City of Biddeford, ME:

3 Lincoln Street Redevelopment Market & Feasibility Study

Executive Summary Report: November 2015

Prepared for:

City of Biddeford, ME

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ECONOMIC DEVELOPMENT

MRLD
landscape architecture + urbanism

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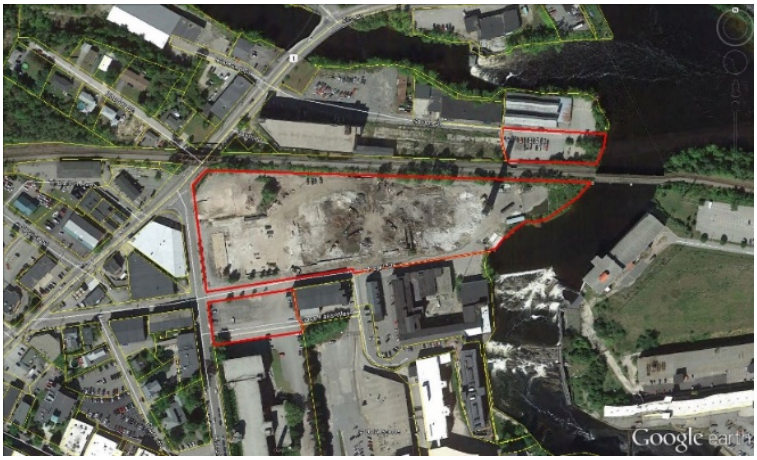
Summary Report

This report presents the results of a market analysis and feasibility study to determine the highest and best use of 3 Lincoln Street, a City-owned property formerly known as the Maine Energy Recovery Company (MERC) site. This analysis is just one piece of a significant undertaking by the City to return the Mill District and Biddeford's downtown to economic prosperity.



3 Lincoln Street Site Boundary

The overall objective for this project is to provide the City and potential developers the information needed to make informed decisions regarding future development of 3 Lincoln Street. This plan is grounded in information and analysis around market conditions, financial viability, site realities, and has support from public and City leaders.

Project Background

The City of Biddeford is undergoing a major revitalization of the Mill District, the city's historic waterfront that is home to the mills that once provided the lifeblood of the economy. This revitalization has led to new activity in the Downtown including the restored City Theater, new residential units at North Dam, offices, studios, and smaller industrial uses throughout the neighborhood.

For years, City of Biddeford leaders debated the negative impact a waste-to-energy facility was having on revitalization and redevelopment investment throughout the city, and more specifically, downtown Biddeford. Finally, in 2012 the City Council concluded that the activity associated with the plant was in fact impeding new private investment. To resolve this critical barrier the City purchased the site that year, removed the incineration facility in 2013, and began the environmental remediation process (VRAP and PCB), which is expected to conclude in fall-2015. Brownfield cleanup is currently in the planning stage. Almost immediately, the removal of MERC stimulated private investment interest. In fact, as of October 2015, a total of $78M had been committed to new commercial and residential property development/redevelopment adjacent to, or in close proximity of, 3 Lincoln Street.

A conceptual plan for 3 Lincoln Street has been prepared that complements existing and proposed developments, contributes to renewed economic activity in the city and is acceptable to the City Council and community. This plan can now be used to guide and solicit developers who are interested in capitalizing on the 3 Lincoln Street property as a means to invest in the City of Biddeford.

Redevelopment market opportunities for publically owned property must be balanced with private investment returns and publically desirable development scenarios. The objective for this project is to identify redevelopment alternatives that offer such a balance. The City is most interested in how the property may be best utilized to complement what is currently occurring in the Mill District rather than competing with ongoing redevelopment activities.

Analyzing Biddeford's Dynamic Real Estate Market

This redevelopment feasibility study has been a multi-phase effort that began in the fall of 2014. All of the data and information provided was the most current at the time the information was collected. However, as detailed in the market analysis (Appendix A), within the last 12-18 months, absorption of existing mill space has increased dramatically, the Lincoln Mill project was proposed, and vacancy rates in downtown Biddeford have plummeted. Nothing in the historic data collected as we began the market analysis for this project suggested this abrupt change, so what is happening? What is the development community seeing?

At its core, market analysis is a study of recent supply and demand with the purpose of identifying opportunities to meet future demand. Most market studies, similar to this one, begin with a thorough data trends analysis using past trends to project future demand. Historic data can be an excellent predictor when past trends are expected to persist. However, when there are other, unpredictable factors affecting change, past trends do not always reflect future demand. This is the case in Biddeford. The past data is helpful for providing context and may in fact be relevant for understanding some of the future economic potential, but understanding the transformative nature of MERC's removal is also important in exploring future potential.

The city is experiencing several events simultaneously that are positively transforming the character of the community and the region. These events include the removal of a waste-to-energy facility (MERC) from the city's downtown in 2013 and emergence from the national recession of 2008. Together, these events are affecting Biddeford's economy in ways historic data cannot fully project.

What we are seeing is that instead of responding to market demand, the development community in several cases is **leading** the Biddeford market. Developers are acting on "early" or "weak" signals that are difficult to see in the traditional analysis of supply and demand, because the market is just beginning to emerge. By building products that are completely different from anything currently available, developers are now able to capitalize on this emerging market opportunity – they are actually creating demand where it didn't exist before.

Biddeford's transformation is creating a new real estate frontier with uncertain outcomes and emerging market opportunities are increasingly difficult to predict. What this means for the redevelopment of 3 Lincoln Street is that to deal with the uncertainty, the City must take an adaptive approach where the project is broken down into small components that evolve incrementally. This will allow ultimate flexibility in directing the course of redevelopment. As such, the purpose of this market analysis is not to set a single path toward one redevelopment objective but to create a framework of the City's vision that will guide the private sector in adapting emerging market opportunities to the City's desired development outcomes.

3 Lincoln Market-Based Opportunities

The market analysis identified a variety of opportunities within "residential" uses such as higher-end market rate, age-qualified, and workforce units. There is also some softer demand in retail, services, and commercial office space.

Residential: Market Rate Housing | Market Rate Housing refers to properties occupied (rented or owned) by people who pay market-rate prices to lease or purchase the property. In other words, there is no subsidy for the housing. A potential opportunity for 3 Lincoln Street is market rate rental units at the higher end of the price scale that may be converted to condominium units in the future (as the market allows).

Residential: Age-Qualified Community | 55+ communities or "age qualified" communities have an age-restriction for residents. Targeted toward baby boomers, these communities are designed to accommodate residents who do not have children, are in or nearing retirement, and want to be surrounded by others at similar stages in their lives. These communities often have a clubhouse or lifestyle center with shared amenities such as pools, fitness rooms, gardens, and spaces for different types of gatherings and demonstrations. Redevelopment at 3 Lincoln Street could respond to this demand by designating a building or specific floors throughout the site as age qualified units.

Residential: Workforce Housing | Workforce housing projects are typically mixed-income properties. They are built using a tax subsidy and are required to offer below-market rents to low-income residents in a portion of the units. There is a growing need for affordable housing in the region and recent workforce housing projects in the city have been highly successful. According to one developer, when a unit becomes vacant, they receive about "30 calls". An opportunity for 3 Lincoln might be to respond to this continued demand by including some workforce housing units in the mix of market rate units.

Class A Office Space | Class A Office space is high-quality, top-of-the-line space that competes for prominent users. Rents for Class A space are typically above average for the area. Biddeford has lot of office space potential in the Mill District, but most is classified as Class B and C space. As regional office utilizing industries grow and Biddeford emerges as the low-cost alternative to Portland, there may be an opportunity to attract Class A office users seeking modern spaces nestled in the type of diverse urban environment that the Mill District is quickly developing into.

Retail: Small-Scale Supporting Retail & Services | While there is limited market potential to support a major retail anchor at 3 Lincoln Street, supporting retail business and services should not be discounted completely. Biddeford's downtown retail space was absorbed quickly following the removal of MERC and recent success with the Heart of Biddeford's Main Street Competition.[1] As the revitalization of the city continues, the demand for street-level space will increase. Modern commercial space with street-level storefronts is not something easily created in the mills. Depending on the primary use for 3 Lincoln Street, small-scale street level retail could be incorporated into a mixed-use redevelopment. Specific uses would be a byproduct of the redevelopment of the site and the Mill District and the accompanying new consumer demand. Examples of supporting uses include office print-copy center, café, deli, pharmacy or other small boutique stores.

[1] Heart of Biddeford: http://heartofbiddeford.org/

Preferred Redevelopment Scenario: Mixed-Use

Based on the analysis of data and market conditions, Camoin Associates and MRLD developed the following preferred development scenario. This redevelopment scenario can be supported in the market, would be a fiscal win for the city, and provides considerable economic benefits to the local economy.

Summary of Potential Target Markets

The mixed use scenario is designed to respond to market demand with a balance of uses. This development option offers several advantages: it supports 24/7 vibrancy of space, it allows development to occur when demand has been lean for one or more uses, and it diversifies the real estate investment by allowing it to better perform (financially) when demand in any one use is cyclic.

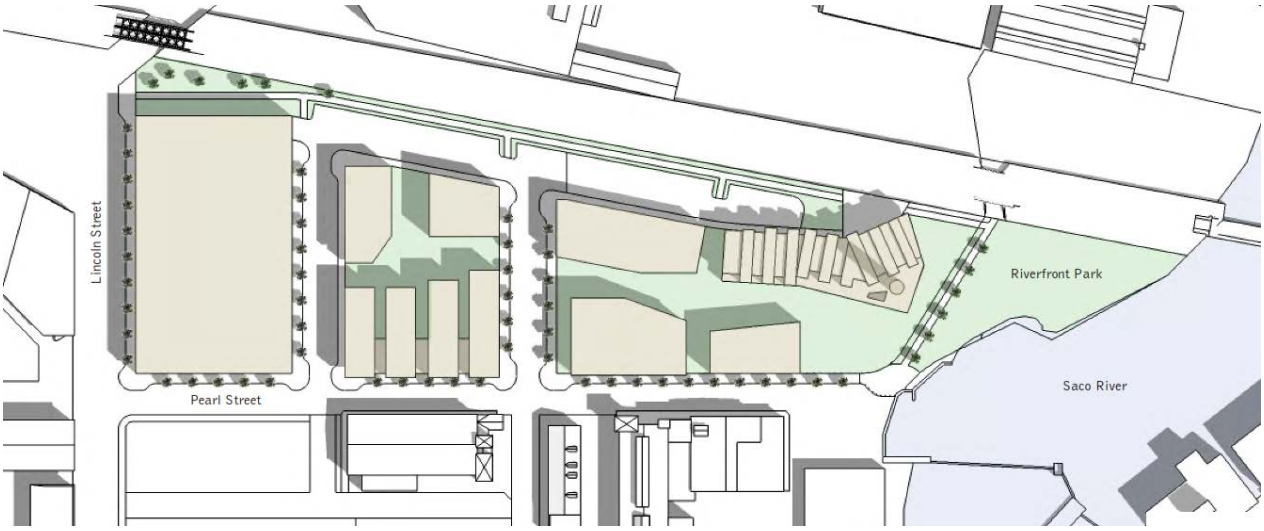
- Growing workforce of young professionals and continued base of UNE students
- Empty nesters looking to downsize
- Smaller office users in finance, insurance, professional and technical services, and life sciences
- Infill retail to support other end-users such as business support services and local resident needs

Class A Office Space	**140,000 sf**
High-end Residential Units	**120,000 sf**
Infill Street- level Retail	**74,000 sf**
Parking	**730 spaces**
Green Space	**66,000 sf**

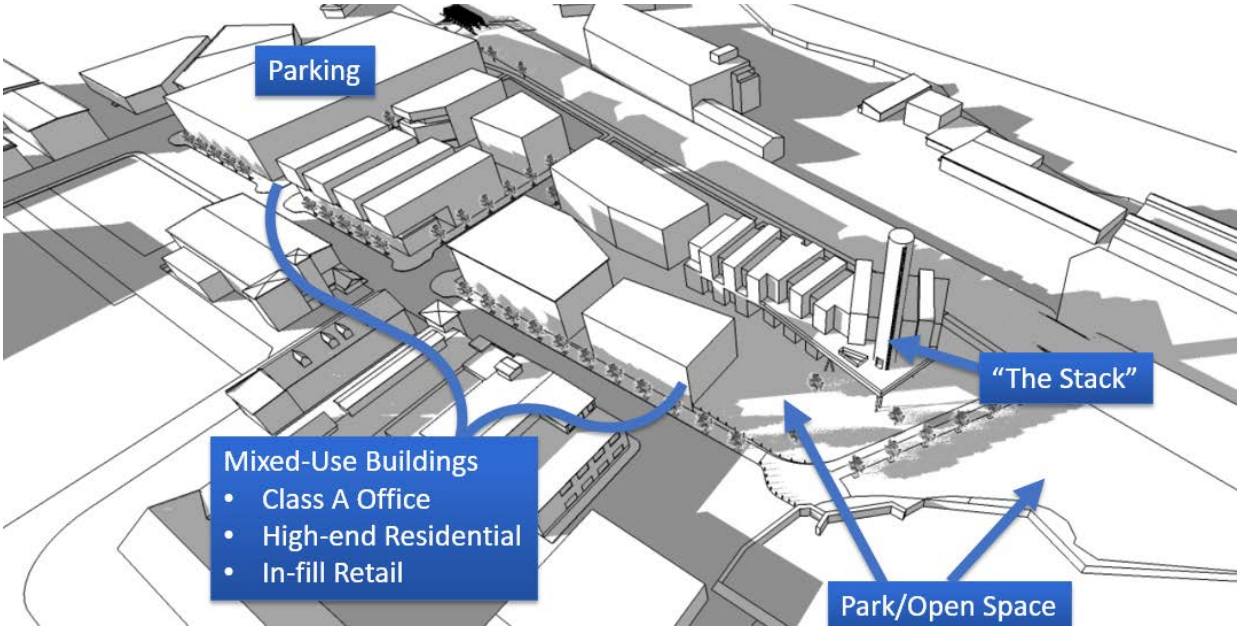
The Vision for 3 Lincoln Street

The vision for 3 Lincoln Street consists of integrated upscale apartments and condominiums, Class A offices, and small vibrant retail spaces with onsite parking. The vibe along Lincoln Street is a lively, mixed-use urban scene. As the site slopes eastward toward the river, it transitions easily into a neighborhood park setting with dynamic open spaces that draw pedestrian traffic to the waterfront.

Concept Plan View



Bird's Eye View



MRLD created a modular design that enables a market-driven mix of uses that can be developed in phases by one or more developers. These rederings of the mixed-use scenario show the parking garage at the far end of the site; however, based on market condtions, the developer(s) vision, and future redevelopment of adjacent properties, the parking garage could be located in the middle third of the site with retail storefronts along Lincoln Street.

View of Riverfront Park

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View of Parking Infrastructure

View of Lincoln & Pearl Street

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Financial Feasibility Summary

The financial feasibility analysis provides information of existing funding gaps and preconditions for attracting private investment. Also referred to as a pro forma cash flow statement, this analysis examines project feasibility from the perspective of the following parties:

- **Bank:** The debt service coverage ratio (DSCR) is a measure of the resources available to pay debt service (calculated as the ratio of net operating income to debt service payments). This analysis assumes that banks will require a ratio of at least 1.25.
- **Private Sector (Developer):** The internal rate of return (IRR) is a formula used to calculate the rate of return for investments that create different amounts of annual cash flow. It is a good measure of the developer's return-on-investment for undertaking a project (on a pre-tax basis). Depending on the risk profile of a project, the minimum benchmark IRR will change. Given current market conditions, a benchmark of 12% has been selected as the minimum IRR.
- **Public Sector:** Public involvement and assistance is often a key factor in successful redevelopment projects as public investment helps to close any funding gap.

Redevelopment of urban properties, particularly urban industrial properties, is a challenging process that requires cooperation and financial support from the public and private sectors. The 3 Lincoln Street site is no exception.

As with many projects of this nature, the analysis indicates that public investment is required in order to meet the financial feasibility criteria assumed for the project. Assuming the public investment takes the form of a municipal parking structure, the financial feasibility analysis of the preferred redevelopment scenario is summarized as follows:

- **Public Investment:** $28 million (Covers cost of parking structure and streets/infrastructure to partner with private sector investment.)
- **Private Sector Investment:** $96 million
- **Estimated Private Sector Rate of Return (IRR):** 12.3%
- **Estimated Bank Debt Service Coverage Ratio (DSCR):** 1.35

Economic Impacts Summary

The economic impact analysis examines the preferred scenario's potential impact in terms of generating direct and indirect jobs, sales, and earnings in the City of Biddeford's local economy. Economic impacts in the City of Biddeford as a result of the project include the following, which are further detailed in Appendix D:

- Permanent jobs both on-site and off-site at local businesses: 800 jobs
- Annual earnings including wages and benefits: $47 million
- Annual sales at local businesses as money cycles through the city's economy: $110 million

It should be noted that other scenarios generated varying net economic benefits including some that were higher than the preferred development scenario; however, those scenarios were not as feasible overall from a market and private sector financial feasibility perspective.

Fiscal Impact Summary

The fiscal impact analysis evaluates the impacts of the preferred scenario on City finances. The scenario is estimated to generate approximately $734,000 in annual revenues (i.e. property tax, licenses, fees, etc.) and cost the city $69,000 in annual expenses. **This is a net fiscal benefit of $665,000 annually in the near term.**[2] See Appendix E.

Net Impact of the Mixed-Use Scenario

Economic and fiscal impacts of the mixed-use redevelopment scenario can be summarized as follows:

- **Public Sector Investment:** $28 million
- **Private Sector Investment:** $96 million
- **Economic Impact:** $110 million sales supporting 800 jobs earning $47 million in wages annually
- **Fiscal Impact:** $734,000 revenues - $69,000 expenses = Net fiscal benefit of $665,000 annually

Another way to look at this model is that every dollar of public sector investment incentivizes nearly $3.50 in private investment that would not occur but for the public sector investment. Over a 20-year time period, this investment would generate $2.7 billion in sales and $1.1 billion in earnings (assuming 2% annual inflation).

Next Steps for the Redevelopment of 3 Lincoln Street

This analysis demonstrates that the mixed use scenario can be supported by the market with public investment and is feasible in the market. Furthermore, this is a scenario that will create economic and fiscal benefits to the City.

This information can now be used to communicate this opportunity to the community at large and specifically be used by the City to market to businesses and the real estate development community. Furthermore, the information contained here can also be used to provide insights into markets to support business retention and expansion.

[2] Note that while in the short term, School Department expenses (which comprise a considerable portion of the City budget) are expected to be minimal since city schools currently have excess capacity and can easily absorb some additional students, it is important for the city to consider the long-run impacts of adding new students to the school system. Considering the average School Department cost per student, over the long term, total annual city expenses are anticipated at approximately $160,000, amounting to a total net fiscal benefit to the city of $573,000 annually.