



## Memorandum

To: Tompkins County Industrial Development Agency  
From: Heather McDaniel  
Date: October 11, 2019  
Re: 327 W. Seneca St (Visum Development) Determination of Financial Need

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The City of Ithaca Community Investment Incentive Tax Abatement Program (CIITAP) allows an applicant to “request an enhanced property tax abatement that begins at 100% in year one and decreases in equal increments over ten (10) years if the applicant can demonstrate financial need as determined by a review by IDA administrative staff of the project pro forma and demonstration of an annual return on investment less than 20% in each of the first five years.”

Todd Fox of Visum Development Group, on behalf of 327 W. Seneca LLC, requested the enhanced abatement and provided me with the construction budget and assumptions, a ten-year operating pro forma, and the assumptions used to develop the pro forma including rent rolls and mortgage data. I have reviewed the documentation and determined that:

1. The financial projections are reasonable
2. The assumptions are reasonable
3. The return on investment is less than 20% in each of the first five years

***It is my recommendation that the applicant has demonstrated financial need as outlined in the CIITAP guidelines and is eligible for the enhanced abatement.*** Following is a brief review of my analysis:

### Development Costs

I received and reviewed a copy of the construction budget. The total projected cost of the 12 unit housing development is \$1,778,422 of that total hard construction costs are \$1,202,980. The total square footage of the project is roughly 7,859 square feet. Projected construction costs are \$153 per square foot with a 5% contingency. The total construction costs are reasonable and consistent with other downtown development projects of this scale.

### Operating Pro Forma

I received and reviewed a ten-year operating pro forma and related material detailing the assumptions used to develop the pro forma. The maximum rents are established based on 80% of median income. The proposed studio rent is \$1,174 and the two bedroom units are \$1,509. The vacancy rate projected is 3 percent, which is normal for a pro forma budget even though Ithaca’s vacancy rates downtown are much lower. I have seen in the marketplace a higher vacancy rate for two and three bedrooms, so this seems

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reasonable. The expenses are reasonable for items including real estate taxes, maintenance, insurance, etc. There is an 8% management fee, which is higher than I am familiar with seeing for larger, downtown rental projects, however the total value of the management fee is less than \$15,000 per year, so it is not significant. The developer fee is 6.7%.

### Return on Investment

I calculated the return on total investment and determined it to be within the IDA's requirements. The ROI is declining over the first five years as the property taxes are being phased in. This is an extremely small project, so by year 10 when the full taxes are phased in the ROI could be 1.5% or less.

The net operating income was determined to be reasonable based on the analysis of the operating pro forma. The debt service assumptions are reasonable based on my discussions with the applicant and recent discussion/knowledge about commercial real estate financing.

The return on investment is below the 20% annually required by the CIITAP application to demonstrate financial need.

### Return on Investment (cash flow/equity investment)

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>ROI</b>	7.8%	7.4%	6.9%	6.3%	5.6%