

Borough of Dunellen

NORTH AVENUE PORTFOLIOS LLC

120 – 126 North Avenue

August 1, 2022

Prepared by:



NW FINANCIAL GROUP, LLC
Exceeding Expectations

Proven Reputation . Experienced Professionals . Superior Client Service

Project Summary

120-126 North Avenue

- 33 Units (5 Affordable)
- 2,192 SF of Commercial Space
- 35 Parking Spaces
- \$8.2 Million Project Cost



Unit Mix and Expected Rents

Market Rate Units

Type	Count	SF/Unit	Monthly Rent/Unit	Monthly Rent/SF	Annual Rent
One Bedroom	15	709	\$ 1,640	\$ 2.31	\$ 295,200
Two Bedroom	12	811	2,043	2.52	294,192
Three Bedroom	1	1,000	2,400	2.40	28,800
Total	28	763	\$ 1,840	\$ 2.41	\$ 618,192

Affordable Units

Type	Count	SF/Unit	Monthly Rent/Unit	Monthly Rent/SF	Annual Rent
One Bedroom	1	709	\$ 1,156	\$ 1.63	\$ 13,868
Two Bedroom	3	811	1,386	1.71	49,905
Three Bedroom	1	1,000	1,602	1.60	19,223
Total	5	828	\$ 1,383	\$ 1.67	\$ 82,995

Commercial

Type	SF	Monthly Rent	Monthly PSF	Annual Rent
Retail	2,192	\$ 4,384	\$ 2.00	\$ 52,608

15% of the units (5) will be affordable and developed in accordance with Council on Affordable Housing regulations.

Sources & Uses

Sources	%	Total Cost
Debt	59%	\$ 4,831,995
Equity	41%	3,409,566
Total Sources	100%	\$ 8,241,561

Uses	Per Unit	Per SF	Total Cost
Building Hard Cost	\$163,348	\$ 158.18	\$ 5,390,468
Acquisition	42,061	40.73	1,388,000
Soft Costs	16,335	15.82	539,047
Financing Costs	13,068	12.65	431,237
Parking Hard Cost	5,303	5.14	175,000
Payment in lieu	4,848	4.70	160,000
Developer Fee	3,267	3.16	107,809
Community Benefit Payment	1,515	1.47	50,000
Total	\$249,744	\$ 241.84	\$ 8,241,561

The Total Project Costs are based on the pro forma provided by the Developer.

PILOT Summary

- After negotiations, the PILOT terms are as follows: Years 1-15: 10% of Annual Gross Revenue (“AGR”), Years 16-30: 12% of AGR
- The lots currently generate \$42,859 in tax revenue, of which the Borough receives \$11,363.
- At stabilization in Year 2, the Gross PILOT is estimated to be \$75,100 of which the Borough will receive approximately \$72,800, including a 2% administration fee.
- Over the 30-year term, the Borough will receive an estimated \$3.37 million. During that same time period, existing taxes would only generate \$461,000. **This is an additional \$2.91 million to the Borough.**
- The Developer will also make a \$50,000 community benefit payment to the Borough, which will be used towards pedestrian safety in the form of pedestrian light crossings in downtown Dunellen.

Developer Returns - Conventional Taxes vs. Negotiated PILOT

<u>Conventional Taxes</u>		<u>PILOT</u>	
	<u>Year 2</u>		<u>Year 2</u>
Annual Gross Revenue	\$ 750,776	Annual Gross Revenue	\$ 750,776
Operating Expenses	185,130	Operating Expenses	185,130
Property Taxes	186,480	PILOT + Admin Fee	76,579
Net Operating Income	\$ 379,166	Net Operating Income	\$ 489,067
Project Value	\$ 6,893,934	Project Value	\$ 8,892,130
Total Project Cost	8,241,561	Total Project Cost	8,241,561
Net Project Value	\$ (1,347,627)	Net Project Value	\$ 650,569
IRR - 10 Year Sale	3.24%	IRR - 10 Year Sale	9.46%
Yield on Cost - Year 2	4.60%	Yield on Cost - Year 2	5.93%

A typical Internal Rate of Return for a development such as this is between 11% and 14%, while the Yield on Cost is typically between 6% - 7%.

Projected PILOT Over 30-Year Term

Year	% of AGR	% of OAT	Gross PILOT	Less: County Share (5%)	Admin Fee (2% of Gross PILOT)	Borough Share of PILOT
1	10%	0%	\$ 38,740	\$ (1,937)	\$ 775	\$ 37,578
2	10%	0%	75,078	(3,754)	1,502	72,825
3	10%	0%	76,579	(3,829)	1,532	74,282
4	10%	0%	78,111	(3,906)	1,562	75,767
5	10%	0%	79,673	(3,984)	1,593	77,283
6	10%	0%	81,266	(4,063)	1,625	78,828
7	10%	0%	82,892	(4,145)	1,658	80,405
8	10%	0%	84,550	(4,227)	1,691	82,013
9	10%	0%	86,241	(4,312)	1,725	83,653
10	10%	0%	87,965	(4,398)	1,759	85,326
11	10%	0%	89,725	(4,486)	1,794	87,033
12	10%	0%	91,519	(4,576)	1,830	88,774
13	10%	0%	93,350	(4,667)	1,867	90,549
14	10%	0%	95,217	(4,761)	1,904	92,360
15	10%	0%	97,121	(4,856)	1,942	94,207
16	12%	20%	118,876	(5,944)	2,378	115,310
17	12%	20%	121,254	(6,063)	2,425	117,616
18	12%	20%	123,679	(6,184)	2,474	119,968
19	12%	20%	126,152	(6,308)	2,523	122,368
20	12%	20%	128,675	(6,434)	2,574	124,815
21	12%	20%	131,249	(6,562)	2,625	127,311
22	12%	40%	133,874	(6,694)	2,677	129,857
23	12%	40%	136,551	(6,828)	2,731	132,455
24	12%	40%	139,282	(6,964)	2,786	135,104
25	12%	40%	142,068	(7,103)	2,841	137,806
26	12%	40%	144,909	(7,245)	2,898	140,562
27	12%	40%	147,807	(7,390)	2,956	143,373
28	12%	60%	187,235	(9,362)	3,745	181,618
29	12%	60%	190,980	(9,549)	3,820	185,251
30	12%	80%	259,733	(12,987)	5,195	251,941
Total			\$ 3,470,350			\$ 3,366,239

Existing Taxes vs. PILOT

Year	Current Taxes	Borough Share	Gross PILOT	Borough Share	Additional Revenue from PILOT
1	\$ 42,859	\$ 11,363	\$ 38,740	\$ 37,578	\$ 26,215
2	43,717	11,590	75,078	72,825	61,235
3	44,591	11,822	76,579	74,282	62,460
4	45,483	12,058	78,111	75,767	63,709
5	46,392	12,300	79,673	77,283	64,983
6	47,320	12,546	81,266	78,828	66,283
7	48,267	12,797	82,892	80,405	67,608
8	49,232	13,052	84,550	82,013	68,961
9	50,217	13,314	86,241	83,653	70,340
10	51,221	13,580	87,965	85,326	71,747
11	52,245	13,851	89,725	87,033	73,182
12	53,290	14,128	91,519	88,774	74,645
13	54,356	14,411	93,350	90,549	76,138
14	55,443	14,699	95,217	92,360	77,661
15	56,552	14,993	97,121	94,207	79,214
16	57,683	15,293	118,876	115,310	100,017
17	58,837	15,599	121,254	117,616	102,017
18	60,013	15,911	123,679	119,968	104,057
19	61,214	16,229	126,152	122,368	106,139
20	62,438	16,554	128,675	124,815	108,261
21	63,687	16,885	131,249	127,311	110,427
22	64,960	17,222	133,874	129,857	112,635
23	66,260	17,567	136,551	132,455	114,888
24	67,585	17,918	139,282	135,104	117,185
25	68,937	18,277	142,068	137,806	119,529
26	70,315	18,642	144,909	140,562	121,920
27	71,722	19,015	147,807	143,373	124,358
28	73,156	19,395	187,235	181,618	162,223
29	74,619	19,783	190,980	185,251	165,468
30	76,111	20,179	259,733	251,941	231,762
Total	\$ 1,738,720	\$ 460,973	\$ 3,470,350	\$ 3,366,239	\$ 2,905,266

Residents and Public School Children

Type	# of Units	Persons Multiplier	New Persons	Public School Children Multiplier	New Public School Children
1 BR - Market	15	1.662	25	0.143	2
2 BR - Market	12	2.359	28	0.196	2
3 BR - Market	1	3.406	3	0.604	1
1 BR - Affordable	1	1.39	1	0.09	0
2 BR - Affordable	3	2.51	8	0.41	1
3 BR - Affordable	1	3.59	4	1.09	1
Total	33		69		7

2019 Population	7,252
Increase %	0.95%

2020 Enrollment	1,231
Increase %	0.57%

Multipliers are from “Who Lives in New Jersey Housing – The Profile of Occupants of Residential Development in New Jersey”, a study by the Center for Urban Policy Research at Rutgers University, which was last updated in November 2018.

Resident Cost Calculation

Budget Category	Appropriations	% of Spending Applied in Municipal Cost Calculation	Resident Portion
General Government	\$ 1,334,715	10.00%	\$ 133,472
Land-Use Administration	26,000	10.00%	2,600
Uniform Construction Code	103,770	10.00%	10,377
Public Safety	2,152,067	25.00%	538,017
Public Works	615,700	10.00%	61,570
Health and Human Services	66,500	25.00%	16,625
Education (including Library)	215,297	10.00%	21,530
Landfill / Solid Waste Disposal	59,434	10.00%	5,943
Statutory Expenditures	760,989	10.00%	76,099
Court and Public Defender	161,900	10.00%	16,190
Total	\$ 5,496,373		\$ 882,422
Population			7,252
Per Resident Cost			\$ 122

The Division of Local Government Services created a PILOT Financial Agreement Forecast model (“PFAF”), which uses budget data provided by the municipality to calculate a baseline cost of services from the municipality associated with a proposed project.

Public School Children Cost Calculation

Cost Per Student Calculations	2018-19 (Actual)	2019-20 (Actual)	2020-21 (Original Budget)	2020-21 (Revised Budget)	2021-22 (Proposed)
Total Budgetary Comparative Per Pupil Cost	\$ 12,253	\$ 13,011	\$ 12,656	\$ 14,532	\$ 14,730
Total Classroom Instruction	7,047	7,373	7,050	8,069	8,381
Classroom-Salaries and Benefits	6,576	7,030	6,644	7,636	7,932
Classroom-General Supplies and Textbooks	301	104	167	157	197
Classroom-Purchased Services	169	239	239	277	252
Total Support Services	1,819	2,005	2,028	2,347	2,219
Total Administrative Costs	1,767	1,861	1,773	2,061	2,015
Total Operations and Maintenance of Plant	1,248	1,409	1,432	1,621	1,681
Total Extracurricular Costs	372	364	373	434	433
Total Equipment Costs	-	55	51	39	31
Legal Costs	20	28	28	33	39
Total Cost Per Student for PILOT Analysis	\$ 8,866	\$ 9,378	\$ 9,078	\$ 10,416	\$ 10,600

The information above comes from the 2021-2022 Dunellen Board of Education User Friendly Budget.

Public School Children Cost Calculation

Board of Education General Fund Revenues	Amount
Local Sources	\$ 12,506,844
State Sources	11,315,446
Federal Sources	27,914
Other Sources	3,847,178
Total	\$ 27,697,382
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% from Local Sources	45.16%

Total Cost Per Student	\$ 10,600
Local Revenue Sources	45.16%
Net Cost Per Student	\$ 4,786

Resident and Public School Children Impact

Type	# of Units	New Persons	New Municipal Costs	New Public School Children	New School Costs	Total New Costs
1 BR - Market	15	25	\$ 3,042	2	\$ 9,573	\$ 12,615
2 BR - Market	12	28	3,407	2	9,573	12,980
3 BR - Market	1	3	365	1	4,786	5,152
1 BR - Affordable	1	1	122	0	-	122
2 BR - Affordable	3	8	973	1	4,786	5,760
3 BR - Affordable	1	4	487	1	4,786	5,273
Total	33	69	\$ 8,396	7	\$33,505	\$ 41,901

Net Benefit to Borough

Borough Share of		Resident Cost	School Cost	Total Cost	Net Benefit
Year	PILOT				
1	\$ 37,578	\$ 4,198	\$ 16,753	\$ 20,951	\$ 16,627
2	72,825	8,396	33,505	41,901	30,924
3	74,282	8,564	34,175	42,739	31,543
4	75,767	8,735	34,859	43,594	32,173
5	77,283	8,910	35,556	44,466	32,817
6	78,828	9,088	36,267	45,355	33,473
7	80,405	9,270	36,993	46,262	34,143
8	82,013	9,455	37,732	47,188	34,826
9	83,653	9,644	38,487	48,131	35,522
10	85,326	9,837	39,257	49,094	36,233
11	87,033	10,034	40,042	50,076	36,957
12	88,774	10,235	40,843	51,077	37,696
13	90,549	10,439	41,660	52,099	38,450
14	92,360	10,648	42,493	53,141	39,219
15	94,207	10,861	43,343	54,204	40,004
16	115,310	11,078	44,209	55,288	60,022
17	117,616	11,300	45,094	56,393	61,222
18	119,968	11,526	45,996	57,521	62,447
19	122,368	11,756	46,915	58,672	63,696
20	124,815	11,991	47,854	59,845	64,970
21	127,311	12,231	48,811	61,042	66,269
22	129,857	12,476	49,787	62,263	67,595
23	132,455	12,725	50,783	63,508	68,946
24	135,104	12,980	51,798	64,778	70,325
25	137,806	13,240	52,834	66,074	71,732
26	140,562	13,504	53,891	67,395	73,167
27	143,373	13,774	54,969	68,743	74,630
28	181,618	14,050	56,068	70,118	111,500
29	185,251	14,331	57,190	71,521	113,730
30	251,941	14,617	58,333	72,951	178,990
Total	\$ 3,366,239	\$ 329,894	\$ 1,316,496	\$ 1,646,390	\$ 1,719,849