

Borough of Dunellen

SRV Dunellen Urban Renewal LLC

745-753 Bound Brook Road

November 21, 2022

Prepared by:



NW FINANCIAL GROUP, LLC
Exceeding Expectations

Proven Reputation . Experienced Professionals . Superior Client Service

Project Summary

745 Bound Brook Road

- 25,000 SF
- Three Stories
- 23 Units (3 Affordable)
- 1,578 SF of Commercial Space
- 23 Parking Spaces
- \$5.9 Million Project Cost



Unit Mix and Expected Rents

Market Rate Units

Type	Count	SF/Unit	Monthly Rent/Unit	Monthly Rent/SF	Annual Rent
Studio	3	592	\$ 1,600	\$ 2.70	\$ 57,600
One Bedroom	15	823	2,050	2.49	369,000
Two Bedroom	2	1,407	2,500	1.78	60,000
Total	20	847	\$ 2,028	\$ 2.39	\$ 486,600

Affordable Units (50% of AMI)

Type	Count	SF/Unit	Monthly Rent/Unit	Monthly Rent/SF	Annual Rent
Two Bedroom	2	990	\$ 1,526	\$ 1.54	\$ 36,630
Three Bedroom	1	1,076	1,763	1.64	21,158
Total	3	1,019	\$ 1,605	\$ 1.58	\$ 57,788

Type	Count	Monthly Rent/Space	Monthly Rent	Annual Rent/Space	Annual Rent
Parking	23	\$ 50	\$ 1,150	\$ 600	\$ 13,800

15% of the units (3.45) will be affordable and developed in accordance with Council on Affordable Housing regulations. The Developer will be required to make a payment-in-lieu to the Borough for the fractional unit of approximately \$69,750.

Sources & Uses

Sources	%	Total Cost
Debt	70%	\$ 4,186,175
Equity	30%	1,794,075
Total Sources	100%	\$ 5,980,250

Uses	Per Unit	Per SF	Total Cost
Hard Costs	\$ 192,500	\$ 174	\$ 4,427,500
Acquisition	21,739	19.67	500,000
Developer Overhead	14,783	13.38	340,000
Architect, Engineer and Attorney Fees	14,000	12.67	322,000
Surveying and Testing	6,522	5.90	150,000
Fractional Affordable Unit Payment	3,033	2.74	69,750
Insurance, Interest and Financing	2,174	1.97	50,000
Initial Permanent Financing	2,174	1.97	50,000
Community Benefit Payment	1,565	1.42	36,000
Initial Leasing	870	0.79	20,000
Real Estate Taxes	652	0.59	15,000
Total	\$ 260,011	\$ 235.29	\$ 5,980,250

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

PILOT Summary

- After negotiations, the terms are as follows:
 - ❖ Years 1 – 10: 10% of Annual Gross Revenue
 - ❖ Years 11 – 20: 11% of Annual Gross Revenue
 - ❖ Years 21 – 30: 12% of Annual Gross Revenue
- The lot currently generates \$10,751 in tax revenue, of which the Borough receives \$2,850.

2022	Assessment	Taxes	Borough Share	BOE Share	County Share
Land	\$ 162,300	\$ 5,044	\$ 1,337	\$ 3,069	\$ 638
Improvement	183,600	5,706	1,513	3,472	722
Total	\$ 345,900	\$ 10,751	\$ 2,850	\$ 6,541	\$ 1,359

- At stabilization in Year 2, the Gross PILOT is estimated to be \$54,088 of which the Borough will receive approximately \$52,500, including a 2% administration fee.

Year	% of AGR	Annual Gross Revenue	Gross PILOT	Less: County Share (5%)	Admin Fee (2% of Gross PILOT)	Borough Share of PILOT
2	10%	\$ 540,884	\$54,088	\$ (2,704)	\$ 1,082	\$ 52,466

- Over the 30-year term, the Borough will receive an estimated \$2.33 million. During that same time period, existing taxes would only generate \$116,000. **This is an additional \$2.2 million to the Borough.**
- The Developer will also make a \$36,000 community benefit payment to the Borough, which will be used in connection with infrastructure that will serve the project.

Developer Returns - Conventional Taxes vs. Negotiated PILOT

<u>Conventional Taxes</u>		<u>PILOT</u>	
	<u>Stabilized Year</u>		<u>Stabilized Year</u>
Annual Gross Revenue	\$ 540,884	Annual Gross Revenue	\$ 540,884
Operating Expenses	117,300	Operating Expenses	117,300
Property Taxes	93,240	PILOT + Admin Fee	55,170
Net Operating Income	\$ 330,344	Net Operating Income	\$ 368,414
Project Value	\$ 6,006,249	Project Value	\$ 6,698,428
Total Project Cost	5,980,250	Total Project Cost	5,980,250
Net Project Value	\$ 25,999	Net Project Value	\$ 718,178
IRR - 10 Year Sale	7.37%	IRR - 10 Year Sale	10.52%
Yield on Cost - Year 2	5.52%	Yield on Cost - Year 2	6.16%

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%	\$ 27,909	\$ (1,395)	\$ 558	\$ 27,072
2	10%	0%	54,088	(2,704)	1,082	52,466
3	10%	0%	55,170	(2,759)	1,103	53,515
4	10%	0%	56,274	(2,814)	1,125	54,585
5	10%	0%	57,399	(2,870)	1,148	55,677
6	10%	0%	58,547	(2,927)	1,171	56,791
7	10%	0%	59,718	(2,986)	1,194	57,926
8	10%	0%	60,912	(3,046)	1,218	59,085
9	10%	0%	62,131	(3,107)	1,243	60,267
10	10%	0%	63,373	(3,169)	1,267	61,472
11	11%	0%	71,105	(3,555)	1,422	68,972
12	11%	0%	72,527	(3,626)	1,451	70,351
13	11%	0%	73,977	(3,699)	1,480	71,758
14	11%	0%	75,457	(3,773)	1,509	73,193
15	11%	0%	76,966	(3,848)	1,539	74,657
16	11%	20%	78,505	(3,925)	1,570	76,150
17	11%	20%	80,075	(4,004)	1,602	77,673
18	11%	20%	81,677	(4,084)	1,634	79,227
19	11%	20%	83,310	(4,166)	1,666	80,811
20	11%	20%	84,977	(4,249)	1,700	82,427
21	12%	20%	94,556	(4,728)	1,891	91,719
22	12%	40%	96,447	(4,822)	1,929	93,554
23	12%	40%	98,376	(4,919)	1,968	95,425
24	12%	40%	100,343	(5,017)	2,007	97,333
25	12%	40%	102,350	(5,118)	2,047	99,280
26	12%	40%	104,397	(5,220)	2,088	101,265
27	12%	60%	106,485	(5,324)	2,130	103,291
28	12%	60%	108,615	(5,431)	2,172	105,356
29	12%	80%	127,320	(6,366)	2,546	123,500
30	12%	80%	129,866	(6,493)	2,597	125,970
Total			\$ 2,402,854			\$ 2,330,768

Existing Taxes vs. PILOT

Year	Current Taxes	Borough Share	Gross PILOT	Borough Share	Additional Revenue from PILOT
1	\$ 10,751	\$ 2,850	\$ 27,909	\$ 27,072	\$ 24,222
2	10,966	2,907	54,088	52,466	49,558
3	11,185	2,965	55,170	53,515	50,550
4	11,409	3,025	56,274	54,585	51,561
5	11,637	3,085	57,399	55,677	52,592
6	11,870	3,147	58,547	56,791	53,644
7	12,107	3,210	59,718	57,926	54,717
8	12,349	3,274	60,912	59,085	55,811
9	12,596	3,339	62,131	60,267	56,927
10	12,848	3,406	63,373	61,472	58,066
11	13,105	3,474	71,105	68,972	65,497
12	13,367	3,544	72,527	70,351	66,807
13	13,634	3,615	73,977	71,758	68,143
14	13,907	3,687	75,457	73,193	69,506
15	14,185	3,761	76,966	74,657	70,896
16	14,469	3,836	78,505	76,150	72,314
17	14,758	3,913	80,075	77,673	73,760
18	15,053	3,991	81,677	79,227	75,236
19	15,354	4,071	83,310	80,811	76,740
20	15,662	4,152	84,977	82,427	78,275
21	15,975	4,235	94,556	91,719	87,484
22	16,294	4,320	96,447	93,554	89,234
23	16,620	4,406	98,376	95,425	91,018
24	16,953	4,495	100,343	97,333	92,839
25	17,292	4,584	102,350	99,280	94,695
26	17,637	4,676	104,397	101,265	96,589
27	17,990	4,770	106,485	103,291	98,521
28	18,350	4,865	108,615	105,356	100,492
29	18,717	4,962	127,320	123,500	118,538
30	19,091	5,062	129,866	125,970	120,909
Total	\$ 436,130	\$ 115,628	\$ 2,402,854	\$ 2,330,768	\$ 2,215,141

Residents and Public School Children

Type	# of Units	Persons Multiplier	New Persons	Public School Children Multiplier	New Public School Children
Studio - Market	3	1.662	5	0.143	0
1 BR - Market	15	1.662	25	0.143	2
2 BR - Market	2	2.359	5	0.196	0
2 BR - Affordable	2	2.511	5	0.408	1
3 BR - Affordable	1	3.591	4	1.087	1
Total	23		44		4

2021 Population	7,568
Increase %	0.58%

2021 Enrollment	1,218
Increase %	0.33%

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	\$ 1,329,409	10.00%	\$ 132,941
Land-Use Administration	25,000	10.00%	2,500
Uniform Construction Code	114,500	10.00%	11,450
Public Safety	2,274,081	25.00%	568,520
Public Works	760,649	10.00%	76,065
Health and Human Services	59,710	25.00%	14,928
Education (including Library)	224,668	10.00%	22,467
Landfill / Solid Waste Disposal	29,268	10.00%	2,927
Statutory Expenditures	822,856	10.00%	82,286
Court and Public Defender	164,160	10.00%	16,416
Total	\$ 5,804,301		\$ 930,499
2021 Population			7,568
Per Resident Cost			\$ 123

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	2019-20 (Actual)	2020-21 (Actual)	2021-22 (Original Budget)	2021-22 (Revised Budget)	2022-23 (Proposed)
Total Budgetary Comparative Per Pupil Cost	\$ 13,011	\$ 12,857	\$ 14,730	\$ 15,639	\$ 15,941
Total Classroom Instruction	7,373	7,270	8,381	8,919	8,961
Classroom-Salaries and Benefits	7,030	6,954	7,932	8,396	8,404
Classroom-General Supplies and Textbooks	104	84	197	257	214
Classroom-Purchased Services	239	232	252	266	343
Total Support Services	2,005	2,076	2,219	2,349	2,550
Total Administrative Costs	1,861	1,801	2,015	2,133	2,130
Total Operations and Maintenance of Plant	1,409	1,376	1,681	1,779	1,860
Total Extracurricular Costs	364	334	433	459	440
Total Equipment Costs	55	6	31	33	97
Legal Costs	28	41	39	41	39
Employee Benefits as a percentage of salaries*	34.36%	28.48%	33.94%	33.94%	33.51%
Total Cost Per Student for PILOT Analysis	\$ 9,378	\$ 9,346	\$ 10,600	\$ 11,268	\$ 11,511

The information above comes from the 2022-2023 Dunellen Board of Education User Friendly Budget.

Public School Children Cost Calculation

Board of Education General Fund Revenues	Amount
Local Sources	\$12,631,903
State Sources	12,837,552
Federal Sources	34,545
Other Sources	4,697,261
Total	\$30,201,261
% from Local Sources	41.83%

Total Cost Per Student	\$11,511
Local Revenue Sources	41.83%
Net Cost Per Student	\$ 4,815

Resident and Public School Children Impact

Type	# of Units	New Persons	New Municipal Costs	New Public School Children	New School Costs	Total New Costs
Studio - Market	3	5	\$ 615	0	\$ -	\$ 615
1 BR - Market	15	25	3,074	2	9,629	12,703
2 BR - Market	2	5	615	0	-	615
2 BR - Affordable	2	5	615	1	4,815	5,429
3 BR - Affordable	1	4	492	1	4,815	5,306
Total	23	44	\$ 5,410	4	\$19,258	\$ 24,668

Net Benefit to Borough

Year	Borough Share of PILOT	Resident Cost	School Cost	Total Cost	Net Benefit
1	\$ 27,072	\$ 2,705	\$ 9,629	\$ 12,334	\$ 14,738
2	52,466	5,410	19,258	24,668	27,798
3	53,515	5,518	19,643	25,161	28,354
4	54,585	5,628	20,036	25,665	28,921
5	55,677	5,741	20,437	26,178	29,499
6	56,791	5,856	20,846	26,702	30,089
7	57,926	5,973	21,263	27,236	30,691
8	59,085	6,092	21,688	27,780	31,305
9	60,267	6,214	22,122	28,336	31,931
10	61,472	6,339	22,564	28,903	32,569
11	68,972	6,465	23,015	29,481	39,491
12	70,351	6,595	23,476	30,070	40,281
13	71,758	6,727	23,945	30,672	41,086
14	73,193	6,861	24,424	31,285	41,908
15	74,657	6,998	24,913	31,911	42,746
16	76,150	7,138	25,411	32,549	43,601
17	77,673	7,281	25,919	33,200	44,473
18	79,227	7,427	26,437	33,864	45,363
19	80,811	7,575	26,966	34,541	46,270
20	82,427	7,727	27,506	35,232	47,195
21	91,719	7,881	28,056	35,937	55,782
22	93,554	8,039	28,617	36,656	56,898
23	95,425	8,200	29,189	37,389	58,036
24	97,333	8,364	29,773	38,136	59,197
25	99,280	8,531	30,368	38,899	60,381
26	101,265	8,701	30,976	39,677	61,588
27	103,291	8,875	31,595	40,471	62,820
28	105,356	9,053	32,227	41,280	64,076
29	123,500	9,234	32,872	42,106	81,395
30	125,970	9,419	33,529	42,948	83,023
Total	\$ 2,330,768	\$ 212,566	\$ 756,700	\$ 969,266	\$ 1,361,503