



MEMORANDUM

To: Tompkins County Industrial Development Agency
From: Heather McDaniel, President
Date: November 11, 2020
Re: The Ithacan (215 E. State St. / Green St. Redevelopment Partners) Determination of Financial Need

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.”

The applicant, Green Street Redevelopment Partners, LLC is requesting the 10-year financial need / enhanced energy incentive for a large multi-family housing project. The applicant provided and I reviewed a full financial package that includes sources and uses of funds, a 10-year operating proforma with assumptions including a unit mix, property tax worksheets, financing assumptions, and a construction budget. I have determined that:

1. The developer’s financial projections are reasonable
2. The developer’s assumptions are reasonable
3. The developer’s 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 projected hard construction cost is \$52,175,269. The total square footage of the project is roughly 254,000 square feet. Construction costs are approximately \$205 per square foot. The construction contingency is less than 1%. The construction costs per square foot are very similar to the City Centre and City Harbor projects. Soft costs are roughly 6.4% of total project costs.

Operating Pro forma

I received and reviewed a ten-year operating pro forma and related material detailing the assumptions. Ten percent of the units will be reserved for households earning 80% of area median income or less. The rental rates for these units range from \$1.98 to \$2.46 per square foot. The market rate units are all over \$3.50 per square foot, which is consistent for new projects downtown. The vacancy rate is projected at 10%, which is high in this market, but as placeholder, would help to offset any reduction in the market rate rental units that are reserved for participants in Ithaca College’s new two-year physician assistant program that will be operating in the adjacent Rothchild building. The projected expenses are based on actual expenses at other properties that are operated by the applicant’s managing members. The projected debt service is reflective of commercial lending rates.

Return on Investment

The applicant provided a return on investment calculation

The net operating income was determined to be reasonable based on the analysis of the operating pro forma. The debt service assumptions are reasonable. I recalculated the return on investment to be consistent with a cash on cash return.

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

Applicant Provided

Return On:	Year 1	Year 2	Year 3	Year 4	Year 5
Equity Invested	8.9%	8.04%	6.2%	8.5%	9%

The applicant has requested that the workforce housing payment of \$500,000 be waived. It is not included in this analysis. If the payment were made in year one of operation, the return on investment would be reduced to 6.8%.