MEMORANDUM

TO: Tom Salemi, Chair, Newburyport Redevelopment Authority

FROM: Barry Abramson

SUBJECT: Newburyport Redevelopment Authority Waterfront Property
Financial Implications of Alternative Development Programs

DATE: October 22, 2013

Project Framework

This memo summarizes the presentation made by Abramson & Associates, Inc. at the October 2, 2013 board meeting of the Newburyport Redevelopment Authority (NRA). The purpose of the presentation and this memo is to assist the NRA and other stakeholders in understanding the financial and other implications of the development plan prepared in conjunction with Union Studios as well as alternative development programs for the NRA's waterfront property.

The NRA's redevelopment goals for the property are:

- Expand Park / Public Open Space
- Maintain Reasonable Amount of Public Parking in Improved Lots (as per parking study)
- Complimentary Development to:
  - Activate park
  - Reinforce connection between downtown and waterfront
  - Pay for public improvements – from sale of development pads and real estate taxes supporting City bond financing, supplemented with non-City grants

Specifically, the analysis addresses:

- Prospects for Financial Feasibility of Private Development
- Ability of Development to Support Public Improvement Costs – Financial Feasibility of the Public-Private Project
- Additional Tax Revenues accruing to the City over time
- Community Positives and Concerns

Land Allocation

All of the alternative development programs considered in the analysis assume the building footprints in Union Studio's revised master plan (page 7). This plan allocates the NRA's 4.2 acre property as follows:

- Park / Public Open Space / Walkways = 2.14 acres (half the NRA property)
- Public Parking - 172 spaces on ±1.4 acres
- Building Footprints = 0.55 acres (±13% of site)
  plus, for scenarios with underground parking, access ramps = 0.1 acres (±2% of site)

Public Improvements Cost Estimate

The analysis incorporates a cost estimate for the public improvements prepared by Ellana, Construction Cost Consultant of ±$3,500,000 (all dollar figures in this analysis are expressed in $2013). This includes on-site relocation (beneath the improved parking lots) of contaminated soil from all areas of the property, accommodating the development envisaged in the Union plan – a strategy developed by Ellana in tandem with the NRA's environmental consultant, GZA, as likely the most cost-effective solution yielding an environmentally safe outcome. Adding 15% for design and engineering brings the public improvement cost estimate to +$4,000,000.

Alternative Development Programs

The analysis considers four alternative development programs:

- Union Plan with Residential above Commercial with Underground Parking
- Union Plan with Office above Commercial
- Single Story Commercial
- Modified Union Plan – Residential above Commercial with Underground Parking on West Lot and single story commercial on East Lot

Feasibility and Financial and Other Implications of Alternative Development Plans

A summary of the analysis is presented in the exhibit on page 6 and more detailed information and assumptions are presented on pages following that. The analysis recognizes that estimates of potential sale proceeds for the development building pads would be too speculative and variable at this point to rely upon, while real estate taxes that would be generated by feasible development (supporting bond financing) may be estimated with a greater degree of confidence; as well as likely yielding a far more substantial source of revenue than the potential land sale. <u>Based solely on estimated bond financing supported by estimated project-generated real estate taxes, assumed to be supplemented by a reasonable target amount of grant funding</u> from non-City sources:

- <u>The Union Plan with residential condos has a reasonable prospect of being financially feasible and is estimated to fully support the public improvement costs with an approximately half million dollar surplus and upper floor use would not impact public parking.</u> (This plan with residential rental apartments is considered unlikely to be financially feasible, and if it were, would generate significantly lower tax revenues as well as public parking impact.)
- <u>The feasibility of the Union Plan with office instead of residential is extremely problematic (as well as likely having a major negative impact on public parking); even if developed, likely would result in a large funding gap</u> (more likely at higher end of $1,000,000 - $2,500,000 range).
- <u>The single-story commercial-only program, while itself likely to be financially feasible, would also yield a large pubic improvement funding gap</u> ($2,500,000).
- <u>The Modified Union Plan with residential condos above commercial on the West but only single-story commercial on the East would come relatively close to supporting public improvement costs</u> (a half million gap – within the range that may be provided by land sale revenues).

In each case, <u>potential land sale revenues could well supplement the above net amount</u>. While <u>a range of zero to $1,000,000 is considered reasonable</u>, it is possible that revenues could exceed the upper end of this range.

In addition to the real estate taxes supporting bond debt service (typically structured as essentially constant payments), an increment of the tax revenues would grow over time. While not available to support the capital cost of public improvements, based on a standard bond debt service structure, this increasingly sizable increment would accrue to the City's benefit and, after the bond financing is paid off, the City would benefit from the full amount of such taxes. For example, the Union Plan is estimated to generate net taxes above the amount required to fund debt service payments on a 20 year bond financing totaling +$1,500,000 (in $2013) over that period. After retirement of the bonds, the full annual tax revenue is estimated at close to a half million dollars (again in $2013), resulting in a far greater tax benefit to the City over the long term (e.g. $6,600,000 over the first 30 years and $21,000,000 over the first 50 years – in $2013).

This tax increment can be a source for park maintenance (a working estimate of ±$50,000 annually), to the extent not fully funded by the private project. However, we believe there is a good chance the private project, which would not otherwise incur grounds maintenance costs, can be contracted to fund a large portion or possibly all of the park maintenance cost on an ongoing basis. In either case, the private project's ability to fund park maintenance will be enhanced, the greater the size of the project.

Implementation

Only the pads upon which private development would be built should be sold to private developers with the remainder of the site conveyed to the City. Sale rather than lease of development parcels is most likely to generate developer interest, facilitate development feasibility, and maximize revenue to support public improvements. The City may directly control construction of the desired public improvements by contracting for this.

A well-orchestrated request for proposals (RFP)/disposition process will enable the NRA and City to:

- Only proceed with development if the proposed/negotiated project achieves financial and other parameters

- Exert control at a fine level over development and design. Beyond adhering to zoning and building code, final design and construction documents will need to be approved by the NRA, as a condition of granting possession to the developer, to ensure the buildings to be constructed live up to the “pretty pictures” of concept plans.
- Time to perform requirements, preconditions for granting possession, staged land sales if the project is to be phased, and developer financial guarantees and/or payment and performance bonds can provide assurance that private development will be executed and completed within reasonable time-frames and that public bonding commitments are matched with assurance the corresponding private development.

Prospective developers will want to see support on the part of the City government as to what is considered acceptable and desirable in terms of scale and nature of development and financial parameters. Notably, if project-generated revenues in the form of land sale proceeds and City bond financing supported by project real estate taxes, supplemented by non-City grant funding, will be required to fully support the required public improvements, then this should be specified and, contingent upon achieving such threshold, the City’s willingness to issue bond financing and construct the public improvements indicated.

Prior to and/or concurrent with the RFP process, the NRA and City should explore and monitor potential funding sources for brown field remediation, park and parking improvements. While securing funding from public sources may be limited given the City’s economic health, we believe there is a reasonable potential for raising somewhere in the range of $500,000 to $1,000,000 from sources such as the State’s PARC grant program (grants up to $500,000) and various brownfield funding programs.

Newburyport Waterfront Development
Financial Implications of Alternative Development Programs

Program Concept	**Union Plan** **Residential Above Commercial** 2-3-Story Buildings on West 1 3-Story Building on East		**Union Plan With** **Office Above Commercial** 2-3-Story Buildings on West 1 3-Story Building on East				**Single Story** **Commercial Only** 2 1-Story Buildings on West 1 1-Story Building on East		**Modified Union Plan W Residential** **on West, 1-Story Restaurant on East** 2 3-Story Buildings on West 1 1-Story Building on East	
Commercial SF		23,600		23,600				23,600		22,400
Residential Units, SF	62	46,400		0				0	42	32,000
Office SF		0		46,400				0		0
Total SF		70,000		70,000				23,600		54,400
Community Positives	□ Retail/Restaurant activates park □ Residential = eyes on park □ All residential parking U/G		□ Retail/Restaurant activates park				□ Retail/Restaurant activates park □ Some in community may prefer lower buildings □ Lower scale public use building especially on East opens views in middle of park and toward/down river		□ Retail/Restaurant activates park □ Residential = eyes on park □ All residential parking U/G □ Lower scale public use building in East opens views in middle of park and toward/down river	
Community Concerns	□ Fear of residents lobbying to constrain park use (would require gov't accommodation)		□ Office doesn't activate park in non-business hours □ Generates considerable peak time parking demand competing for public spaces = 50 per building; 150 if 3 buildings				□ Low buildings not in scale/character w predominate existing/historic buildings		□ Fear of residents lobbying to constrain park use - but only from west side (would require gov't accommodation)	
Prospects for Feasibility	**Reasonable - If Residential Condos** □ Strong market for condos to cover cost of U/G parking, site condition □ Res Rental unlikely to be feasible		**Highly Problematic** □ Requires pre-leasing/pre-sale in non-prime office location □ If one building gets built, not likely 2nd or 3rd will				**Good** □ Smaller but simpler project with parking assumed to be satisfied in public lot		**Reasonable - If Residential Condos** □ Smaller project than full Union Plan to support fixed costs and effort = marginally less appeal to developers	
Ability to Support Public Improvement Cost		Say		if 3 blgs	if 2 bldgs	if 1 bldg		Say		Say
Annual RE Tax	$270,000 - $330,000	$300,000	$150,000 - $200,000	$175,000	117,000	58,000	$50,000 - $80,000	$64,000	$200,000 - $250,000	$225,000
Supportable Bond		$3,700,000		$2,200,000	$1,500,000	$700,000		$800,000		$2,800,000
Plus Non-City Grants	$500,000 - $1,000,000	$750,000	$500,000 - $1,000,000	$750,000	$750,000	$750,000	$500,000 - $1,000,000	$750,000	$500,000 - $1,000,000	$750,000
Less Public Imprvt Cost		($4,000,000)		($4,000,000)	($4,000,000)	($4,000,000)		($4,000,000)		($4,000,000)
Surplus or (Gap)		**$450,000**		**($1,050,000)**	**($1,750,000)**	**($2,550,000)**		**($2,450,000)**		**($450,000)**
Plus Land Sale Proceeds	$0 - $1,000,000		$0 - $1,000,000				$0 - $1,000,000		$0 - $1,000,000	
Net Tax Revenues After Bond Payments if Bond Debt Service = Initial Year Est Tax										
Year 21		$467,000		$272,000	$181,000	$91,000		$100,000		$353,000
Total 1st 10 years		$322,000		$187,000	$125,000	$62,000		$69,000		$243,000
Total 1st 20 years		$1,470,000		$855,000	$570,000	$285,000		$314,000		$1,110,000
Total 1st 30 years		$6,642,000		$3,865,000	$2,577,000	$1,288,000		$1,419,000		$5,014,000
Total 1st 50 years		$21,176,000		$12,320,000	$8,213,000	$4,107,000		$4,524,000		$15,985,000

Note: All financial estimates in $2013; Estimates for full build-out unless otherwsise noted

Union Revised Master Plan

Information and Assumptions Underlying the Analysis

Timing/Inflation/Phasing

All financial estimates are in $2013. Public improvement costs can be expected to rise prior to contracting. Assuming a stable or improving market, assessed value and land pricing may also increase over that time. Given unknowns of timing and relative rates of inflation affecting these components, we consider use of the $2013 estimates for all elements to yield a reasonable estimate for the purpose of analyzing the relation between financial costs and benefits. Estimates are based on full-build-out. If development is phased, public improvements on east and west lots could be staged to correspond with development phasing.

Public Improvements Cost Estimate

	West	East	Total
Open Space	930,000	1,730,000	2,670,000
Parking Lot	240,000	610,000	840,000
Total	1,170,000	2,340,000	3,510,000
Total with Des/Eng @15%	1,350,000	2,690,000	4,040,000

Site Premium Cost Estimate

- GZA estimate of soil disposal costs if off-site = $575,000
- GZA and Ellana determined relocation on-site (under parking lot) more cost-effective - preliminary estimate less than half
- Likely can be funded by brownfields funding
- Other premium costs for construction to address soft soils and excess dewatering estimated at up to ±$15,000 per u/g parking space including 20% contingency (say a range of $12,000 - $15,000) in addition to standard u/g parking cost (typically reported by sources in the development community to be in range of $30,000 per space)

Real Estate Taxes (assuming uses feasible)

Tax rate: $13.32 per $1,000 of assessed value (AV)

Residential Condos

- Assessed value would be based on sale price
- Assume average AV = $450/Net SF yields tax = $5.99/Net SF

Residential Rental

- Assume AV = $200,000/Unit = $183/Net SF yields tax = $2.43/Net SF

Commercial and Office

- Typical assessed values for prime space at $150/Net SF for rental; $250 for condos
- Assume AV = $200/Net SF for new space yields tax = $2.66/Net SF

Bond Financing Assumptions

- General obligation bond financing rationalized by estimated real estate taxes directly generated by project's private development
- 5.0% interest rate, 20 year term
- Analysis assumes par amount of bond financing = direct construction and design/engineering not including any issuance or other capital costs

Market/Feasibility

Feasibility/supportable land cost analyses were performed for scenarios based on ranges of plausible assumptions for key elements of the development equation for the alternate development programs. Relatively small changes in assumptions for individual elements of such analyses can significantly impact indicated feasibility and supportable land cost. Generally, the analyses indicate supportable land cost in the range of zero to $1,000,000 for feasible scenarios. The ultimate test of the financial feasibility and land pricing would come from proposals submitted by developers in response to a well-orchestrated solicitation process, as subjected to review for reasonableness and, then, implementation through financing and development. Accordingly, at this point, we consider a conservative approach of looking primarily to the real estate taxes supporting bond financing and a reasonable target estimate of grant financing, rather than land sale revenue, to be appropriate. Also see following comments and those in summary exhibit:

Residential Condos

- Strong market appeal to strong/rising market segment
- Anticipated pricing in range of low- to high-$500/Net SF, e.g. ±$500,000 - $600,000+ for a 1,200 - 1,250 SF for high quality 2-bedroom unit (with 2 in-building parking spaces)
- At mid- to higher end of condo price range, development with this upper floor use feasible supporting cost of u/g parking and site premiums

Residential Rental

- Market does not appear to support pricing much above $2.00/Net SF (low-$2,000's for a 1,100 SF 2-bedroom unit) and would require assigned on-site parking to attain high end pricing
- Assigned at-grade parking not allowed under Chapter 91
- Not able to support cost of u/g parking and very questionable marketability, constrained pricing without on-site parking indicates unlikely feasibility

Commercial - Restaurant/Retail

- Assume 50:50 restaurant and retail
- Active public-oriented uses required on ground floor by Chapter 91
- Strong market especially for restaurant (though higher fit-out costs)
- Assume parking accommodated in public lots
- Attainable rents ± $25 and $30/Net SF triple net, for retail, restaurant, respectively
- As component of mixed-use project should contribute to feasibility and land pricing
- If stand-alone project, would be simpler but smaller project would have to support soft and construction costs (some of which are fixed) and developer effort

Office

- Very limited market; Downtown Newburyport is not a prime office location
- Best chance would be build-to-suit for user with particular non-market location motivation which cannot be anticipated with any confidence – which is a caprice of market than cannot be anticipated with any confidence
- Such a user would most likely want to be in one, not multiple, buildings
- If secure such user for one building, won't necessarily get ones for other buildings
- Top of market for limited amount of small space leases, typically with on-site parking, up to $25 - $27/Net SF on modified gross basis (±$30 on fully gross basis)
- Not close to being able to support cost of u/g parking, unlikely to be marketable at high end rent or for build-to-suit user without assigned parking (which would have to be u/g as per Chapter 91)
- If no u/g parking, would generate considerable parking demand competing for public spaces – approx 50 per building, 150 for all three buildings

Approvals

The original Union master plan presented in September, 2012 was considered by the NRA's approvals consultant to conform with Chapter 91 and other regulatory requirements. Fine points of Union's revised plan and alternative plans in this analysis, in each case more modest, than the original plan, would need to b e confirmed.

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