ABRAMSON & ASSOCIATES, Inc.

Real Estate Advisory Services

MEMORANDUM

TO: **Cochecho Waterfront Advisory Committee**

FROM: **Barry Abramson**

SUBJECT: **Evaluation of Financial Implications of Proposal Dover Landing Project for Cochecho Waterfront Development**

DATE: **April 23, 2007**

This memorandum presents our evaluation of the financial implications of the development of the proposed Dover Landing project at the Cochecho Waterfront under the terms of the term sheet negotiated between the Dover Housing Authority and Dickinson Development Corp..

Proposed Development. Dickinson will acquire and develop with private and public improvements approximately 21 acres (which includes approximately 1.5 acres allocated to a waterfront park and other land used for public ways that will be deeded back to the City upon completion). The private development program and phasing is summarized below:

Proposed Private Development

phase:	1	1A	2	3	4	5	Bluff THs 6	Subtotal 1 - 5	Total 1 - 6
Residential									
units	34	-	27	54	54	12	20	181	201
Residential Net SF	47,720		44,704	80,850	73,347	29,500	40,000	276,121	316,121
Flex Space in Live-Work THs	1,500		3,750					5,250	5,250
Retail/Restaurant	5,000	-	5,000	-	-	10,000	-	20,000	20,000
Office	-	40,000	-	-	-	-	-	40,000	40,000
Total Net SF	54,220	40,000	53,454	80,850	73,347	39,500	40,000	341,371	381,371

Dickinson has estimated development program for the low-land, river-fronting portion of the site. Additional development could be accommodated on the Bluff site which is included in the acquisition, but for which Dickinson has not yet estimated development capacity. Preliminary analyses prepared on behalf of the City indicate the Bluff might accommodate between 20 and 25 townhouses should Dickinson be able to acquire access to this site and we have conservatively assumed 20 townhouses in our analyses.

The proposed development program will be developed in phases. The exhibit presented above presents the minimum program for phase 1 and reasonable preliminary estimates of program phasing which could be anticipated in one-year increments. The 40,000 square foot office building included in Phase 1A likely would be developed overlapping one of the primarily residential phases. The above program is subject to revision in terms of mix and phasing, depending upon pre-leasing / pre-sale marketing, within the parameters of the allowed uses and maximum time frames specified in the term sheet.

Financial Terms. The acquisition price specified in the term sheet is $4,617,000 as follows:

- $500,000 for environmental remediation (if costs less, unspent balance is added to funds available for supplemental improvements)
- $2,117,000 for waterfront park improvements (if costs less, unspent balance is added to funds available for supplemental improvements)
- $1,000,000 for supplemental improvements and reimbursement of DHA 3rd party expenses – $200,000 (including $140,000 in deposits) for 3rd party expenses; the remaining $800,000 to be used as necessary by Developer for additional environmental remediation costs, enhanced sewage treatment facility odor mitigation, relocation of pedestrian bridge, and enhanced park improvements (with any remainder going to cash payment)
- $1,000,000 cash payment to City.

In addition to the above, the developer will be paying for the cost of all public roadways which will be deeded back to the City upon their completion. While all of these roadways are necessary to serve the private development components of the project, some of them would be desired by the City even without the private project in order to enhance access to public park amenities. These are:

- New road from Washington Street bridge to property line in direction of Maglaras Park
- North River Road from Washington Street bridge to the waterfront park pier
- Improvements to River Road south of the bridge
- Landscaped median at River Road

These are cumulatively estimated to have a cost of $550,000 which may be considered an additional financial benefit of the project to the City.

<u>Viability of the Proposed Project</u>. We have reviewed the financial pro forma and market study provided by Dickinson. Generally, we feel that, while some elements may be somewhat higher or lower than might have been estimated, overall the financial estimates are within a range of reasonableness and we also consider the financial return to be within a range of reasonableness in terms of financial feasibility and financability, but not to be excessive.

<u>Land Value</u>. Our assessment of financial return to the developer being considered within a range of reasonableness implies that the proposed financial terms represent a fair value for the land. This is supported by the proposal having come from an RFP process in which more than one qualified bidder was involved, motivating the developer to provide a competitive bid (albeit a process that resulted in only one proposal).

The City and DHA have commissioned appraisals to value the property as approved for the intended development and free of any environmental contamination. We note that, even if the negotiated price were to be less than appraised value, that price could still be considered reasonable, given the long, costly, at risk process the developer has had to go through to refine the plan to get the project to a point that it is on the track toward the approval assumed by the valuation.

The significant capital improvements, fiscal and revitalization benefits generated by the project (as discussed in following sections) also indicate that the project provides a fair value for a public-private development.

<u>City-Funded Improvements</u>. The City will be responsible for the following improvements prior to completion of the first phase of private development.

- Improvements to the River Street Pump Station plant and its processing equipment for which the City has already appropriated $1,500,000
- Construct the new Washington Street Bridge for which the City is to contribute approximately $600,000, the vast majority of which has already been appropriated

Real Estate Tax Generation and Fiscal Costs. The exhibit below summarizes direct fiscal benefits and costs of the project. A more detailed exhibit presenting assumptions is presented at the end of this section.

Summary of Direct Real Estate Tax Generation and Fiscal Costs

	Annual Impact		Total Impact 1st 20 Years	
	Phase 1 Uninflated $	Total Project Uninflated $	Uninflated $	Inflated $
City RE Taxes	**$166,000**	**$1,120,000**	**$17,900,000**	**$26,300,000**
Fiscal Costs	**$69,000**	**$153,000**	**$2,600,000**	**$3,800,000**
Net Fiscal Benefit	**$97,000**	**$967,000**	**$15,200,000**	**$22,600,000**

Portion of RE Tax allocated to City General Fund and Local School Tax
1st 20 Years starting at completion of 1st phase
Inflated $ inflated at 3% / year from 1st year following completion

Real estate tax estimates include only that portion of taxes that would be allocated to the City's general fund and the local school tax. Estimated assessed values are based on estimated market values that would be implied by the developer's anticipated pricing adjusted downward to conform with assessing practices and norms in the City of Dover and as a conservative element in the analysis.

Specifically, the per square foot assessed value for the commercial components have been set at 75% of the level indicated by the developer's pro forma assumptions to the level reported by the city's assessor for comparable properties. The assessed value of residential condominiums tends to closely track sale price for condominiums which have recently sold or for which there are recent sales of directly comparable units (which would likely be the case on an ongoing basis for such a large project); in the case of this component, assessed value has been set at 85% of the developer's estimated pricing primarily to reflect a conservative approach to estimating actual sales prices.

The City's share of annual real estate taxes directly generated by the project is estimated at approximately $170,000 in the first year following completion of the first phase and over $1,120,000 upon full build-out, both in uninflated dollars.

If the project were to be developed over a seven year period (six one year phases), the City would realize over the first 20 years following completion of the first phase estimated direct real estate taxes of approximately $18 million prior to inflation and approximately $26,000,000 adjusted for inflation at an annual rate of 3.0% starting after the first year.

Major fiscal costs were estimated based on the following. According to the City's former finance director, the only significant impacts on the City's capital or operating budget for a project of this size would be for park and road maintenance. This treatment is consistent with the consultant's experience of how other City's facing comparably sized projects view such costs.

The City has estimated its annual cost for park maintenance including replacement reserve at $42,000. Our analysis assumed this cost would be incurred in full starting upon completion of the first phase.

The project is estimated to include 3,800 linear feet of new public roadways. The City estimates annual maintenance costs of approximately $5.00 per linear feet, yielding an annual cost of approximately $19,000 upon completion of the road system. This cost has been phased in corresponding to the approximate phasing of road construction.

In all likelihood, the relatively small number of additional students that would be generated by the project would be absorbed without any significant increase in operating costs; however, a conservative approach would be to apply the pro rata operating cost to any school age children anticipated to be generated by the project. The public school operating budget (excluding debt service) for 2006/2007 is reported to be $9,131 per student.

A project of this type is expected to have minimal school age children. The closest comparables in the City in terms of unit type and price point are two townhouse projects – the 42 unit Cricklewood and the 28 unit Bellamy River development. These projects are reported by the City Assessor to have 4 public school students (0.095 students per unit) and 2 public school students (0.07 students per unit). The units in these projects are larger – 3-bedrooms with an average size of approximately 2,200 square feet versus the approximately 1,600 square foot (including Bluff units), mostly 2-bedroom flats of the Dover Landing project.

Accordingly, we would estimate public school children would be found at a far lower density at the subject project. We have used an estimate of 1 student per 20 units (0.05 students per unit). This would yield an annual school budget cost of approximately $16,000 for the first phase and $92,000 upon full build-out. Considering that marginal operating cost per student and density of students are likely overstated, this is considered to be a conservative upper end estimate.

The combined estimated annual fiscal costs for park and road maintenance and schools are approximately $69,000 for the first phase and $153,000 upon full build-out, both in uninflated dollars.

Integrating the estimated annual City real estate taxes and fiscal costs yields a net fiscal benefit of approximately $100,000 for the first phase and $1,000,000 upon full build-out, in uninflated dollars.

If the project were to be developed over a seven year period (six one year phases), the direct net fiscal benefit after fiscal costs over the first 20 years following completion of the first phase would be estimated to total approximately $15 million in uninflated dollars and $23,000,000 in inflated dollars.

Also considerable additional tax revenues could accrue from development of adjacent properties stimulated by the Cochecho project. The City would also benefit from the positive impact of the attractive public space and demand generation provided by the project's residents and businesses, all of which would be expected to increase business and tax revenues across the downtown.

Direct Real Estate Tax Generation and Fiscal Costs

City RE Taxes	Assessed Value										
	Est Market Val/Net SF	AV Adjustmt	Est AV /Net SF	phase: **1**	**1A**	**2**	**3**	**4**	**5**	**Bluff THs 6**	**Total 1 - 6**
Residential	$265	85%	$225	$11,086,805	$0	$10,914,264	$18,211,463	$16,521,412	$6,644,875	$9,010,000	$72,388,818
Retail/Restaurant	$135	75%	$101	$506,250	$0	$506,250	$0	$0	$1,012,500	$0	$2,025,000
Office	$135	75%	$101	$0	$4,050,000	$0	$0	$0	$0	$0	$4,050,000
Total Per Phase				$11,593,055	$4,050,000	$11,420,514	$18,211,463	$16,521,412	$7,657,375	$9,010,000	$78,463,818
Cummulative AV				$11,593,055	$15,643,055	$27,063,569	$45,275,031	$61,796,443	$69,453,818	$78,463,818	$78,463,818
Annual City RE Taxes											
Per Phase				$166,000	$58,000	$163,000	$260,000	$236,000	$109,000	$129,000	
Cummulative				**$166,000**	**$223,000**	**$386,000**	**$647,000**	**$882,000**	**$992,000**	**$1,120,000**	**$1,120,000**
Annual Fiscal Costs											
Per Phase											
Park Maintenance				$42,000							
Road Maintenance											
Approx % of roads completed				60%	20%	0%	10%	10%	0%	0%	100%
Linear feet of public road				2,280	760	-	380	380	-	-	3,800
Cost				$11,400	$3,800	$0	$1,900	$1,900	$0	$0	$19,000
School											
# students				1.7	-	1.4	2.7	2.7	0.6	1.0	10.1
Cost				$15,523	$0	$12,327	$24,654	$24,654	$5,479	$9,131	$91,767
Total Cost Per Phase				$68,923	$3,800	$12,327	$26,554	$26,554	$5,479	$9,131	$110,767
Cummulative Annual Fiscal Costs											
Park Maintenance				$42,000	$42,000	$42,000	$42,000	$42,000	$42,000	$42,000	$42,000
Road Maintenance				$11,400	$15,200	$15,200	$17,100	$19,000	$19,000	$19,000	$19,000
School				$15,523	$15,523	$27,850	$52,503	$77,157	$82,636	$91,767	$91,767
Total				$68,923	$72,723	$85,050	$111,603	$138,157	$143,636	$152,767	$152,767
											-
Cummulative Annual Net Fiscal Benefit				**$97,000**	**$150,000**	**$301,000**	**$535,000**	**$744,000**	**$848,000**	**$967,000**	**$967,000**

Note All dollar figures are in uninflated dollars
City RE Tax Benefit Includes portion of RE Tax allocated to City General Fund and Local School Tax = $14.28 /$1,000 for fiscal yr 2007
Park Maintenance
Road Maintenance Cost based on $5.00 per linear foot; 3,800 linear feet completed in phases
School Cost based on 1 student per 20 at average operating cost = $9,131 per student

ASSUMPTIONS AND LIMITING CONDITIONS

- Information provided by others for use in this analysis is believed to be reliable, but in no sense is guaranteed. All information concerning physical, market or cost data is from sources deemed reliable. No warranty or representation is made regarding the accuracy thereof, and is subject to errors, omissions, changes in price, rental, or other conditions.

- The Consultant assumes no responsibility for legal matters nor for any hidden or unapparent conditions of the property, subsoils, structure or other matters which would materially affect the marketability, developability or value property.

- The analysis assumes a continuation of current economic and real estate market conditions, without any substantial improvement or degradation of such economic or market conditions except as otherwise noted in the report.

- Any forecasts of the effective demand for space are based upon the best available data concerning the market, but are projected under conditions of uncertainty.

- Since any projected mathematical models are based on estimates and assumptions, which are inherently subject to uncertainty and variation depending upon evolving events, The Consultant does not represent them as results that will actually be achieved.

- The report and analyses contained therein should not be regarded as constituting an appraisal or estimate of market value. Any values discussed in this analysis are provided for illustrative purposes.

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