NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

MEMORANDUM

To: Members of the Authority

From: Caren S. Franzini
Chief Executive Officer

Date: October 20, 2010

RE: **TDAF I – Pru Hotel Urban Renewal Company, LLC**
Economic Redevelopment and Growth Grant Program

Request

The Members are asked to approve the application of TDAF I – Pru Hotel Urban Renewal Company, LLC (TDAF I or Applicant) for reimbursement of certain taxes for a Newark, Essex County project, the Courtyard at Marriott (Project or Marriott), under a "state incentive grant" by the EDA pursuant to the Economic Redevelopment and Growth Grant (ERG) program set forth in N.J.S.A. 52:27D-489c (Act).

The total project costs are estimated to be **$35,015,193**. The total qualified costs under the ERG Act are **$32,918,187**. The recommended reimbursement is **20%** of the eligible costs, not to exceed **$6,583,637**.

Project Description

The Project consists of 105,500 SF seven story building which includes a hotel and ground floor commercial space for a restaurant and retail establishment. The following chart summarizes the commercial mix:

Description	Units	Square Feet	Income (1st Year)
Hotel Rooms	150	90,600	$139 initial room rent
Restaurant & Retail	2	14,900	$63.59 SF Gross Rent

The Marriott will be within Newark's central business district and located on the northeast corner of Broad and Lafayette Streets; this block is within Newark's Downtown Core Redevelopment Planning Area (Planning Area). The Prudential Center, which is currently the home of the NJ Devils and NJ Nets, is one block away from the Project.

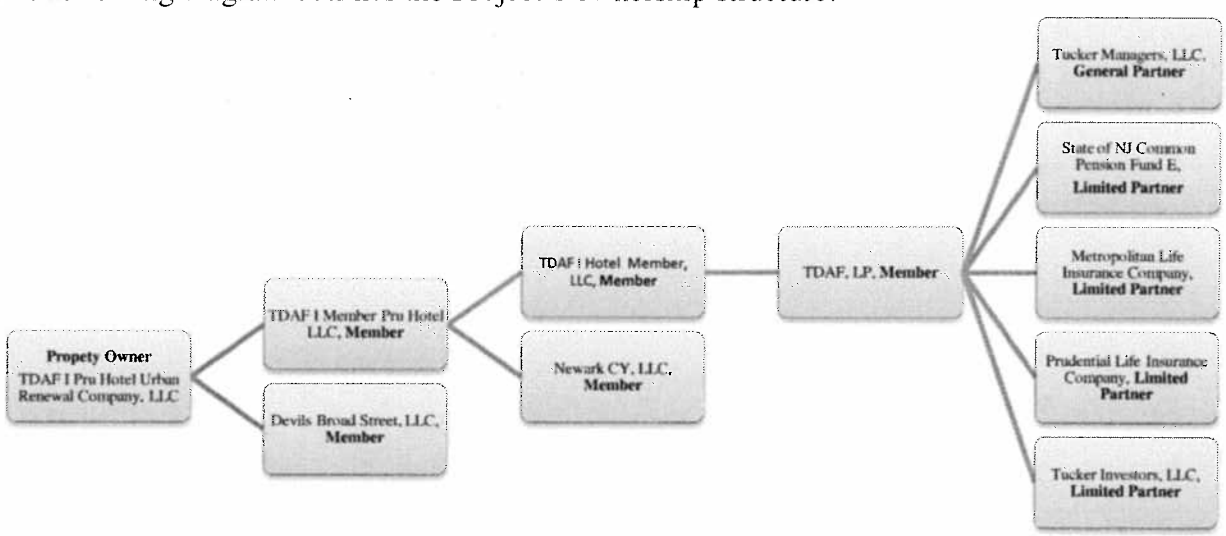
Adopted in 2004, and amended in 2005, the Planning Area includes 30.5 acres of land (excluding rights of way), and permits the following commercial uses:

- multipurpose indoor sports/cultural/exhibition facilities,
- office buildings
- retail
- broadcast and print media facilities
- public safety facilities
- educational
- parking structures
- hotels
- multi-family residential
- parks and public plazas, and
- mixed-use facilities combining any of the previously listed permitted uses.

The Marriott will create approximately 45* full time hotel, restaurant and retail jobs, and 175 one time construction jobs. The average salary of the hotel, restaurant and retail jobs is approximately $35,000. These estimates are provided by the Developer, Tucker Development Company (Developer or Tucker).

Project Ownership

The project will be owned by the Applicant, a limited liability company created to own the Project. The following diagram outlines the Project's ownership structure:



* The net benefits model estimates that approximately 57 full-time ongoing jobs will be created; for the purpose of this memo, we have used the Applicant's assumptions for job creation.

Tucker, which is affiliated to Tucker Investors, LLC and Tucker Managers, LLC, will develop the Project. Since 1996, the Developer has managed 19 commercial investment opportunities totaling 3.72 million SF and $417.38 million in development costs.

Project Uses and Sources

The Applicant proposes the following uses and sources for the Project:

Uses	***ERG Eligible***	***Total***
Acquisition	$2,000,000	$2,000,000
Improvements	$24,521,500	$24,821,500
Professional Services	$1,642,401	$1,642,401
Financing and Other Costs	$3,427,155	$3,937,155
Contingency	$1,327,131	$1,327,131
Development Fee	$0	$1,287,006
TOTAL USES	**$32,918,187**	**$35,015,193**

Permanent Sources	***Total***
Equity**	$10,000,000
First Mortgage (lender to be determined)	$15,678,036
Recovery Zone Facility Bonds	$4,734,052
Redevelopment Area Bond secured by City of Newark PILOT Agreement	$4,603,105
TOTAL SOURCES	**$35,015,193**

The sources and uses above reflect the project with the ERG subsidy included. The project gap is calculated based on the Equity Internal Rate of Return and Cash-on-Cash Yield identified in the gap analysis, which will be discussed below. These returns are calculated with and without the ERG cash flow to compare the returns.

Gap Analysis

EDA staff has reviewed the application to determine that there is a project financing gap. Staff analyzed the pro forma and projections of the project and compared the returns with and without the ERG:

Without ERG	**With ERG**
Equity IRR 8.06% (Market Range = 15-20%) Cash on Cash Yield 6.18% (Market Range = 8-10%)	Equity IRR 11.10% (Market Range = 15-20%) Cash on Cash Yield 6.97% (Market Range = 8-10%)

As indicated in the chart above, the project would not otherwise be completed without the benefit

** This equity source is less than the equity source used in the gap analysis model; because the development fee is not eligible for the ERG subsidy, the gap analysis model assumes an equity investment of $11.287 million ($10 million equity + $1.287 million development fee). The developer fee of $1.287 million is treated as a source **and** a use in the model. The Applicant has advised Staff that it will provide $15.7 million of equity-bridge financing during construction; the permanent loan will be obtained upon construction completion.

of both the ERG. With the benefit of the ERG, the Equity IRR is 11.10% and the Cash-on-Cash Yield is 6.97%, making the returns closer to the market ranges provided by the EDA's contract consultant, Jones Lang LaSalle. The additional revenue from the prospective ERG enables this project to move forward.

Net Positive Benefit Analysis

The Authority has conducted the required Net Benefit Analysis and has found that the present value of the Net Positive Benefits to the State at a 6% discount rate over a 20 year period is $23.24 million. This number is obtained by taking the annual sales tax, hotel occupancy tax, gross income tax, the one-time tax generated from the Project's construction, and indirect spillover tax revenues from earnings and expenditures. The present value of this figure is reduced by the present value of all local and state grants, including the ERG award ($3.78 million), to the Project, resulting in the present value of the Net Positive Benefits to the State of $19.46 million.

Other Statutory Criteria

In order to be eligible for the program, the project must exhibit the following:

The economic feasibility and the need of the redevelopment incentive agreement to the viability of the project. The likelihood that the project shall upon completion be capable of generating new tax revenue in an amount in excess of the amount necessary to reimburse the developer for the project costs as provided in the redevelopment agreement.

Based on the expected generation of $28.5 million of incremental direct annual gross income, hotel occupancy and sales taxes over 20 years, and a 75% rebate of eligible taxes, there are adequate funds to support the reimbursement of taxes to the Project as outlined in the analysis. As discussed previously, the project financial returns before and after the ERG grant demonstrate a need for the incentive grant agreement. The market study prepared by the Weitzman Group supports the hotel and retail rents and vacancy rates used in the gap analysis model. The study also considered the impact of the Hotel Indigo at 810 Broad Street, which is one block away from this Project, and concluded that the market can absorb the additional rooms that will be created by the Indigo and this Project. Taking into account the experience of the Developer, the estimated occupancy of the Project that is supported by the market study, and the ERG award, Staff has determined that the project has a likelihood of success.

The degree to which the redevelopment project within a municipality which exhibits economic and social distress, will advance State, regional, local development and planning strategies, promote job creation and economic development and have a relationship to other major projects undertaken within the municipality.

The project is located in the City of Newark, an urban aid municipality and one of the NJEDA's 9 targeted cities. Newark's median household income is $34,521, it has a per capita income is $16,077, and 24.2% of the city's residents live in poverty. The Project is consistent with goals of the Newark Downtown Core Redevelopment Plan, and complements the already existing public parking garage and Prudential Center developments by providing much needed hotel, restaurant and retail venues to accommodate visitors of the Prudential Center. The Project is also within Planning Area 1 of the State Master Plan, which is a target area for the ERG program.

Recommendation

Authority staff has reviewed the application and finds that it is consistent with eligibility requirements of the Act. Treasury, in reviewing the application, has notified the Authority of the adequacy of the project's estimated tax revenues and specified the percentage reimbursement of total project costs. Therefore, it is recommended that the Members approve the application and authorize the CEO of the Authority to execute an Incentive Grant Agreement with the applicant and the State Treasurer, subject to final review and approval of the Office of the Attorney General. All disbursements under the ERG program are subject to annual appropriation by the New Jersey State Legislature.

Closing of the Incentive Grant Agreement and the reimbursement of any taxes is contingent upon the Applicant meeting the following conditions regarding the Project:

1. Financing commitments for all funding sources for the Project consistent with the information provided by the Applicant in its application to the Authority for the ERG; and
2. Evidence of site control and site plan approval for all properties within the Project;

Reimbursement shall commence upon:

1. Completion of construction and issuance of a permanent certificate of occupancy;
2. Submission of a detailed list of all eligible costs, which costs shall be satisfactory to the NJEDA; and
3. New tax revenues have been paid to the NJ Treasury and appropriated.

The NJ Treasury annually tracks taxes received from job sites and remits reimbursement equal to a percentage of funds collected during the year.

It is recommended that the members authorize the CEO of the EDA to execute any assignment agreements necessary to effectuate this transaction.

Total Eligible Project Costs:	**$32,918,187**
Eligible Taxes for Reimbursement:	**Sales, Hotel Occupancy, and Other Eligible Taxes of $6,583,637, over 20 years.**
Recommended Grant:	**20% of eligible costs, not to exceed $,6,583,637, over 20 years**

Caren S. Franzini

Prepared by: Juan Burgos

TDAF I - Pru Hotel Urban Renewal Company, LLC

NJEDA Economic Impact Model

NJEDA Economic Impact Model			Notes
County Number	7		
Address	Lafayette & Broad Sts.		
County	Essex		
Ongoing Jobs(Direct)	57		
One Time Jobs(Direct)	175		
State & Local Direct Ongoing	Services	Select Industry Sector	
Sales Tax	$0.60	@7% (adjusted income per SF and by jobs)	
Corporate Income Tax (CBT)	$0.00	@9% (Applicant states $0)	
Gross Income Tax & Local Newark Income Tax	$0.079	@5%	
Misc. State Tax Revenue (Hotel Occup. Tax)	$0.38	Hotel Rms Gross Profit x 1% State Hotel Tax	
Property Tax (Default to Total Const Value*3%)	$0.17	Portion of PILOT retained County & City	
Direct Ongoing Annual Taxes	$1.23	a	
State Indirect Ongoing			
Annual Corp Spending	$11.78	Direct Output Composite	
Final Demand Output Multiplier	1.51x	Direct Output Composite Multiplier	
Indirect Annual Spending	$5.95	Direct Output Composite*(Direct .Mult.-1)	
At 3.5 % Tax Rate	$0.21	b	
Annual Payroll	$1.58	Direct Earnings Composite	
Indirect Effect Earnings Multiplier	1.46x	Direct Earnings Composite Multiplier	
Indirect Earnings	$0.72	Direct Earnings Composite*(Indirect .Mult.-1)	
At 4% Tax Rate	$0.03	c	
Indirect Ongoing Annual Taxes	$0.21	b	
Total State Ongoing Net Benefits			
Annual Net Benefit	$1.46	a+b+c	
Cumulative Net Benefit (20yrs w/ 3% yearly inflation)	$39.35		
Present Value @6%	$21.33	d	
One Time			
Construction Value	$35.0		
Direct One Time Taxes on Spending	$1.2	Input	
Direct Construction Multiplier	1.53x		
Indirect One Time Spending	$18.50		
Spending Tax Rate	**3.5%**		
Ind One Time Taxes on Spending	$0.6		
Assumed Portion of Const. on Labor	50%	Input	
Dir One Time Earnings	17.51		
Earnings Tax Rate	5%	Input	
Dir One Time Taxes on Earning	$0.9		
Direct Effect Earnings Multiplier	1.45x		
Indirect One Time Earnings (50% of Construction)	7.84		
Earnings Tax Rate	5%	Input	
Ind One Time Taxes on Earnings	$0.4		
Total One Time Tax Benefits	$1.9	e	
Total State Benefits			
Total One Time Tax Benefits	$1.9	e	
Total State Ongoing Benefits (PV @ 6%)	$21.3	d	
Total Benefits	$23.24	d+e	