is largely the same with respect to rental properties, with median contract rent in the Town of \$18,888 per year (\$1,574 per month; source: 2014-2018 American Community Survey). As described below in the “Comparable Spaces” section of this report, we understand that the units in the proposed Project are anticipated to be priced attractively in the market.

Brookhaven House and Home Expenditures

| | Average Amount Spent | SPI |
|----------------|----------------------|-----|
| Owned Dwelling | \$20,633 | 151 |

Source: Consumer Spending data are derived from the 2016 and 2017 Consumer Expenditure Surveys, Bureau of Labor Statistics.

MRB Group also assessed housing affordability by calculating the household income threshold for the area. The household income threshold is the minimum income required to be considered not “burdened” by housing costs. The general rule of thumb is that a household should pay no more than 28% of income on housing costs. Using the 2020 Median Home Value for the Town (\$360,192), we are able to calculate a household income threshold of \$93,900, which is slightly below the actual median household income \$99,028. Therefore, the median household can generally afford the median home. However, as shown in the table below, over 37% of households earn an income that would be considered “burdened” by median housing costs for an owner-occupied unit.

Household Income Threshold

| | Brookhaven |
|-------------------------------------|------------|
| Median Home Value, 2020 | \$360,192 |
| 10% Down Payment | \$36,019 |
| Loan Amount | \$324,173 |
| Avg. Mortgage Payment, 30 Yrs. @ 4% | \$1,548 |
| Est Additional Costs | \$643 |
| Avg Mortgage + Additional Costs | \$2,191 |
| Household Income Threshold | \$93,900 |
| Median Household Income, 2020 | \$99,028 |

Source: ESRI, Zillow, MRB Group

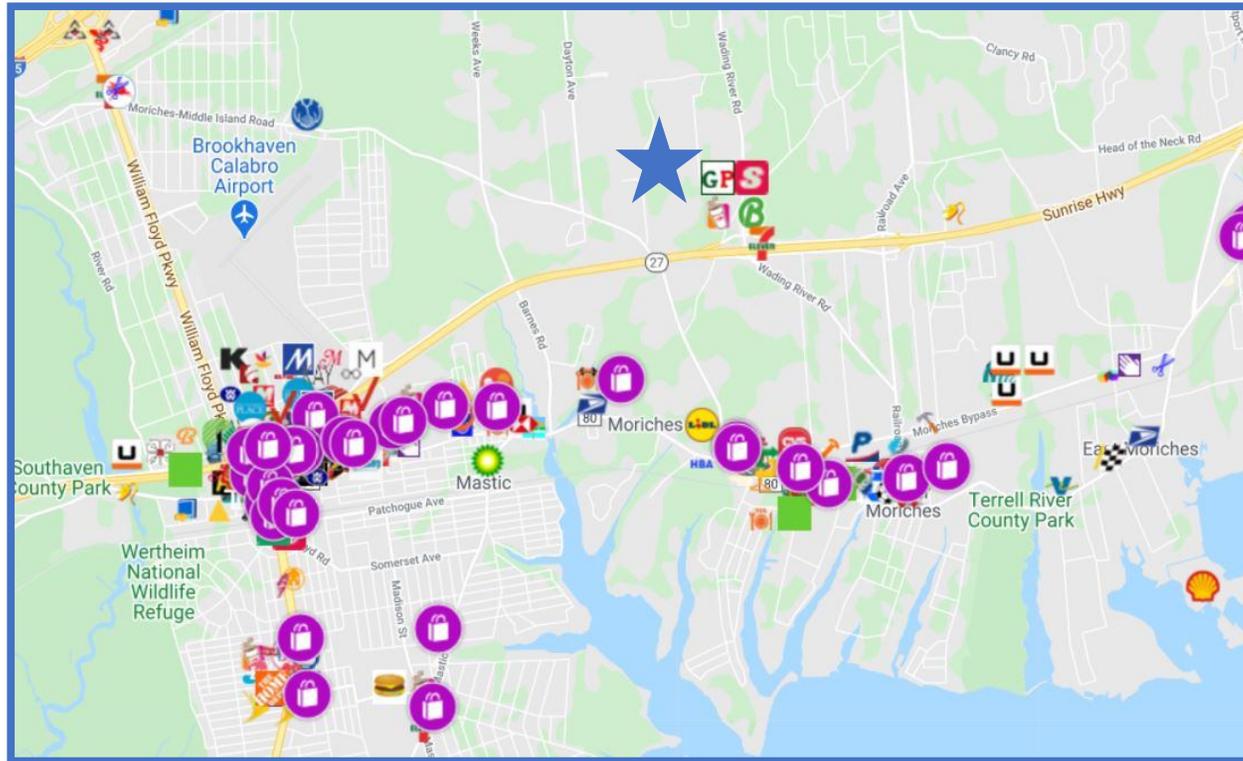
2020 Households by Income

| | Brookhaven % of HH |
|-----------------------|-----------------------|
| <\$15,000 | 6.5% |
| \$15,000 - \$24,999 | 5.6% |
| \$25,000 - \$34,999 | 4.6% |
| \$35,000 - \$49,999 | 7.2% |
| \$50,000 - \$74,999 | 13.4% |
| \$75,000 - \$99,000 | 13.1% |
| \$100,000 - \$149,000 | 22.2% |
| \$150,000 - \$199,000 | 13.4% |
| \$200,000+ | 14.0% |

Source: ESRI

Local Spending

The Project (approximate location starred on the map below) is located in close proximity to many shopping centers and retail outlets in Mastic, Moriches, and East Moriches. The high concentration of local retailers, coupled with the large geography of the Town, indicates that the majority of spending by new residents is likely to occur locally. Therefore, we conservatively estimate that at least 80% of new residents' spending would be spent within the Town. The economic impact of this new spending is further assessed in the following analysis.



Comparable Spaces

By examining the trends of recent comparable new-build development, we are able to further assess the feasibility of the Project. The comparable developments listed below are located within the Town, offer similar amenities of the Project, and are operated by Heatherwood. These developments brought 2- and 3- bedroom apartment units to the Town of Brookhaven in 2019. Both developments are currently 100% occupied and offer primarily market-rate units.

Echo Pond

Echo Pond is a 50-unit housing development offering 2-bedroom and 2-bedroom-plus-den units with asking rents ranging from \$2,749-\$3,549. Available units were listed for a median of 63.5 days before being leased. Echo Pond is currently 100% occupied.

Medford II – Building 11

This development brought 20 residential units to the market in 2019, currently priced between \$2,439-\$2,999 per month. This development offers 2- and 3-bedroom flats and 3-bedroom town homes similar to those proposed in the Project. This development was entirely pre-leased during construction and is also currently 100% occupied.

Echo Pond

| Item | Value |
|----------------------------------|---------|
| Inventory Units | 50 |
| Year Built | 2019 |
| Vacancy Rate | 0% |
| Median Days on the Market | 63.50 |
| Avg. 2 Bedroom + Den Asking Rent | \$3,507 |
| 2 Bedroom Ranch Asking Rent | \$2,749 |

Source: CoStar

Medford II - Building 11

| Item | Value |
|------------------------------------|---------|
| Inventory Units | 20 |
| Year Built | 2019 |
| Vacancy Rate | 0% |
| 12 Month Occupancy (%) at Delivery | 100% |
| 3 Bedroom Town Home Asking Rent | \$2,999 |
| 3 Bedroom Flat Rent | \$2,599 |
| 2 Bedroom Flat Rent | \$2,439 |

Source: CoStar

Conclusions from Market Review

Based on the previously-discussed characteristics of the local market, we are able to draw conclusions on the level of support in the market for the Project. We also have determined the extent to which any of the households that occupy the units can be considered “Net New” to the Town of Brookhaven (which will factor into the economic impact analysis that follows).

Determination of Market Support

The real estate market of the Town is characterized by strong fundamentals and favorable trends in comparable developments. Both comparable developments identified are similarly priced, offer similar products in the same market, and are 100% occupied. Both were either pre-leased entirely prior to construction (Medford II – Building 11) or leased up with a median time-on-market of 60 days. Based on these trends, we conclude that the Project is well-positioned to be supported by the market.

Determination of “Net New”

Prior to calculating the economic impacts of the Project, we must determine how many of the future households of the Project can be considered “net new” to the Town. There are several circumstances under which households would be considered net new:

- 1) Out-of-area residents choosing to relocate to the Town because of the Project.
- 2) Current Town residents that would otherwise relocate outside of the Town if the option to live in the Project were unavailable.
- 3) Current Town residents that will move into the Project, freeing up their current Brookhaven residential space that will then be occupied by households relocating to the Town.

As per our review of the market, we consider all units of the Project as “net-new” households for the Town.

Economic Impact Analysis

The Project would have economic impacts on the County and Town in a number of ways. This includes one-time impacts to jobs, earnings, and sales during the construction phase of the Project, which we estimate for the entire County. It also includes ongoing impacts related to household spending and the operations of the Project, which we estimate for the Town.²

Methodology

Both one-time, construction-phase impacts and ongoing, operation-phase impacts have “Direct” and “Indirect” components. For the construction phase:

- Direct jobs, wages, and sales are those that occur on-site related to labor and materials used in the construction of the Project.
- Indirect jobs, wages, and sales are those caused by the Direct impacts, and result from business-to-business purchases (e.g. a contractor buying a piece of equipment from a dealer) and from employees spending a portion of their wages locally.

For the operations phase:

- Direct jobs, wages, and sales are those jobs created from the operations of the Project (e.g. onsite employment of a maintenance person) and from new household spending occurring as a result of the Project.
- Indirect jobs, wages, and sales are those caused by the Direct impact, such as business-to-business purchases (e.g. a grocery store serving the new households buying goods from a distributor) and from employees of such businesses spending a portion of their wages locally.

To estimate the Direct and Indirect impacts, MRB Group employed the Emsi³ economic modeling system. We used data from the Developer and from publicly-available and proprietary data sources as inputs to the Emsi modeling system. Where needed, we adjusted the Emsi model to best match the Project specifics.

² By their nature, construction-related impacts tend to be somewhat more diffuse, which is why we report them as County-level impacts. Town-level impacts are measured based on the 36 ZIP codes that closely approximate the Town. See appendix.

³ Emsi, formerly “Economic Modeling Systems, Intl.,” uses data from the U.S. Bureau of Labor Statistics, the U.S. Bureau of Economic Analysis, the U.S. Census, and other public data sources to model out economic impacts.

Construction Phase

The Developer has provided estimates of the total cost of construction of the Project and the percentage of labor and materials to be sourced from within the County. As shown in the table to the right, the Developer estimates that 85% of its \$28.8 million of materials and labor costs⁴ would be spent locally, for a total of \$24.5 million of in-region construction spending.

In-region construction spending of \$24.5 million (direct “Sales” in the table) was then inputted into the Emsi economic modeling system, assigning the County as the geography of study. This spending creates 157 direct jobs and direct earnings of \$10 million. The model estimates that this will cause indirect impacts of 55 new jobs, \$5.3 million in new earnings, and \$15.2 million in new sales. Therefore, the total, one-time, construction-phase impacts would be 212 jobs, \$15.3 million in wages, and \$39.7 million in sales.

Construction phase impacts were measured at the County level, to account for their dispersed nature. Conversely, the impacts of the operation phase are estimated at the Town level. To do so, we have used 36 ZIP Codes to best approximate the Town of Brookhaven in order to model operational impacts.⁵

Construction Spending In Region

| | \$ Total | % County | \$ County |
|-------------------|--------------|----------|--------------|
| Materials & Labor | \$28,818,612 | 85% | \$24,495,821 |

Source: Developer, MRB

Economic Impact of Construction Phase, One-Time

| | Direct | Indirect | Total |
|----------|--------------|--------------|--------------|
| Jobs | 157 | 55 | 212 |
| Earnings | \$10,020,308 | \$5,286,352 | \$15,306,660 |
| Sales | \$24,495,821 | \$15,181,252 | \$39,677,073 |

Source: Emsi, MRB

⁴ Project budget of Sun River Town Homes, LLC minus land, legal, and financing costs.

⁵ A full list of ZIP Codes included in the economic impact analysis are listed in Appendix A, where they are compared to the Town’s boundaries.

Operation Phase

Operation phase impacts come from two sources. By far the largest source is the effect of net-new household spending from the new units being brought onto the market by the Project. The second source of operation phase impacts is the employment on Site that results from the operations of the Project, including maintenance and management personnel.

Households with differing incomes have different spending habits. As such, we have utilized different average annual household expenditures based upon two relevant income brackets⁶. The first income bracket reflects spending habits of households earning over \$100,000 annually. We assume that households in this bracket will occupy all of the Project’s market-rate units and those workforce units reserved for households earning up to 120% of the area median income. The second income bracket displays spending habits of households earning between \$70,000-\$99,000 annually, which we apply to the 13 units reserved for households earning no more than 80% of the area median income.

The large expanse of the Town’s geographical boundaries and the high concentration of retailers in a close proximity suggest that most of the households’ needs will be served by local businesses. For the purposes of being conservative, we have estimated that 80% of this spending would occur in the Town of Brookhaven. Therefore, given 125 total units and the spending profiles and percentages shown, we estimate a total of \$4.6 million of new household spending would occur annually in the Town.

Total New Household Spending

| | Annual per HH Spend | % Spent in Town | Units | Total New Spending InTown |
|--|---------------------|-----------------|------------|---------------------------|
| Market Rate & Workforce Units | | | | |
| Food | \$10,418 | 80% | 112 | \$933,453 |
| Household Furnishings and Equipment | \$2,705 | 80% | 112 | \$242,368 |
| Apparel and Services | \$2,503 | 80% | 112 | \$224,269 |
| Transportation | \$13,260 | 80% | 112 | \$1,188,096 |
| Healthcare | \$6,452 | 80% | 112 | \$578,099 |
| Entertainment | \$3,744 | 80% | 112 | \$335,462 |
| Education | \$1,971 | 80% | 112 | \$176,602 |
| Personal Care Products and Services | \$998 | 80% | 112 | \$89,421 |
| Miscellaneous | \$1,581 | 80% | 112 | \$141,658 |
| Other | \$3,393 | 80% | 112 | \$304,013 |
| Total | \$47,025 | 80% | 112 | \$4,213,440 |
| Affordable Units | | | | |
| Food | \$9,001 | 80% | 13 | \$93,610 |
| Household Furnishings and Equipment | \$1,971 | 80% | 13 | \$20,498 |
| Apparel and Services | \$2,071 | 80% | 13 | \$21,538 |
| Transportation | \$9,390 | 80% | 13 | \$97,656 |
| Healthcare | \$5,114 | 80% | 13 | \$53,186 |
| Entertainment | \$3,146 | 80% | 13 | \$32,718 |
| Education | \$1,396 | 80% | 13 | \$14,518 |
| Personal Care Products and Services | \$785 | 80% | 13 | \$8,164 |
| Miscellaneous | \$885 | 80% | 13 | \$9,204 |
| Other | \$2,242 | 80% | 13 | \$23,317 |
| Total | \$36,001 | 80% | 13 | \$374,410 |
| Grand Total (Rounded) | | | 125 | \$4,587,850 |

Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, 2017 - 2018 *Table 3104. Northeastern region by income before taxes: Average annual expenditures and characteristics*

⁶ We used data from the Consumer Expenditure Survey (CEX) of the Bureau of Labor Statistics as of December 2020, specific to both the Northeast and the respective income level.

MRB Group then took each of the above line items and applied that new household spending to one or more industry codes in Emsi.⁷ This resulted in an estimate of 45 direct jobs and \$1.7 million in direct earnings that will be generated by the spending of the new households. Taken together with an estimate of indirect impacts, total household spending impacts include 56 jobs, \$2.3 million in earnings, and \$6.3 million in sales.

The Developer also stated that it would hire three employees at the Site for operations and maintenance. The average salaried wage for two of these positions is \$50,000, and the average for the third is \$38,400. Summed together, these three positions account for \$138,400 in annual earnings. Together with indirect impacts, the total impacts of operations and maintenance would be 5 jobs, \$220,368 in earnings, and \$695,409 million in sales.

The combined impacts of household spending along with impacts from operations and maintenance is displayed in the table to the right. As shown, we anticipate that the Town will benefit from 61 jobs, \$2.6 million in earnings, and \$7 million in sales on an annual basis.

Economic Impact, New Household Spending

| | Direct | Indirect | Total |
|----------|-------------|-------------|-------------|
| Jobs | 45 | 11 | 56 |
| Earnings | \$1,676,974 | \$665,439 | \$2,342,413 |
| Sales | \$4,587,850 | \$1,762,355 | \$6,350,205 |

Source: Emsi, MRB

Economic Impact, Operations and Maintenance of Project

| | Direct | Indirect | Total |
|----------|-----------|-----------|-----------|
| Jobs | 3 | 2 | 5 |
| Earnings | \$138,400 | \$81,968 | \$220,368 |
| Sales | \$475,979 | \$219,430 | \$695,409 |

Source: Emsi, MRB

Economic Impact, Combined Annual Impact

| | Direct | Indirect | Total |
|----------|-------------|-------------|-------------|
| Jobs | 48 | 13 | 61 |
| Earnings | \$1,815,374 | \$747,407 | \$2,562,781 |
| Sales | \$5,063,829 | \$1,981,785 | \$7,045,614 |

Source: Emsi, MRB

⁷ For example, for the "Food" line item, we applied half of the spending to the "supermarkets and other grocery" stores NAICS code (North American Industrial Classification System) and half to the "full service restaurants" NAICS code.

Appendix A: Zip Codes Used

36 ZIP Codes of the Town of Brookhaven



Town of Brookhaven



| ZIP | Description |
|-------|--|
| 11705 | Bayport, NY (in Suffolk county) |
| 11713 | Bellport, NY (in Suffolk county) |
| 11715 | Blue Point, NY (in Suffolk county) |
| 11719 | Brookhaven, NY (in Suffolk county) |
| 11727 | Coram, NY (in Suffolk county) |
| 11733 | East Setauket, NY (in Suffolk county) |
| 11738 | Farmingville, NY (in Suffolk county) |
| 11741 | Holbrook, NY (in Suffolk county) |
| 11742 | Holtsville, NY (in Suffolk county) |
| 11755 | Lake Grove, NY (in Suffolk county) |
| 11763 | Medford, NY (in Suffolk county) |
| 11764 | Miller Place, NY (in Suffolk county) |
| 11766 | Mount Sinai, NY (in Suffolk county) |
| 11772 | Patchogue, NY (in Suffolk county) |
| 11776 | Port Jefferson Station, NY (in Suffolk county) |
| 11777 | Port Jefferson, NY (in Suffolk county) |
| 11778 | Rocky Point, NY (in Suffolk county) |
| 11779 | Ronkonkoma, NY (in Suffolk county) |
| 11782 | Sayville, NY (in Suffolk county) |
| 11784 | Selden, NY (in Suffolk county) |
| 11786 | Shoreham, NY (in Suffolk county) |
| 11789 | Sound Beach, NY (in Suffolk county) |
| 11790 | Stony Brook, NY (in Suffolk county) |
| 11934 | Center Moriches, NY (in Suffolk county) |
| 11940 | East Moriches, NY (in Suffolk county) |
| 11941 | Eastport, NY (in Suffolk county) |
| 11949 | Manorville, NY (in Suffolk county) |
| 11950 | Mastic, NY (in Suffolk county) |
| 11951 | Mastic Beach, NY (in Suffolk county) |
| 11953 | Middle Island, NY (in Suffolk county) |
| 11955 | Moriches, NY (in Suffolk county) |
| 11960 | Remsenburg, NY (in Suffolk county) |
| 11961 | Ridge, NY (in Suffolk county) |
| 11967 | Shirley, NY (in Suffolk county) |
| 11973 | Upton, NY (in Suffolk county) |
| 11980 | Yaphank, NY (in Suffolk county) |