



75 N 7TH STREET FINANCIAL REVIEW OF REQUESTED IDA BENEFITS

DECEMBER 2024

City of Hudson Industrial Development Agency
Hudson, New York



THE CITY OF HUDSON INDUSTRIAL DEVELOPMENT AGENCY

The City of Hudson Industrial Development Agency (Hudson IDA) was formed under Article 18-A of New York State General Municipal law as a public benefit corporation. The Hudson IDA issues bonds and provides tax exemptions to support development projects that benefit the City of Hudson, including through job retention and attraction, positive fiscal and economic impacts, and the provision of affordable housing. The agency is overseen by a seven-member board.



BJH ADVISORS

BJH Advisors, LLC (BJH) is an economic development consultant, real estate development, and real estate advisory firm that has worked on various financial analysis, public private partnership, and tax incentive projects in New York State for the past ten years. In particular, BJH has supported developers and industrial development agencies to reach bond issuance or tax exemption agreements. BJH principal, Kei Hayashi, formerly served as the executive director of the New York City Industrial Development Agency (NYCIDA).

TABLE OF CONTENTS

List of Tables and Figures	4
BACKGROUND AND SUMMARY OF FINDINGS	5
I. INTRODUCTION	6
II. FINDINGS	8
Pro Forma Structure	
Income - Residential and Commercial Rents	
Construction Costs	
Expense - Replacement Reserves and Property Taxes	
Returns and Debt Service Coverage	
III. CONCLUSIONS	13

LIST OF TABLES AND FIGURES

Table	Description	Figure	Description
1	Units by Income Tier for 75 North 7th Street Development	1	Images of Depot District and Comparable Projects
2	Rental Audit Rents for the Hudson Submarket, Compared with 75 N 7th Street Pro Forma Rent Projections		
3	Assessed Value (AV) per Unit for Depot District and Comparable Projects		
4	Original Proposed PILOT Schedule (2024 Application) - 75 N 7th Street		
5	Revised PILOT Schedule (2024 Application) - 75 N 7th Street		

BACKGROUND AND SUMMARY OF FINDINGS

- The Galvan Initiatives Foundation (Galvan) applied to the City of Hudson Industrial Development Agency (Hudson IDA) for property tax benefits for a mixed income housing development at 75 North 7th Street (the Project) on behalf of a to be formed development entity, 75 N 7 LLC. The Project is part of the Depot District Neighborhood Development Initiative.
- The Hudson IDA engaged BJH Advisors (BJH), a real estate development and advisory firm with relevant experience in real estate and tax analysis, to provide a financial review of requested property tax benefits for the Project. BJH evaluated the Project's pro forma structure, income and expense assumptions, and returns to assess whether the requested scale and duration of property tax benefits in its application to the Hudson IDA is necessary to financially sustain the Project.
- BJH found that the pro forma was assuming slightly lower rents than market research comparables. According to a pro forma with revised income assumptions, the Project reaches a cash-on-cash hurdle of 9.7 % by year 15 and sustains a DSCR of over 1.39 from year 1, and therefore could accept or bear a shorter and more quickly escalating PILOT schedule than the requested schedule. BJH recommended a 15- as opposed to 20-year PILOT schedule for the Project.

I. INTRODUCTION

The Depot District is a proposed multi-family housing neighborhood, to be composed of regulated affordable and mixed-income housing developments. It is located in Hudson, New York at the intersection of State Street and North 7th Street.

The Galvan Initiatives Foundation (Galvan), a non-profit organization, intends to form a limited liability company (LLC) to own and implement the development at 75 N 7th Street. The to be formed entity, 75 N 7 LLC, will be owned by Galvan, Baxter Construction (Baxter), and other equity investors. Galvan will be managing the Project both during the construction and operating periods.

Galvan first applied to the Hudson IDA on behalf of the to be formed entity in January of 2021, then revised the proposal according to feedback to increase the development's affordability component. Galvan re-applied in May of 2021, and then again in May of 2024. According to the May 2024 application, the Project would have 75 units, 15 of which (20% of the total) are set at 80% AMI and 5 of which (~7% of the total) are set to be capped at 130% AMI¹ (Table 1).

The Project would also have a total of 4,054 SF of ground floor commercial space for retail tenants.² Residential amenities would include lounge areas, fitness center, bike storage, tenant storage and private green space.

¹ The current market is below 130% AMI. However as the market improves, rents for market rate units would exceed this level.

² The commercial spaces are comprised of four 1,000 square feet commercial spaces with a preference for Minority- and Women-Owned Businesses.

Table 1: Units by Income Tier for 75 North 7th Street Development

Income Tier	No. Bedrooms	Rent	Number of Units
80% of AMI	1	\$ 1,426	8
	2	\$ 1,704	5
	3	\$ 1,960	2
Market Rate	1	\$ 2,000	30
	2	\$ 2,500	24
	3	\$ 3,000	6
TOTAL:			75

Source: Galvan Initiatives Foundation, Second Amendment to IDA Application, May 2024

The May 2024 application includes a request for property tax exemptions, provided through a Payment in Lieu of Taxes (PILOT) schedule. Under this schedule, the development seeks a 95% exemption base for Years 1-3, decreasing to 90% in Years 4-5, 85% in Year 6, 80% in Year 7, 75% in Years 8-10, and 70% in Year 11. From Year 12 onward, the exemption base decreases by 5% each year until it reaches 40% in Year 16, and then decreases by 10% per year until it reaches 10% in Year 19, ultimately reaching 5% in Year 20, with full property taxes paid starting in Year 21. The total net present value (NPV) of the benefit from this exemption is estimated at \$2,570,787¹, with a nominal value of \$3,023,136.

The Hudson IDA engaged BJH Advisors, LLC (BJH) as a third party, neutral expert to assess whether the requested scale and duration of property tax benefits is necessary to financially sustain the Project. BJH is a real estate development and advisory firm with relevant experience in real estate and tax analysis.

¹ NPV was calculated assuming the discount rate remains at 2%, as per the Office of the New York State Comptroller's guidelines for 2025.

BJH first evaluated the Project's pro forma structure, then confirmed the Project's income assumptions by benchmarking the projected residential and commercial rents to market trends. In addition, BJH reviewed the Project's projected expenses, including construction costs, replacement reserves, and property taxes. Property taxes are a key expense and hinge on the relationship between full property tax estimates and the proposed PILOT schedule.

Finally, BJH reviewed the Project's cash-on-cash returns and/or debt service coverage ratios (DSCRs) to assess whether the requested property tax exemptions are necessary to financially sustain the Project.

BJH evaluated the Project's pro forma structures, income assumptions, and expense assumptions before evaluating the Projects' financial viability/need, given the interdependency of all components, as outlined in the bullets below:

- The pro forma structures control the relationship between income, expenses, and returns;
- The income and expense assumptions determine the Projects' projected net operating income (NOI), which correspond with debt service coverage ratios (DSCRs) and cash-on-cash returns;
- The DSCRs and cash-on-cash returns reflect the Projects' financial viability.

II. FINDINGS

PRO FORMA STRUCTURE

BJH evaluated the Project's pro forma structure to confirm that the income and expense values include the appropriate components, and that the net operating income (NOI) is correctly weighed against investor equity and debt service to calculate a cash-on-cash return and/or DSCR for years one through ten.

BJH found Galvan's pro forma was structured correctly and it was used as the basis for BJH's review.

INCOME - RESIDENTIAL AND COMMERCIAL RENTS

BJH subsequently reviewed the Project's income assumptions, which are based on residential and commercial rent projections. As noted, the Project is proposed to include 75 residential units and approximately 4,000 square feet of commercial space. Residential and commercial rent is therefore a key predictor of the Projects' NOI, so the projected rents should align with market trends.

The projected residential rents for the Project are based on a market study conducted by Novogradac Consulting in 2020, and the projected commercial rents for the Project are based on Galvan's existing portfolio of commercial properties. BJH compared the projected rents as recorded in the pro forma to the residential and commercial rents as projected by CoStar, a real estate market analytics service, for the comparable developments in Hudson Submarket (Table 2 and 3).

**Table 2: CoStar Rents for the Hudson Submarket,
Compared with 75 N 7th Street Pro Forma Rent Projections**

1-Bedroom	2024	2025	2026
Rental Audit	\$2,018	\$2,079	\$2,141
ProForma	-	-	\$2,000
Difference			-7%

2-Bedroom (\$ per Unit)	2024	2025	2026
Rental Audit	\$2,511	\$2,586	\$2,664
ProForma	-	-	\$2,500
Difference			-6%

3-Bedroom (\$ per Unit)	2024	2025	2026
Rental Audit	\$2,933	\$3,068	\$3,204
ProForma	-	-	\$3,000
Difference			-6%

Retail (\$ PSF)	2024	2025	2026
Rental Audit	\$25	\$26	\$27
ProForma	-	-	\$25
Difference			-7%

BJH found that pro forma rents for the one-, two- and three-bedroom units, as well as the commercial properties were slightly lower than CoStar rents. In addition, BJH found it reasonable to include optimistic (slightly higher than market) rent assumptions, given the historical growth rates in rent prices. BJH recommends changes to Galvan’s market rent assumptions to meet the current and future market conditions for the time of the Project completion.

Source: CoStar, 75 N 7th Street pro forma, October 2024

Rent projections for 2026 include a historical 3% rent growth

Table 3: CoStar Rents for the Comparable Developments in Hudson Submarket

1Trinity Ct - Summit on the Hudson (2023)				
Unit Type	Avg SF	Avg. Asking Rent	Rent Per SF	# of Units
Studio	-	-	-	-
1 Bedroom	859	\$2,068	\$2.41	80
2 Bedroom	1,121	\$2,622	\$2.34	80
3 Bedroom	-	-	-	-

Weighted Average/Total	\$2,382	\$2.37	160
-------------------------------	---------	--------	-----

83 North Street - Country Meadows (2024)				
Unit Type	Avg SF	Avg. Asking Rent	Rent Per SF	# of Units
Studio	-	-	-	-
1 Bedroom	-	-	-	-
2 Bedroom	1,152	\$2,401	\$2.08	53
3 Bedroom	-	-	-	-

Weighted Average/Total	\$2,401	\$2.08	53
-------------------------------	---------	--------	----

158 Union Tpke - The Falls (2016)				
Unit Type	Avg SF	Avg. Asking Rent	Rent Per SF	# of Units
Studio	-	-	-	-
1 Bedroom	927	\$1,968	\$2.12	16
2 Bedroom	1,420	\$2,170	\$1.53	64
3 Bedroom	1,594	\$2,574	\$1.61	36

Weighted Average/Total	\$2,286	\$1.70	116
-------------------------------	---------	--------	-----

Weighted Average/Total	\$2,351	\$2.09
-------------------------------	---------	--------

Source: CoStar, November 2024

CONSTRUCTION COSTS

BJH reviewed Galvan's construction costs, which impact the Projects' initial loan and equity needs.

Construction costs were recorded at approximately \$267,000 per unit for the Project. BJH found these construction costs, prepared by Baxter – a reputable construction company with multi-family experience in the mid-Hudson region and a partner in the Project – to be reasonable.

Initially, Galvan's pro forma indicated a lower total construction cost per unit of around \$206,352 due to an oversight in the pro forma. This was later corrected, with adjustments reflected in a revised budget that increased the total project cost from \$10.9 Million to \$20 Million.

BJH did not recommend changes to Galvan's construction cost assumptions.

EXPENSES - REPLACEMENT RESERVES AND PROPERTY TAXES

BJH reviewed replacement reserves, which are an ongoing operating expense that factor into the Projects' NOI. Replacement reserves were recorded at \$250 per unit for the Project, which is the New York State Housing and Community Renewal (HCR) standard for LIHTC developments, and aligns with industry standards.

BJH also reviewed the Project's property tax assumptions, which were prepared by Whiteman Osterman & Hanna (WOH), a law firm based in Albany, New York for the Project. Property taxes represent the single largest operating expense and therefore have a substantial impact on the projected NOI.

The requested PILOT schedule in the pro forma is modeled as a percent of the projected full property taxes. The full property tax estimates for the Project are based on the City of Hudson's tax rate and the properties' estimated assessed values (AVs), as calculated through an income-based approach. BJH therefore reviewed and diligenced the AVs in order to confirm that the estimated full property taxes and corresponding PILOT schedules are reasonable.

BJH confirmed with WOH and Galvan that the Project's estimated AV was calculated using an income capitalization method based on the first year of NOI, inclusive of the PILOT expense, not the full property tax expense, and a market capitalization (cap) rate of 10.8%¹. Using this NOI and cap rate, the AV is projected to be approximately \$113,000 per unit for the Project.

BJH recommends calculating the AVs using the first year of NOI, inclusive of the full property tax expense, which results in a lower AV of approximately \$70,000 per unit for the Project. Although there are few mixed-income and affordable multi-family housing projects of comparable age and construction grade in Hudson, the lower AVs (calculated using an NOI that includes the full property tax expense) seem borne out by a few older comparables in the market. The comparables' AVs range on a per unit basis from the mid \$40,000s to low \$70,000s for regulated affordable developments (Table 4). BJH reviewed WOH and Galvan's assessment assumptions and concluded the validity of the income-based approach in general, though indicated it was too early to provide conclusive feedback on an estimated AV per unit.

While BJH's income capitalization method and comparables suggest the Project's AVs could differ from WOH and Galvan's assumptions, BJH does not recommend calculating the full property tax and corresponding PILOT using a lower AV, given lack of comparable new developments and unpredictability of Hudson's market.

¹The overall cap rate of 10.8% reflects a base cap rate of 8.86% and tax cap rate of 2%.

Table 4: Assessed Value (AV) per Unit for Depot District and Comparable Projects

	Address	AV	Total Units	AV per Unit	Year Built
Depot District Projects	75 N 7th Street	\$ 8,502,000	75	\$113,360	-
	76 N 7th Street	\$10,673,883	63	\$169,427	-
Regulated Affordable Comparables (Provided by BJH)	100 Harry Howard Ave	\$3,695,493	70	\$52,793	2007
	119 Columbia Street	\$7,042,254	101	\$70,422	1986
	15 N Front Street	\$7,605,634	168	\$45,271	1979
	192-194 Harry Howard Ave	\$4,225,352	59	\$71,616	1979

Source: City of Hudson Assessment Roll, 2024

Figure 1: Images of Depot District and Comparable Projects



RETURNS AND DEBT SERVICE COVERAGE

BJH updated Galvan's income assumptions to predict the Project's NOI. BJH then reviewed the pro forma's corresponding cash-on-cash returns and/or DSCRs to answer a key question: Does the Project's financial viability depend upon the requested scale and duration of property tax benefits? In other words, could the Project afford a higher or more quickly escalating PILOT expense?

BJH found that with the requested 20-year exemption the Project would have a DSCR of 1.39 to 1.77 between years 1 and 15 and that it meets a hurdle cash-on-cash return of 9.7% by year 15.

BJH prepared an alternative PILOT schedule for the Project that is 15- as opposed to 20-years long, thereby resulting in a more quickly escalating PILOT between years 1 and 15 (Tables 5, 6, and 7 included in proceeding section).



III. CONCLUSIONS

BJH found that the PILOT schedule included in the Project's May 2024 application was warranted in the first 15 years, as the benefit amount is needed for the Project to meet a threshold DSCR of 1.25 in year 1. However, with the increased income assumptions, the Project's DSCR exceeds 1.39 in year 1, as the Project meets a hurdle cash-on-cash return of 9.7% by year 15. BJH found that a 15-year PILOT structure is sufficient as the Project's DSCR consistently exceeds 1.39 after year 1, indicating strong debt repayment capability, while cash-on-cash returns and yield on cost steadily increase; therefore, BJH recommended an alternative 15-year PILOT with a total benefit NPV of approximately \$2,249,439 and a nominal value of \$2,591,273.

This PILOT reflects a reduced necessity for extended support beyond 15 years, as the incremental benefit of continued PILOT relief diminishes once financial stability is established.

Table 5: Original Proposed PILOT Schedule from Galvin (2024 Application) - 75 N 7th Street

Year	% of Full Taxes	Full Tax	PILOT	Benefit	DSCR	Cash-On-Cash Return
1	5%	\$211,468	\$10,573	\$200,895	1.25	3.2%
2	5%	\$215,697	\$10,785	\$204,912	1.28	3.5%
3	5%	\$220,011	\$11,001	\$209,011	1.31	3.9%
4	10%	\$224,412	\$22,441	\$201,970	1.33	4.1%
5	10%	\$228,900	\$22,890	\$206,010	1.36	4.5%
6	15%	\$233,478	\$35,022	\$198,456	1.38	4.8%
7	20%	\$238,147	\$47,629	\$190,518	1.40	5.0%
8	25%	\$242,910	\$60,728	\$182,183	1.42	5.3%
9	25%	\$247,768	\$61,942	\$185,826	1.45	5.7%
10	25%	\$252,724	\$63,181	\$189,543	1.48	6.1%
11	30%	\$257,778	\$77,333	\$180,445	1.50	6.4%
12	40%	\$262,934	\$105,174	\$157,760	1.51	6.5%
13	45%	\$268,193	\$120,687	\$147,506	1.53	6.7%
14	50%	\$273,556	\$136,778	\$136,778	1.56	7.0%
15	55%	\$279,028	\$153,465	\$125,562	1.58	7.3%
16	60%	\$284,608	\$170,765	\$113,843	1.60	7.6%
17	70%	\$290,300	\$203,210	\$87,090	1.61	7.7%
18	80%	\$296,106	\$236,885	\$59,221	1.62	7.8%
19	90%	\$302,028	\$271,825	\$30,203	1.63	7.9%
20	95%	\$308,069	\$292,666	\$15,403	1.65	8.2%
Total:		\$5,138,116	\$2,114,980	\$3,023,136		-
NPV:				\$2,570,787		

Source: Galvan Initiatives Foundation, 75 N 7th Street, November 2024

Note: The cash-on-cash return is based on the developer's pro forma, which assumes an income escalation rate of 2% and expense escalation rate of 3%.

Table 6: Original Proposed PILOT Schedule from Galvin with revised rent assumptions (2024 Application) - 75 N 7th

Year	% of Full Taxes	Full Tax	PILOT	Benefit	DSCR	Cash-On-Cash Return
1	5%	\$211,468	\$10,573	\$200,895	1.39	4.9%
2	5%	\$215,697	\$10,785	\$204,912	1.42	5.3%
3	5%	\$220,011	\$11,001	\$209,011	1.45	5.7%
4	10%	\$224,412	\$22,441	\$201,970	1.47	6.0%
5	10%	\$228,900	\$22,890	\$206,010	1.51	6.4%
6	15%	\$233,478	\$35,022	\$198,456	1.53	6.7%
7	20%	\$238,147	\$47,629	\$190,518	1.55	7.0%
8	25%	\$242,910	\$60,728	\$182,183	1.58	7.3%
9	25%	\$247,768	\$61,942	\$185,826	1.61	7.8%
10	25%	\$252,724	\$63,181	\$189,543	1.65	8.2%
11	30%	\$257,778	\$77,333	\$180,445	1.68	8.6%
12	40%	\$262,934	\$105,174	\$157,760	1.69	8.7%
13	45%	\$268,193	\$120,687	\$147,506	1.72	9.1%
14	50%	\$273,556	\$136,778	\$136,778	1.74	9.4%
15	55%	\$279,028	\$153,465	\$125,562	1.77	9.7%
16	60%	\$284,608	\$170,765	\$113,843	1.80	10.1%
17	70%	\$290,300	\$203,210	\$87,090	1.81	10.2%
18	80%	\$296,106	\$236,885	\$59,221	1.82	10.4%
19	90%	\$302,028	\$271,825	\$30,203	1.84	10.6%
20	95%	\$308,069	\$292,666	\$15,403	1.86	10.9%
Total:		\$5,138,116	\$2,114,980	\$3,023,136		-
NPV:				\$2,570,787		

Source: Galvan Initiatives Foundation, 75 N 7th Street, November 2024; Revised by BJH

Note: The cash-on-cash return is based on the developer’s pro forma, which assumes an income escalation rate of 2% and expense escalation rate of 3%.

BJH recommends increasing the projected rents by 10%, which has been reflected in the income assumptions presented in this table.

Table 7: Revised PILOT Schedule (2024 Application) - 75 N 7th Street

Year	% of Full Taxes	Full Tax	PILOT	Benefit	DSCR	Cash-On-Cash Return
1	5%	\$211,468	\$10,573	\$200,895	1.39	4.9%
2	5%	\$215,697	\$10,785	\$204,912	1.42	5.3%
3	5%	\$220,011	\$11,001	\$209,011	1.45	5.7%
4	10%	\$224,412	\$22,441	\$201,970	1.47	6.0%
5	10%	\$228,900	\$22,890	\$206,010	1.51	6.4%
6	15%	\$233,478	\$35,022	\$198,456	1.53	6.7%
7	20%	\$238,147	\$47,629	\$190,518	1.55	7.0%
8	30%	\$242,910	\$72,873	\$170,037	1.57	7.2%
9	35%	\$247,768	\$86,719	\$161,050	1.59	7.5%
10	40%	\$252,724	\$101,090	\$151,634	1.62	7.8%
11	45%	\$257,778	\$116,000	\$141,778	1.64	8.1%
12	45%	\$262,934	\$118,320	\$144,614	1.68	8.6%
13	50%	\$268,193	\$134,096	\$134,096	1.70	8.9%
14	50%	\$273,556	\$136,778	\$136,778	1.74	9.4%
15	50%	\$279,028	\$139,514	\$139,514	1.78	9.9%
Total		\$3,657,004	\$1,065,731	\$2,591,273		-
16	100%	\$284,608		-	1.69	8.7%
17	100%	\$290,300		-	1.73	9.2%
18	100%	\$296,106		-	1.77	9.7%
19	100%	\$302,028		-	1.81	10.2%
20	100%	\$308,069		-	1.85	10.7%
	Total:	\$5,138,116	\$1,065,731	\$2,591,273		-
				NPV:	\$2,249,439	

Source: Galvan Initiatives Foundation, 75 N 7th Street, November 2024; Revised by BJH

Note: The cash-on-cash return is based on the developer's pro forma, which assumes an income escalation rate of 2% and expense escalation rate of 3%.

BJH recommends increasing the projected rents by 10%, which has been reflected in the income assumptions presented in this table.



BJH Advisors, LLC (BJH) is a real estate development and advisory firm, with expertise in urban planning, finance, tax policy, market analytics, project management and Federal/State/City incentives. BJH works with both public sector and private clients to analyze and structure real estate development opportunities; undertake financial feasibility, market and zoning analysis; and help determine if policy goals require programmatic action.

BJH is certified by New York City, New York State, the State of New Jersey, and the Port Authority of NY and NJ as a Woman- and Minority-Owned Business Enterprise (M/WBE). BJH is an equal opportunity employer.

224 Centre Street, 6th Floor
New York, NY 10013
646-573-9588
admin@bjhadvisors.com
bjhadvisors.com