



Community Development Finance Lab Project

**Finding a New Home: An Economic
Viability Analysis for Consolidating
HCCI's Administrative & Program Space**

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I. EXECUTIVE SUMMARY

The students of the Robert J. Milano Finance Lab have been asked by Harlem Congregation for Community Improvement (HCCI) to provide baseline research and an economic viability analysis to determine costs and potential revenue associated with the desire to redevelop the Brownfield site located at 243 W. 146th Street.

In Central Harlem commercial space is very limited. Most of which exist on the 125th, 135th and 145th streets corridors. Combining the necessity to invest in its infrastructure with its leadership role in implementing the Bradhurst Revitalization Plan, HCCI has acquired control of a city-owned building on a Brownfield site of 23,000sf in the Bradhurst area. The site has been designated as a Brownfield site due to suspected mercury contamination from the building's former use as a film processing plant.

Estimated costs associated with the redevelopment of the site are \$3,994,000 for gut rehabilitation, and \$6,283,500 for new construction. It is not feasible to project the results of the environment analysis that is currently underway and will ultimately determine if HCCI can proceed with a gut rehabilitation or demolition/build-out.

For this project to be viable, HCCI must lease 20% of the space at the new building site and they also must pay themselves more per square foot in the new building than what they currently have budgeted for rent. Leasing 20% of the new space still provides HCCI with approximately 2,000sf to alleviate overcrowding or grow. To assume a \$2.2 million mortgage under the gut rehabilitation scenario, HCCI must:

- Lease 5,000sf, at \$30/sf.
- \$2,000,000 in grants.
- HCCI will need to pay themselves \$15/sf for rent.

II. INTRODUCTION

A. Background

Harlem Congregations for Community Improvement (HCCI) was formed in 1986 to address the holistic revitalization of Harlem. Since its inception, HCCI has been dedicated to making a substantial impact on the social and living conditions of the Harlem community. The organization has specifically focused its efforts in the Bradhurst neighborhood, through programs in the areas of: Health and Wellness, Affordable Housing, Commercial Development, Local Business, Development, Culture & Recreation, Education and HIV/AIDS. Currently HCCI has assets of \$250 million dollars. The organization's annual budget is \$5.2 million with 25 to 30 percent of this budget coming from development fees and other earned income projects.¹

To further develop and enhance the quality of life in the Bradhurst community, HCCI is seeking to strengthen its own infrastructure by expanding its office and programming space. Consolidating their scattered locations into one building would further their ability to better serve the community. Parallel to its desire for consolidating programming and administrative offices is HCCI's unique position as a leader in the Bradhurst Harlem community.

By implementing the Bradhurst Revitalization Plan, which was formulated by the Harlem Development Corporation in 1998, HCCI continues to bring back the necessary economic development resources to empower residents to rebuild their communities. Prior to this development effort, the Bradhurst community suffered a 36% loss of its population within a decade. Primarily as a result of housing abandonment, 64% of the households had incomes less than \$10,000 annually and only 8.2% earned more

¹ Information provided by HCCI interview with Lucille McEwen.

than \$25,000. Located in Central Harlem, Bradhurst is a self-contained neighborhood that still remains as one of the poorest neighborhoods in New York City.²

B. Project Context

HCCI has acquired control of a city-owned building on a Brownfield site in the Bradhurst area. The site is designated as a Brownfield due to suspected mercury contamination from the building's former use as a film processing plant. The New York City Department of Housing and Preservation will transfer ownership of the Building contingent upon completion of cleaning up the site.

C. Role of the Robert J. Milano Graduate School

HCCI has engaged the assistance of the Robert J. Milano Graduate School of Management and Urban Policy for:

- Determining the preliminary costs associated with cleaning the site;
- Assisting HCCI in identifying the financing to clean up the site;
- Recommending financing for rehabilitation of the building to create offices for its staff and for service to the immediate community.

The Milano Finance Lab student team, the first set of student-consultants to work on this project, has answered this challenge by providing HCCI with an economic viability analysis to understand the costs to associated with consolidating program and administrative offices into one location and specifically at the designated Brownfield site.

This analysis will provide HCCI with an understanding of projected costs associated with:

- ***Operational costs of a leased space creating the same desired outcome of the Brownfield site.***

² Ibid.

- *Construction and operational costs of the building at the Brownfield site for either a gut rehabilitation or a demolition and build out.*

Additionally, we will also provide an analysis of potential income streams generated by HCCI that can help to minimize the costs of the mortgage for the redevelopment. This analysis will approximate net cost for clean up and construction at the Brownfield site. Our review of revenue and expenses will illustrate the capital and equity requirements of this project that need to be address in order to assume ownership and occupancy of the Brownfield site.

III. MARKET TRENDS

A. Bradhurst Neighborhood Area.

The Bradhurst area consist of forty blocks in north-central section of Harlem bounded by 139th and 155th Streets, Adam Clayton Powell Jr. Blvd on the east, and Edgecome Avenue on the west. During the 1960's, Harlem's population declined due to social problems and the relocation of many of its inhabitants to other neighborhoods. By the 1970's, its housing stock deteriorated as landlords abandoned their properties and drugs in the neighborhood proliferated. The Bradhurst section came to exemplify urban decay at its worst.

Located in Manhattan's Community District 10, the Bradhurst Community is designated as a distressed area located within the Upper Manhattan Empowerment Zone, and classified as an Economic Development Zone. Only a few years ago, "Central Harlem had a 15.8 percent unemployment rate, the highest in Manhattan according to the 1999 report by the Citizen's Council Committee for Children, "Keeping Track of New York City's Children."³ At the time of the report, the overall unemployment rate in Manhattan was 6.9 percent.⁴

B. Demographic Analysis

Largely a residential community, the Bradhurst population is currently 107,109, representing an increase of 7.6 % since 1990. African-Americans comprise 77.3% of the community, represents a decrease of 5% since 1990. Those of Latin decent represent 16.8%, an increase of 79.2% since 1990. The White Non-Hispanic population is currently 2%, representing an increase of 44.9% since 1990. Currently 34% of the population receives some form of income support, public assistance, SSI, or Medicaid.

³ Harlem: Anu Manchikanti, "Myth Vs. Reality", Diversity Or Division, Race, Class and America at the Millennium. 2000.

⁴ Ibid.

Land use in Manhattan Community Board District 10 consist of:

- 284 one/two family homes (2%).
- 2,721 multi-family residential (39%).
- 581 mixed residential and commercial (18 %).
- 173 commercial and office space, (5%)
- 28 industrial and manufacturing, (1%)
- 20 transportation and utility, (7%)
- 288 public facilities and institutional, (13%).
- 31 open space and outdoor recreation, (5%)
- 44 parking facilities, (2%).
- 636 vacant land, 636, (7%).
- 53,261 total housing units, (13.2% increase since 1990).

C. Current Market Trends

Since the mid 1990's, real estate investors who have identified inner-city neighborhoods as frontiers for new development have targeted Harlem. The combination of a the lack of affordable space in traditional middle and upper class neighborhoods and the entrenchment of profiteers has juxtaposed and in some cases replaced community development efforts with gentrification. Nellie Bailey, an activist with the Harlem Tenants Council who currently fighting displacement of low-income residents, has asked, "Why do developers bring in businesses that raise real estate rates, but don't offer jobs that enable people to remain in the community?"⁵

This past spring, Forest City Ratner Cos. of New York broke ground on the newly built Harlem Center. An 80 million-dollar mixed-use project at 125th street and Malcolm X Blvd, the development features 300,000 square ft of space. Marshalls, CVS, and Dime Savings Bank have pre-leased commercial space, and the Gap has built a 23,000-sq. ft. store on the property. Commercial space on 125th Street is currently going for at least \$60 per sq. ft. to \$150 per sq. ft. per annum.⁶

⁵ Little, "The New Harlem", Village Voice

⁶ Siwop, "Home for Swedish Clothing Retailer", New York Times, 10/02/02.

Homeownership rates in Harlem have risen from 6% to 10% during the Guiliani Mayoral Administration. Some sections of Harlem have seen a 25% to 30 % rent spike over the past five years.⁷ According to Vie Wilson, a vice president at the Corcoran Group, Harlem is one of the hottest residential markets, depending on condition, size, and location; you can buy a brownstone in Harlem from \$500,000 to over \$1 million dollars.⁸ Last year, the average sale price of a brownstone was \$412,000.⁹ According to Orlando Rivera of the Harlem Real Estate Board, "You can even start a conversation to buy a gutted brownstone for under \$300,000."¹⁰

Presently, there are a few potential development projects which may further increase the real estate values of the Central Harlem Community include: the development of the waterfront piers on the Hudson River between St. Clair street and 135th street into a recreational area or tourist-driven entertainment center, the restoration of the Apollo Theatre, or the development of a Metro-North train station on 125th.

D. Current Real Estate Activity

The real estate activity in Central Harlem exemplifies Harlem's current market trends. Housing is currently being developed for market and below market prices. HCCI has been a major developer of affordable housing in the Bradhurst neighborhood. However, two pre-war buildings, totaling 61 free-market residential units have recently been sold for 3.9 million in the Bradhurst neighborhood; 507 W. 147th street, (a 31-unit, five story building) and 474 W. 150th St.,(a 30 unit, six story building). The Faust family, who owned the buildings for 10yrs sold to Edificio LLC, a seven-member consortium.

Commercial space in Central Harlem is extremely limited with most existing on the 125th, 135th and 145th streets corridors. Commercial space on 125th St. currently leases for \$60/sf to \$125/sf annually.

⁷ Michael Gillard, Low Interest Rates, Rising Rent Spark Harlem Investment Boom.GlobeSt.com

⁸ Little, "The New Harlem", Village Voice

⁹ Edwin McDowell, Prices Continue Robust Upward March, New York Times, Sept. 8, 2002.

¹⁰ Little, "The New Harlem", Village Voice

The New Gateway Building on 125th and Lexington has 40,000sf and offers an office rental rate of \$28/sf annually. According to Brandon E. Braxton, Asst. VP of M&T Bank Corp. "office space in Harlem can range from \$25/sf to lease to \$125/sf to buy depending on the size of the space. As a rule of thumb, the less the square footage, the more you pay per square foot.

Abutting the Bradhurst neighborhood, a new Pathmark on 145th and Adam Clayton Powell Blvd is being developed by HCCI. According to Yvonne Stafford a commercial real estate broker and appraiser, a small commercial space on 145 and Lexington, which is another commercial corridor, would lease for \$35/sf annually. According to Hector R. Nova, of Novalex contracting, commercial space in the Bradhurst section, located off the corridors is currently priced between \$20-\$25/sf annually.

E. Political Considerations

Economic trends over the last five years in the Harlem community have continued to create a significant increase in prices for office space. For HCCI to continue its community building work it is essential that their infrastructure is strengthened. Affordable space for operations is critical to the sustainability of such a community based organizations.

IV. BROWNFIELD REDEVELOPMENT

“Brownfields are abandoned, idled or underutilized properties where expansion or redevelopment is complicated by real or perceived environmental contamination.”¹¹

This risk of developing a Brownfield has to be taken into consideration and evaluated by all who participate in the redevelopment. However, brownfields don't just pose environmental concerns, but contaminated sites left unremediated pose legal, financial, and economic development burdens within a community. *Doing nothing to a brownfields site can diminish surrounding property values and threaten the economic viability of the surrounding area.*

A. Environmental vs. Non-Environmental Factors

It is important to note that environmental factors such as site remediation and redevelopment occurs in a legal, regulatory and financial framework of Federal State and local governments. The Federal Government “establishes clean-up standards, requires joint, strict and several liability for clean-up of past contamination.”¹² States operate within this framework and develop a variety of policies and financial support through their own set of statutes. The New York Department of Environmental Conservation has statutes that provide liability protection and financial assistance that we will discuss later.

Brownfield redevelopment is a process in which both environmental and non-environmental factors need to be considered at various stages¹³. The HCCI project is in between stages 1 and 2:

Stage 1: Initiation- This stage includes identification of a property. Next, a “due diligence” process that acquires background information about the building and/or parcels to determine the need for a site assessment.

¹¹ As defined by the New York City Industrial Development Agency.

¹² The Effects of Environmental Hazards and Regulations of Urban Redevelopment, HUD, 1997.

¹³ Ibid.

Stage 2: Environmental Site Assessment- Assessment of site contamination and negotiations with current owners about potentially responsible parties and over mitigation and/or payment of cleanup costs.

Stage 3: Financing and Pursuit of Regulatory Relief and/or Subsidies- This stage includes financial packaging, usually involving multiple sources, for site mitigation and clean up costs. Also during this stage negotiations with regulatory agencies and economic development agencies for aid to boost returns on investment would occur.

Stage 4: Remediation Planning and Implementation- Site Remediation as determined by the site assessment and state regulatory standards may involve several steps including: building clearance, soil removal, and continued monitoring. There are several insurance options and financial institutions that can be employed during this stage, which are discussed in detail later.

Stage 5: Site Redevelopment and Reuse- In this case the redevelopment will be undertaken by HCCI to create centralized offices and consolidate there service programs into a primary location. The new use falls within the community facilities definition under the New York City zoning regulations.

In addition to the process, there are several key actors that will potentially be involved in the redevelopment of the HCCI Brownfield site before any construction begins. These may include HCCI (developer), site assessment engineers, state-sanctioned cleanup certifiers, NYCHPD (current owner), potentially responsible third parties, economic development agencies (NYCEDC), environmental protection agencies (EPA & NYDEC), tax collection agencies, potential project financiers, potential liability insurers, neighboring property owners, and neighborhood organizations. It is impossible to predict at this point how many of these actors will need to be involved.

B. Benefits of Brownfield Development

Today's inner cities represent one of America's emerging markets. These markets are reflected both in consumer demand, but more importantly in underutilized labor resources and well-sited land that is

developable and marketable due to the surrounding infrastructure of the city. In addition to meeting HCCI's goal of expanding its administrative and programmatic space and consolidating those spaces into one location, redevelopment of the Brownfield site has many potential benefits to the community not quantified in this analysis. Some of those benefits include:

- *Improved community safety*
- *Improved health*
- *Increased property values*
- *Increase employment opportunities*
- *Community and environmental stewardship*
- *Revitalization of blighted area(s)*

These benefits all fit within the field of community economic development and are in accordance with HCCI's mission that seeks to empower the residents of Harlem to rebuild their community. HCCI recognizes their role as the prominent community development corporation and are demonstrating their responsibility to fulfill their mission by undertaking the development of this site.

C. Real vs. Perceived Risk

A study conducted for the U.S. Department of Urban Development's Office of Policy Development and Research in 1997 found that "non-environmental factors – i.e. the market, most often posed the critical constraint on brownfield project progress." The research found that environmental issues mattered most when¹⁴:

- *Potential market demand was weak or highly uncertain*
- *Developers and/or lenders responded inappropriately to environmental issues due to lack of experience*
- *The land cost differential between brownfields and greenfields (non-brownfields) was low*

Nonetheless, environmental contamination of Brownfield sites do pose certain risks and uncertainties that may affect projected returns on investment in that property. Typically, developers are concerned with these risks because they discount potential returns. As a result, investment behavior is affected by the cost of these uncertainties. These risks and uncertainties exist due to the legislation surrounding Brownfield development. Both Federal and State law influence levels of remediation costs and potential “liability” of environmental contamination, and sets guidelines on conducting site assessments that ultimately shape decisions about the potential reuse of the property.

Risk exaggeration due to the uncertainty surrounding Brownfield remediation produces underevaluation, and as a result developers may avoid economically viable projects. Since this economic viability assessment is occurring prior to a site assessment it is the purpose of the paper to identify real vs. perceived risks of the HCCI Brownfield site. At the time of this study four areas of general concern are factors of perceived risk that may directly affect the HCCI site include:

- *The extent to which cleanup costs alone constitute a barrier to pursuit of redevelopment.*
- *The extent to which anticipated restrictions on land uses and requirements for future monitoring of environmental conditions constitutes a barrier to redevelopment.*
- *Investor concern about lower estimates of returns because of the stigma of previously polluted land.*
- *The role of potential project delays due to regulatory requirements and the extent to which liability exposures constitute barriers to redevelopment.*

A review of successful Brownfield redevelopment projects has revealed “environmental factors are less likely to deter redevelopment when the developer and other parties involved in a project have prior development experience (especially with Brownfields), and an understanding of the ramifications of

¹⁴ Ibid.

contamination¹⁵. Familiarity with a Brownfield projects means being able to accurately predict: the scope of remediation for the intended end-use, the best approach for conducting that remediation, the costs of remediation, the costs of liability resulting from remediation, and the timing of the proposed remediation including obtaining government permits and sign-offs. For this viability assessment we have predicted costs of remediation and costs of liability, based on prudent research of several reports and case studies in the state of New York.

D. Costs & Liabilities of Remediation

Financial institutions have typically been cautious when faced with environmentally impacted collateral in addition to credit borrower worthiness, but many banks have developed staff to differentiate real vs. perceived risks. However, several institutions have developed underwriting rules to mitigate their exposure to risk from a Brownfield site. These generally include:

- *Lower loan-to-value ratios*
- *Professional assessment of environmental remediation costs and potential liability, which can't exceed 40% of property value*
- *A cleanup contingency of at least 15% (or use of insurance for this purpose)*
- *An agency-approved cleanup plan and schedule*
- *A transaction structure and documentation to include appropriate indemnifications, warranties and representations*

In addition to these more stringent underwriting guidelines, which ultimately increases the cost of capital needed to complete the project, the cost of remediation can vary widely from site to site. In a survey of 17 Brownfield projects revealed that the average environmental costs were 4.6% of the total project costs, with some smaller projects ranging as high as 13% (see table 1).

¹⁵ Ibid.

Project Size	Total Cost	Environmental Cost	Percent Environmental	N of Projects
Total	\$302,725	\$4,820	1.6%	17
Total Without "Showcase"	85,725	3,970	4.6%	16
Large (Over \$1million)	300,835	4,575	1.5%	11
Large w/out "Showcase"	83,835	3,725	4.4%	10
Small	1,890	245	13.0%	6

*Source: The Effects of Environmental Hazards and Regulations on Urban Redevelopment, August 1997.

Obviously, environmental costs range substantially from project to project. For this analysis we projected the environmental remediation costs at 10% of the total project costs. Also, under the New York State's Clean Water/Clean Air Bond Act, 75% of the remediation and 50% of the demolition costs are eligible for reimbursement as well as providing liability protection¹⁶. The financial model provided in this report should be updated after conducting the site investigation, and a remediation plan is in place. This will indicate the true costs of cleaning up the specific site.

E. Funding Sources & Insurance

After a site remediation plan is in place there are numerous funding sources that will become available to HCCI to help fill the gap financing needed to redevelop the site. In addition, HCCI may want to explore other insurance options beyond the liability protection offered under the State Environmental Remediation programs. Different insurance packages help minimize the risk for all parties involved and specifically cover different aspects of the redevelopment process including:

- *Environmental Impairment and Remediation Warranty Coverage*
- *Cost Overrun Insurance for Cleanup of Known Contamination*
- *Errors and Omissions Insurance for Environmental Consultants*

Environmental insurance has the potential to reduce the uncertainties associated with developing a Brownfield. They can limit cleanup cost exposures and provide a basis of risk quantification often requested by conventional lenders. Some of the major insurers include American Insurance Group (AIG), ECS Inc., and Zurich American.¹⁷

¹⁶ New York State Brownfields Self-Help/Financial Resources Manual, NYDEC, July 2001.

¹⁷ Environmental Insurance for Brownfields Redevelopment: A Feasibility Study, U.S. EPA, September, 1997.

V, ECONOMIC VIABILITY ANALYSIS

A. Existing Conditions

HCCI is currently leasing their spaces from a limited partnership of which they are a 1% general partner. Once HCCI vacates these spaces, the partnership is free to make them available to the commercial markets. HCCI is not free to sublet those spaces to generate a revenue stream that would minimize the costs of a newly acquired space. Based on their current rent payments of \$71,867 annually, the Milano team has determined that HCCI must continue to use that budget to seek new office space in the Bradhurst community.



Figure 1. Spaces occupied by HCCI in the Bradhurst Neighborhood.

In trying to find space to suit their needs, HCCI has been granted site control of the city owned building mentioned early at 243 W. 146th Street.

B. Other Leased Space

Market research by the Milano team has shown that there is no readily available commercial space in the Bradhurst community sufficient to meet the needs of current needs of HCCI.

C. Assumptions

In developing spreadsheets for a financial analysis of the project, several assumptions were made as follows:

- Expense data collected was proxy data from the 2001 JP Morgan Chase competition and consultation with experts in the field.
- Two to three million dollars through capital fundraising will need to be secured
- Mortgage terms were quoted from Advest, Inc. for a 20 year 'C' Paper interest rate.
- HCCI will lease 5,000sf of new building space @ \$30/sf annually.
- 80% of new building is usable space, 20% of new building is common space.
- Annual escalators chosen were 5% for income, 4% for expenses.

B. Overview of Analysis

In evaluating the economic viability of developing the Brownfield site, two separate alternatives were analyzed:

- One for construction of a new building,
- One for rehab construction of the existing building.

Detailed spreadsheets of the analysis are on the following pages.

HCCI Project Setup Assumptions				
	Total Monthly Rent	Total Annual Rent	Total Square Feet	Cost/sf
Rent Schedule				
Health & Wellness Strategies (HWS)	\$1,600	\$19,200	1489	\$12.89
2819 8th Avenue	\$208	\$2,490	843	\$2.95
Consumer Library	\$480	\$5,760	739	\$7.79
Administrative Offices	\$104	\$1,250	3346	\$0.37
2855 8th Avenue	\$1,222	\$14,666	1456	\$10.07
Career Development Center (CDC)	\$2,333	\$28,000	2800	\$10.00
Bradhurst Academy of Excellence	\$42	\$500	1000	\$0.50
Subtotal	\$5,989	\$71,867	11673	\$6.16
Lease Space @ \$30/sf	\$1,917	\$150,000	5000	\$30.00
Subtotal	\$1,917	\$150,000	\$5,000	\$30.00
Total	\$7,906	\$221,867		
			Monthly Leasing Costs	Annual Leasing Costs
Expense Schedule	Monthly Costs	Annual Costs		
water/sewer	\$150.21	\$1,802.51	included	included
common utilities Gas/ heat (.20/sq')	\$383.33	\$4,600.00	included	included
insurance	\$7,000.00	\$84,000.00	included	included
maintenance/repair	\$1,000.00	\$12,000.00	included	included
supplies	\$1,000.00	\$12,000.00	included	included
real estate taxes	\$1,250.00	\$15,000.00	included	included
building manager	\$3,750.00	\$45,000.00	included	included
handy man (staff person)	\$0.00	\$0.00	included	included
legal/accounting	\$500.00	\$6,000.00	included	included
	\$15,034	\$180,403		
Total	\$15,034	\$180,403	\$38,333	\$460,000
Assumptions				
Capital fundraising will include congregation contributions, grant for primary funder, and additional private, state & federal grants				
Expense data collected was proxy data from the Chase competition and consultation with experts in the field				
Mortgage terms were based on quote from Advest for a 20 year 'C' Paper interest rate				
HCCI will lease 5,000sf of new building space @ \$30/sf annually				
80% of new building has usable space				
20% of new building is common space				
Inflation Factor	Income 5%	Expenses 4%		
Tax Rate	0%			
Required Yield	10%			

HCCI Project Sources & Uses			
	New Construction	Rehab Construction	Lease Other Space
Sources			
Mortgage	\$ 2,257,625	\$ 1,574,250	
Equity @ 10% of construction- developer fee	345,000	230,000	
NYDEC (75% of remediation, 50% of demo)	681,375	189,750	
Congregation	1,000,000	500,000	
Major Funder	500,000	500,000	
Other grants	1,500,000	1,000,000	
Total	\$ 6,284,000	\$ 3,994,000	
Uses			
Acquisition	1	1	-
Construction Costs			
New Construction @\$150/sf	\$ 150.00	-	-
New Construction space	23,000	-	-
New Construction Costs	\$ 3,450,000	-	-
Rehab Construction @\$100/sf	-	\$ 100.00	-
Rehab Space - sq'	-	23,000	-
Rehab Construction @\$100/sf	-	\$ 2,300,000	-
Demolition/Site Work	600,000	250,000	-
Total Construction Costs	\$ 4,050,000	\$ 2,550,000	
	64%	64%	
Development Soft Costs			
Construction Period Soft Costs (30% of const.)	1,035,000	690,000	-
Developer Fee	345,000	200,000	-
Site Remediation (10% of const.)	508,500	324,000	-
Environmental Liability Insurance/ Contingency (10% of const.)	345,000	230,000	-
Total Soft Costs	2,233,500	1,444,000	
	36%	36%	
Total Construction Costs	\$ 6,283,500	\$ 3,994,000	
Leasing Costs			
Leasing costs @\$20/sf	-	-	460,000/ann
Total	\$ 6,283,500	\$ 3,994,000	

HCCI Cash Flow for Existing Scenario for New Construction			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	cost/sf	size										
Rent paid	\$6	13,400	80,400	84,420	88,641	93,073	97,727	102,613	107,744	113,131	118,787	124,727
Income from Leasing	\$30	5,000	150,000	157,500	165,375	173,644	182,326	191,442	201,014	211,065	221,618	232,699
Less Income tax @10%			(15,000)	(15,750)	(16,538)	(17,364)	(18,233)	(19,144)	(20,101)	(21,107)	(22,162)	(23,270)
Gross Effective Income			215,400	226,170	237,479	249,352	261,820	274,911	288,657	303,089	318,244	334,156
Expenses												
Operating & Non-Operating			(180,403)	(187,619)	(195,123)	(202,928)	(211,045)	(219,487)	(228,267)	(237,397)	(246,893)	(256,769)
Total Expenses			(180,403)	(187,619)	(195,123)	(202,928)	(211,045)	(219,487)	(228,267)	(237,397)	(246,893)	(256,769)
Net Operating Income			34,997	38,551	42,355	46,424	50,775	55,424	60,390	65,692	71,351	77,387
Debt Service			(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)
Before Tax Cash Flow	(345,000)		(186,897)	(183,343)	(179,539)	(175,470)	(171,120)	(166,470)	(161,504)	(156,202)	(150,544)	(144,507)
Present Value Factor @ 10%		1.000	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386
Present Value	(345,000)		(169,906)	(151,523)	(134,890)	(119,848)	(106,252)	(93,968)	(82,877)	(72,869)	(63,845)	(55,714)
Break/Even Analysis												
Break/Even Ratio			17.49									
What they are paying (13,400sf @ \$6/23,000)			3.50									
Income from lease (5,000sf @ \$30/23,000)			5.87									
Need to pay themselves this much more \$sf/yr			8.13									

HCCI Cash Flow for Recommended Scenario for New Construction			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	cost/sf	size										
Rent paid	\$20	13,400	268,000	281,400	295,470	310,244	325,756	342,043	359,146	377,103	395,958	415,756
Income from Leasing	\$30	5,000	150,000	157,500	165,375	173,644	182,326	191,442	201,014	211,065	221,618	232,699
Less Income tax @10%			(15,000)	(15,750)	(16,538)	(17,364)	(18,233)	(19,144)	(20,101)	(21,107)	(22,162)	(23,270)
Gross Effective Income			403,000	423,150	444,308	466,523	489,849	514,341	540,059	567,061	595,415	625,185
Expenses												
Operating & Non-Operating			(180,403)	(187,619)	(195,123)	(202,928)	(211,045)	(219,487)	(228,267)	(237,397)	(246,893)	(256,769)
Total Expenses			(180,403)	(187,619)	(195,123)	(202,928)	(211,045)	(219,487)	(228,267)	(237,397)	(246,893)	(256,769)
Net Operating Income			222,597	235,531	249,184	263,595	278,804	294,854	311,792	329,664	348,521	368,416
Debt Service			(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)	(221,894)
Before Tax Cash Flow	(345,000)		703	13,637	27,290	41,700	56,909	72,960	89,898	107,770	126,627	146,522
Present Value Factor @ 10%	1.000		0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386
Present Value	(345,000)		639	11,270	20,503	28,482	35,336	41,184	46,132	50,275	53,702	56,491
NPV	(895)											
IRR	9.95%											
Break/Even Analysis												
Break/Even Ratio			17.49									
What they are paying (13,400sf @ \$20)			11.65									
Income from lease (5,000sf @ \$30)			5.87									
Need to pay themselves this much more \$sf/yr			(0)									

HCCI Cash Flow for Existing Scenario for Rehab Construction			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	cost/sf	size										
Rent paid	\$6	13,400	80,400	84,420	88,641	93,073	97,727	102,613	107,744	113,131	118,787	124,727
Income from Leasing	\$30	5,000	150,000	157,500	165,375	173,644	182,326	191,442	201,014	211,065	221,618	232,699
Less Income tax @10%			(15,000)	(15,750)	(16,538)	(17,364)	(18,233)	(19,144)	(20,101)	(21,107)	(22,162)	(23,270)
Gross Effective Income			215,400	226,170	237,479	249,352	261,820	274,911	288,657	303,089	318,244	334,156
Expenses												
Operating & Non-Operating			(180,403)	(187,619)	(195,123)	(202,928)	(211,045)	(219,487)	(228,267)	(237,397)	(246,893)	(256,769)
Total Expenses			(180,403)	(187,619)	(195,123)	(202,928)	(211,045)	(219,487)	(228,267)	(237,397)	(246,893)	(256,769)
Net Operating Income			34,997	38,551	42,355	46,424	50,775	55,424	60,390	65,692	71,351	77,387
Debt Service			(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)
Before Tax Cash Flow	(230,000)		(119,730)	(116,176)	(112,372)	(108,303)	(103,953)	(99,304)	(94,338)	(89,036)	(83,377)	(77,341)
Present Value Factor @ 10%	1.000		0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386
Present Value	(230,000)		(108,846)	(96,013)	(84,427)	(73,973)	(64,547)	(56,054)	(48,410)	(41,536)	(35,360)	(29,818)
Break/Even Analysis												
Break/Even Ratio			14.57									
What they are paying (13,400sf @ \$6)			3.50									
Income from lease (5,000sf @ \$30)			5.87									
Need to pay themselves this much more \$sf/yr			5.21									

HCCI Cash Flow for Recommended Scenario for New Construction			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	cost/sf	size										
Rent paid	\$15	13,400	201,000	211,050	221,603	232,683	244,317	256,533	269,359	282,827	296,969	311,817
Income from Leasing	\$30	5,000	150,000	157,500	165,375	173,644	182,326	191,442	201,014	211,065	221,618	232,699
Less Income tax @10%			(15,000)	(15,750)	(16,538)	(17,364)	(18,233)	(19,144)	(20,101)	(21,107)	(22,162)	(23,270)
Gross Effective Income			336,000	352,800	370,440	388,962	408,410	428,831	450,272	472,786	496,425	521,246
Expenses												
Operating & Non-Operating			(180,403)	(187,619)	(195,123)	(202,928)	(211,045)	(219,487)	(228,267)	(237,397)	(246,893)	(256,769)
Total Expenses			(180,403)	(187,619)	(195,123)	(202,928)	(211,045)	(219,487)	(228,267)	(237,397)	(246,893)	(256,769)
Net Operating Income			155,597	165,181	175,317	186,034	197,365	209,343	222,005	235,388	249,532	264,477
Debt Service			(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)	(154,728)
Before Tax Cash Flow	(230,000)		870	10,454	20,589	31,306	42,637	54,616	67,278	80,661	94,804	109,750
Present Value Factor @ 10%	1.000		0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386
Present Value	(230,000)		791	8,639	15,469	21,382	26,474	30,829	34,524	37,629	40,206	42,313
NPV	25,689											
IRR	11.86%											
Break/Even Analysis												
Break/Even Ratio			14.57									
What they are paying (13,400sf @ \$6)			8.74									
Income from lease (5,000sf @ \$30)			5.87									
Need to pay themselves this much more \$sf/yr			(0)									

V. CONCLUSION & RECOMMENDATIONS

A. Conclusions

HCCI believes by investing in expansion and consolidation of its program and office space it will strengthen organizational infrastructure. Market analysis shows there are no spaces readily available to lease in the Bradhurst neighborhood area that meet the needs of the organization. The only other viable alternative for HCCI is redeveloping the Brownfield site. The site can be developed in two ways through new construction or gut rehabilitation. Total estimated development costs associated with each approach is:

- Gut Rehabilitation \$3,994,000
- New Construction \$6,283,500

Proposed sources to help finance Brownfield redevelopment are:

- Debt Instrument (Mortgage, Bond etc.)
- Equity (Developer Fee)
- New York State Environmental Grants
- Other Grants & Contributions

Leveraging current rent payments of \$71,867/yr combined with income from leasing 20% of new building at \$30/sf yields an annual rent roll of \$221,867. This amount will be used for operating expenses and debt service. While the mortgage payments will vary depending on the type of construction, to assume a mortgage of \$2.2 million for rehabilitative construction, the following will need to happen:

- Lease 5,000sf at \$30/sf.
- \$2,000,000 in grants.
- HCCI will pay themselves \$15 /sf for rent.

Environmental factors are still an unknown factor in quantifying the costs associated with this project. The environmental factors will also determine which type of construction, rehabilitation or new, that HCCI can pursue to redevelop the site. Furthermore, using 5,000sf as an income stream still provides HCCI approximately 2,000sf to grow the organization or alleviate the overcrowding in your current administrative conditions.

B. Recommendation and Next Steps

Quantify as soon as possible the environmental piece before proceeding with construction plans. This will be done during the site investigation that is currently underway. HCCI should pursue rehabilitation of the site as it costs less than new construction. Additionally, HCCI should find tenants to assume paying rent for the commercial space so the revenue is generated from opening day. In addition, partnerships with other nonprofits or organizations that could use the space would create synergy. Most importantly, HCCI needs to assemble a strong development team that has experience with Brownfield redevelopment, as this will minimize risk for all parties involved.

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