

Financing Development Projects

Together for Kingsbridge

March 16, 2023



Background + Goals

Real estate finance overview following others about land use, zoning, adaptive reuse

Armory Background

- 500,000+ square feet across drill hall, head house and cellar levels
- Built in 1917, designated as a NYC landmark in 1974, transferred to City in 1996

Presentation Goals

- Help form an understanding of the challenges and complexities of redevelopment
- Review costs and financing
- Use general concepts and terms, but tie to Kingsbridge Armory
- Convey importance of financial feasibility (as impacted by costs and program uses)

Agenda

Topics for discussion

- Development Costs
- Financing Development Projects
- Other Sources of Funding
- Revenues and Operating Expenses
- Financial Feasibility
- Infeasible Projects
- Key Takeaways

Development Costs

Overview of types of costs

- **Upfront Development Costs**

- **Hard costs** = costs of construction (including abatement)
- **Soft costs** = design, engineering, legal, marketing, etc.
- **Financing costs** = loan interest during construction, bank fees

- **Costs are dependent on scope of redevelopment and uses**

The cost to redevelop the Armory will be significant due to the size, building condition, landmark status and general complexity

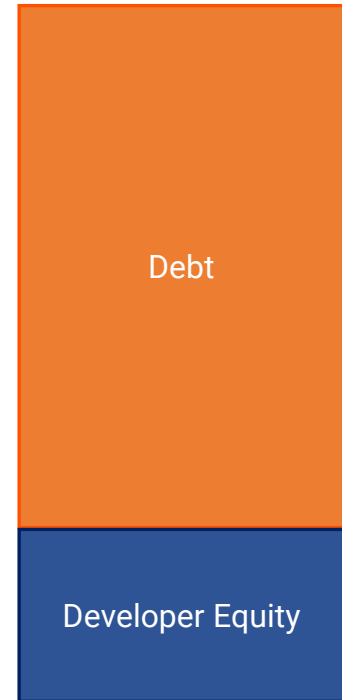


Financing Development Projects

Development projects are typically funded through debt and equity

- **Equity** = developer funds
 - **Debt** = loan from a bank, to be repaid with interest over time
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- **Sources of funds must cover all development costs**
 - Banks / lenders will evaluate developer / borrower experience, building income and other criteria when making a loan
 - **The greater the operating income, the more debt can be supported**

Successful redevelopment of the Armory will require a significant amount of funding – including debt – to cover the project costs

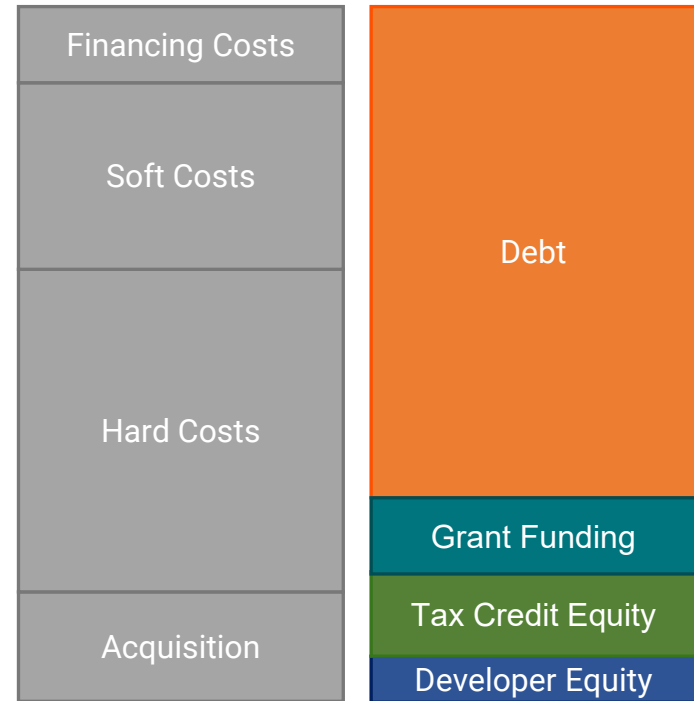


Other Sources of Funding

Less traditional sources

- **Tax credit equity** = funding from investors in exchange for a reduction in federal or state taxes
 - Ex: Historic tax credit program
- **Grant funding** = funding from governments (City or State), not always guaranteed

Expertise and experience is required to compile multiple sources of funds for a project

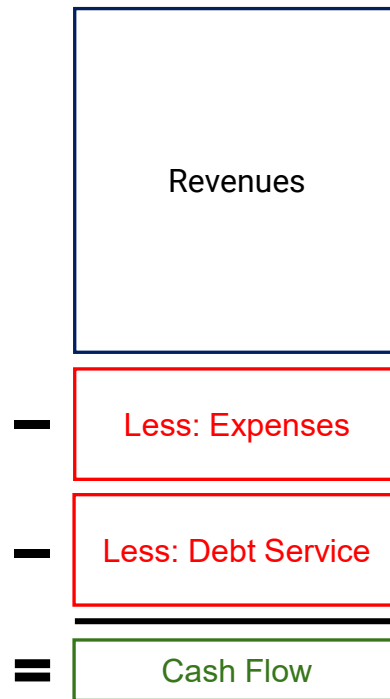


Revenues and Operating Expenses

Annual revenues must cover annual expenses and loan payments

- **Revenues** = rents a developer receives from operations and/or tenants
 - Highly dependent on uses and tenants
- **Operating expenses** = ongoing costs a developer / owner incurs
 - Property maintenance, insurance, utilities, staff time, etc.
- **Debt service** = loan payments
 - Revenues and operating expenses determine the amount of debt a developer can borrow for a project

The Armory will also be expensive to operate, and must earn enough revenue annually to cover expenses and loan payments

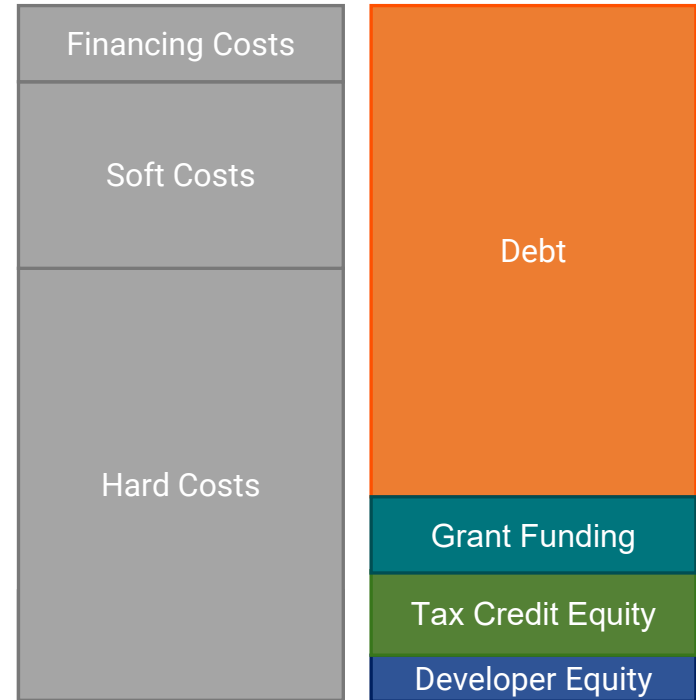


Financial Feasibility

Feasibility covers both development and operations

- Sources of funding must cover all development costs for the City to close on the transaction
- Revenue from operations must be sufficient to pay operating expenses and make loan payments
- Costs and revenues are both dependent upon use

Kingsbridge Armory RFP respondents must demonstrate ability to fully fund project costs

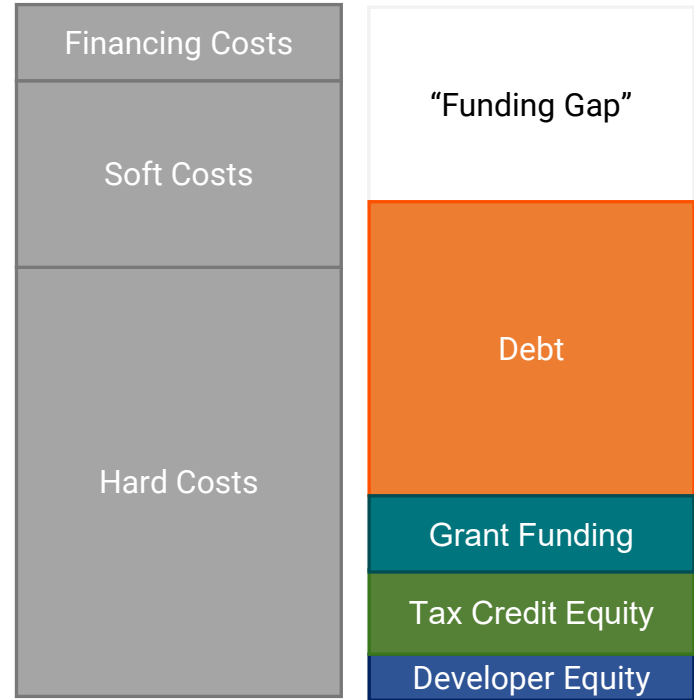


Infeasible Projects

Total development costs > sources of funding

- When the cost to develop a building exceeds the total funding, there is a “gap”
- Requires one or more of the following:
 - Reduce development costs
 - Increase income to support more debt
 - Increase developer equity / obtain other funding
 - Change mix of uses

An infeasible project can't move forward – balancing costs, uses, and revenues is critical



Kingsbridge Armory

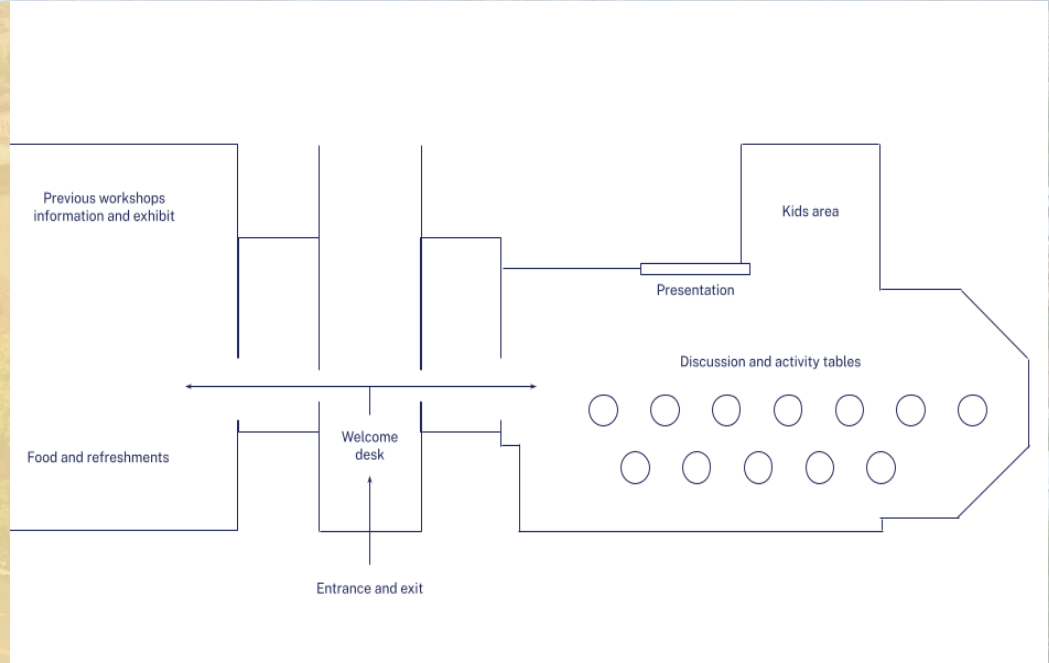
Key takeaways

- **Redevelopment projects of this size are complex and require expertise to harness multiple funding sources and execute the redevelopment**
- **Kingsbridge Armory will be costly in terms of redevelopment + ongoing operating expenses**
 - Will require large amounts of funding and multiple different sources, including debt
 - Uses and rents determine project revenues
 - Operating income determines supportable debt
- **Financial feasibility (upfront and ongoing) is critical**

Workshop #3: East Dining Hall, Lehman College

Saturday, March 18, 12 to 3 pm

- 12:00 Doors open
Engage with gallery/model
- 12:30 Opening remarks
- 12:45 Presentation
- 1:30 Facilitated discussion:
Build your own armory
- 2:00 Report back
- 2:30 Closing remarks



Thank You

Any questions?

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