



Review of Redevelopment Opportunities: New and Mission Streets Montclair, New Jersey

In follow-up to our February meeting, this technical memorandum reviews the results of a pro-forma cash flow analysis and site suitability assessment of several redevelopment concepts for the New and Mission site. The analysis considers the opportunities and limitations of the New and Mission site, primarily assuming private financing for the proposed use. The pro-forma cash flow model can be adapted to consider other alternatives (e.g. construction costs, rents, density, parking, operating costs, alternative uses, etc.). These assumptions require close scrutiny. Local developer or project owner experience with construction costs or with the operating performance of various use types (i.e., development concepts described below) could alter or further refine these findings.

Overview

The New and Mission site is composed of two lots. The lot bordering Bloomfield Avenue, 130-134 Bloomfield Avenue, is approximately 8,500 SF and is zoned C-1. The second lot, 3 New Street, is 8,020 SF and is zoned R-2. The current C-1 zoning allows 55 units per acre but with no more than two-tenths of an acre in this subject zoning category, the minimum lot size condition of 10,000 SF is not met for a mixed-use multifamily and nonresidential facility. The R-2 zoning allows up to two-family detached dwellings and can likely accommodate two 2-family detached dwellings (a total of 4 units).

Securing the density levels for multifamily residential contemplated under the C-1 zoning would require a “bulk variance”. Such a variance would need to demonstrate that the site’s physical characteristics necessitate the need for a variance, that not granting a variance request would impose peculiar and exceptional practical difficulties or exceptional or undue hardship upon the developer, and that granting the variance request would not detrimentally affect the public good or substantially impair the intent and purpose of the Zone Plan and Zoning Ordinance.

With adoption of a redevelopment plan, a new zone would be established for the New and Mission site – one that could supersede existing zoning or serve as an “overlay option” -- that would bring the sites into a single district with specific provisions and standards for use, bulk, density, and parking. The specific provisions and standards would reflect the Planning Board and Township Council’s vision for the subject site and set the performance conditions for which development would be permitted. For the land owner or prospective developer, the redevelopment plan should provide a higher degree of certainty than current zoning.

Table 1 summarizes the recommended zone provisions and standards for the New and Mission site. The recommendations are based upon review of the site’s dimensions and analysis of the site’s capability to accommodate various levels of density and parking requirements by land use type. Additionally, the recommendations considered market demand by use type and assessed “concept-level” financial feasibility with and without tax abatements. During this stage, meetings and discussions have been held with steering committee members and other knowledgeable individuals from the development community regarding assumptions and factors relevant to feasibility assessment.



Table 1
Recommended Provisions and Standards – Use, Density, Bulk, Parking and Performance

Required Condition	<ul style="list-style-type: none"> The provisions and standards for the redevelopment zone for the New and Mission may be exercised for Block 3111, Lot 1 (130-134 Bloomfield Avenue) and Block 3111, Lot 2 (3 New Street), provided that the sites are combined to meet the standards and fulfill conditions outlined in this section.
Permitted Uses	<ul style="list-style-type: none"> Restaurants and eating and drinking establishments, excluding drive-in or drive-through restaurants Convenience and retail establishments Specialty retail establishments Non-profit institutional uses Apartments Senior Citizen housing Education or quasi-educational establishments Business and professional offices Government offices
Accessory Uses	<ul style="list-style-type: none"> Surface parking
Lot Size	<p>Multifamily dwellings: Minimum lot width: 70 feet Minimum lot size: 15,000 SF</p> <p>Combined Multifamily dwellings: Minimum lot width: 70 feet Minimum lot size: 10,000 SF</p> <p>Nonresidential Minimum lot width: 70 feet Minimum lot size: 10,000 SF</p>
Development Concepts: Density, Height and Setback	<p>Ground Floor Retail + Residential Above Ground Floor Ground Floor Retail – 3,000 SF (Maximum) Residential above ground floor – 40 units per acre Maximum residential floors above retail – 3 floors Maximum number of residential units 15 units</p> <p>Ground Floor Retail + Commercial Above Ground Floor Ground Floor Retail – 3,000 SF (Maximum) Commercial above ground floor – 6,000 SF (Maximum) Maximum commercial floors above retail – 2 floors</p> <p>Maximum height of building: 60 feet or 4 stories, whichever is less Minimum front yard along Bloomfield Avenue: zero feet Minimum side yards along New and Mission Streets: zero feet</p> <p>All residential development must meet the requirements within the Inclusionary Zoning Ordinance of the Township of Montclair.</p>
Parking	<p>Total Parking – 35 spaces Placement –Behind building fronting on Bloomfield Parking will be shielded by buildings and landscaping</p> <p>Minimum Parking Standards: Residential Units – 1.5 spaces per dwelling unit Commercial Office – 1 space per 250 SF Retail – 1 space per 200 SF</p> <p>Surplus Parking Incentive Developer will receive 5-year tax abatement exemption on the improvement value provided there is evidence of 5-year lease signed with a benefiting party to make available 8 or more parking spaces for community or exclusive church use for a period of no less than 8 hours weekly.</p>



Alternatives Studied After February Meeting

The subject alternative development concepts explore Retail on the Ground Floor with above-ground uses devoted to either Residential (B-series) or Commercial Office (C-series) uses. The scale and height of the uses vary by alternative and the bedroom configurations differ by residential concept. All of the different residential scenarios meet the requirements set forth in the newly adopted Inclusionary Zoning Ordinance (IZO) of the Township of Montclair. The IZO requires that at least one-seventh of the total numbers of units within the development are priced as affordable units. The first affordable unit must be priced for households with median incomes of not more than 50 percent of the County median household income as determined by the Council on Affordable Housing (COAH). The second affordable unit must be priced at incomes of not more than 80 percent of median household income. Developments which are obligated to provide three or more affordable units must follow the same progression above. The proposed residential concepts meet these requirements using COAH's 2006 Regional Income Limits for Essex County. The rents for the remaining residential units are set at market rate. The proposed residential concepts also comply with COAH's bedroom distribution requirements and all other COAH rules.

Tables 2 and 3 summarize the findings from an evaluation of the various alternative land use development scenarios for the New and Mission lots. Although several development configurations were assessed as part of financial and site suitability sensitivity analyses, this memorandum will focus primarily upon the opportunities and limitations of four of the principal alternative development concepts listed below:

- **Case A1 – Ground Floor Retail + 3 Floors Residential + Townhouses – Redevelopment Plan** - Original infill concept represented in the Draft Redevelopment Plan (October 2005).
- **Case B1 – Ground Floor Retail + 2 Floors Residential** - Original infill concept has been modified with elimination of townhouses, reduced height, reduction in the number of units, change in pricing of units, and change in parking treatment.
- **Case B3 – Ground Floor Retail + 3 Floors Residential** - Original infill concept has been modified with elimination of townhouses, reduction in the number of units, change in pricing of units, and change in parking treatment.
- **Case C3 – Ground Floor Retail + Office** - Infill concept considers alternative commercial office use for the above ground leasable area. Parking requirements limit the total amount of leasable area (6,000 SF) and the scale of the building to a 2-floor structure or a slender 3-floor structure.



Table 2
Summary Comparison of Development Concept Alternatives

Alt.	Use	Gross Buildable Area (GBA)/ Dwelling Units / Gross Leasable Area (GLA)	Equity Required / IRR	Parking Space Demand Off-Street	Goals/Benefits
A-1	Ground Floor Retail + 3 story residential + Townhouse Units	30,000 SF (GBA) Retail -- 3,000 SF (GLA) 22 Dwelling Units 19 Market; 3 Affordable Units	\$1.273 million 19.42% - IRR	35 spaces	Adds Retail Affordable Housing
B-1	Ground Floor Retail + 2 Story Residential	15,000 SF (GBA) Retail – 3,000 SF (GLA) Market Rate Residential – 7 Units; 1 Affordable Unit <ul style="list-style-type: none"> • 1 BR – 2 units • 2 BR - 2 units • 3 BR – 2 units • 4 BR – 2 units 	\$647,973 11.75% - IRR	19 spaces	Adds Retail Limited opportunity to share parking with church Affordable Housing
B-2	Ground Floor Retail + 2 Story Residential	9,000 SF (GBA) Retail – 3,000 SF Market Rate Residential – 6 Units; 1 Affordable Unit <ul style="list-style-type: none"> • Studio – 2 units • 1 BR - 3 units • 2 BR – 2 units 	\$397,683 14.41% - IRR	17 spaces	Adds Retail Limited opportunity to share parking with church Affordable Housing
B-3	Ground Floor Retail + 3 Story Residential	21,000 SF (GBA) Retail – 3,000 SF Market Rate Residential – 13 Units; 2 Affordable Units <ul style="list-style-type: none"> • 1 BR – 6 units • 2 BR - 9 units 	\$898,263 12.91% - IRR	27 spaces	Adds Retail Limited opportunity to share parking with church Affordable Housing
C-1	Ground Floor Retail + 2 Story Commercial Office	15,000 SF (GBA) Retail – 3,000 SF Commercial – 11,000 SF (GLA)	\$647,973 5.07% - IRR	54 spaces - <i>deficit</i> 22 spaces	Not physically feasible
C-2	Ground Floor Retail + 1 Story Commercial Office	9,000 SF (GBA) Retail – 3,000 SF (GLA) Commercial – 5,500 SF (GLA)	\$397,065 4.01% - IRR	33 spaces	Adds Retail Opportunity to share parking with church due to different peaking schedules
C-3	Ground Floor Retail + 1 Story Commercial Office	6,000 SF (GBA) Retail – 3,000 SF (GLA) Commercial – 3,000 SF (GLA)	\$271,920 4.31% - IRR	21 spaces	Adds Retail Opportunity to share parking with church due to different peaking schedules
C-5	Ground Floor Retail + 2 Story Commercial Office	9,000 SF (GBA) Retail – 3,000 SF Commercial – 5,500 SF (GLA)	\$397,065 4.01% - IRR	33 spaces	Adds Retail Opportunity to share parking with church due to different peaking schedules



Pro-Forma Cash Flow Methodology

A 10-year pro forma model was created to discount the after-tax cash flows of the various alternative development concepts for the cases in order to make financial comparisons. For the purposes of this analysis, an After-Tax discount rate of 7.00% was used in order to calculate Net Present Value (NPV) of the After-Tax Cash Flows. For all scenarios, we look at a base case involving a 30% equity investment assuming a 30-year mortgage amortization at an interest rate of 7.25% for the debt component.

All alternative development concepts exhibit positive cash flow returns that cover debt service, although the commercial options generally fail to generate annual returns over the subject time period (i.e., 10 years) that exceed a developer’s hurdle rate of 7.00%.

Additionally, when the effect of an economic incentive, namely a five-year property tax exemption, is measured relative to the base case internal rate of return reported in Table 2, the estimated developer’s internal rate of return can be anticipated to increase incrementally, typically between 2 and 3 percent, with the incremental effect rising with more capital intensive projects (see Table 3).

**Table 3
Comparison of Performance of the Development Concepts Reviewed**

		Total Project Costs	After Tax Results		W/ Tax Exemption	
			NPV	IRR	NPV	IRR
Case A	Ground Floor Retail + 3 story residential	\$4,245,660	\$1,667,773	19.42%	\$2,032,186	23.22%
Case B1	Ground Floor Retail + 2 story residential	\$2,159,910	\$269,653	11.75%	\$412,912	14.69%
Case B2	Ground Floor Retail + 2 story residential	\$1,325,610	\$276,119	14.41%	\$367,342	17.44%
Case B3	Ground Floor Retail + 3 story residential	\$2,994,210	\$479,448	12.91%	\$695,558	16.11%
Case C1	Ground Floor Retail + 2 story commercial office	\$2,159,910	(\$91,802)	5.07%	\$38,709	7.86%
Case C2	Ground Floor Retail + 1 story commercial office	\$1,323,550	(\$84,455)	4.01%	(\$12,615)	6.53%
Case C3	Ground Floor Retail + 1 story commercial office	\$906,400	(\$52,506)	4.31%	(\$7,335)	6.61%
Case C5	Ground Floor Retail + 2 story commercial office	\$1,323,550	(\$84,455)	4.01%	(\$12,615)	6.53%



CASE A1 WITH RETAIL

Case A1 with retail was presented in the Draft Redevelopment Plan. In the base case, Berger assumed the following:

- The development comprises apartments, townhouse rentals, and a convenience store—total project costs of approximately \$4.2 million.
- The total occupied square footage is 30,000 SF, of which 27,000 SF. is residential and 3,000 SF is the retail convenience store.
- A total of 22 dwelling units are assumed (17 market and 3 affordable)—12 apartments and 10 townhouses.
- The 12 apartments are on the three floors above the ground level. Each of these three floors has the same layout—one each of 1-bedroom, 2-bedroom, 3-bedroom, and 4-bedroom units. Additionally, there are 10 2.5-bedroom townhouse units in the complex. There are no studios proposed.
- The total number of parking spaces on the ground for all uses is 35; 26 residential and 9 retail (3 additional street spaces for retail use are assumed). The parking was sheltered and hidden from view.

Table 4 presents the capital costs, revenues, operating expenses, taxation, and final sale price. For hard and soft construction costs, a blended average upfront cost of \$135.00 per SF was assumed for this analysis—this assumption is based on interviews with numerous developers and housing specialists that are familiar with construction costs in the area (see Appendix B for a detailed description of the interviews). These assumptions are similar across all cases.

The retail case, shown in Table 4 below, results in a 10-year After-Tax Internal Rate of Return (IRR) of 19.42 percent when discounting the cash flows at the assumed rate of 7.00%, with a 30% initial equity investment and total project costs approximately equal to \$4.2 million. The base case return can be improved by about 3.8 percent with an initial incentive of a five-year tax exemption on the improvement.

CASE B1 and B3 – RETAIL with RESIDENTIAL

These two options each provide fewer dwelling units than contemplated in the prior submitted redevelopment plan. They eliminate the townhouses fronting along New and Mission for the site in favor of a commercial retail ground floor with multifamily residential building fronting on Bloomfield Avenue. Landscaped parking is provided to the building's rear. The scale of the two options varies.

CASE C3 – RETAIL W/ COMMERCIAL OFFICE

This option involves ground floor retail with commercial office massed along Bloomfield Avenue. The options exhibited the best internal rate of return of the several commercial office options examined that could still meet off-street parking requirements.



TABLE 4
CASE A1, 22-UNITS WITH RETAIL / INCLUSIONARY

Multi-family Residential Square Footage	27,000	Residential Parking Spaces	26.4
Retail Square Footage	<u>3,000</u>	Retail Parking Spaces	9.0
Total Square Footage	30,000	Dedicated to Church	<u>0.0</u>
		Total Parking Spaces	35.4
Gross Buildable Area (SF)	30,000		
Estimated Hard and Soft Construction Costs per s.f.		\$ 135.00	
Total Hard and Soft Construction Costs		\$ 4,245,660	
Equity Investment		\$ 1,273,698	30%
Debt Financing--30-Yr Mtg Amort @	7.25%	\$ <u>2,971,962</u>	<u>70%</u>
Total Investment		\$ 4,245,660	100%
	Square Feet	Number of Dwelling Units	Total
	Per Unit	Market	Affordable
		Total	Square Feet
Studios	600	-	-
1 BR Apt.	800	3	-
2 BR Apt.	1,200	1	2
2.5 BR Townhouse	1,200	9	1
3 BR Apt.	1,400	3	-
4 BR Apt.	1,600	<u>3</u>	<u>3</u>
		19	3
		<u>22</u>	<u>27,000</u>
	Market Units	Moderate Affordable	Low Affordable
	Rent/Mo.	Rent/s.f./ Mo.	Rent/Mo.
		Rent/s.f./ Mo.	Rent/s.f./ Mo.
Studios	\$ 920	\$ 1.53	\$ 1,165
1 BR Apt.	\$ 1,481	\$ 1.85	\$ 1,332
2 BR Apt.	\$ 1,668	\$ 1.39	\$ 1,498
2.5 BR Townhouse	\$ 2,185	\$ 1.82	\$ 1,731
3 BR Apt.	\$ 2,185	\$ 1.56	\$ 1,731
4 BR Apt.	\$ 2,588	\$ 1.62	\$ 1,931
			\$ 1.94
			\$ 590
			\$ 0.98
			\$ 674
			\$ 0.84
			\$ 759
			\$ 0.63
			\$ 877
			\$ 0.73
			\$ 877
			\$ 0.63
			\$ 978
			\$ 0.61
Rental Vacancy Rate			5.00%
Annual Retail Rent Revenue per s.f.		\$ 15.00	
Annual Property Taxes (\$/s.f.) - Commercial		\$ 2.46	
Annual Property Taxes (\$/s.f.) - Residential		\$ 3.00	
General Annual Inflation Rate			3.00%
Total Annual Revenues, Year 1		\$ 538,696	
Total Annual Expenses, Year 1		\$ 160,226	
Total Expenses as a % of Revenues, Year 1			30%
Overall Income Tax Rate			35.00%
Depreciation Assumption (Straight-Line); No. of Years			27.5
Recapture Tax Rate Upon Sale in Year 10 (Depreciation)			25.00%
Capital Gain Tax Rate Upon Sale in Year 10			15.00%
After-Tax Discount Rate Used to Calculate NPV			7.00%
Cap. Rate Used to Determine Final Sale Price			7.00%
NPV of After-Tax Cash Flow, 10-Year Period		\$1,667,773	
IRR of After-Tax Cash Flow, 10-Year Period			19.42%



TABLE 5
CASE B1 – RETAIL AND RESIDENTIAL – 8 DWELLING UNITS

Multi-family Residential Square Footage	10,000	Residential Parking Spaces	9.6			
Retail Square Footage	<u>3,000</u>	Retail Parking Spaces	9.0			
Total Square Footage (GLA)	13,000	Dedicated to Church	<u>17.0</u>			
		Total Parking Spaces	35.6			
Gross Buildable Area (SF)	15,000					
Estimated Hard and Soft Construction Costs per s.f.		\$ 135.00				
Total Hard and Soft Construction Costs		\$ 2,159,910				
Equity Investment		\$ 647,973	30%			
Debt Financing--30-Yr Mtg Amort @	7.25%	<u>\$ 1,511,937</u>	<u>70%</u>			
Total Investment		\$ 2,159,910	100%			
	Square Feet	Number of Dwelling Units		Total		
	Per Unit	Market	Affordable	Square Feet		
Studios	600	-	-	-		
1 BR Apt.	800	2	-	2		
2 BR Apt.	1,200	1	1	2		
2.5 BR Townhouse	1,200	-	-	-		
3 BR Apt.	1,400	2	-	2		
4 BR Apt.	1,600	<u>2</u>	<u>-</u>	<u>2</u>		
		7	1	8		
				10,000		
	Market Units		Moderate Affordable		Low Affordable	
	Rent/Mo.	Rent/s.f./ Mo.	Rent/Mo.	Rent/s.f./ Mo.	Rent/Mo.	Rent/s.f./ Mo.
Studios	\$ 920	\$ 1.53	\$ 1,165	\$ 1.94	\$ 590	\$ 0.98
1 BR Apt.	\$ 1,481	\$ 1.85	\$ 1,332	\$ 1.66	\$ 674	\$ 0.84
2 BR Apt.	\$ 1,668	\$ 1.39	\$ 1,498	\$ 1.25	\$ 759	\$ 0.63
2.5 BR Townhouse	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3 BR Apt.	\$ 2,185	\$ 1.56	\$ 1,731	\$ 1.24	\$ 877	\$ 0.63
4 BR Apt.	\$ 2,588	\$ 1.62	\$ 1,931	\$ 1.21	\$ 978	\$ 0.61
Rental Vacancy Rate				5.00%		
Annual Retail Rent Revenue per SF				\$ 16.00		
Annual Office Rent Revenue per SF				\$ -		
Annual Property Taxes (\$/SF) - Commercial				\$2.46		
Annual Property Taxes (\$/SF) - Residential				\$ 3.00		
General Annual Inflation Rate				3.00%		
Total Annual Revenues, Year 1				\$ 216,018		
Total Annual Expenses, Year 1				\$ 67,791		
Total Expenses as a % of Revenues, Year 1				31%		
Overall Income Tax Rate				35.00%		
Depreciation Assumption (Straight-Line); No. of Years				27.5		
Recapture Tax Rate Upon Sale in Year 10 (Depreciation)				25.00%		
Capital Gain Tax Rate Upon Sale in Year 10				15.00%		
After-Tax Discount Rate Used to Calculate NPV				7.00%		
Cap. Rate Used to Determine Final Sale Price				7.00%		
NPV of After-Tax Cash Flow, 10-Year Period				\$269,653		
IRR of After-Tax Cash Flow, 10-Year Period				11.75%		



TABLE 6
CASE B3 – RETAIL AND RESIDENTIAL – 15 DWELLING UNITS

Multi-family Residential Square Footage	15,600	Residential Parking Spaces	9.6
Retail Square Footage	<u>3,000</u>	Retail Parking Spaces	9.0
Total Square Footage (GLA)	18,600	Dedicated to Church	<u>17.0</u>
		Total Parking Spaces	35.6
Gross Buildable Area (SF)	21,000		
Estimated Hard and Soft Construction Costs per s.f.		\$ 135.00	
Total Hard and Soft Construction Costs		\$ 2,994,210	
Equity Investment		\$ 898,263	30%
Debt Financing--30-Yr Mtg Amort @	7.25%	<u>\$ 2,095,947</u>	<u>70%</u>
Total Investment		\$ 2,994,210	100%
	Square Feet	Number of Dwelling Units	Total
	Per Unit	Market	Affordable
		Total	Square Feet
Studios	600	-	-
1 BR Apt.	800	6	-
2 BR Apt.	1,200	7	2
2.5 BR Townhouse	1,200	-	-
3 BR Apt.	1,400	-	-
4 BR Apt.	1,600	-	-
		<u>13</u>	<u>2</u>
		15	15,600
	Market Units	Moderate Affordable	Low Affordable
	Rent/Mo.	Rent/s.f./ Mo.	Rent/Mo.
		Rent/s.f./ Mo.	Rent/s.f./ Mo.
Studios	\$ 920	\$ 1.53	\$ 1,165
1 BR Apt.	\$ 1,481	\$ 1.85	\$ 1,332
2 BR Apt.	\$ 1,668	\$ 1.39	\$ 1,498
2.5 BR Townhouse	\$ -	\$ -	\$ -
3 BR Apt.	\$ 2,185	\$ 1.56	\$ 1,731
4 BR Apt.	\$ 2,588	\$ 1.62	\$ 1,931
			\$ 1,931
			\$ 1.21
			\$ 978
			\$ 0.61
Rental Vacancy Rate			5.00%
Annual Retail Rent Revenue per SF		\$ 16.00	
Annual Office Rent Revenue per SF		\$ -	
Annual Property Taxes (\$/SF) - COMMERCIAL		\$ 2.46	
Annual Property Taxes (\$/SF) - RESIDENTIAL		\$ 3.00	
General Annual Inflation Rate			3.00%
Total Annual Revenues, Year 1		\$ 310,285	
Total Annual Expenses, Year 1		\$ 96,743	
Total Expenses as a % of Revenues, Year 1			31%
Overall Income Tax Rate			35.00%
Depreciation Assumption (Straight-Line); No. of Years			27.5
Recapture Tax Rate Upon Sale in Year 10 (Depreciation)			25.00%
Capital Gain Tax Rate Upon Sale in Year 10			15.00%
After-Tax Discount Rate Used to Calculate NPV			7.00%
Cap. Rate Used to Determine Final Sale Price			7.00%
NPV of After-Tax Cash Flow, 10-Year Period		\$479,448	
IRR of After-Tax Cash Flow, 10-Year Period		12.91%	



In order to prepare the cash flow analysis for the different scenarios, the following key assumptions were made:

- The operating expenses are based on the National Association of Building Owners and Managers (BOMA) Experience Exchange Report for Suburban Newark, NJ. This annual report is a comprehensive inventory of income and expenses for commercial properties within different regions throughout the United States.
- Property taxes are based on comparable properties gathered by Sharon Gill, licensed real estate agent, using the Garden State Multiple Listing Service (MLS). Using the comparable property taxes per square foot, average property tax rates were calculated for both residential and commercial properties.
- Office and retail rents were estimated for the lower Bloomfield Avenue area based on a survey of active commercial real estate professionals in Montclair. Annual office rent per square foot of gross leasable area is estimated at \$18.00 and annual retail rent per square foot of gross leasable area is estimated at \$16.00. The persons surveyed included: Eva Mari Santiago, Executive Director of MEDC; Sharon Gill, licensed real estate agent; and Holly Hunter, licensed NJ/NY real estate broker.
- The residential rents were based on a Montclair-wide inventory of market rate apartment rents for 2005 supplied by Sharon Gill and adjusted for the year the units would be rented. These 2005 market rate rents are:
 - o Studio - \$750 to \$850
 - o One bedroom - \$1,125 to \$1,450
 - o Two bedroom - \$1,250 to \$1,650
 - o Three bedroom - \$1,700 to \$2,100
 - o Four bedroom - \$2,100 to \$2,400
- The estimated hard and soft construction cost per square foot of gross buildable area is \$135.00. This estimation is based on a detailed survey of builders and housing specialists with experience in Montclair including: Ed Martoglio – Contractor for RPM, a Montclair-based construction company, with experience in multi-story, mixed-use buildings; Brad Harrington – NJ DCA Balanced Housing Program; Beverly Riddick, Executive Director of HomeCorp; Jeffrey Raven, Registered Architect with experience in New Jersey; and Holly Hunter, licensed NJ/NY real estate broker. See Appendix B for a detailed description of the interviews.
- The cash flow analysis assumes that the land is a sunk cost. The inclusion of the costs of the property lowers the IRR by approximately two percentage points.



APPENDIX A

Pro-Forma Modified Income Statement
Case A

Year	Construction	Operation										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
	0	1	2	3	4	5	6	7	8	9	10	
Total Development & Capital Cost	4,245,660											
<i>Revenues:</i>												
Rent--Apartments High&Mid-Rise		521,504	553,264	569,862	586,958	604,567	622,704	641,385	660,626	680,445	700,858	
Rent- Parking		0	0	0	0	0	0	0	0	0	0	
Laundry Income		544	577	594	612	630	649	669	689	710	731	
Retail Rent Income		45,000	47,741	49,173	50,648	52,167	53,732	55,344	57,005	58,715	60,476	
Gross Revenues b/vacancy		567,048	601,581	619,629	638,218	657,364	677,085	697,398	718,320	739,869	762,065	
Vacancy/Rent Loss		28,352	30,079	30,981	31,911	32,868	33,854	34,870	35,916	36,993	38,103	
Gross Possible Rent		538,696	571,502	588,647	606,307	624,496	643,231	662,528	682,404	702,876	723,962	
Total Gross Revenues		538,696	571,502	588,647	606,307	624,496	643,231	662,528	682,404	702,876	723,962	
<i>Operating Expenses Rentals:</i>												
Management Fee		11,363	12,055	12,417	12,789	13,173	13,568	13,975	14,394	14,826	15,271	
Other Administrative		13,636	14,466	14,900	15,347	15,808	16,282	16,770	17,273	17,792	18,325	
Utilities		2,405	2,551	2,628	2,706	2,788	2,871	2,957	3,046	3,138	3,232	
Security & Maintenance		19,949	21,163	21,798	22,452	23,126	23,820	24,534	25,270	26,028	26,809	
Insurance		4,293	4,554	4,691	4,832	4,976	5,126	5,280	5,438	5,601	5,769	
Property Taxes		88,380	91,031	93,762	96,575	99,472	102,457	105,530	108,696	111,957	115,316	
Payroll		15,151	16,074	16,556	17,052	17,564	18,091	18,634	19,193	19,768	20,361	
Other/Miscellaneous		5,050	5,358	5,519	5,684	5,855	6,030	6,211	6,398	6,589	6,787	
Total Expenses		160,226	167,253	172,270	177,438	182,762	188,244	193,892	199,709	205,700	211,871	
as % of Revenues		30%	29%	29%	29%	29%	29%	29%	29%	29%	29%	
Net Operating Income		378,470	404,250	416,377	428,868	441,734	454,987	468,636	482,695	497,176	512,091	
<i>Debt Service:</i>												
Beginning Balance		2,971,962	2,941,887	2,909,631	2,875,037	2,837,935	2,798,143	2,755,466	2,709,695	2,660,605	2,607,957	
Interest payment		215,467	213,287	210,948	208,440	205,750	202,865	199,771	196,453	192,894	189,077	
Principal amortization		30,075	32,256	34,594	37,102	39,792	42,677	45,771	49,089	52,648	56,465	
Ending Balance		2,941,887	2,909,631	2,875,037	2,837,935	2,798,143	2,755,466	2,709,695	2,660,605	2,607,957	2,551,491	
Total Debt Service		245,542	245,542	245,542	245,542	245,542	245,542	245,542	245,542	245,542	245,542	
Pre-Tax Cash Flow		132,928	158,707	170,835	183,326	196,192	209,444	223,094	237,153	251,634	266,549	
- Taxes		-3,015	-12,801	-17,864	-23,114	-28,559	-34,207	-40,067	-46,149	-52,463	-59,019	
After-Tax Cash Flow		129,912	145,906	152,970	160,212	167,633	175,237	183,027	191,004	199,171	207,530	
+ Net Sale of Apartment Structures											3,482,363	
+ Affordable Housing Subsidies			0									
AT Cash Flow After Sale/Subs.	-1,273,698	129,912	145,906	152,970	160,212	167,633	175,237	183,027	191,004	199,171	3,689,893	

After-Tax NPV, 10-Year **\$1,667,773** @ 7.00%
After-Tax IRR, 10-Year **19.42%**

**Pro-Forma Modified Income Statement
Case B1**

Year	Construction	Operation									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	0	1	2	3	4	5	6	7	8	9	10
Total Development & Capital Cost	2,159,910										
<u>Revenues:</u>											
Rent--Apartments High&Mid-Rise		179,189	190,102	195,805	201,679	207,729	213,961	220,380	226,991	233,801	240,815
Rent- Parking		0	0	0	0	0	0	0	0	0	0
Laundry Income		198	210	216	223	229	236	243	251	258	266
Retail Rent Income		48,000	50,923	52,451	54,024	55,645	57,315	59,034	60,805	62,629	64,508
Gross Revenues b/vacancy		227,387	241,235	248,472	255,926	263,604	271,512	279,657	288,047	296,688	305,589
Vacancy/Rent Loss		11,369	12,062	12,424	12,796	13,180	13,576	13,983	14,402	14,834	15,279
Gross Possible Rent		216,018	229,173	236,048	243,130	250,424	257,936	265,674	273,645	281,854	290,309
Total Gross Revenues		216,018	229,173	236,048	243,130	250,424	257,936	265,674	273,645	281,854	290,309
<u>Operating Expenses Rentals:</u>											
Management Fee		4,557	4,834	4,979	5,129	5,282	5,441	5,604	5,772	5,945	6,124
Other Administrative		5,468	5,801	5,975	6,154	6,339	6,529	6,725	6,927	7,134	7,348
Utilities		2,565	2,721	2,803	2,887	2,974	3,063	3,155	3,249	3,347	3,447
Security & Maintenance		7,999	8,487	8,741	9,003	9,273	9,552	9,838	10,133	10,437	10,751
Insurance		1,721	1,826	1,881	1,937	1,996	2,055	2,117	2,181	2,246	2,313
Property Taxes		37,380	38,501	39,656	40,846	42,072	43,334	44,634	45,973	47,352	48,772
Payroll		6,075	6,445	6,639	6,838	7,043	7,254	7,472	7,696	7,927	8,165
Other/Miscellaneous		2,025	2,148	2,213	2,279	2,348	2,418	2,491	2,565	2,642	2,722
Total Expenses		67,791	70,764	72,887	75,074	77,326	79,646	82,035	84,496	87,031	89,642
as % of Revenues		31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
Net Operating Income		148,227	158,409	163,161	168,056	173,097	178,290	183,639	189,148	194,823	200,667
<u>Debt Service:</u>											
Beginning Balance		1,511,937	1,496,637	1,480,227	1,462,628	1,443,753	1,423,509	1,401,798	1,378,513	1,353,539	1,326,755
Interest payment		109,615	108,506	107,316	106,041	104,672	103,204	101,630	99,942	98,132	96,190
Principal amortization		15,300	16,409	17,599	18,875	20,244	21,711	23,285	24,973	26,784	28,726
Ending Balance		1,496,637	1,480,227	1,462,628	1,443,753	1,423,509	1,401,798	1,378,513	1,353,539	1,326,755	1,298,029
Total Debt Service		124,916	124,916	124,916	124,916	124,916	124,916	124,916	124,916	124,916	124,916
Pre-Tax Cash Flow		23,311	33,493	38,245	43,140	48,182	53,375	58,723	64,232	69,907	75,752
- Taxes		13,976	10,024	7,944	5,784	3,541	1,210	-1,213	-3,732	-6,352	-9,077
After-Tax Cash Flow		37,287	43,517	46,189	48,924	51,723	54,584	57,510	60,500	63,555	66,674
+ Net Sale of Apartment Structures											1,095,708
+ Affordable Housing Subsidies			0								
AT Cash Flow After Sale/Subs.	-647,973	37,287	43,517	46,189	48,924	51,723	54,584	57,510	60,500	63,555	1,162,382

After-Tax NPV, 10-Year \$269,653 @ 7.00%
After-Tax IRR, 10-Year 11.75%

Pro-Forma Modified Income Statement
Case B3

Year	Construction	Operation										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	0	1	2	3	4	5	6	7	8	9	10	11
Total Development & Capital Cost	2,994,210											
<u>Revenues:</u>												
Rent--Apartments High&Mid-Rise		278,245	295,190	304,045	313,167	322,562	332,239	342,206	352,472	363,046	373,937	385,156
Rent- Parking		0	0	0	0	0	0	0	0	0	0	0
Laundry Income		371	393	405	417	430	443	456	470	484	498	513
Retail Rent Income		48,000	50,923	52,451	54,024	55,645	57,315	59,034	60,805	62,629	64,508	66,443
Gross Revenues b/vacancy		326,615	346,506	356,901	367,608	378,637	389,996	401,696	413,747	426,159	438,944	452,112
Vacancy/Rent Loss		16,331	17,325	17,845	18,380	18,932	19,500	20,085	20,687	21,308	21,947	22,606
Gross Possible Rent		310,285	329,181	339,056	349,228	359,705	370,496	381,611	393,059	404,851	416,997	429,506
Total Gross Revenues		310,285	329,181	339,056	349,228	359,705	370,496	381,611	393,059	404,851	416,997	429,506
<u>Operating Expenses Rentals:</u>												
Management Fee		6,545	6,944	7,152	7,367	7,588	7,815	8,050	8,291	8,540	8,796	9,060
Other Administrative		7,854	8,332	8,582	8,840	9,105	9,378	9,660	9,949	10,248	10,555	10,872
Utilities		2,565	2,721	2,803	2,887	2,974	3,063	3,155	3,249	3,347	3,447	3,551
Security & Maintenance		11,490	12,190	12,556	12,932	13,320	13,720	14,132	14,555	14,992	15,442	15,905
Insurance		2,473	2,623	2,702	2,783	2,866	2,952	3,041	3,132	3,226	3,323	3,423
Property Taxes		54,180	55,805	57,480	59,204	60,980	62,809	64,694	66,635	68,634	70,693	72,813
Payroll		8,727	9,258	9,536	9,822	10,117	10,420	10,733	11,055	11,386	11,728	12,080
Other/Miscellaneous		2,909	3,086	3,179	3,274	3,372	3,473	3,578	3,685	3,795	3,909	4,027
Total Expenses		96,743	100,960	103,989	107,109	110,322	113,631	117,040	120,552	124,168	127,893	131,730
as % of Revenues		31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
Net Operating Income		213,542	228,221	235,067	242,120	249,383	256,865	264,571	272,508	280,683	289,103	297,776
<u>Debt Service:</u>												
Beginning Balance		2,095,947	2,074,737	2,051,989	2,027,592	2,001,426	1,973,363	1,943,265	1,910,986	1,876,366	1,839,236	1,799,414
Interest payment		151,956	150,418	148,769	147,000	145,103	143,069	140,887	138,546	136,037	133,345	130,458
Principal amortization		21,210	22,748	24,397	26,166	28,063	30,098	32,280	34,620	37,130	39,822	42,709
Ending Balance		2,074,737	2,051,989	2,027,592	2,001,426	1,973,363	1,943,265	1,910,986	1,876,366	1,839,236	1,799,414	1,756,705
Total Debt Service		173,166	173,166	173,166	173,166	173,166	173,166	173,166	173,166	173,166	173,166	173,166
Pre-Tax Cash Flow		40,376	55,055	61,901	68,953	76,217	83,698	91,404	99,341	107,517	115,937	124,610
- Taxes		16,553	10,877	7,904	4,816	1,610	-1,720	-5,181	-8,778	-12,518	-16,407	-20,453
After-Tax Cash Flow		56,929	65,932	69,805	73,770	77,827	81,978	86,223	90,563	94,998	99,530	104,157
+ Net Sale of Apartment Structures											1,642,319	
+ Affordable Housing Subsidies			0									
AT Cash Flow After Sale/Subs.	-898,263	56,929	65,932	69,805	73,770	77,827	81,978	86,223	90,563	94,998	1,741,849	104,157

After-Tax NPV, 10-Year \$479,448 @ 7.00%
After-Tax IRR, 10-Year 12.91%

Pro-Forma Modified Income Statement
Case C3

Year	Construction	Operation									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	0	1	2	3	4	5	6	7	8	9	10
Total Development & Capital Cost	906,400										
<u>Revenues:</u>											
Rent--Apartments High&Mid-Rise		0	0	0	0	0	0	0	0	0	0
Rent- Parking		0	0	0	0	0	0	0	0	0	0
Laundry Income		0	0	0	0	0	0	0	0	0	0
Retail Rent Income		48,000	50,923	52,451	54,024	55,645	57,315	59,034	60,805	62,629	64,508
Office Rent Income		54,000	57,289	59,007	60,777	62,601	64,479	66,413	68,406	70,458	72,571
Gross Revenues b/vacancy		102,000	108,212	111,458	114,802	118,246	121,793	125,447	129,211	133,087	137,079
Vacancy/Rent Loss		5,100	5,411	5,573	5,740	5,912	6,090	6,272	6,461	6,654	6,854
Gross Possible Rent		96,900	102,801	105,885	109,062	112,334	115,704	119,175	122,750	126,433	130,225
Total Gross Revenues		96,900	102,801	105,885	109,062	112,334	115,704	119,175	122,750	126,433	130,225
<u>Operating Expenses Rentals:</u>											
Management Fee		8,430	8,944	9,212	9,488	9,773	10,066	10,368	10,679	11,000	11,330
Other Administrative		5,136	5,448	5,612	5,780	5,954	6,132	6,316	6,506	6,701	6,902
Utilities		8,333	8,841	9,106	9,379	9,661	9,951	10,249	10,557	10,873	11,199
Security & Maintenance		3,779	4,009	4,130	4,253	4,381	4,512	4,648	4,787	4,931	5,079
Insurance		1,260	1,336	1,377	1,418	1,460	1,504	1,549	1,596	1,644	1,693
Property Taxes		14,760	15,203	15,659	16,129	16,613	17,111	17,624	18,153	18,698	19,258
Payroll		5,717	6,065	6,247	6,435	6,628	6,827	7,031	7,242	7,460	7,683
Other/Miscellaneous		0	0	0	0	0	0	0	0	0	0
Total Expenses		47,415	49,847	51,342	52,882	54,469	56,103	57,786	59,520	61,305	63,144
as % of Revenues		49%	48%	48%	48%	48%	48%	48%	48%	48%	48%
Net Operating Income		49,485	52,954	54,543	56,179	57,865	59,601	61,389	63,230	65,127	67,081
<u>Debt Service:</u>											
Beginning Balance		634,480	628,059	621,173	613,788	605,867	597,372	588,261	578,489	568,009	556,769
Interest payment		46,000	45,534	45,035	44,500	43,925	43,309	42,649	41,940	41,181	40,366
Principal amortization		6,421	6,886	7,385	7,921	8,495	9,111	9,772	10,480	11,240	12,055
Ending Balance		628,059	621,173	613,788	605,867	597,372	588,261	578,489	568,009	556,769	544,714
Total Debt Service		52,420	52,420	52,420	52,420	52,420	52,420	52,420	52,420	52,420	52,420
Pre-Tax Cash Flow		-2,936	534	2,123	3,759	5,444	7,180	8,968	10,810	12,707	14,661
- Taxes		10,316	8,939	8,208	7,448	6,657	5,834	4,977	4,085	3,155	2,186
After-Tax Cash Flow		7,380	9,473	10,331	11,207	12,101	13,014	13,945	14,894	15,861	16,846
+ Net Sale of Apartment Structures											266,382
+ Affordable Housing Subsidies			0								
AT Cash Flow After Sale/Subs.	-271,920	7,380	9,473	10,331	11,207	12,101	13,014	13,945	14,894	15,861	283,229

After-Tax NPV, 10-Year (\$52,506) @ 7.00%
After-Tax IRR, 10-Year 4.31%

APPENDIX B

Construction Cost Inventory

In addition to the review of secondary data sets, several individuals with experience in Montclair and Essex County were contacted to benchmark the approximate hard and soft construction cost per square feet of gross buildable area. Those contacted included developers, architects, realtors and planners with expertise in housing development. Their views are briefly summarized below:

- Ed Martoglio – Contractor for RPM, a Montclair-based construction company, with experience in multi-story, mixed-use buildings was interviewed about construction costs in Northern New Jersey. He recently finished a large development in East Orange near the Brick Church Station. Based on his experience, hard costs are between \$110 p/sq. ft. to \$150 p/sq. ft depending on the quality of finish. The upper end of this range will be for high-end residential and commercial development which has a high quality of finish. Soft costs are an additional 20% of hard costs. If the development uses prevailing wages (union labor as required by some government grants or assistance), the hard cost can be expected to increase by 25%. Therefore, the total costs would be \$132 p/sq. ft. to \$180 p/sq. ft. without prevailing wages and \$165 p/sq. ft. to \$224 p/sq. ft. with prevailing wages. The soft costs include everything (e.g., loan interest, loan fees, professional fees, permitting) except for land acquisition.
- Brad Harrington – NJ DCA Balanced Housing Program – The approximate cost that he uses in evaluating developer proposals for the Balanced Housing Program is \$132 p/sq. ft. which includes hard and soft construction cost, land acquisition, and developer fee. Further information can be found at www.state.nj.us/dca/dh/bh/index.shtml.

Approximate Residential Costs in NJ, 2005

	Studio	1 bedroom	2 bedroom	3 bedroom	4 bedroom	Avg. 1 to 4 bedroom
Total Costs*	\$121,000	\$144,000	\$156,000	\$173,000	\$185,000	\$164,500
New and Mission Sq. Ft.		800	1,200	1,400	1,600	1,250
Costs Per Sq. Ft.		\$180	\$130	\$124	\$116	\$132

Source: Brad Harrington, NJ Balanced Housing Program

* Total costs include hard and soft construction costs, land acquisition, and developer fee

- Beverly Riddick – Executive Director of HomeCorp, based on her experience with 1 and 2 family spec housing construction in the Elm Street neighborhood, hard and soft construction costs are approximately \$110 p/sq. ft. The construction costs for the New and Mission Street proposal will be higher because of the professional services and materials required for a multi-story, mixed-use building. However, she thinks \$180 p/sq. ft. is too high.
- Holly Hunter - Licensed NJ/NY real estate broker, estimated that mixed use, commercial properties are likely to cost \$180 p/sq. ft. including soft costs.
- Jeffrey Raven – Registered Architect with experience in New Jersey, stated that since the scope of required construction work varies and local conditions/complexities would increase costs, the estimated hard and soft construction cost is \$153 p/sq. ft. Source references for this estimate include: RS Means Building Construction Cost Data 2000, RS Means Building Construction Cost Data, 2002, and RS Means Square Foot Costs 2000, M470.