PREPARED FOR:

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

Reasonableness Assessment for Financial Assistance

SCALAMANDER COVE PROJECT
SCALAMANDER COVE, LLC.

OCTOBER 2020

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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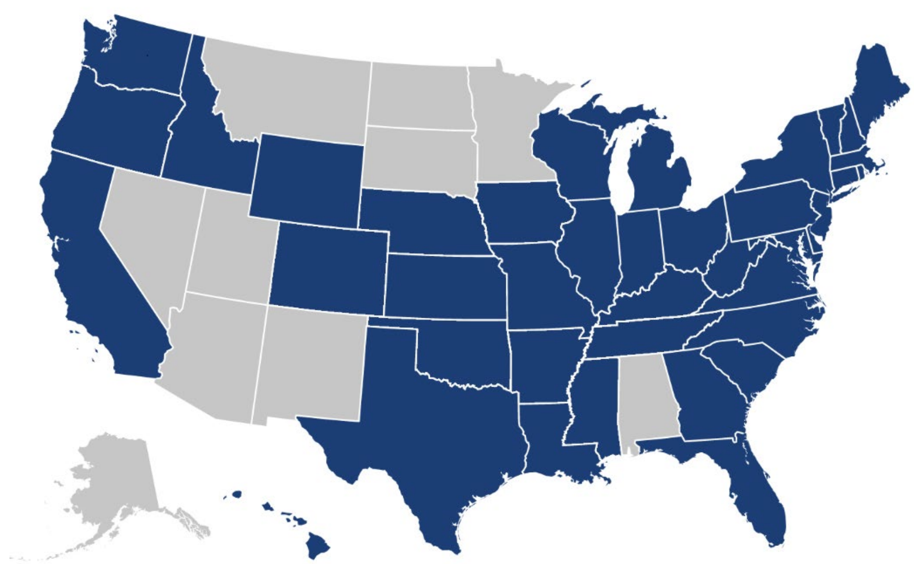

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Executive Summary

Camoin 310 was commissioned by the Brookhaven Industrial Development Agency (IDA) to review the reasonableness of a request for financial assistance for the Scalamander Cove project, proposed by Scalamander Cove, LLC (Developer), and to be located in on Middle Country Road in Middle Island.

We conducted our analysis using assumptions that the Developer provided and compared expenses and net operating income to current market benchmarks. We concluded that financial assistance is necessary for the project to be financially feasible, and developed a PILOT schedule for the IDA's review that reduces annual expenses of the project enough to deliver a rate of return that is anticipated to be sufficient for the project to be constructed.

The Developer submitted a pro-forma operating cashflow analysis that delivers, with the PILOT schedule created by Camoin 310, an average equity dividend rate of 5.23% in the first 5 years and 5.90% over 15 years. We find that the return to the Developer is lower than the expected range for suburban apartment projects but anticipate it is within the Developer's expectations for this investment[1].

The Debt Service Coverage Ratio (DSCR) is lower than the 1.43:1 current market average for permanent bank financing but is within the range of 1.10:1 to 1.86:1.

Table 2

Summary of Investment Returns		
Measure	With Abatement	With Full Taxes
Project Cost	$32,583,900	$32,583,900
Developer Investment*	$11,783,900	$11,783,900
Equity as % of Project Costs, Benchmark 30%	36.16%	36.16%
Equity Dividend Rates, Benchmark 6.27% to 13.69% for Suburban Apartments		
Average Equity Dividend Rate Years 1-5	5.23%	0.98%
Average Equity Dividend Rate Years 6-10	6.29%	1.79%
Average Equity Dividend Rate Years 1-15	5.90%	2.07%
Debt Service Coverage, Benchmark 1.43		
Average	1.38	1.16
Range	1.26 to 1.43	0.94 to 1.33

Benchmarks: RealtyRates Investor Survey.
**Includes Land, Cash Investment by Limited Partners, and Direct Equity Investment.*

Table 1

PILOT Summary	
Term in Years	15
Taxes Owed if No PILOT	$6,617,647
Less: PILOT Payments	($2,845,588)
Value of Tax Exemption	$3,772,059
New Town Tax Revenue	$2,513,427

Discounted Present Value at 2%

[1] RealtyRates Investor Survey, Q3 2020. Calculated returns assume the $3.5 million land acquisition is treated as equity. Scalamander Cove, LLC has owned the land for more than 10 years; if the cost is *not* considered equity the returns increase to an average of 5.9% over 15 years.

The Scalamander Cove Project

Project Ownership, Description, and Tax Exemption Request

Scalamander Cove, LLC is a New York limited liability real estate holding company that was formed in 2005 and is the current owner of the property located in Middle Island, Town of Brookhaven, Suffolk County. The premises consists of 13.35 acres of land and is located in the multi-family residence district. Scalamander Cove, LLC is proposing to develop a portion of the land, building a 96-unit (19 or approximately 20% of units would be affordable[2]) townhome community comprised of 8 buildings. It acquired the land for $3,500,000 several years ago. Additional startup and transaction costs of approximately $8,300,000 are anticipated, and the Developer expects to spend approximately $22,900,000 to construct the units, for a total project cost of $32,600,000. The project is expected to take 3 years to complete[3].

Additionally, the Developer is proposing to dedicate approximately 7.0 acres of the premises to the Town of Brookhaven for wetlands preservation and the expansion of Renaissance Boulevard in order to widen and also connect Rocky Point Road with Middle Island Road[4].

The Developer has requested a Payment-in-Lieu-of-Taxes (PILOT) agreement from the Town of Brookhaven IDA.

Camoin 310 Scope of Services

To assist with its evaluation of Scalamander Cove'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 Developer. 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

- Cover Letter for Amended Application received by the Town on 6/14/2019.
- Project financing and annual cashflow submitted by the Developer in October 2020.
- RealtyRates.com's "Investor Survey" and "Market Survey," 3rd Quarter 2020.

[2] Based on Developer Pro-Forma inputs.
[3] Based on Developer Pro-Forma inputs.
[4] Project information was provided by Scalamander Cove, LLC in the cover letter and amended application.

Testing of Assumptions

Project Performance and Cashflows

We evaluated key assumptions used in the Developer's submitted project cashflows. Table 3 below presents the anticipated income and expenses in Year 3, when the construction is complete, and the development is expected to be fully occupied.

Scalamander Cove'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[5].

- The vacancy allowance of 5% is aligned with the current benchmark for market-rate apartments.
- Effective Gross Income (EGI) is 87% compared with 97% for all apartments. Even though the benchmark uses data for affordable units, it is reasonable to expect that a project with up to 20% of units designated affordable would have a lower EGI.
- Operating expenses as a percent of Effective Gross Income (EGI) are 24%, lower than the benchmark of 35%.
- Net Operating Income *prior to payment of debt service* is slightly lower than the benchmark.

Table 3

Comparison of Income and Expenses to Benchmarks

	Stabilization, Year 3	% of Income	Benchmark
Income before Vacancy Adjustment	$ 2,486,223	--	--
Vacancy Allowance	$ (124,311)	5%	4%
Effective Gross Income (EGI), Net of Vacancy	$ 2,150,712	87%	97%
Calculation of Net Operating Income and Expense Ratios		% of EGI	Benchmark
Effective Gross Income (EGI)	$ 2,150,712	--	--
Operating Expenses and Reserve	$ (522,452)	24%	35%
Real Property Taxes (w/PILOT)	$ (93,636)	--	--
Net Operating Income	$ 1,534,624	62%	65%
Annual Financing Costs, First Mortgage and No-Interest Loan (Repayment of Equity)			
Principal and Interest	$ (1,276,944)	59%	--

Source for Benchmarks: RealtyRates.

[5] Note: A table of complete cashflows for the 15-year tax abatement period is included as Attachment 1.

Rent

The table below compares the monthly rental amounts for both market rate and affordable housing[6]. The proposed development will consist of 77 market rate units, and 19 affordable units[7] for a total of 96 units.

Anticipated rents are shown in Table 4, below. Using the annual rent per unit, Camoin 310 calculated annual household income, assuming 30% of income is spent on rent.

- Income estimated for each market rate unit type is less than the median household income for the Town of Brookhaven, which in 2019 was $92,569.[8]
- Income estimated for the 1-Bedroom affordable units is below the $50,650 income threshold for a 2-person household earning 50% of area median income (AMI) for Suffolk County, and also below the income thresholds for 1-person households earning 60% of AMI[9]. Income estimated for the 2-Bedroom affordable units is below the income thresholds for both 1- and 2-person households earning up to 80% of AMI.

Table 4

Residential Rental Units

Market Rate Units	Number of Units	Monthly Rent / Unit	Annual Rent per Unit	Annual Household Income (1)
1-Bedroom	12	$ 1,850	$ 22,200	$ 74,000
2-Bedroom	65	$ 2,300	$ 27,600	$ 92,000
Total	77	4,150		

Affordable Units	Number of Units	Monthly Rent / Unit	Annual Rent per Unit	Annual Household Income (1)
1-Bedroom	9	$ 1,260	$ 15,120	$ 50,400
2-Bedroom	10	$ 1,610	$ 19,320	$ 64,400
Total	19	2,870		

Source: Developer

(1) Estimated with the assumption that 30% of income would be paid in rent. Median Household Income for Brookhaven is $92,569 per US Census Quickfacts.

[6] Based on Developer Pro-Forma inputs.
[7] Based on Developer Pro-Forma inputs.
[8] Source: U.S. Census Quickfacts
[9] Source: *AHC Area Income Limits for Low Income Families Earning at [%] of the Area Median Income, by Number of Persons, in the Metropolitan and Non-Metropolitan Counties of New York State 2020*

Financing Plan

Sources and Uses of Funds

The Sources and Uses of Funds table shows the total project costs, including land acquisition and construction. The Developer intends to obtain institutional financing for approximately $20.8M, or 64% of the total project costs and has already purchased the land. Equity sources include cash investment by project partners of $8,049,900, and Scalamander Cove, LLC's working capital and equity of $234,000. The land has already been acquired, and the $3,500,000 cost is considered additional equity for the Project.

Table 5

Sources and Uses of Funds		
Sources of Funds		
Bank Financing	$20,800,000	64%
Cash Investment by Limited Partners (Equity)	$8,049,900	25%
Land	$3,500,000	11%
Equity and Working Capital	$234,000	1%
Total Sources	$32,583,900	100%
Uses of Funds		
Total Acquisition and Transaction Costs	$8,338,900	26%
Total Construction Costs	$24,245,000	74%
Total Uses	$32,583,900	100%

Source: Developer

Estimation of Market Value

The project is assumed to be sold at the end of fifteen years to provide market value for this return analysis. A sale price was estimated by Camoin 310 using an income approach, where the anticipated Net Operating Income (NOI) of the year after the sale is divided by a Capitalization Rate[10]. For a 15-year PILOT, Year 16 is estimated to require the payment of taxes on the assessed value. The Developer anticipates that after project completion the aggregate real estate taxes would be approximately $450,000, and this was escalated by 2% per year to calculate Year 16 taxes of $605,641. Net Sale Proceeds, as shown in the table below, assumes the remaining loan balance is paid and subtracts the Developer's estimated costs to sell the project.

Table 6

Calculation of Market Value for Sale Price
Assumes Sale Based on Projected Project Income

Year 16 Net Operating Income (NOI)	$1,670,567
Reversion Capitalization Rate (Cap Rate)	7.86%
Reversion (Sale) Value (NOI/Cap Rate)	$21,254,036
Less loan balance payoff	($13,713,800)
Sale Commission Rate	2.50%
Sale Commission Cost	($531,351)
Net Sale Proceeds	$7,008,886

Source: Developer. Calculations: Camoin 310

Sources for Cap Rate and Sales Commission, Camoin 310 based on RealtyRates.com.

[10] A Capitalization Rate is an estimated rate of future return, based on anticipated operating income. Each investor or developer will have a desired Capitalization Rate for a project. Camoin 310 used a RealtyRates.com benchmark to estimate the Capitalization Rate.

PILOT RECOMMENDATION

Camoin 310 was asked to recommend a PILOT schedule that would reduce taxes sufficiently to support the project's financial feasibility, while enabling the Town of Brookhaven to meet its own revenue needs. 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 determined that the return on equity was too low for the project to be feasible and the Project would not generate enough revenue to repay the debt service.
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 90% in year 15.

   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 90% of full taxes in Year 15, the Developer avoids a large tax increase at the end of the PILOT.

The proposed 15-year PILOT schedule is presented in Table 7. The value to the Project is $3,772,059 over 15 years. The Town and jurisdictions are estimated to receive $2,513,427 additional taxes as a result of the Project.

Table 7

Recommended PILOT and Tax Comparison

Current Taxable Value (1)		*$5,510*				
Taxable Value after Completion		*$1,097,756*				
Year	Taxes Owed, 2% Annual Increase	Taxes Owed after Project Completion, No PILOT	PILOT as a Percent of Full Taxes	Taxes Owed after Project Completion, PILOT	Value of Tax Exemption to Project	Net New Tax Revenues for Town
1	$22,587	$450,000	10%	$45,000	$405,000	$22,413
2	$23,039	$459,000	10%	$45,900	$413,100	$22,861
3	$23,499	$468,180	20%	$93,636	$374,544	$70,137
4	$23,969	$477,544	20%	$95,509	$382,035	$71,539
5	$24,449	$487,094	25%	$121,774	$365,321	$97,325
6	$24,938	$496,836	30%	$149,051	$347,785	$124,113
7	$25,437	$506,773	35%	$177,371	$329,403	$151,934
8	$25,945	$516,909	40%	$206,763	$310,145	$180,818
9	$26,464	$527,247	45%	$237,261	$289,986	$210,797
10	$26,994	$537,792	50%	$268,896	$268,896	$241,902
11	$27,533	$548,547	60%	$329,128	$219,419	$301,595
12	$28,084	$559,518	60%	$335,711	$223,807	$307,627
13	$28,646	$570,709	70%	$399,496	$171,213	$370,850
14	$29,219	$582,123	80%	$465,698	$116,425	$436,480
15	$29,803	$593,765	90%	$534,389	$59,377	$504,586
Totals	$390,606	$7,782,038		$3,505,583	$4,276,455	$3,114,977
Present Value	$332,161	$6,617,647		$2,845,588	$3,772,059	$2,513,427

Present Value Discount Rate is 2%

(1) Current taxable value and tax rate provided by Brookhaven IDA.

(2) Applicant estimates full taxes without PILOT would be $450,000. Implied taxable value calculated by Camoin 310.

Attachment 1: Estimated Annual Cashflows

Annual Cashflows (Pro Forma)

	Total Construction (3yr)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Operating Cash Flow																
Residential Income																
Gross Operating Income	$ (26,245,000)	$ 2,389,680	$ 2,437,474	$ 2,486,223	$ 2,535,948	$ 2,586,666	$ 2,638,400	$ 2,691,168	$ 2,744,991	$ 2,799,891	$ 2,855,889	$ 2,913,007	$ 2,971,267	$ 3,030,692	$ 3,091,306	$ 3,153,132
Less: Vacancy Allowance		$ (238,968)	$ (243,747)	$ (124,311)	$ (126,797)	$ (129,333)	$ (131,920)	$ (134,558)	$ (137,250)	$ (139,995)	$ (142,794)	$ (145,650)	$ (148,563)	$ (151,535)	$ (154,565)	$ (157,657)
Net Rental Income, Residential	$ (26,245,000)	$ 2,150,712	$ 2,193,726	$ 2,361,912	$ 2,409,150	$ 2,457,333	$ 2,506,480	$ 2,556,609	$ 2,607,742	$ 2,659,896	$ 2,713,094	$ 2,767,356	$ 2,822,703	$ 2,879,157	$ 2,936,741	$ 2,995,475
Effective Gross Income (EGI)	**$ (26,245,000)**	**$ 2,150,712**	**$ 2,193,726**	**$ 2,361,912**	**$ 2,409,150**	**$ 2,457,333**	**$ 2,506,480**	**$ 2,556,609**	**$ 2,607,742**	**$ 2,659,896**	**$ 2,713,094**	**$ 2,767,356**	**$ 2,822,703**	**$ 2,879,157**	**$ 2,936,741**	**$ 2,995,475**
Operating Expenses																
Salaries and Wages		$ 90,000	$ 92,700	$ 95,481	$ 98,345	$ 101,296	$ 104,335	$ 107,465	$ 110,689	$ 114,009	$ 117,430	$ 120,952	$ 124,581	$ 128,318	$ 132,168	$ 136,133
Maintenance		$ 175,000	$ 178,500	$ 182,070	$ 185,711	$ 189,426	$ 193,214	$ 197,078	$ 201,020	$ 205,040	$ 209,141	$ 213,324	$ 217,591	$ 221,942	$ 226,381	$ 230,909
Deposit to Replacement Reserve		$ 43,014	$ 43,875	$ 47,238	$ 47,238	$ 64,667	$ 65,960	$ 67,279	$ 68,625	$ 69,997	$ 71,397	$ 72,825	$ 74,282	$ 75,767	$ 77,283	$ 78,828
Insurance		$ 75,000	$ 77,250	$ 79,568	$ 81,955	$ 84,413	$ 86,946	$ 89,554	$ 92,241	$ 95,008	$ 97,858	$ 100,794	$ 103,818	$ 106,932	$ 110,140	$ 113,444
Other		$ 115,899	$ 109,686	$ 118,096	$ 120,458	$ 122,867	$ 125,324	$ 127,830	$ 130,387	$ 132,995	$ 135,655	$ 138,368	$ 141,135	$ 143,958	$ 146,837	$ 149,774
Operating Expenses	**$ -**	**$ 498,913**	**$ 502,011**	**$ 522,452**	**$ 533,707**	**$ 562,668**	**$ 575,778**	**$ 589,207**	**$ 602,961**	**$ 617,050**	**$ 631,481**	**$ 646,263**	**$ 661,406**	**$ 676,918**	**$ 692,809**	**$ 709,088**
Pre-Tax Operating Income	**$ (26,245,000)**	**$ 1,651,799**	**$ 1,691,715**	**$ 1,839,460**	**$ 1,875,443**	**$ 1,894,665**	**$ 1,930,701**	**$ 1,967,403**	**$ 2,004,781**	**$ 2,042,847**	**$ 2,081,614**	**$ 2,121,093**	**$ 2,161,297**	**$ 2,202,239**	**$ 2,243,932**	**$ 2,286,387**
(Revenue less Operating Expenses)																
Real Property Taxes	$22,587	$45,000	$45,900	$93,636	$95,509	$121,774	$149,051	$177,371	$206,763	$237,261	$268,896	$329,128	$335,711	$399,496	$465,698	$534,389
Net Operating Income (NOI) after Taxes	**$ (26,267,587)**	**$ 1,606,799**	**$ 1,645,815**	**$ 1,745,824**	**$ 1,779,934**	**$ 1,772,892**	**$ 1,781,651**	**$ 1,790,032**	**$ 1,798,017**	**$ 1,805,586**	**$ 1,812,718**	**$ 1,791,965**	**$ 1,825,586**	**$ 1,802,743**	**$ 1,778,233**	**$ 1,751,998**
Interest Payment	$ 1,600,000	$ 936,000	$ 920,658	$ 904,625	$ 887,870	$ 870,362	$ 852,066	$ 832,946	$ 812,966	$ 792,087	$ 770,269	$ 747,468	$ 723,642	$ 698,743	$ 672,724	$ 645,534
Principal Payment		$ 340,944	$ 356,287	$ 372,319	$ 389,074	$ 406,582	$ 424,878	$ 443,998	$ 463,978	$ 484,857	$ 506,675	$ 529,476	$ 553,302	$ 578,201	$ 604,220	$ 631,410
Debt Service Payment	$ 1,600,000	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944	$ 1,276,944
Cash Flow After Financing and Reserve	**$ (27,867,587)**	**$ 329,855**	**$ 368,871**	**$ 468,879**	**$ 502,990**	**$ 495,948**	**$ 504,706**	**$ 513,088**	**$ 521,073**	**$ 528,642**	**$ 535,774**	**$ 515,020**	**$ 548,642**	**$ 525,799**	**$ 501,289**	**$ 475,054**

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.

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grow your economy

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