

October 9, 2025

Ms. Cherisse Vickers, Executive Director
City of Newburgh IDA
City Hall, Third Floor
83 Broadway
Newburgh, NY 12250

Re: Test of Reasonableness Findings – 191 Washington Street, LLC

Dear Cher,

The City of Newburgh Industrial Development Agency (the “IDA”) is considering providing assistance to a real estate development project in the City of Newburgh (the “City”) as proposed by 191 Washington Street, LLC (the “Developer”). The proposed project includes the rehabilitation of a former school building and the construction of two new buildings into a mix of 70 affordable-rate apartments, a brewery, and commercial space (the “Project”). The IDA engaged MRB Group to provide certain advisement and analysis including the completion of a cost-benefit analysis (CBA) of the Project that conforms to the requirements of Section 859-a(5) of General Municipal Law and the completion of a “reasonableness test” of the assistance being requested by the Developer.

The CBA has been delivered under separate cover and this letter serves to update our summary of the analysis and findings of the reasonableness test.¹

Scope of Analysis

To conduct this test of reasonableness, the IDA required the Developer to submit to MRB Group a pro forma financial analysis of the Project. MRB Group analyzed the Developer’s submitted information and requested level of assistance. We compared the assumptions used in that pro forma analysis against

¹ The original CBA and Test of Reasonableness analyses were delivered to the IDA on or around August 18, 2022 and then updated on October 19, 2022. The Project has changed substantially in nature since that time and the IDA has directed MRB Group to re-run its analyses on the reconstituted Project.

other sources. As necessary, we adjusted the pro forma assumptions and calculated a new anticipated return or range of returns.

The analysis focused on two key outputs: (1) whether the Project would meet bank financing conditions, such as meeting minimum Debt Service Coverage Ratios (DSCR), and (2) whether the Project's pre-tax cash flow internal rate of return (IRR) would be in excess of normal returns for the area and project type. We benchmarked the projected IRR against returns listed in RealtyRates.com's "Investor Survey" to determine reasonableness.

Discussion

MRB Group requested certain pro forma financial projections, which the Developer provided in spreadsheet format (the "Projections"). The Projections included comprehensive details on the Project's:

- Sources of capital, including financing terms and conditions.
- Construction budget, including hard, soft, carrying and other costs.
- Operating revenues and expenses, including proposed PILOT terms.
- Cash flows, debt service requirements and owner returns.

MRB Group reviewed the above, asked for and received certain clarifications, and participated in phone consultations with the Developer. To preserve confidentiality, we do not disclose the exact figures provided by the Developer and the discussions therein. However, below we note the major changes that the Developer made in its assumptions since the original 2022 analyses:

- Program – the most significant change to the Project's program is that that Developer is now proposing that all 70 residential units be rented to households earning 80% or less of "Area Median Income" (AMI), as defined by New York State's Department of Housing and Community Renewal (HCR).
- Capital Structure – the Developer is proposing to use preferential financing offered by HCR through HCR's "Small Building Participation Loan Program" (SBPLP). The preferential financing of the SBPLP takes a junior debt position, subordinated to the senior debt position proposed to be held by the Community Preservation Corporation (CPC). Both the SBPLP and CPC loans will

have a term of 30 years, coterminous with the required rent and occupancy-related regulatory agreements of HCR.

- Rents – as a condition of financing through the SBPLP, the rent the Developer can charge to residential tenants will be subject to a regulatory agreement which will cap rents at an amount calculated to be “affordable” to households earning 80% of AMI. As such, the rent prices the Developer is proposing are substantially lower than what was originally presented in 2022.
- Assessment – the City’s assessor provided an estimate of the future assessed value of the Project as complete, divided into an estimate for the residential portions and an estimate for the commercial portions of the Project.
- PILOT – the Developer is now requesting from the IDA a 30-year, fixed-value PILOT, but only applicable to the commercial portions of the Project. The Developer has also requested a 30-year, fixed value PILOT from the City. MRB has assumed, for this analysis, that both PILOT requests are granted.
- Other items in the Projections have changed, including the total cost of construction, construction schedule, vacancy rates², commercial rents, equity contributions, etc.

We took the information and assumptions contained within the revised Projections and benchmarked them against market data. The table below shows some of the benchmark reference values we used to evaluate the Projections, such benchmarks provided by RealtyRates.com.

| Reference Values for Pro Forma Analysis | | | |
|--|-------|--------|---------|
| Metric | Min | Max | Average |
| Interest Rate - Construction | 8.00% | 14.00% | 11.04% |
| Interest Rate - Permanent - All Apartments | 4.94% | 9.22% | 7.34% |
| Debt Service Coverage Ratio* | 1.00 | 1.86 | 1.43 |
| Loan-to-Value Ratio* | 55% | 90% | 73% |
| Amortization* | 15 | 40 | 26 |
| Equity Dividend Rate - All Apartments | 4.71% | 13.57% | 9.58% |
| Capitalization Rate | n/a | n/a | 8.67% |

*Metric with respect to permanent financing, senior loan.

Source: RealtyRates.com’s “Investor Survey” 3rd Quarter 2025.

² The Developer provided a high/low range of vacancy rates. For this analysis, MRB Group used the low end of the vacancy rate range. In this way, MRB Group is perhaps overstating the anticipated returns to the Developer should vacancy rates actually be higher than our assumption.

The definitions of the terms used in the table can be found below.

- Amortization: Years required at the specified interest rate to pay off the entire mortgage, including principal and interest, with a level payment.
- Capitalization Rate: The rate of return on a real estate investment property based on the net income that the property is expected to generate.
- Debt Service Coverage Ratio (DSCR): Ratio of annual mortgage payment, including interest and principal, to total net operating income (NOI, defined below).
- Equity Dividend: The dollar return to the equity component: $\text{Net Operating Income} - \text{Debt Service} = \text{Equity Dividend}$.
- Equity Dividend Rate: Rate of return to the equity component: $\text{NOI} - \text{Debt Service} = \text{Equity Dividend} / \text{Equity Investment} = \text{Equity Dividend Rate}$.
- Loan-to-Value Ratio: The amount borrowed divided by the appraised value of the property, expressed as a percentage.
- Net Operating Income (NOI): Income net of all operating costs including vacancy and collection loss but not including debt service.³

The table below shows the comparison of the Developer’s Projections to the benchmark reference values from above:

| Comparison of Developer Assumptions to Reference Values | |
|---|--------------------------|
| Metric | Developer Assumption is: |
| Interest Rate - Construction | Within Range |
| Interest Rate - Permanent - All Apartments | Within Range |
| Debt Service Coverage Ratio* | Within Range |
| Loan-to-Value Ratio* | Within Range |
| Amortization* | Within Range |
| Equity Dividend Rate | Within Range |
| Capitalization Rate | Below Average |

*Metric with respect to permanent financing, senior loan.

Source: RealtyRates.com's "Investor Survey" 3rd Quarter 2025.

³ Definitions provided by RealtyRates.com and Investopedia.com

As shown, all of the above values, except the Capitalization Rate, used in the Projections were within the benchmark reference ranges⁴. The Capitalization Rate is used in financial analysis to estimate the future “exit price” of the Developer from the Project upon sale which, in this case, is modeled to occur in Year 30. The lower the Capitalization Rate, the higher the assumed sale price. Therefore, the Developer’s lower assumption for this metric potentially overstates their exit price and therefore potentially overstates the Developer’s return. Because of this, we are comfortable keeping the assumption as-is.

We also examined a number of other factors used in the Projections, including the assumed:

- Rental rates and terms for the commercial tenants⁵,
- Operating expenses,
- Escalation factors for income and expenses,
- Hard, soft and other costs in the construction budget.

The commercial rental rates and terms were generally consistent with the market. The brewery operation, the largest of the commercial tenants, is shown to benefit from slightly below-market rental rates with respect to prevailing retail rental rates. However, we believe this is a fair presentation as the brewery is partially an industrial use which would typically have a lower rent rate. Operating expenses, escalation factors and the construction budget all appear to be consistent with similar projects.

Analysis

MRB Group made several adjustments to the Projections provided by the Developer. The most important adjustments are described below.

- As noted above, we adjusted the indicated residential and commercial vacancy rates to the low end of the range provided by the Developer. This has the effect of increasing the anticipated returns to the Developer.
- We calculated an exit in Year 30 via hypothetical sale of the property. To do so, we used the terminal year’s Net Operating Income, divided by the Cap Rate, to arrive at a sale price. From

⁴ RealtyRates.com does not provide a range for the Capitalization Rate, only an average.

⁵ Because the rental rates for the residential units are governed by the regulatory agreement with HCR, we did not evaluate those rental rates.

that, we subtracted remaining debt⁶ and an allowance for the costs of the transaction, to arrive at net proceeds to the Developer. We added these net proceeds to the free cash flow projections for Year 30.

Using these revised assumptions, we modeled the return-on-equity of the Project by estimating cash flows to/from the equity investor, including the net proceeds of the hypothetical sale as described above. This provided a simplified Internal Rate-of-Return (IRR). We compared this IRR to the benchmark reference rate shown above for Equity Dividend Rate and found it to be within the range of the benchmark. We also calculated the Debt Service Coverage Ratio (DSCR) using the Projections and found that it is within the benchmark range of DSCRs in the marketplace.

Summary of Findings

We find that the Applicant's requested assistance, including the sales tax exemption, the mortgage recording tax exemption and the PILOT abatement schedule, provides the Developer a reasonable, risk-adjusted return and the Project's DSCR is adequate for financing purposes.

Thank you for this opportunity to assist the Newburgh IDA.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. Michael N'dolo".

R. Michael N'dolo
Director of Economic Development

⁶ For the avoidance of doubt: our analysis is at Year 30, where the CPC debt is fully paid off. However, the HCR debt is non-amortizing and would come due in Year 30.