

**MARKET ASSESSMENT
ARTIST LIVE-WORK SPACE
VILLAGE OF TURNERS FALLS,
TOWN OF MONTAGUE, MA**

prepared for

Town of Montague

funded by

**Downtown Technical Assistance Grant
Commonwealth of Massachusetts
Department of Housing & Community Development**

prepared by

ABRAMSON & ASSOCIATES, Inc.

March 26, 2009

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Real Estate Advisory Services

March 26, 2009

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Re: Market Assessment for Artist Live-Work Space, Village of Turners Falls, Town of Montague, MA

We are pleased to present this report summarizing the above-referenced market assessment, prepared on behalf of the Town of Montague with funding by a Downtown Technical Assistance Grant from the Commonwealth of Massachusetts, Department of Housing & Community Development.

Thank you for the opportunity to assist you in this project.

Sincerely,
ABRAMSON & ASSOCIATES, Inc.



Barry M. Abramson
President

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1. Executive Summary

This report summarizes our market assessment for artist live-work space in Montague, MA, with primary focus on redevelopment of the Strathmore Mill in Turners Falls.

While Strathmore Mill benefits from a distinctive river location proximate to a village center with an emerging arts scene, redevelopment is challenged by a secondary market location within the region and significant property issues including access, parking, and building condition.

It would be imperative to address the above challenges and provide a product both compelling in its appeal (large, minimally finished, open live-work loft units) and priced reasonably within the market. Given market limitations, a phased approach, in which no more than 20 – 30 units would come on line at one time, would be reasonable.

Upon market stabilization, reasonable pricing for live-work units of 1,500 – 2,000 square feet could be in the range of \$0.60 – \$0.65 per square foot per month – say averaging \$1,000 – \$1,200 per month on a rental basis and \$80 – \$100 per square foot, equaling approximately \$150,000 – \$160,000 on a condo basis.

While a financial feasibility analysis is not part of the scope for this study, a preliminary assessment indicates net income (after vacancy and operating expenses but assuming no real estate taxes) for a rental live-work project might support development costs of under \$40 per gross square foot. Work-only studios might support only half that amount. Live-work condominiums might yield a slightly higher supportable cost (estimated at approximately \$50 per square foot) but would require significant pre-sales.

A total development cost attributable to the renovation of the building itself for a project primarily comprising live-work space and entailing no acquisition cost would be expected to be somewhere in the range of \$125 - \$200 per GBA square foot.

Potential funding sources have constraints which may limit their applicability or utility to a project of the type considered. Given the huge gap between economic value and development cost, the prospects for subsidizing the gap to attain financial feasibility are problematic.

We suggest making improvements as necessary to stabilize the property, continuing to work with parties currently interested in the property, outreaching to potential developer/investors who might show an interest in the project, and entertaining any creative ideas for reuse that show some potential for breaking out of the currently unfavorable market framework.

With regard to the Montague Center School, its locational advantages, indicating an appeal to a broader market, including non-artists, would indicate that pricing might exceed that suggested for Strathmore Mill and its absorption could be anticipated with greater confidence. This more favorable market position along with an apparently relatively sound condition may indicate that it makes sense to market the property for development in the relatively near term.

Generally, the Town's continued efforts to promote the arts and support the in-migration of artists, artisans, and complementary individuals and uses to the town will enhance the prospects for incremental reuse and redevelopment of buildings, particularly in the village center, and better position Strathmore Mill for future redevelopment.

2. Purpose of the Study

This report summarizes our market assessment of artist live-work space in Montague, MA. The primary focus of our assessment is the potential redevelopment of the Strathmore Mill complex in the Village of Turners Falls. A secondary property considered is the vacant Montague Center School building in Montague Center.

3. Background

The Town of Montague is located in Franklin County in the upper Pioneer Valley region of Massachusetts. The town contains five distinct villages. The Village of Turners Falls is located along the Connecticut River with easy access to Route 2 and I-91, approximately 25 miles (31 minutes) north of Northampton. It serves as the government and commercial center for the Town of Montague. The village center provides a small, attractive element of urbanity within a country setting. An attractive main street, Avenue A, and cross streets are home to 19th century architecture, a mix of cultural resources, restaurants, artist galleries and studios, and specialty and other retailers.

The village's major cultural anchors are the Hallmark Museum of Contemporary Photography, the Deerfield Valley Arts Association, and Shea Theater. The Great Falls Discovery Center also attracts tourism.

The village's attractive ambience, location within the arts-rich Mohawk Trail and Pioneer Valley areas, good highway access, proximity to colleges both in the immediate area and, at some greater distance, those of the five college area of Hampshire County, and its low cost housing and commercial space, along with the Town's active promotion through the RiverCulture project, have increasingly started to attract artists/artisans and other participants in the creative economy, as well as visitors.

4. Property Description

At the edge of the core area of the village and across a canal, situated on an island formed by the canal and the river, is the Strathmore Mill complex. This complex contains a number of vacant and dilapidated former mill buildings totaling approximately 200,000 square feet (which may be reduced by means of selective demolition). The condition of the buildings vary but, generally, appear to need considerable renovation to bring to a residential standard to meet code for live-work space.

An entrepreneur has been trying over the past couple of years to redevelop the complex as a film/video production facility, but this ambitious scheme has yet to evidence feasibility. The Town has the ability to take ownership of the property through tax title.

Various uses that were explored in a feasibility study completed in 2005 did not appear to have sufficient market support to come close to justifying the considerable redevelopment costs. The report identified artist space as a primary preferred use for the site warranting additional study.

The property has significant positive attributes but also major constraints. The major positives are the setting on the island in the river, providing a unique ambience and the relatively close proximity to the heart of the village center, with the various attributes that are described above.

The constraints are numerous and make redevelopment extremely challenging.

- The buildings are generally in very poor condition, implying very high redevelopment costs.
- A pedestrian bridge connecting to the village center (and parking) would have to be extensively redeveloped, posing a significant additional cost.
- Vehicular access, particularly for larger vehicles, is limited. A sharp turn immediately after crossing the bridge from the village center is very tight (and the property is located in from the Southworth Paper Mill which lies at the street; use of an alternate means of truck access via the tunnel underneath the Southworth Mill is subject to the agreement of other property owners, and in any event, less than optimal).
- There is limited site area available for parking and a significant amount of parking has been proposed to be located off-site across the pedestrian bridge.
- Inconvenient and/or constrained access and parking may present a particular disincentive for many artists who are frequently loading and unloading materials and finished work.
- While the setting in the river has a certain appeal, the views on one side are somewhat limited by the high palisade across the river and the site is somewhat isolated.

- The large size and lack of compatible neighboring uses challenge incremental development.

Also considered in the assessment is the vacant Montague Center School building, a surplus town-owned facility, located in Montague Center. This location, to the southeast of Turners Falls, is more proximate via the Route 63 corridor to Amherst, which is an approximately 12 mile (a 23 minute) drive. This two-story building comprises approximately 35,000 square feet on 3.3 acres according to tax assessment data.

This building is in relatively good shape and is of a size that indicates a more doable project with reasonable prospects for market absorption. While lacking the river-front location close to the Turner's Falls village center arts scene, the site is in a more established neighborhood, characterized by higher end single family homes and is somewhat more proximate to Northampton than Turners Falls.

5. Market Assessment

The market for artist live-work space in the town is considered to be the Pioneer Valley region, particularly Franklin County and secondarily, the much larger Hampshire County market which is the center of activity with its five colleges. The ability of the town, and particularly Turners Falls, to attract artists and other residents and users from and in competition with opportunities in Hampshire County is limited by the relative distance from Hampshire County, with primarily Northampton and, secondarily, Amherst, being the major activity centers. Many artists who would be a market for such living and working space (or their spouse or partner) support themselves in part by means of a more traditional "day-job", many tied to the major colleges or businesses that relate to them. While the internet has increased the ability of many to work away from employment centers, still, many find their opportunities maximized if they are closer to the centers of economic activity. Many artists may also want to be closer to the nexus of cultural and entertainment activities, as well as access to major routes to the proximate metropolitan centers and more heavily travelled tourist centers. All this is not to deny the more local economy

(particularly the emerging Northern Tier creative economy) and arts scene and the area's natural charms, which may appeal to a subset of the market. However, the market reality is that, overall, the area will be considered less convenient and less appealing to many potential occupants in the region and this would translate into a lower potential absorption and attainable pricing than for comparable properties in more core locations.

The framework of the area's current residential pricing also limits attainable pricing. Turners Falls is characterized by relatively modest housing available at modest prices. The market pricing is reported to be the same as the Section 8 affordable housing pricing. This equates to monthly rents of \$623 for a studio, \$728 for a one-bedroom; \$902 for a two-bedroom, and \$1,203 for a three-bedroom unit.

Commercial space for galleries in the village center of Turners Falls is also reported to be relatively inexpensive. While the owner of one renovated building on Avenue A was reportedly asking \$12-14 per square foot for ground floor spaces, so far without success, typical spaces of 1,000 – 2,000 square feet were reported to be marketed at \$6 – 8 per square foot double net (with tenants being responsible for real estate taxes). Houses in the area reportedly were selling, before the recent market downturn, in the range of \$150,000 - \$200,000.

Based on the above market factors, it would be imperative to provide a product that is distinct and compelling in its appeal. Even with a strong product differentiation, the project would have to be priced reasonably within the market, as artists are cost-sensitive and, evaluate their living and working options within the context of what they would pay for traditional living and working spaces.

A major focus of our assessment was to visit and gather information on comparable artist-live work projects in relatively comparable locations. The comparable projects/locales were selected in collaboration with the Town. The three comparables that were selected for detailed examination were:

- Eastworks in Easthampton, MA

- The Exner Block in Bellows Falls, VT
- Eclipse Mill in North Adams, MA

Additionally, two other projects, considered to be useful benchmarks in some ways, were examined – The Arts and Industry Building in Florence (Northampton), MA and the Hope Artiste Village in Pawtucket, RI. Relevant information for these comparables is summarized in the exhibit on the following page.

Eastworks is situated in the core of the market area, in relatively close proximity (a 10 minute drive) to Northampton (and closer to the MassPike), providing it with a stronger market location than Montague. Eclipse Mill in North Adams has the locational advantages of MassMOCA as an anchor and a stronger appeal to the much larger New York market.

The Exner Block in Bellows Falls (located approximately 45 miles (51 minutes) north of Turners Falls on I-91) is, in some ways, a more comparable location to Turners Falls, being in a relatively more rural, outlying area, with the major advantage being a distinctive village center and location on a river/canal. However, this project is very small and the live-work units are rented on a low-cost affordable basis limiting its value for assessing potential market pricing.

The Arts and Industry Building in Florence, MA only has commercial space and no residential/live-work. However, this is considered a useful benchmark (albeit, an upper end benchmark, given its location in Northampton) for artist/artisan studio space that might be included in a project.

The Hope Artiste Village in Pawtucket, RI is located in a much more dynamic and concentrated urban/arts location, proximity to Providence and the arts scene that has emerged in Pawtucket in recent years. This project has some comparability in the relatively isolated nature of its immediate physical setting (an island in a lower income urban neighborhood as opposed to an island in a river). As with the other comparables, it represents an upper end benchmark for comparison.

**Turners Falls - Artist Live-Work Market Assessment
Comparable Projects**

Comparable	Developer	Building / Project Type	Year Completed	Use Mix by SF, # Units	Pricing	Comments
Eastworks Easthampton, MA	Will Bundy Private Developer	4-Story (& basement) Mill Building Mixed-Use Rental	Starting in 2000	4 Floors & Basement: 481,000 SF Finished Area 1st Flr - 110,000 SF - Retail & Common Area Upper Flrs - 285,000 SF - 2nd & 3rd Flrs Commercial Incl Artist Studios 4th Flr - 46 Live-Work Residential Units 750 - 3,400 SF Basement - 86,000 SF Finished Area - WH & Studios	\$750 - \$2,000 (\$0.60 - \$1.00/SF) An illustrative recent listing was for a 1,300 SF unit @ \$1,020 (\$0.78/SF) Industrial rents @ \$1.50 N3 - \$8.00 Gross Office (very basic space and common areas) rents @ \$6.00 - \$10.00 Primarily Gross (varying terms at lower end of rent range)	L-W Close proximity to Northampton Fully occupied - reportedly approx 1/2 artists, 1/2 others 18' - 20' ceiling height with loft above kitchen/bath 7' x 10' windows with expansive views Hardwood floors Central air in residential and office spaces Retail includes restaurant and other retailers which survive in low traffic area due in part to internet sales (also registry of motor vehicles draws people) Large surface parking lot - parking can be tight at times
Exner Block Bellows Falls, VT	Rockingham Arts & Museum Project (RAMP) Non-Profit Developer	Rehab of 3-4 Story Commercial Building L-W and Retail Rental	2000	10 Artist Housing and L-W units 6 1-bedroom duplex units with studio spaces (650 - 700 SF) 3 1-bedroom units 1 2-bedroom unit with a studio spaces 6 Retail spaces ranging from 250 - 1200 SF Non-profit Community Art Gallery	Affordable: \$400 - \$600 (approx \$0.60/SF)	Located in heart of small downtown and on river/canal, short walk to Amtrak station No on-site parking Rear units have river/canal views Rented to artists only Rental rates vary with income level and unit size. Rent includes heat and hot water Retail spaces from under 300 SF to 500-600 SF rent for high-\$200's mid-\$500's per month including heat (approx. \$12/SF annual) Benefits from MassMOCA anchor and orientation to NY market Zoning restriction requires all sales to artists 16' - 20' ceiling heights Surface parking lot appears to provide ample parking Benefits from Northampton location Ample parking lot on site and in property across street to which property has rights to
Eclipse Mill North Adams, MA	Eric Rudd Artist/Private Developer	Rehab of 3-4 Story Mill Building L-W Condos	2002	40 L-W units - 2,000 - 3,000 SF	Originally sold for \$80,000 - \$100,000 Reportedly now reselling for \$250,000 \$350,000 (approx \$120-125/SF)	Located in generally more powerful urban area proximate to Providence and emerging arts scene in Pawtucket Project is physically removed from other comparable uses and acts as an island Retail/Restaurant component important to creating projects environment Craft and unique specialty retailers long term viability yet to be proven but assisted by internet sales and regional winter farmer's market Large surface parking lot - parking can be tight at times
Arts and Industry Florence (Northampton), MA	Holyoke Management (Herb Berezin) Current Private Owner purchased couple years ago	4 Story plus Basement Mill Building Artist Studios and Other Business Use Rental	Minimally renovated apparently over time	Over 200,000 SF Artist Studios and Other Business Use	\$6.00 - \$8.00 Gross (includes tenant heat and in many cases tenant electric)	L-W - \$1,200 - \$1,700 (\$1.00/SF) Industrial (Including Artist/Artisan Studios) - \$6.50 - \$8.00/SF Gross (tenant pays ten electric & metered gas) Office \$12-18/sf plus CAM \$5.50- 1.50/SF Phase 2 Residential - Pro forming \$1.45/SF
Hope Artists Village Pawtucket, RI	Urban Smart Growth Private Developer	1 - 3 Stories (& basement) Mill Building Complex Mixed-Use Rental	Starting in 2005, ongoing	Approx 300,000 SF 11 live-work units - 1,200-1,700 SF Duplexes - 1st floor living area, basement studio Office - Approx 20,000 - 30,000 SF Retail/Restaurant - Approx 20,000 - 30,000 SF Industrial/Artisan/Artist Studios - Approx 200,000 SF+ 2nd Phase proposed to be redevelopment of 4-Story Mill Building for 134 residential flats and duplex apartments		

The market-priced comparables in stronger market locations are considered to set an upper limit on pricing which a project in Turners Falls would be expected to fall short of. Units of the target size for live-work at Eastworks generally rent in the range of \$0.75 per square foot per month (\$1,100 - \$1,500), while smaller units (600 – 800 square feet) rent at a higher per square foot price - up to \$1.00 per square foot. Pricing of live-work units at Hope Artiste Village are even further beyond the range of what would be achievable at Strathmore, but help confirm a reasonable comparable framework for pricing.

Condo prices at Eclipse Mill for recent resales are reported to be in the range of \$250 - \$350 per square foot. This pricing represents a limited number of resales, as opposed to an initial sell-out of a project, and also is considered to be somewhat influenced by a New York artist price structure as well as the more strongly anchored (MassMOCA) location.

6. Programming/Product Definition

Based on interviews of principals of the comparables and other research, the target for creating a compelling live-work project would be to provide enough open, loft-type space to provide a distinct appeal to artists. Ideally, this would be 1,500 – 2,000 square feet for live-work space. Artists might also be attracted to live space if they could get work space in the same building or complex, in which case the living unit could be considerably smaller, say 600 – 1,200. Access to shared work facilities and amenities engendering a sense of an arts community could also help increase the appeal and attainable pricing.

Buildings most appropriate for live-work space are those which lend themselves to relatively open space (with wide column spacing), high ceilings, and have large windows. If ceiling heights allow (a minimum of 14 feet, and preferably 16 or more feet), a loft over the kitchen/bath area would add usable area and market appeal. The units could have minimal partitioning, with the bathroom being the only room that needs to be partitioned. The bathroom and an open kitchen should have very basic cabinets, fixtures, and appliances. Raw or very basic finishing of walls and floor surfaces, such as plywood patching of floors, in units and common areas is acceptable.

7. Pricing and Absorption

At present, the economy and real estate market are both suffering a severe recession. Accordingly, all estimates of attainable or reasonable pricing are suggested as applying at such time as the market recovers. Also, solving access and parking challenges resulting in all or most of parking being located in immediate proximity to the buildings could be an important factor to achieving the pricing described below.

Based on the above comparables, we would consider reasonable pricing for live-work space in a redeveloped Strathmore Mill to be somewhere in the range of \$0.60 – \$0.65 per square foot per month on a rental basis – say averaging \$1,000 – \$1,200 per month for units of 1,500 – 2,000 square feet. Smaller, primarily residential units, primarily of 700 – 1,000 square feet, might be priced up toward \$0.75 – \$0.85 per square foot or approximately \$600 – \$750 per month. Reasonable pricing on a condo basis could be in the range of \$80 – \$100 per square foot for 1,500 – 2,000 square foot live-work units equaling approximately \$150,000 – \$160,000.

The above-noted pricing, particularly, rental, is relatively affordable and likely would be kept at an affordable level due to the constraints of the local market pricing framework.

A primarily live-work project at Strathmore might include some artist/artisan studio work space for artists who, due to the nature of their work or lifestyle, want to keep their living separate from their work (but conveniently located within the same building or complex). Some artists/artisans not residing in the project might also be attracted to such space, in part by the artist community.

Based on the pricing for studio space at Eastworks, the Arts and Industry Building in Florence, and Hope Artiste, all primarily in the \$6.00 – \$8.00 per square foot gross range, and the pricing of commercial space in the village center, we estimate that work-only space available in an artist live-work project in Turners Falls might be in the range of \$4.00 – \$6.00 per square foot on a gross basis.

The Eastworks and Eclipse projects contain 46 and 40 live-work units respectively, while the Exner Block contains 10 units. We would consider a phased approach, in which no more than 20 – 30 units would come on line at one time, to be a reasonable approach for Turners Falls. Absorption could take 2 – 3 years for condos and perhaps half or less that time for rental units. Studio work space should also be provided in limited quantity, at least per phase. An initial phase might look to no more than 10,000 – 20,000 square feet of such space, with the lower end being preferable, is marketed for individual studios. Space used for some type of common resource facility (e.g. space with specialized equipment available for shared use by artists or artisans) might help rationalize the higher end of the range, if a particular need and funding/operating model and entity could be determined.

Generally, the lack of traffic and access would indicate that Strathmore is not the best location for gallery space. Resident artists might be better served showing their work in galleries in the village center or in open studio format. Possibly, if the project were to be developed to its maximum to attain a critical mass, a small on-site gallery might make sense, perhaps in conjunction with a modest coffee house or event venue.

The school building in Montague Center's locational advantages indicating an appeal to a broader market, including non-artists, would indicate that the pricing suggested above might be pushed slightly higher and absorption could be somewhat quicker or anticipated with greater confidence.

If space could be developed in upper floors of buildings in the heart of the village center of Turners Falls, with adequate available parking, pricing might be at or slightly below the range estimated for Strathmore. Lacking the critical mass, project community, and marketing of an individual project, such a building by building approach would more appropriately be conceived as a few units at a time, with development and absorption evolving in an organic way in response to market acceptance. We note that renovation costs to bring such relatively small spaces to residential code tend to be relatively high.

8. Preliminary Feasibility Assessment

While a financial feasibility analysis is not part of the scope of services for this study, and operating expenses and development costs vary greatly with size and specific nature of the project, we offer the following general observations, along with a preliminary feasibility assessment (presented on a per unit and per square foot basis on the following page), which may provide an order of magnitude understanding of potential feasibility for various building redevelopment options.

Generally, operating expenses (not including real estate taxes) might be anticipated to be in or around the range of \$4,000 – \$5,000 per unit for residential, including live-work, and \$1.50 - \$2.00 per square foot for industrial type space which would be the most generous comparable for artist/artisan space.

After accounting for the above operating costs, vacancy, and building rentable versus gross area, a net operating income (without any allocation for real estate taxes) in the range of \$3.00 - \$3.50 per GBA square foot would be indicated for live-work and \$1.50 – \$2.00 GBA per square foot for work-only studio space. This would imply supportable debt and equity perhaps in the range of under \$40 per GBA square foot for live-work and under \$20 per GBA square foot for work only studios.

Perhaps operating costs might be lower based on the specifics of the buildings, but the Town may also want not to forego receiving real estate taxes, at least beyond a certain point, so, while net operating income indicated by very preliminary analysis might under-state potential, it would likely not be by much and it is also possible that it overstates it. Upon market stabilization, live-work condominiums might yield a slightly higher supportable cost (estimated at approximately \$50 per square foot) but that would require significant pre-sales.

**Turners Falls - Artist Live-Work Market Assessment
Preliminary Illustrative Assessment of Supportable Development Cost**

	Live-Work						Work Studios	
	Condos			Rental			Rental	
	\$/Unit	\$/Net SF	\$/GBA	\$/Unit	\$/Net SF	\$/GBA	\$/Net SF	\$/GBA
Net SF/GBA			75%			75%		75%
Average Unit Size	1,750			1,500				
Average Sale Price	\$155,000	\$89	\$66					
Net Sale Proceeds @ Cost of Sale = 4% (1)	\$148,800	\$85	\$64					
Required Profit @ Net Profit Margin = 17.5%	\$26,040	\$15	\$11					
Supportable Development Cost	\$122,760	\$70	\$53					
Average Rent / mo				\$1,000	\$0.67	\$0.50		
Average Rent / yr				\$12,000	\$8.00	\$6.00	\$5.00	\$3.75
Vacancy @				8%	(\$960)	(\$0.64)	10%	(\$0.50)
Effective Gross Income				\$11,040	\$7.36	\$5.52	\$4.50	\$3.38
Operating Expenses (Excl RE Taxes) (2)				<u>\$4,500</u>	<u>\$3.00</u>	<u>\$2.25</u>		<u>\$1.75</u>
NOI				\$6,540		\$3.27		\$1.63
Available for Debt Service @ DCR = 1.30						\$2.52		\$1.25
Supportable Debt (3)						\$32.01		\$15.91
Cash Flow After Debt						\$0.75		\$0.38
Dev Equity @ Return on Equity = 12%						\$6.29		\$3.13
Total TDC Supported from Debt and Equity (4)			\$53			\$38		\$19
TDC - Hard & Soft Costs (WO Acquisition) (5)								
Building Only if in Relatively Good Condition			\$125			\$125		see note (6)
Building Only if in Bad Condition			\$200			\$200		see note (6)

Notes

- (1) Relatively low cost of sale as much of marketing for artist space is thru Craig's List, Networking vs. traditional brokerage
- (2) If no tax deal resulting in minimal taxes, additional cost would need to be accounted for
- (3) Supportable Debt Assumptions

Interest Rate	6.75%
Amortization Term	30
- (4) Prior to subsidy other than acquisition writedown and tax deal
- (5) Based on typical costs for mill renovation of building and typical site work
Obviously, broad variations in cost based on particular attributes, scale of buildings
Does not include pedestrian bridge, extensive demolition, remediation, or other costs
Assumes soft (including financing costs) at 25 - 30% of hard costs
Cost of artist work-studio space subject to great variation depending upon whether or not it is part of a building being rehabbed to HTC standard or as a stand alone building; Generally, costs may be in the range of half or less that of a residential rehab

Detailed analyses of various construction costs have been provided by others. Extraordinary costs relating to the pedestrian bridge and selective demolition both add considerably to the cost that would normally be incurred in a building redevelopment. Just looking at building renovation, a gut rehab of a building in bad condition to bring it up to the standard required for a residential project might be expected to entail construction costs in the range of at least \$150 per

square foot. A mill redevelopment which this consultant is involved in, which entails a very basic renovation to Historic Tax Credit standards of a building that is in very good shape, was recently estimated to have a construction cost allocated to its live-work component of approximately \$100 per square foot. Soft and financing costs typically add at least 25 – 30% to the construction cost. (Note that renovation for industrial level artist/artisan space would be considerably less (perhaps a third less) but that use tends to have a correspondingly lower net income and ability to support financing.)

Based on the above, a total development cost attributable to the renovation of the building itself for a project primarily comprising live-work space and entailing no acquisition cost would be expected to be in the range of \$125 - \$200 per GBA square foot.

9. Potential Funding Sources

Perhaps, public works funding from CDBG, state PWED, federal stimulus, or other sources could be obtained for the pedestrian bridge, infrastructure, and demolition. It is clear that, even without bearing the burden of these costs, based on the above-noted project economics relating just to the building redevelopment, and assuming market support could be validated and achieved for the targeted use, the project would be very far from achieving financial feasibility. Additional subsidy might be sought from various sources, including:

- Federal Historic Tax Credits – Federal Tax credit of 20% of qualified rehabilitation expenditures (QREs) is available for certified historic rehabilitation projects. QREs are generally construction and certain soft costs. Some additional cost may be entailed in meeting the strict certification standards.
- Massachusetts Historic Credits – The State may grant a credit of anywhere from 1% to 20% of QREs. The state allocates up to \$50 million of credits annually and the allocation process is not clear cut.
- Federal Low-Income Housing Tax Credit (LIHTC) – Massachusetts does not allow its LIHTC's to be used for housing dedicated to artists, though if the housing is open to all, this source could be used.

- Federal New Markets Tax Credits – Available for projects in qualifying low income areas. Tax credits may yield a net benefit to a project of approximately 20% of total capital cost. However, no more than 80% of project income can be from residential use, which could pose a problem for the anticipated mix.
- Note – All tax credit projects would require rental versus condo, at least for a number of years (e.g. 5 for HTC, 7 for NMTC).
- Federal HOME Funds – Awarded to states and local governments may be used for grants, direct loans, loan guarantees or other forms of credit enhancement, or rental assistance or security deposits for affordable housing.
- TIF/Tax Abatement – The relatively low tax basis and lack of revenues from this property indicate that TIF would be very appropriate for this project, though, obviously, not the most attractive for the Town.

As noted, the above sources each have particular constraints or issues which may limit their applicability or utility to a project of the type considered. Given the huge gap between a project that might support debt and equity financing in the range of \$40 to \$50 per GBA square foot (with the higher end representing a condo project which would preclude tax credit financing) against a TDC in the range of \$125 to \$200 per square foot, the prospects for subsidizing the gap to attain financial feasibility do not appear good, even at the lower end of the cost range.

10. Next Steps

We suggest the following steps to the Town with regard to the Strathmore property:

- Make improvements as necessary to stabilize the property, though the problematic nature of achieving a feasible project may indicate caution in incurring excessive cost in advance of some evidence that such an outcome may be attainable.
- Continue to work with parties currently interested in the property and outreach to potential developer/investors who might show an interest in the project and entertain any creative ideas for reuse that show some potential for breaking out of the currently

unfavorable market framework. While the current market does not appear to offer near term prospects for success, many developers are out scouting for the next wave of opportunities and may be willing to engage in prospecting that may ultimately lead to their investment in a project.

With regard to the Montague Center School, the Town is engaged in a feasibility study, which may indicate a moderate renovation cost stemming from the building's relatively sound condition combined with its more favorable market position, will make sense to market the property for development in the relatively near term.

Generally, the Town's continued efforts to promote the arts and support the in-migration of artists, artisans, and complementary individuals and uses to the town will enhance the prospects for incremental reuse and redevelopment of buildings, particularly in the village center, and better position Strathmore Mill for future redevelopment.

ASSUMPTIONS AND LIMITING CONDITIONS

- Information provided by others for use in this analysis is believed to be reliable, but in no sense is guaranteed. All information concerning physical, market or cost data is from sources deemed reliable. No warranty or representation is made regarding the accuracy thereof, and is subject to errors, omissions, changes in price, rental, or other conditions.
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