

Overview and Cost Analysis of Proposed Construction of Community Housing

Shelter Island Community Housing Board

September 2023

The Proposed Plan

Development of New Rental Housing Stock

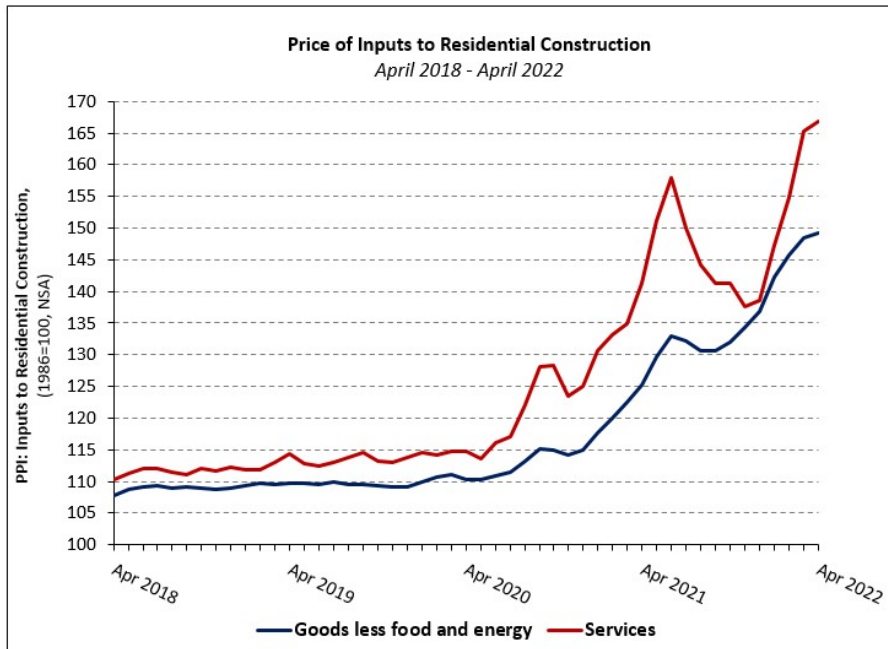
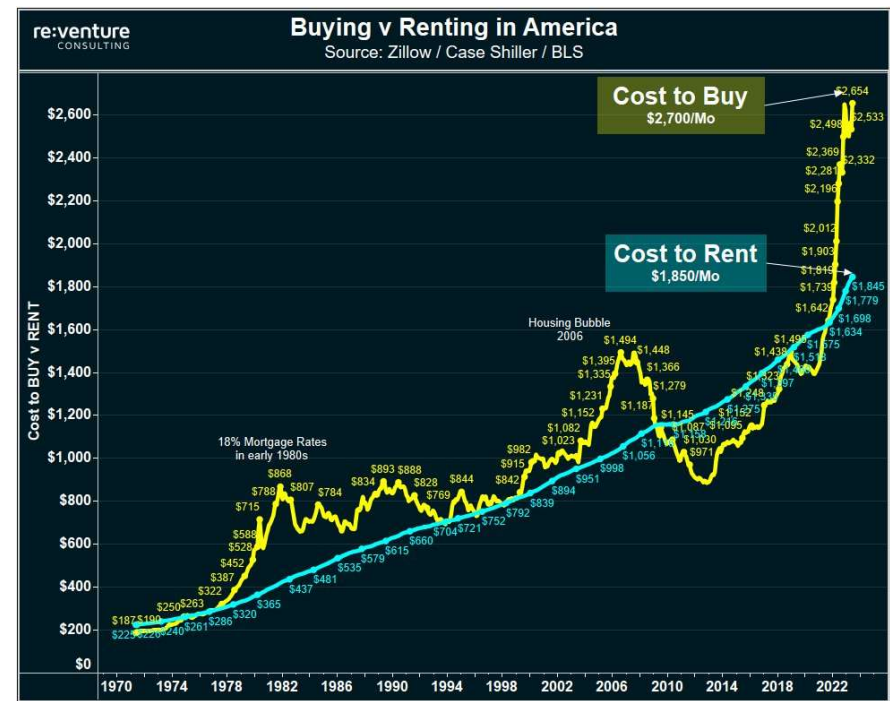
- Create of a portfolio of high-quality properties purpose built for rental and for long-term affordable housing on property currently owned by the town of Shelter Island
- Financial assumptions: Develop on three properties to create 10 units made up of six one bedroom and 4 two-bedroom apartments structures:
 - 12 S Ferry Road, 69 N Ferry Road and 16 Manwaring Road
 - Six one unit on S Ferry Road and with the remaining consisting of two structures with 2 bedrooms
 - Land contributed or leased at no cost to developer
- Utilize a private developer to provide an RFP to do all work necessary to achieve a Certificate of Occupancy
- Winning proposal will include management services
- Model assumes standard costs of development at market rates
- Rental assumptions are based on HUD 2024 guidelines for the type of units developed
- Property level expenses are based on typical multi-family expense margins excluding property tax
- Assumed property taxes can be waved or eliminated if ownership structure is appropriate



Difficulties in Home Ownership

Increased Spread to Ownership & Materials Inflation

- Purchasing a home on Shelter Island is prohibitively expensive and rentals units are difficult to obtain
- However, this undertaking is coinciding with a massive inflation of materials and labor input costs greatly impacting the cost to construct new housing stock
- Cost inflation is cooling as interest rates have climbed



PPI MATERIALS INPUTS Forecast for JUL 2023									
% change in index		2020	2021	2022	2023	2023YTD	YTD vs		
		avq %	avq %	avq %	JUL	vs Dec22	Avq 22		
Inputs to Nonres Constr %	WPUIP231200	0.2	18.5	15.7%	-0.01	1.8	-0.5%		
Inputs to Res Constr	WPUIP231100	2.4	18.3	12.6%	0.17	1.7	-3.0%		
Ready Mix Concrete	WPU1333	2.5	3.8	10.3%	-0.5	5.4	10.1%		
Concrete Pipe	WPU1332	5.1	4.6	19.6%	1.7	3.5	13.1%		
Concrete Block & Brick	WPU1331	3.0	4.2	12.0%	-0.2	7.1	10.4%		
Paving Mixtures	WPU1394	-3.0	3.6	16.7%	-0.2	1.4	4.1%		
Lumber/Plywood	WPU1004011	16.9	41.1	-0.9%	-1.1	-1.5	-22.0%		
Steel Mill Products	WPU1017	-9.6	90.2	8.7%	-0.4	1.2	-15.2%		
Fabricated Structural Steel	WPU107405	-2.3	26.7	27.8%	-0.6	0.9	-0.5%		
Steel Pipe and Tube	WPU101706	-5.2	44.9	26.9%	-4.9	-12.8	-16.2%		
Sheet Metal	WPU1073	-0.6	19.6	20.8%	1.4	1.0	1.5%		
Asphalt Roofing/Siding	WPU1361	2.1	11.5	17.7%	1.9	2.4	3.9%		
Rubber & Plastics	WPU0721	1.8	22.3	23.3%	-0.92	-3.1	-1.5%		
Gypsum Products	WPU137	0.4	16.2	18.7%	-0.2	-0.7	3.9%		
Flat Glass	WPU1311	1.5	5.3	10.4%	0.4	2.6	6.4%		
Nonferrous Wire and Cable	WPU102603	0.2	27.0	13.0%	-1.7	-4.1	-0.2%		
Copper & Brass Mill Shapes	WPU102502	2.8	41.8	2.9%	-1.9	-0.9	-1.5%		
Aluminum Mill Shapes	WPU102501	-8.6	25.0	12.8%	-1.0	0.2	-7.9%		
#2 Diesel Fuel	WPU057303	-20.6	79.8	65.9%	-6.4	-25.6	-32.4%		

data to JULY from FRED PPI reports 8-11-23

edzarenski.com



Build-to-Rent Design Concepts

BTR has broad design concepts to deliver the best product for the location and tenant needs

Renters are less focused on personalized homes but expect thoughtfully designed areas and well-constructed homes that enhance tenant fulfillment

- Standardized designs with fewer plans, consistent materials and fixtures will lower construction costs
- Smaller sizes across property types; Renters pay diminishing returns from excess space
- High quality fixtures, private outdoor space and high ceilings to provide a high-end experience
- Designed with the understanding that there will be move-in and move-outs: Fewer doors, wider hallways and high-quality flooring will ease tenants work while lower turnover expense
- Private space with natural light
- Design for ease and comfort with high-performing HVAC and electrical systems, water heating and filtration, with exterior access for maintenance work where possible

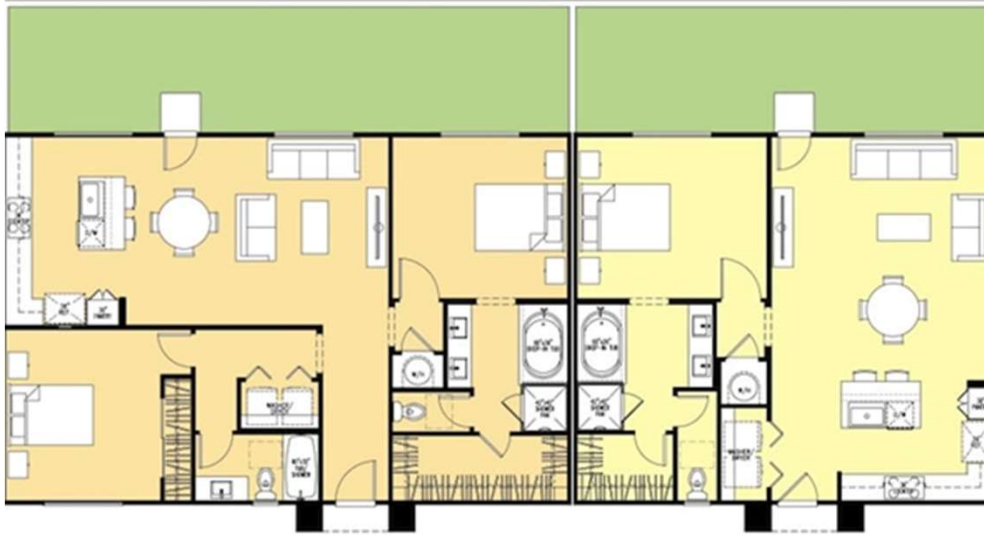
One Bedroom Bungalow



Two Bedroom Bungalow



Design Examples: Two Bedroom or Shared Wall One Bedroom



Standardized designs and finish will lower costs

- Model assumes single story bungalow type homes
- Standardized appliances and fixtures will reduce costs and maintenance
- One-bedroom units share a wall but have common designs
- Cosmetic elevation changes can be included to break up the look
- Exterior access to mechanicals when able
- Private space provided



1 BEDROOM

SCHEME 01

2 BEDROOM



1 BEDROOM

SCHEME 02

2 BEDROOM



Development Cost Estimate

Unit Type	Avg Size	Rent / Unit/ Yr. HUD 2024	Assumed Mkt Rent/Unit/mo	Per Sq.Ft./Mo.	Proposed Structures	Proposed Units
ADU - 1	450	20,496	1,575	3.80	0	0
ADU - 2	550	20,496	1,575	3.11	0	0
One Bedroom Cottage	650	25,728	2,144	3.30	0	0
One Bedroom Cottage - 2 Units shared wall	1,100	51,456	2,144	3.90	3	6
Two Bedroom Cottage	1,000	30,096	2,508	2.51	2	4
Townhomes 3+2	1,200	38,952	3,246	2.71	0	0
3 Unit - 2 Story	2,160	77,184	2,144	2.98	0	0
Single Family (40x85) 4+3	1,700	42,252	3,521	2.07	0	0
Total or Avg.	1,202	29,185	2,432	2.13	5	10

Development Budget		Total Cost	Per Sq. Ft.
Total Sq Feet			5,300
Land Acquisition		-	-
Legal		8,000	1.51
Predevelopment (Eng./Design)	5	3,000	15,000
Development Fees	3.50%	75,880	14.32
Horizontal & Site Work	\$400.00	2,120,000	400.00
Landscaping	5	5,000	25,000
Direct Costs		2,243,880	423.37
General Contractor Fees	15.00%	336,582	63.51
General Conditions		-	-
Other construction costs		-	-
Septic	3	15,000	45,000
Developer Overhead Fee	-	-	-
Developer Contingency	10.00%	262,546	49.54
Other	0.00%	-	-
Financing Costs (incl int rate cap cost)		-	-
Septic Grant	50.00%	(22,500)	(4.25)
Total Development Costs		2,865,508	544.91



Property Operations & Unleveraged Returns

	Year 1		
	Total Annual	Per Unit/Yr.	Per Sq.Ft./Yr.
Revenue:			
(+) Gross Potential Rent:	214,560	10	40.48
(-) Loss-To-Lease:	-	-	-
Adjusted Gross Rent:	214,560		40.48
(-) General Vacancy:	-	-	-
(-) Lease-Up Concessions:	-	-	-
(-) Recurring Concessions:	-	-	-
(-) Bad Debt:	-	-	-
Net Rental Income:	214,560	10	40.48
(+) Other Income:	-	-	-
Effective Gross Income (EGI):	214,560	10	40.48
Operating Expenses:			
Property Mgt Fee - 5% of Rent	10,728		
Property Insurance - 6K per Structure	30,000		\$5.66
Property Maintenance -\$2 PSF	10,600		\$2.00
Property Tax	-		
Other Expenses	10,000		\$1.89
Total Operating Expenses	61,328		\$11.57
Net Operating Income (NOI):	153,232	10	28.91

Yield on Cost	5.35%
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Financing Options – Required Equity and ROE

HUD Guidelines

Given current interest rates, HUD provides lower cost options for project level financing. However, this comes with substantial documentation and regulatory issues that can add cost and delay projects. HUD rates are about 100 bps below market rate and allow for 40-year amortization which will reduce the payment. HUD terms are as follows:

- 85% LTC (or replacement cost), 85% of net operating income, or 1.20 DSCR for market rate properties
- 87% LTC (or replacement cost), 87% of net operating income, or 1.15 DSCR for affordable housing properties
- 90% LTC (or replacement cost), 90% of net operating income, or 1.11 DSCR for rental assistance properties

*FHA/HUD 221(d)(4) New Construction or
Substantial Rehabilitation for Multifamily Apartments*

TERM	AMORT	LTC	DSCR	RATE
40	40	85%	1.176x	6.59% to 6.79%

Hud Loan Proceeds - Leveraged ROE

Property NOI	153,232
Low income HUD DSCR	1.15 X
Mortgage Payment	(\$128,645)
Projected DSCR	1.19 X
HUD Low Income Rate - 9/23	6.70%
Amortization	40
Maximum Loan Amount	1,776,615
LTV Estimate	62.00%
Required Equity	1,088,893
ROE	2.26%



Key Questions & Issues

Build-to-Rent housing has evolved to provide efficient designs that reduce cost maximize renter satisfaction:

- Many designs to pick from that will conform to Shelter Island aesthetics
- Purpose built for rental can lower the operating and development costs
- Standardized designs will be cheaper to produce

What can the town do:

- The REO is very low and can be increased if the town were to provide some services such as site work and ongoing services like snow removal?
- Can we avoid fees and stamp costs from the town?
- Is there any insurance benefits that that can come from town involvement?

How do you finance:

- Is it possible to mix market rate and social conscience investments
- Can the project be done by a 501c3 and use the depreciation effectively for other investors?

