

EXPENSE ANALYSIS

OPERATING AND EXPENSE ANALYSIS WORKSHEET										U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT										OMB Approval No. 2502-0331 (exp. 04/30/2006)							
Public reporting burden for this collection of information is estimated to average 16 hours per response, including the time for reviewing instructions, searching existing sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate and other aspects of this collection of information, including suggestions for reducing this burden, to the Reports Management Office, Office of Information Technology, Paperwork Reduction Project (2502-0331), U.S. Department of Housing and Urban Development Washington, D.C. 20410-3600. Do not send this form to the above address. Refer to Handbook 4480-1 for details on completing this form.																											
PROJECT NAME: Victory Mills CITY: Village of Victory New York										Forty-Two Gates Avenue										PROJECT NUMBER: N/A DATE OF APPRAISAL: April 29, 2010							
Signature of Processor										Date										Signature of Reviewer							
PROJECT NAME/ ADDRESS: 425 Glen Street										2400 Steeplechase Blvd										1-121 Columbia Road				100 N. Mohawk Street			
PROJECT NUMBER/ AREA: Warren County / 20 miles north										Saratoga County, 15 miles Southwest										Albany County, 30 miles south				Albany County, 30 miles South			
LOCATION: City of Glens Falls, NY										Malta, NY										Cohoes, NY				Cohoes, NY			
TYPE OF PROJECT: Former school Elevator/ Rental										Garden Apartments/ Rental										Garden Apartment/ Rental				Elevator/ Rental			
NUMBER OF STORIES: 4										2										2				4			
TYPE OF CONSTRUCTION: Masonry/Brick										Wood frame/Brick										Wood frame/Brick				Masonry/Brick			
NUMBER OF UNITS: 91 +1 = 92										234 0 234										120 0 120				96 0 96			
AGE OF PROJECT: 1906/1987										2006										1965				1866/2005			
PROJECT UNIT COMPARABLE: BRM (0) BRM (1) BRM (2) BRM (3) Stores										BRM (0) BRM (1) BRM (2) BRM (3)										BRM (0) BRM (1) BRM (2) BRM (3)				BRM (0) BRM (1) BRM (2) BRM (3)			
UNIT TYPE: (0) (1) (2) Stores										(0) (1) (2) (3)										(0) (1) (2) (3)				(0) (1) (2) (3)			
NUMBER OF UNITS: 33 37 20 0										0 65 95 75										0 60 60 0				0 56 36 4			
SQUARE FEET OF UNIT: 685 880 1105 0										0 909 1204 1300										0 606 795 0				0 986 1343 2154			
AVERAGE UNIT SIZE: 840										1158										701				1169			
SAME TAX RATE AS SUBJECT: No										No										No				No			
SAME UTILITY RATE: Yes										Yes										No				No			
OPER. EXP. DATE: 12/31/06										12/31/2008										12/31/08				12/31/09			
UPDATE PERCENTAGE: 9.0%										3.0%										3.0%				0.0%			
ITEMS BELOW INCLUDED: 1, 2, 4, 5, 9, 11, 14										1, 2, 4, 5, 6, 11, 14, 17, 21										1, 2, 5, 9, 11, 14				1, 2, 4, 5, 9, 11, 14, 21, 22, 23			
IN THE RENT: 1 RANGE AND REFIG. 2. CARPET AND DRAPES 3. DISPOSAL 4. DISHWASHER 5. LAUNDRY FACILITIES 6. AIR COND. 7 KIT. EXHAUST FAN 8. OTHER										GAS: 9. HEAT 10. COOKING 11. HOT WATER 12. A/C ELC: 13. HEAT 14. COOKING 15. HOT WATER 16. A/C 17. UNIT OTHER FUEL: 18. HEAT 19. HOT WATER 20. WATER 21. CABLE 22. INTERNET 23. TELEPHONE																	
BY UNIT COMPARISON																				CORRELATED EXPENSE (per unit)							
EXP PER UNIT										EXP PER UNIT										EXP PER UNIT							
ADJ +										ADJ +										ADJ +							
UP DATE										UP DATE										UP DATE							
IND EXP										IND EXP										IND EXP							
1. ADVERTISING										2. MANAGEMENT										3. OTHER - Legal/ Acct./ Adman				4. TOTAL ADMIN. EXPENSES			
In Misc \$0										In Misc \$447										In Misc \$119				\$723			
5. ELEVATOR										6. FUEL										7. LIGHT & POWER				8. WATER/SEWER			
In R & M \$0										In R & M \$1,112										\$295				\$161			
9. GAS										10. GARBAGE REMOVAL										11. PAYROLL				12. OTHER - Misc. & Supplies			
In Fuel \$0										In RE Taxes \$0										\$959				\$0			
13. TOTAL OPERATING EXPENSES										14. CABLE-INTERNET-PHONE										15. REPAIRS				16. ELEVATOR			
										N/A \$600										\$399				In R & M \$0			
17. EXTERMINATING										18. INSURANCE										19. GROUND EXPENSE				20. OTHER			
In R & M \$0										\$520										In R & M \$0				N/A \$0			
21. TOTAL MAINTANENCE										21a TOTAL OPERATING EXPENSES EXCLUSIVE OF RESERVE AND TIME TREND (SUM OF LINES 4, 13 AND 21)														\$1,478			
										12/1/2 FROM (DATE) - TO (DATE) 4/29/2010										TREND ADJUSTMENT 4.5% ** See Below				\$3,931			
22. REPLACEMENT RESERVE (PER APPLICABLE FORMULA FROM FORMS HUD 92264 OR HUD 92264B OR 0.004 X ESTIMATED MORTGAGE AMOUNT) SEE REPORT FOR DETAIL																								\$177			
23. TOTAL OPERATING EXPENSES INCLUDING RESERVE TIME AND TREND (SUM OF LINES 21a, 21b AND 22)																								\$653			
24. TAXES/REAL EST										25. PER. PROP. TAX										26. EMPL. PAY. TAX				27. OTHER			
\$1,024										\$0										In Payroll \$0				\$0			
28a TOT TAX W/O TREND										28b TREND ADJUSTMENT										29. TOTAL TAXES (INCLUDING TIME AND TREND) (SUM OF LINES 27a AND 27b)							
										0.0% /annum FROM (DATE) - TO (DATE) N/A										TREND ADJUSTMENT 0.0%				\$0			
30. TOTAL EXPENSE (SUM OF LINES 22 AND 28) PER UNIT																								\$6,603			

RECONCILIATION

In accordance with our assignment and HUD's MAP processing for Section 221(d)(4) substantial rehabilitation mortgage insurance, we have estimated the projected income and expenses for the subject property as of April 29, 2010, the date of this report. The subject property consists of an existing 4-story, 230,223± square foot shell building including 29,128± square feet of basement space that is to be gut renovated into an elevator apartment building containing 98 apartment units with 151,727± gross square feet and 133,155± square feet of livable area. Upon completion, the building will have 268,274 gross square feet inclusive of a one-story building to be used as garage space. The developers intend to carve out two central light wells with skylights above to create a light shaft down to the first floor. The rental units are to be broken down into one-bedroom units (averaging 1,275± net SF), two-bedroom units (averaging 1,278± net SF), and three-bedroom units (averaging 1,809± net SF).

Amenities in the building will include a fitness center with lap pool and sauna, two lounges, a business center, and a cafe in the rear overlooking the water. Other amenities being considered include a children's playroom and outdoor play area as well as the use of some of the rooftop areas for public space. There will be indoor parking for 63 cars on the first and lower levels as well as storage areas for each of the tenants in the basement. There will be an additional 132 outdoor spots available for the tenants use.

The building was originally constructed in 1846 and is currently a vacant shell. The single-story building adjacent to the north side of the building was constructed in 1965 and will be converted into an indoor garage with the possibility of using the roof for some outdoor space. The property will require a complete internal buildout, and the areas to be utilized for parking will require all new landscaping and resurfacing.

An inspection of the site and neighborhood was conducted, and all available data affecting the property's rents and expenses were analyzed. As a result of these investigations and subject to the enclosed Contingent and Limiting Conditions, the following conclusions were drawn for the subject as of April 29, 2010:

Market Rent								
Unit Type	Total # of Units	Average SF	Adjusted Comparable Range			Market Average Rent	Market Rent Conclusion	Market Rent Conclusion PSF
One Bedroom	18	1,275	\$1,320	to	\$1,755	\$1,515	\$1,500	\$1.18
Two Bedroom	65	1,278	\$1,515	to	\$1,940	\$1,669	\$1,700	\$1.33
Three Bedroom	15	1,809	\$1,945	to	\$2,640	\$2,150	\$2,150	\$1.19

Our opinion of the estimated annual operating expenses is:

\$697,562 PER ANNUM, OR \$7,118 PER UNIT

CONTINGENT AND LIMITING CONDITIONS

1. The appraisers assume no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor do the appraisers render any opinion as to the title which is assumed to be good and marketable.
2. The appraisers are not required to give testimony or appear in court because of having made the appraisal with reference to the property in question unless arrangements have been previously made therefore.
3. Any distribution of the valuation in the report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.
4. The appraisers assume that there are no hidden or unapparent conditions of the property, subsoil or structures which would render them more or less valuable. The appraisers assume no responsibility for such conditions or for engineering which might be required to discover such facts.
5. Information, estimates and opinions furnished to the appraisers and contained in the report were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished the appraisers can be assumed by the appraisers.
6. Disclosure of the contents of the appraisal report is governed by the Bylaws and Regulations of the professional appraisal organizations with which the appraisers are affiliated.
7. Neither all nor any part of the content of the report or copy thereof shall be used for any purposes by anyone but the client specified in the report, the borrower if appraisal fee paid by same, the mortgagee or its successors and assigns, mortgagee insurers, consultants, professional appraisal organizations, any state or federally approved financial institution without the previous written consent of the appraisers.
8. It is assumed that there will be full compliance with all applicable federal, state and local environmental regulations and laws unless nonconformity has been stated, defined and considered in this analysis.
9. It is assumed that all applicable zoning and use regulations and restrictions will be complied with unless a nonconformity has been stated, defined and considered in this analysis.
10. It is assumed that the existing or proposed improvements will conform to the Certificate of Occupancy as issued by the appropriate municipal agency.
11. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraisers. The appraisers have no knowledge of the existence of such materials on or in the property. The appraisers, however, are not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially

hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field if desired.

12. That all mortgages, liens, encumbrances, leases and servitudes have been disregarded unless so specified within this appraisal report. The property is appraised as though under responsible ownership and competent management.
13. That no survey of the property has been made by the appraisers, and no responsibility is assumed in connection with such matters. Sketches used in this appraisal report are included only to assist the reader in visualizing the property.
14. That this appraisal report is meant to be presented in its entirety. If this report is presented in any form other than its complete form, it becomes invalid.
15. The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made a specific survey or analysis of this property to determine whether the physical aspects of the improvements meet the ADA accessibility guidelines. Since compliance matches each owner's financial ability with the cost to cure the property's potential physical characteristics, the appraisers cannot comment on compliance to ADA. A brief summary of physical aspects is included in this report. It in no way suggests ADA compliance by the current owner. Given that compliance can change with each owner's financial ability to cure non-accessibility, the value of the subject does not consider possible non-compliance. Specific study of both the owner's financial ability and the cost to cure any deficiencies would be needed for the Department of Justice to determine compliance.

HOUSING NEED

The above data demonstrates strong need for rental housing in Saratoga. Continued low vacancy rates, strong population growth and continued economic growth, driven by the huge technology investments in the region, should keep demand strong in the coming years. The project should maintain 95% occupancy given market conditions, without the need of offering rent concessions.

Accordingly, underwriting shall assume the figures described earlier in the report, with a vacancy assumption of 5%. The commercial space with the pre-school shall be operated by the developer, but it too shall be given a vacancy assumption of 5% because that is how the banks will underwrite the project.

NO AFFORDABLE HOUSING COMPONENT

The project assumes no affordable housing component and no subsidized housing. Once construction commences, it will be impossible for the developer to seek any sort of subsidized housing credits and so it will be functionally impossible for the developer to put any affordable component in the building. The project will be exclusively for the luxury market with finishes designed to attract that demographic.

PROJECT FUNDING

The following is a description of the underwriting for the construction of the Victory Mills loft project.

The budget for "hard costs" (i.e. actual construction costs) is \$20,914,901. The breakdown of the hard costs is annexed hereto as Appendix A.

The budget for "soft costs" (i.e. ancillary non-construction costs) is \$2,355,000. The breakdown of the soft costs is annexed hereto as Appendix B.

Adding the two together, we have total project costs of \$23,269,901.

As noted previously, the project will have gross income of \$1,963,950. Bank officers subtract ten percent (10%) off of that as an added cushion known as a "debt service coverage ratio". Since the onset of the crisis, most deduct twenty percent (20%), but we are willing to work with a more optimistic assumption of ten percent (10%).

Subtracting that ten percent (10%) leaves \$1,767,555 in gross income available for debt service.

From that figure we must deduct the annual expenses (including real estate taxes) of \$697,562. **That leaves \$1,069,993 available for debt service.** The pro forma analysis yielding the \$1,069,993 figure is annexed as Appendix C.

Assuming a loan at 3.5% annually, amortized over thirty (30) years, that would permit a loan of \$19,857,046. With a loan of that size, the project will require equity of \$3,412,855 to cover the total project costs of \$23,269,901. The analysis is as follows:

Loan:	\$19,857,046
Equity:	<u>\$ 3,412,855</u>

TOTAL PROJECT COSTS: \$23,269,901

The annual cost to service debt of \$19,857,046 would be \$1,069,990. When added to the operating expenses of \$697,652, it leaves total annual expense of \$1,767,642. The analysis is as follows:

Debt Service:	\$1,069,990
Operating Expense:	<u>\$ 697,652</u>
TOTAL EXPENSES:	\$1,767,642

We subtract that from gross income:

Gross Income:	\$1,963,950
Total Expenses:	<u>-\$1,767,642</u>

NET OPERATING INCOME: \$ 196,307

As noted above, the equity invested by the developer is \$3,412,855.

Net operating income of \$196,307, leaves an annual return on the \$3,412,855 equity investment of just 5.75%.

A 5.75% return is not enough to justify an investment in the project.

If you change the \$230,900 annual real estate tax expense to \$30,000 for eight years, with a twenty percent (20%) annual ramp-up to full taxation over the next five years, as provided by Real Property Law Section 485-a, then annual expenses drop from \$697,652/year to

\$466,752/year in the critical first eight years of operation. That additional income stream allows the project to borrow an additional \$1,431,789.

With the additional \$1,431,789, the equity required by the project is no longer \$3,412,855, but \$1,981,066. Assuming the same net operating income of \$196,307, **that results in an annual return on equity of 9.9%, enough to make the project viable.**

Under these circumstances the project is viable and should have no trouble obtaining funding.

APPENDIX A

HARD COST CONSTRUCTION BUDGET

Victory Mill
Development Cost Schedule
 5/1/12

	To be incurred	Remaining Balance
SITE WORK		
Demolition-Interior only	387,000.00	387,000.00
General Site Work	845,000.00	845,000.00
Fencing	1,100.00	1,100.00
Other	18,700.00	18,700.00
Subtotal Site Work	1,251,800.00	1,251,800.00
DIRECT CONSTRUCTION COSTS:		
HARD COSTS		
General Conditions	993,450.00	993,450.00
Foundation & Footings	368,000.00	368,000.00
Masonry	524,000.00	524,000.00
Metals	1,163,789.00	1,163,789.00
Carpentry	4,645,000.00	4,645,000.00
Waterproofing	142,300.00	142,300.00
Insulation	367,500.00	367,500.00
Roofing	577,000.00	577,000.00
Sheet Metal	41,100.00	41,100.00
Electrical	1,310,000.00	1,310,000.00
Plumbing	940,000.00	940,000.00
HVAC	1,200,000.00	1,200,000.00
Doors/Windows/Glazing	1,469,745.00	1,469,745.00
Drywall	1,548,633.00	1,548,633.00
Tile Work	0.00	
Utilities/Cable/Communications	By owner	
Flooring	458,200.00	458,200.00
Carpeting	180,000.00	180,000.00
Painting & Decorating	584,154.00	584,154.00
Specialties	65,230.00	65,230.00
Cabinets / Casework	542,000.00	542,000.00
Appliances	210,000.00	210,000.00
Health & Fitness Center	By owner	
Parking and Garage Costs	246,000.00	246,000.00
Business Center	By owner	
Elevators	85,000.00	85,000.00
Fire Protection	389,000.00	389,000.00
Environmental Remediation Costs	0.00	
Landscaping	20,000.00	20,000.00
TI work for commercial tenants	By owner	
Other/Misc.	393,000.00	393,000.00
Subtotal Hard Costs	18,463,101.00	18,463,101.00
OTHER CONSTRUCTION COSTS		
Contingency	0.00	0.00
Other	1,200,000.00	1,200,000.00
Subtotal Direct Const. Costs	1,200,000.00	1,200,000.00
TOTALS	20,914,901.00	20,914,901.00
Totals Not to Exceed		

APPENDIX B

SOFT COST CONSTRUCTION BUDGET

VICTORY MILLS SOFT COSTS

Architect	\$375,000
Building Permit	\$165,000
Legal	20,000
Marketing	\$30,000
Hazard & Liability Insurance	\$125,000
Title Insurance	\$200,000
Closing Costs	\$20,000
Interest	\$460,000
Interest Reserve, Post Construction	\$380,000
Bank Origination Fee	\$120,000
Mortgage Broker Fee	\$225,000
Mortgage Recording Tax	\$200,000
Lender's Counsel	\$35,000
TOTAL:	\$2,355,000

APPENDIX C

PRO FORMA DEMONSTRATING INCOME AVAILABLE FOR DEBT SERVICE

Revenues	Year 1	Year 2	Year 3	Year 4
Net Rental Revenue	1,957,235	2015952.1	2076430.6	2138723.5
Vacancy (Assumed 5%)	-97,862	-100797.6	-103821.5	-106936.2
Misc Income		0	0	0
Pet Income	8,000	8240	8487.2	8741.816
Garage (not package spot)	63,360	65260.8	67218.624	69235.183
Misc/App fee	5,000	5150	5304.5	5463.635
NSF/Late fees	3,405	3507.15	3612.3645	3720.7354
Media Income	24,812	25556.36	26323.051	27112.742
School rent	36,000	37080	38192.4	39338.172
Total Revenue	<u>1,963,950</u>	2022868.8	2083554.8	2146061.5
Debt Service Coverage Ratio (at 10%)	<u>1,767,555</u>	1820581.9	1875199.3	1931455.3
Expenses		0	0	0
		0	0	0
Advertising	12,000	12360	12730.8	13112.724
Real Estate & Taxes	230,900	237827	244961.81	252310.66
Repairs & Maintenance	19,000	19570	20157.1	20761.813
Water	11,500	11845	12200.35	12566.361
Sewer	11,500	11845	12200.35	12566.361
Janitor/Cleaning Supplies	4,000	4120	4243.6	4370.908
Exterminating	1,500	1545	1591.35	1639.0905
Trash removal	12,500	12875	13261.25	13659.088
Grounds/Snow removal suppl	16,000	16480	16974.4	17483.632
Elevator Contract	10,000	10300	10609	10927.27
Vehicle Maint/Exp	6,500	6695	6895.85	7102.7255
Misc Repairs	55,000	56650	58349.5	60099.985
Utilities		0	0	0
Gas	20,250	20857.5	21483.225	22127.722
Electric	30,000	30900	31827	32781.81
Salaries, Wages,		0	0	0
Leasing agent	42,000	43260	44557.8	45894.534
Maintenance	40,000	41200	42436	43709.08
Payroll taxes	5,200	5356	5516.68	5682.1804
Administrative		0	0	0
bank/CC fees	5,800	5974	6153.22	6337.8166
office supplies	2,500	2575	2652.25	2731.8175
Media expenses		0	0	0
Cable exp	24,206	24932.18	25680.145	26450.55
Telephone exp	23,324	24023.72	24744.432	25486.765
Web/Internet	12,838	13223.14	13619.834	14028.429
Professional Services		0	0	0
Auditing/Accounting	9,000	9270	9548.1	9834.543
Engineering/Architect	1,000	1030	1060.9	1092.727
Legal	1,500	1545	1591.35	1639.0905
Misc Professional	1,000	1030	1060.9	1092.727
Insurance	26,900	27707	28538.21	29394.356
		0	0	0
		0	0	0
Management Fee (3%)	61,653	63502.49	65407.564	67369.791
Bad Dept exp	<u>16</u>	16.48	16.9744	17.483632
Total Expenses	<u>697,587</u>	718514.51	740069.94	762272.04
		0	0	0
Available for Debt Service	<u>1,069,968</u>	1102067.4	1135129.4	1169183.3

Year 5

2202885.2

-110144.3

0

9004.0705

71312.238

5627.5441

3832.3575

27926.125

40518.317

2210443.3

1989399

0

0

13506.106

259879.98

21384.667

12943.351

12943.351

4502.0352

1688.2632

14068.86

18008.141

11255.088

7315.8073

61902.985

0

22791.553

33765.264

0

47271.37

45020.352

5852.6458

0

6527.9511

2813.772

0

27244.066

26251.367

14449.282

0

10129.579

1125.5088

1688.2632

1125.5088

30276.187

0

0

69390.885

18.008141

0

785140.2

0

1204258.8