COST-BENEFIT ANALYSIS

SUBSTANTIATION OF NEED FOR SUFFOLK COUNTY IDA FINANCIAL ASSISTANCE

Prepared For:
Suffolk County Industrial Development Agency
H. Lee Dennison Building
100 Veterans Memorial Highway | Hauppauge, NY 11788

Regarding:
71 Hill Resort | 71 Hill LLC

New Construction of a 40-Key Hotel and 8 Workforce Housing Units and the Rehabilitation of a 2,280 SF Commercial Space in the Village of Southampton

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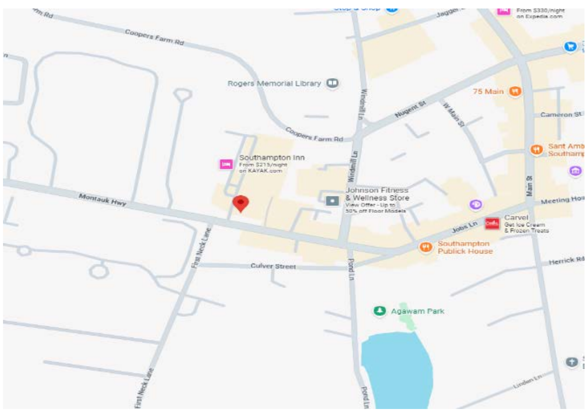
I. ASSIGNMENT

Grow America (formerly National Development Council or NDC) has an on-going engagement with Suffolk County Department of Economic Development and Planning (the County). Grow America is a national not-for-profit economic development entity that provides development finance advisory services to municipalities throughout the country. Grow America is often requested to analyze financial structures of proposed developments and determine the appropriateness of direct financial assistance or incentives. As part of the contract with the County, Suffolk County Industrial Development Agency (the IDA) requests Grow America to review applications for tax assistance. The purpose of this memo is to describe Grow America's project understanding and findings of the above-referenced development.

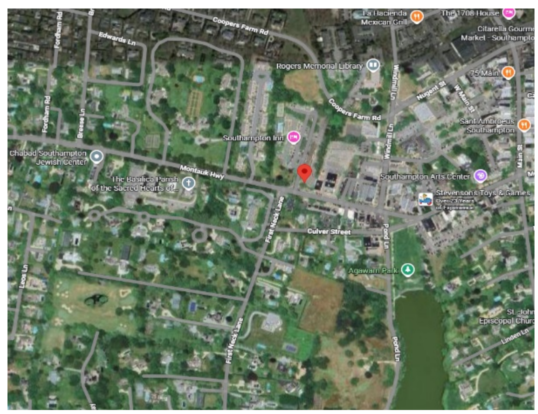
II. PROJECT SUMMARY

71 Hill LLC (the Applicant and/or Developer) has applied for financial assistance for a proposed 40-key hotel expansion. In addition, the development incorporates eight workforce housing units in an existing building, retains an existing 2,880 square foot (SF) commercial space, and includes construction of a new on-site sewage treatment plant to serve all uses at 71 Hill Street.

The application requests a sales tax exemption on building materials and equipment, mortgage recording tax exemption, and property tax abatement in the form of a payment in-lieu of taxes (PILOT).



Site Location on Map



Aerial Photo of Site

The proposed project, known as 71 Hill Resort, is located on a 1.7-acre site in the Village of Southampton, County of Suffolk, New York. The existing 90-key Southampton Inn, another hotel owned by the Applicant and located across the street, is a well-established hotel that primarily serves short-term visitors with traditional accommodation. The expansion will address unmet demand for suite-style, extended-stay lodging on the South Fork.

The project includes a 40-key hotel expansion featuring approximately 600 SF one-bedroom suites with private bedrooms, living areas, kitchens, in-unit washers and dryers, and covered balconies or porches, designed for seasonal, weekly, or monthly occupancy between May and September. Amenities will be enhanced through the addition of a heated outdoor pool and bar. The development also incorporates eight workforce housing units located in a separate, pre-existing building, retains an existing 2,880 SF commercial building in active use, and includes construction of a new on-site sewage treatment plant to serve all uses at 71 Hill Street. Both the existing Southampton Inn and the proposed 71 Hill Resort are strategically located within walking distance of the Village Center and less than a five-minute drive to the beach.

The Applicant has requested a 15-year property tax abatement with a PILOT agreement. Following a review of the application, Grow America recommends approval of a 15-year PILOT, plus two additional years during construction. The proposed schedule aligns with the IDA's Uniform Tax Exemption Policy (UTEP) under the "15-Year Existing Formula," which provides a 75% abatement on improvements in Operating Year 1, with the abatement decreasing by 4.0% annually through Operating Year 15. A detailed breakdown of the proposed PILOT schedule is provided in **Appendix I.**

III. SOURCES & USES

The proposed sources and uses are outlined below.

SOURCES & USES					
USES OF FUNDS	**$**	**Per Unit**	**Per SF**	**%**	**Note**
Demolition	$295,000	$6,146	$5	1%	
Sitework	$2,418,000	$50,375	$42	8%	
Hotel Hard Costs	$13,830,000	$288,125	$243	48%	*$294 per hotel SF & $345,750 per hotel key*
Building F Hard Costs	$2,150,000	$44,792	$38	7%	*$297 per Building F SF & $268,750 per workforce unit*
Building E Hard Costs	$100,000	$2,083	$2	0%	*$36 per Building E SF (light rehab)*
Sewage Treatment Plant	$2,500,000	$52,083	$44	9%	
General Conditions	$1,064,650	$22,180	$19	4%	*Approx. 5% of total hard costs*
Architectural Fees	$910,000	$18,958	$16	3%	
Professional Fees	$445,000	$9,271	$8	2%	
Insurance	$942,518	$19,636	$17	3%	
Site Supervision	$600,000	$12,500	$11	2%	
Marketing	$200,000	$4,167	$4	1%	
Financing Costs	$1,737,444	$36,197	$30	6%	
Taxes & Building Fees	$451,298	$9,402	$8	2%	
Developer Fee / Contingency	$1,372,316	$28,590	$24	5%	
Total	$29,016,226	$604,505	$509	100%	
SOURCES OF FUNDS	**$**	**Per Unit**	**Per SF**	**%**	**Note**
Private Loan	$18,860,547	$392,928	$331	65%	
Equity	$10,155,679	$211,577	$178	35%	
Total	$29,016,226	$604,505	$509	100%	

The developer anticipates a conventional capital structure. Grow America assumes a 65% debt to 35% equity split.

The development budget totals $29 million, equating to approximately $509 per gross square foot. When considering only the hotel and workforce housing components, the Applicant estimates hotel development costs of $294 per SF and $345,750 per key, while the workforce housing component is estimated at $297 per SF and $268,750 per unit. These figures are reasonable and consistent with other hotel and residential projects currently proposed or under construction in Suffolk County. The generally high costs reflect broader national trends of rising construction expenses in recent years, driven by supply chain disruptions and labor shortages. The inclusion of a sewage treatment plant, which typically increases development costs, further underscores the $604,505 per unit overall budget. The development costs are high due to the East End's costs premiums imposed by contactors and a few extraordinary costs, such as the $2.5 million sewage treatment plant.

IV. SUMMARIZED BENEFITS PACKAGE

Grow America received an "as complete" tax estimate from Cronin & Cronin Law Firm, PLLC, which estimates "as complete" taxes will be $61,452, equivalent to $1,280 per unit, factoring both hotel rooms and residential units. Grow America used this estimate in its analysis. The Tax Benefit Summary below includes the PILOT as substantiated as part of this analysis, the estimated sales tax exemption on building materials and equipment, and mortgage recording tax exemption.

IDA RELATED PROPERTY TAXES		
Current Taxes	$28,946	$603 per unit
As Complete Full Taxes	$61,452	$1,280 per unit
Multiplier (As-Complete Taxes Over Current Taxes)	2.1 x	
PILOT Schedule	15-Year Phase-In	
PILOT Over 15 Years	$689,672	
Savings Over 15 Years	($170,657)	
Increment Over Savings	$519,015	
Average PILOT Paid Over 15 Years	$45,978	
Multiplier (Average PILOT Over Current Taxes)	1.6 x	

SALES TAX EXEMPTION		
Construction Cost		$21,229,966
Value of Building Materials	60%	$12,737,980
Sales Tax		8.75%
Benefit from Exemption		$1,114,573.22
Equipment		$2,500,000
Sales Tax		8.75%
Benefit from Exemption		$218,750.00
Total Value of Sales Tax Exemption		$1,333,323

MORTGAGE RECORDING TAX	
Mortgage*	$18,860,547
Mortgage Recording Tax	1.05%
Transit District Exclusion	-0.30%
Mortgage Recording Tax Savings	0.75%
Value of Exemption	$141,454

**$ amount estimated by Developer in IDA application*

FINANCIAL ASSISTANCE SUMMARY	
Real State Tax Savings Over PILOT Terms	$170,657
Mortgage Recording Tax Savings	$141,454
Sales Tax Exemption	$1,333,323
IDA Financial Incentive Package	$1,645,434
Total Project Cost	$29,016,226
IDA Financial Package as a % of Cost	6%
Private Investment to Public Investment Ratio	$17.63: $1.00

The PILOT savings are $170,657 over the term. $689,672 in PILOT payments will be paid over the term. The PILOT paid over the term is 80% of estimated full taxes, meaning that the project realizes 20% savings during the term.

The $1,645,226 total benefits package factors the tax savings from the PILOT and exemptions on sales tax and mortgage recording tax. This represents 6% of the total project budget. The project demonstrates strong private sector financial leverage of almost $18: $1 (private investment divided by benefit package).

The total benefits package is 60% of the $2.5 million investment in the sewer treatment plant, among the financially challenging factors of the development.

V. SUMMARY OF GROW AMERICA ANALYSIS

Grow America based its analysis on the revenue assumptions provided by the Developer in the IDA application. For consistency with other IDA reviews, Grow America created its pro forma with the following assumptions:

- Private loan assumptions that are in line with the current market for similar projects
  - 25-year amortization
  - Interest rate of 7.00%
- Increasing market, parking, amenity, and other gross income by 3.0% annually
- Increasing workforce gross income by 2.0% annually
- Increasing operating expenses by 3.0% annually
- Adjusting operating expenses to $7,500 per unit (exclusive of PILOT payments) in Year 1

a. PROGRAM

The unit mix and proposed rents are shown on the following page. The seven workforce units, qualifying as “workforce” per the Town of Southampton regulations, will be priced at $4,288 per unit per month. The single workforce unit is priced at $2,600, qualifying it as +affordable to households earning less than 80% AMI.

ADR	Occupancy %	Escalator %
$800	85%	2.00%
$600	60%	2.00%
$500	40%	2.00%
1 unit	$2,639 avg. monthly rent	2.00%
7 units	$4,288 avg. monthly rent	2.00%
2,770 SF	$45 per SF annually	2.00%

b. PRO FORMA ANALYSIS

The table on the following page illustrates projected financial performance with the PILOT in place during the first stabilized year of operations (Year 3). With ethe PILOT (year 3) applied, the financials metrics for both lenders and investors are marginally met. Given that a hospitality property involves considerably more risk than a residential property, the metric requirements are slightly higher. The subject development also is exposed to additional risk, considering the seasonal fluctuations of the occupancy and daily rates between high summer seasons and low winter seasons.

The financial package is intended to help address the high development costs and extraordinary costs like the sewer treatment plant. Without the proposed financial incentive package, the development is financially challenged to generate sufficient financial returns to attract the necessary debt and equity needed to move this project forward. The proposed 15-Year PILOT does not require a deviation, as it is part of the IDA's UTEP. There is no undue enrichment as a result of the financial benefit package.

STABILIZED OPERATING PRO FORMA (YEAR 2)			
Revenue			
Hotel Rooms	ADR		
July & August	$800	1,754,531	
June & September	$600	881,280	
May & October	$500	505,920	
Workforce Housing		-	
80% AMI Unit	1 unit	32,298	
130% AMI Unit	7 units	367,353	
Commercial	2,770 SF	127,143	
Gross Income		3,634,122	
Expenses			
Rooms		(338,688)	
Admin & General		(339,910)	
Sales & Marketing		(138,978)	
Operation & Maintenance		(106,090)	
Utilities		(133,249)	
Management Fee		(113,395)	
Insurance		(212,180)	
PILOT (Hotel and Residential)		(40,323)	
Reserve		(74,136)	
Total Operating Expenses		(1,496,950)	
Net Operating Income		2,209,855	
PRE TAX LEVERED ANALYSIS			
Net Operating Income		2,209,855	
Debt Service		(1,599,629)	
Cash Flow		610,226	
			Market Expects
DCR		1.38	> 1.35
Cash on Cash		6.01%	> 6.00%
Yield to Cost		7.62%	> 7.50%
IRR		13.04%	> 12%

VI. BENEFIT SUMMARY

The analysis below shows a $2.6 million net positive public benefit. The public benefit factors the PILOT increment over 15 years, estimated IDA fees, and approximate value of the housing unit at 80% AMI. Also included in the public benefit is the aggregated estimated hotel occupancy taxes, at 5.5% of the per diem rental rate charged for each room, over the PILOT term.

The project benefit factors savings realized from the PILOT, exemption on the sales tax on building materials and equipment, and mortgage recording tax exemption.

	PUBLIC BENEFIT VS PROJECT SAVINGS	
a.	Full IDA Taxes (PILOT) Over 15-Year Term	$689,672
b.	County Hotel Tax Paid Over 15-Year Term	$2,897,547
c.	Value of Affordable Housing	$349,091
d.	Estimated IDA Fees	$217,622
e.	**Total Public Benefit (a + b + c + d)**	**$4,153,931**
f.	Real Estate Tax Savings Over 15-Year Term	$170,657
g	Sales Tax Exemption	$1,333,323
h.	Mortgage Recording Tax Exemption	$141,454
i	**Total Project Savings (f + g + h)**	**$1,645,434**
	Net Public Benefit (e + i)	**$2,508,497**

ESTIMATED VALUE OF WORKFORCE HOUSING	
Average Market Rate Rents	$4,200
Average 80% Workforce Rents	$2,600
Delta	$1,600
# of Units	1
Foregone Income (Year 1)	$19,200
Cap Rate	5.50%
Value of 80% Workforce Units	**$349,091**

In addition to the public benefits outlined above, the Applicant anticipates the retention of the 53 employees at the current hotel and commercial and the creation of 13 additional jobs at the new boutique hotel and workforce housing building.

APPENDIX I: PILOT SCHEDULE

PILOT SCHEDULE								
71 Hill Street								
Current Taxes		$28,946					Starting Abatement	75%
Improvement Taxes		$32,506					Phase-In Period	15
"As Improved" (Full) Taxes		$61,452					Decrease	5.0%
Proposed Units / GSF		48	57,020					
Estimated Full Taxes Per Unit / GSF		**$1,280**	**$1.08**					
Annual Escalator		0.00%				*5.00% discount*		
Year (Estimate)	**PILOT Year**	**Base Taxes**	**Improvement Taxes**	**"As Improved" Full Taxes**	**Abatement**	**Savings**	**PILOT**	**Increment**
2026	Construction	$28,946	$0	$28,946	N/A	$0	$28,946	$0
2027	Construction	$28,946	$0	$28,946	N/A	$0	$28,946	$0
2028	1	$28,946	$32,506	$61,452	75.0%	($24,380)	$37,073	$8,127
2029	2	$28,946	$32,506	$61,452	70.0%	($22,754)	$38,698	$9,752
2030	3	$28,946	$32,506	$61,452	65.0%	($21,129)	$40,323	$11,377
2031	4	$28,946	$32,506	$61,452	60.0%	($19,504)	$41,948	$13,002
2032	5	$28,946	$32,506	$61,452	55.0%	($17,878)	$43,574	$14,628
2033	6	$28,946	$32,506	$61,452	50.0%	($16,253)	$45,199	$16,253
2034	7	$28,946	$32,506	$61,452	45.0%	($14,628)	$46,824	$17,878
2035	8	$28,946	$32,506	$61,452	40.0%	($13,002)	$48,450	$19,504
2036	9	$28,946	$32,506	$61,452	35.0%	($11,377)	$50,075	$21,129
2037	10	$28,946	$32,506	$61,452	30.0%	($9,752)	$51,700	$22,754
2038	11	$28,946	$32,506	$61,452	25.0%	($8,127)	$53,326	$24,380
2039	12	$28,946	$32,506	$61,452	20.0%	($6,501)	$54,951	$26,005
2040	13	$28,946	$32,506	$61,452	15.0%	($4,876)	$56,576	$27,630
2041	14	$28,946	$32,506	$61,452	10.0%	($3,251)	$58,201	$29,255
2042	15	$28,946	$32,506	$61,452	5.0%	($1,625)	$59,827	$30,881
TOTAL		$405,244	$455,084	$860,328		($170,657)	$689,672	$284,428
						20% of full taxes	80% of full taxes	
							$45,978 annual avg.	
					NPV of Savings:	$133,319 NPV	$958 per unit annually	

Note: The abatement schedule applies a fixed percentage reduction to the taxes on the increased assessed value of the improvements, starting at 60% and decreasing by 4.0% annually over 15 years. While the abatement percentage is fixed, actual PILOT payments and developer savings shown are illustrative only, as future tax bills will vary based on changes in the assessed value and applicable tax rates. The only variable that is predetermined is the percentage of abatement; total taxes will fluctuate annually.

GrowAmerica

APPENDIX II: PRO FORMA

71 HILL REDEVELOPMENT: 15-YEAR PRO FORMA

YEAR OF OPERATION					1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Revenue																			
Hotel Rooms	ADR	Occupancy %	Escalator %																
July & August	$800	85%	2.00%		1,686,400	1,720,128	1,754,531	1,789,621	1,825,414	1,861,922	1,899,160	1,937,144	1,975,886	2,015,404	2,055,712	2,096,826	2,138,763	2,181,538	2,225,169
June & September	$600	60%	2.00%		864,000	881,280	898,906	916,884	935,221	953,926	973,004	992,464	1,012,314	1,032,560	1,053,211	1,074,275	1,095,761	1,117,676	1,140,030
May & October	$500	40%	2.00%		496,000	505,920	516,038	526,359	536,886	547,624	558,577	569,748	581,143	592,766	604,621	616,714	629,048	641,629	654,461
Workforce Housing					-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80% AMI Unit	1 unit	$2,639 avg. monthly rent	2.00%		31,665	32,298	32,944	33,603	34,275	34,961	35,660	36,373	37,101	37,843	38,599	39,371	40,159	40,962	41,781
130% AMI Unit	7 units	$4,288 avg. monthly rent	2.00%		360,150	367,353	374,700	382,194	389,838	397,635	405,587	413,699	421,973	430,413	439,021	447,801	456,757	465,892	475,210
Commercial	2,770 SF	$45 per SF annually	2.00%		124,650	127,143	129,686	132,280	134,925	137,624	140,376	143,184	146,047	148,968	151,948	154,987	158,086	161,248	164,473
Gross Income					3,562,865	3,634,122	3,706,805	3,780,941	3,856,560	3,933,691	4,012,365	4,092,612	4,174,464	4,257,953	4,343,113	4,429,975	4,518,574	4,608,946	4,701,125
Expenses			Escalator %																
Rooms			3.00%		(319,246)	(328,823)	(338,688)	(348,849)	(359,314)	(370,094)	(381,196)	(392,632)	(404,411)	(416,544)	(429,040)	(441,911)	(455,168)	(468,824)	(482,888)
Admin & General			3.00%		(320,398)	(330,010)	(339,910)	(350,108)	(360,611)	(371,429)	(382,572)	(394,049)	(405,871)	(418,047)	(430,588)	(443,506)	(456,811)	(470,515)	(484,631)
Sales & Marketing			3.00%		(131,000)	(134,930)	(138,978)	(143,147)	(147,442)	(151,865)	(156,421)	(161,113)	(165,947)	(170,925)	(176,053)	(181,335)	(186,775)	(192,378)	(198,149)
Operation & Maintenance			3.00%		(100,000)	(103,000)	(106,090)	(109,273)	(112,551)	(115,927)	(119,405)	(122,987)	(126,677)	(130,477)	(134,392)	(138,423)	(142,576)	(146,853)	(151,259)
Utilities			3.00%		(125,600)	(129,368)	(133,249)	(137,247)	(141,364)	(145,605)	(149,973)	(154,472)	(159,106)	(163,880)	(168,796)	(173,860)	(179,076)	(184,448)	(189,981)
Management Fee			3.00%		(106,886)	(110,093)	(113,395)	(116,797)	(120,301)	(123,910)	(127,627)	(131,456)	(135,400)	(139,462)	(143,646)	(147,955)	(152,394)	(156,966)	(161,675)
Insurance			3.00%		(200,000)	(206,000)	(212,180)	(218,545)	(225,102)	(231,855)	(238,810)	(245,975)	(253,354)	(260,955)	(268,783)	(276,847)	(285,152)	(293,707)	(302,518)
PILOT (Hotel and Residential)					**(37,073)**	**(38,698)**	**(40,323)**	**(41,948)**	**(43,574)**	**(45,199)**	**(46,824)**	**(48,450)**	**(50,075)**	**(51,700)**	**(53,326)**	**(54,951)**	**(56,576)**	**(58,201)**	**(59,827)**
Reserve			2.00%		(65,409)	(65,409)	(74,136)	(74,136)	(74,136)	(74,136)	(74,136)	(74,136)	(74,136)	(74,136)	(74,136)	(74,136)	(74,136)	(74,136)	(74,136)
Total Operating Expenses					(1,405,612)	(1,446,331)	(1,496,950)	(1,540,050)	(1,584,394)	(1,630,020)	(1,676,966)	(1,725,271)	(1,774,977)	(1,826,125)	(1,878,759)	(1,932,924)	(1,988,664)	(2,046,028)	(2,105,064)
Net Operating Income					**2,157,254**	**2,187,792**	**2,209,855**	**2,240,891**	**2,272,166**	**2,303,671**	**2,335,399**	**2,367,341**	**2,399,487**	**2,431,828**	**2,464,353**	**2,497,051**	**2,529,910**	**2,562,918**	**2,596,061**
PRE TAX LEVERED ANALYSIS																			
NOI					2,157,254	2,187,792	2,209,855	2,240,891	2,272,166	2,303,671	2,335,399	2,367,341	2,399,487	2,431,828	2,464,353	2,497,051	2,529,910	2,562,918	2,596,061
Debt Service					(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)	(1,599,629)
Cash Flow					**557,624**	**588,163**	**610,226**	**641,262**	**672,537**	**704,042**	**735,770**	**767,712**	**799,858**	**832,199**	**864,724**	**897,422**	**930,281**	**963,289**	**996,432**
DCR					1.35	1.37	1.38	1.40	1.42	1.44	1.46	1.48	1.50	1.52	1.54	1.56	1.58	1.60	1.62
Cash on Cash					5.5%	5.8%	6.0%	6.3%	6.6%	6.9%	7.2%	7.6%	7.9%	8.2%	8.5%	8.8%	9.2%	9.5%	9.8%
Yield to Cost					7.4%	7.5%	7.6%	7.7%	7.8%	7.9%	8.0%	8.2%	8.3%	8.4%	8.5%	8.6%	8.7%	8.8%	8.9%
Valuation Cap Rate			5.50% cap rate		39,222,791														47,201,107
Outstanding Loan Balance																			(11,839,730)
Net Sale Proceeds																			35,361,377
				Equity															
Benefit Stream				(10,155,679)	557,624	588,163	610,226	641,262	672,537	704,042	735,770	767,712	799,858	832,199	864,724	897,422	930,281	963,289	36,357,809
IRR			13%																

GROW AMERICA DISCLAIMER

Standard disclaimer regarding Grow America's compliance with Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and amended Section 15B of the Securities and Exchange Act of 1934 ("Exchange Act"):

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