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MEMORANDUM

TO: SOUTH AMBOY REDEVELOPMENT AGENCY
FROM: ANDREW W. JANIW, PP, AICP
SUBJECT: CLAREMONT-WAREHOUSE AND RESIDENTIAL PROJECTS
BEACON FILE: A20271
DATE: JUNE 3, 2021

Beacon Planning and Consulting Services, LLC has undertaken a review of the project budgets, proformas, concept plans and financial terms presented by Claremont for the proposed construction of a 308,000 square foot warehouse on Block 160, Lot 1 and the construction of a total of 486 market rate residential apartments in three phases on Block 161.02, Lots 20, 23, 24 and 24.01. In addition, Claremont is proposing to construct 48 apartments for low- and moderate-income households at an offsite location. The market rate residential component will include the construction of structured parking facilities that will utilize union labor. Union labor is also proposed in connection with the proposed affordable housing component.

Warehouse

BPCS has reviewed the project cost estimate for the proposed 308,000 square foot warehouse. The total project budget presented is approximately \$55 million including land and environmental work. This breaks down to approximately \$179/square foot which is in line with our database of similar projects in Central New Jersey. The construction hard cost budget of approximately \$80/square foot including building, site and contingency is competitive with the sampling within our database as well. Rent projections utilized in their proforma and net operating income analysis also appear to be reasonable.

While site preparation and environmental work present costs that may be considered specific to this site extraordinary, the project is well positioned to accommodate the PILOT structure of the greater of 18% of annual gross revenue or \$1.25/lease square foot. These terms are similar to those considered previously by the Agency and BPCS has no issues with the consideration of same for the Claremont project.

Residential

BPCS has reviewed project costs and proformas associated with each of the three phases of the residential project and offers the following comments:

- Initial rent projections for the market rate units depict rents approaching \$2.54/square foot which we find to be consistent with our sampling of market rents in South Amboy and comparable communities.
- Claremont's construction budget for Phase I totals approximately \$67 million and includes \$10,750,000 of extraordinary expenses a substantial portion of which must be incurred up front to accommodate the build-out. In reviewing these expenses with the Redeveloper, we note that several of the line items, such as the environmental remediation have not had the benefit of a fully developed cost estimate but we consider the allocation reasonable. These extraordinary expenses will eventually be reallocated to Phases II and III, however, they are worthy of consideration within the Phase I budget. As such, Phase I presents a challenge with respect to financial feasibility.
- The building hard cost allocations presented by the Redeveloper at approximately \$212,000 per residential apartment have been found to be at the upper end of the project's we have reviewed, however, given the current condition of instability in labor markets and supply chain, we find the budget reasonable on a going forward basis. Lumber prices have escalated approximately 250% since 2020 and recent market indicators indicate a spike in pricing of materials that are oil based, i.e., asphalt, plastics and laminates, as well as items that are dependent upon technology. For this reason, we have been recommending contingencies on budgets established in 2020 of 20% which would be the rough equivalent of the current Claremont budget.
- Based on our understanding of the budgets for each of the three phases as well as the market rents, BPCS considers the current proposal for PILOT structure to be justified, meaning the project requires such assistance in order to move forward. We also find the proposed structure to be generally consistent with previous projects considered by the Agency. BPCS has no objection to the Agency consideration of the proposed PILOT structure.