

RECEIVED

ORIGINAL

HOLLEY
BLOCK
PROJECT

MAR 16 2021

LAND USE OFFICE
Salisbury, CT

To the Planning and Zoning Commission for the Town of Salisbury,

I am writing with regard to the Holley Place affordable housing project known as Holley Block that is proposed for the corner of Route 44 and Holley Street. I am a professional investor with experience as a real estate developer. I have invested in both large and small real estate projects, and I am the owner of the Lakeville Manor House on Elm Street where I invested to restore a historic building by developing the property into a market-rate multi-family dwelling.

The Manor House is not competitive with Holley Block, as our rents are substantially higher than at Holley Block, but I do know the costs of building and running a similarly sized development (the Manor house is around 12,000 ft² versus Holley Block at 15,300 ft²), so my experience here is as an expert local professional opinion regarding the financial viability of the applicant's proposal.

I am not making an appeal to kill this project, as we so sorely need affordable housing in this town. But I am making the case for the Town to put a halt to any approval process until the applicant has demonstrably proven that their financial projections are sound and that there are risk adjustments built into both the construction and operating models so that the Town does not get saddled with an insolvent white elephant in the middle of historic Lakeville.

What are the risks of Holley Block?

The immediate risks are based in opportunity cost. Why not use prime Lakeville road frontage real estate to develop a mixed-use building where the applicant provides limited commercial space as well as a clutch of affordable housing units? In such a case, the Town could charge a land lease instead of providing the applicant free use of an endowed historic park thereby creating both lease and tax income for the Town, as well as driving an appreciation in surrounding commercial property value for current landowners in the historic village. Especially with a new developer in contract with the Knife Factory, it would seem that there is an opportunity for mixed-used affordable housing at both locations, Holley Block and the Knife Factory, that could meet or exceed town affordable housing unit goals and could provide new business life in Lakeville's historic district.

The future risks of the proposal, as designed, are risks that could severely damage the Town's finances. These risks range from the risk of a mid-construction failure, when costs balloon due to market price increases of labor and material in a post-COVID economic boom to a built, to a risk that the completed project never runs profitably thus requiring the Town to step in and rescue an insolvent affordable housing development with our taxpayer dollars. The greatest risk with the applicant and its plans for Holley Block is not the concept of affordable housing, but rather that the Holley Block project, as proposed, is financially dead-on-arrival.

A simple objective financial analysis of the proposal that the applicant has submitted shows the revenue projections likely are insufficient to cover the estimated financial and operating costs of the development when using CFHA market rate assumptions for the financing. Quite simply, this project as submitted is not financially viable.

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LAND USE OFFICE
TOWNSHIP OF SALISBURY



HOLLEY BLOCK PROJECT

ORIGINAL

With the projected revenues projected at only a maximum of \$156 thousand for full 100% occupancy, as profiled in the indicative rent pricing submitted in the applicant's proposal, the annual financing costs required to construct an oversized 15,300 square foot building, let alone a oversized building with an underground parking garage and a four-story elevator for residents, will exceed the projected revenues. When one adds to the financing costs both the operating expenses of managing the property and the ongoing cash capital expenditures to maintain the physical plant the financial picture for Holley Block goes only from unprofitable to unbuildable.

To make matters even more financially impossible, the market environment for taking on a new construction project are some of the worst in recent history. Local and national construction costs have soared over 140% in the last 12 months, are projected to increase another 35% this year, and there is no end in sight for future increases as the post-pandemic economy gets fully underway. Most likely, any construction budget composed today will be revised higher in the near future as costs for both labor and building material predictably continue to rise.

Unfortunately, the applicant promoting this project has not been required by the Town to defend the viability of the project. No financial due diligence has been performed by the Town and reviewed by the public. No financial experts have been consulted to support the application process. The applicant has not been asked to provide a working operating model, or a construction budget, or a financing plan.

It is possible that if the project removes such frivolous non-revenue producing features like underground parking and a four-story elevator and reduces the overall size of the building that the project would indeed show itself to be financially viable. If the applicant would focus on the most profitable layout of one-bedroom living units that generate the highest revenue per square foot in a smaller development at Holley Block, then the Town would likely not miss its affordable housing unit goal as any few units removed from the Holley Block development could be added in future developments elsewhere.

For example, construction costs for a 6- or even 8-unit development on a much smaller footprint at the same site would be significantly less capital than what the current proposal for Holley Block requires. No underground parking. No elevator. A smaller development would have a greater chance of success, and, thus, the overall financial risk to the Town's fragile finances would be far less, while still adding meaningfully to new inventory of affordable housing units for the Town of Salisbury. A smaller overall development would be more in character with the surrounding buildings and would better harmonize with the aesthetic of the historic district in Lakeville. Combined with other already planned future affordable housing site developments around town, a smaller project at Holley Block would still meet or exceed our 10-year total affordable housing unit goal.

I am urging our Town officials to step back and analyze this project, and any project where public resources are being committed, using sober financial analysis to ensure its financial viability before any approvals are granted. Please do not be cowed into submission by process fatigue



and attempts at public shaming. Please demonstrate your responsibility as elected officials whose duty it is to act as trustworthy fiduciaries of our Town's limited resources and complete in depth financial due diligence before approving the Holley Place project.

For all who are interested in the numbers and the type of exercise that the Town should require this applicant, and any applicant who is benefitting from free investment of taxpayer resources (as is the case with the Town donating Bicentennial Park with no remuneration by the applicant to the Town for the donation), please review the presentation I filed with the P&Z Commission for the upcoming hearing on Holley Block.

Folks also can download the financial analysis presentation here:

<https://docsend.com/view/i7ccpc6ttp7gykam>

Respectfully yours,

A handwritten signature in black ink, appearing to read "Will Muecke", with a stylized flourish at the end.

Will Muecke
Owner/Operator
The Lakeville Manor House
March 14, 2021



HOLLEY BLOCK PROJECT

The Holley Block Project

Financial Review of Build Costs and Operating Projections



EXPERT BACKGROUND

Professional investor in real estate, healthcare, CPG

Real estate investment and development expertise both in Lakeville, CT and worldwide



**William
Muecke**
Co-Founder &
General Partner
London

- **Co-Founder and Managing Member / Artemis Growth Partners**
 - \$300M+ AUM in ESG and impact investments globally
- **Co-Founder and General Partner / CoreCo Private Equity**
 - Award-winning impact investment fund focused on sustainable development in Central America and the Caribbean
- **Managing Director / Goldman Sachs / Investment Banking**
 - Former Co-Head of Healthcare Services; former Co-Head West Coast Healthcare Coverage
- **Investing experience includes.**
 - Sourcing, structuring, investing, and managing private equity portfolios in Latin America, Europe, and in the United States
- **Real estate experience includes:**
 - Controlling investor in one of Latin America's largest hospitality management companies, CPG Hospitality Management
 - Marriott Hotels, Four Seasons Hotels, Enjoy Group
 - Local housing developer in Lakeville, Connecticut
 - Developer/owner of The Lakeville Manor House
- **Education**
 - Cornell University, Cornell University Graduate School



HOLLEY BLOCK PROJECT

CONSTRUCTION COSTS

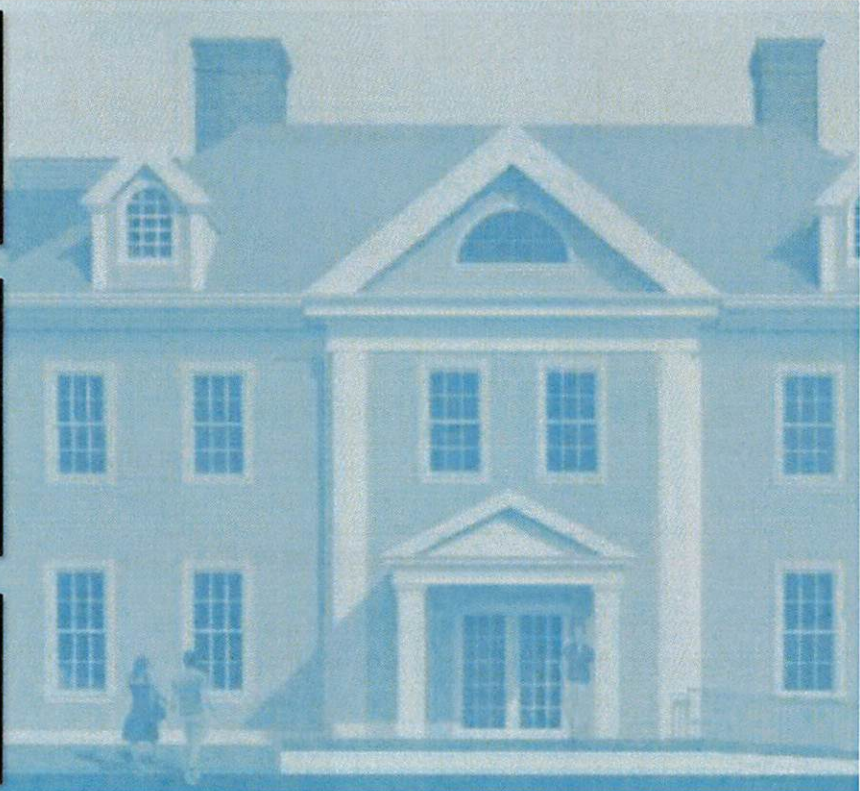
Estimated between \$5.5 million and \$7.0 million

\$900K of cost budget is for non-revenue producing features (elevator and underground garage)

<u>Building Sqr ftg</u>
1st FLOOR: 5,325 SF
2nd FLOOR: 5,325 SF
3rd FLOOR: 4,650 SF
TOTAL : 15,300 SF

<u>Building Total</u>
7 - 1 Bedroom Units
4 - 2 Bedroom Units
1 - 3 Bedroom Units
12 Units 18 Bedrooms

<u>Unit Sqr ftg</u>
1 Bedroom: 700 SF
2 Bedroom: 1,200 SF
3 Bedroom: 1,300 SF

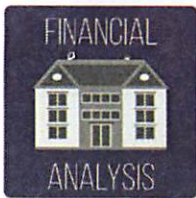


Estimated Build Cost - Revenue Producing	
Total ft2 - apartment building	15,300
\$/ft2 (high)	\$ 400
\$/ft2 (low)	\$ 300
Total Cost (high) - Revenue Producing	\$ 6,120,000
Total Cost (low) - Revenue Producing	\$ 4,590,000

Estimated Build Cost - Non-Revenue Producing	
Elevator build cost	\$ 150,000
Total ft2 - underground parking	5,000
\$/ft2	\$ 100
Underground parking build cost	\$ 500,000
Retaining wall / foundation underpinning	\$ 250,000
Total Cost - Non-Revenue Producing	\$ 900,000

Estimated Build Cost - Total	
15,300 ft2 apartment building (high)	\$ 6,120,000
15,300 ft2 apartment building (low)	\$ 4,590,000
Non-revenue build cost	\$ 900,000
Total Cost (high)	\$ 7,020,000
Total Cost (low)	\$ 5,490,000

Source: The Salisbury Housing Committee (2021), Lakeville developers, local architects.



HOLLEY BLOCK PROJECT

REVENUE EXPECTATIONS

Current floorplan limits revenue generating potential

Maximum revenue as currently designed is \$156K per year at 100% occupancy

<i>Building Total</i>	<i>Unit Sqr ftg</i>
7 - 1 Bedroom Units	1 Bedroom: 700 SF
4 - 2 Bedroom Units	2 Bedroom: 1,200 SF
1 - 3 Bedroom Units	3 Bedroom: 1,300 SF
12 Units 18 Bedrooms	

2020 HUD Income Limits							
		Household Size					
		1	2	3	4	5	6
PMSA/MSA Area	AMI						
Litchfield County, CT	25%	\$ 17,955	\$ 20,520	\$ 23,085	\$ 25,650	\$ 27,702	\$ 29,754
	50%	\$ 35,910	\$ 41,040	\$ 46,170	\$ 51,300	\$ 55,404	\$ 59,508
	80%	\$ 57,456	\$ 65,664	\$ 73,872	\$ 82,080	\$ 88,646	\$ 95,213
	100%	\$ 71,820	\$ 82,080	\$ 92,340	\$ 102,600	\$ 110,808	\$ 119,016

EXAMPLE: Sarum 2 Current Rents by AMI and Size				
		Bedrooms		
	AMI	1	2	3
	25%	\$ 428		
	50%	\$ 823	\$ 1,006	\$ 1,114
	80%	\$ 991	\$ 1,206	\$ 1,314
	100%			

Holley Block Apartment Offerings	Per Unit		Total Units	All Units	
	Rent/Unit (Month)	Rent/Unit (Year)		Total Rent (Month)	Total Rent (Year)
1BR	\$ 990	\$ 11,880	7	\$ 6,930	\$ 83,160
2BR	\$ 1,200	\$ 14,400	4	\$ 4,800	\$ 57,600
3BR	\$ 1,300	\$ 15,600	1	\$ 1,300	\$ 15,600
Total revenue (100% occupancy)				\$ 13,030	\$ 156,360
Total revenue (80% occupancy)				\$ 10,424	\$ 125,088

Source: The Salisbury Housing Committee (2021)



FINANCIAL EXPENSES

% LTV will determine interest and amortization expense

Commercial financing costs are expected to be a minimum of \$249K per annum



Multifamily Housing Interest Rates

Recent Interest Rates*

Construction Loan Type	Rate
2 Years (Tax Exempt)	4.150%
Permanent Loan Type	Rate
30/30 (Tax Exempt)	3.790%
35/35 (Tax Exempt)	3.900%
40/40 (Tax Exempt)	3.990%
30/30 (Taxable)	4.040%

* As of 03/10/21 9:15 am

Source: The Connecticut Housing Finance Authority (2021)

Mortgage Principal Calculation - Low	
Total project cost (low)	\$ 5,490,000
Total mortgage principal @ 100% LTV	\$ 5,490,000
Total mortgage principal @ 70% LTV	\$ 3,843,000

Interest Expense Calculation	
40-year multifamily tax-exempt mortgage	3.99%
Total mortgage principal @ 100% LTV	\$ 5,490,000
Total mortgage principal @ 70% LTV	\$ 3,843,000
Interest expense @ 100% LTV (annual)	\$ 219,051
Interest expense @ 70% LTV (annual)	\$ 153,336

Amortization Expense Calculation	
40-year multifamily tax-exempt mortgage	40
Total mortgage principal @ 100% LTV	\$ 5,490,000
Total mortgage principal @ 70% LTV	\$ 3,843,000
Amortization expense @ 100% LTV (annual)	\$ 137,250
Amortization expense @ 70% LTV (annual)	\$ 96,075

Total Financing Expense Calculation	
Interest expense @ 100% LTV (annual)	\$ 219,051
Amortization expense @ 100% LTV (annual)	\$ 137,250
Total financing expense (annual)	\$ 356,301
Interest expense @ 70% LTV (annual)	\$ 153,336
Amortization expense @ 70% LTV (annual)	\$ 96,075
Total financing expense (annual)	\$ 249,411
Financing expense @ 100% LTV (annual)	\$ 356,301
Financing expense @ 70% LTV (annual)	\$ 249,411



OPERATING EXPENSES

Excluding financing costs, operating costs are large

Operating costs are expected to be a minimum of \$45K per annum (29% of revenue)

Annual Operating Expenses		
	\$ Cost	% Margin
Administrative and professional	\$ 4,034	2.6%
Financial (interest and amortization)	-	0.0%
Insurance	11,768	7.5%
Property management	12,567	8.0%
Rental commissions	-	0.0%
Furnishings and repairs, small	-	0.0%
Sewer charges	1,800	1.2%
Supplies	1,564	1.0%
Taxes	-	0.0%
Telephone (elevator)	612	0.4%
<i>Utilities:</i>		
Electricity	8,494	5.4%
Propane	-	0.0%
Security system	-	0.0%
Trash hauling	2,118	1.4%
Water	1,758	1.1%
Total utilities	12,371	7.9%
Total Operating Expenses	\$ 44,715	28.6%

Source: The Lakeville Manor House (2019 - 2021)



CAPITAL EXPENSES

Annual cash costs for maintenance and repair

Annual total capital expenditures (paid and accrued) are expected to near \$70K per annum

Maintenance Capex Calculation (First 5 Years)	
Maintenance capex as % of total build cost	1.0%
Total build cost (high)	\$ 6,120,000
Total build cost (low)	\$ 4,590,000
Maintenance capex, annual (high)	\$ 61,200
Maintenance capex, annual (low)	\$ 45,900

Maintenance Capex Calculation (>5 Years)	
Maintenance capex as % of total build cost	1.5%
Total build cost (high)	\$ 6,120,000
Total build cost (low)	\$ 4,590,000
Maintenance capex, annual (high)	\$ 91,800
Maintenance capex, annual (low)	\$ 68,850

Periodic 10-Year Capex Calculation (Recurring)	
Maintenance capex as % of total build cost	5.0%
Total build cost (high)	\$ 6,120,000
Total build cost (low)	\$ 4,590,000
Periodic major capex, 10-year (high)	\$ 306,000
Periodic major capex, 10-year (low)	\$ 229,500
Periodic major capex, cash accrual (high)	\$ 30,600
Periodic major capex, cash accrual (low)	\$ 22,950

Total Capex Calculation (First 5 Years)	
Maintenance capex, annual (high)	\$ 61,200
Maintenance capex, annual (low)	\$ 45,900
Periodic major capex, cash accrual (high)	\$ 30,600
Periodic major capex, cash accrual (low)	\$ 22,950
Total capex, annual (high)	\$ 91,800
Total capex, annual (low)	\$ 68,850

Source: Lakeville developers, local architects, the Lakeville Manor House financials, industry research (2021)



SUMMARY VIABILITY ANALYSIS – AS PROPOSED

Revenues must exceed cash costs for project viability

Annual maximum revenues of \$156K are insufficient to cover annual cash costs of \$363K

Summary Viability Analysis - As Proposed

Annual max revenues (@ 100% occupancy)	\$ 156,360
Financial expenses (interest & amortization)	(249,411)
Operating expenses	(44,715)
Capital expenses (maintenance & accrual)	(68,850)
Total cash expenses, annual	(362,976)
Total Profit / (Loss)	\$ (206,616)

- Assuming \$0 financial expenses (100% equity), annual profit would be \$43K
- Assuming both \$0 financial expenses and \$0 accrual of future capex, annual profit would be \$66K
- \$66K in profit supports a maximum mortgage of \$1.7M assuming no taxes, no land lease expense, and no loan amortization
- A limit of \$1.7M for mortgage financing requires \$3.8M in equity financing for the project to be financially viable
- **As proposed, the Holley Block Project is not financially viable**



Future problems can be easily avoided with basic financial inquiry

Financial Due Diligence Request List (Abbreviated)

1. **Project scope and build cost estimate**
2. **Construction model (builder-approved and committed)**
3. **Operating model (sponsor-approved and committed)**
4. **Financing plan (lender and equity commitment letters)**
5. **Construction contingencies, timeline, and mitigation scenarios**
6. **Go to market plan (occupancy expectations, time to first revenue)**
7. **Ongoing maintenance and major capital expenditure schedule**
8. **Financial reserves and sourcing (for both construction and operating budgets)**
9. **Build quality samples, pre-approval (important for a historic district that a new development fits with the character of the location)**
10. **Review of builder/sponsor portfolio of past projects of new construction in similar historic districts**



WHY MUST THE P&Z ASK THESE QUESTIONS?

This is a public-private partnership in a historic location

“Once built, forever there.”

- **Holley Block is dependent on Town public land**
- **The Town is an “investor” in Holley Block by leasing Bicentennial Park without remuneration**
- **The Town (“We the Taxpayer”) as the landlord to Holley Block is financially responsible for any failed project on Town land**
- **Any few affordable housing units not built at Holley Block can be built elsewhere**
- **The most valuable resource in the Town is our historical district and the assets therein**
- **Our most important long-term objective is to provide affordable living without sacrificing our most valuable resource**
- **Financial due diligence is not only in the purview of the P&Z, but also in the responsibility of the commission, when development is in the historic district of Lakeville**



The document attached hereto and the presentation of which it forms part (together the “Materials”) have been prepared specifically for the Holley Block Project Financial Analysis and are confidential and personal to you and the Materials are furnished to you as background information to provide a basis for discussion and do not constitute, or form any part of, an offer or invitation to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, any interests in an actual project, nor do they, nor do they purport to, set out or refer to information an investor might require or expect in making a decision as to whether or not to invest in any project whether the Holley Block Project or otherwise.

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HOLLEY BLOCK PROJECT

Financial Analysis for Public Interest