

**REUSE OF THE PEPPERELL MILL SITE
FINANCIAL FEASIBILITY**

As a first step in determining the financial feasibility of a mixed use development on the site, square footage recommendations for the previously identified uses were developed. To develop these square footages the following Pepperell sales leakage and related retail square foot potential information was utilized:

Category	Retail Leakage - \$Millions	Square Foot Potential
Grocery Stores	\$19.7	47,824 SF
Specialty Food Stores	0.7	1,738 SF
Restaurants	15.6	41,714 SF
Drinking Places	1.1	3,849 SF
Clothing Stores	8.3	33,649 SF
Shoe Stores	1.1	4,407 SF
Jewelry/Luggage/Leather	1.1	2,429 SF
Office Supply/Stationery/Gifts	0.5	2,192 SF
Other Gen'l Merchandise	6.5	38,253 SF
Other Categories	25.8	112,945 SF
Total	80.4	289,000 SF

Based on leveraging the current sales leakage shown above by category, creating a destination that residents of Pepperell and nearby towns as well as tourists would be drawn to, the additional draw that each of these uses would create for the others and the desirability of locating a business or living there, the following square footages are recommended:

CATEGORY	SQUARE FEET
RETAIL	
Antiques/collectibles shop (possible group shop)	2,500
Gift shop,	1,500
Bakery/coffee/tea shop	1,000
Arts/crafts gallery	1,500
Jewelry store	2,000
Boutique grocery/specialty store	1,500
Country store	3,000
Men's clothing	2,000
Women's clothing	2,000
Women's shoes	2,000
Sub-Total	19,000 SF

MEDICAL/PROFESSIONAL and RELATED HEALTH USES	
Medical offices (4)	6,000
Medical related businesses (2)	2,500
Pharmacy	5,000
Medical related sales (2)	2,500
Health club-fitness center-spa-gymnastics-dance studio-related uses	10,000
Sub-Total	26,000 SF
HOSPITALITY	
Bed & breakfast	3,000
A quality, sit-down restaurant (with a liquor permit)	3,500
Brew-pub	4,500
Sub-Total	11,000 SF
RESIDENTIAL	
Conservative Scenario	
Condominiums/Apartments (24 @ 800-1,500SF)	29,000
Most Likely Scenario	
Condominiums/Apartments (36 @ 800-1,500SF)	43,500
Aggressive Scenario	
Condominiums/Apartments (48 @ 800-1,500SF)	58,000
Live/Work lofts (12 @ 1,500 SF)	18,000
Sub-Total	47,000 – 61,500 – 76,000 SF
HERITAGE TOURISM	
Museum (mill history as well as Pepperell history)	2,500
Sub-Total	2,500 SF
TOTAL	105,500 – 120,000 – 134,500 SF

Using these square footage recommendations to generate development/construction cost estimates and related revenue projections, a financial feasibility analysis was completed from a top-down perspective.

Three scenarios were developed (with all the details displayed in the attached worksheets) using the square footage recommendations shown above:

- ◆ A Conservative Scenario (Worksheet 1)—keeping all other uses as shown above, the residential component consisted of 24 condominiums and 12 live/work lofts
- ◆ A Most Likely Scenario (Worksheet 2)—keeping all other uses as shown above, the residential component consisted of 36 condominiums and 12 live work lofts
- ◆ An Aggressive Scenario (Worksheet 3)—keeping all other uses as shown above the residential component consisted of 48 condominiums and 12 live/work lofts

Assumptions used in the analysis included the following:

- ◆ The Town identifies a developer who will purchase the site when it is cleaned up. A Letter of Understanding is signed with the developer. The Town signs a Conditional Purchase & Sale Agreement with the Mill Site owner allowing the town to obtain environmental cleanup grants. Additionally, there will need to be a developer contribution to the environmental remediation costs. *It is critical that the developer be identified before moving forward with the owner on the Conditional Purchase & Sale Agreement.* After completion of the cleanup, the Town “flips” the property to the developer (with potentially no Town borrowing required).
- ◆ **Scenarios for revenues** assume all buildings are developed and then sold by the developer as business and residential condominiums, given the high percentage of home ownership (versus rental occupancy) in Pepperell and a similar disposition among businesses. Sale prices reflect both market conditions and the fact that the site is developed as an attractive destination location desirable for both businesses and residents. Alternatively, if the developer were to triple net lease the buildings for a 10% return on their built value, it would generate approximately \$2 to 2.6 million annually (depending on the scenario) at full build-out more than enough to cover a 6% mortgage loan on the roughly \$17 to 22.5 million (again depending on the scenario) invested in land and buildings with annual interest of roughly \$1 to \$1.35 million.
- ◆ A range of potential **costs** are included for each of the different categories of use. Given the tight economy, the low end of the range (yet still quite adequate) was used to reflect the competitiveness with which a developer would approach the project. In addition to the “hard” construction costs, all the “soft” costs, as well as site, utility and demolition work are shown as a range of percentages that are applied to the hard costs. Soft costs include:

Architectural/engineering design
Permitting

Construction administration
Legal and financing costs

Environmental remediation costs are included at \$1 million. A range of possible costs is preliminarily “guestimated” at possibly \$1-3 million, but this is only based on past studies and without being able to enter the buildings. The low end of the range was used for this analysis since any numbers are only preliminary, educated guesses at this time. Further environmental studies will need to be performed prior to remediation.

Subtracting construction costs, plus the other costs above, plus the land costs, plus the developer’s contribution to environmental remediation costs, from the total revenue produces the **Net Margin to the Developer**. Also shown are cost ranges for the rehabilitation of Buildings 1, 2A and 4. These rehab cost estimates are

very preliminary and have not been integrated into the worksheet analysis, but could potentially result in reduced costs (versus building new) if implemented.

Summary

Results from the three scenarios (at full buildout) are shown below, based on the above assumptions (with details in Worksheets 1-3) including the Revenues, Costs and Net Margin to the Developer:

	Scenario 1 Conservative \$millions	Scenario 2 Most Likely \$millions	Scenario 3 Aggressive \$millions
Revenues	\$20.1	\$23.1	\$26.2
Development / Construction Costs & Other Costs	\$15.5	\$18.1	\$20.9
Land Cost	\$1.0	\$1.0	\$1.0
Developer’s Contribution to Environmental Remediation	\$0.5	\$0.5	\$0.5
Net Margin to Developer (at full build-out)	\$3.1	\$3.6	\$3.8

In the table below, annual real property taxes to the Town (after full buildout) are displayed. Because the assumptions call for the developer to sell the buildings to businesses and residential occupants, no Tax Increment Financing (TIF) is shown.

	Scenario 1 Conservative \$millions	Scenario 2 Most Likely \$millions	Scenario 3 Aggressive \$millions
Real Property Taxes to Town (annually after full buildout)	\$218,000	\$252,000	\$285,000
Annual Operating Cost: Common Area Maintenance	\$106,000	\$120,000	\$135,000

Operating expenses (Common Area Maintenance—for snow removal, lawn mowing, parking lot maintenance, etc.) would be paid by owners of residences and businesses on a per SF basis. For example, a 1,500 SF business or residence would pay \$1,500 per year or \$125/month.

This financial analysis supports the viability of the project under the assumptions and scenarios shown. In the implementation plan, the roadmap will be provided for how to proceed in more detail, including further exploration of potential grants and recommendations for securing a developer.