

Appendix D

RKG Report

This Appendix features and economic analysis conducted by RKG Associates of Durham. It was funded in equal parts by the American Institute of Architects' New Hampshire Chapter, the property owner, John Pinto, and the Town of Durham.

October 15, 2007

AIA NH/AIA 150
Patricia Clogher Sherman, FAIA
Co-Chair AIA 150
12 Pine Street
Newbury, NH 03255

Dear Pat:

We have conducted our initial review of the different conceptual plans prepared by the three different design teams for the Mill Plaza Shopping Center redevelopment. The purpose of this initial review was to evaluate the fiscal impact of the various conceptual projects to see what level of onsite infrastructure and/or municipal buildings such as either a library or town hall could be leveraged from the increased tax base. In Table 1 we have summarized the development program prepared by each of the design teams and it should be noted that each design team included a mix of housing, retail and office usage. The taxable square footage within these design concepts ranges from 161,200 square feet up to 340,000 square feet and the total square footage onsite ranges from 283,200 up to 529,900. It should be noted that the maximum development program prepared by one of the design teams included land not owned by the current owner of the Mill Plaza Shipping Center and it is unknown as to whether or not this land is actually available for inclusion within the development program. The difference between the taxable and non-taxable development was the amount of square footage allocated to a possible town hall, a library and structured parking, all of which are non-taxable users.

The approximately 10 acre site currently has a floor to area ratio (FAR) of approximately 15% and the various development concepts prepared by the three design teams would increase the FAR to a range of 65% up to 92%. Also, the mix of taxable SF to total project SF ranges from 53% to 64%, largely as a result of the need for structured parking.

The overall conclusion reached as a result of our analysis is that the likely net increase in property taxes would range from \$114,619 to \$178,167 per year in (2007 dollars) for these plans which remained on-site. As noted earlier, one design team used property not owned by the developer who owns the ten-acre site, and their design generated \$338,941 in net property taxes, but assumed the acquisition of additional land. These estimates are illustrated in Table 2. We then sought to compare the amount of funding which might be leveraged via a bond issue (a possible TIF) to the estimated costs of the non-taxable development associated with the possible town hall, the library and the structured parking lot and found a significant funding gap would exist under all three scenarios (see Table 3).

Based upon the above analysis, RKG Associates, Inc. has recommended an alternative design approach and mix of uses to include the following:

- Consider Reducing the Overall Scale of the Project: Our initial analysis of the three development concepts suggests that they do not create enough of an incremental increase in property taxes to support the level of onsite non-taxable infrastructure required by their design concepts. The single largest cost item within the infrastructure category was the structured parking garage and therefore this element of the project needs to be scaled back if it is to be paid for via a TIF type of bond issue. Also, there are a number of other ways that this might be accomplished such as removing the Town Hall from the project site.
- Consider the Retention and Expansion of the Existing Grocery Store/Drug Store Building: Given the fact that this building is subject to several long-term below market leases, it is our opinion that it is highly unlikely that these leases could be bought out and the tenants relocated. Therefore, we believe that the design teams should plan on retaining this building and find a way to expand it while retaining the major users, particularly the grocery store, which may need to get larger to remain competitive with the new Hannaford store being built in Dover.
- Consider the Elimination of all On-Site Housing: While the development of student housing is a “no brainer” in the sense that there is an obvious market, it is our opinion that the addition of student housing at the site would detract from the overall goal of the community, which is to both expand the tax base and to create a “place for the community”. We also believe that the addition of student housing onsite will keep the site from reaching its highest and best use from a valuation perspective in that it will detract from the ability to establish a high quality office location. One of the design teams suggested that some non-student housing be built onsite, however from a legal point of view, one can not regulate who occupies these units unless they are permitted for people 55 years or older. In our opinion there is an adequate supply of existing and proposed 55 year and older projects within the community and that this may not be the best location for additional units of this type.
- Consider the Addition of More Office Space: While we have not done a formal market study for potential office usage, we strongly believe that with a properly designed project an office market can be attracted to this downtown location. As noted in our comparables analysis in Tables 4A and 4B, office usage generates significantly more assessed value per square foot than housing over retail usage. A preliminary analysis of existing office users within the community suggest there are over 20 different office users occupying approximately 40,000 SF of office space in mostly Class C/B type buildings. This new development would orient more towards a Class A type of building with a brick façade and elevators. We believe that with a growing elderly population, both within Durham and the surrounding region, there may be an opportunity to add medical office space to this location. We also believe that other professional users such as lawyers, investment advisors, insurance agencies, etc. may also be attracted to a properly designed project at this location. Naturally a commercial real estate broker specializing in this type of development would need to be engaged to pre-lease and/or pre-sell a portion of this project before construction could proceed.
- Consider the Addition of an On-Site Hotel: We have not conducted a formal hotel market study for this location; however we believe that the inclusion of an approximately

100 room hotel onsite would be extremely beneficial to all of the businesses in downtown Durham, not just the ones within the Mill Plaza. This is because a reasonably successful hotel operation could attract an estimated 30,000 visitors throughout the course of the year who would seek to dine in area restaurants, etc. The major challenge to adding a hotel to the project site would be one of access and egress, and in this regard RKG believes that consideration should be given to an entrance way directly off of Main Street across from the Post Office site and east of the Grange Hall. This would entail the owner of the Mill Plaza Shopping Center forming some type of partnership with Varsity Durham to secure a Main Street entrance to the hotel. If an arrangement between abutting property owners could be realized, the existing grade change between the land abutting Main Street and the land at the Mill Plaza Shopping Center would enable the parking requirements for the hotel to be met within the hotel complex itself and also potentially paid for by the hotel developer.

- Talk with UNH about a Possible Participation in the Project: As part of this project RKG went to Hanover, NH as well as to Cambridge, MA to look at the synergy between two private universities and their downtown area. In addition to the presence of hotels and/or an inn (i.e. the Hanover Inn) RKG also noted that a university bookstore was a prominent part of the downtown retail core. It is unknown as to whether UNH might consider the relocation of their bookstore or perhaps some type of office user, to an on-site location at the Mill Plaza Shopping Center, but RKG recommends that this discussion with UNH take place. The relocation of a bookstore could play a significant role in helping reposition the overall retail base in downtown Durham and also help improve the financial viability of the redevelopment of the project from the perspective of the developer. UNH in conjunction with the Town and the State recently upgraded a portion of Main Street to enhance the physical appearance of the campus, so that the physical upgrading of the downtown area may well be of interest.

In summary what we have learned to date from our analysis is that the redevelopment of the Mill Plaza Shopping Center might better meet the needs of the community and the developer by focusing on fewer, higher value uses rather than on the quantity of usage, because the net increases in property taxes generated by the project does not support the level of non-taxable investment in any of the three plans. One reason for this observation is that the cost of the onsite structured parking will be difficult to support via a TIF type of bond. Secondly a smaller project may be easier to phase, something which is important from both a construction and a financing perspective. Overall we believe that some level of meaningful new development can be achieved on the project site and look forward to working on subsequent revisions of the plan.

Sincerely,



Richard K. Gsottschneider
President

RKG:mhw

(Tables attached)



TABLE 1 - Overview of Design Concepts for 5 Mill Road	Lavallee Brensinger Mill Plaza	JSA Main Street Extension	JSA Urban Plaza	Woodburn Concepts 1/.
SF of Taxable Development				
Residential	88,600	77,000	81,000	90,000
Office	32,000	24,800	9,500	50,000
Retail	92,000	90,650	70,700	200,000
Total Taxable SF	212,600	192,450	161,200	340,000
Total SF of Development	400,600	344,250	283,200	529,900
% of Taxable SF to Total SF	53%	56%	57%	64%
Structured Parking SF as % of Total SF	35%	35%	32%	31%
FAR of Total Development	92.0%	79.0%	65.0%	NA 1/.

1/. Expands the development to adjacent parcels, e.g., development outside the envelope.

Source: RKG Associates, Inc.

TABLE 2 - Estimate of Fiscal Impacts of Design Concepts for 5 Mill Road	Lavallee Brensinger Mill Plaza	JSA Main Street Extension	JSA Urban Plaza	Woodburn Concepts 1/.
Estimated Assessments (per SF)				
\$124.67 Residential	\$11,045,909	\$9,599,718	\$10,098,404	\$11,220,449
\$206.24 Office	\$6,599,687	\$5,114,758	\$1,959,282	\$10,312,011
\$188.12 Retail	\$12,603,985	\$9,528,236	\$8,502,987	\$33,297,094
\$91.65 Grocery	\$2,291,135	\$3,665,815	\$2,336,957	\$2,107,844
Total	\$32,540,716	\$27,908,527	\$22,897,630	\$56,937,399
Estimated Town Taxes				
New Tax from Development	\$214,443	\$183,917	\$150,895	\$375,217
Less Existing Tax	(\$36,276)	(\$36,276)	(\$36,276)	(\$36,276)
Net Tax 2/.	\$178,167	\$147,641	\$114,619	\$338,941

1/. Expands the development to adjacent parcels, e.g., development outside the envelope.

2/. Estimated taxes to the Town prior to any adjustments for municipal service costs.

Source: RKG Associates, Inc.

TABLE 3 - Estimated Funding Capacity for Lavallee Brensinger Non-Taxable SF per Design Concept	Lavallee Brensinger Mill Plaza	JSA Main Street Extension	JSA Urban Plaza	Woodburn Concepts 1/.
Estimated Non-Taxable SF				
Town Hall	33,000	15,000	20,000	12,000
Library	15,000	15,000	12,000	12,000
Structured Parking	140,000	121,800	90,000	165,900
Total Non-Taxable SF	188,000	151,800	122,000	189,900
Estimated Construction Costs (per SF/Space)				
\$185 Town Hall	\$6,105,000	\$2,775,000	\$3,700,000	\$2,220,000
\$200 Library	\$3,000,000	\$3,000,000	\$2,400,000	\$2,400,000
\$17,500 Structured Parking	\$8,166,667	\$7,105,000	\$5,250,000	\$9,677,500
Total Costs	\$17,271,667	\$12,880,000	\$11,350,000	\$14,297,500
Funding from Incremental Tax Increase 2/	\$1,852,226	\$1,534,877	\$1,191,583	\$3,523,633
Estimated Funding Gap	(\$15,419,440)	(\$11,345,123)	(\$10,158,417)	(\$10,773,867)

1/. Expands the development to adjacent parcels, e.g., development outside the envelope.

2/. Assumes NPV from net new property tax income stream for 20 years at 6%.

Source: RKG Associates, Inc.

TABLE 4A - Comparables for Analysis of Design Concepts			SF	Total Assess	Total/SF	EQUALIZED Assess	/SF
Office Comps							
Durham	Bank and Offices	70 Main Street	8,704	\$1,322,100	\$152	\$1,519,655	\$175
Durham	Bank and Offices	8 Newmarket Road	4,059	\$918,200	\$226	\$1,055,402	\$260
Durham	Medical Office	10 Mathes Terrace	2,677	\$413,600	\$155	\$475,402	\$178
Durham	Medical Office	36 Madbury Road	5,622	\$1,109,100	\$197	\$1,274,828	\$227
Durham	Insurance	39 Madbury Road	1,635	\$309,500	\$189	\$355,747	\$218
Total or Average			22,697	\$4,072,500	\$179	\$4,681,034	\$206
Office - Other Markets							
Portsmouth	Mixed Use	100 Market Street	54,905	\$11,917,800	\$217	\$13,242,000	\$241
Hanover	Office		37,133	\$5,714,300	\$154	\$7,326,026	\$197
Hanover	Mixed Use		21,672	\$4,477,900	\$207	\$5,740,897	\$265
Hanover	Mixed Use		12,909	\$2,814,600	\$218	\$3,608,462	\$280
Hanover	Mixed Use		10,887	\$3,571,700	\$328	\$4,579,103	\$421
Total or Average			137,506	\$28,496,300	\$207	\$34,496,487	\$251
Grocery Comps							
Hampstead	Hannaford	305 E Sandown	50,400	\$4,501,000	\$89		
Raymond	Hannaford	2 Freetown	51,400	\$4,828,500	\$94		
Total or Average			101,800	\$9,329,500	\$92		

Source: RKG Associates, Inc.

TABLE 4B - Comparables for Analysis of Design Concepts			SF	Total Assess	Total/SF	EQUALIZED Assess	/SF
Residential Over Retail Comps							
Durham		47 Main Street	19,198	\$2,428,800	\$127	\$2,791,724	\$145
Durham		36 Main Street	13,390	\$1,352,400	\$101	\$1,554,483	\$116
Durham		48 Main Street	4,606	\$660,100	\$143	\$758,736	\$165
Durham		60 Main Street	16,301	\$1,361,000	\$83	\$1,564,368	\$96
Total or Average			53,495	\$5,802,300	\$108	\$6,669,310	\$125
Residential Over Retail - Other Markets							
Hanover			20,775	\$3,242,300	\$156	\$4,156,795	\$200
Freestanding Retail Comps							
Durham		44 Main Street	4,648	\$573,100	\$123	\$658,736	\$142
Durham		46 Main street	1,879	\$347,400	\$185	\$399,310	\$213
Durham		50 54 Main Street	5,824	\$703,200	\$121	\$808,276	\$139
Durham		45 Main Street	3,622	\$990,500	\$273	\$1,138,506	\$314
Total or Average			15,973	\$2,614,200	\$164	\$3,004,828	\$188
Hotel Comps							
Durham	Holiday Inn Express	2 Main Street	31,426	\$3,433,000	\$109		
Portsmouth	Hilton Garden	77 Hanover Street	80,158	\$14,406,200	\$180	\$3,945,977	\$126
Portsmouth	Anchorage Inn	417 Woodbury	45,885	\$4,277,400	\$93	\$16,006,889	\$200
Portsmouth	Comfort Inn	1190 Lafayette	57,168	\$6,070,800	\$106	\$4,752,667	\$104
Portsmouth	Homewood	100 Portsmouth	81,591	\$10,514,900	\$129	\$6,745,333	\$118
Portsmouth	Port Inn	US Route 1 Bypass	21,027	\$2,351,300	\$112	\$11,683,222	\$143
Portsmouth	Residence Inn	1 International	65,378	\$8,555,100	\$131	\$2,612,556	\$124
Total or Average			382,633	\$49,608,700	\$130	\$9,505,667	\$145
						\$55,252,310	\$144

Source: RKG Associates, Inc.

TABLE 5 - Summary SF of Development Options by Use per Design Concept

	Lavallee Brensinger Mill Plaza	JSA Main Street Extension	JSA Urban Plaza	Woodburn Concepts 1/.
TAXABLE Development by Type and SF Residential Over Commercial				
Student Housing	88,600	77,000	81,000	50,000
Other Housing				40,000
Subtotal	88,600	77,000	81,000	90,000
New/Expanded Retail				
Grocery	25,000	40,000	25,500	23,000
Other	67,000	50,650	45,200	177,000
Subtotal	92,000	90,650	70,700	200,000
Existing Retail Development to Stay				
Grocery	0	0	0	0
Drug Store	0	0	0	0
Subtotal	0	0	0	0
RETAIL - total on-site				
Grocery	25,000	40,000	25,500	23,000
Other	67,000	50,650	45,200	177,000
Total	92,000	90,650	70,700	200,000
Office	32,000	24,800	9,500	50,000
Hotel	0	0	0	0
Subtotal Taxable SF of Development	212,600	192,450	161,200	340,000
New	212,600	192,450	161,200	340,000
Existing	0	0	0	0
Change over Existing SF On-Site	158,956	138,806	107,556	286,356
Estimated Non-Taxable SF of Development	188,000	151,800	122,000	189,900
Estimated TOTAL SF on Site	400,600	344,250	283,200	529,900
Estimated FAR of Total Site	92.0%	79.0%	65.0%	NA 1/.

1/. Expands the development to adjacent parcels, e.g., development outside the envelope.

Source: RKG Associates, Inc.

TABLE 6 - Comparative Fiscal Analysis per Design Concept

	Lavallee Brensinger Mill Plaza	JSA Main Street Extension	JSA Urban Plaza	Woodburn Concepts 1/.
Estimated Assessment Values (per SF)				
\$124.67 Residential	\$11,045,909	\$9,599,718	\$10,098,404	\$11,220,449
\$206.24 Grocery	\$2,291,135	\$3,665,815	\$2,336,957	\$2,107,844
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\$91.65 Office	\$6,599,687	\$5,114,758	\$1,959,282	\$10,312,011
\$125.56 Hotel	\$0	\$0	\$0	\$0
TOTAL	\$32,540,716	\$27,908,527	\$22,897,630	\$56,937,399
ESTIMATED TOWN TAXES				
	\$214,443	\$183,917	\$150,895	\$375,217
Less Existing Tax	(\$36,276)	(\$36,276)	(\$36,276)	(\$36,276)
NET NEW TOWN TAX 2/.	\$178,167	\$147,641	\$114,619	\$338,941
20 Year NPV (constant \$ at 6%)	\$1,852,226	\$1,534,877	\$1,191,583	\$3,523,633

1/. Expands the development to adjacent parcels, e.g., development outside the envelope.

2/. Estimated taxes to the Town prior to any adjustments for municipal service costs.

Source: RKG Associates, Inc.

TABLE 7 - Non-Taxable SF by Design Concept	Lavallee Brensinger Mill Plaza	JSA Main Street Extension	JSA Urban Plaza	Woodburn Concepts 1/.
Non-Taxable SF of Development				
Town Hall	33,000	15,000	20,000	12,000
Library	15,000	15,000	12,000	12,000
Structured Parking	140,000	121,800	90,000	165,900
Subtotal Non-Taxable	188,000	151,800	122,000	189,900
TOTAL SF of Development - TOTAL SITE	400,600	344,250	283,200	529,900
Estimated FAR	92.0%	79.0%	65.0%	NA 1/.
Estimated Costs of Non-Taxable SF (per SF/Space)				
\$185 Town Hall	\$6,105,000	\$2,775,000	\$3,700,000	\$2,220,000
\$200 Library	\$3,000,000	\$3,000,000	\$2,400,000	\$2,400,000
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TOTAL	\$17,271,667	\$12,880,000	\$11,350,000	\$14,297,500
20 Year NPV from Tax Increase	\$1,852,226	\$1,534,877	\$1,191,583	\$3,523,633
Estimated Funding Gap - Non-Taxable SF	(\$15,419,440)	(\$11,345,123)	(\$10,158,417)	(\$10,773,867)

1/. Expands the development to adjacent parcels, e.g., development outside the envelope.

Source: RKG Associates, Inc.