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**PEPPERELL, MASSACHUSETTS
MILL SITE**

MARKET ANALYSIS

FINAL REPORT

June 8, 2009

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(printed copy and CD previously submitted)

EXECUTIVE SUMMARY

Introduction

Bartram & Cochran (assisted by Wright-Pierce)) was engaged by the Town of Pepperell, Massachusetts to complete a Market Analysis for the approximately 12-acre industrial site located in the center of Town, adjacent to both residential areas and the Town's primary business district. Included on the site are badly deteriorated mill buildings, a cogeneration plant that is being dismantled and removed and a non-contiguous parking area. Additionally, this site adjoins the Nashua River and has access to two Town streets.

Furthermore, the primary area has numerous subterranean tunnels and structures related to past uses on the site, but as-built plans are lacking. On the positive side, utilities including water, sewer, gas, and electricity are available to the site. The primary zoning of the site is industrial, but there is an applicable mixed-use overlay provision, adopted by the Town in 2006.

In partnership with Pepperell Realty, LLC, the Town wanted this site analyzed to determine its highest and best uses (industrial, commercial, residential, office and retail) in order to effect its most viable potential re-use.

Background

Established in 1775, the Town of Pepperell, Massachusetts, is located about 35 miles northwest of Boston where the Nissitissit River joins the Nashua River. Village and rural characteristics combined with historical features continue to give Pepperell a special feel, while reflecting its mill town and farming community roots. Riverfront views, woodlands and rolling hills all contribute to the Town's natural beauty. Pepperell's recreational/sporting venues boast riding facilities, a skydiving center, a biking trail and areas for fishing. Encouraging equine activities in town is the goal of the Pepperell Horse Owners Association.

Pepperell lies right on the Massachusetts side of the border with New Hampshire (where there is no sales tax), and is fifteen minutes away from the major retail/commercial areas of Nashua. No major highway is located in or closely adjacent to the Town of Pepperell.

Bartram & Cochran (B&C) also reviewed the following information as context for our analysis and conclusions:

- ◆ Pepperell Comprehensive Plan Update 2007-2016
- ◆ Pepperell's Conservation Land and Open Spaces

- ◆ Pepperell’s Zoning By-Law—Mixed Use Overlay District
- ◆ Pepperell Historical Commission—A Brief History of Pepperell

- ◆ Pepperell Mill Site Study Committee Documents
 - Pepperell Downtown Business District and Mill Site Preliminary Assessment by FinePoint Associates, LLC
 - Minutes to Pepperell Planning Board Meeting with FinePoint Associates
 - Draft of NMCOG’s Regional Economy Report
 - NMCOG Memorandum regarding Chapter 43D
 - Proposed Outline for Mill Site Master Plan
 - Visioning Session Memorandum
 - NMCOG’s Visioning Session Notes and Spreadsheet
 - Mill Site Plan
 - Various Mill Site Study Committee Meeting Minutes
 - Summary of 1995 Phase II Comprehensive Site Assessment
 - Full text of April 2003 Phase I Environmental Site Assessment

- ◆ Profile of Pepperell General Demographic Characteristics – 2000 Census
- ◆ Profile of Pepperell Selected Social Characteristics – 2000 Census
- ◆ Profile of Pepperell Selected Economic Characteristics – 2000 Census
- ◆ Profile of Pepperell Selected Housing Characteristics – 2000 Census
- ◆ MassEcon – Northeastern Massachusetts Employment by Industry
- ◆ Massachusetts Dept. of Revenue – Pepperell Socioeconomic and Fiscal Summary
- ◆ Massachusetts Dept. of Revenue – Housing Units, Land & Water Area
- ◆ Middlesex County QuickFacts from U.S. Census
- ◆ Census 2000 Demographic Profile Highlights for Pepperell and Middlesex County and Massachusetts
- ◆ Pepperell Zip Code Business Patterns –U.S. Census
- ◆ Pepperell 2006 Economic Sector Business Breakdown—County, State
- ◆ Pepperell Business Certificate List from Town Clerk
- ◆ Pepperell Personal, Commercial, Industrial Property Lists from Assessor’s Office
- ◆ Homes Sales and Data in Pepperell, Middlesex County and Massachusetts from a variety of sources: RE/MAX, The Warren Group, ZipRealty.com, RealEstate.com and city-data.com

In order to reach conclusions and recommendations on reuse of the site, Bartram & Cochran:

- ◆ completed a *demographic, business and housing analysis* of Pepperell within the context of the region and the state
- ◆ completed a *business inventory* for Pepperell

- ◆ completed *information interviews* with the private and public sectors at the local, regional and state level, including with the Mill Site Study Committee
- ◆ completed a *site analysis* (by Wright-Pierce)

With the recommended reuse alternatives developed, a *financial feasibility analysis* was completed along with an *implementation plan*.

Conclusions and Recommendations

It is perhaps worthwhile to first state that reuse options always require a careful balancing between what a municipality might desire at a location with what is realistically achievable there. This does not mean that a community should be satisfied with the status quo. In fact, Bartram & Cochran believes it is useful to stretch, think outside of the box and realize exceptional results. However, this process must still consider what is possible, sustainable and works with the surrounding areas.

Many of the following observations that underlie our conclusions compare Pepperell to the County and/or the State:

- ◆ Pepperell's population is somewhat younger overall than the county or the state with a larger average household size
- ◆ Pepperell has less vacant housing and a much higher owner occupancy (versus rental)
- ◆ Pepperell has a substantially higher population in the labor force and a longer average commute to work; education levels are lower than the county
- ◆ Pepperell has a lower percentage of workers in management/professional (vs. the county) and service positions; but a higher percentage in construction jobs and production/transportation positions
- ◆ Industry sector wise, Pepperell has a higher percentage of workers in construction, manufacturing and retail; with a lower percentage in financial services, professional occupations, education and health services, and arts and entertainment
- ◆ A slightly higher percentage of workers in Pepperell are in the private sector and less in the government sector
- ◆ Pepperell has a higher median household income than the county or state with a lower percentage of families below the poverty level
- ◆ Housing wise, Pepperell has a significantly higher percentage of single family detached housing; and on the automobile side of the equation a substantially higher percentage of households with 2 or more vehicles
- ◆ Median house value (in 2000) in Pepperell was higher than the state but lower than the county
- ◆ *With housing operating costs as well as rental costs lower than the county, combined with a higher median income than the county, purchasing power for Pepperell residents exceeded that of Middlesex County residents, overall*

- ◆ From 1990 to 2000, Pepperell's population grew by 10.3%. However, there was a much more modest 2.4% growth from 2000 to 2007 with no significant changes from 2004 through 2007, indicating a relatively stable population base since 2000.
- ◆ The 2008 FinePoint Associates Downtown Business District and Mill Site Study projected Pepperell population growing from 11,840 in 2008 to 12,082 in 2013 (based on ESRI BIS forecasts). Similar forecasts for median household income predicted an increase (from \$65,162 in the 2000 census) to \$89,073 in 2008 and \$102,685 in 2013.
- ◆ Statistics from the MA Department of Workforce Development show unemployment in Pepperell increasing from 3.5% in December, 2007 to 4.0% in November, 2008 and then 4.9% in December, 2008, reflecting the impact from recent economic conditions.
- ◆ Pepperell has a much higher proportion of construction related businesses than either the county or the state. On the other hand retail, wholesale and financial services are relatively less represented in Pepperell than in either of the other two larger geographic areas. Professional services are less represented in Pepperell than in the county overall. Health and social services appear under-represented in Pepperell compared to Middlesex County and the State of Massachusetts.
- ◆ Restaurants and hotels and related businesses are relatively more prevalent in the county and the state than in Pepperell.
- ◆ From a purely retail perspective, the FinePoint Associates Downtown Business District and Mill Site Study indicated that representatives from the community identified the strongest competing retail as located to the north and east—especially in Nashua, NH, which is sales tax-free. In that same study, sales leakage—the amount of purchases that residents are making outside of Pepperell—was identified for all categories of sales other than at Health and Personal Care Stores. This latter situation has a number of possible explanations including purchases made by customers from outside of Pepperell or with the lack of a major supermarket nearby, residents are buying supermarket type items at a drugstore.
- ◆ While there is leakage in virtually all categories, unmet demand (in potential sales dollars) is highest for supermarkets, restaurants, clothing stores and other general merchandise. However, also determined in the analysis were the categories with the most extreme leakage—those where a 30% capture rate of the unmet demand would be sufficient to support a new business (given typical store sizes). These were determined to be clothing stores, other general merchandise stores and home furnishing stores.
- ◆ Finally, that study indicated that traffic counts on Main Street near the downtown business district and the mill were approximately 10,400 per day.
- ◆ Current homes for sale range from \$135,000 to \$889,900 with a median price of \$364,900. Average home size (for sale) is 2,235 SF to 2,297 SF.
- ◆ A 55-unit permitted project is just underway on Nashua Road constructing single family homes in a tight cluster. Original asking prices were anticipated to be in the high \$200,000's to low \$300,000's. It appears the developer may be holding off on actively marketing the project due to the economy. Another project in the Leighton Street area is proposed with 41 units, 29 single family and 12 multi-

family. Permitting is not complete but the project could be underway by summer or early fall. Pricing is not final but could be in the low to mid-\$200,000 range and up. There are no other big residential projects starting in surrounding communities. An affordable condo project in Groton is not selling well.

- ◆ In Pepperell, 2008 home sales were down 20.3%, dropping from 123 to 98, with median sales price in the Fourth Quarter of 2008 falling to the area of just under \$200,000 from roughly \$280,000 in the Fourth Quarter of 2007 (according to city-data.com). Expectations from state realtors (according to RE/MAX) are that the 2008 trends will continue into 2009, but that low interest rates and more realistic pricing will start to yield improvements in the second half of this year.
- ◆ Representative statistics, provided by Century 21 from a variety of sources including MLS, indicate that for single family homes (the vast majority of sales) in Pepperell Average Days on Market decreased from 173 in 2008 to 145 in 2009 (through mid-March). While 2009 is just underway, the time it takes to sell has improved by almost one month.

Based on all the above facts, observations and input from a broad array of contacts, our conclusion is that the best use of the site is to create a *mixed use lifestyle development* in harmony with the adjacent Nashua River and complementary to Railroad Square.

What we mean by a mixed use lifestyle development is a combination of a lifestyle center—mid range to upscale specialty shops, a restaurant and related uses in an open-air venue portraying an old fashioned main street configuration with well landscaped streets, public green spaces and vintage style street lights and benches—along with a mixture of professional, residential and other features.

Suggested retail uses would include an antiques/collectibles shop, a gift shop, a bakery/coffee/tea shop, arts/crafts gallery, a jewelry store, a boutique grocery/specialty store, a country store, men's clothing, women's clothing and women's shoes.

Professional uses would include medical offices and medical related businesses; while related health and personal care uses would include a pharmacy and medical related sales, as well as a health club/fitness center.

Hospitality uses would include a bed & breakfast. A quality, sit-down restaurant (with a liquor permit) would also be complementary with the types of shops previously described, as would a brew-pub. Along with a museum (for mill history as well as Pepperell history), the shops identified above would create enough opportunities for residents and tourists to want to stop at several locations and then grab a coffee and snack at the bakery/coffee/tea shop or a lunch or dinner at the restaurant depending on the time of day.

There are three mostly brick buildings on the site that are worthy of further consideration for saving and reusing, while the remaining buildings and structures should be demolished and removed. One building, on Main Street, is the original office for the mill that could become a small museum for the both the mill history as well as that of

Pepperell. Along these lines, the museum might include a (hands-on) paper making exhibit and perhaps a covered bridge exhibit given its proximity to the nearby covered bridge. Near the office building and alongside the river, facing the dam is another building that is well situated to become a restaurant or be ideal for a brew-pub with a music venue space. A third building is near the Main Street / Mill Street intersection and could be used for residential, office or hospitality (bed & breakfast) uses. These buildings along with the site uses and amenities would create a “village” feel.

Residential uses for the site should include market rate as well as affordable condominiums / apartments. Live/work lofts for local artists and artisans could also be part of the development. Residences provide “feet on the street” for the rest of the businesses on the site and can make the project come alive with a 24/7 presence and dynamic. Artists and artisans can also sell their work at the arts/crafts gallery.

As an iconic marker, the tall silver stack should be left standing to identify the site quickly to passersby and tourists. Along with the completed covered bridge nearby, the mill site with the uses described above should be able to draw both local and regional residents.

Remember too, that this development process will be a fairly long term undertaking, and, as a result, that allows for the economy to turn around.

Finally, envisioning the development as described above, our preliminary recommended branding of the site would be as **Old Mill Village at Pepperell Crossing**.

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 (from the FinePoint Study) 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/Statnry/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, as a conservative assumption, there may need to be a developer contribution to the environmental remediation costs, if adequate grants are not available. *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 buildout 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.

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 buildout)	\$3.1	\$3.6	\$3.8

Each scenario also meets the 10% affordable housing goal for the project.

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.

Finally, the implementation plan provides specific actions to be taken in the following areas, including priorities, timing and responsibilities:

- ◆ Initial discussions with the current owner
- ◆ Completing the master plan
- ◆ Securing a developer
- ◆ Environmental remediation including grant sources of funding
- ◆ Permitting
- ◆ Marketing
- ◆ Construction

In summary, the mill site presents a significant, viable opportunity for the Town of Pepperell. If pursued properly it should become a successful highlight in the long history of the Town.