

Borough of Dunellen

405 – 415 North Avenue

May 20, 2024

Prepared by:



NW FINANCIAL GROUP, LLC
Exceeding Expectations

Proven Reputation . Experienced Professionals . Superior Client Service

- **Three Stories**
- **50 Residential Units**
 - **43 Market-Rate**
 - **7 Affordable**
- **3,622 SF of Ground-Floor Retail Space**
- **61 Structured Parking Spaces**
- **Estimated Cost: \$14.46 Million**

Project Location



The project will be located on Block 66, Lots 13 and 14, totaling 0.6715 acres. The lots currently consist of the Dunellen Rescue Squad building and a vacant 1-story bank building.

Sources & Uses

Sources	%	Total Cost
Debt	65%	\$ 9,399,553
Equity	35%	5,061,298
Total Sources	100%	\$ 14,460,850

Uses	Per Unit	Per SF*	Total Cost
Hard Costs	\$ 238,502	\$ 155.00	\$ 11,925,080
Acquisition Cost	26,500	17.22	1,325,000
Soft Costs	23,015	14.96	1,150,770
Community Benefit Payment	1,200	0.78	60,000
Total	\$ 289,217	\$ 187.96	\$ 14,460,850

*Includes 21,956 SF of parking

The Total Project Costs are based on the pro forma provided by the Developer.

Unit Mix and Projected Revenue

Market Rate Units

Type	Count	SF/Unit	Monthly Rent/Unit	Monthly Rent/SF	Annual Rent
Studio	2	550	\$ 1,650	\$ 3.00	\$ 39,600
One Bedroom	25	791	2,000	2.53	600,000
Two Bedroom	16	957	2,400	2.51	460,800
Total	43	842	\$ 2,133	\$ 2.53	\$ 1,100,400

Affordable Units (50% of Area Median Income)

Type	Count	SF/Unit	Monthly Rent/Unit	Monthly Rent/SF	Annual Rent
One Bedroom	1	791	\$ 1,371	\$ 1.73	\$ 16,455
Two Bedroom	4	957	1,645	1.72	78,960
Three Bedroom	2	1,000	1,901	1.90	45,615
Total	7	946	\$ 1,679	\$ 1.78	\$ 141,030

Commercial

Type	SF	Monthly Rent	Monthly PSF	Annual Rent
Retail	3,622	\$ 7,546	\$ 2.08	\$ 90,550

Based on comparable projects in the surrounding area, NW increased the Developer's rent assumptions by 12.50%.

Negotiated PILOT Summary

- The negotiated PILOT terms are as follows:

Years	% of Annual Gross Revenue	% of Otherwise Applicable Taxes
1 - 10	10.00%	0%
11 - 15	11.00%	0%
16 - 20	11.00%	20%
21 - 24	12.00%	40%
25 - 27	12.00%	60%
28 - 30	12.00%	80%

- Lot 13 currently generates \$15,387 in tax revenue, of which the Borough receives \$4,018. Prior to the purchase of Lot 14, the site did not generate tax revenue.
 - Board of Education – 60%
 - Borough – 26%
 - County – 14%
- At stabilization, the Gross PILOT is estimated to be approximately \$130,000 of which the Borough will receive approximately \$125,000, including a 2% Administration Fee.
- Over the 30-year term, the Borough will receive an estimated \$6 million. During that same time period, existing taxes would only generate \$163,000, assuming a 2% annual tax increase. **This is an additional \$5.86 million to the Borough.**

Developer Returns – Conventional Taxes vs. Negotiated PILOT

<u>Conventional Taxes</u>		<u>PILOT</u>	
	<u>Stabilized Year</u>		<u>Stabilized Year</u>
Annual Gross Revenue	\$ 1,290,689	Annual Gross Revenue	\$ 1,290,689
Operating Expenses	267,750	Operating Expenses	267,750
Property Taxes	300,000	PILOT + Admin Fee	131,650
Net Operating Income	\$ 722,939	Net Operating Income	\$ 891,288
Project Value	\$ 13,144,339	Project Value	\$ 16,205,243
Total Project Cost	14,460,850	Total Project Cost	14,460,850
Net Project Value	\$ (1,316,512)	Net Project Value	\$ 1,744,393
IRR - 10 Year Sale	2.95%	IRR - 10 Year Sale	8.86%
Yield on Cost	5.00%	Yield on Cost	6.16%
Debt Service Coverage Ratio	1.00	Debt Service Coverage Ratio	1.24

A typical Internal Rate of Return for a development such as this is between 10% and 14%, while the Yield on Cost is typically between 6% - 7%. Lenders typically require a minimum DSCR of 1.2x – 1.3x.

Projected PILOT Over 30-Year Term

PILOT Analysis							Conventional Tax Analysis	
Year	% of AGR	% of OAT	Gross PILOT	Less: County Share (5%)	Admin Fee (2% of Gross PILOT)	Borough Share of PILOT	Conventional Taxes	Borough Share of Conventional Taxes
1	10%	0%	\$ 69,263	\$ (3,463)	\$ 1,385	\$ 67,185	\$ 294,118	\$ 76,805
2	10%	0%	129,069	(6,453)	2,581	125,197	300,000	78,341
3	10%	0%	131,650	(6,583)	2,633	127,701	306,000	79,908
4	10%	0%	134,283	(6,714)	2,686	130,255	312,120	81,506
5	10%	0%	136,969	(6,848)	2,739	132,860	318,362	83,136
6	10%	0%	139,708	(6,985)	2,794	135,517	324,730	84,799
7	10%	0%	142,502	(7,125)	2,850	138,227	331,224	86,495
8	10%	0%	145,353	(7,268)	2,907	140,992	337,849	88,225
9	10%	0%	148,260	(7,413)	2,965	143,812	344,606	89,989
10	10%	0%	151,225	(7,561)	3,024	146,688	351,498	91,789
11	11%	0%	169,674	(8,484)	3,393	164,584	358,528	93,625
12	11%	0%	173,068	(8,653)	3,461	167,876	365,698	95,497
13	11%	0%	176,529	(8,826)	3,531	171,233	373,012	97,407
14	11%	0%	180,060	(9,003)	3,601	174,658	380,473	99,356
15	11%	0%	183,661	(9,183)	3,673	178,151	388,082	101,343
16	11%	20%	187,334	(9,367)	3,747	181,714	395,844	103,370
17	11%	20%	191,081	(9,554)	3,822	185,348	403,761	105,437
18	11%	20%	194,902	(9,745)	3,898	189,055	411,836	107,546
19	11%	20%	198,800	(9,940)	3,976	192,836	420,072	109,697
20	11%	20%	202,776	(10,139)	4,056	196,693	428,474	111,890
21	12%	40%	225,635	(11,282)	4,513	218,866	437,043	114,128
22	12%	40%	230,147	(11,507)	4,603	223,243	445,784	116,411
23	12%	40%	234,750	(11,738)	4,695	227,708	454,700	118,739
24	12%	40%	239,445	(11,972)	4,789	232,262	463,794	121,114
25	12%	60%	283,842	(14,192)	5,677	275,327	473,070	123,536
26	12%	60%	289,519	(14,476)	5,790	280,833	482,531	126,007
27	12%	60%	295,309	(14,765)	5,906	286,450	492,182	128,527
28	12%	80%	401,620	(20,081)	8,032	389,572	502,025	131,098
29	12%	80%	409,653	(20,483)	8,193	397,363	512,066	133,720
30	12%	80%	417,846	(20,892)	8,357	405,310	522,307	136,394
Total			\$ 6,213,933			\$ 6,027,515	\$ 11,931,788	\$ 3,115,835

Note: Year 1 assumes 52% occupancy (4 units per month)

Existing Taxes vs. PILOT

Year	Current Taxes	Borough Share	Gross PILOT	Borough Share	Additional Revenue from PILOT
1	\$ 15,387	\$ 4,018	\$ 69,263	\$ 67,185	\$ 63,167
2	15,695	4,098	129,069	125,197	121,098
3	16,009	4,180	131,650	127,701	123,520
4	16,329	4,264	134,283	130,255	125,991
5	16,655	4,349	136,969	132,860	128,510
6	16,989	4,436	139,708	135,517	131,081
7	17,328	4,525	142,502	138,227	133,702
8	17,675	4,616	145,353	140,992	136,376
9	18,028	4,708	148,260	143,812	139,104
10	18,389	4,802	151,225	146,688	141,886
11	18,757	4,898	169,674	164,584	159,686
12	19,132	4,996	173,068	167,876	162,880
13	19,515	5,096	176,529	171,233	166,137
14	19,905	5,198	180,060	174,658	169,460
15	20,303	5,302	183,661	178,151	172,849
16	20,709	5,408	187,334	181,714	176,306
17	21,123	5,516	191,081	185,348	179,832
18	21,546	5,626	194,902	189,055	183,429
19	21,977	5,739	198,800	192,836	187,097
20	22,416	5,854	202,776	196,693	190,839
21	22,864	5,971	225,635	218,866	212,895
22	23,322	6,090	230,147	223,243	217,153
23	23,788	6,212	234,750	227,708	221,496
24	24,264	6,336	239,445	232,262	225,926
25	24,749	6,463	283,842	275,327	268,864
26	25,244	6,592	289,519	280,833	274,241
27	25,749	6,724	295,309	286,450	279,726
28	26,264	6,858	401,620	389,572	382,713
29	26,789	6,996	409,653	397,363	390,368
30	27,325	7,136	417,846	405,310	398,175
Total	\$ 624,223	\$ 163,008	\$ 6,213,933	\$ 6,027,515	\$ 5,864,507

Residents and Public School Children

Type	# of Units	Persons Multiplier	New Persons	Public School Children Multiplier	New Public School Children
Studio - Market	2	1.551	3	0.004	0
1 BR - Market	25	1.551	39	0.004	0
2 BR - Market	16	2.355	38	0.065	1
1 BR - Affordable	1	1.392	1	0.088	0
2 BR - Affordable	4	2.511	10	0.408	2
3 BR - Affordable	2	3.591	7	1.087	2
Total	50		98		5

2022 Population	7,575
Increase %	1.29%

10/13/23 Actual Enrollment	1,350
Increase %	0.37%

Multipliers are from “Who Lives in New Jersey Housing – The Profile of Occupants of Residential Development in New Jersey”, a study by the Center for Urban Policy Research at Rutgers University, which was last updated in November 2018.

Resident Cost Calculation

Budget Category	Appropriations	% of Spending Applied in Municipal Cost Calculation	Resident Portion
General Government	\$ 729,475	10.00%	\$ 72,948
Land-Use Administration	824,060	10.00%	82,406
Uniform Construction Code	159,650	10.00%	15,965
Public Safety	2,374,543	25.00%	593,636
Public Works	664,060	10.00%	66,406
Health and Human Services	72,235	25.00%	18,059
Education (including Library)	246,369	10.00%	24,637
Landfill / Solid Waste Disposal	35,462	10.00%	3,546
Statutory Expenditures	916,075	10.00%	91,608
Court and Public Defender	178,871	10.00%	17,887
Total	\$ 6,200,800		\$ 987,097
2022 Population			7,575
Per Resident Cost			\$ 130
New Resident Cost			\$ 12,770

The Division of Local Government Services created a PILOT Financial Agreement Forecast model ("PFAF"), which uses budget data provided by the municipality to calculate a baseline cost of services from the municipality associated with a proposed project.

Public School Children Cost Calculation

Cost Per Student Calculations	2021-22 (Actual)	2022-23 (Actual)	2023-24 (Original Budget)	2023-24 (Revised Budget)	2024-25 (Proposed)
Total Budgetary Comparative Per Pupil Cost	\$ 14,471	\$ 15,101	\$ 18,543	\$ 18,767	\$ 20,738
Total Classroom Instruction	8,217	8,314	10,013	10,100	10,957
Classroom-Salaries and Benefits	7,877	7,696	9,133	9,174	9,437
Classroom-General Supplies and Textbooks	113	160	275	289	426
Classroom-Purchased Services	226	458	606	637	1,094
Total Cost Per Student for PILOT Analysis	\$ 8,217	\$ 8,314	\$ 10,013	\$ 10,100	\$ 10,957

The information above comes from the 2024-2025 Dunellen Board of Education User Friendly Budget.

Public School Children Cost Calculation

Board of Education General Fund Revenues		Amount
Local Sources	\$	13,391,191
State Sources		19,271,004
Federal Sources		43,437
Other Sources		2,530,503
Total	\$	35,236,135
% from Local Sources		38.00%

Total Cost Per Student	\$	10,957
Local Revenue Sources		38.00%
Net Cost Per Student	\$	4,164

Resident and Public School Children Impact

Type	# of Units	New Persons	New Municipal Costs	New Public School Children	New School Costs	Total New Costs
Studio - Market	2	3	\$ 391	0	\$ -	\$ 391
1 BR - Market	25	39	5,082	0	-	5,082
2 BR - Market	16	38	4,952	1	4,164	9,116
1 BR - Affordable	1	1	130	0	-	130
2 BR - Affordable	4	10	1,303	2	8,328	9,631
3 BR - Affordable	2	7	912	2	8,328	9,240
Total	50	98	\$ 12,770	5	\$ 20,821	\$ 33,591

Net Benefit to Borough

Year	Borough Share of PILOT	Resident Cost	School Cost	Total Cost	Net Benefit
1	\$ 67,185	\$ 6,641	\$ 10,827	\$ 17,467	\$ 49,718
2	125,197	12,770	20,821	33,591	91,606
3	127,701	13,026	21,237	34,263	93,438
4	130,255	13,286	21,662	34,948	95,307
5	132,860	13,552	22,095	35,647	97,213
6	135,517	13,823	22,537	36,360	99,157
7	138,227	14,100	22,988	37,087	101,140
8	140,992	14,381	23,447	37,829	103,163
9	143,812	14,669	23,916	38,585	105,226
10	146,688	14,963	24,395	39,357	107,331
11	164,584	15,262	24,883	40,144	124,440
12	167,876	15,567	25,380	40,947	126,928
13	171,233	15,878	25,888	41,766	129,467
14	174,658	16,196	26,406	42,601	132,056
15	178,151	16,520	26,934	43,453	134,697
16	181,714	16,850	27,472	44,323	137,391
17	185,348	17,187	28,022	45,209	140,139
18	189,055	17,531	28,582	46,113	142,942
19	192,836	17,882	29,154	47,035	145,801
20	196,693	18,239	29,737	47,976	148,717
21	218,866	18,604	30,332	48,936	169,930
22	223,243	18,976	30,938	49,914	173,329
23	227,708	19,356	31,557	50,913	176,795
24	232,262	19,743	32,188	51,931	180,331
25	275,327	20,138	32,832	52,970	222,357
26	280,833	20,540	33,489	54,029	226,804
27	286,450	20,951	34,158	55,109	231,340
28	389,572	21,370	34,842	56,212	333,360
29	397,363	21,798	35,538	57,336	340,027
30	405,310	22,234	36,249	58,483	346,828
Total	\$ 6,027,515	\$ 502,031	\$ 818,503	\$ 1,320,534	\$ 4,706,981