Main Office:
120 West Avenue, Suite #303
Saratoga Springs, NY 12866
Phone: 518.899.2608
Fax: 512.777.5045

Regional Offices:
Portland, ME
Boston, MA
Richmond, VA
Brattleboro, VT

MEMORANDUM

To: City of Rome Community and Economic Development; Bergmann
From: Camoin 310
Date: 2/5/2020
Re: Financial Feasibility Analysis of Erie Blvd BOA Development Projects in Rome, NY

As a component of the Erie Boulevard Brownfield Opportunity Area (BOA) Step 2 assessment, Camoin was engaged to analyze the financial feasibility of two redevelopment/renovation projects within the BOA, located in Rome, NY. This memo summarizes the input assumptions of these analyses, quantifies the funding gap, and provides recommendations for improving return on investment.

Project 1: 227 W. Dominick Street Apartment Renovation

Project 1 consists of renovating 2,500 SF of the existing structure into two residential apartment units, egress upgrades, adding an elevator, and sectioning off and renovating 500 SF of the ground floor as shared common space. The apartments are assumed to be the only revenue-producing component of the project.

Total project costs are estimated at $795,000, as provided by Bergmann. These costs assume $200 PSF in renovation costs for the apartments, $20,000 in egress upgrades, $150 PSF in renovation costs for the common space, and $200,000 for the elevator.

Project 2: Capitol Theatre Building Residential Expansion (228-34 W. Dominick Street – Rear)

Project 2 consists of the addition of two floors of residential units atop the existing one-story 6,750 SF structure on the corner of Gigliotti Ave and Boardman. Each of the two new floors is modeled to have 6 units with an average of 900 rentable SF per unit, for a total of 12 units and 10,800 rentable SF. The first floor space is assumed to continue in its current use as flexible performance practice space for the Capitol Theatre with no change in revenue-producing potential.

Total project costs are estimated at $4.7 million, as calculated from PSF costs provided by Bergmann. This assumes $300 PSF for 13,500 gross SF of new residential space above the current building, and $100 PSF to raise the first floor ceiling.

Operating Assumptions

Rents

The apartment units in both projects are assumed to achieve rental rates at the high end of the Rome market. Examples of apartment developments that might be similar in quality to what is modeled for these two projects include:

- Delta Luxury Apartments, 7813 Merrick Rd, Rome. Constructed in 2015. Two-bedroom units ranging in size from 1163 SF to 1200 SF and renting for approximately $1,550.[1]
- Air City Lofts, former Griffiss Air Force Base property, Rome; Opening in Fall 2020. One-bedroom units starting at $1,200 and two-bedroom units starting at $1,700.[2]

Apartments in both projects are modeled with rents in the $1.30-$1.40 PSF per month range, which is likely at or near the maximum that could be supported in the Rome market.[3]

Operating Expenses

Operating expenses, including insurance, maintenance, repairs, property management, and common area utilities, are assumed to be non-reimbursable (paid for by the landlord), and equivalent to between $3-4 per RSF per year.[4]

Property Taxes

The income-producing portions of both projects are assumed to be fully subject to property taxes for relevant jurisdictions (City, County, School District), with a combined tax rate of 52.92 per $1,000 of assessed value. On an equalized basis, the combined tax rate is 35.19 per $1,000 of full market value.[5] Property taxes are included as operating expenses in the financial models, and are equivalent to about $3.60 per RSF of residential space per year.

Project Market Value

The table below estimates the as-built market value of the two projects on a rentable square foot basis, based on net operating income (NOI) generated at stabilized occupancy. The projects have similar income profiles and therefore similar projected market values of about $100 per RSF. The full market value (i.e. the price the project could be sold for once built) of Project 1 is estimated at about $250,000, and the full market value of Project 2 is estimated at about $1.1 million.[6]

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[1] https://www.apartments.com/the-delta-luxury-apartment-community-rome-ny/h23t9s1/
[2] https://romesentinel.com/stories/day-care-restaurant-planned-for-new-complex,84270
[3] Note that while below-market rate artist apartments were originally contemplated for the Capitol Theatre building, the lower net operating income (NOI) associated with these units makes such a concept a challenge in light of high development costs.
[4] Based on typical multifamily averages, National Apartment Association, 2019 Survey of Operating Income & Expenses in Rental Apartment Communities
[5] City equalization rate of 66.49%.
[6] Market values take into account only the project-related improvements and not the value of the other components of the respective structures (i.e. market values do not include the value of other unrenovated space within 227 W. Dominick or the value of the ground floor space in the Capitol Theatre building).

From a developer/investor perspective, $100 PSF is the break-even construction cost. The total project development cost would need to be less than $100 per RSF in order to be a profitable investment for the developer.

Net Operating Income and Market Value Per Rentable Square Foot		
	Project 1	Project 2
Average Rent per Unit	$ 1,625	$ 1,200
Average Unit Size (RSF)	1,250	900
Monthly Rent per SF	$ 1.30	$ 1.33
Potential Rental Income (Annual)	$ 15.60	$ 16.00
Stabilized Vacancy	$ (0.78)	$ (0.80)
Operating Expenses	$ (3.12)	$ (3.57)
Real Estate Taxes	$ (3.57)	$ (3.55)
Net Operating Income	$ 8.13	$ 8.08
Cap Rate	8.00%	8.00%
Market Value per RSF	$ 102	$ 101
Total Market Value	$ 254,063	$ 1,090,800

Source: Camoin 310, RealtyRates, National Apartment Association

Examining the estimated project costs on a rentable square foot basis below shows costs are much higher than the $100 break-even point. In Project 1, for every $1 spent, only $0.32 of project value is created. In Project 2, for every $1 spent, only $0.23 of project value is created. This points to a substantial funding gap for both projects.

Total Project Cost per Rentable Square Foot		
	Project 1	Project 2
Project Cost	$ 795,000	$ 4,725,000
Rentable SF	2,500	10,800
Cost per RSF	$ 318	$ 438
Market Value per RSF	$ 102	$ 101
Value to Cost Ratio*	0.32	0.23

*A value over 1.00 indicates a profitable project.

Source: Bergmann, Camoin 310

Project Financing and Cash Flow

The following table shows the maximum amount of debt financing the projects would be able to attain, assuming a standard loan-to-value ratio of 70%.[7] The value of the projects is considerably lower than the total project cost, which results in a considerable funding gap that must be filled with a combination of property owner/developer equity and/or other funding sources.

[7] Financing assumptions used in the model are as follows: 70% loan-to-value ratio; 8.50% construction loan interest rate; 5.50% permanent loan interest rate; 30 year amortization period. Source: Realty Rates Investor Survey 4Q19

The gap for Project 1 is about $620,000, or 77% of the project cost. The gap for Project 2 is nearly $4 million, or 84% of the project cost.

Sources of Funds		
	Project 1	Project 2
Project Market Value	$ 254,063	$ 1,090,800
Loan-to-Value Ratio	70%	70%
Max. Debt Financing	$ 177,844	$ 763,560
Total Project Cost	$ 795,000	$ 4,725,000
Funding Gap*	$ 617,156	$ 3,961,440

*Amount to be filled with developer equity and/or other sources

Source: Camoin 310, RealtyRates

While cash flow for both projects is positive once stabilized occupancy is achieved, the rate of return on the required equity component is very low relative to what a typical investor would expect. The equity dividend rate[8] for Project 1 remains under 2% for the modeled 10-year holding period, and the equity dividend rate for Project 2 remains under 1.5%. This compares to a typical expected dividend rate in the range of 6% to 10% for an apartment project.[9]

Please refer to the attached pro form statements for the full discounted cash flow models.

Recommendations

In order to move both of these projects closer toward penciling out, we offer the following recommendations:

- Employ more efficient construction/renovation techniques to reduce construction costs. Per square development costs for these projects are very high. In the case of Project 1 (227 W. Dominick) the renovation costs are likely to exceed the cost of building a new structure. Moreover, the cost of adding floors onto the Capitol Theatre building (Project 2) could approach double the typical cost of building a new apartment building. [10]
- Pursue property tax abatements. Real estate taxes comprise about half of operating expenses, significantly impacting Net Operating Income. A higher NOI would result in higher market value for the project and a narrower gap between construction cost and as-built value.
- Maximize income-generating space. Convert common areas or other under-utilized areas into rentable space that will improve NOI without substantially increasing renovation and/or development costs.
- Pursue alternative funding sources. Grants and subsidized loans will be needed to fill funding gaps for both projects.

[8] Equity dividend is the dollar return to the equity component, calculated as (NOI – Debt Service) / Equity Investment
[9] Realty Rates Investor Survey 4Q2019
[10] Based on 2019 RS Means Square Foot Costs data with a typical cost

City of Rome, NY | **227 W. Dominick St - Residential Renovation**

PRO FORMA STATEMENT

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Operating Cash Flow											
Income											
Potential Rental Income	$ -	$ 39,000	$ 39,975	$ 40,974	$ 41,999	$ 43,049	$ 44,125	$ 45,228	$ 46,359	$ 47,518	$ 48,706
Vacancy Allowance	$ -	$ (1,950)	$ (1,999)	$ (2,049)	$ (2,100)	$ (2,152)	$ (2,206)	$ (2,261)	$ (2,318)	$ (2,376)	$ (2,435)
Net Rental Income	$ -	$ 37,050	$ 37,976	$ 38,926	$ 39,899	$ 40,896	$ 41,919	$ 42,967	$ 44,041	$ 45,142	$ 46,270
Expense Reimbursements	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Effective Gross Income	$ -	$ 37,050	$ 37,976	$ 38,926	$ 39,899	$ 40,896	$ 41,919	$ 42,967	$ 44,041	$ 45,142	$ 46,270
Expenses											
Real Estate Taxes	$ -	$ (8,829)	$ (9,005)	$ (9,186)	$ (9,369)	$ (9,557)	$ (9,748)	$ (9,943)	$ (10,142)	$ (10,344)	$ (10,551)
Other Operating Expenses	$ -	$ (8,148)	$ (8,311)	$ (8,477)	$ (8,647)	$ (8,819)	$ (8,996)	$ (9,176)	$ (9,359)	$ (9,547)	$ (9,737)
Net Operating Income (NOI)	**$ -**	**$ 20,073**	**$ 20,660**	**$ 21,263**	**$ 21,883**	**$ 22,520**	**$ 23,175**	**$ 23,848**	**$ 24,540**	**$ 25,251**	**$ 25,982**
Financing Cash Flow											
Loan Proceeds	$ 190,571										
Debt Service Payment		$ (13,112)	$ (13,112)	$ (13,112)	$ (13,112)	$ (13,112)	$ (13,112)	$ (13,112)	$ (13,112)	$ (13,112)	$ (13,112)
Principal Balance											$ (156,697)
Sale Proceeds											$ 305,067
Other Funding Source	$ -										
Financing Cash Flow	**$ 190,571**	**$ (13,112)**	**$ (13,112)**	**$ (13,112)**	**$ (13,112)**	**$ (13,112)**	**$ (13,112)**	**$ (13,112)**	**$ (13,112)**	**$ (13,112)**	**$ 135,257**
Capital Expenses											
Land Acquisition Cost	$ -										
Demolition Cost	$ -										
Environmental Remediation Costs	$ -										
Hazardous Materials Abatement	$ -										
Sitework Costs (Parking & Paving)	$ -										
Vertical Construction Costs (Includes Soft	$ (795,000)										
Capital Expenses Cash Flow	**$ (795,000)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Cash Flow	**$ (604,429)**	**$ 6,961**	**$ 7,548**	**$ 8,151**	**$ 8,771**	**$ 9,408**	**$ 10,063**	**$ 10,736**	**$ 11,428**	**$ 12,139**	**$ 161,239**
Debt Service Coverage Ratio (DSCR)		**1.53**	**1.58**	**1.62**	**1.67**	**1.72**	**1.77**	**1.82**	**1.87**	**1.93**	**1.98**
Equity Dividend Rate		**1.15%**	**1.25%**	**1.35%**	**1.45%**	**1.56%**	**1.66%**	**1.78%**	**1.89%**	**2.01%**	
Internal Rate of Return (IRR)	**-9.76%**										

City of Rome, NY | **Capitol Theatre Building Residential Expansion**

PRO FORMA STATEMENT

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Operating Cash Flow											
Income											
Potential Rental Income	$ -	$ 86,400	$ 177,120	$ 181,548	$ 186,087	$ 190,739	$ 195,507	$ 200,395	$ 205,405	$ 210,540	$ 215,804
Vacancy Allowance	$ -	$ (4,320)	$ (8,856)	$ (9,077)	$ (9,304)	$ (9,537)	$ (9,775)	$ (10,020)	$ (10,270)	$ (10,527)	$ (10,790)
Net Rental Income	$ -	$ 82,080	$ 168,264	$ 172,471	$ 176,782	$ 181,202	$ 185,732	$ 190,375	$ 195,135	$ 200,013	$ 205,013
Expense Reimbursements	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Effective Gross Income	$ -	$ 82,080	$ 168,264	$ 172,471	$ 176,782	$ 181,202	$ 185,732	$ 190,375	$ 195,135	$ 200,013	$ 205,013
Expenses											
Real Estate Taxes	$ -	$ (38,384)	$ (39,151)	$ (39,935)	$ (40,733)	$ (41,548)	$ (42,379)	$ (43,226)	$ (44,091)	$ (44,973)	$ (45,872)
Other Operating Expenses	$ -	$ (19,253)	$ (39,276)	$ (40,062)	$ (40,863)	$ (41,680)	$ (42,514)	$ (43,364)	$ (44,232)	$ (45,116)	$ (46,019)
Net Operating Income (NOI)	**$ -**	**$ 24,443**	**$ 89,836**	**$ 92,474**	**$ 95,186**	**$ 97,974**	**$ 100,839**	**$ 103,784**	**$ 106,812**	**$ 109,924**	**$ 113,123**
Financing Cash Flow											
Loan Proceeds	$ 828,518										
Debt Service Payment		$ (57,007)	$ (57,007)	$ (57,007)	$ (57,007)	$ (57,007)	$ (57,007)	$ (57,007)	$ (57,007)	$ (57,007)	$ (57,007)
Principal Balance											$ (681,250)
Sale Proceeds											$ 1,328,444
Other Funding Source	$ -										
Financing Cash Flow	**$ 828,518**	**$ (57,007)**	**$ (57,007)**	**$ (57,007)**	**$ (57,007)**	**$ (57,007)**	**$ (57,007)**	**$ (57,007)**	**$ (57,007)**	**$ (57,007)**	**$ 590,188**
Capital Expenses											
Land Acquisition Cost	$ -										
Demolition Cost	$ -										
Environmental Remediation Costs	$ -										
Hazardous Materials Abatement	$ -										
Sitework Costs (Parking & Paving)	$ -										
Vertical Construction Costs (Includes Soft	$ (4,725,000)										
Capital Expenses Cash Flow	**$ (4,725,000)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Cash Flow	**$ (3,896,482)**	**$ (32,563)**	**$ 32,830**	**$ 35,468**	**$ 38,179**	**$ 40,967**	**$ 43,833**	**$ 46,778**	**$ 49,806**	**$ 52,917**	**$ 703,310**
Debt Service Coverage Ratio (DSCR)		**0.43**	**1.58**	**1.62**	**1.67**	**1.72**	**1.77**	**1.82**	**1.87**	**1.93**	**1.98**
Equity Dividend Rate		**-0.84%**	**0.84%**	**0.91%**	**0.98%**	**1.05%**	**1.12%**	**1.20%**	**1.28%**	**1.36%**	
Internal Rate of Return (IRR)	**-13.73%**										