

BJH Advisors Presentation to the City of Hudson IDA

Re: Depot District Application for IDA Benefits

I. Introduction

- **BJH Advisors:** BJH Advisors (BJH) is a real estate development and advisory firm based in New York City with relevant experience in financial analysis, public private partnerships, and tax incentives.
- **The City of Hudson IDA:** The City of Hudson IDA engaged BJH Advisors to review the Galvan Foundation's application for IDA benefits for the Depot District project:
 - 75 North 7th Street: regulated affordable housing development, with LIHTC equity
 - 708 State Street: mixed-income housing development, with private equity
- **Project Approach:** BJH evaluated the project pro formas' structure and income/expense assumptions to assess whether all of the requested benefits are needed to financially sustain both developments.

II. Findings

Pro Forma Structure

- The pro forma for 75 North 7th Street was structured correctly.
- The pro forma for 708 State Street was not structured correctly:
 - Taxes were double counted, resulting in higher expenses / lower cash-on-cash return, and
 - Replacement reserves were not included, resulting in lower expenses / higher cash-on cash return.
- [The developer revised the pro forma for 708 State Street and the updated version was used as the basis for BJH's review.](#)

Income – Residential / Commercial Rent

- The projected residential rents for both developments are based on a market study conducted by Novogradac Consulting in 2020, and the projected commercial rents for both developments are based on the Galvan Foundation's existing portfolio of commercial properties.
- BJH compared the projected residential and commercial rents as recorded in the pro forma to the residential and commercial rents as projected by CoStar, a real estate market analytics service, for the City of Hudson ([Appendix 1](#)).
- BJH found that pro forma rents for the one-bedroom units are slightly higher than CoStar rents, but that that pro forma rents for the two- and three-bedroom units and commercial space are slightly lower than CoStar rents, thereby balancing each other out.
- [BJH does not recommend changing the market rent assumptions.](#)

Expenses - Construction Costs and Replacement Reserves

- Construction costs were recorded at \$249,716 per unit for the 75 North 7th Street development and at \$206,352 per unit for the 708 State Street development. BJH found these construction costs, prepared by Baxter – a reputable construction company with multi-family experience in the mid-Hudson region, to be reasonable.
- Replacement reserves were recorded at \$250 per unit for the 75 North 7th Street development and \$300 per unit for the 708 State Street development, which both align with industry standards.
- [BJH does not recommend changes to the project's construction costs or replacement reserves.](#)

Expenses – Property Taxes

- In the pro forma, the full property taxes for the mixed-income and affordable developments are based on the City of Hudson’s tax rate and the properties’ estimated assessed value (AV), as calculated through an income-based approach. The requested PILOT payments are modeled as a percent of the projected full property taxes.
- BJH confirmed with the developer that the projects’ estimated assessed value was calculated using an income capitalization method for the first year of NOI (**inclusive of the PILOT expense**) and with a market capitalization rate of 6% and tax rate of 2.6% (overall cap rate of 8.6%). Using the budgeted NOI and this cap rate, the assessed value is projected to be approximately \$85,000 per unit for 75 North 7th Street and approximately \$170,000 per unit for 708 State Street. However, BJH recommends calculating the assessed value using the first year of NOI (**inclusive of the full property tax expense**), which results in a lower assessed value of approximately \$63,000 per unit for 75 North 7th Street and approximately \$130,000 per unit for 708 State Street.
- In addition, the developer’s projected assessed values (using the not recommended calculation) are higher than comparable projects. The comparables range on a per unit basis from the mid \$50,000s for affordable units to the mid \$130,000s for unregulated units ([Appendix B](#)).
- Finally, BJH reviewed the developer’s assessment assumptions with the Hudson assessor, but did not receive conclusive feedback on an estimated AV per unit.
- [While BJH’s income capitalization method and comparables suggest the projects’ assessed values could differ from the developer’s assumptions, BJH does not recommend evaluating the pro formas and PILOT models using a lower assessed value given the inconclusiveness of conversations with the assessor and unpredictability of Hudson’s post-COVID market.](#)

Returns and Debt Service Coverage

- Using the developer’s assumptions for assessments, BJH found that the 708 State Street project reaches a cash-on-cash return of 7% by year 10 and has a debt service coverage ratio (DSCR) of 1.25 to 1.45 between years 1 and 10.
- Again, using the developer’s assumptions for assessments, BJH found that the 75 North 7th Street project has a DSCR of 1.17 to 1.29 between years 1 and 10. As a regulated affordable development with LIHTC equity, this development’s cash-on-cash return is less relevant.
- [BJH considers 708 State Street’s cash-on-cash return between years 1 and 10 reasonable for attracting private capital; BJH also considers 75 North 7th Street’s DSCR over the same period to indicate the project is financially viable. However, 708 State Street’s high returns by year 10 again suggest the developer could pay a higher PILOT \(receive less benefits\) over a shorter period.](#)

III. Discussion

- BJH has prepared an alternative PILOT schedule for 708 State Street, as the project reaches a 7% hurdle cash-on-cash return by year 10. BJH has not prepared an alternative PILOT schedule for 75 North 7th Street, as the project is regulated affordable and has a moderate debt service coverage ratio.
- [Appendix C](#) includes the developer’s proposed 25-year PILOT schedule for 708 State Street, as well as an alternative 20-year PILOT schedule and the corresponding cash-on-cash returns. Both PILOT schedules reflect the developer’s assessment assumptions.

Appendix A: Market Rent Comparison

Table 1: CoStar Rents and Pro forma Rents for Residential and Commercial in Hudson

| 1-Bedroom | 2020 | 2021 | 2022 |
|------------------|-------------|-------------|-------------|
| CoStar | \$ 801 | \$ 1,366 | \$ 1,416 |
| ProForma | \$ 1,375 | \$ 1,416 | \$ 1,459 |
| Difference | 72% | 4% | 3% |

| 2-Bedroom | 2020 | 2021 | 2022 |
|------------------|-------------|-------------|-------------|
| CoStar | \$ 1,331 | \$ 2,009 | \$ 2,082 |
| ProForma | \$ 1,535 | \$ 1,581 | \$ 1,628 |
| Difference | 15% | -21% | -22% |

| 3-Bedroom | 2020 | 2021 | 2022 |
|------------------|-------------|-------------|-------------|
| CoStar | \$ 1,530 | \$ 2,303 | \$ 2,887 |
| ProForma | \$ 1,725 | \$ 1,777 | \$ 1,830 |
| Difference | 13% | -23% | -37% |

| Retail (\$ PSF) | 2020 | 2021 | 2022 |
|------------------------|-------------|-------------|-------------|
| CoStar | \$ 12 | \$ 12 | \$ 12 |
| ProForma | - | - | \$ 15 |
| Difference | | | 23% |

Appendix B: Assessed Value Comparison

Table 2: Assessed Value per Unit for Depot District and Comparable Properties

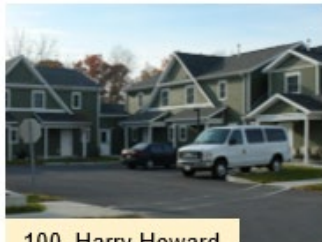
| | Address | Assessed Value | Total Units | AV per Unit | Year Built |
|---|-----------------------|----------------|-------------|---------------------|---------------------|
| Depot District Projects | 708 State Street | \$10,673,883 | 63 | \$169,427 | - |
| | 75 North 7th | \$6,485,994 | 76 | \$85,342 | - |
| Regulated Affordable Comparables (Provided by BJH) | 100 Harry Howard Ave | \$2,977,158 | 70 | \$42,531 | 2007 |
| | 119 Columbia St | \$5,263,158 | 101 | \$52,110.48 | 1986 |
| | 15 N Front Street | \$9,473,685 | 168 | \$56,390.98 | 1979 |
| Market Rate Comparables (Provided by Galvan) | 412-416 Warren Street | \$947,368 | 7 | \$135,338.29 | 1870; Restored 2013 |
| | 335-337 Allen | \$526,316 | 4 | \$131,579.00 | 1850; Restored 2019 |



708 State



75 North 7th



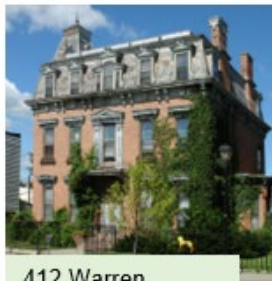
100 Harry Howard



119 Columbia



15 N Front



412 Warren



335 Allen

Appendix C: PILOT Schedules for 708 State Street with Developer's Assessed Value Assumptions (\$170,000 per Unit)

Table 3: Developer's Proposed PILOT Schedule – 708 State Street

| Year | PILOT | Full Tax | PILOT Payment | Benefit | Cash-On-Cash Return |
|--------------|-------|---------------------|---------------------|---------------------|---------------------|
| 0 | | \$ 277,307 | | | |
| 1 | 25% | \$ 282,854 | \$ 70,713 | \$ 212,140 | 3.9% |
| 2 | 25% | \$ 288,511 | \$ 72,128 | \$ 216,383 | 4.2% |
| 3 | 25% | \$ 294,281 | \$ 73,570 | \$ 220,711 | 4.6% |
| 4 | 25% | \$ 300,167 | \$ 75,042 | \$ 225,125 | 4.9% |
| 5 | 25% | \$ 306,170 | \$ 76,542 | \$ 229,627 | 5.3% |
| 6 | 25% | \$ 312,293 | \$ 78,073 | \$ 234,220 | 5.7% |
| 7 | 25% | \$ 318,539 | \$ 79,635 | \$ 238,904 | 6.0% |
| 8 | 25% | \$ 324,910 | \$ 81,227 | \$ 243,682 | 6.4% |
| 9 | 25% | \$ 331,408 | \$ 82,852 | \$ 248,556 | 6.8% |
| 10 | 25% | \$ 338,036 | \$ 84,509 | \$ 253,527 | 7.2% |
| 11 | 30% | \$ 344,797 | \$ 103,439 | \$ 241,358 | 7.2% |
| 12 | 35% | \$ 351,693 | \$ 123,093 | \$ 228,600 | 7.9% |
| 13 | 40% | \$ 358,727 | \$ 143,491 | \$ 215,236 | 8.3% |
| 14 | 45% | \$ 365,901 | \$ 164,656 | \$ 201,246 | 8.6% |
| 15 | 50% | \$ 373,219 | \$ 186,610 | \$ 186,610 | 9.0% |
| 16 | 55% | \$ 380,684 | \$ 209,376 | \$ 171,308 | 9.4% |
| 17 | 60% | \$ 388,297 | \$ 232,978 | \$ 155,319 | 9.8% |
| 18 | 65% | \$ 396,063 | \$ 257,441 | \$ 138,622 | 9.8% |
| 19 | 70% | \$ 403,985 | \$ 282,789 | \$ 121,195 | 10.2% |
| 20 | 75% | \$ 412,064 | \$ 309,048 | \$ 103,016 | 11.5% |
| 21 | 80% | \$ 420,306 | \$ 336,244 | \$ 84,061 | 11.0% |
| 22 | 85% | \$ 428,712 | \$ 364,405 | \$ 64,307 | 11.9% |
| 23 | 90% | \$ 437,286 | \$ 393,557 | \$ 43,729 | 12.4% |
| 24 | 95% | \$ 446,032 | \$ 423,730 | \$ 22,302 | 12.8% |
| 25 | 95% | \$ 454,952 | \$ 432,205 | \$ 22,748 | 13.8% |
| Total | | \$ 9,059,887 | \$ 4,737,355 | \$ 4,322,532 | |

Table 4: Alternative PILOT Schedule – 708 State Street

| Year | PILOT | Full Tax | PILOT Payment | Benefit | Cash-On-Cash Return |
|--------------|-------|---------------------|---------------------|---------------------|---------------------|
| 0 | | \$ 277,307 | | | |
| 1 | 25% | \$ 282,854 | \$ 70,713 | \$ 212,140 | 3.9% |
| 2 | 25% | \$ 288,511 | \$ 72,128 | \$ 216,383 | 4.2% |
| 3 | 25% | \$ 294,281 | \$ 73,570 | \$ 220,711 | 4.6% |
| 4 | 25% | \$ 300,167 | \$ 75,042 | \$ 225,125 | 4.9% |
| 5 | 25% | \$ 306,170 | \$ 76,542 | \$ 229,627 | 5.3% |
| 6 | 25% | \$ 312,293 | \$ 78,073 | \$ 234,220 | 5.7% |
| 7 | 25% | \$ 318,539 | \$ 79,635 | \$ 238,904 | 6.0% |
| 8 | 25% | \$ 324,910 | \$ 81,227 | \$ 243,682 | 6.4% |
| 9 | 25% | \$ 331,408 | \$ 82,852 | \$ 248,556 | 6.8% |
| 10 | 25% | \$ 338,036 | \$ 84,509 | \$ 253,527 | 7.2% |
| 11 | 30% | \$ 344,797 | \$ 103,439 | \$ 241,358 | 7.2% |
| 12 | 35% | \$ 351,693 | \$ 123,093 | \$ 228,600 | 7.9% |
| 13 | 40% | \$ 358,727 | \$ 143,491 | \$ 215,236 | 8.3% |
| 14 | 45% | \$ 365,901 | \$ 164,656 | \$ 201,246 | 8.6% |
| 15 | 50% | \$ 373,219 | \$ 186,610 | \$ 186,610 | 9.0% |
| 16 | 55% | \$ 380,684 | \$ 209,376 | \$ 171,308 | 9.4% |
| 17 | 65% | \$ 388,297 | \$ 252,393 | \$ 135,904 | 9.4% |
| 18 | 75% | \$ 396,063 | \$ 297,048 | \$ 99,016 | 9.4% |
| 19 | 85% | \$ 403,985 | \$ 343,387 | \$ 60,598 | 9.3% |
| 20 | 95% | \$ 412,064 | \$ 391,461 | \$ 20,603 | 9.5% |
| 21 | 100% | \$ 420,306 | \$ 420,306 | \$ - | 9.1% |
| 22 | 100% | \$ 428,712 | \$ 428,712 | \$ - | 10.4% |
| 23 | 100% | \$ 437,286 | \$ 437,286 | \$ - | 11.3% |
| 24 | 100% | \$ 446,032 | \$ 446,032 | \$ - | 12.3% |
| 25 | 100% | \$ 454,952 | \$ 454,952 | \$ - | 13.3% |
| Total | | \$ 9,059,887 | \$ 5,176,532 | \$ 3,883,355 | |

Note: The cash-on-cash return for years 1-10 is based on the developer's pro forma, which assumes an income escalation rate of 2% and expense escalation rate of 3%. BJH calculated the cash-on-cash return for years 11-25 using an income and expense escalation rate of 3%.