



# Market Study Analysis for the Former Hudson Maxim School Property

## Final Report

prepared for

### Borough of Hopatcong

111 River Styx Rd.  
Hopatcong, NJ 07483

prepared by

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May 8, 2020

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## Executive Summary

### Introduction

The former Hudson Maxim School in the Borough of Hopatcong was permanently closed several months ago. Recognizing the need for a market study to identify the highest and best use of a property for redevelopment, the Borough retained DCG Corplan Consulting LLC in late 2019 to conduct the analysis.

The Study Property is located at 452 Lakeside Boulevard, at the corner of Lakeside Boulevard and River Styx Road (CR 607). The parcel is Block 20612, Lot 1 and contains approximately 2.2 acres. The property will be added to the Borough's "Area in Need of Redevelopment" and is currently zoned R-1 and immediately adjacent to the River Styx Road Form-Based Code area. This optional regulation sets forth several intriguing uses that may or nor be suitable to the subject property. As the location of the Study Property is within the New Jersey Highland Region, the objectives of the 2008 Highlands Regional Master Plan will play a key role in assessing the future use of the property.

Originally built in 1908, Hudson Maxim School had a capacity of 490 students.<sup>1</sup> Published measurements of classroom net area is stated at 33,600 sf, however, the gross area as calculated by DCG Corplan is approximately 44,000 sf.

### Task 1 – Kick-off Meeting

The project was initiated on Monday, December 9, 2019, whereupon a conference call Kick-Off Meeting was subsequently scheduled for December 18, 2019. The conference call attendees were as follows:

- Bruce Hoch, Project Manager for DCG Corplan Consulting LLC
- Ron Tappan, Borough of Hopatcong Administrator
- Judy Thornton, Principal Planner, New Jersey Highlands Council
- Scheduled but not available for the call: John Ruschke, Principal Project Manager, Mott MacDonald Group

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<sup>1</sup> Hopatcong Borough School District School Building Information; Comprehensive Annual Financial Report 2012; <https://www.nj.gov/education/finance/fp/cafr/search/12/2240.pdf>

Topics covered included low impact development, current or planned projects, and review of the market area. An important outcome of the call was that the algae bloom which affected season bathing use of Lake Hopatcong is being addressed and mitigation efforts are underway. Several contacts for follow-up interviews were suggested and an arrangement was made for Mr. Hoch to tour the Hudson Maxim school building.

## Task Two – Interviews with Key Stakeholders/Business leaders

From the Kick-Off meeting, telephone interviews were held with local leaders and businesspersons. The list of Interviewees included:

- Martin Kane, Hopatcong Historical Society
- Richard Hoer, Greentree Development
- Brian Fairclough, Fairclough Realtors
- Mayor Michael Francis, Borough of Hopatcong
- Thomas Sellaro, Fulton Bank
- Mark Gruber, Attorney

As per our internal policy on the confidentiality of business interviews, the following is a synopsis of comments received and not directly attributed to any interviewee.

- ❖ The Borough of Hopatcong has the perception of being a blue-collar location even though there are some expensive homes on the lakefront.
- ❖ Mt. Arlington and Jefferson have a more dynamic development character possibly due to lower property tax costs.
- ❖ Hopatcong has the reputation of poorly performing schools which is a drawback to attracting young families.
- ❖ Mr. Arlington has better highway access than Hopatcong.
- ❖ Sales of new multi-family properties in Hopatcong has been slow to moderate, but tax abatements are very important for new buyers.
- ❖ Probable costs for demolition of the Hudson Maxim School on the Study Property probably exceeds the value of the land (preliminary estimate of \$250,000 to \$500,000, including likely asbestos abatement).
- ❖ Current tax assessment of \$3.2 million as the value of the Study Property is unrealistic – probable value is closer to \$400,000.
- ❖ Expansion of sewer and septic services for Hopatcong are important for redevelopment of the River Styx area.

- ❖ Funding for redevelopment of the Study Property could be available to qualified developers at market rates and 25% equity investment.
- ❖ Assisted living projects are highly desirable for the area.
- ❖ The most value for property development arises from being on the lake with direct water access.
- ❖ There is little business growth in the immediate area, with popular restaurants struggling or closing.
- ❖ Mixed-use residential projects cannot rely on ground floor retail for revenue.
- ❖ Projected condominium apartment sales may have to be converted to rental to support revenue pro forma expectations.

### Task 3 – Market Analysis

#### Location Attributes

A Location Attributes analysis of the Study Property was performed by mapping 64 distinct attributes or locations of interest. A 20-minute drive radius from the Study Property was identified as the parameters of the Market Area (MA), as shown below:

Attribute type	# of Attributes	Travel Time (mins.)
Dining - Average travel time	7	11
Financial services - Average travel time	4	12
Healthcare Services - Average travel time	3	30
Lodging - Average travel time	8	15
Recreation - Average travel time	23	29
Shopping - Average travel time	14	21
Transportation Services - Average travel time	5	23
<b>Mean travel time (mins.)</b>		<b>20</b>

#### Market Demography

A description of a Market Area compared the State of New Jersey as macro-economic benchmarks. The analysis covered Population Characteristics, Income, Race, & Education, Labor Force & Earnings, Housing, and Consumer Spending.

Key findings of the analysis revealed the following:

- ❖ Population growth is slower than the state.
- ❖ Median age is older.
- ❖ The percentage of working age persons is higher.
- ❖ The representation of senior-aged persons is higher.
- ❖ Household incomes are generally higher.
- ❖ Educational attainment by college graduates is higher.
- ❖ Industry employment in Manufacturing and Information sectors are above the state.
- ❖ White collar occupations are more prevalent.
- ❖ Earnings in all categories exceed the state.
- ❖ Owner-occupied housing is more prevalent than the state.
- ❖ Renter-occupied housing is under-represented.
- ❖ Average home prices are about 6% higher than the state.
- ❖ Average rental monthly prices are about 3% higher.
- ❖ Discretionary consumer spending exceeds the state in all categories.

### **Market Segmentation of Demand by Category**

From evaluation of the River Styx Road Form-Based Code Overlay as well as business interviews results, a list of uses emerged as the study parameters. Five-year projections of sales or revenue per square foot as generated from gap analysis generated the potential for new space as shown in the following:

- Entertainment/Sports/Recreation: 86,000 sf
- Housing – owner occupied: 726 units
- Housing – rental: 138 units
- Housing – seniors rental: 437 units
- Lodging: 100 rooms; 1,850 sf of meeting space
- Office: 62,000 sf
- Restaurant/Bar: 19,200 sf
- Retail: 245,400 sf

### **Absorption Characteristics by Category**

In the preceding section, an estimate of total demand by use within Market Area was developed. In this section, we consider the possible capture of that demand by the Study Property. For each identified use, an estimate of the absorption by square foot was prepared.

Eleven development scenarios were generated that detail the profitability expectations for a developer when the project is sold after reaching stabilized occupancy (if applicable), plus an estimate of the annual property taxes the Borough of Hopatcong could anticipate. Two of the eleven resulted in positive cash flow for the developer as well as acceptable property tax revenue for the Borough. Four uses were promising but could not be considered as sustainable unless partnered with complementary uses. Two uses required a 10% premium over the market rate for unit or space rental which was deemed acceptable. One use required a 50% premium and was deemed unacceptable. And, two uses produced entirely negative values.

From the project scenarios, two projects have emerged with unique suitability to the Study Property. In brief, here are the summaries of project information:

#### Lakeside Senior Living

Conversion of the existing two-story Hudson Maxim school building into a 48-unit seniors' housing project. Average unit size is 700 sf, renting for \$1,560 per month, plus an allowance for managed services. Total buildout of 47,000 sf will require about 3,000 sf to be built in third and fourth story. Part of the existing roof to be converted to outdoor balcony overlooking Lake Hopatcong. Parking for 72 cars accommodated by construction of a new driveway ramp from Lakeside Boulevard, the repaving of this existing playground (43 cars), and a new parking area (29 cars) installed in front of the existing school building. Total project cost of **\$4.399 million**, with value at stabilized occupancy of **\$8.725 million**. For the developer, a positive outcome can be expected, producing a profit margin of **28.6%** or **1.98** multiple of invested equity. For the Borough, a sales price of **\$400,000** of the Study Property should produce a property tax revenue of **\$244,800** per year starting in year five.

*Note: Other institutional uses similar to senior living may have viability for this property with similar use characteristics. These might include occupational therapy centers for senior, adults, or children. Or residential nursing or medical treatment uses as well.*



### Mariners Centre

Conversion and addition to existing building into a mixed-use tourism business-oriented development that will serve as a catalyst for further investment in the area. The facility features an exhibition space with movie theater, 50-room boutique hotel, loft-style creative office space, 95-seat rooftop restaurant with outdoor balcony, and targeted retail space for outfitting, boating, and recreational products. Parking for 247 spaces will require construction of a 4-story parking garage plus paving of front yard area. Total project cost of **\$9.099 million**, with value at stabilized occupancy of **\$16.893 million**. For the developer, a positive outcome can be expected, producing a profit margin of **27.4%** or **1.96** multiple of invested equity. For the Borough, a sales price of **\$640,000** of the Study Property should produce a property tax revenue of **\$417,300** per year starting in year five.

## Task 4 – 3D Visualization

For this task, the Borough of Hopatcong selected the Mariners Centre as the illustrative example of the highest and best use of the Hudson Maxim school property.

### **Existing Building**

From documents supplied to DCG Corplan, floor plans of the existing building were generated which resulted in the following:

First Floor Square Footage	21,930 sf
Second Floor Square Footage*	21,800 sf
Total Square Footage	43,729 sf

A 3-d visualization created from the floor plans and review of site photographs is shown below:

View from Northwest



View from Northeast



View from Southwest



## Mariners Centre

### Parking

To accommodate the mix of uses for the proposed Mariners Centre, parking became the initial hurdle to overcome. Parking for a larger footprint requires the development of a parking garage for the property. Given the sensitivity to major earth disturbance and its impact for the NJ Highlands region, we have been deliberate in utilizing the existing topography to accommodate a garage with minimal environmental effect.

The footprint of the garage fits nearly the size of the existing paved playground. Side automobile ramps and flat parking decks largely above grade will also keep construction costs within reasonable limits. The four-story structure will contain a total of 191 cars, arranged as follows:

Entry Level 1	46 spaces
Level 2	48 spaces
Level 3	48 spaces
Level 4	49 spaces
Total	191 spaces

A paved parking lot in the frontyard of the property would provide an additional 29 spaces. Vehicular access is gained through the parking garage ramps. In all, a total of **220 parking spaces** are provide in this design.

#### Mariners Centre Configuration

The spatial configuration of the Mariners Centre has been developed as follows:

##### *Entry Level (Floor 1)*

A new grand entrance has been created under a columned two-story high portico near the garage with stairway accessibility to Lakeside Boulevard. Museum exhibition and lobby circulation space feature a two-story window wall facing the lake. Elevators, restrooms and vertical circulation are accessed through the lobby. The majority of the first floor space is dedicated to retail. A signature retail space has direct access to the parking lot.

##### *Floor Level 2*

This floor contains a small retail area plus more museum space including a 50-seat theater built into the upper part of the existing gymnasium. A balcony overlooking the two-story exhibit space serves as horizontal circulation. Elevator and restrooms are accessed through this area as well. About 25% of floor 2 is used as an office area. The second floor has bridge access to the parking garage.

##### *Floor Level 3*

On this floor, the restaurant has its location. The common circulation has elevator and restrooms plus the hotel lobby. Both the restaurant and the hotel share access to an outdoor terrace balcony with water view. Summertime dining and partying would be a lively addition to the area, but intrusive noise and lights would be blocked from adjoining residential properties. There is another office area of similar in size to office on the second floor. The third floor would also have bridge access to the parking garage.

##### *Floor Level 4*

This floor is dedicated to the hotel use. Twenty-four rooms are arranged, some with balconies overlooking the lake. Lodgers would use the hotel lobby on the third floor for check-ins. A moderately-sized meeting space is provided directly from the elevator lobby.

Property – **FINAL REPORT***Floor Level 5*

This floor is similar to the fourth floor but with two additional rooms provided in place of the meeting space. The total room count accommodated both hotel floors is 50 rooms.

**Total Building**

Total building gross area is **89,379 sf**, as follows:

Floor Level	Size (sf)	Museum	Retail	Dining	Office	Hotel	Circl.
Entry/ Floor 1	21,556 sf	2,915	11,895				6,746
Floor 2	21,556 sf	7,269	1,418		5,339		7,530
Floor 3	18,079 sf			2,177	5,465	1,409	9,028
Floor 4	14,206 sf					12,810	1,396
Floor 5	13,982 sf					12,537	1,445
Total	89,379 sf	10,184	13,313	2,177	10,804	26,756	26,145

Since the original building is long and narrow oriented east-to-west with a south-facing exposure, the use of solar roof is warranted. The design allows for a pitched roof supporting 150 panels. These solar panels would be 480w nominal in size, or a total of 72 kW solar generating capacity. In all likelihood, a very significant allowance by the electric utility company would greatly offset electrical use by the building in resulting from this installation.

**Mariners Centre 3-d Imagery**

The following images have been generated after creation of the floor plans based on the function by floor configuration. The Mariners Centre represents a bold undertaking that promises exciting results for the Borough of Hopatcong, its business community, and its residents. The mixing of cultural, entertainment, lodging, dining, retail, and commercial office into one development is clearly within the intended mandate of the Area of Need and the River Styx Form Based Code.

We believe that this is a financially viable project that will generate substantial property tax revenue, create jobs, establish new spending patterns, and stimulate the local area.

What is now needed is the attraction of a forward-thinking development organization who can take this vision into reality. From this report, the Borough has all the information needed to craft a developer prospectus and circulate it to interested parties.



View from Northwest



View from Northeast



View from Southwest



Detail View at Entry

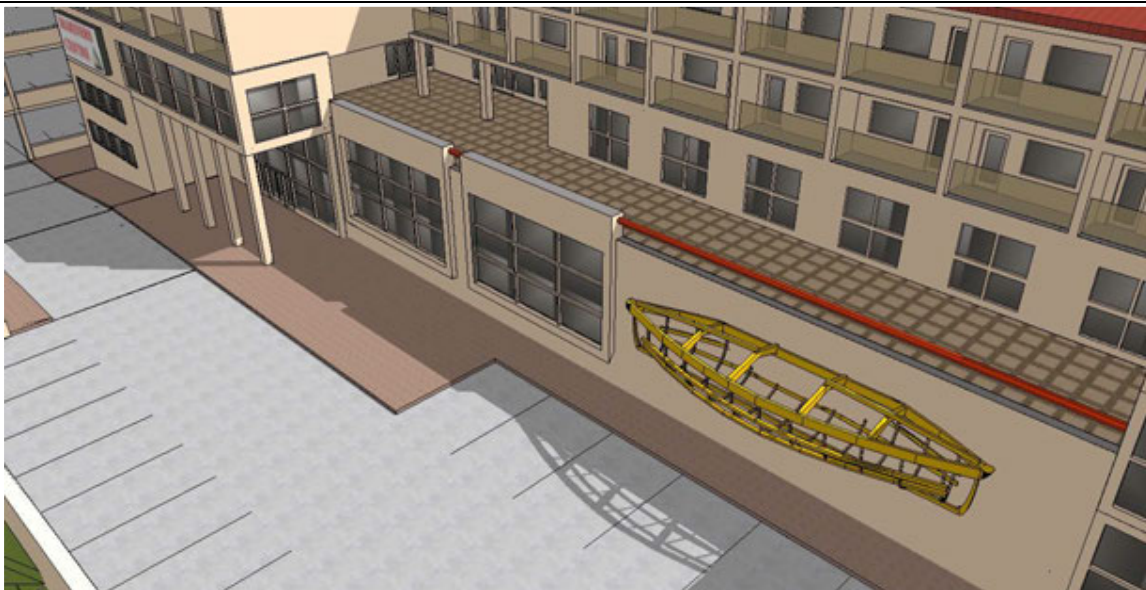




Detail View of Parking Garage



Detail View at 3<sup>rd</sup> Floor Terrace





Detail View of Parking Lot



Detail View of Rooftop Solar Panels



## Task 1 -- Kick-Off Meeting

The project was initiated on Monday, December 9, 2019, whereupon a conference call Kick-Off Meeting was subsequently scheduled for December 18, 2019. In the intervening days prior to the call, the DCG Corplan Project Manager reviewed the New Jersey Highlands Council - Regional Master Plan (NJHC-RMP)<sup>2</sup>, the New Jersey Local Development and Housing Law (LDHL)<sup>3</sup>; the Borough of Hopatcong Zoning Map, and the River Styx Area Redevelopment Plan<sup>4</sup>. These and potentially other documents yet to be identified may play an important role in formation of market assumptions later in the study.

The conference call attendees were as follows:

- Bruce Hoch, Project Manager for DCG Corplan Consulting LLC
- Ron Tappan, Borough of Hopatcong Administrator
- Judy Thornton, Principal Planner, New Jersey Highlands Council
- Scheduled but not available for the call: John Ruschke, Principal Project Manager, Mott MacDonald Group

### Topics Covered

#### Low Impact Development

The conference call began with the general discussion of the NJHC-RMP's requirements for low-impact development. Ms. Thornton agreed with Mr. Hoch that the redevelopment plan would need to incorporate green infrastructure and low-impact development techniques to the maximum extent feasible. Mr. Hoch noted that the property was essentially built-out with at least 70% impervious coverage pre-existing. Still, its redevelopment would need to avoid adversely impacting the watershed environment in which it is located. Mr. Hoch agreed that water conservation, storm water management, overall energy use efficiency, and site-line visualization sensitivity would all need careful

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<sup>2</sup> New Jersey Highlands Council – Regional Master Plan; <https://www.nj.gov/njhighlands/master/>

<sup>3</sup> Local Development and Housing Law; NJ 40A:12A-1 et seq.; <https://evogov.s3.amazonaws.com/media/33/media/82188.pdf>

<sup>4</sup> River Styx Area Redevelopment Plan (May 2017); [https://hopatcong.org/vertical/Sites/%7BE641513E-DD40-4540-BC56-B52978BA2363%7D/uploads/Hopatcong\\_Redevelopment\\_Plan\\_5\\_25\\_17.pdf](https://hopatcong.org/vertical/Sites/%7BE641513E-DD40-4540-BC56-B52978BA2363%7D/uploads/Hopatcong_Redevelopment_Plan_5_25_17.pdf)

consideration. Mr. Hoch suggested that a LEED<sup>5</sup> certified building design would be an optimum goal for the redevelopment effort.

#### Current or Planned Projects

The next topic focused on current or planned projects in the vicinity of the Study Property. Given that two nearby developments built by the Greentree Development Group are important to the market impact of this study, the question arose as to whether contact with Greentree would be advisable. Mr. Tappan noted that not only would this effort be advisable, but clearly desirable, as Mr. Richard Hoer of Greentree was intimately familiar with the market conditions of the area. Greentree's two current projects, Brookland at Lakepoint, and the Townhomes at Lakepoint, appear to be successful, and understanding the market dynamics that led to both developments will be a crucial factor in determining the market potential for the Hudson-Maxim School property.

Mr. Tappan indicated that extension of sewer capability across the River Styx Road Bridge would provide development opportunity for a significant amount of undeveloped Borough property. However, since the bridge is owned by Sussex County, its sewer utility service would be governed by the timetable for the bridge's replacement. According to published news articles, the New Jersey Transportation Planning Authority has approved funding for the new bridge and the work may be planned for the 2020 year.<sup>6</sup>

The role of tax abatements in development was discussed, especially as related to the Greentree's Townhomes at Lakepoint. Mr. Tappan pointed out that a five-year tax abatement was employed in this project, and its outcome has not been detrimental to the Borough. The Townhomes occupancy appears to be largely driven by this tax savings opportunity, which is directly passed on the purchasers of the units. Continued use of tax abatement or PILOTS (**P**ayments **I**n **L**ieu **O**f **T**axes) would not seem to be an unacceptable strategy to the Borough, *at this point of time*, for potential application in the Study Property.

Mr. Tappan suggested a review of the Townhomes at Mariner's Pointe in Hopatcong as another example of waterfront development. This project, by the Atkins Company,

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<sup>5</sup> LEED – Leadership in Energy and Environmental Design – US Green Building Council;  
<https://new.usbgc.org/leed>

<sup>6</sup> River Styx Bridge Replacement; "Replacement of River Styx Bridge Included in 2020 NJ Possible Projects; Hopatcong Lake Regional News, December 23, 2018;  
<http://www.hopatconglakeregionalnews.com/index.php/news/hopatcong-region/2371-replacement-of-river-styx-bridge-included-in-2020-nj-possible-projects#!/ccomment>

consists of townhomes with deeded boat slips as an amenity. DCG Corplan will research this project to see if any tax abatement or other conveyance was utilized.

#### Review of the Market Area

Access to the Study Area via roadway network is quite reasonable. Travel time to the major highway network of I-80, NJ Routes 206, 10, 46, and 15 is fifteen minutes or less. Mr. Tappan indicated that neighboring Byram Township represented the closest consumer shopping nexus. Opportunities for lodging were more prevalent in the Ledgewood area and at the International Trade Zone. And, the greater number of waterfront amenities on Lake Hopatcong could be found in Jefferson Township.

Seasonal tourism at Lake Hopatcong is the most intense in summer, with limited off-season activity. The recent algae bloom pollution on Lake Hopatcong resulted in a significant drop-off in summer bathing and recreational use for the lake in the 2019 season. The Borough is hopeful that by the time of the upcoming summer season, the lake will be in a status of recovery to more traditional levels. The comparison of winter snowmobiling/ice fishing at Lake Hopatcong versus Lake George, NY was discussed, with acknowledgment of the latter's more active winter tourism draw.

Mr. Hoch suggested that the retail trading area from the Study Property be studied at the 10-, 15-, 30-, and 45-minute drive time radius to determine the most useful parameter to be used to capture retail spending and determine leakage to outside areas. As for commercial business suitability, the Study Property will be evaluated as an office site based on employment and commutation patterns in the area. Ms. Thornton agreed that industrial or manufacturing uses at the site would not be in keeping with NJHC-RMP low-impact goals.

Mr. Tappan revealed that a Seton Hall University profile of the Lake Hopatcong area was produced in recent years. A copy of this report will be obtained for use in market analysis.

## Next Steps

### Stakeholder Interviews

The stakeholder list of individuals or organizations for interviews is as follows (at this point):

- Mayor Michael Francis
- Richard Hoer, Greentree Development Group
- Marty Kane, Hopatcong Foundation
- Fairclough Realtors
- Weichert Realtors
- Coldwell Banker Realtors
- NJ EPA

Mr. Hoch requested a tour of the existing Hudson Maxim School building for possible consideration as an adaptive use opportunity. Although closed in 2018, the facility's floor plan should be available from public works. Mr. Hoch pointed out that if views to the lake waterfront are available from the upper floor, then this amenity should be capitalized on for the redevelopment. Mr. Tappan indicated that he would reach out to the Borough to arrange for the building entry in early January 2020.

## Task 2 – Interviews with Key Stakeholders/Business leaders

We conducted telephone meetings with stakeholders, business leaders, realtors, and financial professionals to determine the economic climate of the Hopatcong region of Sussex County. In a preliminary query to the Borough, we asked if there would be any interest in participation in the redevelopment of the property or just its disposition to a third party. The consultant response to us was that there would be no interest in any form of participation by the Borough, only disposition to a purchaser.

### List of Interviewees

- Martin Kane, Hopatcong Historical Society
- Richard Hoer, Greentree Development
- Brian Fairclough, Fairclough Realtors
- Mayor Michael Francis, Borough of Hopatcong
- Thomas Sellaro, Fulton Bank
- Mark Gruber, Attorney

As per our internal policy on the confidentiality of business interviews, we present the following as a synopsis of comments received and not directly attributed to any interviewee.

- ❖ For the Study Property, acquisition of the single-family home across the street or possibly the Lake Hopatcong Jewish Community Center would enhance the development potential by providing waterfront access.
- ❖ Although just empty woodlands, development of the Mariners Pointe project took many years which might dissuade other likely projects.
- ❖ The Borough of Hopatcong has the perception of being a blue-collar location even though there are some expensive homes on the lakefront.
- ❖ Mt. Arlington and Jefferson have a more dynamic development character possibly due to lower property tax costs.
- ❖ Hopatcong has the reputation of poorly performing schools which is a drawback to attracting young families.
- ❖ Mr. Arlington has better highway access than Hopatcong.
- ❖ Sales of new multi-family properties in Hopatcong has been slow to moderate, but tax abatements are very important for new buyers.

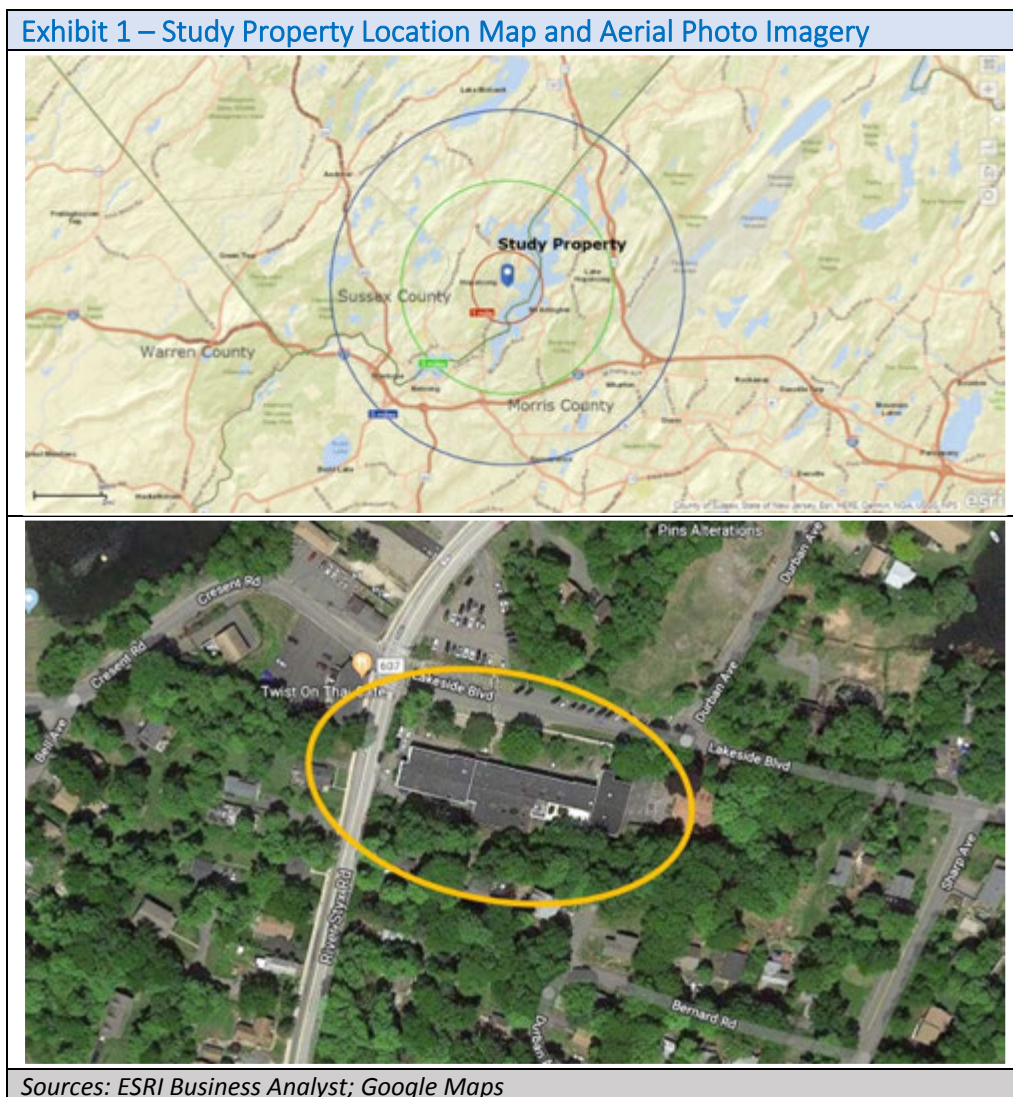


- ❖ Probable costs for demolition of the Hudson Maxim School on the Study Property probably exceeds the value of the land (preliminary estimate of \$250,000 to \$500,000, including likely asbestos abatement).
- ❖ The Hudson Maxim School building may have no value for rehabilitation.
- ❖ Current tax assessment of \$1.4 million as the value of the Study Property is unrealistic – probable value is closer to \$400,000.
- ❖ There is no vehicular access to the Study Property – the playground lot could probably park at least 50 cars if a new driveway could be carved out.
- ❖ Although not part of the Study Property, the parking area across the street should be included with the school acreage.
- ❖ Seniors housing could be a viable reuse possibility for the Study Property. Units of about 400 square feet are a desirable size for seniors living. A roof top patio with water views would be a very attractive amenity for the area.
- ❖ Expansion of sewer and septic services for Hopatcong are important for redevelopment of the River Styx area. Mt. Arlington has public utility.
- ❖ Funding for redevelopment of the Study Property could be available to qualified developers at market rates and 25% equity investment.
- ❖ Assisted living projects are highly desirable for the area.
- ❖ The most value for property development arises from being on the lake with direct water access.
- ❖ There is little business growth in the immediate area, with popular restaurants struggling or closing.
- ❖ Mixed-use residential projects cannot rely on ground floor retail for revenue.
- ❖ Projected condominium apartment sales may have to be converted to rental to support revenue pro forma expectations.
- ❖ Byram Township is the stronger submarket for condominium or rental activity.

## Task 3 – Market Analysis

### Location Attributes of The Study Property

The Study Property is located at the corner of Lakeside Boulevard and River Styx Road in the Borough of Hopatcong, Sussex County, New Jersey. The Borough of Hopatcong borders the western portion of Lake Hopatcong, the State's largest freshwater body. The lake forms the border between Sussex and Morris Counties in the NJ's northern highlands region. Refer to Exhibits 1 and 2 (below) for more detail.





Property – **FINAL REPORT**

Travel along Lakeside Boulevard via Main Road in Landing provides entry to Interstate 80 within eight minutes. As mentioned in the Task One Kick-off meeting, the highway network of I-80, NJ Routes 206, 10, 46, and 15 is within fifteen minutes travel time of the Study Property. This makes this location quite attractive to a wide audience who can appreciate the quiet tranquility of the lakeside environment while having the availability of convenient travel to the most dynamic offerings of the NY/NJ market.

In cataloging location attributes, we have selected seven categories of consumer-oriented services or activities that we feel have a “drive” for the area. They are as follows:

- Dining (7)
- Financial services (4)
- Healthcare Services (3)
- Lodging (8)
- Recreation (23)
- Shopping (14)
- Transportation Services (5)

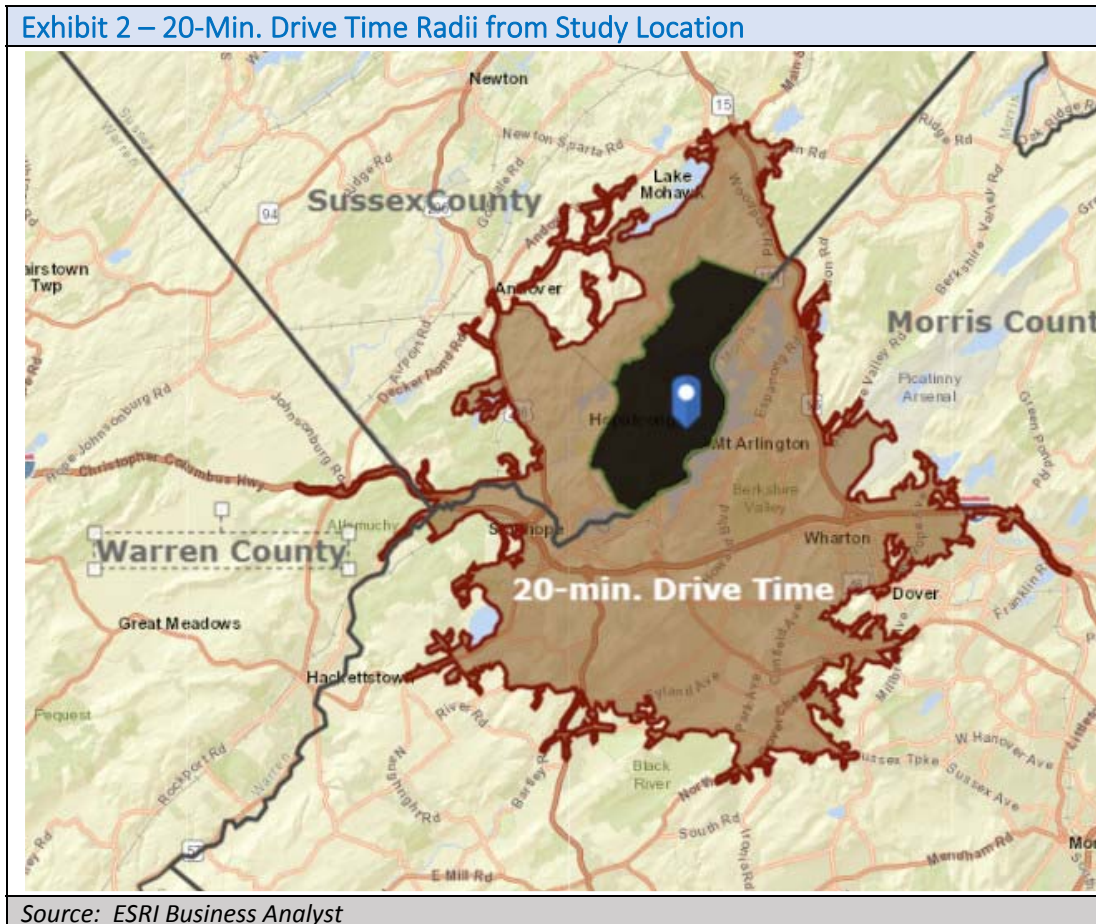
As shown below in Table 1, we identified 64 distinct attributes or locations of interest. Each of these have been mapped for travel time from the Subject Property and summarized as follows:

<b>Attribute type</b>	<b>Travel Time (mins.)</b>
Dining - Average travel time	11
Financial services - Average travel time	12
Healthcare Services - Average travel time	30
Lodging - Average travel time	15
Recreation - Average travel time	29
Shopping - Average travel time	21
Transportation Services - Average travel time	23
<b>Mean travel time (mins.)</b>	<b>20</b>

The US Census estimates that 37.4 minutes is the Borough of Hopatcong’s Median Travel Time to Work<sup>7</sup>. Utilizing this metric as an indicator of the relative mobility of the

<sup>7</sup> US Census – American FactFinder; Mean Travel Time To Work; Table DP03 - Selected Economic Characteristics 2013-2017 ACS 5 Year Estimates;  
[https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?\\_afpt=table](https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?_afpt=table)

population and reinforced by the Location Attributes analysis from above, we feel confident in establishing the Market Area of 20 minutes-drive time from the Study Property. The polygon denoting the 20-minute radius is shown in Exhibit 2 (Borough of Hopatcong is shown in dark shade). The Market Area will also be considered as synonymous with the Retail Trading Area (RTA).



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Table 1 - Study Property Location Attributes Ranked by Travel Time			
Attribute type	Name	Location	Travel Time (mins.)
<b>Dining</b>			
Dining	Pavinci Italian Grill	Hopatcong, NJ	4
Dining	The Lake House	Hopatcong, NJ	4
Dining	Patrick's Pub	Hopatcong, NJ	9
Dining	Pub 199	Mt. Arlington, NJ	11
Dining	Stone Water	Lake Hopatcong, NJ	15
Dining	Alice's Restaurant	Lake Hopatcong, NJ	16
Dining	The Windlass Restaurant	Lake Hopatcong, NJ	17
<b>Dining - Average travel time</b>			<b>11</b>
<b>Financial services</b>			
Financial services	Bank of America	Mt. Arlington, NJ	10
Financial services	Chase Bank	Ledgewood, NJ	12
Financial services	Santander Bank	Stanhope, NJ	13
Financial services	Wells Fargo Bank	Succasunna, NJ	13
<b>Financial services - Average travel time</b>			<b>12</b>
<b>Healthcare Services</b>			
Healthcare Services	St. Clare's Hospital	Denville, NJ	23
Healthcare Services	Morristown Medical Center	Morristown, NJ	29
Healthcare Services	St. Barnabas Medical Center	Livingston, NJ	37
<b>Healthcare Services - Average travel time</b>			<b>30</b>
<b>Lodging</b>			
Lodging	The Quality Inn	Ledgewood, NJ	11
Lodging	Courtyard by Marriott	Mt. Arlington, NJ	11
Lodging	Holiday Inn Express & Suites	Budd Lake, NJ	12
Lodging	Holiday Inn Express & Suites	Mt. Arlington, NJ	13
Lodging	Days Inn by Wyndham	Budd Lake, NJ	15
Lodging	Hilton Garden Inn	Rockaway, NJ	17
Lodging	Homewood Suites	Rockaway, NJ	18
Lodging	Townplace Suites by Marriott	Dover, NJ	19
<b>Lodging - Average travel time</b>			<b>15</b>
<b>Recreation</b>			
Recreation	Garden State Yacht Club	Hopatcong, NJ	4
Recreation	Hopatcong State Park	Landing, NJ	6
Recreation	Shore Hills Country Club	Landing, NJ	8
Recreation	Lake Hopatcong Yacht Club	Mt. Arlington, NJ	12
Recreation	Lake Hopatcong (Mini) Golf Club	Lake Hopatcong, NJ	17

Table 1 - Study Property Location Attributes Ranked by Travel Time – cont'd.			
Attribute type	Name	Location	Travel Time (mins.)
Recreation	Lake Hopatcong Cruises	Lake Hopatcong, NJ	17
Recreation	Lake Hopatcong Adventure Co.	Lake Hopatcong, NJ	17
Recreation	lake Forest Yacht Club	Jefferson, NJ min)	18
Recreation	Flanders Valley Golf Course	Flanders, NJ	20
Recreation	Lake Mohawk	Sparta, NJ	20
Recreation	Bowling Green Golf Club	Oak Ridge, NJ	28
Recreation	Berkshire Valley Golf Course	Oak Ridge, NJ	29
Recreation	Black Bear Golf Club	Franklin, NJ	33
Recreation	Ballyowen Golf Club	Hamburg, NJ	36
Recreation	Crystal Springs Resort and Golf	Hamburg, NJ	39
Recreation	Wild Turkey Golf	Hamburg, NJ	39
Recreation	Cascades Golf Club	Hamburg, NJ 1	41
Recreation	Minerals Golf Club	Vernon Twnshp., NJ	43
Recreation	Mountain Creek Ski Resort	Vernon Twnshp.	44
Recreation	Shawnee Mountain Ski Area	East Stroudsburg, PA	45
Recreation	Camelback Mountain Ski Resort	Tannersville, PA	52
Recreation	High Point Cross Country Ski Center	Sussex, NJ	53
Recreation	Mount Airy Casino Resort	Mt. Pocono, PA	56
<b>Recreation - Average travel time</b>			<b>29</b>
<b>Shopping</b>			
Shopping	Shop Rite of Netcong	Netcong, NJ	11
Shopping	Market Place at Roxbury	Roxbury, NJ	14
Shopping	Home Depot	Succasunna, NJ	14
Shopping	Shop Rite of Succasunna	Succasunna, NJ	15
Shopping	<u>Lowes</u>	Flanders, NJ	15
Shopping	Shop Rite of Byram	Byram, NJ	16
Shopping	Costco Warehouse	Wharton, NJ	17
Shopping	Rockaway Townsquare Mall	Rockaway, NJ	18
Shopping	Target	Rockaway, NJ	18
Shopping	Walmart	Rockaway, NJ	19
Shopping	Shop Rite of Wharton	Wharton, NJ	19
Shopping	Willowbrook Mall	Wayne, NJ	33
Shopping	The Mall at Short Hills	Short Hills, NJ	33
Shopping	The Crossings Premium Outlets	Tannersville, PA	53
<b>Shopping - Average travel time</b>			<b>21</b>

Table 1 - Study Property Location Attributes Ranked by Travel Time – cont'd.			
Attribute type	Name	Location	Travel Time (mins.)
<b>Transportation Services</b>			
Transportation Services	Hopatcong Train Station	Roxbury Twnshp., NJ	7
Transportation Services	Mt. Arlington Train Station	Roxbury Twnshp., NJ	11
Transportation Services	Lakeland Bus Lines	Dover, NJ	22
Transportation Services	Morristown Airport	Morristown, NJ	28
Transportation Services	Newark-Liberty International Airport	Newark, NJ	47
<b>Transportation Services - Average travel time</b>			<b>23</b>
<i>Source: Google Maps</i>			

## Market Demography

From reliable sources such as the US Census Bureau, the US Bureau of Labor Statistics, and ESRI (Environment Systems Research Institute), we have structured the following analysis along micro- and macro-economic lines of research.

A description of a Market Area is utilized as the micro-economic frame of reference. Against this, we have compared the State of New Jersey as macro-economic benchmarks to quantify the Market Area. The analysis covers the following general topics:

- Population Characteristics
- Income, Race, & Education
- Labor Force & Earnings
- Housing
- Consumer Spending

## Market Demography Key Findings

From the market demographics tables above, the following conclusions can be drawn about the Market Area in comparison to the State of New Jersey figures:

- Population growth is slower than the state.
- Median age is older.
- The percentage of working age persons is higher.

- The representation of senior-aged persons is higher.
- Household incomes are generally higher.
- Educational attainment by college graduates is higher.
- Industry employment in Manufacturing and Information sectors are above the state.
- White collar occupations are more prevalent.
- Earnings in all categories exceed the state.
- Owner-occupied housing is more prevalent than the state.
- Renter-occupied housing is under-represented.
- Average home prices are about 6% higher than the state.
- Average rental monthly prices are about 3% higher.
- Discretionary consumer spending exceeds the state in all categories.

The following detail are summary evaluation of data projections shown in Appendix Table 1.

## Population

Comparison of population demographics in Table 2 (below) that the Study Property Market Area is growing more slowly in the state in all categories.

Table 2 – Population Demographics		
Population demographics (2019)	20-minute Drive time Market Area	State of New Jersey
Population	127,571	9,127,159
Population by percent	1.4%	100.0%
Population Annual Growth Rate	0.1%	0.4%
Households	47,895	3,315,886
Households by percent	1.4%	100.0%
Households Growth Rate	0.1%	0.3%
Families by percent	33,883	2,292,245
Families	1.5%	100.0%
Families Growth Rate	0.1%	0.3%
Non-family Households	14,012	1,023,641
Non-family Households by percent	1.4%	100.0%
Non-family Households Growth Rate	0.1%	0.4%
Non-Family/Total Households Ratio	0.29	0.31
Source: ESRI Business Analyst - 2019		



Property – **FINAL REPORT****Age & Gender**

For age and gender characteristics, Table 3 (below) indicates the median age of the Market Area is considerably older than the state average. Growth rate among seniors is markedly faster than the state.

Table 3 – Age & Gender Demographics		
Age demographics (2019)	20-minute Drive time Market Area	State of New Jersey
< 18 by percent	20.9%	21.6%
25 to 44 by percent	25.5%	25.9%
45 to 64 by percent	30.1%	27.0%
65 + by percent	16.3%	17.0%
18 + by percent	79.1%	78.4%
Median Age	42.2	40.2
< 18 Annual Growth Rate	-0.9%	-0.5%
18 + Annual Growth Rate	0.4%	0.6%
65 + Annual Growth Rate	3.2%	2.7%
Male/ Female Ratio	0.97	0.99
Source: ESRI Business Analyst - 2019		

**Income**

On the topic of income demographics, Table 4 (below) shows that upper income brackets are more prevalent in the Market Area as compared to the state. The upper mid-income range of \$100,000-\$149,999 represents the largest segment of the population (23.3%), at slightly over 11,000 households. Median Household Income is about 22% higher and Per Capita Income is about 10% than New Jersey.

Table 4 – Income Demographics		
Income demographics (2019)	20-minute Drive time Market Area	State of New Jersey
Median Household income	\$100,495	\$82,332
Per Capita Income	\$46,700	\$42,437
< \$15,000	4.5%	8.2%
\$15,000 - \$24,999	3.8%	6.8%
\$25,000 - \$34,999	5.4%	6.7%

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\$35,000 - \$49,999	8.8%	9.3%
\$50,000 - \$74,999	13.8%	14.7%
\$75,000 - \$99,999	13.3%	12.4%
\$100,000 - \$149,999	23.3%	17.9%
\$150,000 - \$199,999	12.3%	10.0%
\$200,000 +	14.8%	14.0%
Average Household Income	\$124,759	\$116,543
Source: ESRI Business Analyst - 2019		

**Racial Diversity**

A somewhat lack of racial diversity is noted throughout the Market Area as indicated by Table 5 (below), with the White Alone segment dominating the other categories. English spoken at home, however, denotes a higher comprehension of English language skills.

Table 5 – Racial Demographics		
Race Demographics (2019)	20-minute Drive time Market Area	State of New Jersey
White Alone by percent	82.1%	64.8%
African American Alone by percent	3.8%	13.9%
American Indian Alone by percent	0.2%	0.3%
Asian Alone by percent	6.8%	10.1%
Pacific Islander Alone by percent	0.0%	0.0%
Some Other Race Alone by percent	4.3%	7.6%
Two or More Races by percent	2.8%	3.3%
Hispanic Origin by percent	18.6%	21.3%
English Spoken at Home by percent	77.6%	69.0%
Source: ESRI Business Analyst - 2019		

**Educational Attainment**

Table 6 (below) reveals the older nature of the Market Area compared to the state as well as the higher educational achievement levels of residents.



Table 6 – Educational Attainment		
Educational Demographics (2019)	20-minute Drive time Market Area	State of New Jersey
Age 25+ Population by percent	71.9%	69.9%
< High School by percent	2.6%	4.6%
High School or GED by percent	23.7%	24.5%
Some College, No Degree by percent	16.9%	16.1%
Associate Degree by percent	9.0%	6.8%
Bachelor's Degree by percent	27.1%	24.5%
Graduate/Professional Degree by percent	14.9%	16.0%
Source: ESRI Business Analyst - 2019		

### Industry Employment

Table 7 (below) shows the Market Area exceeds the state in the Construction, Manufacturing, Retail, and Information sectors. Some weakness is seen in Transportation/Utilities and FIRE industries sectors.

Table 7 – Industry Employment		
Industry Employment (2019)	20-minute Drive time Market Area	State of New Jersey
Agriculture/Mining by percent	0.3%	0.3%
Construction by percent	6.5%	5.8%
Manufacturing by percent	10.7%	8.1%
Wholesale Trade by percent	3.0%	3.4%
Retail Trade by percent	11.0%	10.4%
Transportation/Utilities by percent	4.7%	6.3%
Information by percent	3.5%	2.9%
Finance/Insurance/Real Estate (FIRE) by percent	7.4%	8.3%
Services by percent	48.3%	49.8%
Public Administration by percent	4.6%	4.7%
Source: ESRI Business Analyst - 2019		

Property – **FINAL REPORT****Occupational Employment**

The labor picture in Table 8 (below) indicates that the Market Area has active labor participation patterns, with more white-collar occupation's representation than the state.

Table 8 – Occupational Employment		
Occupational Employment (2019)	20-minute Drive time Market Area	State of New Jersey
Employed Age 16+ Population by percent	54.4%	50.5%
Mngmt., business, science, and arts occupations by percent	44.0%	41.7%
Service occupations by percent	15.4%	16.8%
Sales and office occupations by percent	24.3%	24.1%
Natural resources, construction, and maintenance occupations by percent	7.1%	7.0%
Production, transportation, and material moving occupations by percent	9.2%	10.4%
Labor Participation Rate by percent	66.7%	63.8%
Source: ESRI Business Analyst - 2019		

**Occupational Earnings**

Table 9 (below) reveals that occupational earnings within the Market Area are higher than state figures in all categories.

Table 9 – Occupational Earnings		
Occupational Earnings (2019)	20-minute Drive time Market Area	State of New Jersey
Civilian employed population 16 years and over	\$24.82	\$22.49
Mngmt., business, science, and arts occupations	\$37.17	\$36.26
Service occupations	\$12.50	\$11.11
Sales and office occupations	\$19.25	\$18.26
Natural resources, construction, and maintenance occupations by percent	\$23.77	\$22.90
Production, transportation, and material moving occupations by percent	\$20.76	\$15.78
Source: US Census Bureau – American Factfinder 2017; DCG Corplan (projections)		

## Housing

Table 10 (below) indicates home ownership is significantly higher in the Market Area compared to the state, with higher overall value figures. Rental housing is considerably less prevalent in the region and may represent an opportunity for market development.

Table 10 – Housing Demographics		
Housing Demographics (2019)	20-minute Drive time Market Area	State of New Jersey
Owner Occupied Units by percent	70.6%	56.7%
Renter Occupied Units by percent	24.0%	33.4%
Vacant Units by percent	5.4%	9.9%
Renter/Owner Ratio	0.34	0.59
Average Monthly Rent (est.)	\$1,415	\$1,377
Average Home value	\$374,376	\$422,410
Median Home value	\$328,737	\$347,294
Source: ESRI Business Analyst - 2019		

## Consumer Spending

In Table 11 (below), discretionary consumer spending indicates the more general affluent patterns occurring in the Market Area.

Table 11 – Consumer Spending		
Consumer Spending (2019)	20-minute Drive time Market Area	State of New Jersey
Apparel & Services	\$2,964	\$2,830
Entertainment / Recreation	\$4,553	\$4,252
Food at Home	\$6,929	\$6,670
Food Away from Home	\$5,011	\$4,766
HH Furnishings & Equip.	\$7,914	\$2,739
Personal Care Prod. & Service	\$1,215	\$1,142
Subtotal Discretionary Spending	\$28,586	\$22,399
Source: ESRI Business Analyst - 2019		

## Market Segmentation of Demand by Category

In realistically approaching the estimate of the Market Area for the Study Property, we have generated a 20-minute drivetime distance polygon that identifies consumer or worker capture (Exhibit 2). Additionally, from evaluation of the River Styx Road Form-Based Code Overlay as well as business interviews results, a list of possible uses has emerged as the study parameters. At this early stage, we anticipate the list to resemble the following (but maybe subject to revisions):

- Entertainment/Sports/Recreation Demand
- Housing Demand
- Lodging Demand
- Office Demand
- Restaurant/Bar Demand
- Retail Demand

### Entertainment/Sports/Recreation Demand

Table 12 (below) summarizes assumptions of average sales per seat/event used in conjunction with space use per person to arrive at square footage estimates. Sports and Leisure demand is forecasted to occupy about **86,000 sf** in the Market Area.

Table 12 – Entertainment/Sports/Recreation Space Demand in the Market Area		
Sports/Leisure Category	Potential E/S R Spending '000s	Demand for SF
Theatres/Operas/Concerts	\$6,600	8,100
Movies/Museums/Parks	\$6,930	15,500
Sporting Events, excl. Trips	\$4,930	10,500
Participant Sports, excl. Trips	\$8,280	4,700
Recreational Lessons/Rehearsal	\$12,420	14,000
Social/Recreational/Civic Clubs	\$19,990	33,300
<b>Potential new Entertainment sports/Recreation space demand for CMG MA</b>		<b>86,100</b>
Source: ESRI Business Analyst 2019; DCG Corplan		

## Housing Demand

As shown in Table 2 earlier, the household formation rate in the Market Area is considerably slower than the State of NJ (.01% compared to .03%), and this is echoed by family growth rate (.01% vs .03%) and non-family household growth rates (.01% vs .04%).

Five-year forecasts of population, income growth, and projected need for housing units for 2019-2024 by ESRI in the Market Area is summarized in Table 13 (below). In five years, there is a projected net growth in demand of **884** housing units, which consists of **726** owner occupied units, a decrease of **446** rental units, and an increase of **584** vacant units (Note: net growth evolves from summary of positive and negative growth patterns by age cohorts). This mixed view of housing demand growth reflects the slow growth of population in the 20-minute Market Area. Demand for waterfront luxury units can be qualified somewhat by above average representation of high earning households in the Market Area (refer to Table 4), but more than likely, results in part from out-of-area purchasers.

Table 13 – Housing Growth Projections for the Market Area	
	20-minute Market Area
5-year trends	
Population projected growth	0.7%
Household projected growth	0.5%
Median Age Change (older)	1.7%
Per Capita Income projected growth	13.5%
Average household income projected growth	8.2%
Owner occupied housing projected growth rate	2.1%
Owner occupied housing projected growth	726 units
Renter occupied housing projected growth rate	-3.2%
Renter occupied housing projected growth	-446 units
Vacant housing units projected growth rate	16.2%
Vacant housing units projected growth	584 units
Source: ESRI Business Analyst – 2019; DCG Corplan	

For the Study Property, its near-water location (water view of the River Styx) would indicate a moderate upscale-level of housing demand. As shown earlier in Table 4, the \$100,000 to \$149,000 income level is the most prevalent of all income categories (23%) and is also 30% higher than the State of NJ average for this grouping. Average household

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income for the Market Area is **\$124,759** which also exceeds the state figure by about 7 percent.

The Average home value as shown in Table 9 is \$374,376. Using real estate industry standards of a debt-to-income ratio of 36.0<sup>8</sup>, a household income of \$124,800 should qualify for a home purchase of approximately **\$415,600** at the current interest rate. Although rental estimates project a decline in demand, we feel that the rental category is under-represented in the Market Area.

There is a rise in vacant units noted (584 units), giving light to the fact that unsold owner-occupied units would enter the rental market. Accordingly, a net 138 units (584-446) could be a reasonable estimate of the potential need for rental units.

Table 9 indicates that the average rent for an apartment in the Market Area is **\$1,415** per month. Using the 40-to-1 ratio of income to rent<sup>9</sup> (industry standard), this figure, for most landlords, would require an annual income of **\$56,600** to qualify for an apartment rental.

### Seniors

Since the age demographics for the Market Area reveals a more dominant growth in the Seniors (age 65+) category, a review of household income in this age group is necessary. In Table 14 (below), age 65+ household income analysis reveals that the **\$50,000 - \$74,999** is the most prevalent category of household income.

Table 14 – Senior's Household Income Analysis			
Households by Income - 2019 - Seniors	Age 65 - 74	Age 75+	Age 65+ (summary)
Total Households	7,385	5,026	12,411
< \$15,000	5.4%	12.2%	8.2%
\$15,000 - \$24,999	5.3%	10.7%	7.5%
\$25,000 - \$34,999	6.3%	13.1%	9.1%
\$35,000 - \$49,999	9.7%	20.8%	14.2%
<b>\$50,000 - \$74,999</b>	<b>20.0%</b>	<b>21.5%</b>	<b>20.6%</b>
\$75,000 - \$99,999	17.0%	5.9%	12.5%
\$100,000 - \$149,999	18.7%	9.3%	14.9%
\$150,000 - \$199,999	7.3%	2.4%	5.3%
\$200,000 +	10.3%	4.1%	7.8%

<sup>8</sup> Zillow Affordability Calculator; <https://www.zillow.com/mortgage-calculator/house-affordability/>

<sup>9</sup> <https://www.nakedapartments.com/blog/rent-to-income/>



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Average Household Income	\$104,088	\$63,831	\$87,785
Source: ESRI Business Analyst – 2019; DCG Corplan			

ESRI projects a 16.8% increase for persons 65+ in the Market Area, which equals a gain of **3,496** seniors in the next five years (there is a corresponding loss of 2% across all other age cohorts, resulting in a total five-year gain of only 950 persons). This gain in seniors is more likely a shift in age in the Market Area and does not indicate a wholesale in-migration of senior-aged persons. Older folks have different housing needs such as assisted living, thereby creating a demand for a specific housing type. Assuming perhaps only about 25% of seniors would need new housing facilities, and with an estimated household size of 2.0 persons for 50+ household age, this equals a possible demand for **437** senior housing units by 2024.

At the \$50,000-\$74,999 household income figure (\$62,500 avg.), we feel confident that a **\$1,560** figure would be suitable for a seniors' market rate for a rental apartment. For owner occupied units, the \$62,500 income would qualify for a **\$236,000** house purchase. This is below the average housing value for the Market Area but could qualify for a condominium apartment.

Assisted Living

Care for seniors with minor medical or lifestyle challenges or memory problems usually requires an assisted living facility. A nearby assisted living facility in Mt. Arlington provides some important market information. Mt. Arlington Senior Living<sup>10</sup> offers a total of 120 units arranged as studio (275 sf) and 1-bedroom units (475 sf) at the rates of \$3,830/mnth. and \$4,750/mnth., respectively. Amenities include assistance with daily living, personal care, transportation, and medical reminders. For Alzheimer's/Dementia, a Montessori-based program helps with memory care. Respite and short-stay accommodations for traveling families is also available.

Other nearby assisted living facilities include Merry Heart Assisted Living – Succasunna (100 units), Brightview Randolph Assisted Living – Randolph (75 units), and Sunrise Assisted Living - Randolph (100 units).

<sup>10</sup> <https://www.fivestarseniorliving.com/communities/nj/mt-arlington/mt-arlington-senior-living>

### Lodging Demand

As illustrated in the Table 1 (above) in the Location Attributes portion of this section, eight hotel properties emerge in the 20-minute Market Area. Shown in Table 15 (below), there are 858 hotel rooms in the sample, and 11,105 square feet of meeting space.

Weighted average (mean) produces some acceptable market figures. Since the study's scope cannot accommodate a complete lodging market analysis, the analysis below will suffice to arrive at a satisfactory conclusion. The model of a nominal 100-room hotel with 1,800 sf of conference space would appear to be tenable as a demand model for the Market Area.

Table 15 - Lodging Space Demand in the Market Area					
Property	Location	# of Rooms	Avg. Price	Rating	Meeting Space SF
Holiday Inn Express & Suites	Mt. Arlington	76	\$127	4.5	600
Courtyard by Marriott	Mt. Arlington	125	\$106	4.0	1,750
The Quality Inn	Ledgewood	100	\$90	3.5	0
Townplace Suites by Marriott	Dover	102	\$125	4.0	0
Homewood Suites	Rockaway	108	\$130	4.5	1,215
Hilton Garden Inn	Rockaway	162	\$140	4.0	3,600
Days Inn by Wyndham	Budd Lake	44	\$71	3.5	340
Holiday Inn	Budd Lake	141	\$122	3.5	3,600
<b>Total Number of Rooms</b>		<b>858</b>			
<b>Average Number of Rooms</b>		<b>107</b>			
<b>Weighted Average Room Price</b>			<b>\$118</b>		
<b>Total Amount of Meeting Space SF</b>					<b>11,105</b>
<b>Weighted Average Meeting Space SF</b>					<b>1,851</b>
<i>Sources: Google Maps; Reservations.com; Expedia.com; HotelPlanner.com</i>					

### Office Demand

Determination of office space demand is based on the anticipated growth of white-collar jobs requiring general office space in the near term. The projections by the State of New

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Jersey indicate a 3% growth in office employment in the next six years and a projected need for an additional **62,000 sf** of office space as shown in Table 16 (below).

Table 16 - Office Space Demand in the Market Area			
Industry	# of Empl.	Annual Growth Rate	Yr. 2026 Gain
Information	1,145	-0.5%	-40
Finance & Insurance	1,013	0.3%	23
Real Estate, Rental & Leasing	1,521	0.2%	20
Professional, Scientific & Tech Services	3,397	0.9%	231
Management of Companies & Enterprises	40	1.7%	5
Administrative & Support Services	1,767	1.0%	129
Public Administration	1,731	-0.5%	-58
<b>Total</b>			<b>310</b>
<b>Potential new Office Space Demand in the MA (based on 200 sf per person)</b>			<b>62,000</b>
<i>Source: US Census, American Factfinder; DCG Corplan</i>			

**Restaurant/Bar Demand**

Table 17 (below) summarizes the analysis and forecasts the opportunity for just over **19,000 sf** of restaurant/bar space in the Market Area. In total, over \$11 million is in restaurant/bar spending (leakage) is lost to establishments outside of the 20-minute market area.

Table 17 - Restaurant/Bar Space Demand in Market Area			
Sector	Potential Sales (Leakage)	Avg. Sales per SF	Demand for Add'l. Space SF
Restaurants/Other Eating Places	\$8,136,900	\$671	12,130
Drinking Places - Alcoholic Beverages	\$3,292,100	\$464	7,100
<b>Potential new restaurant/bar space demand for MA</b>			<b>19,230</b>
<i>Source: ESRI Restaurant Market Potential 2019; Dollar &amp; Cents of Shopping Centers; DCG Corplan</i>			

**Retail Demand**

Retail square footage estimates are based on market estimates in the Northeast US region of average sales per square foot in each category. Demand for new retail space in the 20-minute Market Area is approximately **245,000 sf**. The three highlighted categories in Table

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18 (below) may have suitability to the Study Property as spending in boating, recreational clothing/gear, and fitness have broad appeal in destination locations such as the Lake Hopatcong area.

Table 18 – Retail Space Demand in Market Area			
Sector	Potential Sales (Leakage)	Avg. Sales per SF	Demand for Add'l. Space SF
Automobile Dealers	\$47,727,917	\$576	82,877
Health & Personal Care Stores	\$27,489,321	\$639	43,044
Auto Parts, Accessories & Tire Stores	\$14,893,987	\$576	25,862
Home Furnishings Stores	\$9,617,597	\$312	30,799
Bldg. Material & Supplies Dealers	\$9,558,987	\$444	21,515
Other Miscellaneous Store Retailers	\$6,654,185	\$823	8,084
Shoe Stores	\$4,222,087	\$287	14,718
Specialty Food Stores	\$2,743,677	\$614	4,472
Other Motor Vehicle Dealers	\$2,316,483	\$576	4,022
Florists	\$2,157,607	\$394	5,480
Jewelry, Luggage & Leather Goods Stores	\$663,836	\$452	1,470
Lawn & Garden Equip & Supply Stores	\$617,120	\$417	1,481
Book, Periodical & Music Stores	\$586,321	\$366	1,601
<b>Potential new retail space demand for MA</b>			<b>245,427</b>
Source: ESRI Retail Market Potential 2019; Dollar & Cents of Shopping Centers; DCG Corplan			

## Absorption Characteristics by Category

In the preceding section, an estimate of total demand by use within the 20-minute drivetime radius of the Study Property was developed. In this section, we have predicted the possible capture of that demand by the Study Property. For each identified use, an estimate of the absorption by square foot has been prepared. We have provided an inventory of local competitive supply (aerial surveys, drive-inspections, and research into comparable listings). Each of the following 11 development scenario details the profitability expectations for a developer when the project is sold after reaching stabilized occupancy (if applicable), plus an estimate of the annual property taxes the Borough of Hopatcong could anticipate.

## Key Findings

The 11 development scenarios are summarized as follows. Two key projects emerge as worthy of further consideration: **Lakeside Senior Living**, a 48-unit rental apartment project for persons aged 65+; and, **Mariners Centre**, a 59,000 sf mix of tourism-based businesses.

Summary of Development Scenarios				
Type	Absorption Size sf	Developer's Profit Margin	Est. Property Tax	Sale Price for Study Property
Museum/Cultural Use (1)	10,000	0% (N/A)	\$0	\$0
Raw Land Development	N/A	0% (N/A)	\$0	\$0
Build-Out of Single-Family Homes	N/A	0% (N/A)	\$0	\$0
Condos and Townhomes (3)	80,200	0% (N/A)	\$0	\$0
Multi-Family Rental Apartments (2)	42,000	20.3%	\$225,800	\$400,000
<b>Lakeside Senior Living</b> (rental apartments)	47,000	28.6%	<b>\$244,800</b>	\$400,000
Boutique Hotel (2)	23,400	20.7%	\$186,000	\$400,000
Office Scenario (1)	10,400	0% (N/A)	\$0	\$0
Office/Restaurant Bar (1)	1,900	0% (N/A)	\$0	\$0
Retail (1)	13,800	0% (N/A)	\$0	\$0
<b>Mariners Centre</b> (mixed use)	59,500	24.4%	<b>\$417,300</b>	<b>\$640,000</b>

Notes:

(1) Use is promising in combination with complementary use; cannot carry site purchase alone.

(2) Rates require 10% increase over market rates to make profitability objective – acceptable outcome.



(3) Prices require 50% increase over market rates to make profitability objective – not recommended.

Of the above project scenarios, two have been highlighted due to their unique suitability to the Study Property. In brief, here are the summaries of project information:

### **Lakeside Senior Living**

Conversion of the existing two-story Hudson Maxim school building into a 48-unit seniors' housing project. Average unit size is 700 sf, renting for \$1,560 per month, plus an allowance for managed services. Total buildout of 47,000 sf will require about 3,000 sf to be built in third and fourth story. Part of the existing roof to be converted to outdoor balcony overlooking Lake Hopatcong. Parking for 72 cars accommodated by construction of a new driveway ramp from Lakeside Boulevard, the repaving of this existing playground (43 cars), and a new parking area (29 cars) installed in front of the existing school building. Total project cost of **\$4.399 million**, with value at stabilized occupancy of **\$8.725 million**. For the developer, a positive outcome can be expected, producing a profit margin of **28.6%** or **1.98** multiple of invested equity. For the Borough, a sales price of **\$400,000** of the Study Property should produce a property tax revenue of **\$244,800** per year starting in year five.

### **Mariners Centre**

Conversion and addition to existing building into a mixed-use tourism business-oriented development that will serve as a catalyst for further investment in the area. The facility features an exhibition space with movie theater, 50-room boutique hotel, loft-style creative office space, 95-seat rooftop restaurant with outdoor balcony, and targeted retail space for outfitting, boating, and recreational products. Parking for 247 spaces will require construction of a 4-story parking garage plus paving of front yard area. Total project cost of **\$9.099 million**, with value at stabilized occupancy of **\$16.893 million**. For the developer, a positive outcome can be expected, producing a profit margin of **27.4%** or **1.96** multiple of invested equity. For the Borough, a sales price of **\$640,000** of the Study Property should produce a property tax revenue of **\$417,300** per year starting in year five.

## Entertainment/Sports/Recreation Scenarios

In the preceding section, an estimate of 86,100 sf of entertainment, sports, and recreation space was generated for the 20-minute Market Area (see Table 12). Capture by the Study Property would be dependent on accessibility to the site by both the local audience and passer-by motorists enjoying the views to Lake Hopatcong. Given that Lakeside Boulevard is not a heavily used roadway (River Styx Road is the local truck route), it is questionable that a major entertainment or sports use for the site has feasibility due to the following:

- The residential nature of the area (R-1 zoning) would restrict loud or intrusive entertainment uses of the property
- Lack of on-site parking
- Lack of visibility from approach distances
- Need for electronic signage and lighting not in keeping with the neighborhood

## Museum/Cultural Use Scenario

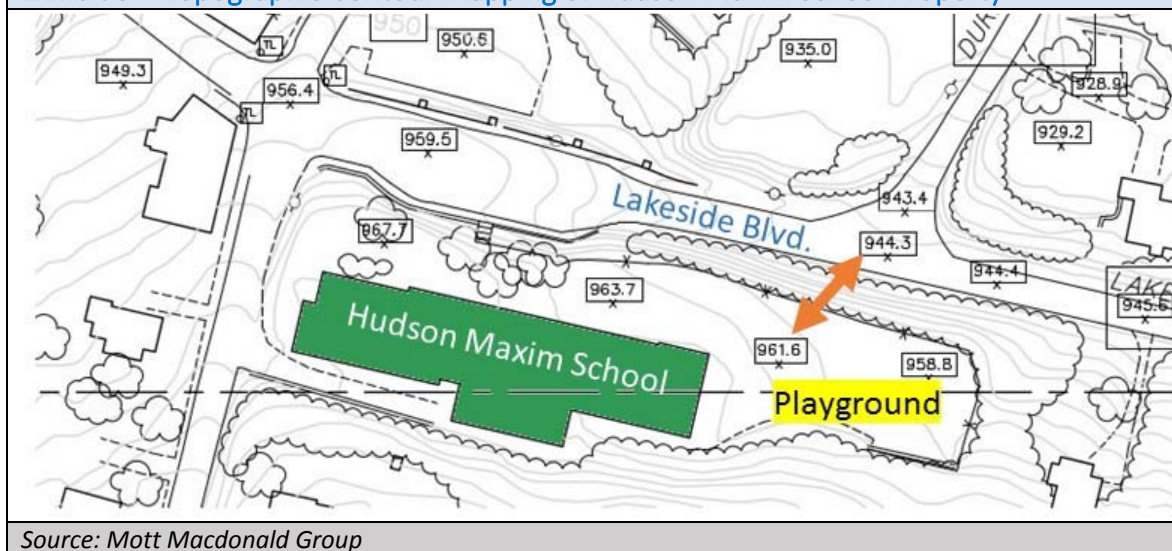
A cultural re-use or conversion of the Hudson Maxim School building might have appeal for museum or exhibition space. The Lake Hopatcong Historical Museum may have occasional need for larger venue space which could be supported at this location, as well as other cultural or educational institutions in the area. Larger indoor exhibits such as sailboats, ferry boats, rowing shells, canoes, and other watercraft that have historical importance to Lake Hopatcong could be housed in the converted school, especially if two-story exhibit spaces can be created within the structure (5,000 sf). Local artists exhibition may have some draw if properly marketed.

The existing 2-story gymnasium may be adaptable as such an exhibit space, although only about 3,800 sf in area. Space for a gathering of at least 100 persons should be allocated. A movie theater of perhaps 50 seats for educational use (possibly IMAX theater) could also have value for the project. Common area for storage, circulation, lobby, and restrooms would require about 30% additional space.

In total, we foresee a possible absorption of about **10,000 sf** of cultural space demand for the Study Property. Parking for 80 cars (1.25 persons per parking car = 100 persons), however, is problematic as there is no on-site parking available. The playground area to the east of the existing school building measures approximately 15,000 sf (150 ft x 100 ft

as per Google Earth measurements) which could support up to 43 parking spaces at the industry standard rate of 350 sf per parking space (28,000 sf). Since there is no driveway to this area, a new curb cut and drive ramp would be necessary from Lakewood Boulevard. In consideration of the excavation necessary to facilitate the new driveway, it may be more feasible to build a two-story parking deck with double the parking capacity and with grade access directly from the street. Topographic analysis reveals a nearly 20 ft difference in elevation between the existing playground level and the Lakeside Boulevard pavement (see Exhibit 2 below).

**Exhibit 3 – Topographic Contour Mapping of Hudson Maxim School Property**



For a nominal 80-car parking garage, the estimate of \$44.30<sup>11</sup> per sf or \$1.240 million would be required to meet minimum parking needs. Rehabilitation costs for new HVAC equipment, windows, upgraded electrical systems, and interior finishes needed to bring the museum portion of the building to the barest minimum level of service for an art gallery/museum space is likely to be at about \$50 psf, or \$500,000. Add to this the parking garage costs, the estimate of \$400,000 for the Study Property acquisition, soft costs and financing fees (40% allowance) and the final total would be **\$2.837 million**.

With the algae-bloom issues on Lake Hopatcong still a concern, an emphasis on fresh-water ecological systems could be a unique focus for periodic exhibits at the facility. Attraction of an environmental laboratory or resource engineering group to occupy non-

<sup>11</sup> Building Journal Commercial Costs Calculator; Parking garage estimate – Northern NJ;  
<https://www.buildingjournal.com/construction-estimating.html>

exhibition space within the facility might be an important consideration for long-term viability of the investment.

The development costs of \$2.837 million break down as follows:

Costs	Size sf	\$/sf	Total
Museum	10,000	\$50.00	\$500,000
Garage	28,000	\$44.30	\$1,240,400
Hard Costs			\$1,740,400
Soft Costs		40%	\$696,200
Land acquisition			\$400,000
<b>Total Development Costs</b>			<b>\$2,836,600</b>

Projected revenue for the facility to a developer would be based on a museum operator's annual space rent, parking garage, rent plus a premium on food catering premium fees totaling **\$299,000**, as shown below:

Revenue	Size sf	\$/sf	Total
Space Rental	10,000	\$25.00	\$250,000
Parking			\$24,000
Food service premium		\$2.50	\$50,000
<b>Annual Total Revenue</b>			<b>\$299,000</b>

Annual finance carry costs for the development of **\$273,000** are shown below. The mortgage term would be 25 years, but equity payback is scheduled for ten years:

Financing	Items
75% loan	\$2,127,500
25% equity	\$709,100
Finance Rate	6.5%
Finance carry	25 yrs. \$174,400
Equity Carry	10 yrs. \$98,600
<b>Annual carry costs</b>	<b>\$273,000</b>

For the developer, gross profit on the investment would only be **\$26,000** or only 9% margin, which would not prove to be an incentive for the project.

For the museum operator, the picture is not much better. Assuming an operation schedule of 120 days per year for 100 persons per day, total revenue is estimated at **\$552,000** as shown in the following:

Revenue	\$ price	Days	Total
Museum tickets	\$10.00	120	\$120,000
Movie tickets	\$12.00	120	\$72,000
Food services	\$15.00	120	\$180,000
Museum store purchases	\$15.00	120	\$180,000
<b>Total Annual Revenue</b>			<b>\$552,000</b>

Museum operating expenses of **\$569,000** are shown below:

Operating Expense	Total
Rent	\$299,000
Utilities	\$35,000
Marketing	\$50,000
Food catering	\$75,000
Museum store inventory	\$50,000
Janitorial, Misc. expenses	\$10,000
Personnel	\$50,000
<b>Total annual operating costs</b>	<b>\$569,000</b>

Thus, the museum would be operating at a deficit of a loss of **\$17,000** per year. For institutional facilities, operating profit is not necessarily the most important factor, as social responsibility may play a much more important function. Federal and state grants are often available as stopgaps against operating losses. However, the developer would have to incorporate as a non-profit entity and the entire property would be off the Borough's tax role.

Given that the Hudson Maxim School building is approximately 44,000 sf in total area, an absorption of only 25% of the available space makes the use application problematic. Unless a qualified non-profit entity could be enticed to consider the Study Property, we do not see that the Cultural use scenario has much validity for the Borough without other ancillary uses to fill the remainder of the building and generate real estate property tax revenue for the community.

## Housing Scenarios

### Raw Land Development Scenario

Although currently built out, if the Study property structure were razed and the land conveyed by subdivision back to the residential market, its value for home building would be important. With the Study Property at 2.20 acres in size, examination of comparable properties within the Market Area should give us an estimate of land valuation.

A review of 20 listings of available land parcels is shown below in Table 19. These properties have been selected from the Zillow<sup>12</sup> database within the Market Area. Selection criteria excluded lots below 1.0 acre and 10.0 acres or more in size. By weighted averaging, the typical price for buildable land is estimated at **\$45,200** per acre.

Table 19 – Building Lots for Sale in the Market Area			
Town	Size (acres)	Price	\$/acre
Andover	5.01	\$40,000	\$8,000
Budd Lake	1.87	\$47,900	\$25,600
Byram	7.52	\$69,000	\$9,200
Byram	2.95	\$165,000	\$55,900
Byram	2.02	\$60,000	\$29,700
Byram	1.80	\$40,000	\$22,200
Jefferson	1.36	\$62,500	\$46,000
Jefferson	4.74	\$390,000	\$82,300
Jefferson	1.43	\$199,000	\$139,200
Lake Hopatcong	1.60	\$74,900	\$46,800
Lake Hopatcong	1.23	\$70,000	\$56,900
Mine Hill	3.30	\$159,000	\$48,200
Mt. Olive	5.68	\$225,000	\$39,600
Rockaway	1.00	\$29,000	\$29,000
Sparta	1.52	\$75,000	\$49,300
Sparta	1.24	\$99,900	\$80,600
Sparta	3.60	\$120,000	\$33,300
Stanhope	1.74	\$125,000	\$71,800
Stanhope	1.38	\$27,999	\$20,300
Succasunna	1.14	\$274,900	\$241,100
<b>Weighted Average</b>	<b>52.13</b>	<b>\$2,354,099</b>	<b>\$45,200</b>
Source: <a href="http://www.Zillow.com">www.Zillow.com</a>			

<sup>12</sup> Zillow.com – a leading real estate listing service founded in 2006.



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Sale of “clean” property to a residential developer would bring, therefore, approximately, **\$99,400** of value to the Borough. However, the estimated cost of demolition and site cleaning (\$250,000 to \$500,000 – see Task 2) would negate any possible profits by a land developer.

The Study Property is in the R-1 zone which allows subdivision of lots as small as 15,000 sf (0.34 acres). At 2.2 acres in size, the maximum allowable single-family lot subdivision of the Study Property would provide six buildable lots (2.2 x 43,560 sf/acre divided by 15,000 sf per lot = 6 buildable lots). Even if the lots could be sold for a premium of as much the \$45,200 price each, the gross revenue would equal \$288,800 to the developer, to which the land purchase price of \$99,400 plus the lower range demolition estimate of \$250,000 would be added.

Total revenue projection would be loss of over \$60,000 making this land sale scenario untenable. Direct sale of the Study Property “as is” to the developer at the suggested \$400,000 (see Task 2) plus the required \$250,000 in demolition makes the situation even worse.

### Build-Out of Single-Family Homes Scenario

In this next scenario, the developer elects to build “spec” homes on the Study Property for sale. Based on the 15 representative properties in Table 20 (below), the expected sales price averages **\$467,000** (\$204.4 psf) for a **2,080 sf** home.

Table 20 – New Construction Homes for Sale in the Market Area			
Town	Size (sf)	Price	\$/sf
Andover	2,118	\$299,900	\$141.6
Flanders	1,827	\$543,995	\$297.8
Flanders	2,733	\$599,900	\$219.5
Flanders	3,436	\$639,900	\$186.2
Flanders	2,497	\$661,584	\$265.0
Flanders	4,103	\$679,900	\$165.7
Hopatcong	1,056	\$249,900	\$236.6
Hopatcong	2,080	\$350,000	\$168.3
Lake Hopatcong	2,410	\$479,900	\$199.1
Landing	1,960	\$324,900	\$165.8
Mine Hill	2,100	\$425,000	\$202.4
Mt. Olive	1,545	\$379,900	\$245.9
Netcong	1,992	\$374,900	\$188.2

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Rockaway	2,406	\$599,900	\$249.3
Stanhope	2,000	\$395,000	\$197.5
<b>Weighted Average</b>	<b>2,280</b>	<b>\$467,000</b>	<b>\$204.4</b>
<i>Source: www.Zillow.com</i>			

The National Association of Home Builders (NAHB) estimated that in 2017, the mean industry gross profit margin for new home construction was 19 percent<sup>13</sup>. Using this metric, the maximum costs per square foot for new homes on the Study Property would be \$378,300 per home (\$165.6 psf). For the six allowable lots to be subdivided on the Study Property, a maximum spend for construction would equal \$2.269 million. Total sales revenue for the six properties would equal **\$2.270 million**. A 19% gross profit of \$532,400 would be derived before land costs and site demolition/cleanup. Using the \$99,400 land purchase cost and \$250,000 demolition estimates from above, the developer could only realize a net profit of \$189,300, or about an **8%** profit which would likely prove unattractive to a prospective investor. In the direct “as-is” sale of the Study Property at \$400,000 plus the \$250,000 demolition costs, profitability would be negative.

### Condos and Townhomes Scenario

For condominiums development, the owner-occupied unit demand of 726 housing units shown in Table 13 will be considered. For the Study Property, we can project a 5%-10% absorption possibility for the Study Property given its water view location and proximity to recreation amenities. This could mean a potential 36 to 73 condominium units, or an average of **54** units projected for the site.

Since the Study Property is only 2.2 acres in size, the development of townhomes with their associated land use characteristics of semi-detached structures, driveways, and garages limits the potential for unit development. Apartment-style condominiums are, however, an acceptable choice for this type of multi-family use.

Table 21 (below) lists 35 currently available condominium units within the Market Area. The average size for these units is **1,290 sf**, selling for an average **\$271,400** or **\$206.6 psf**.

<sup>13</sup> NAHB 2017 Gross Margin – How Does Your Business Measure Up?; <http://nahbnow.com/2019/04/how-does-your-business-measure-up-2/>

## Property – FINAL REPORT

Table 21 – Condos and Townhomes for Sale in the Market Area			
Location	Size sf	Price	Price psf
Budd Lake	1,960	\$389,900	\$198.9
Hopatcong	480	\$74,900	\$156.0
Hopatcong	490	\$90,000	\$183.7
Jefferson	750	\$118,000	\$157.3
Lake Hopatcong	794	\$118,000	\$148.6
Ledgewood	1,213	\$198,000	\$163.2
Mt. Arlington	960	\$199,900	\$208.2
Mt. Arlington	1,092	\$208,000	\$190.5
Mt. Arlington	1,092	\$208,000	\$190.5
Mt. Arlington	1,102	\$184,999	\$167.9
Mt. Arlington	1,463	\$324,900	\$222.1
Mt. Arlington	1,479	\$325,000	\$219.7
Mt. Arlington	1,479	\$334,900	\$226.4
Mt. Arlington	1,518	\$300,000	\$197.6
Mt. Arlington	1,638	\$295,000	\$180.1
Mt. Arlington	1,682	\$300,000	\$178.4
Mt. Arlington	1,728	\$425,000	\$245.9
Mt. Arlington	1,840	\$335,000	\$182.1
Randolph	1,056	\$325,000	\$307.8
Randolph	1,770	\$369,000	\$208.5
Randolph	1,930	\$524,900	\$272.0
Rockaway	820	\$209,000	\$254.9
Rockaway	915	\$229,000	\$250.3
Rockaway	915	\$229,000	\$250.3
Rockaway	1,369	\$299,900	\$219.1
Rockaway	1,369	\$329,900	\$241.0
Rockaway	1,626	\$374,999	\$230.6
Stanhope	900	\$135,900	\$151.0
Stanhope	1,152	\$155,000	\$134.5
Stanhope	1,256	\$172,055	\$137.0
Succasunna	1,150	\$259,999	\$226.1
Succasunna	1,150	\$265,000	\$230.4
Succasunna	1,150	\$235,000	\$204.3
Wharton	1,852	\$455,000	\$245.7
Wharton	1,997	\$499,950	\$250.4
<b>Weighted average</b>	<b>1,290</b>	<b>\$271,400</b>	<b>\$206.6</b>
Source: NJCondos.net			

Based on the average 1,290 sf per unit at 54 units in total (a mix of unit sizes is anticipated), a floor area of 69,700 sf would be generated. Including a 15% common area allowance, a total of **80,200 sf** for the 54-unit development would satisfy the absorption requirement. Parking for the project is planned at 2 spaces per dwelling unit, as per the River Styx Form Based Code<sup>14</sup>, which would require **108** parking spaces. Parking would be accommodated by construction of the two-story parking deck (80 cars – refer to Museum/Cultural Use Scenario) plus a new parking area (28 cars) installed in front of the existing school building.

The estimate for 80,200 sf of condominium-type construction in northern NJ is \$126.1 psf, bringing the total hard costs to \$10.114 million. For this project, a reuse of structural elements existing school would be considered, with new units built above. Rather than a complete demolition cost of \$250,000, a partial allowance of \$100,000 is anticipated. Add to this acquisition cost of \$400,000, the 80-car parking garage (\$1.240 million) and a site preparation cost for the additional parking area for 28 cars (\$75,000 - estimated), and a 30% soft costs estimate, and the project total is **\$15.338 million**, or **\$284,970** per unit.

Development costs	
Condos	\$10,114,100
Parking garage	\$1,240,400
Demo	\$100,000
Parking lot	\$75,000
Subtotal	\$11,529,500
Soft costs	\$3,458,900
Property Acquisition	\$400,000
<b>Total</b>	<b>\$15,388,400</b>
<b>Cost per unit</b>	<b>\$284,970</b>

Revenue is based on 100% sales of 54 units at the market average of \$271,400. Garage space would be rented at a premium (\$130 per month per space), and the net present value of (NPV) of the garage rental over the occupancy ramp-up is included below. A total revenue for the project is at stabilized occupancy is estimated at **\$14.864 million**.

<sup>14</sup> River Styx Form-Based Code Draft – April, 2014

<b>Revenue</b>	
Condo sales	\$14,655,600
Garage rental (NPV)	\$208,000
<b>Total revenue</b>	<b>\$14,863,600</b>

Finance costs for the \$15.388 million project would be at 6.5% and a loan to value of 75%. The term for development would be based at 25 years, but equity subordination would be finance at a ten-year period. Total finance carry costs would be **\$1.482 million** annually.

<b>Financing</b>	
75% loan	\$11,541,300
25% equity	\$3,847,100
Finance Rate	6.5%
Finance carry	\$946,200
Equity carry	\$535,150
<b>Annual carry costs</b>	<b>\$1,481,350</b>

Property Taxes are directly paid by condominium purchasers, other than the common area held by the developer operator. By reviewing a nearby project such as the Brookland at Lakepointe Condominiums located on River Styx Road (see Exhibit 4 below), an estimate of the tax value to the Borough of the Study Property built out as condominiums can be reached.

In the Brookland property, this 0.6 acre site has subdivided into 16 separate lots<sup>15</sup>. In each lot, a land assessment value of \$85,000 has been assigned by the Borough of Hopatcong Tax Assessor, with varying improvement values based on use as housing or street-level retail. In aggregate, the lots have a land assessment total of \$1.360 million. Net value assessment is \$3.298 million.

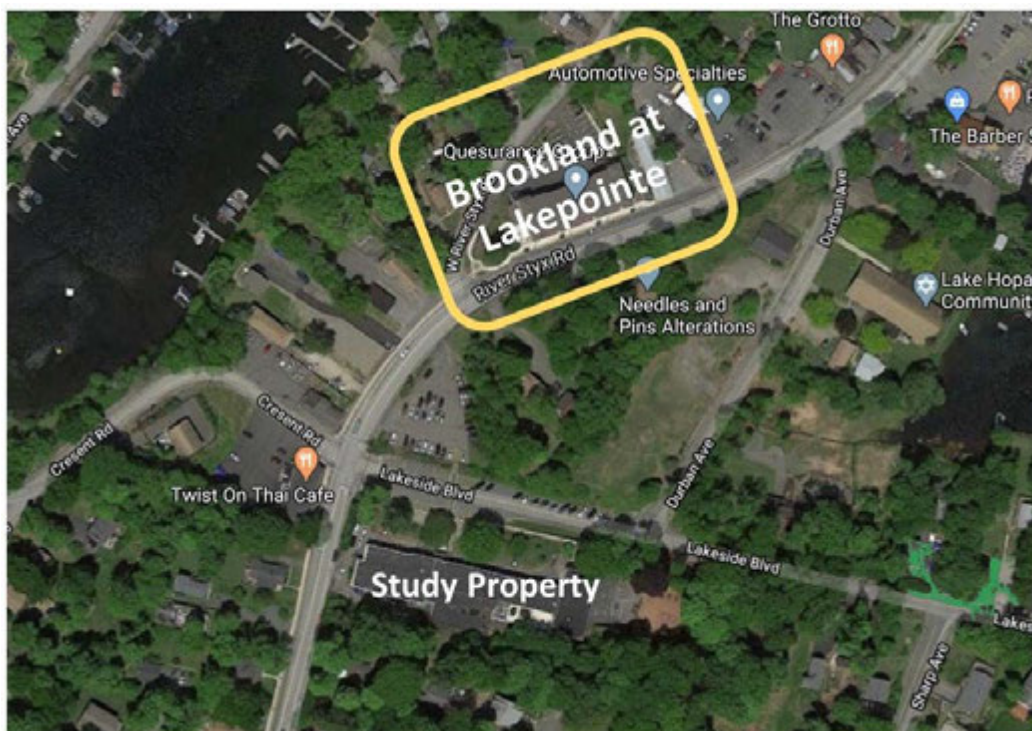
Tax ratio of net value to true market value in the Borough is 84.4, bringing the total project value to \$3.907 million and the land value to \$1.611 million. At 0.6 acres, land value would be \$2.685 million/acre. Total collected taxes for the 16 lots equals \$109,600

<sup>15</sup> Sussex County Parcel Viewer; Parcels 1912-30707-3 C-1 through C16;  
<http://gis.sussex.nj.us/parceldocviewer>



which represents 2.8% of market value. Taxes on land would be apportioned at \$75,300 in total.

Exhibit 4 – Brookland at Lakepointe Condominiums



Source: Google Maps; DCG Corplan



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For the Study Property's total \$15.338 million value, the 2.8% estimate would produce an annual **\$431,700** property tax revenue for the Borough after full occupancy is reached. During construction, the developer would be subject to property taxes on the land, which could be estimated at a multiple of the current Study Property land value of \$99,800<sup>16</sup>. Assuming that the land value after permitting and during construction would be worth at least \$1 million per acre, then a **\$61,700** annual property tax burden would not be unexpected.

Added to the above tabulation is the NPV of the finance carry, property tax costs, maintenance, security, and miscellaneous items during construction and occupancy ramp-up. Assuming five years before stabilized occupancy sale of the project, the NPV Operating Expenses total **\$2.170 million**.

Operating expenses – Net Present Value (NPV)			
Property tax (land only)	\$61,700	yr1	\$832,025
Finance carry	\$1,481,300	yr2	\$852,350
Maintenance, security, misc.	\$50,000	yr3	\$333,895
<b>Total</b>	<b>\$1,593,000</b>	yr4	\$259,830
			Discount rate 5%
Land acquisition	\$400,000	Total	\$2,278,100
			<b>NPV \$2,169,600</b>

Summing up, the project cannot sustain a profitable margin for the developer at the market average condominium price of **\$271,400**, as shown below:

Development Conclusion	
Total Revenue	\$14,863,600
Total Expenses	15,388,400
Operating expenses NPV	\$2,169,600
Net Profit	-\$2,694,400
Margin	-18.1%
Multiple on Invested Equity	N/A

To arrive at a satisfactory answer, however, the following sensitivity analysis indicates that a price point of **\$407,100** per condominium would produce an adequate profit

<sup>16</sup> Sussex County Parcel Viewer; Parcels 1912-30612-1; <http://gis.sussex.nj.us/parceldocviewer>

Property – **FINAL REPORT**

margin (20.1%) and multiple on invested equity (2.15x). As an incentive for the developer, property tax would be partially abated to only the base land value (\$61,700) for the four-year occupancy ramp-up and not fully charged until year five.

<b>Sensitivity Analysis</b>	<b>10% markup</b>	<b>25% markup</b>	<b>50% markup</b>
Condo sales price	\$298,540	\$339,250	<b>\$407,100</b>
Total Revenue	\$16,121,160	\$18,319,500	\$21,983,400
Total Expenses	\$15,388,400	\$15,388,400	\$15,388,400
Operating expenses NPV	\$2,169,600	\$2,169,600	\$2,169,600
Pretax Profit	-\$1,436,840	\$761,500	\$4,425,400
Profit Margin	-8.9%	4.2%	<b>20.1%</b>
Multiple on Invested Equity	N/A	1.20x	<b>2.15x</b>

Since the required condominium sales price is 50% higher than market averages, this development scenario cannot be recommended for further consideration unless substantial changes in housing valuation occurs in the Market Area.

### Multi-Family Rental Apartments Scenario

The housing demand analysis (Table 13) revealed a decline in the number of rental units for the Market Area (-446 units), so forecasting rental apartment absorption is difficult. From the calculation of 138 units discussed in the Demand section, we can project a 25%-30% absorption possibility for the Study Property given its water view location and proximity to recreation amenities. This could mean a potential 35 to 41 rental units, or an average of **38** units projected for the site.

In the following pages, six apartment projects in the Market Area are presented with availability of rental units. By summing the 33 available apartments in these competitive properties, a total of 32,060 SF of housing produces a weighted average size of **972 SF** and monthly rental rate of **\$1,969**, or **\$2.02** psf.

By segmentation, the inventory breaks down as follows:

Unit Type	# of Available Units	Avg. Size (SF)	Avg. Monthly Rent	Avg. Monthly Rent/SF
1 bed / 1 bath	17	855	\$1,774	\$2.07
2 bed / 1 bath	8	986	\$1,883	\$1.89
2 bed / 2 bath	8	1,204	\$2,470	\$2.05
<b>Total Inventory</b>	<b>33</b>	<b>972</b>	<b>\$1,969</b>	<b>\$2.02</b>

The most common product from the above inventory is a 1 bed/1 bath at 855 SF, renting for \$1,774 per month, or \$2.07 PSF.

Based on the average 972 sf per unit at 38 units in total (a mix of unit sizes is anticipated), a floor area of 36,900 sf would be generated, plus a 10%-15% allowance for common area (12.5% avg.). Thus, a total of **42,000 sf** for the 38-unit development would satisfy the absorption requirement.

Parking for the project is planned at 2 spaces per dwelling unit, as per the River Styx Form Based Code, which would require 76 parking spaces. Access would be accommodated by construction of a new driveway ramp from Lakeside Boulevard, the repaving of this existing playground (43 cars), and a new parking area (33 cars) installed in front of the existing school building once graded and cleared (see Exhibit 5 below).

**Exhibit 5 – Existing Building front yard area for Parking**



Source: DCG Corplan

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The estimate for 42,000 sf of apartment-type construction in northern NJ is \$96 psf, bringing the total hard costs to \$4.070 million. Add to this acquisition cost of \$400,000, the partial demolition costs of \$100,000 (similar to the Condominium scenario), and a site preparation cost for new driveway and parking area for 76 cars (\$150,000 - estimated), a 30% soft costs estimate, and the project total is **\$5.941 million**, or \$156,500 per unit.

To determine if the project is viable for the developer, the following assumptions are made:

1. Gross Rental Income (GRI) is based on 38 units renting for \$1,969 per month = \$896,700 per year.
2. Occupancy Rate (OR) is estimated at 90%.
3. Operating Expenses (OE) are calculated at 37% of GRI, or, \$332,500
4. Net Operating Income (NOI) is determined as  $GRI \times OR - OE = \$474,500$ .
5. Capitalization Rate (CR) is estimated at about 6.09%<sup>17</sup> for the Market Area.
6. Current Fair Market Value (CFMV) is NOI divided by the CR.

The above formula produces a CFMV of **\$7.791 million**. Operating expenses over the 4-yr. occupancy ramp-up are shown below:

<b>Operating Expenses</b>				
Item		Period	Totals	Factor
Property tax	\$61,700	yr1	\$119,620	10%
Finance carry	\$529,200	yr2	\$206,500	25%
Maintenance, security, misc.	\$50,000	yr3	\$496,100	75%
<b>Total</b>	<b>\$640,900</b>	yr4	<b>\$640,900</b>	<b>100%</b>
Discount rate			10%	
Total			\$1,463,120	
NPV			\$1,330,100	
Avg, 4 yr.			\$332,500	

By backing out the project total costs of \$5.941 million plus Operating Costs (NPV), net profit for the developer is only **\$519,00**, or pre-tax profit margin 6.7 percent. For debt financing, the developer would be expected to provide a 25% equity or \$1.485 million.

<sup>17</sup> Apartment Cap Rates – Northern NJ; <https://apartmentpropertyvaluation.com/index>

Return on invested equity would be a **0.35** multiple, making the project nonviable investment for the developer.

To arrive at a better answer, however, the following sensitivity analysis indicates that a monthly rental price point of **\$2,166** per unit would produce an adequate profit margin (20.3%) and multiple on invested equity (2.24x).


Sensitivity Analysis	5% markup	10% markup	15% markup
Rental price	\$2,067	\$2,166	\$2,264
Total Revenue	\$8,452,000	\$9,118,000	\$9,777,000
Total Expenses	\$5,941,000	\$5,941,000	\$5,941,000
Operating expenses NPV	\$1,330,100	\$1,330,100	\$1,330,100
Pretax Profit	\$1,180,900	\$1,846,900	\$2,505,900
Profit Margin	14.0%	<b>20.3%</b>	25.6%
Multiple on Invested Equity	1.80x	<b>2.24x</b>	2.69x

Since the required rental price is only 10% higher than market averages which might be expected by the time the project were put into service, this development scenario can be moderately recommended for further consideration. Using the 2.8% estimate of property taxes (see Condominiums Scenario) and a valuation of \$9.118 million (10% rent markup), the estimated property tax revenue to the Borough would be **\$225,800** per year. As an incentive for the developer, property tax would be partially abated to only the base land value (\$61,700) for the four-year occupancy ramp-up and not fully charged until year five.

### Shore Hill Apartments – Landing

79 Units

Built 1975

Rental Data				
Unit type	Size	Monthly Price	Monthly Rent/SF	
1 bed / 1 bath	700 sf	\$1,425	\$2.04	
1 bed / 1 bath	799 sf	\$1,525	\$1.91	
2 bed / 1 bath	900 sf	\$1,695	\$1.88	
2 bed / 1 bath	999 sf	\$1,795	\$1.80	
<b>Weighted Average</b>	<b>850 sf</b>	<b>\$1,610</b>	<b>\$1.91</b>	
Source: Apartmentfinder.com				



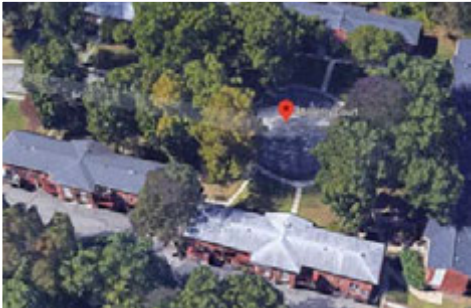
# Market Study Analysis for the Former Hudson Maxim School

## Property – FINAL REPORT

### Mt. Arlington Garden Apartments Homes – Mt. Arlington

79 Units


Built 1975

Rental Data				
Unit type	Size	Monthly Price	Monthly Rent/SF	
1 bed / 1 bath	1,000 sf	\$1,545	\$1.55	
1 bed / 1 bath	1,000 sf	\$2,585	\$2.59	
2 bed / 1 bath	1,100 sf	\$2,130	\$1.94	
2 bed / 1 bath	1,100 sf	\$3,070	\$2.79	
Weighted Average	1,050 sf	\$2,333	\$2.21	
Source: Apartmentfinder.com; Google Maps				

### Woodmont West at Mt. Arlington

300 Units

Built 2016

Rental Data				
Unit type	Size	Monthly Price	Monthly Rent/SF	
1 bed / 1 bath	820 sf	\$1,770	\$2.16	
1 bed / 1 bath	820 sf	\$2,275	\$2.77	
1 bed / 1 bath	890 sf	\$1,810	\$2.03	
1 bed / 1 bath	890 sf	\$2,315	\$2.60	
2 bed / 2 bath	1,180 sf	\$2,155	\$1.83	
2 bed / 2 bath	1,325 sf	\$2,550	\$1.92	
2 bed / 2 bath	1,325 sf	\$3,285	\$2.48	
Weighted Average	1,036 sf	\$2,309	\$2.26	
Source: Apartmentfinder.com				




# Market Study Analysis for the Former Hudson Maxim School Property – FINAL REPORT

## Carriage Club at Mt. Arlington

106 Units

Built 2002

Rental Data				
Unit type	Size	Monthly Price	Monthly Rent/SF	
1 bed / 1 bath	820 sf	\$1,770	\$2.16	
1 bed / 1 bath	820 sf	\$2,275	\$2.77	
1 bed / 1 bath	890 sf	\$1,810	\$2.03	
*Note: This is an age 55+ restricted project (seniors only)				
Weighted Average	1,036 sf	\$2,309	\$2.23	
Source: Apartmentfinder.com				

## Woodmont Parc – Ledgewood

230 Units


Built 2019

Rental Data				
Unit type	Size	Monthly Price	Monthly Rent/SF	
1 bed / 1 bath	972 sf	\$2,050	\$2.11	
1 bed / 1 bath	972 sf	\$2,225	\$2.29	
2 bed / 2 bath	1,145 sf	\$2,170	\$1.90	
2 bed / 2 bath	1,145 sf	\$2,535	\$2.21	
2 bed / 2 bath	1,170 sf	\$2,220	\$1.90	
2 bed / 2 bath	1,170 sf	\$2,240	\$1.91	
2 bed / 2 bath	1,170 sf	\$2,605	\$2.23	
<b>Weighted Average</b>	<b>1,106 sf</b>	<b>\$2,292</b>	<b>\$2.08</b>	
Source: Apartmentfinder.com				

SDK Village Green LLC – Budd Lake

106 Units

Built 2002

Rental Data				
Unit type	Size	Monthly Price	Monthly Rent/SF	
1 bed / 1 bath	775 sf	\$1,184	\$1.53	
1 bed / 1 bath	775 sf	\$1,269	\$1.64	
1 bed / 1 bath	846 sf	\$1,311	\$1.55	
1 bed / 1 bath	846 sf	\$1,510	\$1.78	
2 bed / 1 bath	948 sf	\$1,448	\$1.53	
2 bed / 1 bath	948 sf	\$1,575	\$1.66	
2 bed / 1 bath	948 sf	\$1,621	\$1.71	
2 bed / 1 bath	948 sf	\$1,729	\$1.82	
Weighted Average	879 sf	\$1,456	\$1.65	
Source: Apartmentfinder.com				

### Seniors Rental Apartments Scenario

From the Market Demand section (Table 14), we identified the need for seniors rental housing. To recap, there is a need for 437 seniors' units that can rent for an average \$1,560 per month. Given the increase in older-aged persons in the area and the likely competition for this market segment, we can project an 10%-12% absorption possibility for the Study Property given its water view location and proximity to recreation amenities. This could mean a potential 44 to 52 rental units, or an average of **48** units projected for the site.

In review of available rental projects in the Market Area from above, the Carriage Club at Mt. Arlington is the only seniors-oriented facility. Although we believe that the Carriage Club's rental price point is a little higher than the target price, the per square foot rental figure of \$2.23 will be used to calculate a typical senior apartment size. At \$1,560, the \$2.23 psf price would result in a **700 sf** unit.

Based on the average 700 sf per unit at 48 units in total (a mix of unit sizes is anticipated), a floor area of 33,600 sf would be generated, plus a 40% allowance for common area (more shared spaces than typical apartment building). Thus, a total of **47,000 sf** for the

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48-unit development would satisfy the absorption requirement. Given that the existing two-story Hudson Maxim School is about 44,000 sf, this will create the need for third or fourth floor of an additional 3,000 sf. We foresee that a portion of the roof of the existing building be converted to an outdoor balcony overlooking Lake Hopatcong with new construction rising above.

Although the River Styx Form Based Code prescribes 2 parking spaces per dwelling unit, we feel that 1.5 spaces per unit would be appropriate a more appropriate ratio for seniors' housing and should be sought (zoning relief) required). This would result in a need for 72 parking spaces. Parking would be accommodated by construction of a new driveway ramp from Lakeside Boulevard, the repaving of this existing playground (43 cars), and a new parking area (29 cars) installed in front of the existing school building.

The estimate for 47,000 sf of apartment-type construction in northern NJ is \$96 psf. However, in this scenario, we feel that a substantial rehabilitation of the existing Hudson Maxim school building would be warranted, thereby reducing the construction cost by about 25%, or, \$72 psf. This would result in the total hard costs of \$3.384 million. Add to this acquisition cost of \$400,000, the partial demolition costs of \$100,000 (similar to the Condominium scenario), and a site preparation cost for new driveway and parking area for 72 cars (\$150,000 - estimated), a 30% soft costs estimate, and the project total is **\$4.399 million**, or \$105,000 per unit.

To determine if the project is viable for the developer, the following assumptions are made:

1. Gross Rental Income (GRI) is based on 48 units renting for \$1,560 per month per year, plus an allowance of \$150 per month per unit for senior services (laundry, transportation, etc.) = \$986,500.
2. Occupancy Rate (OR) is estimated at 90%.
3. Operating Expenses (OE) are calculated at 37% of GRI, or, \$294,600.
4. Net Operating Income (NOI) is determined as  $GRI \times OR - OE = \$593,300$ .
5. Capitalization Rate (CR) is estimated at about 6.80%<sup>18</sup> for the Market Area.
6. Current Fair Market Value (CFMV) is NOI divided by the CR.

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<sup>18</sup> CBRE Senior Housing Market Insight – Q2 20-19; national cap rate averages; [https://www.cbre.us/-/media/cbre/countryunitedstates/media/files/services/senior-housing/shmi-q2-2019\\_final.pdf](https://www.cbre.us/-/media/cbre/countryunitedstates/media/files/services/senior-housing/shmi-q2-2019_final.pdf)

The above formula produces a CFMV of **\$8.725 million**. Operating expenses over the 4-yr. occupancy ramp-up are shown below:

<b>Operating expenses</b>				
Item		Period	Totals	Factor
Property tax	\$61,700	yr1	\$111,680	10%
Finance carry	\$449,800	yr2	\$186,650	25%
Maintenance, security, misc.	\$50,000	yr3	\$436,550	75%
Total	\$561,500	yr4	\$561,500	100%
Discount rate			10%	
Total			\$1,296,380	
NPV			\$1,178,500	
Avg. 4 yr.			\$294,600	

**Lakeside Senior Living**, a brand suggestion for the project, should be a marketable opportunity for the Borough. By backing out the project total costs of \$5.049 million and the Operating Expenses NPV, net profit for the developer at sale would be **\$2.498 million**. For debt financing, the developer would be expected to provide a 25% equity or \$1.262 million. Profit margin for the developer would be **28.6%** with a return on invested equity would be a **1.98** multiple, making the project a viable investment for the developer.

Using the 2.8% estimate of property taxes (see Condominiums Scenario) and a valuation of \$8.725 million, the estimated property tax revenue to the Borough would be **\$244,800** per year. As an incentive for the developer, property tax would be partially abated to only the base land value (\$61,700) for the four-year occupancy ramp-up and not fully charged until year five.

*Note: Other institutional uses similar to senior living may have viability for this property with similar use characteristics. These might include occupational therapy centers for senior, adults, or children. Or residential nursing or medical treatment uses as well.*

## Lodging Scenario

### Boutique Hotel

In the Lodging Demand section (Table 15), a 100-room hotel with 1,800 sf of conference space emerged as appeared as a tenable model for the Market Area. If the Study Property were located on a highway or at the intersection of major roads, there would be a possibility of attracting a “brand” hotel chain to consider development. The reality of the Study Property’s location negates its potential to meet the demand picture.

However, a “boutique” hotel of about 50 rooms may have an opportunity, especially if partnered with complementary use such as the museum scenario discussed earlier. According to USA Today, the typical size of hotel room in the US is 325 sf<sup>19</sup>. At 50 “keys” (rooms), the total room area would total 18,750 sf. Added to this would be an allowance of 25% for non-room functions (convenience retail, lobby, hallways, room support, etc.), bringing the gross area to **23,400 sf**.

Bed and Breakfast-style lodging (B&B) is a principal permitted use of the Mixed Use 2 District within the River Styx Road Form Based Code. While the Study Property is outside of the Code boundary, its possible inclusion would probably be subject to the District 2 regulations. B&B parking requires 1 parking space per room therefore 50 cars will be used as the guideline for this scenario. Construction costs for a 23,400 sf hotel in Northern NJ is estimated at \$130.50 psf. Given that a smaller footprint for the hotel is emerging, rehabilitation of a portion of the existing Hudson Maxim school building would seem to be a reasonable approach. Construction costs will be adjusted to be 75% of the square foot estimate, bringing the building hard costs to **\$2.290 million** (\$45,800 per key).

To determine if the project is viable for the developer, the following assumptions are made:

1. Stabilized Avg. Daily Room Rate (ADR) is \$120 per key.
2. Stabilized Occupancy / RevPAR (Revenue Per Available Room) is 49% (180 room nights per year) = \$59 per key.
3. Stabilized Room Revenues equals \$1.080 million per year.
4. Rooms Revenue as a percent of Total Revenue is 80%.

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<sup>19</sup> USA Today “Hotel rooms 20 years ago were twice as large as today’s offerings”;  
<https://www.usatoday.com/story/travel/roadwarriorvoices/2015/11/04/hotel-rooms-20-years-ago-were-twice-as-large-as-some-of-todays-offerings/83847338>

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5. Total Annual Revenues equal \$1.350 million per year.
6. Capitalization Rate (CR) is estimated at about 9.62%<sup>20</sup> for the Market Area.
7. Current Fair Market Value (CFMV) is NOI divided by the CR.

The above formula produces a CFMV of **\$6.315 million**. Operating expenses over a 4-yr. occupancy ramp-up are shown below:

<b>Operating Expenses</b>				
Item		Period	Totals	Factor
Property tax	\$61,700	yr1	\$108,090	10%
Finance carry	\$428,900	yr2	\$177,675	25%
Maintenance, security, misc.	\$35,000	yr3	\$409,625	75%
<b>Total</b>	<b>\$525,600</b>	yr4	<b>\$525,600</b>	<b>100%</b>
Discount rate			10%	
Total			\$1,220,990	
NPV			\$1,110,000	
Avg, 4 yr.			\$277,500	

By backing out the project total costs of \$4.147 million plus Operating Costs (NPV), net profit for the developer is **\$1.058 million**, or pre-tax profit margin 16.7 percent. For debt financing, the developer would be expected to provide a 25% equity or \$1.485 million. Return on invested equity would be a **1.02** multiple, making the project only moderately viable investment for the developer.

To arrive at a better answer, however, the following sensitivity analysis indicates that a room rate of **\$126** per night would produce an adequate profit margin (20.7%) and multiple on invested equity (2.32x).

<b>Sensitivity Analysis</b>	<b>5% markup</b>	<b>10% markup</b>	<b>15% markup</b>
Stabilized Avg. Daily Room Rate (ADR)	<b>\$126</b>	\$132	\$138
Total Revenue	\$6,630,700	\$6,946,500	\$7,262,200
Total Expenses	\$4,147,400	\$4,147,400	\$4,147,400
Operating expenses NPV	\$1,110,000	\$1,110,000	\$1,110,000
Pretax Profit	\$1,373,300	\$1,689,100	\$2,004,800
Profit Margin	<b>20.7%</b>	24.3%	27.6%
Multiple on Invested Equity	<b>2.32x</b>	2.63x	2.93x

<sup>20</sup> Hotel Management – CBRE: *Hotel Cap Rates Hold Steady* - April 2019;  
<https://www.hotelmanagement.net/own/cbre-hotel-cap-rates-u-s-hold-steady>



Since the required room rate is only 5% higher than market averages which might be expected by the time the project were put into service, this development scenario can be recommended for further consideration. Using the 2.8% estimate of property taxes (see Condominiums Scenario) and a valuation of \$6.631 million (5% rent markup), the estimated property tax revenue to the Borough would be **\$186,000** per year. As an incentive for the developer, property tax would be partially abated to only the base land value (\$61,700) for the four-year occupancy ramp-up and not fully charged until year five.

This scenario includes the purchase of the site and partial demolition/rehabilitation of the existing school building. As the hotel would only occupy about half of the existing facility floor space, other complementary uses would be sought which could defer costs and increase overall revenues and site value.

## Office Scenario

Demand analysis for office space in the Market Area resulted in the projection for an additional 62,000 sf of space in the next five years (see Table 16). Like the lodging scenario, the Study Property has lack of location appeal for a large office installation. Although there are commuter train stations in Landing and Mt. Arlington, they are not within walkable distances which make the office use on the site problematic for back office financial or other corporate businesses.

Smaller professional business uses such as engineering, architectural, or scientific establishments could have potential for the Study Property as converted loft-style industrial and education buildings around the country are often used for such purpose. Other businesses occupying “creative” spaces include software, graphics arts, and advertising.

We can foresee perhaps as much as 15% of the office demand being supported by this site, which could amount to about 9,000 sf. Added to this would be an allowance for common area (15%), bringing the total to **10,400 sf**. Reuse of the existing school building can be achieved if construction costs are limited but HVAC, electrical, and telecommunications infrastructure are of high quality.

The River Styx Form Based Code District 2 allows for office use, and parking is required at the ratio of 3 spaces per 1,000 sf of floor space. For the 10,400 sf considered, the parking need would be 31 spaces. Construction costs for smaller office projects in northern NJ

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average about \$104 psf. Since the office would be considered as a partial rehabilitation of the existing Hudson Maxim school building, an allowance for a 25% discount in the per square foot cost would be employed, bringing the construction costs total to \$78 psf, bringing hard costs to \$1.061 million.

Add to this acquisition cost of \$400,000, the partial demolition costs of \$100,000, and a site preparation cost for new driveway and parking area for 31 cars (\$120,000 - estimated), a 30% soft costs estimate, and the project total is **\$1.740 million**, or \$167.4 psf.

To determine if the project is viable for the developer, the following assumptions are made:

1. Gross Rental Income (GRI) is based on 10,400 sf of office space renting for \$25 per sf annually = \$260,000.
2. Occupancy Rate (OR) is estimated at 85%.
3. Operating Expenses (OE) are calculated at 37% of GRI, or, \$294,600.
4. Net Operating Income (NOI) is determined as  $GRI \times OR - OE = \$593,300$ .
5. Capitalization Rate (CR) is estimated at about 7.50%<sup>21</sup> for the Market Area.
6. Current Fair Market Value (CFMV) is NOI divided by the CR.

The above formula produces a CFMV of **\$614,000**. Operating expenses over the 4-yr. occupancy ramp-up are shown below:

<b>Operating expenses</b>				
Item		Period	Totals	Factor
Property tax	\$61,700	yr1	\$111,680	10%
Finance carry	\$449,800	yr2	\$186,650	25%
Maintenance, security, misc.	\$50,000	yr3	\$436,550	75%
Total	\$561,500	yr4	\$561,500	100%
		Discount rate	10%	
		Total	\$1,296,380	
		NPV	\$1,178,500	
		Avg, 4 yr.	\$294,600	

<sup>21</sup> CBRE Office Market Insight – Q2 20-19; Northern NJ cap rate averages; <https://www.cbre.us/research-and-reports/North-America-Cap-Rate-Survey-H1-2019>

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By backing out the project total costs of \$1.740 million and the Operating Expenses NPV, net profit for the developer is a loss of **\$2.498 million**. For debt financing, the developer would be expected to provide a 25% equity or \$435,100. Return on invested equity would be a negative, making the project nonviable investment for the developer.

Since the office development on its own would require purchase of the site and its associated demolition and site costs, the office scenario cannot be recommended. However, in combination with another use may have applicability.

### Restaurant/Bar Scenario

Analysis of restaurant/bar demand in Table 17 revealed a growth of 19,000 sf of space. Given the Study Property's proximity to the lakefront, a possibility for restaurant with liquor sales is a potential, especially with summer roof-top dining that would have water views. Accordingly, we foresee a need for about 10% of the prescribed demand, or, **1,900 sf**. Based on the estimate of 20 sf per dining patron, a 1,900 sf could accommodate about 95 seats.

Clearly, the development of the entire Study Property for a single user of this size is not possible. Construction costs for a restaurant in Northern New Jersey is \$177 psf. Considering that the existing school building will likely house the facility, a discount for adaptive reuse of 25% brings the costs down to \$78 psf, or a build out of \$148,200. Anticipated rent for a restaurant is estimated at \$20 psf. Restaurant parking would be based at 1 space per every 3 seats, or 31 spaces according to the River Styx Road Form Based Code District 2 parking regulations.

The restaurant could be a welcome add-on to another use that more fully utilize the Study Property.

### Retail Scenario

Retail demand estimates in the Market Area (Table 18) are approximately 245,000 sf. Three categories in featured in Table 18 may have suitability to the Study Property as spending in boating, recreational clothing/gear, and fitness have broad appeal in

destination locations such as the Lake Hopatcong area. The three recommended retail categories are:

- Health & Personal Care Stores
- Other Miscellaneous Store Retailers
- Other Motor Vehicle Dealers

Together, these three sectors have a demand for 55,200 sf. We believe that a targeted retail structure is possible for the Study Property, therefore, at least 25% of this demand is achievable on the site, a total of **13,800 sf**.

Construction costs for retail space in Northern New Jersey is estimated at \$129.72 per sf, but thus would be discounted by 25% for existing building rehabilitation (\$97 psf). The retail hard costs of **\$1.343 million** would be expected. Parking would require 55 spaces (4 spaces per 1,000 sf – River Styx Form Based Code, District 2).

Like the restaurant/bar scenario, Net Operating Income would be negative if the Study Property fully applied to the retail use. Additionally, the significant grade difference from Lakeside Boulevard to a parking level in front of the existing building would put new parking above eye level of vehicle drivers, making impulse shopping nearly impossible for normal retail development. However, retail potential for shoppers already drawn up to the site by association with other uses has opportunity for success.

## Mixed-Use Scenario

The preceding scenarios indicate that a mix of uses may have validity due to the opportunity for expense sharing in property acquisition, building reuse, and site development. The mixed-use objectives of the River Styx Form Based Code reinforce the strategic integration of complementary uses. From the earlier studies, we see this as the following:

- Museum/Cultural space – 10,000 sf
- Boutique Lodging – 23,400 sf
- Office – 10,400 sf
- Restaurant – 1,900 sf
- Retail – 13,800 sf

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On aggregate, the five uses represent a build-out of **59,500 sf**. Given that the existing two-story Hudson Maxim School is about 44,000 sf, this will create the need for third or fourth floor of an additional 15,500 sf. We foresee that a portion of the roof of the existing building be converted to an outdoor balcony overlooking Lake Hopatcong with new construction rising above.

We do not see the mix of housing into this development scenario. Given the two new housing projects in the proximity (Brookland at Lakepointe and the Townhomes at Lakepointe), the introduction of a third project competing for similar occupants does not seem to be a recommendable course of action. These housing projects anchor the new River Styx Form Based Code and the identified Area of Need. And, a tourism business-oriented development that will serve as a feature point that will propel further investment in the area would strengthen the commitments made by the Borough for the neighborhood.

**Mariners Centre**, the suggested branding of the new project, should be a marketable opportunity for the Borough. Overall, the parking requirement would total 247 spaces, shown as follows:

Building Use	Size sf	Parking
Museum/Cultural	10,000	80
Lodging	23,400	50
Office	10,400	31
Restaurant	1,900	31
Retail	13,800	55
<b>Total</b>	<b>59,500</b>	<b>247</b>

With the 80-car parking garage, an additional 167 surface spaces would be needed. At 9 feet in width for a typical parking space, this requirement would need a lot over 1,500 feet in length for a single row of parking, or 750 feet for double-sided parking. Site measurements would need to verify if there is available space for a double-sided parking area in the existing building front yard (minimum width is 62 feet for double-parking).

Some accommodation by the Borough would need to be made in relieving some of the parking requirements in recognition that not all uses would be maximized for parking at all times, and that vacancy would naturally occur. Our recommendation is that parking be reduced by 20% to 198 spaces. Two additional levels of the parking deck would be added, bringing the surface requirement to 38 cars which is manageable in the area available on

site. Doubling the garage space (56,000 sf) reduces the psf cost to \$43.60, and all other costs total **\$9.099 million** shown as follows:

<b>Construction</b>	
Museum space	\$500,000
Hotel	\$2,540,300
Office	\$811,200
Restaurant	\$148,200
Parking Garage	\$2,441,600
Site parking	\$150,000
Demo	\$100,000
Total hard costs	\$6,691,300
Soft Costs	\$2,007,390
Land acquisition	\$400,000
<b>Total</b>	<b>\$9,098,700</b>

Revenue from each of the previous models, total revenue for the project total \$2.2.91 million, as shown:

<b>Revenue</b>	
<b>Use</b>	<b>Annual</b>
Museum/Cultural	\$299,000
Lodging	\$1,417,500
Office	\$260,000
Restaurant	\$38,000
Retail	\$276,000
<b>Total</b>	<b>\$2,290,500</b>

Finance costs result in a total annual carry cost of **\$1.207 million**, shown below:

<b>Financing</b>	
75% loan	\$6,824,000
25% equity	\$2,274,700
Finance Rate	5.5%
Finance carry	\$905,300
Equity carry	\$301,800
<b>Annual carry costs</b>	<b>\$1,207,100</b>



To determine if the project is viable for the developer, the following assumptions are made:

1. Gross Rental Income (GRI) is = \$2.291 million.
2. Occupancy Rate (OR) is estimated at 85%.
3. Operating Expenses (OE) are calculated at 30% of GRI, or, \$669,400.
4. Net Operating Income (NOI) is determined as  $GRI \times OR - OE = \$1.277\text{million}$ .
5. Capitalization Rate (CR) is estimated at about 7.50%<sup>22</sup> for the Market Area.
6. Current Fair Market Value (CFMV) is NOI divided by the CR.

The above formula produces a CFMV of **\$16.893 million**.

Operating expenses total **\$1.369 million**, with an average 4-yr. ramp up of costs as shown below:

<b>Operating Expenses</b>			
Item		Period	Totals
Property tax	\$61,700	yr1	\$192,410
Finance carry	\$1,207,100	yr2	\$388,475
Maintenance, security, misc.	\$100,000	yr3	\$1,042,025
<b>Total</b>	<b>\$1,368,800</b>	yr4	\$1,368,800
Discount rate			10%
Total			\$2,991,710
NPV			\$2,719,700
Avg. 4 yr.			\$679,900

By backing out the project total costs of \$9.099 million and the Operating Expenses NPV, net profit after sale for the developer is **\$5.075 million**. For debt financing, the developer would be expected to provide a 25% equity or \$2.275 million. Profit margin would be **30%** and Return on invested equity would be a **2.23** multiple, making the project an excellent investment for the developer.

In the previous scenarios, the 2.8% estimate of CMFV for use in determining property taxes was utilized. However, given that the museum would be tax-free, the estimate is revised downward to 2.5%. Accordingly, the Mariners Center would generate **\$422,300** per year. As an incentive for the developer, property tax would be partially abated to only

<sup>22</sup> DCG Corplan suggested capitalization rate.

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the base land value (\$61,700) for the four-year occupancy ramp-up and not fully charged until year five.

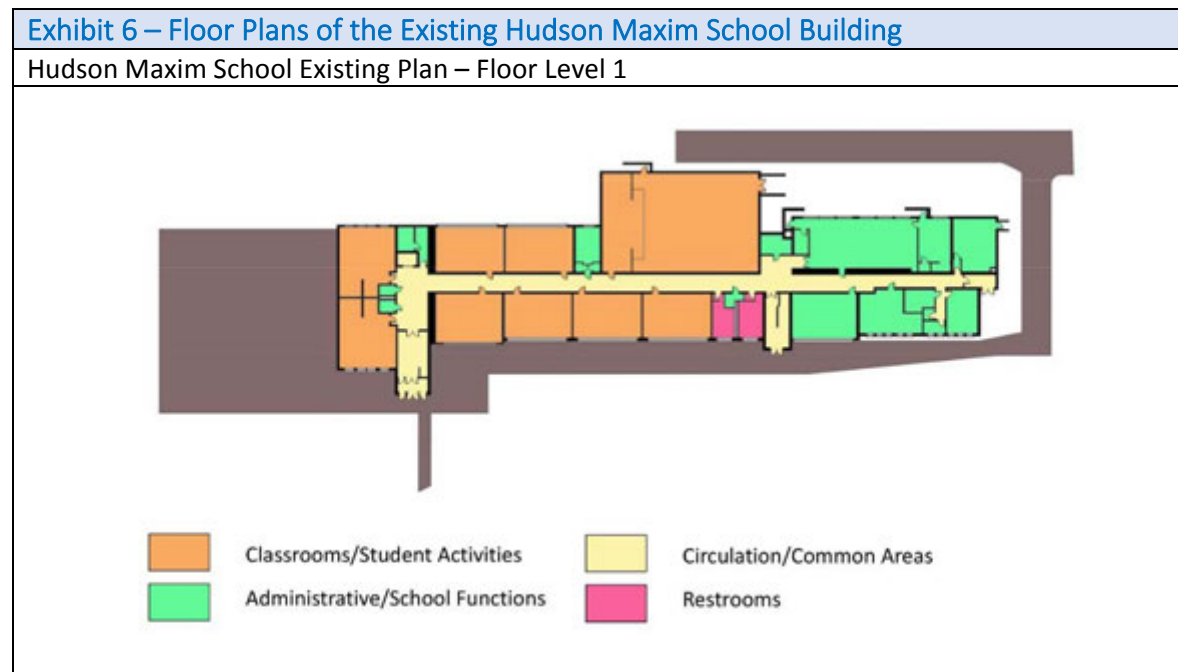
Throughout the scenarios, we have been holding the property acquisition cost constant at \$400,000. But, what if this is too low in price? The following sensitivity analysis indicates that the Borough could raise its asking price to as much as a 60% price markup or **\$640,000** without sacrificing developer profit much below a 2.0 multiple on invested equity:

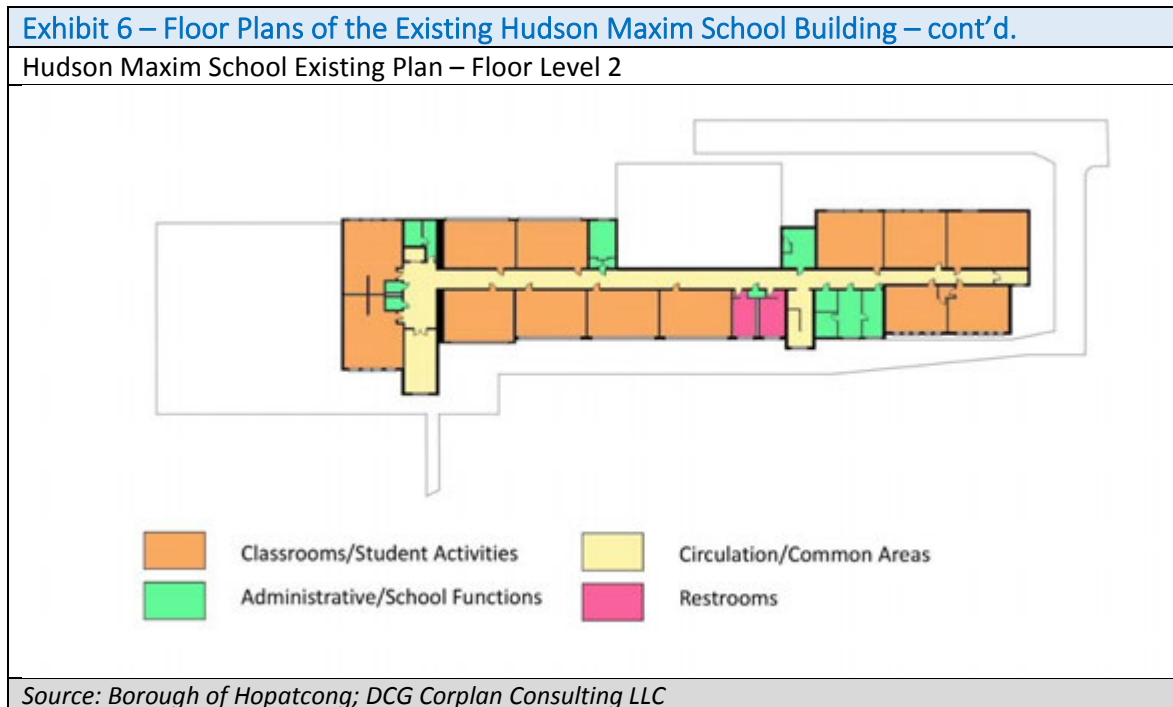
Sensitivity Analysis					
Item	15% markup	30% markup	45% markup	60% markup	75% markup
Property Acquisition	\$460,000	\$520,000	\$580,000	<b>\$640,000</b>	\$700,000
Total Revenue	\$16,841,000	\$16,791,000	\$16,741,000	\$16,691,000	\$16,640,000
Total Expenses	\$9,158,700	\$9,218,700	\$9,278,700	\$9,338,700	\$9,398,700
Operating expenses NPV	\$2,735,000	\$2,750,300	\$2,765,200	\$2,780,400	\$2,795,700
Pretax Profit	\$4,947,300	\$4,822,000	\$4,697,100	\$4,571,900	\$4,445,600
Profit Margin	29.4%	28.7%	28.1%	27.4%	26.7%
Multiple on Invested Equity	2.16x	2.09x	2.02x	<b>1.96x</b>	1.89x
Property Tax % of value	2.5%	2.5%	2.5%	2.5%	2.5%
Borough property taxes	\$421,000	\$419,800	\$418,500	<b>\$417,300</b>	\$416,000

## Task 4 – 3D Visualization

In this phase, we have created architectural imagery of the Mariners Centre as the illustrative example of the highest and best use of the Hudson Maxim school property. Much of the proposed space utilization estimates from the preceding task were utilized, but with some modifications made to accommodate physical needs as the design process required.

The study began with the 3-d modeling of the existing building. From floor plan information supplied by the Borough, we constructed new floor plans with identified space functions as shown in Exhibit 6 below:





Using these measured drawings, we have calculated the gross square footage<sup>23</sup> of the existing building to be 43,729 sf as indicated below:

First Floor Gross Square Footage	21,930 sf
Second Floor Gross Square Footage*	21,800 sf
<b>Total Gross Square Footage</b>	<b>43,729 sf</b>
<i>*Note: upper area of existing gymnasium included in gross square foot calculation</i>	

From these drawings, a 3-d model of the existing building has been developed as shown in the images in the following Exhibit 7:

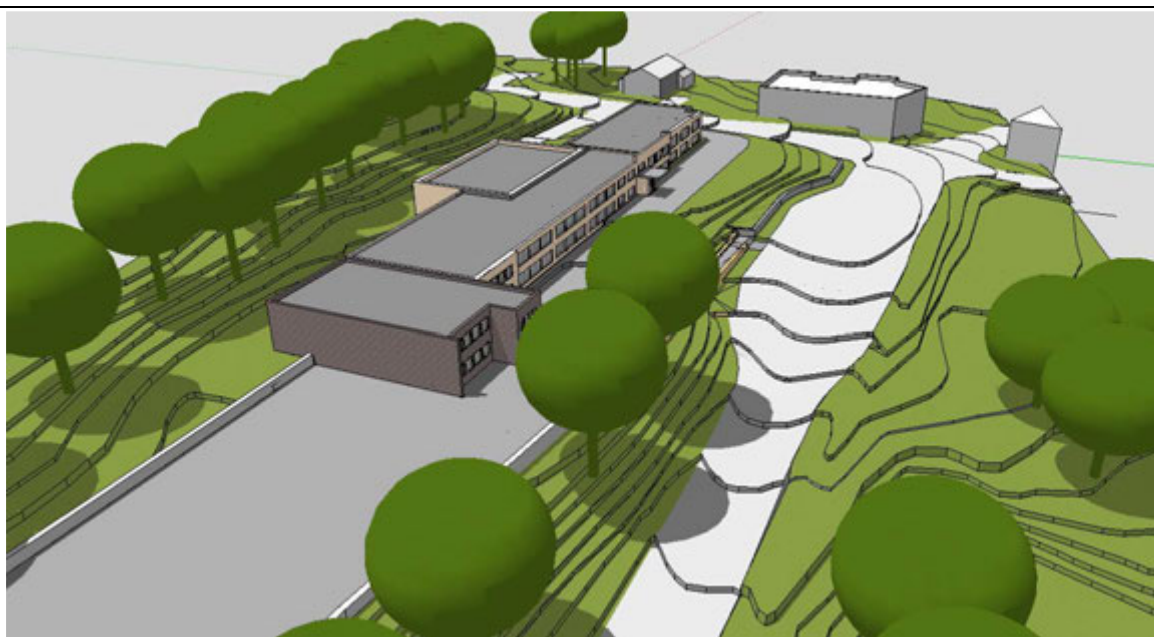
<sup>23</sup> Gross Square Footage - sum of all areas on all floors of a building included within the outside faces of its exterior walls, including all vertical penetration areas, for circulation and shaft areas that connect one floor to another.

**Exhibit 7 – Existing Hudson Maxim School 3d Imagery**

View from Northwest



View from Northeast



**Exhibit 7 – Existing Hudson Maxim School 3d Imagery – cont'd.**

View from Southwest



Source: DCG Corplan Consulting LLC; Sketchup Pro 2016

## Mariners Centre

The selection of Mariners Centre by the Borough as the illustrative example is shown below. As described in Task 3, the existing building would be partially demolished as necessary to structurally support upper floor development of mixed-use functions.

### Parking Garage and Surface Lot

Parking for a larger footprint requires the development of a parking garage for the property. Given the sensitivity to major earth disturbance and its impact for the NJ Highlands region, we have been deliberate in utilizing the existing topography to accommodate a garage with minimal environmental effect.

The footprint of the garage is 23,685 sf, which fits nearly the size of the existing paved playground. Side automobile ramps and flat parking decks largely above grade will also keep construction costs within reasonable limits. Pedestrian bridges connecting the



garage to the Mariners Centre will be placed at the 2<sup>nd</sup> and 3<sup>rd</sup> levels. The four-story structure will contain a total of 191 cars, arranged as follows:

Entry Level 1	46 spaces
Level 2	48 spaces
Level 3	48 spaces
Level 4	49 spaces
Total	191 spaces

A paved parking lot in the frontyard of the property would provide an additional 29 spaces. Vehicular access is gained through the parking garage ramps. In all, a total of **220 parking spaces** are provide in this design.

## Mariners Centre Configuration

The spatial configuration of the Mariners Centre has been developed as follows:

### Entry Level (Floor 1)

A new grand entrance has been created under a columned two-story high portico near the garage with stairway accessibility to Lakeside Boulevard. Museum exhibition and lobby circulation space feature a two-story window wall facing the lake. Elevators, restrooms and vertical circulation are accessed through the lobby. Approximately 11,800 sq. ft. of the first floor is dedicated to retail space. A signature retail space has direct access to the parking lot. The first floor has a total of 21,556 sf.

### Floor Level 2

This floor contains a small retail area (1,400 sf) plus more museum space including a 50-seat theater built into the upper part of the existing gymnasium. A balcony overlooking the two-story exhibit space serves as horizontal circulation. Elevator and restrooms are accessed through this area as well. About 5,300 sf of floor 2 is used as an office area. The second floor has a total of 21,556 sf, but 1,422 sf is part of the two-story museum exhibit area below. The second floor has bridge access to the parking garage.

### Floor Level 3

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On this floor, the restaurant of about 2,100 sf has its location. The common circulation has elevator and restrooms plus the hotel lobby of about 2,400 sf. Both the restaurant and the hotel share access to an outdoor terrace balcony of about 3,300 sf with water view. Summertime dining and partying would be a lively addition to the area, but intrusive noise and lights would be blocked from adjoining residential properties. A second office area of about 5,500 sf is also on this floor. Total gross area would be 18,079 sf, of which 3,954 sf would account for the upper volume of the theater space. The third floor would also have bridge access to the parking garage.

**Floor Level 4**

This floor is dedicated to the hotel use. Twenty-four rooms are arranged, some with balconies overlooking the lake. Lodgers would use the hotel lobby on the third floor for check-ins. Room sizes vary from 278 sf to 425 sf, with averaging about out 325 sf. A 900 sf meeting space is provided directly from the elevator lobby. The total gross area is 14,206 sf.

**Floor Level 5**

This floor is similar to the fourth floor but with two additional rooms provided in place of the meeting space. The total room count accommodated both hotel floors is 50 rooms. The total gross area is 13,982 sf, with the change from the fourth-floor area due to building setbacks.

**Total Building**

Total building gross area is **89,379 sf**, as follows:

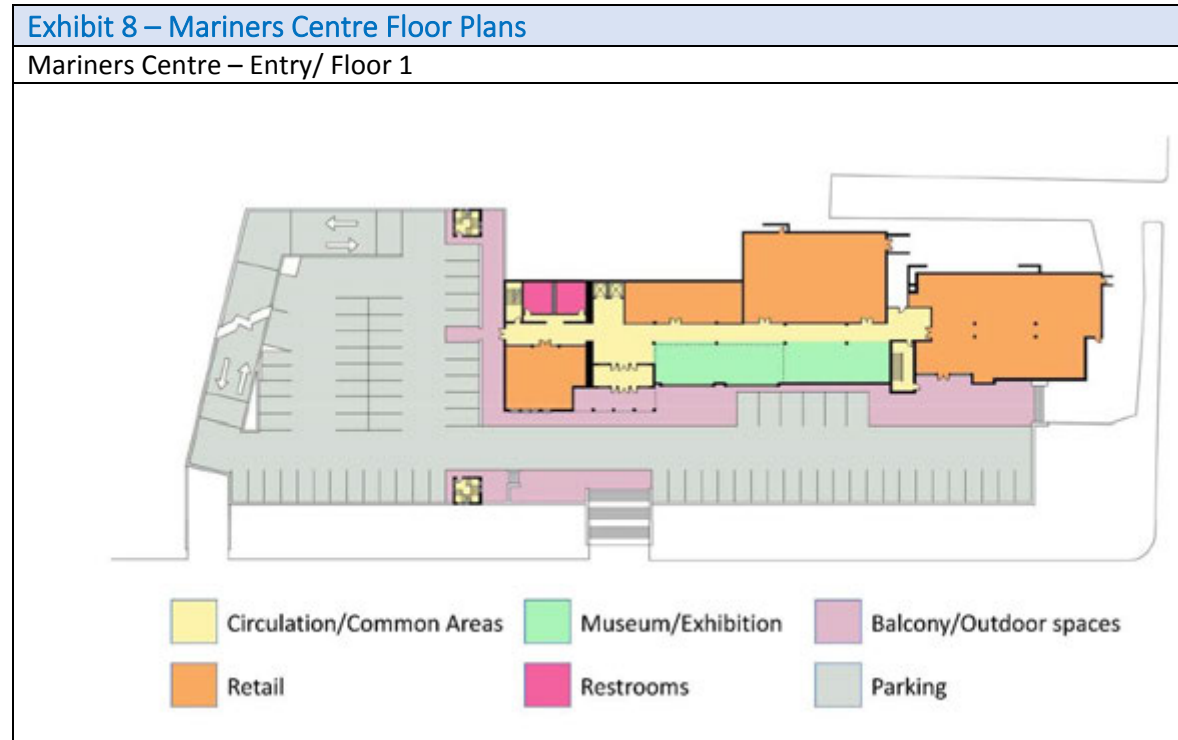
Floor Level	Size (sf)	Museum	Retail	Dining	Office	Hotel	Circl.
Entry/ Floor 1	21,556 sf	2,915	11,895				6,746
Floor 2	21,556 sf	7,269	1,418		5,339		7,530
Floor 3	18,079 sf			2,177	5,465	1,409	9,028
Floor 4	14,206 sf					12,810	1,396
Floor 5	13,982 sf					12,537	1,445
Total	89,379 sf	10,184	13,313	2,177	10,804	26,756	26,145

Since the original building is long and narrow oriented east-to-west with a south-facing exposure, the use of solar roof is warranted. The design allows for a pitched roof supporting 150 panels. These solar panels would be 480w nominal in size, or a total of 72

kW solar generating capacity. In all likelihood, a very significant allowance by the electric utility company would greatly offset electrical use by the building in resulting from this installation.

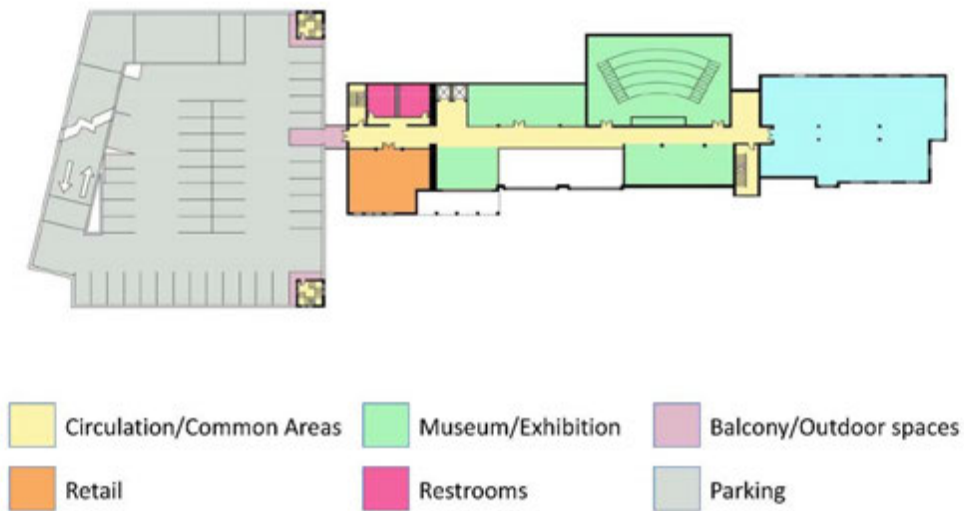
## Mariners Centre Floor Plans

From the narrative of floor configuration above, the floor plans for the Mariners Centre are presented as follows:

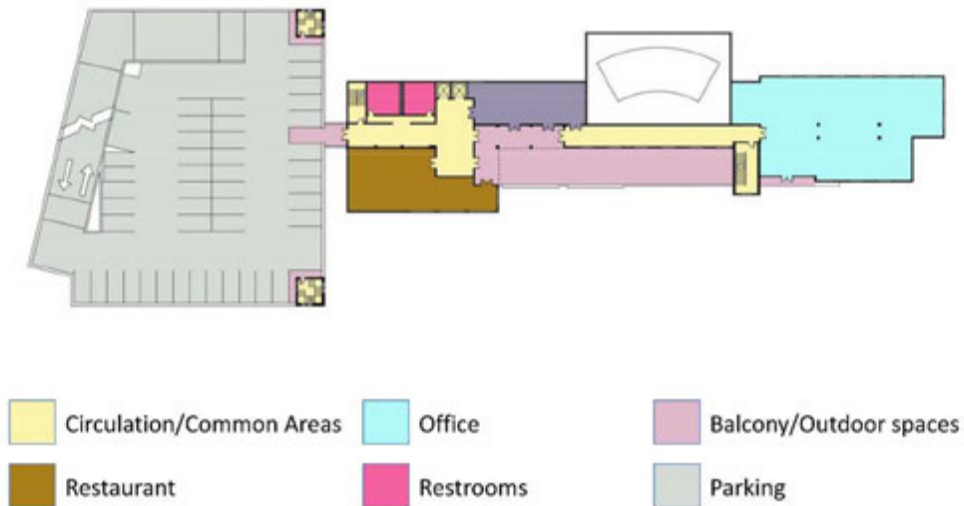


**Exhibit 8 – Mariners Centre Floor Plans– cont’d.**

**Mariners Centre – Floor 2**

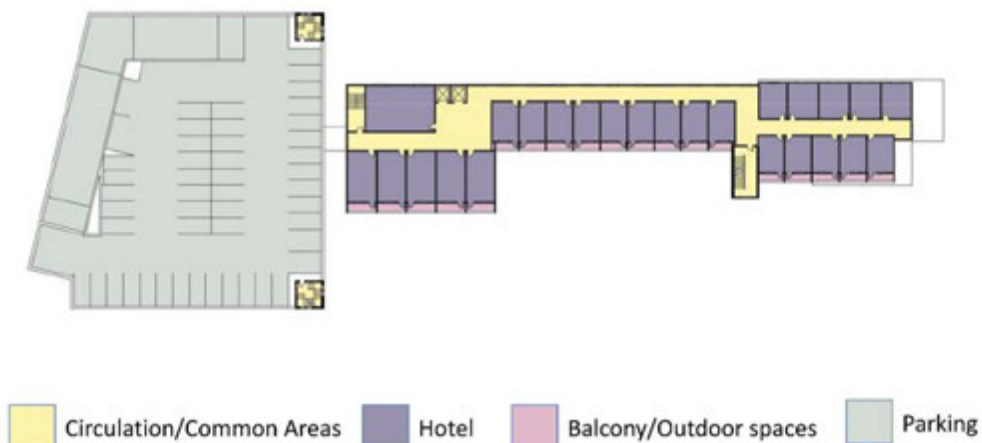


**Mariners Centre – Floor 3**

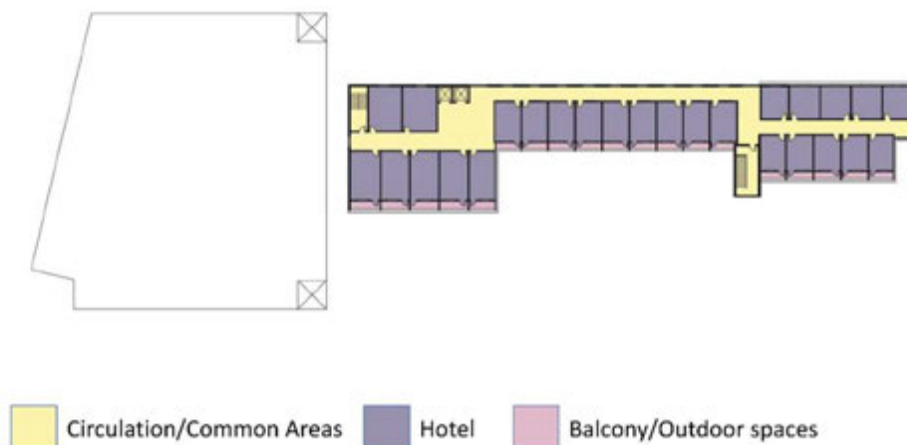


**Exhibit 8 – Mariners Centre Floor Plans– cont'd.**

**Mariners Centre – Floor 4**



**Mariners Centre – Floor 5**



Source: DCG Corplan Consulting LLC



And, in conclusion, the 3-d imagery of the Mariners Centre is presented in the following Exhibit 9:



**Exhibit 9 – Mariners Centre 3-d Imagery – cont'd.**

View from Southwest



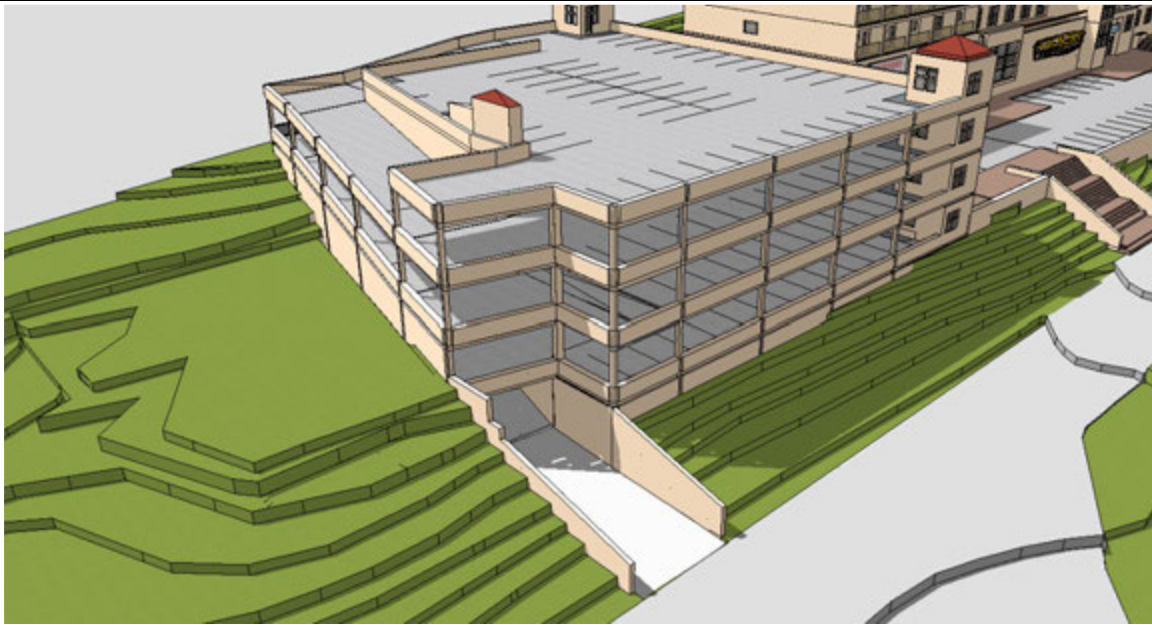
Detail View at Entry





**Exhibit 9 – Mariners Centre 3-d Imagery – cont'd.**

Detail View of Parking Garage



Detail View at 3<sup>rd</sup> Floor Terrace



**Exhibit 9 – Mariners Centre 3-d Imagery – cont'd.**

Detail View of Parking Lot



Detail View of Rooftop Solar Panels



Source: DCG Corplan Consulting LLC

## Project Summary

The Mariners Centre represents a bold undertaking that promises exciting results for the Borough of Hopatcong, its business community, and its residents. The mixing of cultural, entertainment, lodging, dining, retail, and commercial office into one development is clearly within the intended mandate of the Area of Need and the River Styx Form Based Code.

We believe that this is a financially viable project that will generate substantial property tax revenue, create jobs, establish new spending patterns, and stimulate the local area.

What is now needed is the attraction of a forward-thinking development organization who can take this vision into reality. From this report, the Borough has all the information needed to craft a developer prospectus and circulate it to interested parties.

DCG Corplan Consulting LLC has been honored to have participated in this reuse process and we look forward to assisting the Borough with on-going marketing efforts regarding this and other properties in the near future.