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Reuse and Feasibility Study The Waverly Mill Complex Adams, Massachusetts

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**REUSE AND FEASIBILITY STUDY
THE WAVERLY MILL COMPLEX**

ADAMS, MASSACHUSETTS

SPRING, 1991

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The Center for Economic Development would like to thank
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INTRODUCTION

Introduction

The Waverly Mill Complex consists of two buildings on 8.2 acres of land adjacent to downtown Adams. They represent outstanding examples of vernacular mill architecture common to the mid-to-late nineteenth century. Both structures are similar in style and are juxtaposed to the Berkshire Mill, which was recently revitalized with strong consideration for historic accuracy. In effect, the Berkshire and Waverly Mills form a mill yard which, once totally revitalized, can be economically beneficial to the town and the respective owners.

This study was undertaken by the Town of Adams to evaluate the potential of the Waverly Complex for revitalization. The objective of this effort was to attract new uses and investment in the Waverly Complex which are consistent with the planning goals and objectives of the Town of Adams. This report represents a three month effort to prepare an action plan for the recovery of this area.

The report is being written in economically hard times with Adams and North Berkshire in a severe recession. Conditions in the short term are likely to get worse. Yet there are, over the long term, several projects that have the potential to dramatically change the region. In short, the Adams of today is not likely to be the Adams of tomorrow. The community and region can be prosperous. This report is written with this in mind. Based on the hard realities of the moment, it also takes into consideration the fact that a positive future is ahead. It is also written from the standpoint that the best time to plan is in the expectation of dramatic change. The buildings are too valuable to the community to write off.

THE POSITIVE ATTRIBUTES OF THE WAVERLY MILL COMPLEX

Location

Despite the current economic situation, there are several factors in favor of revitalization of the complex. The first is its location: It is quite close to Adam's Main Street and within walking distance from the downtown area. If commercial uses are found for the structures, there will be mutual benefits for both the Mill and the downtown: As shoppers go to Main Street they may stop at Waverly and vice versa. In fact, the connecting road to Main Street, Hoosac Street, provides the opportunity for "line of site" from downtown to the structure. Retailers assert that this is a critical psychological component in terms of retailing. In addition, the journey from the shopping area to the mill is quite pleasant, with the restored Berkshire Mill housing complex and the Schumacher Outlet center along the way. With appropriate street design treatments, the area has great potential to be linked with the downtown.

Site Layout

The second positive attribute pertains to the layout of the site. The main building is nestled to the back of the lot facing a large parking lot, a small stream and, beyond, the rear of the Main Street shops. The smaller building faces Hoosac Street but fits nicely with the main structure and there are ample opportunities to make the site aesthetically pleasing without undue expenses. Integration of the stream into the site design, landscaping of the parking lot and creation of connecting walkways between the two buildings are some suggestions. In addition the site is free of "mill junk", the rusted waste from years of mill work. To their credit, the owners have kept the space clear and in good condition for revitalization.

Structural Quality

The third attribute of the Mill complex relates to the architectural quality of both structures. Reflective of the typical brick mills found across New England, they are rich in heritage.

In many ways, the rehabilitation of the nearby Berkshire Mills represent a tasteful model which the Waverly Mills can use.

Size of Structures

The size and condition of the secondary structure is such that it can be revitalized without extraordinary upgrading. This structure is also juxtaposed to Hoosac Street, is across from the Berkshire Mill and houses the Schumacher Outlet. Its identity, though unique, fits nicely into the surrounding area.

Mixed Use Potential

Finally, the potential exists to divide the main structure into mixed uses and/or mixed ownership patterns. With new elevators and some minor structural improvements, this facility is capable of being used for commercial, light industrial or residential uses. Further floor configuration can lend itself to small or large operations.

THE NEGATIVE ATTRIBUTES OF THE WAVERLY MILL

Structural and Environmental

There are several negative factors affecting reuse, most of which relate to structure and hazardous wastes. Structural damage that is not discernable from a surface examination may exist. Some damage has already been noted, but further examination is warranted. Secondly, because most mills like Waverly have dumped various types of hazardous wastes into nearby streams and soils, the potential exists for 21-E hazardous wastes. The extent of waste on the site, if any at all, needs to be determined. This problem is particularly important because of the close proximity of the nearby stream and it is likely that there is some chemical residue from the years of chemical use. Careful testing is required.

Floor Bearing Capacity

A third negative feature of the mill pertains to the capacity of the floors and their inability to handle heavy machinery. Further engineering studies will determine this with greater accuracy and it is possible that paper manufacturing will be ruled out from tenancy. This is of particular significance since paper manufacturing is one of the manufacturing activities most often mentioned as having potential for expansion in the region.

Service Network

Finally, the water system and elevators will require extensive upgrading, as they were designed to standards that are far outmoded. None of the above should be considered unduly detrimental to the rehabilitation of the mill. In other words, an economic use that will enable the owners to gain a positive return on their investment is possible.

POTENTIAL USES - OVERVIEW

What are the potential re-uses of the Complex? In theory, it is capable of being used for commercial, residential, office and for industrial uses. In reality, there are strengths and weaknesses with all three. These will be examined below.

Commercial Uses

The smaller building now houses the Schumacher Wall Paper Outlet and is clearly a ground floor retail activity. Efforts should be made to expand such uses. However, to suggest in the short term that both mills can survive with only commercial uses is unfeasible. There is insufficient retail demand at the present time.

Residential Uses

Concerning residential uses, there are severe problems with obtaining "exterior light" on the lower floors. Therefore, housing on the top floors is the only option without creating a hollowed out central shaft (similar to the Berkshire Mill). This procedure is quite costly. In light of a declining population, converting the total complex into housing only makes little sense.

Office / Service Uses

The buildings can be converted into office/service uses without great difficulty. In fact, given demand, this could be the most easily adapted re-use. Demand at the present time, however, not exist.

Industrial Uses

Both structures have great potential for light manufacturing. However, potential growth areas such as paper or plastics manufactured cannot be housed in the structures since the

weight bearing capacity of the floors will not handle the typical weight requirements of these industries.

Mixed Uses

The Waverly Mill Complex is capable of handling commercial, residential, office and/or light industrial uses. There is not enough demand for any one of these uses alone such that the structures would be fully utilized. We therefore believe that mixed-uses are in the town's best interest. A more detailed examination of the specific potential uses is explained below.

MANUFACTURING POTENTIAL

Regional Trends

Is there a market for manufacturing uses in the Waverly Mill? The North Berkshire Region continues to shed manufacturing jobs rather than attract new firms. Neither is there an expansion of the work force. Therefore, the short term outlook is somewhat bleak. (See Chart One). The economic tone for the entire region is currently set by General Electric (GE). When GE is prosperous, so are the Region's smaller firms. As GE continues to contract, it will force smaller firms out of business and cause risk averse behavior (i.e. people will be less likely to take risks). The latter is currently characteristic of the region. In addition, the nature of manufacturing in the North East is changing: To be competitive, Adams must invest in the latest technical advancements which will increase output and increase quality. At the same time, labor and energy costs must be minimized. Firms adapting to these conditions inevitably require a modern facility with maximum horizontal space that is also inexpensive to heat (we are also highly cognizant of the cost of fuel. Approximately 43% of manufacturers in the Northeast use oil to heat their buildings as apposed to 4% , for example, in the Southwest. Given the price of fuel today, this too becomes of major importance. Old mills are rarely energy efficient.)

Competition for Space

In addition to the status of General Electric and the changing character of manufacturing, there is also the issue of competition for space. This is particularly evident in difficulties the North Berkshire Industrial Development Corporation is currently experiencing in marketing Adams Corporate Park. Improvements costing nearly a million dollars will be completed in the summer of 1991, yet the site has still not attracted its first tenant. In addition, there is more than 300,000 square feet of inexpensive manufacturing space on the

market in older mills, as well as two vacant modern structures: the General Cable Building and the Sprague facility on Curran Highway. In short, while there is little manufacturing space available in Adams at present, there is extensive space available in nearby areas. This space is inexpensive and can be leased or purchased with little difficulty. Currently, Williamstown is working to develop a 100 acre parcel under municipal sponsorship which may tie into the research efforts of Williams College faculty. In light of the fact that the site is municipally controlled in addition to the high quality of life in Williamstown, this site is likely to attract innovative, high technology- driven firms.

Chart One

State of Manufacturing

- Manufacturing continues to decline in Berkshire County.
- Manufacturing, while still important, provides 20% of all jobs in the County. In 1980 it provided 33% of all jobs.
- There was some growth in plastics, printing and publishing industries, though minimal.
- The highly important export (base) industries are continuing to decline dramatically.
- General Electric (GE) is the “bell weather” of the Region. As it goes, so goes the Region.
- GE is expected to layoff additional workers in its Regulator and Inductive Products Division and its Ordnance Division.

Chart Two

Potential Growth Areas - Manufacturing

- There is some potential growth in Plastics, Mold Injection, Specialty Papers, Paper Industry Machinery and Data Processing.
- The Plastics Industry involves many small companies - some of which may be attracted to the Waverly Mill.
- Opportunities for Back Office operations are high given the potentially low cost of operations in North Berkshire. This may be a viable growth area.

COMMERCIAL POTENTIAL

Regional Trends

As with manufacturing, the nature of retail is also changing in North Berkshire, though it is too early to determine what the final outcome of these changes will be. The coming of the Pyramid Mall to Lanesboro has had a dramatic effect on Pittsfield and North Adams, though a more moderate impact upon Adams. The current recession, now expected to last through 1991, has resulted in national chains cutting back while local stores have adopted risk averse positions. Nonetheless, Adams has a compact, attractive downtown and a tradition of customer loyalty. It is also located along Route 8, one of the two major north-south highways in the Berkshires, and it appears to be holding its own despite difficult times. Under these circumstances, there will not be an active market for additional retail activity at the moment, particularly for a building of 300,000 square feet off of the main shopping street. A new one million square foot mall, a falling population rate, a rising unemployment rate and struggling anchor industries, is too great a risk for local retailers and new investors.

State of Downtown

It is important to realize that changes of population and a new shopping centers have caused the central shopping area to change as well. In some ways, the merchants have reorganized and have reacted quite successfully. In fact, the Adams central shopping area appears to be reasonably buoyant in this recession economy. As the town moves ahead in its efforts to economically revitalize several points need to be recognized. These are noted below:

* The downtown shopping area will never be the shopping district for the town. There is too much competition and spending habits have changed.

- * The downtown merchants will not be price competitive with the malls. However, by offering speciality goods, providing excellent service and building on local needs, they can have successful businesses.
- * Parking will always be perceived by the merchants as a problem. Too limited, too remote and too expensive are merchants biggest concerns, Adams has done quite well to date. There is ample parking in the downtown area.
- * There is new investment in downtown and public/private partnerships can improve the physical environment.
- * The historic, cultural and architectural quality of the downtown is outstanding. The design, setting and building fabric are of such high quality and comparable to Newburyport or Northampton.

The Town of Adams must do whatever possible to emphasize the positive attributes in the downtown area and prepare itself to maximize revitalization opportunities once recovery begins.

Potential for Mill Outlets

However, if the economy stabilizes, General Electric reaches equilibrium, the Greylock Glen is built, MOCA is approved and the by-pass is constructed, there is the potential for expansion of the existing Schumacher Mill Outlet. The outlet is a tremendous draw for downtown, attracts a customer base from great distances and offers high quality products. The same potential exists for the Waverly Mill and need not be as sophisticated as the Outlets found in Ogonquit or as commercial as those found on the Cape. A list of potential outlets is listed in the appendix. Marketing may be focused on New England products through the creation of outlets for such companies as Yankee Candle and Millers Tool. Such an effort may be undertaken in phases, with the smaller building serving as phase one and the first floor of the main building as phase two and so on.

Influence of Tourism

In addition to the creation of outlets and marketing efforts toward the affluent tourist sector (someone visiting Tanglewood, Lenox, Naumkeag, Chesterfield, the Sterling Clark Museum, the MOCA, Heritage Park and the Glen), there is also the potential for crafts retail activity. For example, several years ago, the mall in Lenox leased more than 10% of the space below market rate to New England crafts persons. The intent was to create a mall that was unique, attracting tourists from across the region. While the mall did not gain local or state approval, this concept still has merit. What would happen, for example, if Waverly became a crafts outlet for artisans accepted at the Annual National American Crafts Fair in West Springfield, the Leverett Crafts Center or artist exhibiting at MOCA? If the tourist trade increases and if high end outlets are attracted to the site, this concept may be feasible. Interestingly, this market has been largely ignored in Berkshire County.

Mill Outlets

Our studies in Holyoke and Springfield have shown an increase in demand for artist work space. In this area, the actual cost of space is of less an issue than finding the space itself! If MOCA succeeds (or even if it does not) there is every indication that the Berkshires will become an attractive center for the arts. The Mill, with its freight elevators, reasonably strong floors, spaces easily subdivided, loading docks and large windows lend itself to this type of activity. The question remains whether or not there is a market for artist space. Clearly there can be a strong reciprocity of interests in a combination of the outlets, the artisans market and artist work spaces. In Maynard, the "Mill Outlet" was juxtaposed to Raytheon and Digital (DEC) in the Assabet Mill. As DEC expanded it replaced the outlet which then moved to the center of Maynard where it prospered for many years. Perhaps of greater significance, several of the old mills in Fall River are now housing Mill Outlets. This has been so successful that they are collectively advertising and are even in the "Senior Citizen Tour Program".

This concept has been particularly successful in the Ho-Ho Mill Building owned by David Scher in Holyoke. Renovated through private funds, there is a manufacturing facility in the basement while artisan studios are located on the upper floors. The building is full and additional artisans are now moving into a nearby mill. Mr. Scher, in retrospect, believes that the combination of market rate housing, studio space and manufacturing may have been even more lucrative.

HOUSING POTENTIAL

Technically it is possible for the Mill to be converted into residential uses. In fact, the nearby Berkshire Mill represents an excellent example of how such a conversion can be successful. However, there are a series of concerns that must not be overlooked.

Market Limitations

Apartments or condominiums are the most viable options. Yet in this market driven economy, there will be tremendous problems in gaining bank financing. Secondly, they will have to be priced in accordance with local conditions. The possibility of a 2-bedroom unit selling for more than \$100,000 per unit or being rented at \$450.00 per unit is doubtful. Thirdly, if the apartments or condos are subsidized, the likelihood of obtaining state or federal assistance is doubtful. The State is currently cutting back on its assistance programs and federal dollars are becoming even more difficult to obtain. In addition to financial issues, there are other things to consider. For example, there is also a "psychology" of subsidies. Adams already has subsidized housing nearby. It also has an armory not distant from the site that may shift to alternate uses. Such facilities, because they are state owned, become centers for state funded human service activities. Too much subsidized housing will begin to influence the character of downtown. If, for example, there are hundreds of subsidized elderly units downtown, it is more than likely that merchants will market to this clientele. Similarly, if the housing is for moderate income families, merchants will market their products to this group. If the Town wishes to move to an upscale market that is attracted by the outlets and artisan activities, the setting needs to be pleasing, attractive and functional. On the other hand, should the housing be

market rate in character then there could be a strong additional infusion of people with impulse purchasing power that could help to stimulate downtown's economy.

Town's Priority

The Town of Adams has identified the need to provide local industrial space as one of its priorities. Yet, there is no market in the short term to fill the space. Thus, the issue becomes finding space to be kept for future industrial use that is affordable in the short term.. The combination of uses explored above will make this possible, for none of these uses will require any structural changes to the buildings.aside from some internal partitioning, painting and the upgrading of the elevators and utilities. Improved to industrial standards then, indeed, there would be an opportunity to reconvert to industry should market conditions change.

THE SHORT TERM FUTURE OF THE WAVERLY MILL

In light of the current state of manufacturing and the condition of the mill, the structure will not be a likely candidate for a paper manufacturing company, primarily due to the weakness of the floors.

Second, it will not be a candidate for a large internationally competitive manufacturing firm because of the current layout (multi-floor v. horizontal operations) and potential heating problems (i.e., high ceilings).

Third, there are sufficient modern facilities available for already established firms at low cost in nearby North Adams.

Fourth, firms that are looking for the highest possible quality setting (and a prestigious address) are likely to locate in Williamstown, the site of the proposed business park

Finally, manufacturing is not expected to expand in the region until well after the current recession. The post-recession economy will be reliant on machinery and modern shop layouts. Possibilities of finding manufacturing tenants in the short term is bleak.

THE LONG TERM FUTURE OF THE WAVERLY MILL

Regional Trends

The long term picture is difficult to predict. On the positive side, New England has constantly shed industries as they have become labor intensive and replaced them with new growth-oriented companies. The region is in this shedding period now. The question remains: What will the nature of new industry be? There is every indication that the next wave of industries will focus upon photovoltaics, biogenetics, marine biology, robotics and polymers. Of these, polymers, centered upon General Electric in Pittsfield, Monsanto in Springfield and the University of Massachusetts in Amherst are likely to have an impact upon the region. There are more than fifty small plastics companies in the region with more are likely to be created. There is also a strong, stable market for mold injection, specialty papers, paper industry machinery and data processing. But, even here, GE's polymer's have not spun off new industries as expected, Monsanto is cutting back and the University has continued to focus on the abstract chemical compound aspects of polymers. The result has been minimal job growth.

Research and Development Firms

Research and Development facilities are currently located at the Polymer Laboratory at GE and at Sprague. Most R&D firms will locate close to universities or near other R&D establishments. New facilities are most likely to locate in Pittsfield near GE or near the new facility in Williamstown, making them unlikely candidates for the Waverly facility.

Entrepreneurship

Research shows that real job growth comes from small, locally owned firms, that are less than ten years old. These entrepreneurs of necessity are manufacturers with less than twenty

employees. There is some evidence of this type of activity in the region. However, fewer and fewer of these start ups are manufacturing related or develop new products. They are largely "job shops" for larger firms and can rarely pay more than \$2.00 per square foot.

In Summary

Based on an adequate supply of existing industrial space in the region and uncertain economic conditions, the short term does not look promising. Long term prospects are more promising if General Electric stabilizes, if new, modern firms look to the Berkshires and if there is increased start-ups. However, given the present rate of absorption for industrial space and the amount of vacant space available, demand for additional space may take up to five years. One final note: As we write this, the coming of the European Economic Community (EEC) and the opening up of Eastern Europe are upon us. The EEC is most likely to hurt the prospects of manufacturing growth in this area for a while. Entrepreneurs are likely to look into eastern Europe for opportunities.

INFLUENCES ON ECONOMIC CONDITIONS

Regional Influences

There are two major factors which may influence the regional economy. First, is the potential for the Museum of Contemporary Art to be built in the Old Sprague Works in North Adams. If it is built, this will mean approximately 50,000 more visitors in addition to the 100,000 that already visit the Region. These visitors are likely to be affluent and will be expected to spend money on goods and services not necessarily associated with the museum. Secondly, the Greylock Glen Project is expected to attract additional visitors. A large percentage of these tourists will be traveling through Adams to reach their destination and represent a partially captive market. These projects, coupled with the Heritage Park, existing industrial parks and the regions two colleges all point to positive improvements.

RECOMMENDATIONS

Role of Key Players

The town should convene a meeting with the Waverly Corporation, the Massachusetts Land Bank, the Northern Berkshire Industrial Park and Development Corporation and a representative of the First Congressional District to determine financial options. It is clear that the revitalization of the buildings is viable provided that there are funds available for rehabilitation which will enable the new company to fill the structures. Free of all mortgages, they represent a strong contribution toward an equity position. However, given the tight credit market, lenders will request a cash position as further guarantee for all loans. Such guarantees can be provided by governmental assistance agencies.

Environmental Clean-up

A 21-E Study should be undertaken immediately. No matter what happens to the complex, there will be no bank investment until the structures and the land are environmentally clear. The liability belongs to Waverly and the company should know if problems exist before any other decisions are considered. It should be noted that the Berkshire Mill #1 underwent a similar study in 1986 and obtained a "clear bill of health." Since these structures are juxtaposed and were operated similarly, chances are that the Waverly Complex will be just as clean. We cannot make this point more strongly: This study must be undertaken.

Historic Designation

The Town of Adams must pursue a historic landmark designation for the mill structures. The buildings were surveyed by the Massachusetts Historical Commission in 1982, the same time as the Berkshire Mill #1. The Berkshire Mill #1 has been certified as historic, but no action has been taken on the Waverly Complex. The benefits of obtaining this status is three fold. First, it will enable the owners to gain rehabilitation assistance for architectural design improvements from the Historic Commission. Second, it will enable the owner(s) to obtain a tax credit on the improvements and thus improve the feasibility of the project. Third, it will provide a major boost toward retaining the character of Downtown Adams.

Wetland Limitations

The Town of Adams Conservation Commission must determine the limitations concerning the building located near the brook. A small stream flows near the parking lot for the complex. We assume that, whatever happens to the complex, parking will be crucial. If this brook will limit future parking, then the owners need to have this knowledge well before concrete actions are taken.

Form of Ownership

The Waverly Corporation must determine the form of ownership which will control the complex. Until this is undertaken, no totally realistic pro forma analysis can occur.

Structural Analysis

The Town of Adams should undertake a comprehensive structural analysis utilizing the services of a professional engineer. While it is clear that the buildings are basically sound, it is also clear that the repairs made in 1985-1986 were important tasks in the upkeep of the buildings. However, there is some roof leakage and brick repointing is necessary. The plumbing and elevators appear to be outmoded and may also be in violation of the building code.

Uses

The complex should not be maintained solely as a manufacturing facility. There is simply no market in the short term. However, we do recommend that whatever happens, a major portion of the main building should be maintained for reclamation of manufacturing use in the future.

Maintenance

If Waverly closes the buildings, all efforts should be undertaken to insure that it is appropriately mothballed for the short term. Heat and sprinkler systems should be maintained, security should be established and minor problems repaired. This is essential given that it is our expectation that the total re-use of the facilities will require extensive time.

Smaller Building

The smaller building should be the first point of focus. In good condition, it is closer to Downtown, is already in active use and can be easily rehabilitated. It should be a candidate for mixed use including light manufacturing, service and retail. We do not recommend housing for this site except as a course of last resort (i.e., it would be impossible to gain bank financing without it).

Zoning Revisions

The zoning by-law should be revised to allow mixed use activities under special permit to include phasing. This provision should allow light industry, services, commercial and housing uses.

Housing Policy

Adams needs to decentralize its affordable and elderly housing activities away from downtown. Too much of this activity may alter the character of downtown away from maximizing its potential. Housing, unless upscale, is not recommended for this location.

Outlet Center

Priority effort be given to developing an outlet center for the structures. There are currently none in the Berkshires and it can draw on the existing market. There are a number of communities that have successfully utilized such centers to stimulate recovery. Among these are Fall River, Massachusetts and Martinsburg, West Virginia. There is also two organizations: 1) 'Dear DOC' in Nashville, TN (Phone # 615-269-7025) and 2) 'Outlet Marketing Group' in Orange, CT (Phone # 800-33-OUTLET) which deals with the art and science of outlet and off price retailing, marketing and development. It is our recommendation that the town contact these organizations for further information.

Artisan Studios

If MOCA is approved, efforts be undertaken to market space towards artisans for working studios and sales space. The combination of outlets and artisan sales will be a positive draw from the community. Steps should be taken to insure that the spaces used by the artisans are not permanently changed and can be reclaimed for manufacturing at a later date.

Parking Area

The Town via lease or sale should take responsibility for the parking area. This would dramatically increase the potential parking for downtown, help the owner to reduce initial start up costs and aid in integration of the lot to the Downtown (Assuming landscape improvements). Naturally, space for the mill occupants/customers will have to be guaranteed.

RECOMMENDED TIME LINE

Key Steps

- a) The Town contacts the Waverly Corporation and arranges a meeting to determine its future direction.
- b) The Town contacts NBIPDC, the Land Bank and a representative of the First Congressional Delegation to obtain detailed options concerning the revitalization of the complex.
- c) The Town develops detailed incentives (i.e. CDBG funds) to assist in the revitalization.
- d) The Town presents potential federal, state and local incentives to the Waverly Corporation.
- e) Waverly agrees to revitalize the structures under either it's existing management or under new ownership. Estimated revitalization cost are determined in the section on 'Fiscal Impact Assessment'.
- f) The Waverly ownership develops detailed marketing strategies and cash flow analysis.
- g) NBIPDC assists in finding local financing (private) and develops the financial package.
- h) Once financial gaps are determined, NBIPDC obtains necessary grants and loans.
- i) Rehabilitation begins.

RECOMMENDED TIME LINE

	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Aprl.
a) Initial Meeting with Waverly								
b) Financial Options are Determined								
c) Detailed Incentives are Outlined								
d) Incentives Presented to Waverly								
e) Waverly Agrees to and Prices Revitalization *								
f) Marketing Strategies and Cash Flow Projections are Undertaken *								
g) NBIPDC helps to Obtain Local Financing *								
h) Grants / Loans are Offered and Accepted *								
i) Rehabilitation Begins								

* Key Decisions .

FISCAL IMPACT ASSESSMENTS

Financial Feasibility

When analyzing the feasibility of development options, the investor is primarily concerned with two issues:

- * Will the projected revenues offset the anticipated fixed and operating expenses?
- * How much, if any, public assistance is likely to be required to make the project an attractive investment?

The "pro forma" is an orderly arrangement of the expenditures and revenues anticipated for the project. It shows income, operating expenses, financial terms and before-tax cash flows. Use of the typical pro forma as an analytical tool provides a quick first indicator of potential project viability. While cash flow before taxes and return on investment are significant factors governing project attractiveness, a typical year pro forma leaves out one extremely important element in determining project feasibility - the element of time. A project such as this may be staged over several years. Changing interest rates, rising construction costs and potential market shifts will all impact the project and force periodic reassessments of its scope and character.

PROFORMA ANALYSIS FOR THE WAVERLY MILLS IN ADAMS, MASSACHUSETTS			
1	TOTAL AREA IN SQUARE FEET		
1a	BUILDING A (SMALL)		Building A currently houses the Waverly Mill outlet store. It is expected to remain there in the future.
	Area per floor (sft.)	14,400	
	multiplied by 3 floors		
	Total Area	43,200	The rule of thumb is to assume 20% of gross area for circulation space. This will change depending on the internal spatial division.
	Subtract 20% for circulation	8,640	
	Net rentable area		34,560
1b	BUILDING B (LARGE)		
	1st Floor: Main section	60,930	The first floor of the larger mill building has two projections from the main structure. These will be referred to as the linear section and the workshop.
	Workshop addition	2,548	
	Linear section	14,207	
	2nd Floor	60,930	
	3rd Floor	60,930	
	Total Area	199,545	
	Subtract 20% for circulation	39,909	
	Net rentable area		159,636
1c	TOTAL NET RENTABLE AREA		194,196 This includes both buildings
2	OPERATING AND MARKETING EXPENSES		
	Taxes	19,688	This is the current tax figure
	Heating	91,000	This is the current cost for hot air heating
	Electricity	18,300	The current electric bill is for \$61,000. We assume 70% of that was for running the machines at the mill.
	Water	2,000	
	Security Costs	50,000	All operating expenses will be shared proportionately by the rentees. (normally, triple net includes taxes, insurance and utilities only.)
	Maintenance of Parking Lot	10,000	
	General Maintenance	80,000	
	Insurance Costs	35,645	
	Total operating expences		306,633
	All expenses/sft. of rentable area		1.58
	Marketing Expense		10,000
			This expense will be shouldered by the owner

The Financial *Pro Forma* Revenues and Expenditures The "typical year pro forma assumes that there is no unusual expenditures beyond the normal expense of management and maintenance. This static cash flow analysis of a project is commonly used to determine project financing. Investors and developers, however, analyze project viability using a variable cash flow approach. Variable cash flow analysis is discussed in the following section on After-Tax Cash Flow.

Revenue is the most significant variable in the pro forma. Estimates of obtainable rent, must therefore be realistic in relation to the prevailing market. For most normal risk projects, vacancies and rent loss will probably be less than 5% of potential income, but this figure is commonly used as a conservative estimate.

Operating expenses would normally include expenditures for management, maintenance, utilities, insurance and real estate taxes. In this particular case, however, all the above operating expenses will be absorbed by the tenants. The rent per square foot is on triple net bases (base rent plus proportionate share of operating expenses). Thus, only legal, managerial and promotional costs are factored in as costs for the owner.

Most lenders use the net operating income (NOI) figure as an underwriting tool to determine the maximum amount of debt service, and thus the maximum mortgage, a project can support. Acknowledging the potential for income to fall below projections, lenders obtain an added safety margin by requiring that the NOI be at least 1.2 to 1.4 times the debt service (repayment of principal plus interest). This provides additional assurance that income will be sufficient to cover both operating expenses and debt service.

3	REVENUES AND EXPENDITURES			
3a	Option 1: Break even without Bank Financing			The break even option assumes that the acquisition cost for the complex is negligible to zero. Legal fees and other expenses may be factored in.
	All expenses	316,633		
	Assume rent @ \$2/sft triple net plus \$1.58 per sft operating expenses	3.58		Triple net includes all above operating costs.
	Area in sft that must be rented		88,470	
	As a percentage of total rentable space		45.56%	This is the % that must be rented in order to break-even.
3b	Option 2: Bank Financing for the Rehabilitation using Buildings as Equity			
	TYPICAL YEAR PROFORMA			
A	Annual Gross Revenue			
	Net Rentable Area	194,196		
	Market rate: \$2/sft. triple net	\$2.00		
	Potential Gross Revenue		388,392	
	Less 5% vacancy and rent loss	19,420		For most normal risk projects, vacancy and rent loss will probably be less than 5% of potential income.
	Adjusted Gross Revenue		368,972	
B	Expenses at full rental			
	Legal and other expenses	20,000		
	Promotion Costs	10,000		
	Maintenance of unrented structures	0		
	Total operating expenses for owner		30,000	This is the owners responsibility.
C	Net Operating Income (NOI) before Debt Service		368,972	NOI is often used as an underwriting tool to determine the maximum amount of debt service (principal plus interest), and thus the maximum mortgage, a project can support. The NOI should be at least 1.2 to 1.4 times higher than the debt service for added safety.
	Maximum Debt Service (NOI/1.3)		283,825	
D	Cash Flow before taxes		85,147	
	Max. Mortgage 30yrs @ 10% interest (Debt service/mortgage const. 0.1031)		2,752,909	The mortgage constant depends on the length and interest rate. In this case we use a 30 year, 10% interest rate.
H	BREAK EVEN OCCUPANCY RATE			The break-even vacancy rate is the level of vacancy that the project could sustain without producing a negative cash flow. This rate should be compared to surrounding vacancy rates to determine the level of risk involved.
	All expenses including Debt Service	620,458		
	Assume rent @ \$2/sft triple net	3.58		
	Area in sft that must be rented		173,361	
	As a percentage of total rentable space		89.27%	

The maximum annual debt service is then used to determine the maximum allowable mortgage for the project. The amount of the mortgage will be influenced by both its length and interest rate. The mortgage terms represent another significant variable in the pro forma. The difference between the total development costs and the obtainable mortgage is the amount of equity capital or gap financing required.

After-Tax Cash Flows

Real estate investments offer special tax advantages. Real property improvements theoretically decline in value over time. This decline in value, depreciation, can be claimed as an expense and deducted from the cash flow of property when computing taxable income. This expense is, however, a paper loss as it does not influence actual cash flow. Deducting the depreciation allowed from the cash flow greatly reduces the amount of taxable income from a property and may even result in a taxable "loss" which may be used by the investor to offset or "shelter" income from other sources.

After-Tax Cash Flow Calculation

Net Operating Income: This is derived from the financial pro forma (adjusted revenues minus expenses). In this case, year 5 is considered the year in which the project is fully rented. As the project is not fully rented in the first four years, the owner has an additional expense associated with taxes, utilities and insurance costs for the unrented sections. After year 5, income is estimated to increase at a rate of 10% per year compounded annually.

Less Debt Service: Taken from the pro forma. Debt service remains constant throughout the mortgage term. It is a fixed expense and is thus subtracted from the cash flow.

Pre-Tax Cash Flow: The difference between NOI and debt service. Projects frequently have a negative cash flow in early years when start-up expenses are heavy and occupancy is low. This project has a negative cash flow for the first three years.

Tax Consequence: The amount of taxes to be paid on project income taken from the last line of taxable income calculations. For example, in year 5, there was a taxable "loss" after depreciation of \$17,246. An investor in the 46% corporate tax bracket thus saves \$7,933 in taxes from other income; this \$7,933 is added to the cash flow from the project. In year 6, taxes of \$10,461 had to be paid on project income; this is subtracted from cash flow.

After-Tax Cash Flow: The effective profit the property has generated for the investors. The project generated an after tax "profit" of \$12,745 for the investors in year 3 even though the project had a negative pre-tax cash flow.

Present Value: As money received tomorrow is worth less than the same amount received today, cash flows from a future year are discounted to give them a present value. In this case a discount factor of 12% is used.

AFTER TAX CASH FLOW: A TEN YEAR ANALYSIS											
	Years	1	2	3	4	5	6	7	8	9	10
1	Percentage of rent received	30%	50%	75%	90%	100%	110%	120%	130%	140%	150%
2	Space Rented in Square Feet	58,259	97,098	145,647	174,776	194,196	213,616	233,035	252,455	271,874	291,294
3	Potential Gross Revenue@ \$2	116,518	194,196	291,294	349,553	388,392	427,231	466,070	504,910	543,749	582,588
4	Less Owners expenses	214,584	153,218	76,511	30,486	0	0	0	0	0	0
5	General Expenses	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
6	Net Operating Income (NOI)	(128,066)	10,978	184,783	289,067	358,392	397,231	436,070	474,910	513,749	552,588
7	Less Debt Service	260,748	260,748	260,748	260,748	260,748	260,748	260,748	260,748	260,748	260,748
8	Pre Tax Cash Flow	(388,814)	(249,770)	(75,965)	28,319	97,644	136,483	175,322	214,162	253,001	291,840
9	Tax Consequence	233,378	169,057	88,710	40,303	7,933	(10,461)	(28,908)	(47,413)	(65,981)	(84,620)
10	After Tax Cash Flow	(155,437)	(80,713)	12,745	68,622	105,577	126,022	146,415	166,749	187,019	207,220
11	Discount Factor (12%)	1	0.89	0.80	0.71	0.64	0.57	0.51	0.45	0.40	0.36
12	Present Value	(155,437)	(71,835)	10,196	48,721	67,569	71,833	74,672	75,037	74,808	74,599
13	Gap Finance needed	195,437	120,713	27,255	0	0	0	0	0	0	0
TAXABLE INCOME CALCULATIONS: TEN YEAR ANALYSIS											
1	Pre Tax Cash Flow	(388,814)	(249,770)	(75,965)	28,319	97,644	136,483	175,322	214,162	253,001	291,840
	plus										
2	Debt Service	260,748	260,748	260,748	260,748	260,748	260,748	260,748	260,748	260,748	260,748
	less										
3	Interest	252,908	252,124	251,261	250,313	249,269	248,121	246,859	245,470	243,942	242,261
	less										
4	Depreciation	126,369	126,369	126,369	126,369	126,369	126,369	126,369	126,369	126,369	126,369
5	Taxable Income (Fed. & St.)	(507,343)	(367,515)	(192,847)	(87,615)	(17,246)	22,741	62,843	103,071	143,438	183,958
	Marginal Tax Rate	46%	46%	46%	46%	46%	46%	46%	46%	46%	46%
6	Inv. of Tax Consequence	(233,378)	(169,057)	(88,710)	(40,303)	(7,933)	10,461	28,908	47,413	65,981	84,620
PRINCIPAL AND INTEREST CALCULATIONS											
1	Balance Principal	2,529,079	2,521,239	2,512,615	2,503,128	2,492,693	2,481,214	2,468,588	2,454,699	2,439,420	2,422,615
2	Debt Service	260,748	260,748	260,748	260,748	260,748	260,748	260,748	260,748	260,748	260,748
3	Interest Payment	252,908	252,124	251,261	250,313	249,269	248,121	246,859	245,470	243,942	242,261
4	Principal Payment	7,840	8,624	9,487	10,435	11,479	12,627	13,889	15,278	16,806	18,487

Taxable Income Calculation

Pre-Tax Cash Flow: Taken from cash flow calculation (NOI minus debt service).

Plus: Debt Service: Debt service payments include both principal and interest. The portion that represents amortization of principal is not tax deductible. Add the debt service to the cash flow.

Less: Interest: Subtract from the above sum, the amount of debt service paid in interest. This is calculated under Principal Interest Calculations.

Less: Depreciation: Depreciation represents a theoretical decline in the value of a property over time. There are several allowable methods for determining the amount to be depreciated each year. In this case, the straight line method has been used and it is assumed that there will be no salvage value at the end of the building's useful life.

Taxable Income: The amount remaining after deducting interest and depreciation from income is the amount on which taxes must be paid. A negative amount may be used to shelter income from other sources.

Corporate Tax Rate: It is assumed that the investors are in the corporate state and federal tax bracket of 46% (state - 12.54% and federal - 34%). Multiply this times the taxable income to determine the tax due.

Tax Due: This is the amount that must be paid on the income from the project. If this is a negative, it is assumed to represent a tax savings to the investor since it may be used to offset taxes that would normally be due on other income.

G	DEPRECIATION: SIMPLIFIED STRAIGHT LINE		Depreciation represents a theoretical decline in the value of a property over time. In this case we use the straight line method and it assumes that there will be no salvage value at the end of the building's useful life.
	Assessed value of buildings (present)	1,262,000	
	All Capital Improvements	2,752,909	
	Total Value	4,014,909	
	divide by estimated useful life	30	We also assume that the mortgage will go into capital improvements
	Depreciation Allowed	133,830	
	UTILIZATION OF MORTGAGE FUNDS		
	Max. Mortgage 30yrs @ 10% interest	2,752,909	The mortgage amount needs to be used not only for rehabilitation purposes but also as gap financing while this is taking place. The gap financing would be payroll and operatin costs for the first three years.
	Upgrade Utilities	100,000	
	Roof Rehab. for Building A @ \$2.06/sf	29,664	According to the Means Index, the cost of rehabilitation for a 26 gauge galvanized steel roof is \$2.06/sft.
	Three elevators @ \$80,000 each	240,000	According to the Means Index, it is cheaper to install new elevators than rehab. old ones. The cost of a new 3 floor elevator with a capacity of 4000 lbs would cost \$80,000.
	Gap Financing needed for the first 3 years		
	Year 1: 30% of total space rented	195,437	Line 13 under "After-Tax Cash Flow" calculations
	Year 2: 50% of total space rented	120,713	Line 13 under "After-Tax Cash Flow" calculations
	Year 3: 75% of total space rented	27,255	Line 13 under "After-Tax Cash Flow" calculations
	Balance remaining for rehab. purposes	2,039,840	
	Average Cost per sft. for rehabilitatio	20	The degree of rehabilitation at \$20 per sft. would be minimal. Good rehabilitation projects would average \$60 per sft. Rehab. of selected sections only could be another option worth looking into.
	Maximum area that could be rehabed	101,992	
	As a percentage of the whole	52.52%	
	Gap financing needed to complete rehab.	1,844,080	Not recommended at present

I TAX CONSEQUENCE OF SELLING INCOME PROPERTY				
1	Selling Price		5,023,527	A selling price in year 10 is estimated by capitalizing the projected NOI (\$552,588) at the year of sale by a ratio of market price to income (assume 11%).
	minus			
2	Selling costs at 7%	351,647		
3	Net sales price on disposal		4,671,880	
4	Less remaining debt	2,404,128		This is the balance of the mortgage still owed.
5	Net proceeds from sales		2,267,752	
6	Less Capital Gains Tax	798,110		From calculations on capital gains tax.
7	Expected after tax gain		1,469,643	
8	Discounted by 12% desired rate of return on equity	0.36		
9	Present Value of Sale		529,071	
J CAPITAL GAINS TAX				
1	Net sales price on disposal		4,671,880	
2	Less adjusted basis			
	Initial depreciation basis	4,014,909		
	Less Cumulative depreciation	1,338,303		
			2,676,606	
3	Expected Capital Gains		1,995,274	
6	Marginal Tax Rate of Investor	40%		
7	Capital Gains Tax		798,110	
K NET AFTER-TAX PROFIT				
1	Sum of all Present Values		1,123,910	This includes after tax cash flow for ten years and the present value of the sale.

Selling Income Property When the negative cash flow effect of amortization is no longer offset by depreciation, an investor would typically consider sale or refinancing. This frequently occurs between the 8th and 12th years. In this case we consider selling income property in year 10.

Tax Consequence of Selling Income Property: The selling price in year 10 is estimated by capitalizing the projected Net Operating Income at year of sale by a rate assumed to reflect the same ratio of market price to income as exists today.

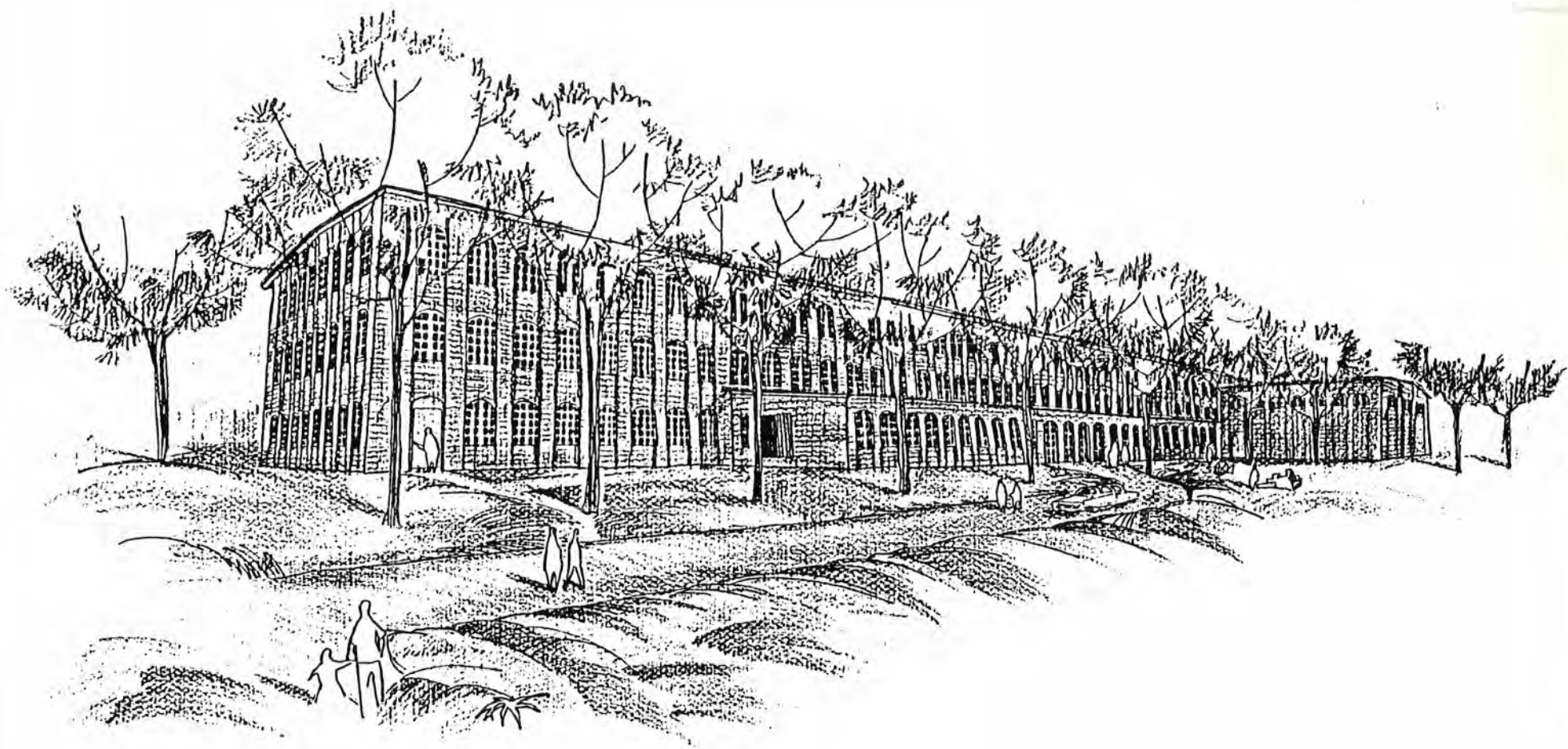
The expected after-tax gain is calculated by subtracting selling costs at 7%, remaining mortgage that needs to be paid off and the capital gains tax that would need to be paid.

Capital Gains Tax Calculation: Capital gains tax is calculated on the net sales price on disposal and the depreciated present value of the property (initial depreciation bases less amount already depreciated). The tax rate for capital gains is 40% (federal: 34% & state: 12% with a 50% deduction).

Net After-Tax Profit

After ten years, the sum total of all the present values of after-tax gain (PV of income plus PV of sale) is \$1,123,910. As no dollars were put forth as equity, this is the net after tax profit.

GRAPHIC PRESENTATIONS

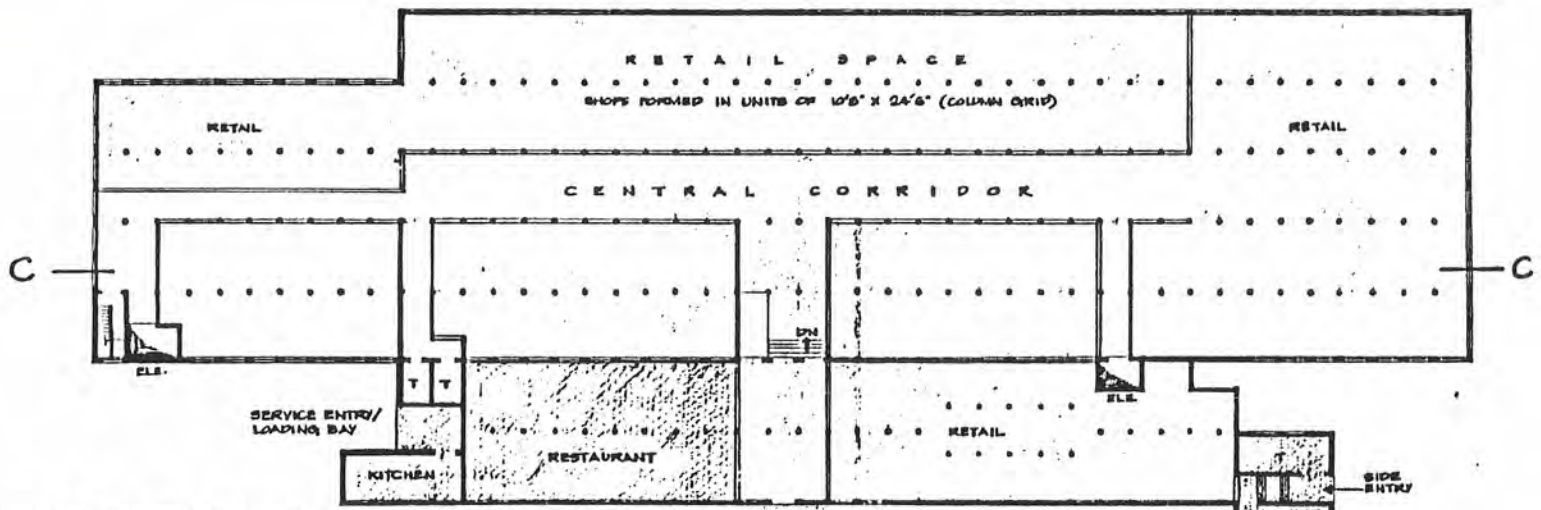


THE WAVERLY MILLS
ADAMS **MASSACHUSETTS**

VIEW

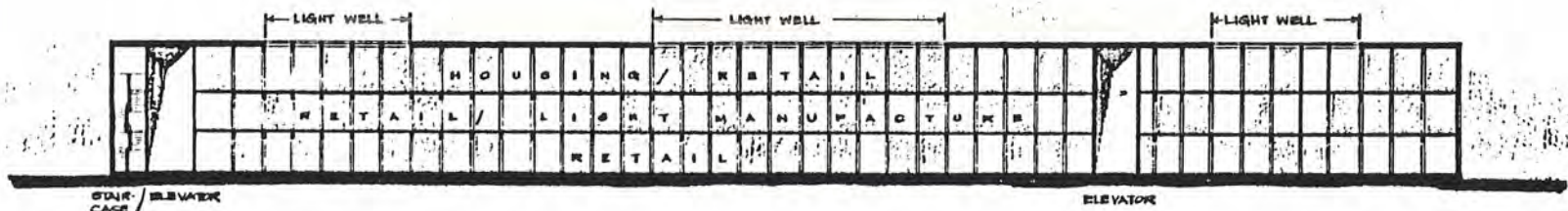
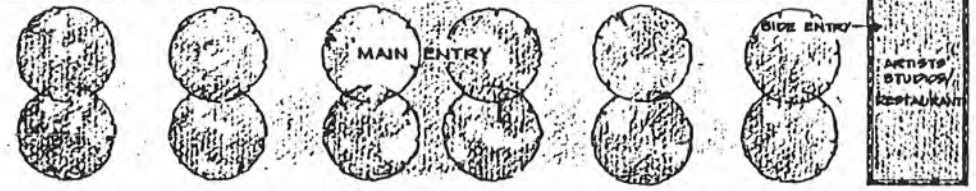
CENTER FOR ECONOMIC DEVELOPMENT
UNIVERSITY OF MASSACHUSETTS AT
AMHERST
GRAPHICS BY UMA SANKAR





PLAN



IN THIS ALTERNATIVE, RETAIL/LIGHT MANUFACTURE IS PROVIDED ON ALL THREE FLOORS, WITH HOUSING AS AN OPTION ON THE THIRD FLOOR. CIRCULATION SPACE IS MINIMIZED WITH OUTLET UNITS ARRANGED AROUND A CENTRAL CORRIDOR. HOUSING ON THE THIRD FLOOR CAN BE SIMILAR TO ALTERNATIVE #1, WITH ALL THREE LIGHT WELLS EXTENDING ONLY UP TO THE THIRD FLOOR.

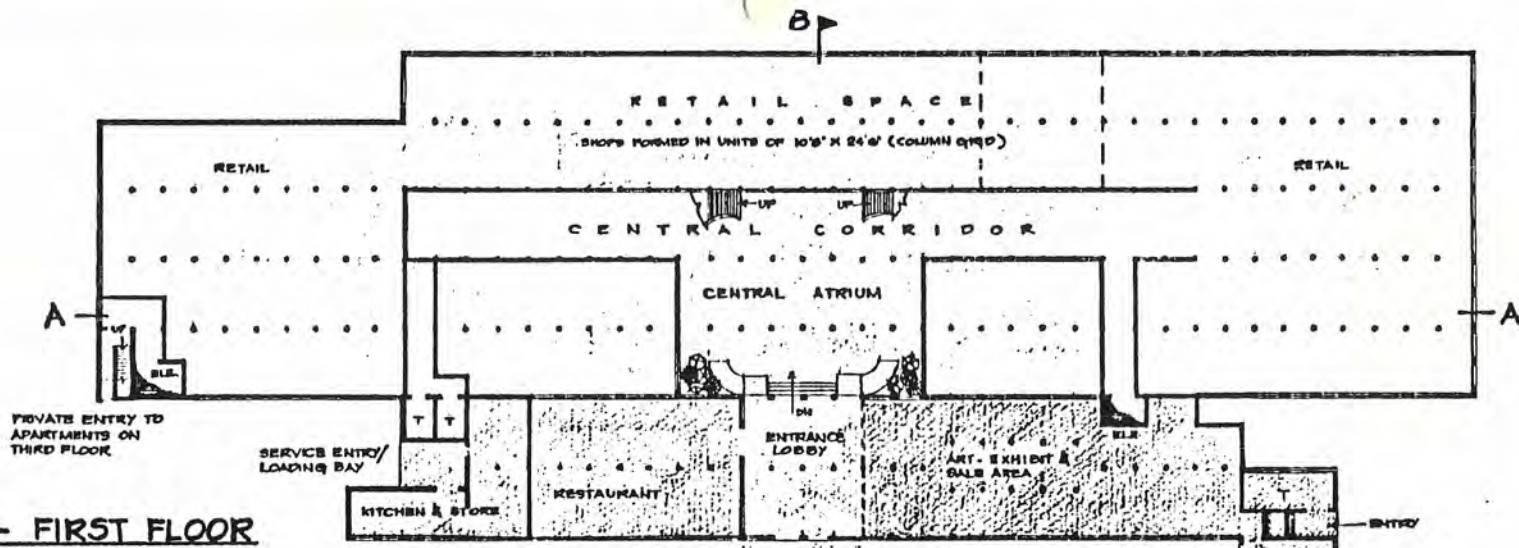


SECTION C-C

**THE WAVERLY MILLS
ADAMS
MASSACHUSETTS**

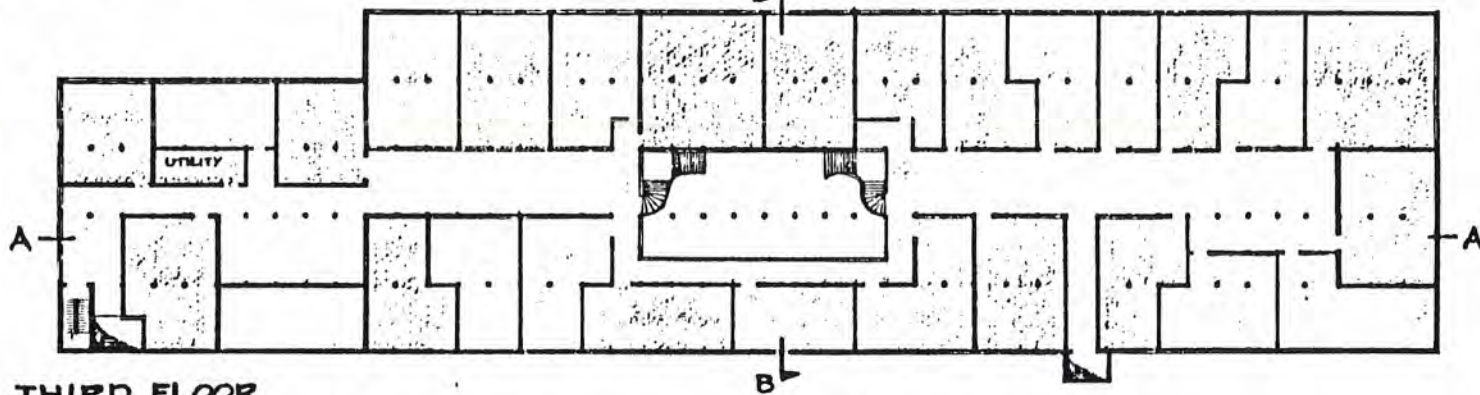
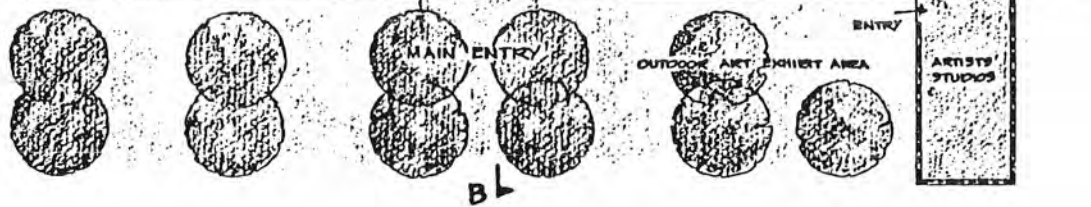
**MINIMAL REHAB.
1:30**

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PLAN - FIRST FLOOR

IN THIS ALTERNATIVE, RETAIL/LIGHT MANUFACTURE IS PROVIDED FOR ON FLOORS ONE & TWO, & APARTMENTS ON FLOOR 3 OF THE WAVERLY MILL BUILDING #1. LIGHT IS PROVIDED ON ALL THREE FLOORS THROUGH AN ATRIUM EXTENDING ALL THREE FLOORS. THE ATRIUM ALSO ACTS AS A CENTRAL CIRCULATION SPACE. PRIVATE ENTRY IS PROVIDED TO BOTH THE ARTIST'S STUDIO & THE APARTMENTS. A SIMILAR PLAN CAN BE ADOPTED FOR THE SECOND FLOOR.

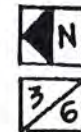


PLAN - THIRD FLOOR

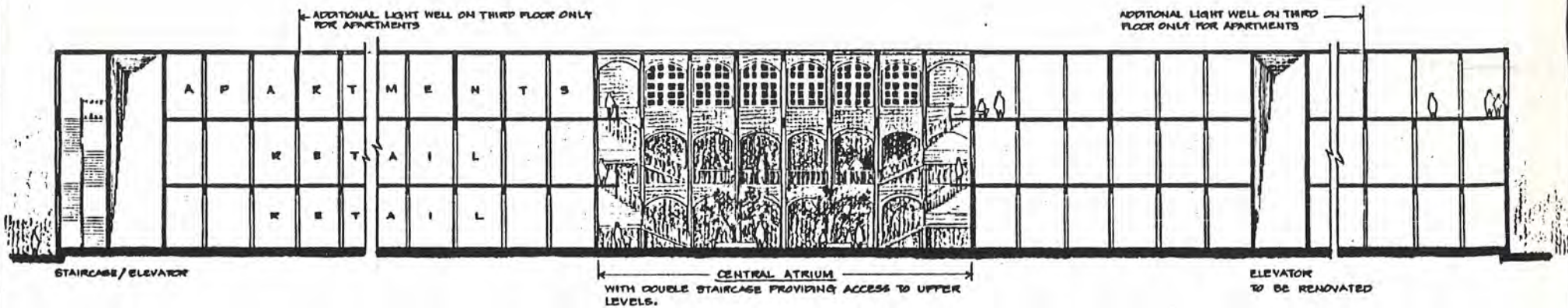
APARTMENTS OF AREA RANGING FROM 1000 - 2000 SQ. FT. ARE PROPOSED. THESE APARTMENTS ARE GROUPED AROUND THREE LIGHT WELLS, THAT IN THE CENTER EXTENDING DOWN TO THE FIRST FLOOR, WHILE THE OTHER TWO ARE ONLY ON THE THIRD FLOOR.

THE WAVERLY MILLS
ADAMS MASSACHUSETTS

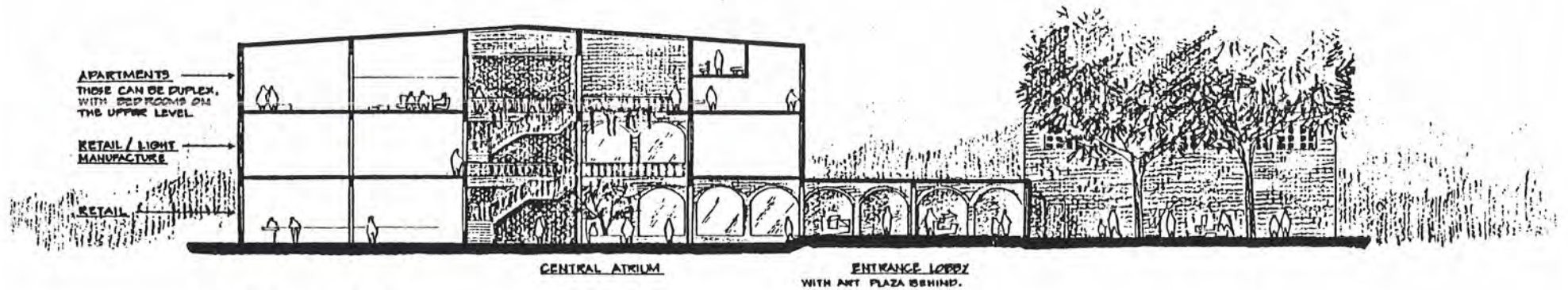
RECOMMENDED REHAB.
1:30 - PLANS



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SECTION A-A



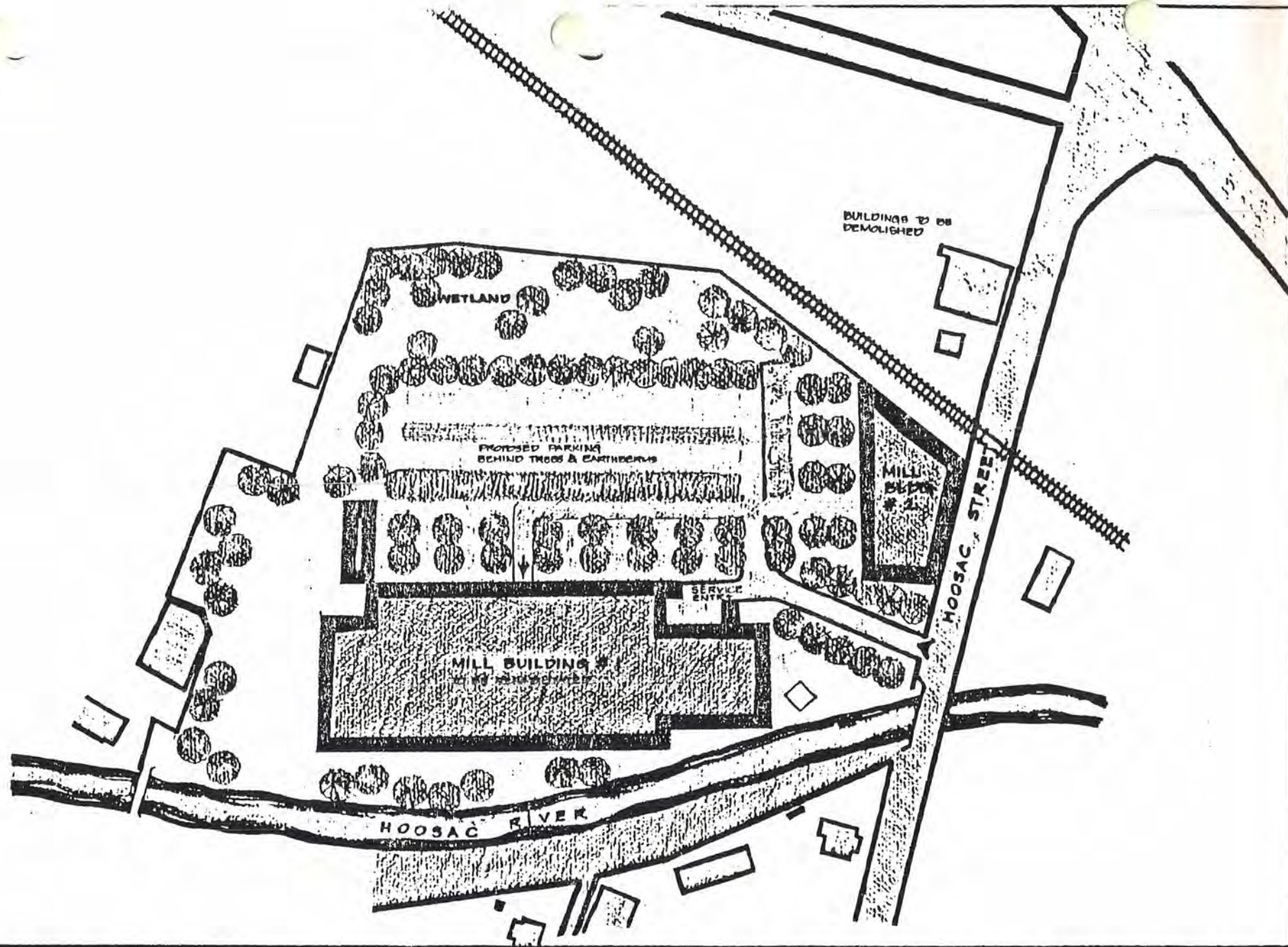
SECTION B-B

THE WAVERLY MILLS
ADAMS MASSACHUSETTS

RECOMMENDED REHAB.
1:15 -SECTIONS



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THE WAVERLY MILLS
ADAMS **MASSACHUSETTS**

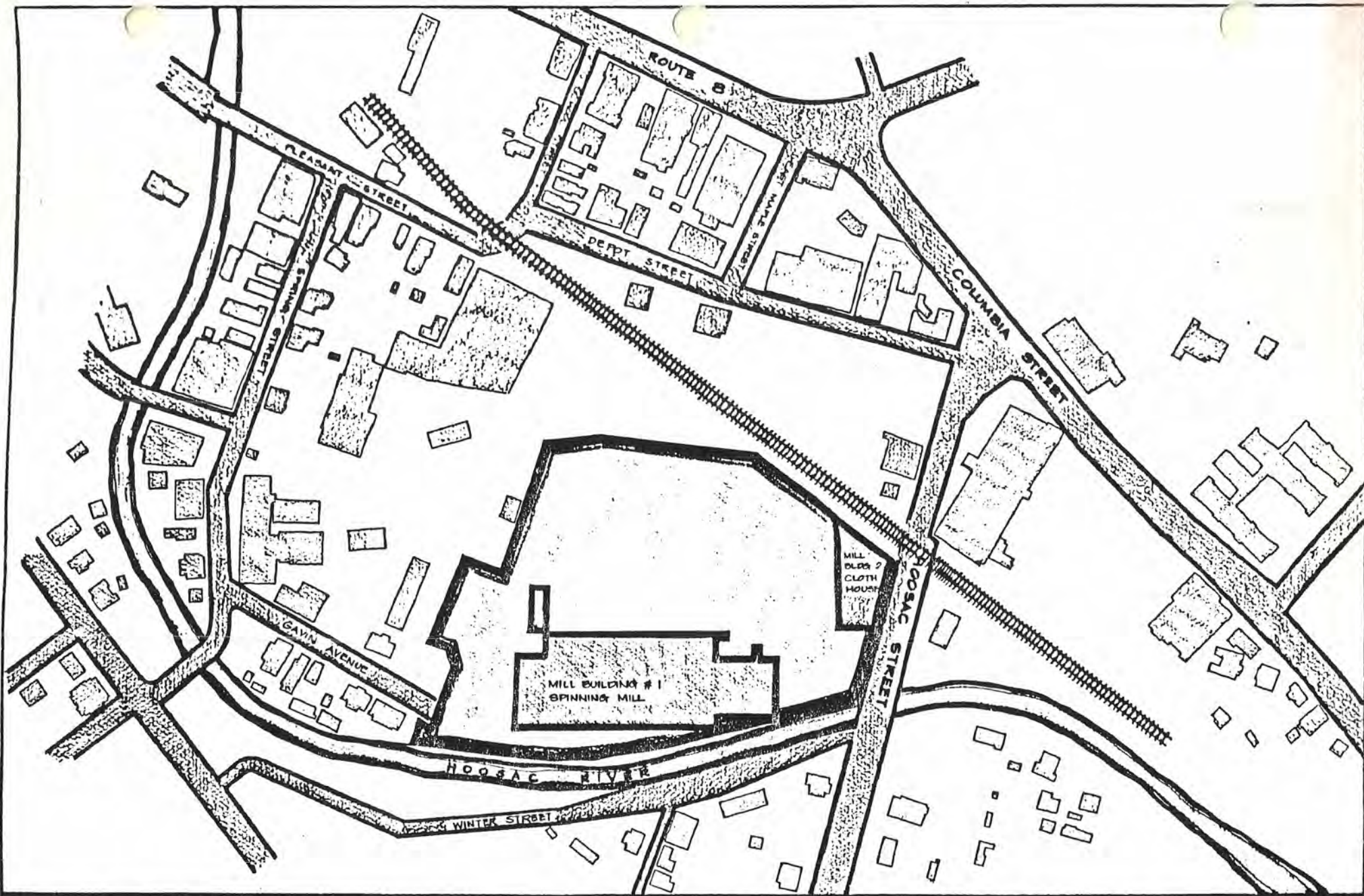
SITE PLAN
1:75



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 UNIVERSITY OF MASSACHUSETTS AT
 AMHERST



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THE WAVERLY MILLS
ADAMS **MASSACHUSETTS**

LOCATION MAP
1:100



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