

5933 Main Street LLC

Supplement to IDA Application

Describe the reasons why the Agency's Financial Assistance is necessary and how the Financial Assistance enables the company to undertake the Project to facilitate investment, job creation and/or job retention. Focus on competitiveness issues, project shortfalls, etc... Your eligibility determination will be based in part on your answer (attach additional pages if necessary)

Response: IDA financial assistance is necessary due to the challenges in redeveloping the infill Project Site as a mixed-use project. The redevelopment project faces a number of financial obstacles that do not exist when developing a greenfield site consisting of vacant land as traditional single-use or mixed-use development. Without the assistance of the IDA, the Applicant's projected rate of return on invested capital does not justify the substantial investment required to successfully redevelop the Project Site or the risk inherent with a real estate investment.

Mixed-use projects typically require more initial capital than single user projects as the mixture of uses adds to the costs of overall development and the level of complexity. The Applicant has previously completed two mixed-use projects in the Town of Amherst and is very familiar with this type of development and the challenges involved from an owner's perspective. The two completed projects are University Place at 1280-1300 Sweet Home Road and the Commons on North French at 4500-4900 North French Road. Both of these mixed use projects were both comprised of first floor retail space with residential dwellings above.

Compared to other single-use projects completed by the Applicant, both University Place and the Commons on North French had a lower internal rate of return on invested capital. As mixed-use buildings have only relatively recently began popular and encouraged by municipalities in Western New York, there are uncertainties attributable to the lack of

experience with this type of project as compared to traditional project with a single user or a single category of uses on a site. The design and construction of these two projects was far more complex than for a single-use building, with less experience by local contractors, leading to increased planning and hard construction costs.

There are additional challenges for mixed-use projects relating to marketability of the retail and residential space. Leasing of residential units is restricted to the limited pool of individuals that are willing to live above retail space. Similarly, retailers and restaurant tenants have concerns about having residential units above their spaces and are often limited in the design and use of their spaces as compared to single-use developments. For example, mechanical equipment for the first floor tenants must be ducted through the residential spaces, and careful attention is required to control noise and odors, while balancing the placement of such equipment relative to residential floor plans. Extensive planning is involved and assumptions must be made during the initial construction prior to securing retail/restaurant tenants for 1st floor space. This leads to additional design costs and less leasing flexibility.

Despite the challenges of mixed-use, the Applicant was able to complete the two previously mentioned mixed use projects without IDA assistance. For those projects, the internal rate of return on invested capital justified the increased risk for the mixed-use project and the Applicant took a long-term view on the investment. However, the economics of this mixed use redevelopment of an infill site are considerably different. Compared to the Applicant's previously completed mixed-use projects, this redevelopment project faces extraordinary challenges that, without IDA assistance, would make the project more uncertain, cost prohibitive and overall less attractive of an investment compared to other alternatives.

Most notably, University Place and the Commons on North French were greenfields developments with land acquisition costs that were significantly less than the Project Site. The land on which the Applicant completed University Place and the Commons on North French were acquired at \$151,136 per acre and \$77,071 per acre, respectively. The Project Site is under contract for \$773,809 per acre. The reality is that this project could not be completed with a lower land acquisition cost. The purchase price of \$773,809 per acre is the result of extensive negotiations with the current owner. The owner was unwilling to further negotiate the purchase price, while at the same time was not willing to undertake the substantial costs and development risk to complete the redevelopment project. The additional land cost for this Project Site has led to more significant up-front costs that, without IDA assistance, would make this project cost prohibitive.

Furthermore, the current project requires substantial demolition, environmental, and infrastructure costs that were not present at the previous mixed-use projects completed by the Applicant. The Project Site is a brownfield, as defined by the U.S. Environmental Protection Agency as “under-used industrial or commercial facilities where expansion or redevelopment is complicated by real or perceived environmental contamination”. Enclosed with this application is the Phase II report by LSC Environmental which identified contaminants at the site that will need to be remediated as part the project. Spill number 1505873 has been assigned to the Project Site by the NYS Department of Environmental Conservation (“NYSDEC”) and any soils during site excavations from the contaminated area must be tested and analyzed by an approved laboratory in accordance with the NYSDEC’s stringent standards.

The Project Site contains an existing vacant building that has clearly outlived its useful life from a marketability perspective and must be demolished in order to construct the new

building. It is highly likely that the existing vacant building contains asbestos, the removal of which will increase the demolition costs. Also notable is the presence of existing utility structures (overhead power lines, a public water pit, water and sanitary sewer lines) on the Project Site that will need to be relocated to accommodate the mixed use building and other required site improvements. The cost of the relocation of existing utility improvements has not yet been determined but it will be substantial and makes the redevelopment project more complex. Financial provisions further need to be made for installing site utility infrastructure and foundations in bedrock exists at a depth of only 2-3 feet in many areas.

IDA assistance is further necessary to mitigate some the substantial costs related to the architectural design of the mixed use building. Architectural drawings were subject to architectural approval by the Village of Williamsville's Planning Board per the Village's mixed use design standards and the redevelopment project was designed to be integrated into the surrounding community. All four sides of the building include extensive masonry work, with detailed dryvit work and a "streetscape" façade to resemble multiple buildings, consistent with the Village's design standards and the long term planning vision of the Village of Williamsville. Typically new buildings are designed such that the front side of the building features higher quality building materials and enhanced architectural features. However, this typical approach is not permitted by the Village's design standards for property zoned Mixed Use.

The concept design phase of this project was completed over a two year period with the owner incurring significant "soft costs" for professional and design fees during this period. Plans have been prepared with multiple revisions to address the concerns of all interested parties. The redevelopment project is particularly unique in that the Project Site is located in two municipalities. The proposed three story mixed use building will be located partially in the

Town of Amherst and partially in the Village, thereby subjecting to the redevelopment project to site plan approval and the permitting processes of both municipalities. Overall, the final design contains elements which, while they make the redevelopment project consistent with the Village's stringent design standards, make the project more difficult to complete from a cost perspective and do not reflect typical value engineering that would typically be a standard part of a project this size. Because of the location and requirements of the Village, this project faces additional challenges that justify IDA assistance.

While overall development costs for the proposed project are projected to exceed the actual costs of the previously completed mixed-use projects by the Applicant, revenues are anticipated to be similar. Density is a key factor in determining the profitability of a mixed-use project. To offset the increased design, construction costs and inherent uncertainty in complex mixed-use projects, achieving density is critical to the economic viability and success of the redevelopment project. At University Place, the Applicant was able to achieve such density with 42 residential units and 9 commercial tenants (approximately 18,000 square feet). While the Commons on North French only had 12 residential units, there are 14 commercial tenants (approximately 18,000 square feet), including a free standing restaurant. The proposed project is comprised of only 20 residential units and approximately 7 commercial spaces (approximately 15,000 square feet of leasable 1st floor space). Furthermore, rents per square foot at this location are expected to be similar as University Place and the Commons on North French. Theoretically, due to the site location along Main Street, the rental rates at this location should exceed the previous two mixed-use projects completed by the Applicant. It is the Applicant's opinion, however, that notwithstanding the increased rental rate per square foot, there is a cap on the total dollar residential rental rates where individuals prefer ownership over leasing. Accordingly,

there is only so much income that can be derived from the project and, given the increased costs associated with this redevelopment project, the rate of return on investment is not enough to justify the increased construction and development risk.

Overall, the proposed redevelopment project faces considerable challenges for the Applicant compared to traditional single-use or other mixed-use greenfield development. The Project Site is a brownfield site with an environmental cleanup required per NYSDEC standards. There is also significant financial obstacles relating to the demolition of the existing vacant building, the design and construction of the new three-story mixed use building, as well as the bedrock subsurface. While the Applicant is confident the project will have a lasting positive impact on the neighborhood and will be a dramatic improvement to the existing condition, there is no doubt this project is less favorable from a pure return on investment perspective when compared to a single-use greenfield development. In the end, the redevelopment project needs to make sense from a financial perspective in order to justify the investment of capital necessary to complete the project. IDA assistance is crucial to provide more certainty in cash flow resulting from available property tax incentives. IDA assistance in the form of a sales tax exemption will further help mitigate the significant upfront costs for the project. With IDA incentives, the Applicant is willing to incur the risk and make the long-term investment in what will be a successful project for the community.

The current structure on the site has been vacant for over a year and is functionally obsolete from a marketing and leasing perspective. Prior to the Applicant's current involvement, it appeared that the current project was likely to be abandoned. Many other developers have attempted to secure a deal for this site and have been unwilling to pay the purchase price or agree to the terms and conditions required by the current owner. The Applicant has spent significant

time and resources attempting to make this redevelopment project a reality and at all times has proceeded based on its position that the project qualifies for IDA assistance.