# APPENDIX K
# Mayor's Committee Report

#11

INCORPORATED
VILLAGE OF GARDEN CITY

# Report of the Mayor's Committee on St. Paul's

July 2008

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## Executive Summary

In October of 2007, the Board of Trustees (Board) conditionally designated AvalonBay Communities, Inc. (AvalonBay) to redevelop the St. Paul's Main Building. The conditional designation gave AvalonBay the exclusive right to negotiate with the Village. The designation concluded the effort begun when the Village issued a Request for Proposals (RFP) in July of 2006 to solicit proposals from private firms to save the Main Building. The developer selection process is set forth in the December 2007 Village Facts, which is available on the Village website www.gardencityny.net/administration.htm.

The Board action was the culmination of Board decisions made on St. Paul's dating to 1993. During the last 15 years, many alternative uses for St. Paul's have been reviewed and fully evaluated. All of the uses, including using the building for a Village Hall, Library, or High School, have been ruled out for a variety of reasons. The Village's website contains reports regarding the numerous options that have been evaluated to preserve St. Paul's.

The Mayor's Committee for St Paul's (Committee) has been charged by the Mayor as follows:

*Keeping in mind the overall goal to preserve and maintain the St. Paul's Main Building at minimal or no cost to Garden City taxpayers, the Committee is charged to deal with AvalonBay...to get the best possible project options for consideration by Garden City's public and Board of Trustees and further to assist the Board of Trustees in measuring public support for a project option. (March 6, 2008)*

Over the past several months the Committee has worked to achieve this objective and has completed the following tasks:

- Formulated two options for analysis:
    1. No public space in St. Paul's
    2. 12,500 square feet of public space in St. Paul's
- Completed preliminary site plan review of both options with the Village's Planning Commission
- Completed preliminary review of alternative design approaches with the Village's Architectural Design Review Board
- Updated the land appraisal to reflect current market conditions
- Commissioned an appraisal of AvalonBay's proposed 99-year ground lease to test AvalonBay's need for new construction on the site and request for a Payment in Lieu of Taxes (PILOT)
- Retained an independent financial advisor to assist in validating and negotiating a fair and equitable business deal with AvalonBay
- Updated cost estimates for demolition and mothballing of St. Paul's

## AvalonBay Development Plan

The AvalonBay development plan affects about 7 acres surrounding St. Paul's Main Building. The remaining 41 acres of playing fields, Cluett Hall, Ferringa Field House and the Cottages will remain in the Village's control for residents' use and enjoyment.

### Option 1: No Public Space in St. Paul's

AvalonBay proposes to renovate the 125,000 gross square foot Main Building into 62 apartments, demolish the 16,000 gross square foot Ellis Hall, and construct a new 4-story building of 78,000 gross square feet with 46 apartments, for a total of 108 apartments. AvalonBay's project cost is $53.9 million. The new building would be located to the rear of the Main Building. The Village's Building Superintendent determined that 227 parking spaces were required for the apartments. (See **Attachment 1** for the site plan) AvalonBay anticipates receiving federal preservation historic tax credits valued at $5.4 million, and is required to comply with the New York State Historic Preservation Office (SHPO) historic preservation requirements. The preservation plan includes full restoration of the building exterior, new roofing, renovation of the chapel and portions of the front parlors, and preservation and renovation of the primary common areas including the grand central staircase and the main corridors.

AvalonBay proposes to renovate the 2,400 square foot chapel for use as resident amenity space for meetings and relaxation by the residents. AvalonBay has agreed to make the chapel available to the Village at no cost for public use one day a week. AvalonBay will also host an on-site annual event to allow additional public access to the historic Main Building.

### Option 2: Public Space in St. Paul's

At the Committee's request, AvalonBay developed an alternate proposal which included approximately 12,500 square feet of public space in the Main Building. In this alternate proposal, AvalonBay would renovate the Main Building with 55 apartments and construct a new 4-story building of 80,000 gross square feet with 46 apartments, for a total of 101 apartments. The public space would consist of 2,400 square feet in the chapel, delivered as finished space, and 10,100 square feet in the west wing of the Main Building's ground floor and basement levels, delivered as core and shell space. The Village's Building Superintendent determined that 211 parking spaces were required for the apartments and 204 parking spaces were required for the public space, for a total of 415 parking spaces. (See **Attachment 2** for the alternate site plan)

The Village would pay AvalonBay a fair market rent of $30 a square foot, or $375,000 annually, plus its pro rata share of operating expenses. The rent would escalate by 3% a year. In addition, the Village would be responsible for the cost of fitting out the 10,100 square feet of core and shell space for meeting rooms and activity space, which is estimated at $700,000 to $1,000,000, depending on the program, based on construction cost estimates prepared by Nelson Architects.

## Planning Commission Review

The Committee worked with AvalonBay and its architect to further develop the project's site plan and analyze alternatives. In response to comments from the Committee, AvalonBay reduced the bulk and moved the location of the proposed new building further from the Main Building to reduce its impact on the historic structure.

On April 9 and May 14, AvalonBay presented the two site plans–with and without public space–to the Village's Planning Commission for preliminary review. (See **Attachments 1 and 2** for site plans) The Planning Commission did not object to the site plan without public space but strongly objected to the site plan with public space as the parking plan negatively impacted the historic site. In response, AvalonBay consulted with its historic preservation consultant, who agreed that the landscape and driveway around the Main Building are essential features of the historic site. She noted that replacement of the landscaped area with a parking lot as reflected in the site plan for option 2, Public Space in St. Paul's, likely would not comply with SHPO's *Standards for Rehabilitation* and would disqualify the project from receiving historic tax credits. The loss of an estimated $5.4 million in federal historic preservation tax credits would make the project financially infeasible for AvalonBay.

## Architectural Design Review Board Review

The Committee worked with AvalonBay and its architect to develop and refine two alternate designs for the new building, which provided contrasting approaches for relating to the Main Building's distinctive architecture. The two approaches differed primarily in their roof forms; one design featured a gable roof, and the other featured a mansard roof. For both designs, the architect proposed red brick cladding with contrasting accent materials.

On April 22, AvalonBay presented the two architectural designs for the new building to the Architectural Design Review Board (ADRB) for preliminary review and received comments on both designs. On May 20, AvalonBay presented revised plans responding to the ADRB's comments. The ADRB reviewed the plans and preferred the gable roof design with red brick cladding and contrasting accent materials. The Committee did not vote its preference for either design. Committee member Cosmo Veneziale, a licensed architect, does not endorse the preference expressed by the ADRB. (See **Attachment 1** for the site plan and architectural drawings)

## Appraisals

At the request of the Committee, Grubb & Ellis recently completed two appraisals for St. Paul's;

1) The land value for luxury condominiums

2) The value of AvalonBay's proposed 99-year ground lease for high-end rental apartments

Both appraisals are available for review at the Library and at Village Hall. (See **Attachment 3** for further background and a review of prior appraisals)

## April 2008 Land Value Appraisal

The land value appraisal of the fee simple interest (absolute ownership of the land) developed to its "highest and best use," luxury condominiums, is **negative** $14.1 million if Ellis Hall is demolished and **negative** $11.2 million, if Ellis Hall is converted to luxury condominiums.

This negative land value is a result of the following factors:

- Historic preservation vs. new construction. The "hard" cost of renovating the Main Building is significantly more than the cost of new construction for a condo unit that would command the same sales price. Escalated to current levels, the construction cost of renovating the Main Building was estimated by Turner Construction at $463 a saleable square foot compared with $270 a saleable square foot for new construction.

- High project costs. Total project costs range from $760 to $806 a saleable square foot, including $10 million for the underground parking and amenity space that would be demanded for a luxury condominium development.

- Declining market conditions. In recent years, escalation in construction costs has outpaced the appreciation of condo sales prices, and this trend is expected to continue in the near future.

- Project risk. The project requires State legislation to remove the current parkland designation from St. Paul's and land use approvals by the Village. These requirements increase project risk because they add an estimated one to two years to the project schedule during which predevelopment costs and construction costs will continue to escalate. Project risk is factored into the value of the land through the appraiser's assumption that a prudent developer would require a minimum return of 20% on invested equity.

## March 2008 Lease Appraisal

The lease appraisal is an assessment of AvalonBay's proposed 99-year ground lease for high-end rental apartments.

The purpose of the lease appraisal was to test the fairness of AvalonBay's proposal, specifically its request for new construction of 46 apartments and a PILOT (Payment In-Lieu of Taxes), which reduces real estate taxes paid by the project over the PILOT term. Please refer to *Real Estate Taxes / Payments in Lieu of Taxes (PILOTs)* section for further detail.

As a baseline, the appraiser was asked to provide an estimated land value assuming renovation of the Main Building only, full real estate taxes, and no additional construction. Under these assumptions, the appraiser calculated a land value of **negative** $9.3 million, assuming an initial year rent of $40 a rentable square foot escalating at 3% a year and real estate taxes of $6.75 a rentable square foot escalating at 3% a year. These values were selected by the appraiser based on his assessment of current market conditions. The lease appraisal concluded that the project is not viable without both a significant amount of new construction and a PILOT.

## AvalonBay Financial Deal Terms

In April, 2008, the Village retained The Greenwich Group International, LLC (GGI), a real estate investment banking firm, as its independent financial advisor. At the Committee's request, GGI reviewed AvalonBay's financial projections and evaluated its proposed financial deal terms. It assisted the Committee in negotiating a fair and equitable financial deal with AvalonBay based on current market conditions. The Committee sought this additional assurance, despite mounting evidence that redeveloping St. Paul's is financially marginal—as demonstrated by the Village's 2005 consultant feasibility study, lack of response to the 2006 RFP from qualified developers, and two current appraisals indicating negative value of the land.

The project calls for AvalonBay to invest $53.9 million. AvalonBay expects to receive $5.4 million through the sale of federal historic preservation tax credits, bringing its net total investment to $48.5 million. Based on AvalonBay's projections, the project will generate an initial yield of 7.45% assuming rents of $39 a rentable square foot after the project is leased and a 20-year PILOT. Without the 20-year PILOT, the initial yield would be 5.5%, which is significantly below the threshold for a developer to build this project.

In GGI's professional opinion the financial deal terms are fair and equitable. Further, based on project costs and risk, GGI also opined that it is unlikely that a better deal could be negotiated with another equally-qualified and financially secure developer.

Proposed financial deal terms are as follows:

- 20-Year PILOT. GGI and the Committee negotiated with AvalonBay to reduce its requested PILOT term from 35 years to 20 years. Upon expiration of the PILOT, AvalonBay would pay full real estate taxes through the end of the 99-year lease. The proposed schedule of PILOT payments is included as **Attachment 4.**

- Village participation in profit above a set developer return. The Committee has also negotiated a participation clause, which would give the Village a portion of profits above a set developer return. The participation clause ensures that the developer earns a fair and equitable financial return on its investment for successfully completing a risky and challenging project but prevents the developer from achieving disproportionate returns at the expense of the Village, given changing market conditions, unknown events, etc. (See **Attachment 4** for more detail regarding the Village's participation.)

## Real Estate Taxes / Payments in Lieu of Taxes (PILOTs)

The final terms of the PILOT, including the schedule of payments, would be executed through the Town of Hempstead Industrial Development Agency. The Village, School District and Nassau County would share in the PILOT payments made by AvalonBay.

Based on the proposed PILOT schedule, AvalonBay would pay a total of $3.6 million in PILOTs over 20 years, which has a present value of $2.0 million. (The formerly proposed 35-year PILOT included higher initial payments; however, the 20-year PILOT creates significantly greater value over time by introducing full real estate taxes in year 21 rather than in year 36.) By comparison, full real estate taxes, estimated by the Village's tax counsel at $7 a rentable square foot escalating at 5% a year for 20 years, would total $30.7 million, which would have a present value of $19.5 million. The net subsidy provided to AvalonBay is thus approximately $17.5 million in present value terms. The Village may regain a portion of this subsidy by its participation in the project's net operating income. The proposed schedule of PILOT payments and comparison to full real estate taxes over 20 years and 35 years is set forth in **Attachment 5.**

## Cost of Demolition and Mothballing

Updated cost estimates for demolishing and mothballing St. Paul's have been prepared by Gardiner & Theobold, a large firm specializing in cost estimation and construction project management.

### Demolition:

Demolition assumes the complete demolition and removal of the Main Building and Ellis Hall, including necessary environmental abatement and contingencies. The estimated cost for demolition is $5.8 million, or $700,000 a year assuming bond financing over a 10-year term at 4%. (See **Attachment 6** for additional detail on the cost estimate)

### Mothballing:

Mothballing or stabilization of St. Paul's assumes the minimum amount of work required to secure the Main Building's exterior from the elements, including near-term replacement of the roof, and improvements that are necessary for public safety. Interior work would be limited to the addition of emergency power to allow for safe access to the building for security checks, inspections, and fire department personnel. Demolition and necessary environmental abatement of Ellis Hall and contingencies are also included. The Main Building would remain in its current uninhabitable condition as it would not conform to the New York State Building Code. The estimated total for mothballing is $13.9 million, or $1.2 million per year assuming bond financing over a 15-year term at 4%. (See **Attachment 6** for additional detail on the cost estimate)

In the Committee's opinion, spending $13.9 million and paying at least $200,000 a year to maintain an uninhabitable building with no planned future use is a waste of time and money.

## Conclusion

The Committee recommends that the Option 1 development plan and the proposed financial deal terms, which our financial advisor has determined to be fair and equitable, be presented to the residents for their review, comment, and vote.

## Summary of Key Issues, Costs, and Benefits

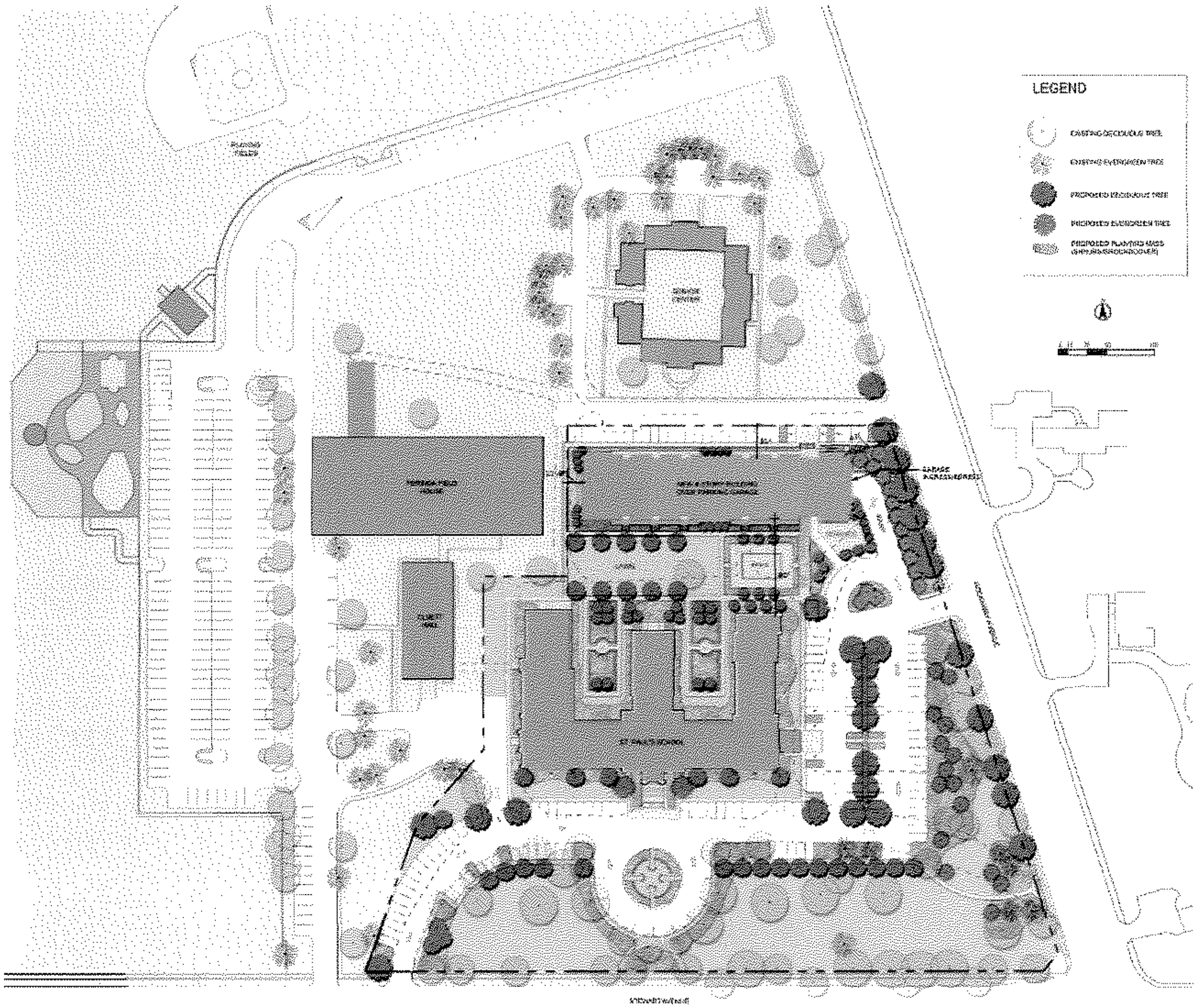
| | AvalonBay Proposal (100% Residential) | Demolition | Mothballing |
|---|---|---|---|
| **Historic Preservation** | Renovation of exterior and interior of Main Building | No | No |
| **Public Use** | Weekly use of chapel at no cost to the Village; annual event to be hosted by AvalonBay | Option for conversion to playing fields or other recreational use (not included in cost estimate) | None |
| **Out-of-Pocket Cost to Village** | None | $5.8 million, which equates to $700K/year assuming cost is financed with tax-exempt bonds for a 10-year period | $13.9 million, which equates to $1.2M/year assuming cost is financed with tax-exempt bonds for a 15-year period<br><br>Additional $200K/year for ongoing operating costs<br><br>Total cost/year: $1.4 million |
| **Real Estate Taxes and Payments in Lieu of Tax (PILOTs)** | Yrs 1-20: PILOTs<br>Yrs 21-99: RE Taxes<br><br><u>Value of PILOTs/RE Taxes</u>[i]<br><br>Yrs 1-20: $3.6 million (sum)<br>$2.0 million (PV)<br><br>Yrs 1-35: $56.7 million (sum)<br>$19.4 million (PV) | None | None |
| **Financial Return to Village** | Village to share in operating income and sales proceeds after AvalonBay receives a set return<br><br>Estimated return on operating income[ii]:<br><br>Yrs 1-20: $3.8 million (sum)<br>$2.0 million (PV)<br><br>Yrs 1-35: $14.4 million (sum)<br>$5.3 million (PV)<br><br>Estimated return to Village if sale in yr 10: $0[iii] | None | None |

**Sum** = sum of payments over specified term
**PV** = present value of payments, discounted at 4%

[i] Includes PILOTs and Real Estate Taxes to the Village, School District, and County
[ii] Village would receive 25% of operating income after AvalonBay receives a return of 10% on its investment.
[iii] Village would receive 25% of proceeds after AvalonBay receives a 13% unleveraged IRR. Assuming 4% annual rent escalation, AvalonBay would achieve an IRR of 11%, which is below the 13% hurdle for Village participation.

## Attachment 1: Site Plan and Architectural Drawings

This is the option endorsed by the Mayor's Committee. It includes **no** public space in St. Paul's, the renovation of the Main Building, the demolition of Ellis Hall, and new construction of 78,000 gross square feet at the site.




# Project Summary

**Residential Units Summary**

- St. Paul's School 62
- New Building 46
- Total Units **108**

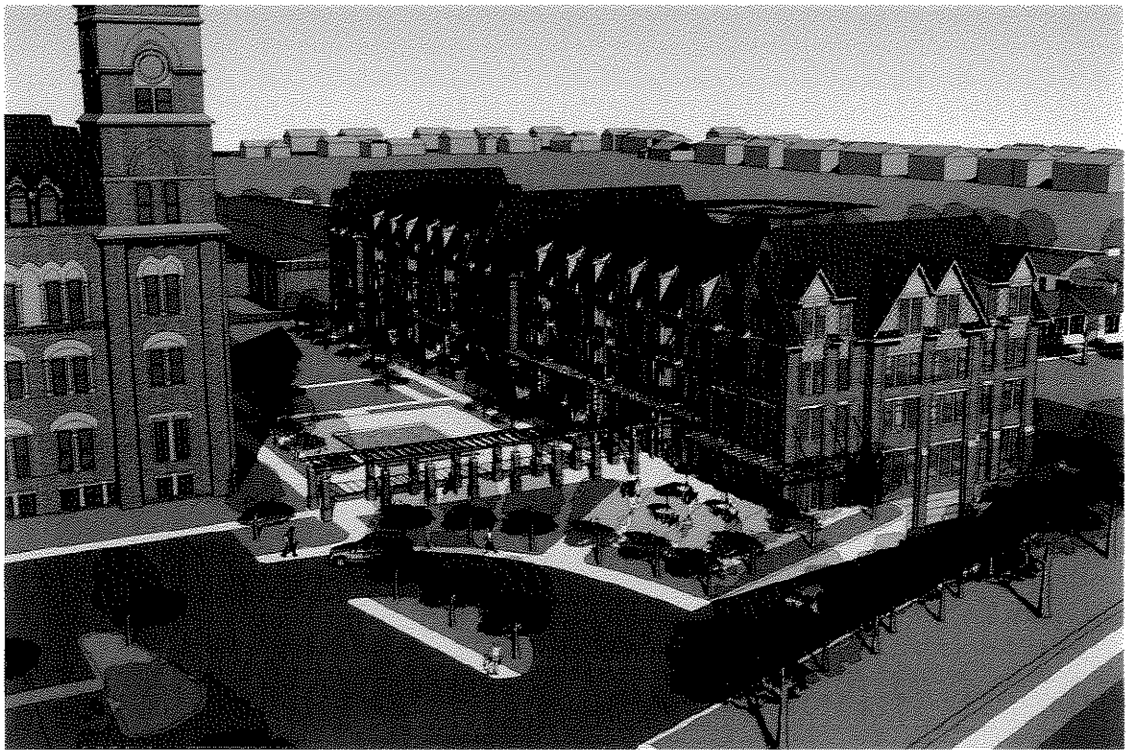
**Parking Summary**

- Garage Spaces (New Building) 50
- Surface Spaces 177
- Total Spaces **227**


Scheme B - Rockaway Avenue Elevation

Scheme B - North Elevation

Scheme B - South Elevation

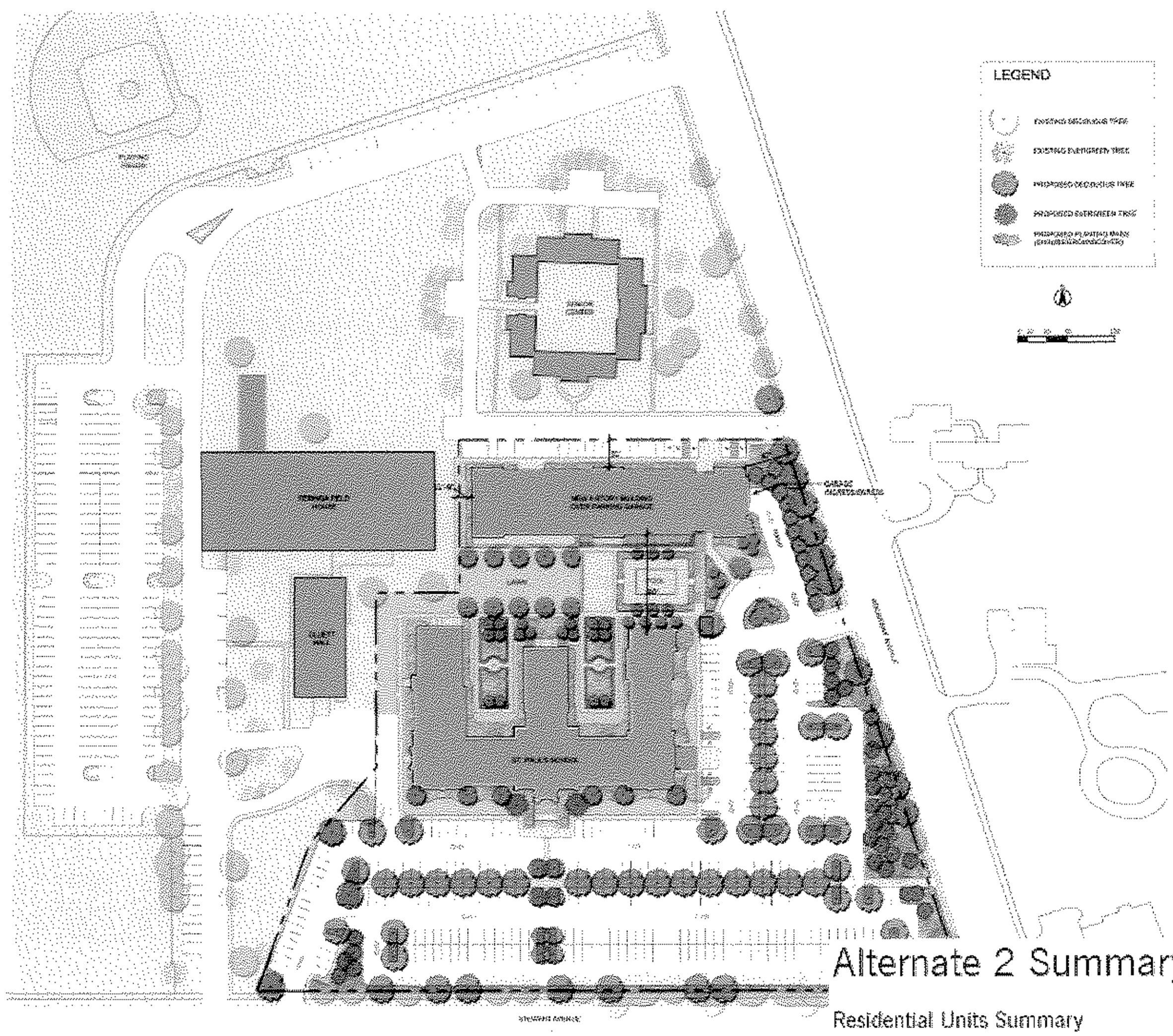


Scheme B: Aerial View of Entry Drop-off & Courtyard

Scheme B: View from Rockaway Avenue

## Attachment 2: Alternate Site Plan (with Public Space)

This option includes 12,500 square feet of public space in St. Paul's, renovation of the Main Building, demolition of Ellis Hall, and 80,000 square feet of new construction at the site. The total parking requirement for this option is 415 spaces, 211 spaces for the apartments and 204 spaces for public use. An analysis of the use of the adjacent off-site parking showed that on fall and spring weekends the parking was insufficient and overflowed onto the St. Paul's site. On most fall and spring weekday afternoons, about half of the off-site parking spaces were used. This analysis did not include any future recreation use of the Cottage area. The Recreation Commission has objected to any development of the St. Paul's site that would negatively impact the parking needs for their programs.




### Alternate 2 Summary

Residential Units Summary
- St. Paul's School 55
- New Building 46
- Total Units 101

Community Space in School 12,529 sf

Parking Summary
- Garage Spaces (New Building) 50
- Surface Spaces 366
- Total Spaces 416

## First Appraisal: "C-configuration" Land Value Appraisal – August, 2005

In August of 2005, the Village engaged a consultant team to complete a feasibility study for the redevelopment of St. Paul's. The feasibility analysis investigated two development options: development within the existing Main Building structure ("E-configuration") and the demolition of most of St. Paul's with preservation of only the Main Building's south, east and west facades and new construction of a larger, modern building behind these facades ("C–configuration"). The initial analysis found that the "C-configuration" was the more financially viable, as the construction would be less costly, units could be designed with more desirable unit layouts, and the project would have more saleable area.

Based on the analysis, Grubb & Ellis (G&E) prepared a highest and best use appraisal assuming the "C-configuration." The draft appraisal identified luxury residential condominium development as the highest and best use and indicated a land value of $20 million. The valuation assumed robust sales prices and escalation, reflecting market conditions at the time of the appraisal. The analysis also significantly underestimated development costs, which resulted in an overstatement of the estimated value.

During the spring of 2006, the consultants undertook intensive marketing of the development opportunity to the development community. Developers overwhelmingly rejected the "C" concept indicating that the property's value lies in preserving and enhancing its original historic character. As a result, this appraisal was never finalized or issued to the Village, and its preliminary findings should be disregarded.

## Second Appraisal: "E-configuration" Land Value Appraisal – November, 2006

As the "C-configuration" appraisal was no longer valid, it was determined that the appraisal of St. Paul's should be revised to reflect the requirements of the Request for Proposals (RFP) that the Village issued to developers in July, 2006. Consistent with the RFP, the appraisal assumed that the Main Building would be renovated, Ellis Hall demolished or redeveloped with housing, and all parking accommodated below grade. In addition, G&E was asked to update its pricing and sales projections to respond to declining market conditions, to adjust costs for escalation, and to correct the previous development cost assumptions to include "soft costs."

The new "E-Configuration" appraisal again confirmed residential condominium development as the highest and best use, and yielded estimated values of $2.4 million, assuming residential conversion of the Main Building and Ellis Hall, and a **negative** value of $1.8 million, assuming residential conversion of the Main Building and demolition of Ellis Hall.

Primary factors driving the reduction in the estimated values included the higher cost of renovation as compared with the new construction contemplated by the "C-configuration"; reduced saleable area; lower initial sales price assumptions due to less marketable, narrower residential layouts; more conservative sales price escalation assumptions resulting from the softening of the residential market; construction cost escalation; and the inclusion of industry-standard soft costs in the capital cost of the project.

## Current Land Value Appraisal – April, 2008

The 2006 "E-configuration" appraisal was updated in April, 2008 to adjust for current market conditions and escalated construction costs. All other development assumptions were held constant from the 2006 appraisal. The current appraisal indicates a **negative** value of $14.1 million if Ellis Hall is demolished, and a **negative** value of $11.2 million, if Ellis Hall is converted to luxury condominiums. This negative land value is a result of the following factors:

- Historic preservation vs. new construction. The "hard" cost of renovating the Main Building is significantly more than the cost of new construction for a condo unit that would command the same sales price. Escalated to current levels, the construction cost of renovating the Main Building was estimated by Turner Construction at $463 a saleable square foot compared with $270 a saleable square foot for new construction.
- High project costs. Total project costs range from $760 to $806 a saleable square foot, including $10 million for the underground parking and amenity space that would be demanded for a luxury condominium development.
- Declining market conditions. In recent years, escalation in construction costs has outpaced the appreciation of condo sales prices, and this trend is expected to continue in the near future.
- Project risk. The project requires State legislation to remove the current parkland designation from St. Paul's and land use approvals by the Village. These requirements increase project risk because they add an estimated one to two years to the project schedule during which predevelopment costs and construction costs will continue to escalate. Project risk is factored into the value of the land through the appraiser's assumption that a prudent developer would require a minimum return of 20% on invested equity.

A summary comparison of the key development and market assumptions utilized for the three land value appraisals follows on the next page.

## Summary of Land Value Appraisals

| | Oct-2005 DRAFT | Nov-2006 Appraisal | | April-2008 Revised Appraisal | |
|---|---|---|---|---|---|
| Summary | | | | | |
| Main Building | C - configuration | E - configuration | E - configuration | E - configuration | E - configuration |
| Ellis Hall | Demolish | Convert to Condos | Demolish | Convert to Condos | Demolish |
| Other | Pool/gym | Pool/gym | Pool/gym | Pool/gym | Pool/gym |
| Parking | Underground and surface | Underground | Underground | Underground | Underground |
| Unit Count | | | | | |
| Main Building | 86 | 67 | 67 | 67 | 67 |
| Ellis Hall | - | 9 | - | 9 | - |
| Total Units | 86 | 76 | 67 | 76 | 67 |
| Total Gross SF | 118,756 | 141,651 | 125,571 | 141,651 | 125,571 |
| Total Saleable SF | 104,423 | 111,652 | 97,897 | 111,652 | 97,897 |
| Timing | | | | | |
| Construction | 2006 | 2007 | | 2008/2009 | |
| Sell-out | 2007-2008 | 2008-2009 | | 2009/2010 - 2010/2011 | |
| Project Costs | | | | | |
| Construction Costs | | | | | |
| Residential Building | | $ 41,269,793 | $ 41,269,793 | $ 45,396,772 | $ 45,396,772 |
| Parking Garage | | $ 7,552,167 | $ 7,552,167 | $ 8,307,384 | $ 8,307,384 |
| Pool & Fitness Center | | $ 1,690,600 | $ 1,690,600 | $ 1,859,660 | $ 1,859,660 |
| Ellis Hall | | $ 6,058,110 | $ 1,730,594 | $ 6,663,921 | $ 1,903,654 |
| Total Construction Costs | $ 50,471,300[1] | $ 56,570,670 | $ 52,243,154 | $ 62,227,737 | $ 57,467,470 |
| Soft Costs | $ - | $ 14,142,667 | $ 13,060,788 | $ 15,556,934 | $ 14,366,867 |
| Other Costs | | | | | |
| Legal Cost for Conversion | $ 350,000 | $ 400,000 | $ 400,000 | $ 400,000 | $ 400,000 |
| Grounds and Exterior | $ 5,000,000 | $ 6,099,000 | $ 6,099,000 | $ 6,708,900 | $ 6,708,900 |
| Total Project Costs | $ 55,821,300 | $ 77,212,337 | $ 71,802,942 | $ 84,893,571 | $ 78,943,237 |
| Total per Gross SF | $ 470 | $ 545 | $ 572 | $ 599 | $ 629 |
| Total per Saleable SF | $ 535 | $ 692 | $ 733 | $ 760 | $ 806 |
| Sale Price Assumptions | | | | | |
| | per NSF esc. | per NSF esc. | per NSF esc. | per NSF esc. | per NSF esc. |
| 2005 | $ 732 | | | | |
| 2006 | $ 819 12% | $ 768 | $ 766 | | |
| 2007 (2007/2008) | $ 918 12% | $ 815 6% | $ 812 6% | $ 768 | $ 766 |
| 2008 (2008/2009) | $ 1,028 12% | $ 863 6% | $ 861 6% | $ 792 3% | $ 789 3% |
| 2009 (2009/2010) | | $ 967 12% | $ 964 12% | $ 815 3% | $ 813 3% |
| 2010 (2010/2011) | | | | $ 840 3% | $ 837 3% |
| **Estimated Value** | **$ 20,000,000** | **$ 2,400,000** | **$ (1,800,000)** | **$ (11,200,000)** | **$ (14,000,000)** |

[1] Total construction costs for the "C-configuration" were not itemized in the appraisal; costs were estimated assuming $425 per gross square foot x 118,756 gross square feet = $50,471,300

## Lease Appraisal: March, 2008

The lease appraisal indicated a negative value of $9.3 million for the development of St. Paul's as rental housing, assuming no new construction, market rents of $40 a rentable square foot and full real estate taxes, which were estimated by the appraiser at $6.75 a rentable square foot.

The appraisal also found that both additional new construction and a PILOT are necessary to effect the redevelopment of St. Paul's for rental housing, given current market conditions and the rate of return that a prudent developer would require. The appraiser was asked how much new construction would have to be permitted to eliminate the negative land value and bring the land value to breakeven or $0. Assuming full real estate taxes, the appraisal found that 342,000 rentable square feet of new construction or 267 new apartments would be required to offset the cost of redeveloping the Main Building and provide the developer with a reasonable return. With the 35-year PILOT initially proposed by AvalonBay, the appraisal found that 48,000 rentable square feet of new construction is required for financial viability.

Since completion of the lease appraisal, AvalonBay has reduced its projected PILOT term to 20 years. The amount of rentable area in AvalonBay's proposed new building is approximately 59,000 rentable square feet, or 78,000 gross square feet.

## Attachment 4: Village Participation in AvalonBay Profits

The business deal negotiated by the Committee and its financial advisor calls for the Village to participate in net operating income generated by the rental apartments, as well as any refinancing or sale of AvalonBay's leasehold interest.

As proposed, the Village would receive a *Yield Participation* of 25% of net operating income after AvalonBay receives a 10% return on its investment. AvalonBay's initial yield is projected to be 7.45%, so it is not expected that the Village will participate in net operating cash flow in the early years of the project. Over the first 20 years, assuming rent escalation of 3% a year, the Village's anticipated share would total $1.1 million; at 4% rent escalation a year, the Village share is estimated at $3.8 million. However, in the event of hyperinflation, which the financial advisor modeled assuming rent escalation of 3% to 7% during the first ten years and 3% thereafter, the Village share is estimated at $6.8 million.

In the event of a refinancing or sale, the Village would receive an *IRR (Internal Rate of Return) Participation* of 25% of the proceeds after AvalonBay receives a 13% unleveraged IRR. Both forms of participation would continue for the term of the ground lease. In the event of a sale or at the end of the PILOT term, AvalonBay would have the option to pay a market rate ground rent and discontinue the Yield Participation payment. The ground rent would be a fixed percentage of the fair market land value, established by appraisal, and with provisions to be negotiated regarding escalation over the remaining term of the lease.

Although AvalonBay would anticipate holding the property for the long term, for the purposes of analyzing AvalonBay's projected returns, the Village's financial advisor calculated the return to AvalonBay over a 10-year period (an industry-standard investment model period), which assumed that AvalonBay would sell its leasehold interest at the end of the 10 years. Assuming rent escalation of 3%, AvalonBay's unleveraged IRR would be 10.4%. Assuming rent escalation of 4%, AvalonBay's unleveraged IRR would total 11.7%.

### Notes:

**Internal rate of return (IRR)** is the discount rate for which the total present value of future cash flows equals the cost of the investment

**Unleveraged IRR** is the internal rate of return of the investment that **does not** account for debt and interest payments, generally used to ascertain the economic effects of debt financing.

## Attachment 5: Comparison of Full Real Estate Taxes with 20- and 35-Year PILOTs

Under the PILOT agreement, below is the schedule of AvalonBay payments:

| | | Proposed 20-Year PILOT Schedule | 35-Year PILOT Schedule | Estimated Full Real Estate Taxes |
|---|---|---|---|---|
| 1 | 2011 | - | - | *926,983* |
| 2 | 2012 | - | - | *973,332* |
| 3 | 2013 | 25,000 | 200,000 | *1,021,999* |
| 4 | 2014 | 26,875 | 206,000 | *1,073,099* |
| 5 | 2015 | 27,681 | 212,180 | *1,126,754* |
| 6 | 2016 | 28,512 | 218,545 | *1,183,091* |
| 7 | 2017 | 29,367 | 225,102 | *1,242,246* |
| 8 | 2018 | 30,248 | 231,855 | *1,304,358* |
| 9 | 2019 | 31,155 | 238,810 | *1,369,576* |
| 10 | 2020 | 264,000 | 245,975 | *1,438,055* |
| 11 | 2021 | 271,920 | 350,000 | *1,509,958* |
| 12 | 2022 | 280,078 | 360,500 | *1,585,456* |
| 13 | 2023 | 288,480 | 371,315 | *1,664,728* |
| 14 | 2024 | 297,134 | 382,454 | *1,747,965* |
| 15 | 2025 | 306,048 | 393,928 | *1,835,363* |
| 16 | 2026 | 315,230 | 405,746 | *1,927,131* |
| 17 | 2027 | 324,687 | 417,918 | *2,023,488* |
| 18 | 2028 | 334,427 | 430,456 | *2,124,662* |
| 19 | 2029 | 344,460 | 443,370 | *2,230,895* |
| 20 | 2030 | 354,794 | 456,671 | *2,342,440* |
| **Total PILOTs + RE Taxes: Years 1 - 20** | | | | |
| Sum of Payments | | 3,580,096 | 5,790,825 | 30,651,577 |
| PV of Payments* | | 2,026,979 | 3,553,074 | 19,552,893 |
| 21 | 2031 | *2,459,562* | 470,371 | *2,459,562* |
| 22 | 2032 | *2,582,540* | 484,482 | *2,582,540* |
| 23 | 2033 | *2,711,667* | 499,016 | *2,711,667* |
| 24 | 2034 | *2,847,250* | 513,987 | *2,847,250* |
| 25 | 2035 | *2,989,613* | 529,406 | *2,989,613* |
| 26 | 2036 | *3,139,093* | 545,289 | *3,139,093* |
| 27 | 2037 | *3,296,048* | 561,647 | *3,296,048* |
| 28 | 2038 | *3,460,851* | 578,497 | *3,460,851* |
| 29 | 2039 | *3,633,893* | 595,852 | *3,633,893* |
| 30 | 2040 | *3,815,588* | 613,727 | *3,815,588* |
| 31 | 2041 | *4,006,367* | 632,139 | *4,006,367* |
| 32 | 2042 | *4,206,685* | 651,103 | *4,206,685* |
| 33 | 2043 | *4,417,020* | 670,636 | *4,417,020* |
| 34 | 2044 | *4,637,871* | 690,755 | *4,637,871* |
| 35 | 2045 | *4,869,764* | 711,478 | *4,869,764* |
| **Total PILOTs + RE Taxes: Years 1 - 35** | | | | |
| Sum of Payments | | 56,653,908 | 14,539,210 | 83,725,389 |
| PV of Payments* | | 19,353,514 | 6,449,330 | 36,879,428 |

* Present value discounted at 4%

*Italics* = Estimated full real estate taxes

## Attachment 6: Demolition and Mothball Cost Estimates

Nelson Architects and Gardiner & Theobold (Cost Estimators) were engaged in May 2008 to prepare a cost estimate for: 1) the demolition of the Main Building and Ellis Hall, and 2) the mothballing or stabilization of the Main Building and the demolition of Ellis Hall. A summary of their cost estimates is below:

**COST ESTIMATES: DEMOLITION AND MOTHBALLING**
Prepared by Nelson Architects and Gardiner & Theobold, Cost Estimators
June 16, 2008

| | | | |
|---|---|---|---|
| **1. DEMOLITION** | | | **Notes:** |
| ***Hard Costs:*** | | | |
| Main Building | | $3,548,490 | Demolition, abatement, contingencies |
| Ellis Hall | | $1,820,000 | Demolition, abatement, contingencies |
| Subtotal | | $5,368,490 | |
| *Construction Costs Escalation* | 8% | $429,479 | To June, 2009 |
| Total Hard Costs | | $5,797,969 | |
| ***Soft Costs:*** | | $20,000 | Mechanical engineer, permits |
| *Soft Costs Escalation* | 3% | $600 | |
| Total Soft Costts | | $20,600 | |
| **Total** | | **$5,818,569** | |
| **2. MOTHBALL MAIN BUILDING** | | | |
| ***Hard Costs:*** | | | |
| Main Building | | | |
| Building Enclosure | | $8,199,556 | Abatement, contingencies |
| Emergency power | | $200,000 | |
| Subtotal - Main Building | | $8,399,556 | |
| Ellis Hall | | $1,820,000 | Demolition, abatement, contingencies |
| Subtotal | | $10,219,556 | |
| *Construction Costs Escalation* | 8% | $817,564 | To June, 2009 |
| Total Hard Costs | | $11,037,120 | |
| ***Soft Costs:*** | 25% | $2,759,280 | Architectural & engineering, permits, insurance, etc. |
| *Soft Costs Escalation* | 3% | $82,778 | |
| Total Soft Costs | | $2,842,059 | |
| **Total** | | **$13,879,179** | |

**Additional Notes:**

- Demolition is defined as the complete removal of the referenced structure or space. Site will be only brought to grade – no landscaping or aesthetic site restoration is included.

- Mothballing entails the enclosure of the entire building envelope, including shingled gable roofing replacement and associated sheathing and flashing replacements, replacement of existing flat roofs, cleaning and repointing of façade, removal of plant growth, repairing and replacing structural masonry as required, replacement of flashings, gutters and downspouts, replacement of broken windows to a weather-tight condition, exterior sealants and door replacements, and scaffolding for the entire building.

- Funds potentially available to offset the cost to the Village of either demolition or mothballing include approximately $283,000 remaining in the Village's Capital Maintenance Fund, and $750,000 from Nassau County's "Brownfield's" Fund, for a total of $1,033,000.