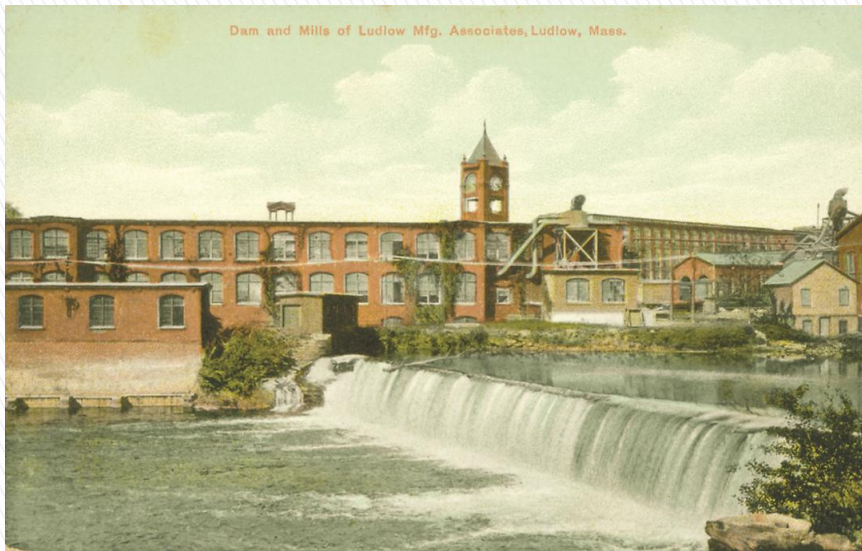


Roadmap to Mill Redevelopment



Financing Brownfield Redevelopment Projects

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

June 12, 2012

Westmass

Westmass Area Development Corporation

Financing Brownfield Redevelopment Projects

► 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.

Financing Brownfield Redevelopment Projects

- ▶ 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

Financing Brownfield Redevelopment Projects

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

Financing Brownfield Redevelopment Projects

Common Constraints



Usually on a Waterway,
with Retaining Walls,
Dams, and Obsolete
Infrastructure.

Financing Brownfield Redevelopment Projects

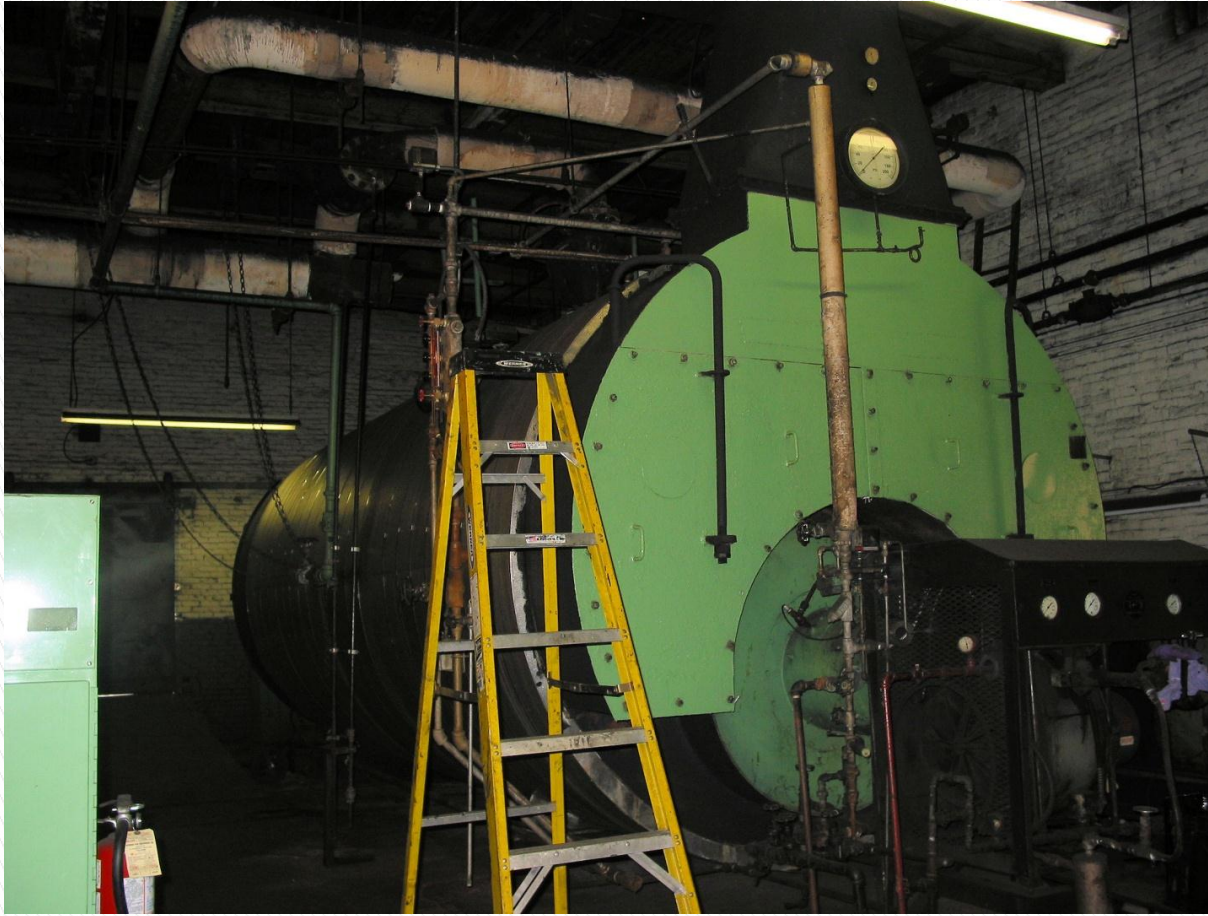
Common Constraints



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Financing Brownfield Redevelopment Projects

Common Constraints



Buildings, Heating Systems, Electrical Distribution, Roofs, Walls, Windows have Deteriorated and Need Significant Repairs or Replacement.

Financing Brownfield Redevelopment Projects

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

Financing Brownfield Redevelopment Projects

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

Financing Brownfield Redevelopment Projects

- ▶ 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:

PROPERTY ACQUISITION	\$ 2,000,000
ENVIRONMENTAL ASSESSMENT	125,000
ENVIRONMENTAL REMEDIATION	1,000,000
ASBESTOS REMOVAL	500,000
DEMOLITION	1,500,000
PERMITTING/ENGINEERING	600,000
OTHER SOFT COSTS	100,000
ON-SITE BUILDING/MECHANICAL IMPROVEMENTS	3,000,000
PUBLIC INFRASTRUCTURE IMPROVEMENTS	4,000,000
SALES & MARKETING	250,000
OPERATING COSTS AT TRANSITION	500,000
LOAN INTEREST (5 Years)	<u>500,000</u>
TOTAL USES OF FUNDS:	\$14,075,000

SOURCES:

DEVELOPER EQUITY INVESTMENT	\$ 3,000,000
NET RENTAL INCOME	500,000
CONVENTIONAL LOANS	<u>2,000,000</u>
TOTAL SOURCES OF FUNDS:	\$ 5,500,000

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

Financing Brownfield Redevelopment Projects

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

For More Information:

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