Roadmap to Mill Redevelopment

Financing Brownfield Redevelopment Projects

Bryan Nicholas, Sr. Vice-President
Westmass Area Development Corporation

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Westmass Area Development Corporation

- Westmass is a 52 Year Old Private/Non-Profit Company
- Mission is to Create Jobs and Taxes in Western Massachusetts By Providing Sites for Business Development
- Company Developed 16 Business Parks & Projects in 11 Municipalities
- Businesses in the Parks Employ More than 9,000 People and Pay in Excess of $10 million in Property Taxes Annually.
- Current Inventory of Developable Industrial Land is 300 acres in 5 parks.
- Projects Range from 10,000 SF Machine Shops to 1.5 million SF Ludlow Mills.
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- An Historic/Brownfield Mill Redevelopment Project is Still A Real Estate Project
  - Investors Expect a Return – 15-20% annually
  - Lenders Expect to be Paid Back (with Interest)
  - Developer Expects to Be Compensated for Knowledge, Effort and Risk

- Virtually All Mill Redevelopment Projects are Upside Down Financially
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Common Constraints

- **Physical Limits** – **Large Scale = Large Cost**
  - Usually on a Waterway, with Retaining Walls, Dams, and Obsolete Infrastructure.
  - Hazardous Materials Limit Future Use of Land and/or Buildings
  - Densely Developed – Limited Parking and Truck Circulation
  - Buildings are Not Functional – Low Ceilings, Close Column Spacing
  - Buildings, Heating Systems, Electrical Distribution, Roofs, Walls, Windows have Deteriorated and Need Significant Repairs or Replacement.
  - Off Site Infrastructure (Public Works) Is Not Adequate for Planned Redevelopment

- **Legal Constraints**
  - Zoning Reflects Prior Industrial Age
  - Difficult to Subdivide Property to Segment Profitable Buildings
  - Heavily Regulated by Environmental Authorities, Army Corps, State and Local Building Authorities
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Common Constraints

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Common Constraints

- Economic Constraints
  - Limited Market for Existing Space – High Vacancy/Low Rents
  - High Operating Costs – Maintenance/Repairs
  - Cost of Renovation Exceeds Cost to Build New
  - Cost of Remediation and Demolition Far Exceeds the Market Value of Underlying Land
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How Much is Needed – The Business Plan

- Estimating Revenue & Expenses
  - Tax Returns and Financial Statements
  - Real Estate Appraisals
  - Market Analysis
  - Environmental Engineering
  - Structural Engineering
  - Civil Engineering
  - Mechanical Engineering *(Plumbing, HVAC, Electrical, Fire Protection)*

- Cash Flow Analysis

- Proforma Statements
  - Sources & Uses/Balance Sheet/Profit & Loss
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- Develop Network of Consultants, Contractors, and Tradesmen that you can rely on.

- Carry Large Contingency Factors, even for Firm Quotes.

- No Matter How Thorough, Experienced and Meticulous You Are, You Will Miss Things.

- It is What You Do Not Have In Your Budget That Will Sink the Project.
## Sources and Uses of Funds

### USES:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
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<tbody>
<tr>
<td>PROPERTY ACQUISITION</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>ENVIRONMENTAL ASSESSMENT</td>
<td>125,000</td>
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<tr>
<td>ENVIRONMENTAL REMEDIATION</td>
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<tr>
<td>ASBESTOS REMOVAL</td>
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<tr>
<td>DEMOLITION</td>
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<tr>
<td>PERMITTING/ENGINEERING</td>
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<tr>
<td>OTHER SOFT COSTS</td>
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<tr>
<td>ON-SITE BUILDING/MECHANICAL IMPROVEMENTS</td>
<td>3,000,000</td>
</tr>
<tr>
<td>PUBLIC INFRASTRUCTURE IMPROVEMENTS</td>
<td>4,000,000</td>
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<tr>
<td>SALES &amp; MARKETING</td>
<td>250,000</td>
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<tr>
<td>OPERATING COSTS AT TRANSITION</td>
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<tr>
<td>LOAN INTEREST (5 Years)</td>
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<tr>
<td><strong>TOTAL USES OF FUNDS:</strong></td>
<td><strong>$14,075,000</strong></td>
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### SOURCES:

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<tr>
<th>Source</th>
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<tbody>
<tr>
<td>DEVELOPER EQUITY INVESTMENT</td>
<td>$3,000,000</td>
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<tr>
<td>NET RENTAL INCOME</td>
<td>500,000</td>
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<tr>
<td>CONVENTIONAL LOANS</td>
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<td><strong>TOTAL SOURCES OF FUNDS:</strong></td>
<td><strong>$5,500,000</strong></td>
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</tbody>
</table>

**NET FUNDING GAP**                                                      | **$8,575,000**
Closing the Gap

- Additional Revenue from Lease or Sales
  - The Bird In Hand
- Public Infrastructure Grants
- Cost Savings from Utility Upgrades
- Tax Credit Syndication Proceeds
  - New Markets Tax Credits
  - Historic Tax Credits
- Low Interest Public Lending Programs
- Utility Rebates
- EPA Assessment and Remediation Funds
- State Remediation Funding
- Tax Increment Financing
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**Why We Do This**

Former Mastex Manufacturing
Holyoke, MA

Massachusetts High Performance Computing Center
$100 million
Financing Brownfield Redevelopment Projects

Why We Do This

Former JP Stevens Manufacturing
Easthampton, MA

Easthampton Public Safety Complex
Financing Brownfield Redevelopment Projects

Why We Do This

Mill 10 Ludlow Mills
Ludlow, MA

Winn Development
83 Unit Elderly Housing
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