

Rhombus Properties Presents:
The Silk City Beacon



Proposal for Great Falls Redevelopment:
24 ½ Van Houten St Paterson, NJ 07505

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I. Executive Summary

The primary objective of our proposal is to implement a redevelopment plan that will fulfill the client's objectives and goals and that will have a positive impact on the city of Paterson. Our development plan is to implement a live, work, and play concept with a focus on multimedia, arts, film, technology, and innovation. The goal of this project is to maximize square footage and profits for the client. We will be offering residential rental units, coworking space, office, and unique experiential and artisanal retail. While this property is not great in size, the project will be uniquely noteworthy, creating a special place to live, work, and visit. Our vision is to become the most significant, innovative, community-focused, and sustainable mixed-use redevelopment project in the Great Falls Redevelopment Area. Lastly, we found these uses as the best option to revitalize the Great Falls Historic district and maximize profits for the developer. We want our property to be the catalyst for Paterson's economic redevelopment. We have named our development The Silk City Beacon, which pays tribute to the Property's history.

Objectives of the City:

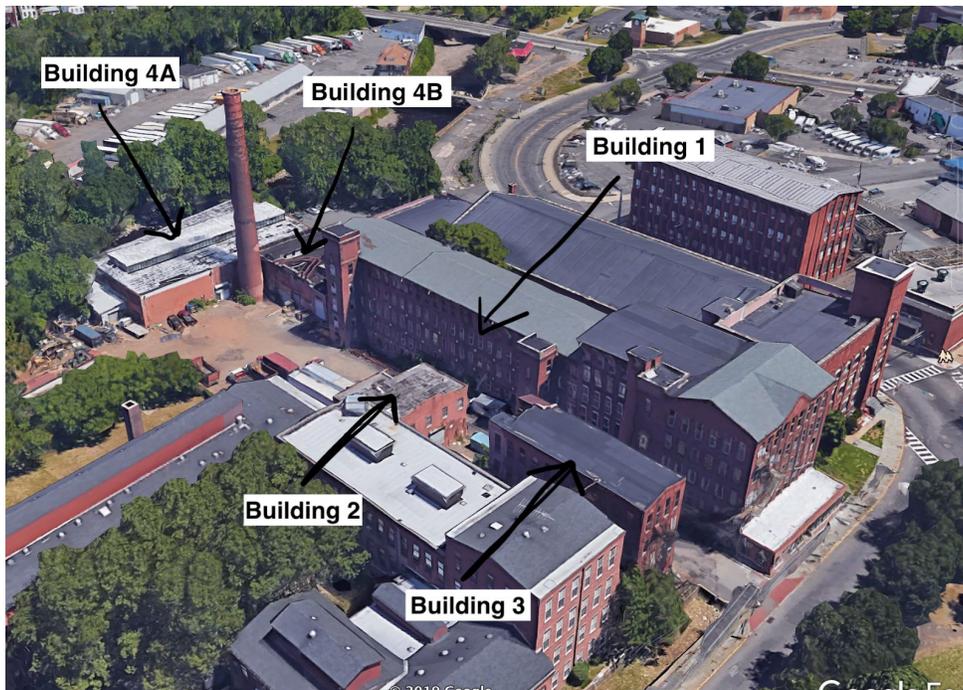
- To revitalize the historic mills district of the city.
- Create connections between the redevelopment area and the Great Falls National Historic Park.
- Promote the preservation of historical structures through their adaptive reuse and encourage historically inspired infill development.
- Support local artists through opportunities designed to promote their ability to work and live in the area.
- Promote mixed-use development.
- Foster the development of pedestrian-oriented infrastructure and streetscapes that create a safe community with a lot of walkability.
- Provide district standards that support the purposes and establishment of the Great Falls National Historical Park.
- Promote sustainable design.
- Provide quality housing options to attract new residents to the area.
- Coordinate with other planning efforts at the National State, and County level to promote the National Historical Park.

Objectives of the Developer:

- Reactivate underutilized space into highest and best use.
- Understand regulatory obstacles that are prohibitive to building.
- Identify historical requirements and regulations to follow. Also, incorporate these requirements into the design approach.

- Approach the entire site with a mixed use focal point. Focus on live, work, experiential retail, creative office, film, and production space.
- Identify opportunities where additional square footage can be maximized and possibly increased
- Address environmental concerns. The case assumption is groundwater remediation will be complete, whereas lead paint and asbestos removal will still be required.

II. Site and Market Overview



History of Subject Property:

The subject property (the “Property”) is a 2.52-acre site, located at 24 ½ Van Houten Street in Paterson, New Jersey, approximately one mile away from Paterson’s Great Falls. The Great Falls was a breathtaking site which captured the attention of Alexander Hamilton in 1778. Hamilton founded the city around the Great Falls, which would eventually be named after New Jersey Governor William Paterson. The Great Falls had jolted Governor Patterson’s path to developing Paterson to become one of the first industrialized cities in the United States.

The subject Property had been previously occupied by a clothing and silk manufacturer, in addition to various chemical companies. The site was occupied and operated until November 2002 when the companies eventually discontinued operations and filed for bankruptcy. Since the

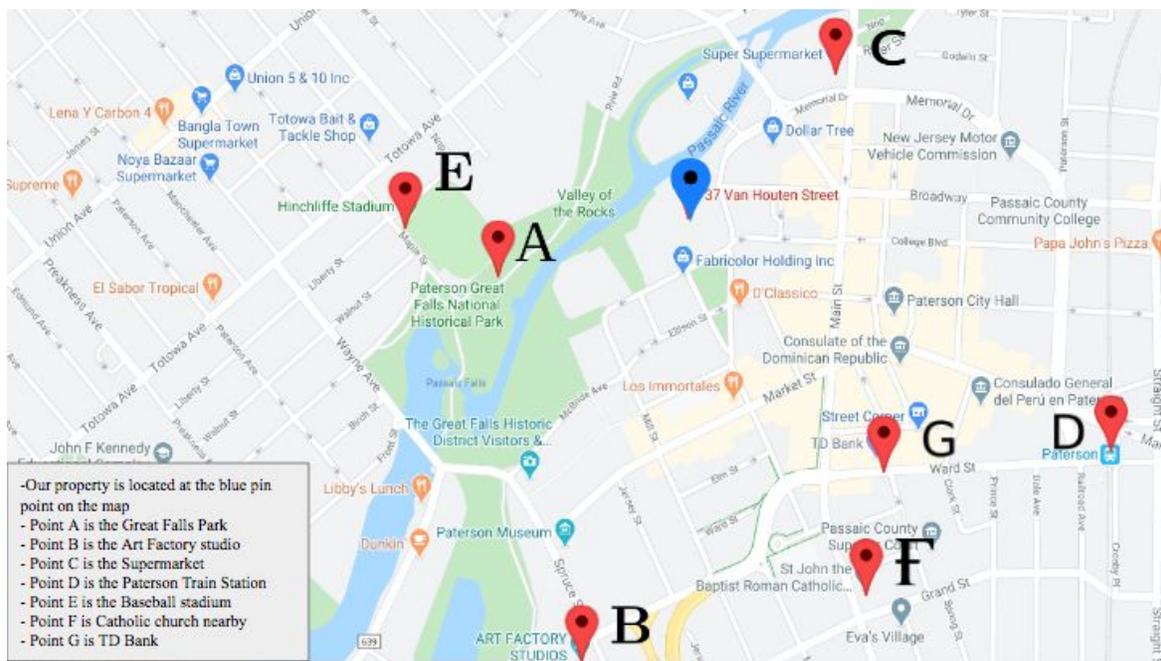
Property has been previously occupied by clothing manufactures for a majority of its history, we have decided to honor the history by attracting the art community.

Market Analysis:

Paterson is the capital of Passaic county and the county offices are located within the town. The Great Falls Historic District, in which the Property is located, is referred to as the most famous area in Paterson. The historic water falls located in this historical area are a main tourist attraction. Also, the waterfall is the second largest waterfall in the United States. The City has decided to capitalize on the marketability of these historic waterfalls by approving a plan to build a river walk in the near future. Maximization of the waterfalls beauty will help revitalize the area surrounding them.

The potential profitability of this project will be impacted by the incoming tourist spending as they visit the Great Falls. If desired, individuals could use water or the riverwalk to access the Property from the rear. Similarly, building 3 has prime access onto Van Houten street which allows individuals to leave and access the Property with ease.

The Property is within close proximity to major highways such as route 80. The site is also quite walkable as Van Houten street has multiple sidewalks with a walk score of 96. The bike score is 61 and the transit score is 63. These scores mean that Van Houten street is somewhat bikeable and has multiple transit stops. Most importantly, the Property is 0.6 miles from the Paterson Train Station, with service to New York, Newark and other population areas.



Paterson Demographics:

Based on the demographics provided from U.S Census Bureau we were able to derive our development plan and various uses. Paterson is comprised of a large Hispanic community. There is a high poverty rate in Paterson which is significantly higher than the U.S average. Paterson has a 26.3% rate of home ownership and based on new projects that are in the development phase, there are a lot of rental units being provided. Based on income capacities and our target market we were able to derive our various uses on the project. This densely populated city has an artistic movement underway and we aim to target young artists or tech startups. Paterson's property crime rate is 2,426 per 100,000 people which is higher than the New Jersey average at 1,405.

	Paterson	New Jersey	National
Population	145,627	8,958,013	330,243,366
Median Age	33.3 years	39.5 years	38.2 years
Caucasian	29.3%	72%	76.5%
African American	26.5%	15%	13%
Asian	3.8%	10%	5.9%
Native American	0.1%	0.6%	1.3%
Native Hawaiian or Pacific Islander	0%	0.04%	0.2%
Hispanic or Latino	60.9%	20.6%	16.3%
Property Crime	2,426 per 100k	1,405 per 100k	2,200 per 100k
Rate of Homeownership	26.3%	63.9%	63.8%
Income Per Capita	\$18,313	\$40,895	\$32,621
Median Household Income	\$39,282	\$79,363	\$63,179
Median value of owner occupied units	\$237,500	\$327,900	\$204,900

Unemployment Rate	5.1%	6.1%	3.6%
Overall Poverty Rate	28.14%	9.5%	11.8%

COMPS:

We derived our rental rates for retail and residential use by comparing them the rates being charged in Paterson, Jersey City, and Newark. Paterson and Newark are our closest comparable cities as we focused on the up and coming urban areas. For the higher range we used Jersey City, specifically the more affluent areas. Based on new and old developments we were able to calculate the rates to charge for our various uses which is our main selling point. Various uses entail the use of studios and live/work apartments which fits the criteria for the development plan. Also, our close proximity to the Passaic River and the historic Great Falls are important marketing points we want to emphasize. The target market for this development is residents from outside Paterson. Finally, we will be offering a new type of residential product such as live/work space.

Paterson				Jersey City			
Types of use	Address	R/SF per year	S/F	Type of use	Address	R/SF per year	S/F
Coworking	70 Spruce St	Upon request		Office	2172 John F Kennedy Blvd	\$16.36	200
Retail	111 Washington st	1.666666667	1964-2429	office/med	953 Garfield av	\$18	11,000
Office/medical	1010 Main st	\$22.00	2500	office/med	2520 John F Kennedy BLVD	\$24	1500-3061
Retail	1010 Main st	\$1.88	1800 or 2000	office	910 Bergen Av	\$25	8280
Office/medical	185 6th ave	\$12.50/yr	2000-7000	office	910 Bergen Av	\$35	150
office/retail	70 spruce st	\$25.00/yr	2250	retail	541 Newark Av	\$24	1000
office/retail	991 main st	\$28-32/yr	5,891,785,947	retail	2260 John F Kennedy Blvd	\$42.84	700
\$14 For office	retail \$15		cowork 14 or \$15	retail	155 Newark Ave	\$48	3000
				retail	271 Newark ave	\$40	900
Newark				Bergen/Passaic County extra comps			
Types of use	Address	R/SF per year	S/F				
retail	649-659 clinton ave	\$14.00/yr	900-3000	Coworking	\$18.00 SF/yr	155 rt 46 Wayne	60-12,835 sf
retail	180 Jeliff Av	\$13.56	4000	Coworking	\$36.00 sf/yr	51 James st South Hackensack	1000-9500 sf
retail	451 w 4th ave	\$18.00	1000				
retail	1299 mccarter hwy	25	1000				
cowork	457 Frelinghuysen av	\$11	150-2000				
cowork	32 noble st	\$12	150-2000				
cowork	11-43 Raymond plz w	Upon req	100-12,512				
office/med	393 mulberry st	\$33.60	2500				
office/med	654 mount prospect ave	\$18	1450				
office/med	851 mount prospect ave	\$18.46	1300				
office/med	604-608 Market st	\$28	2200-2500				

Residential-Paterson

146 Main Street	875 SF	1400 per month	2 bed, 1 bath	Built in 2016	No Amenities	Location +
41-43 Ryle Avenue	850 SF	1900 Per month	2 bed, 1 bath	old	No amenities	location -
38 Clinton Street	1500 SF	1800 per month	3 bed, 1 bath	Newly built	No amenities	Location -
13 Lee Place	N/A	925 per month	1 bed, 1 bath	Somewhat New		Location +
146 fair st	700 SF	1600 per month	1 bed, 1 bath	newly built	no amenities	location -
47 12th Avenue	650 SF	1550 per month	1 bed, 1 bath	newly built	no amenities	location +
146 Hamilton Ave	800 SF	1500 per month	1 bed, 1 bath	newly built	no amenities	location
33 Ryerson Ave	1,344 SF	1,050 per month	1 bed, 1 bath	older	No amenities	Location -
175 Broadway	831 SF	1600 per month	1 bed, 1 bath	newly built	No amenities	location+
100 Carroll Street	683 SF	1600 per month	1 bed, 1 bath	interior new	No amenities	location -

Residential Jersey City

2468 John F. Kennedy Blvd.	650 SF	1550 Per Month	1 bed, 1 bath	Location, +
143 Morgan Street	900 SF	3000 Per Month	1 bed, 1 bath	Location, +
Wayne Street	600 SF	2350 Per Month	1 bed, 1 bath	Location, +
Newport Parkway	925 SF	3200 Per Month	1 bed, 1 bath	Location, +
207 Fairview Avenue	1200 SF	1800 Per Month	2 bed, 1 bath	Location +
107 Van Nostrand Avenue	900 SF	1640 Per Month	2 bed, 1 bath	Location +
252 Van Horne Street	750 SF	1565 Per Month	2 bed, 1 bath	Location, +

The subject property is 0.75 miles from the local train station. Recently, multiple properties have been developed or renovated. These new properties offer 1 and 2 bedroom rental units with typically 1 bathroom. While pricing our units we tried to make them affordable based on comparable sites and the consumers income. Similarly, we know based on what the developer told us that residents of Paterson typically cannot afford a mortgage. This helped us decide that rental units would be a better option opposed to for ownership options. Our pricing assumptions take into account our location along the River Walk and proximity to the train station.

We will be offering 42 total residential units and these units will consist of various sizes/bedrooms. The target market for these units are young artists or employees of business located on the premises. We decided to offer small units based on what the market dictates and our target market. Young individuals and artists will not want large units. Lastly, we will be offering studios and we envisioned artists living there and using the space as a work/live area. Our closest comparable site is the Art Factory located at 70 Spruce street, Paterson NJ. The Art Factory is a venue hall not too far from the subject property. They offer various venues, such as weddings, pop up shops, coworking space, and film and photo space. Based on the success of the Art Factory, we know the demand is there for this type of artisanal site. We are different from the Art Factory because we are within close proximity to waterways, and will have eateries, and residential units on site. After speaking with the Art Factory, we were informed that they attract Hollywood movie, and Tv producers to film in their space. Due to the lack of available space at an affordable rate in Brooklyn, many Hollywood producers look in rustic urban parts of New Jersey such as, Paterson to film.

Lastly, our goal with this project is to develop a “Media Community” as we want to incorporate various types of media companies such as, Tv, Radio, and Film. We will be offering an indoor and outdoor space for filming, movie screenings, and commercials that will be shot and shown on the site. Also, we will offer food service to our movie theater from the neighboring food hall.

SWOT ANALYSIS:

Strengths:

- Paterson has a very rich history as it was the first planned industrial center in the United States. Also, Paterson was founded by Alexander Hamilton.
- Property is located near the beautiful Great Falls, the second largest fall within the United States after Niagara Falls. Our property is also located against the Passaic River with easy access to the river.
- Paterson is the third largest city in New Jersey with a population of 147,890 inhabitants.

- There is a very diverse population in Paterson as it is a melting pot for various cultures. Paterson has a large hispanic community with 60.7% of the inhabitants derive from Latin American descent.
- The property is a transit oriented site as it is located near the train and bus stations. Lastly, the site is very walkable with a high walk score of 96.
- Paterson is 45 minutes away from New York City by car and 1 hour and 6 minutes by train.

Weaknesses:

- The site is contaminated and environment remediation is required before the site can be redeveloped. However, the case assumes prior completion of remediation of groundwater contamination.
- The existing buildings require careful renovation to ensure safety.
- Part of the Property is located in the flood zone.
- Paterson has had various scandals in recent years involving government corruption.
- There is a high poverty rate in Paterson at 29% and a high crime rate.
- The average household income is low at \$36,106 and Per Capita income is \$18,313

Opportunity:

- Stately, historic structures with “good bones,” built of brick and oversized wood joists and beams.
- Opportunity to be an “early mover” in Paterson’s redevelopment, concurrent with the renovation of the train station and the other public amenities planned and approved in the Great Falls Historic District.
- Capitalize on the potential value of offering direct access and partial views of the Passaic River and the Great Falls. The Property is also physically part of the proposed Riverwalk which is expected to be completed by mid-2020.
- Burgeoning artist movement in Paterson.
- Paterson is in the Urban Enterprise Zone, which provides tax advantages both to the developer and prospective commercial tenants and consumers.
- Opportunity to take advantage of increasing movement of film production from New York to New Jersey. New Jersey offers tax credits for film production space. These tax credits can be from 30% to 35% for qualified production shots. The Property offers an ideal setting, both interior and exterior, offering a competitive advantage for this use.
- The Property is in a designated Economic Opportunity Zone, which could help attract equity capital, if needed, to finance the project.

Threats:

- Paterson's reputation of not being a safe city might hinder the potential of this development.
- The subject property is a flood hazard due to our close proximity to the Passaic River.

IV. Development Plan:

Our Proposal:

We are proposing the creation of 42 apartments (Building 4B), four live-work apartments over an art studio (Building 3) and, at the heart of the development, a multi-use central building (Building 1) containing a food hall, gym facilities, film, radio and music studios, a movie theatre, a ghost kitchen, office and co-working space. The project will have 121 surface parking spaces.

In order to meet the township of Paterson's redevelopment goals, we are proposing the revitalization of the two historic buildings, shown as building 1 and building 3. Along with this, building 4A and building 2 are to be demolished. Finally, building 4B will be increased to a height of seven stories. Following this, it will increase the total existing leasable space to 135,231 square feet.



Demolition:

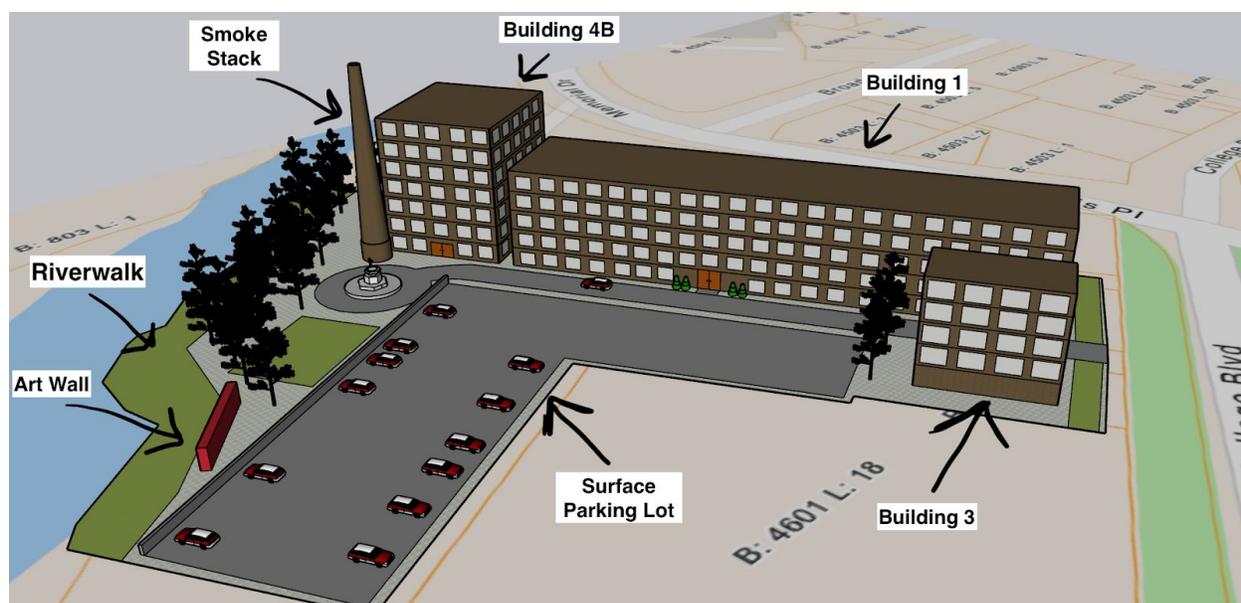
To adhere to Paterson's requirements in their redevelopment plan while also keeping with the historical architecture and culture of Paterson, Buildings 1, 3 and 4B are to be kept, repaired and

revitalized. The character and structural integrity of the buildings are to be preserved and improved upon in order to create a vibrant and aesthetically pleasing structure that coincides with the development of the rest of Paterson. Building 4A and Building 2 are to be demolished as part of the development plan. Once demolished the area will provide space for parking, greenspace and a road/driveway.

Construction:

Construction costs for the project for the main buildings will include the restoration of historic buildings 1 and adding five new stories to building 4B, bringing it from two to seven stories.

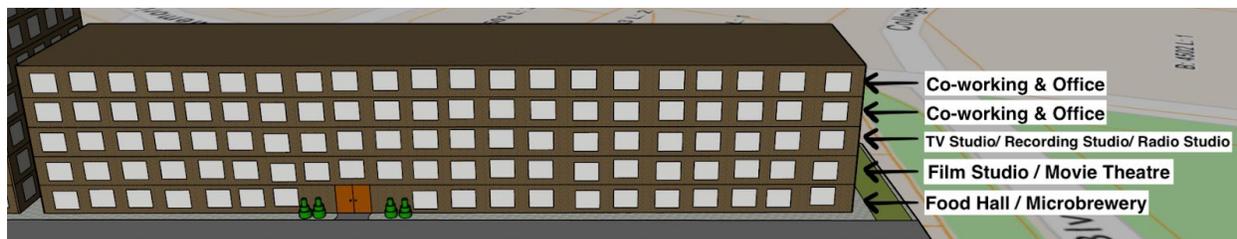
3D Model:



Building 1:

One of the two historic buildings, building 1 is to be redeveloped instead of being demolished and rebuilt. This building will be one of the centerpieces and main building to the Property. It will consist of a mix of retail, office and food. The gross square footage of this building totals 88,625 square foot with a floor plate of 17,725 square foot. With a loss factor of 18 percent, there is a total 14535 square foot per floor and 72,673 square foot total usable square footage. The building will have two main entrances, one off of Van Houten street which will be the main public entrance for the retail such as the food hall and movie theatre, and one private entrance near the parking garage for residents and those working in the offices and studios. With this building, like much of our property the Arts and culture of Paterson play a key role. We will maintain the historic architecture inside and outside the building and work it into our project.

Along with this, the different uses inside of our building will gravitate towards a more art centric crowd, catering to a target market we seek to reach and pull into Paterson.



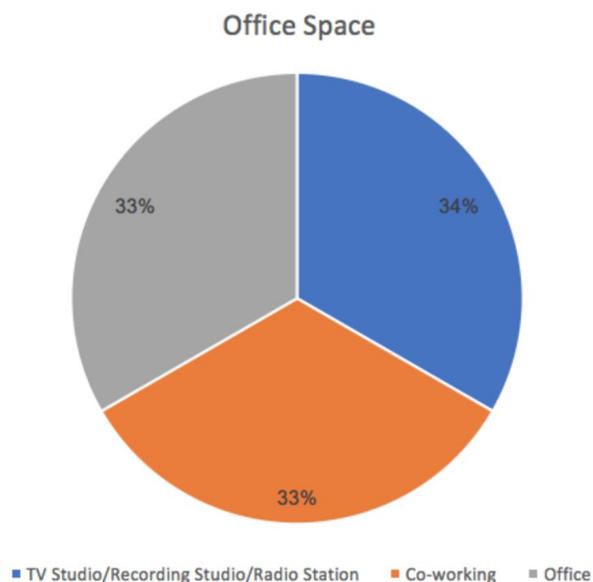
First Story: This story will contain a 15,755 square foot food hall and microbrewery as well as a dance/yoga studio and fitness center with the remaining 1950 square feet. This food hall and microbrewery will seat 228 guests and will be the main source of food on the property for residents and the people of Paterson. Additionally, a connector between buildings 1 and 4B will be added allowing residents access to both buildings.

Second Story: This story will contain a 14,995 square foot filming studio as well as a 1,501 square foot movie theatre and a small ghost kitchen. The main use for this floor will be a the filming studio, in the town plan this was one of the main uses provided for the Adaptive Infill and Reuse District and market research suggests that many film producers are looking towards areas like Paterson for film studios as opposed to areas like New York due to cheaper studio costs. While not being used as a film studio, this area also has the ability to be leased out for alternative uses providing extra revenue when Filming is not required. Going along with the arts and movie theme, a small movie theatre will also be present on this floor as a fun form of entertainment that is not currently present in Paterson. With the help of the growing film industry in Paterson, it is an extremely relevant form of recreational retail for the property. Finally this floor will contain a ghost kitchen which will be rented for off-site food prep and delivery (GrubHub), which will service the residents and tenants at the Property, as well as the local community. The kitchen can also be used to provide food service for the movie theatre and for events that may take place in the film studio space in non-production time frames.

Third Story: This story contains an office mix of a TV studio, a recording studio and a radio station. These three uses all use similar technology and can be mixed together into one large studio on this floor. This allows for a diverse studio that can provide usage to a multitude of businesses and people in the Paterson area. These studios help to continue cement Building 1 and the property as a true hub for the arts in Paterson.

Fourth/Fifth Story: The final two stories on the building are both made up a mix of co-working and office. We decided on implementing coworking into the building because it creates a neutral

and flexible office space that can be used for multiple office uses and projects. Allows for a greater sense of community and creativity within a flexible environment. Co-working also allows for a greater amount of common space that allows for easier teamwork and networking

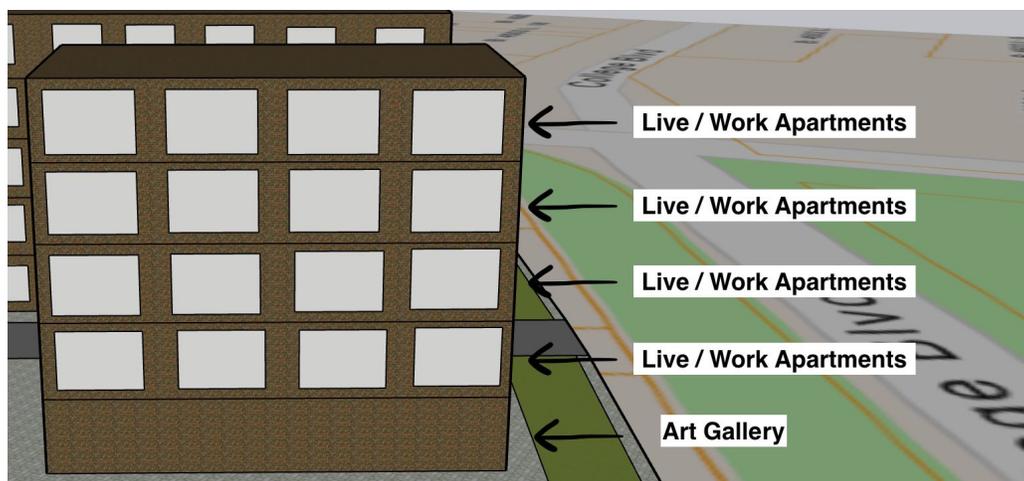


Building 2:

This is a small brick building with a gross square footage of 11,385. This building is to be knocked down in order to provide extra space for parking for the remaining buildings. Costs of the demolition should total approximately 80,000 dollars.

Building 3:

The second historic building on the property, building 3 is also planned to be redeveloped instead of being demolished. The building is smaller, with a total square footage of 10,955. It is a five story building with a floor plate of 2,191 square feet. With a loss factor of 10 percent, there is a usable square footage 1,972 and a total usable square footage of 9,860. The building is present at the front of the property and borders Van Houten Avenue. This building is primarily a residential building and has a mix of live/work apartments, and continuing with the arts theme has an art gallery present as well.



First Story: This floor is home to the art gallery. Galleries were listed as one of the main recommended uses for the adaptive reuse and infill district. The galleries are also a great source of culture and revenue for the property. With the combined uses on the property art galleries are sure to seamlessly fit within the atmosphere of the property. The galleries will also be a great space for local artists to display and present their work.

Second - Fifth Story: The next four floors will be a mix of live/work apartments. Each apartment has a total square footage of 1,971, leading to a total of 4 units in the building, one per floor. Live work apartments combine workspace and living space and have been extremely popular as of recent. Live work apartments are great for modern business professionals and entrepreneurs, as they are more flexible with hours and work time, cut commuting costs and time and allow individuals to create their own work schedules. All of these benefits are very desirable to our target market, particularly the artists and millenials we aim to attract to live at the apartments.

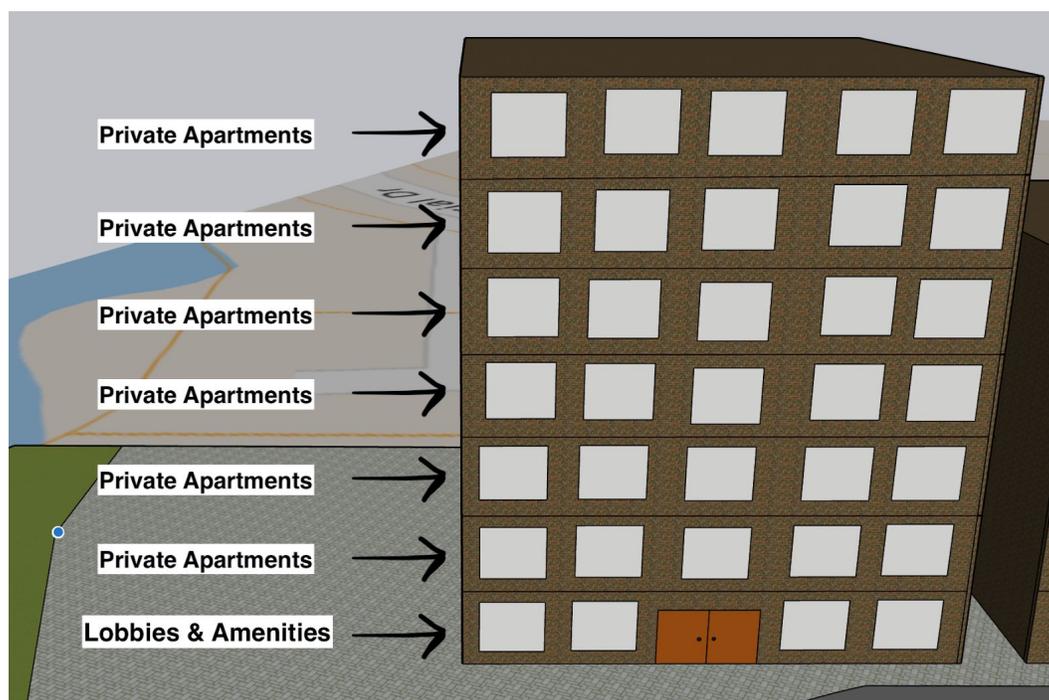
Building 4A:

This is a large brick building connected to building 4B. This section of the building is at the end of our property and borders the Paterson river. This section of the building is to be demolished in order to free up green space, provide area for other uses and help to maximize on views over of the Paterson river for residents and guests on the property. The building has a total square footage of 25,788 and demolition costs for the building will total 180,516 dollars.

Building 4B:

The second section of building 4, this building is currently two stories but is to be brought up to seven stories, the max height as provided by the town plan, which states buildings can be two stories past the height of historic buildings on the property (5 stories). The building has gross

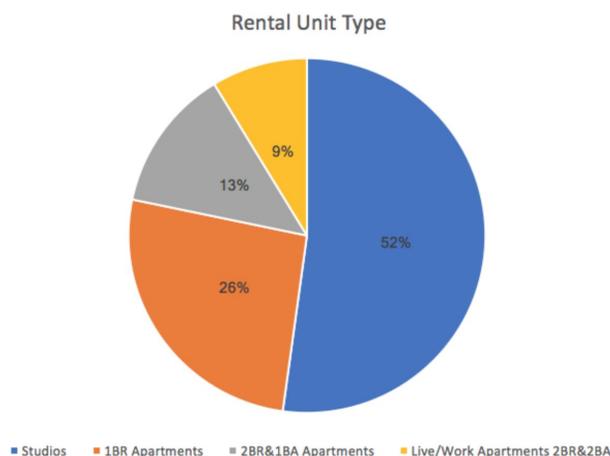
square footage of 35,651 with a floor plate of 5,093 square feet. With a loss factor of 20 percent, there is a total usable square footage of 25,465 and 4,074 square feet per floor. Building 4 will be the main residential building on the property and will contain a total of 42 units with a mix of studios, one bedrooms, and two bedroom one bathroom apartments. This building will also contain a green rooftop lounge that will be available for all guests and will have beautiful views of the Paterson river and its historic waterfalls.



First Story: The First story will be a mix of amenities for the guests in the building, these include: a large lounge area with TV and games, opening onto the rear green space adjacent to the River Walk; a dry cleaner; bike/stroller storage room; storage spaces (for rent); communal laundry room; conference room; mail/delivery room, cold storage for delivered groceries; and a reception area. All of these will be available to the residents of the building and only the residents of the building, as access will require a card scanner to enter the building. Finally a security room will be present in this building that will provide both security for this building but also the whole property. Cameras will be present around the whole property that can be monitored from this room.

Second - Seventh Story: The next six floors will be all residential with a mix of studios, one bedroom and two bedroom one bathroom apartment. Each floor will have the same layout that will be cut and copied throughout the building in order to provide for easier construction. Each floor will include, one two bedroom apartment at 834 square feet, two one bedroom at 650 square feet and four studio apartments at 485 square feet. This will provide each floor with a

total of seven units per floor and 42 units total. The total residential square footage per floor comes out to 3,424 square feet. The units are designed to be small and at an affordable price to attract residents from outside and inside the city, particularly young artists and entrepreneurs. The common areas, however, will be large in comparison, to foster social interaction among the residents, creating a sense of community. This is a primary objective throughout the design of the project. Below is a breakdown of the unit mix, which leans heavily toward studios and 1-bedrooms, given the above objectives and the target market.



Parking:

Various parking alternatives were analyzed, including surface parking, a 2-story structured parking deck, and a combination of surface and structured parking. In our development plan we decided to do all surface level parking because it was the only way to make the project feasible, assuming no government subsidies are available. In our model we were able to fit 121 surface level parking spots. This is 70% of the calculated parking requirement according to zoning. Rhombus Properties is making the case that 121 spaces are sufficient for the following reasons: (i) many of the residents at Silk City Beacon will also be working at the Property and enjoying the retail and food options, resulting in a fair amount of shared parking; (ii) there are many parking options in the neighborhood including a parking garage across the street for our visitors; (iii) a shuttle service to the train will be offered; (iv) a secured Uber/Lyft pick-up spot is offered.

Parking requirements for the property include:

- Residential: 1 space per unit
- Offices: 1 space per 1000 square foot
- Eating Establishments: 1 space per 8 seats
- Sales and Services: 1 space per 1000 square foot

- Theatres: 1 space per 100 square foot

The lot will be close to the residential and commercial building entrances in order to minimize walking distance from the building. Additionally a small wrought iron fence will be built along the back side of the parking lot in order to provide protection for the vehicles from the people who walk along the public riverwalk along the back of the property.

Greenspace:

One of the most important goals of our project was optimizing the amount of greenspace and proximity to the Paterson River. First, according to the city's master plan, a 30 foot easement along the rear of the property, covering approximately 10,000 square feet, will be granted for the RiverWalk. In addition, the Property offers an additional 20,000 square feet of green space along the back of the property. In this area we have designated a 3,000 square foot parcel dedicated for different outdoor activities for our residents as well as members of the community. These include setting up small soccer nets, a small outdoor movie screening and outdoor seating.

Along with this, the construction of a 54 foot *art wall* is to be built in this greenspace as well. This wall is open for local artists to decorate and design with murals with our discretion to help increase the art scene in Paterson and help local artists along with providing a beautiful mural for the property.

In addition, we will have food carts providing cultural types of foods which will bring about an exciting diverse and cultural aspect to our property.

Driveway:

The main driveway for the property comes off Van Houten Avenue and leads directly between buildings 1 and 3. The road is 20 feet wide and offers a turnaround at the end in front of residential building 4B. There will be an Uber stop present at this turnaround allowing for easy drop off and pickup of residents. The center of turnaround will be a showplace for the artwork and statues produced by local artists, further increasing the culture and artistic atmosphere of the property.

Historic Features:

An important part of the property will be the preservation of the properties historic features. These include the two historic buildings, the large smoke stack and the historic raceways. The smoke stack will become a central feature of our property and is considered the "beacon" of our site as it towers above the surrounding area and is the most distinguishing feature on the

property. Additionally, the raceways present at the front of the property are to be maintained and worked in front of buildings 1 and 3 and through the main driveway.

V. Risks and Mitigants:

Risks	Mitigants
Parking not Sufficient	Availability of Street parking, Parking garage nearby, and Property has a very high walk score of 96.
Buildings on property are historical and dilapidated. Require a lot of work prior to utilization of space.	Revitalization of exterior structure in accordance with the historical nature of the building.
This parcel of land is in the flood zone. No housing or mechanicals are allowed below the flood plain.	The first floor will have retail space along with parking, which is permitted in the zone. The mechanicals will be installed in accordance with flood zone requirements.
Questionable demand for this type of project in Paterson.	Proven demand for artistic, and creative mixed use sites within Paterson and other urban areas, such as the Art Factory.
Safety for residents and customers	Installation of security cameras, security guards, fences, and gates to improve safety for residents and customers.
Environmental remediation	Asbestos roof and lead paint in multiple buildings. Reasonable quotes obtained for removal of lead paint and asbestos.
Timing of approvals and construction can impact cost, and financial returns	Pro forma assumes a conservative 2 years to obtain approval and commence construction.

VI. Financials:

Summary of key financial metrics:

- Our total development budget is \$24,739,800 which includes land acquisition cost, buildings cost, parking, TI Allowances, and other costs (such as landscaping, fencing, and art features).
- 70.84% of our costs will be related to building the structures on our property, .31% to other such as an art wall and landscaping, 2.05% to parking, 8.61% to TI allowance.
- Our loan to value ratio is 70%
- We assumed a 10 year hold
- Unleveraged IRR of 13.5%
- Leveraged IRR of 20.3% and an equity multiple of 6.40.
- Net reversion value cap rate of 6.5%
- We have a 15 year pilot with an annual percentage reduction of 55%. This gives us a total savings of \$2,133,304.

Capital Structure:

In our project we have a total development budget of \$24,739,800. In this project we have a loan to value ratio of 70% which means \$17,317,860 is funded by debt. We assumed our debt is subject to an interest rate of 4.25%. Furthermore, our equity is 30% which is \$7,421,940 out of our total development budget.

<u>CAPITAL STRUCTURE</u>	
Development Budget	\$ 24,739,800
LTV	70.0%
Debt	\$ 17,317,860
Equity	\$ 7,421,940
Interest Rate	4.25%

Budget:

The total land acquisition cost is \$4,500,000 which includes \$4,000,000 of the land purchase price and \$500,000 of predevelopment costs incurred to date. Land acquisition is 18% of our total development budget. Below is a detailed budget with explanations of our assumptions.

Development Budget				
			Budget	% of Total
Land Acquisition				
Purchase Price			\$ 4,000,000	16%
Predevelopment Costs to Date			\$ 500,000	2%
Total Land Acquisition Costs			\$ 4,500,000	18%
	Cost/sf	Gross sf	Budget	% of Total
Buildings				
Building 1		88,625		
Hard&Soft Costs	\$ 110		\$ 9,748,750	39.41%
Asbestos Roof Removal	\$ 5	17,725	\$ 88,625	0.36%
Lead Paint Removal	\$ 10	7,810	\$ 78,100	0.32%
Building 2				
Brick Building Demolition	\$ 7	11,385	\$ 79,695	0.32%
Building 3		10,955		
Hard&Soft Costs	\$ 100		\$ 1,095,500	4.43%
Lead Paint Removal	\$ -		\$ -	
Asbestos Roof Removal	\$ 7	2,191	\$ 15,337	0.06%
Building 4a				
Brick Building Demolition	\$ 7	25,788	\$ 180,516	0.73%
Building 4b		35,651		
Hard&Soft Costs	\$ 175		\$ 6,238,925	25.22%
Asbestos Roof Removal	\$ -		\$ -	
Lead Paint Removal	\$ -		\$ -	
Building Cost			\$ 17,525,448	70.84%
	cost/acre/linear foot	Gross sf/linear ft	Budget	% of Total
Other:				
Art Wall	10	324	\$ 3,240	0.01%
Landscaping/Green Space	\$ 150,000.00	21,000	72,314	0.29%
Other Costs			\$ 75,554	0.31%
	Cost/Space	Spaces	Budget	% of Total
Parking		121		
Structure Parking	\$ 25,000	0	\$ -	0.00%
Iron Railing - Rear Parking	100	244	\$ 24,400	0.10%
Surface Parking	\$ 4,000	121	\$ 484,000	1.96%
Parking Cost			\$ 508,400	2.05%
	Cost/sf	Gross sf	Budget	% of Total
Allowance				
Retail TI Allowance	\$ 25	32,041	\$ 801,023	3.24%
Office TI Allowance	\$ 25	53,175	\$ 1,329,375	5.37%
Allowance Cost			\$ 2,130,398	8.61%
Total Budget			\$ 24,739,799.55	

Building 1:

This is our largest building with a total hard and soft costs of \$110/sf on 88,625sf which equals 39.41% of the projects total. These costs assume minimal work to the exterior of the building, partial window replacement, and no sales tax on building materials (due to the UEZ). Also in this building, we have asbestos roof removal which we budgeted at \$5/sf with 17,725 square feet of roof area, and lead paint removal of \$10/sf for 7,810sf (assuming approximately 20% of the interior walls have lead paint). Building one comprises 40.08% of our development budget.

Building 2 & 4A:

In our plan we decided it would be the highest and best use to knock down buildings 2 and 4a. Estimated demolition costs for brick structures was \$7 per square foot. In this case, we have 37,173 sf, which is the sum square footage of building 2 of 11,385sf and building 4a of 27,788 sf. The demolition of this square footage totaled \$260,211 or 1.05% of our development budget.

Building 3:

In building 3 the hard and soft costs were assumed to be \$100/sf on 10,955 totaling to 4.43% of the total development budget. It is assumed the building will remain a walk-up (no elevator), and each floor will be single floor units, keeping construction costs low. This building also has asbestos roof removal at \$7/sf . Total development budget for building 3 is 4.49% of the total development budget.

Building 4B:

Lastly, building 4b's hard and soft costs are budgeted at \$175/sf, with 35,651 gross square feet, which totaled to \$6,238,925, or 25.22% of the total development budget. These costs assume the existing foundation will support the building and that construction costs will be tightly controlled with a simple, yet attractive, structural design and the potential use of prefabricated materials.

Other:

Furthermore, we will have other costs such as an art wall with a total budget cost of \$3,240 and landscaping of \$72,314. These two other costs will be a small amount of our development budget as they only account for 0.31% of the total development cost.

TI Allowance:

For our retail properties we assumed that our retail and office space would have a TI allowance of \$25/sf. This space would be on a total of 85,215 sf, which would total \$2,130,398 or 8.61% of the development budget.

Parking:

Surface level parking spots made the most sense economically as it is \$484,000 only 1.96% of our development budget. Furthermore, we have added a safety feature of an iron railing which is going to create a barrier and keep out trespassers from being in our parking lot. This iron railing is totaling to .10% of our total development budget. Our total parking budget will be 2.05% of the development budget.

	<i>Cost/Space</i>	<i>Spaces</i>	<i>Budget</i>	<i>% of Total</i>
Parking		121		
Structure Parking	\$ 25,000	0	\$ -	0.00%
Iron Railing - Rear Parking	100	244	\$ 24,400	0.10%
Surface Parking	\$ 4,000	121	\$ 484,000	1.96%
Parking Cost			\$ 508,400	2.05%

The diagram below explains the potential outcome would be if we decided to do structure parking. If we did structured parking on our project it would be \$25,000/space, totaling to \$4,300,000 or 15.07% of our development budget. In the instance we did structured parking we would be able to provide more spots and would not need an iron railing. Although this project might benefit from structured parking it is not economically feasible without help from the City or State. Additionally if we decided to do structured parking it would reduce our IRR of our the project from 20.3% to 18.3%, which we determined to be unacceptable given the location and risks of the project.

	<i>Cost/Space</i>	<i>Spaces</i>	<i>Budget</i>	<i>% of Total</i>
Parking		172		
Structure Parking	\$ 25,000	172	\$ 4,300,000	15.07%
Iron Railing - Rear Parking	100	0	\$ -	0.00%
Surface Parking	\$ 4,000	0	\$ -	0.00%
Parking Cost			\$ 4,300,000	15.07%

Urban Enterprise zone benefit:

The total cost to build this project is \$17,525,448. Our hard costs for this project are exempt from taxes because it is in an urban enterprise zone. The elimination of taxes from our hard costs

decreased our hard cost budget by 7%. Furthermore, anything our retailers sell will be taxed at 50% due to the urban enterprise zone. This will attract more potential retail establishments and make our property more desirable.

Analysis of Potential Tax Incentives:

The NJEDA programs are currently expired but if they were available the developer would potentially be able to use them. This program would provide the developer with tax credits up to 20% of the total projects cost. This is a perfect grant for our project as this grant applies to developments that have a below market development margin or rate of return. As Paterson is up and coming, developers may not be able charge adequate rents and would benefit from programs like this. Furthermore, this project is eligible for another 10% from the NJEDA as we are located in the redevelopment area. If one of these grants were available, it would help us build a parking structure for our property. We did not use this in our financials as we assume waiting for the programs to get reinstated gives uncertainty to timing and could cause significant delay.

Historic tax credits could also be used but will not be in our project but it only applies to exterior and we are not doing much to the exterior. Additionally, the cost of applying may not be in our properties best interest.

Proforma/NOI:

For our proforma we assumed the previously mentioned capital structure. Our general assumptions are property management fees of 3% of Effective Gross Income (EGI), vacancy and credit loss of 5% of Potential Gross Income (PGI), and a net reversion value at a cap rate of 6.5% that will create a terminal value of \$44,315,286. Lastly, we included a PILOT of 15 years.

Building 4B:

For building 4b which includes 42 apartments over small retail, our lease-up assumption is that in our first 6 months of operations the building will be leased at 50%. In the beginning of year 5 we assumed we will be leased-up at 100%. For this building, we will have a rental growth rate of 3% yearly and a 5% increase in our 5th and 6th year of operations. Also, we assumed we will give a 1 month of free rent in our first year of operations to incentivize and attract our potential tenants to move to our property. Moreover, we assumed a 30% of operating expenses for this building and a capital expenditure reserve of \$250 per unit. For this building, our first year stabilized Net Operating Income (NOI) will be \$492,413, which is the second highest NOI of our buildings, this includes our apartment rents, our retail income from the dry cleaner, and other income such as the storage room and laundry room.

Building 3:

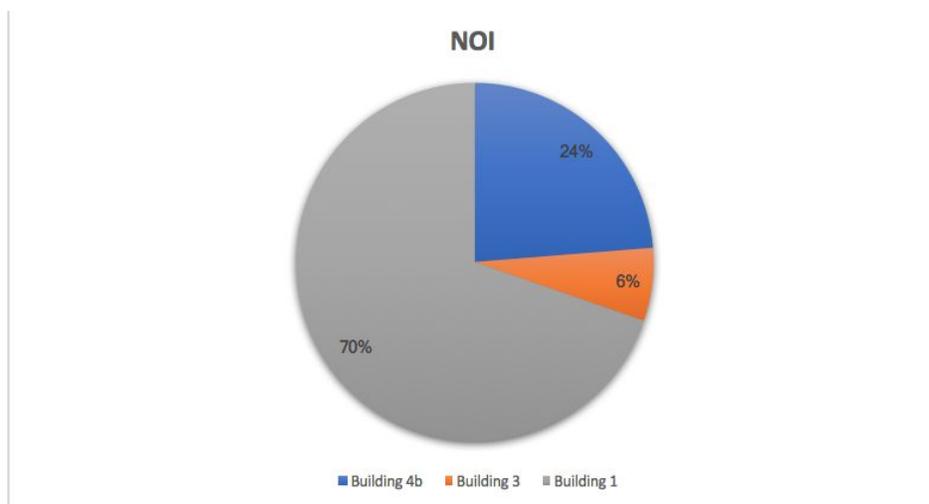
For building 3, we have an art gallery on the first floor and 4 live/work apartment units above the art gallery. For building 3, our lease-up assumption is that in our first 6 months of operations the building will be leased at 50%. In the beginning of year 5 we assumed we would be leased-up at 100%. For the live/work units we assumed a 3% growth rate yearly until our 5th year which we assumed a 5% growth rate. For the art gallery, we assumed a one-time increase of 15% during our holding period and a 15% in our selling year. Additionally, we assumed a 25% operating expenses for this building. For this building, our first stabilized NOI will be \$139,573.

Building 1:

For building 1, we have a commercial building with eateries, retail, film and production space, office, and coworking space. For our first floor which includes eateries and retail, our lease-up assumption is that in our first 6 months of operations the building will be leased at 50%. In the beginning of year 5 we assumed we will be leased-up at 80% and for year 6 we will be stabilized. Moreover, we assumed a one-time rental growth rate of 20% in our holding period and a 20% increase in our selling year. From floor 2 through 5, which includes the film and production space, office, and creative office, our lease-up assumption is that in our first 6 months of operations the building will be leased at 50% and in year 5 we assumed we will be leased-up at 100%. These floors will have a one-time rental growth rate of 15% in our holding period and a 15% increase in our selling year. Our operating expenses for this building will be 25% and our capital expenditure reserve will be 20% of the total gross square footage of this building (88,625sf). In our first stabilized year, building 1 will give us a total NOI of \$1,477,311 which is the highest NOI of all the buildings in our property.

Total NOI:

In our first stabilized year, our total NOI from all buildings is \$2,119,798.



PILOT:

Levered IRR	6.4%	
Levered Cash-on-Cash Return		
Levered Equity Multiple		2.81
Total Cash In		\$ 7,421,940
Total Cash out		\$ 20,869,828
Debt Service Coverage Ratio (DSCR)		-

Although the town does ideally want to do a pilot it is essential to our finances. If we did not have any help from outside sources the our levered IRR is 6.4% which is undesirable for many developers considering the risk on this project.

IRR:

Our unlevered IRR for this property is 13.6%, but our levered IRR is 20.3%. The IRR of this project is understandable because we assume 2 years to obtain approvals and building permits and 1-½ years for development. This may be a conservative assumption, but not unrealistic given the extent and scope of the City’s redevelopment objectives. However, once we start operating the property, the Property will generate substantial after-debt cash flows. Our stabilized cash-on-cash returns are close to 20% in the stabilized year. Finally, our levered equity multiple is 6.4.

While we originally targeted a somewhat higher IRR, there is the potential that the project could be financed with capital subject to the tax advantages associated with being in an Opportunity Zone, which tends to bid up the value of a Property by a few hundred basis points. Moreover, investors should place value on the high projected cash-on-cash returns.