



Meriden TOD Market Study and Financial Feasibility Analysis: Phase II Financial Feasibility Analysis

Prepared for: the City of Meriden, Connecticut



ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™

Executive Summary

In Phase II of the Meriden TOD Market Study and Financial Feasibility Analysis 4ward Planning identified a set of parcels for potential acquisition and conducted a financial feasibility analysis. Incorporating the findings of the previous analyses conducted as part of Phase I, 4ward evaluated the parcels in the TOD study area to create a land acquisition strategy for the City. Using a set of pre-defined criteria, the analysis resulted in 27 potential acquisition parcels at a total inflated value (115 percent of the assessed value) of nearly \$4.4 million.

Based on a number of factors, one property, 128 Colony Street, was identified to conduct a cost estimate for site preparation and adaptive reuse. Prepared by The Sullivan Group, this report can be found in Appendix H. The building is suitable for renovation for multi-family use and the cost to demolish and construct new is similar to renovation, just over \$1,000,000.

A financial analysis was conducted on nine potential development parcels. This analysis identifies financial viability from the perspective of a private developer, as well as total development cost estimates (build-out value from the city's perspective). Interviews with both area developers and TOD-style developers influenced both the inputs and findings of this analysis. Using custom development and operating pro forma, the analysis demonstrates that any of the nine proposed redevelopment sites are feasible. However, the sites offer return rates on the lower end of what market area developers will likely consider acceptable.

Executive Summary (continued)

The Phase II Analysis shows that, in order to accelerate early investment activity, the City will need to clearly show willingness to facilitate redevelopment activities with any of the following tools:

- Subsidize or write-down certain pre-development costs such as demolition, enhanced infrastructure and environmental remediation.
- Ease parking requirements.
- Contribute land parcels, at no cost, to the development entity.
- Give serious consideration to assisting early development projects (those occurring within the first three to five years) by granting long-term property tax abatements or PILOTs.

Table of Contents

PHASE II EXECUTIVE SUMMARY	2
LAND ACQUISITION STRATEGY	5
FINANCIAL FEASIBILITY ANALYSIS	9
Key Findings	10
Methodology	12
Takeaway	18
General and Limiting Conditions	19
APPENDIX	
H. Site Development and Adaptive Reuse Costs for 128 Colony Street	

LAND ACQUISITION STRATEGY

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Methodology

Incorporating the findings of the analyses conducted as part of the Meriden TOD Market Study, 4ward Planning, LLC, evaluated the parcels in the TOD Study Area to create a land acquisition strategy for the City.

To estimate the acquisition costs, the inflated value of each parcel was calculated to be 115% of the assessed value. This is to allow for flexibility in negotiations as well as to account for relocation or other ancillary costs.

When selecting the potential acquisition parcels, priority was given to:

- Parcels near the Meriden Transit Center
- Vacant Lots
- Parcels with low Improvement-to-Land Value Ratios
- Underdeveloped Lots
- Unoccupied Lots

Potential Land Acquisitions

Table A-1 lists the potential acquisition parcels. As shown, the total inflated value of the 27 parcels equals nearly \$4.4 million. A map of the parcels follows.

Table A-1: Potential Acquisition Parcels

Address	Current Owner	Year Built	Description	Zone	TOD Sub-District	Impr. to Land Value Ratio	Assessed Value	Inflated Value	Acreage
8 So Grove St	Silver City MCL Thrift Store	1938	Tax Exempt	C-1/CCDD	Hanover	5.45	\$256,000	\$294,400	0.25
29 Pratt St	Elliot Robert	1918	Commercial Building	C-1	Park	0.94	\$138,600	\$159,390	0.04
31 Pratt St	Urena Ysidro	1920	Commercial Building	C-1	Park	3.16	\$412,400	\$474,260	0.32
35 Pratt St	Burchsted Bruce	1890	Commercial Building	C-1	Park	2.13	\$272,400	\$313,260	0.20
45 Pratt St	Burchsted Bruce	-	Commercial Land	C-1	Park	0.10	\$46,100	\$53,015	0.16
255 Center St	Hussien Amin	1900	Residential Improved	C-1	Gateway	3.25	\$135,700	\$156,055	0.12
232 Pratt St	232 Pratt St LLC	1956	Commercial Building	C-1	Gateway	1.54	\$175,000	\$201,250	0.25
234 Pratt St	234 Pratt St LLC	1900	Commercial Building	C-1	Gateway	1.68	\$196,600	\$226,090	0.06
246 Pratt St	Negri Amanda A	1958	Commercial Building	C-1	Gateway	0.54	\$151,700	\$174,455	0.33
250 Pratt St	Houses Are Us LLC	-	Vacant Commercial	C-1	Gateway	0.00	\$21,300	\$24,495	0.18
256 Pratt St	Bernier Paul	1900	Commercial Building	C-1	Gateway	1.01	\$165,200	\$189,980	0.15
264 Pratt St	Watford Bruce A	1900	Residential Improved	C-1	Gateway	1.56	\$91,700	\$105,455	0.23
105 Colony St	105 Colony St LLC	1928	Commercial Building	C-1	Historic/CBD	3.70	\$613,200	\$705,180	0.67
119 Colony St	105 Colony St LLC	1900	Commercial Building	C-1	Historic/CBD	0.22	\$115,500	\$132,825	0.60
121 Colony St	105 Colony St LLC	-	Commercial Land	C-1	Historic/CBD	0.00	\$41,800	\$48,070	0.17
121 Colony St Rear	Cabin Resturant Inc	-	Commercial Land	M-3	Historic/CBD	0.00	\$50,100	\$57,615	0.34
128 Colony St	Shweky Isaac H	1903	Commercial Building	C-1	Historic/CBD	0.57	\$163,200	\$187,680	0.37
137 Colony St	Malerba Realty Asso LLC	-	Commercial Land	C-1	Historic/CBD	0.00	\$100,300	\$115,345	0.35
138 Colony St	Shweky Isaac H	-	Commercial Land	C-1	Historic/CBD	0.10	\$61,700	\$70,955	0.27
102 Twiss St	Nanfito Vincent	-	Residential Improved	C-1	Park	0.00	\$9,500	\$10,925	0.05
105 Twiss St	163 Pratt LLC	-	Vacant Commercial	C-1	Park	0.00	\$32,700	\$37,605	0.18
135 Pratt St	Carabetta Enterprises Inc	-	Commercial Land	C-1	Park	0.03	\$89,700	\$103,155	0.24
145 Pratt St	Nanfito Vincent	-	Commercial Land	C-1	Park	0.00	\$44,000	\$50,600	0.13
171 Pratt St	163 Pratt LLC	-	Vacant Commercial	C-1	Park	0.00	\$52,800	\$60,720	0.13
177 Pratt St	163 Pratt LLC	-	Vacant Commercial	C-1	Park	0.00	\$63,100	\$72,565	0.16
24 Colony St	Shweky Aharon	1928	Commercial Building	C-1/CCDD	Historic/CBD	0.26	\$171,900	\$197,685	0.71
177 State St	Csc Investments LLC	-	Commercial Land	M-3	Park	0.50	\$141,800	\$163,070	1.28
							Total	\$ 4,386,100	7.95

Source: City of Meriden; 4ward Planning LLC



	Inflated Value	Acreage	Count
Total	\$4,386,100	7.9	27

- - - Floodplain Boundary - Post-Construction
- Potential Acquisitions
- Tax Exempt

Proposed Zoning (TOD Sub-District)

- Civic
- Gateway
- Hanover
- Historic/Commercial
- Park

FINANCIAL FEASIBILITY ANALYSIS

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Key Findings

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All scenarios examined, using current and prospective development and operating factors, fail to achieve the identified developer desired 10 percent ROE and IRR benchmarks. However, this will not, likely, dissuade developers from pursuing one or more of the proposed redevelopment projects, in the near term.

Parking is a Drag

The parking requirements associated with the Meriden TOD build-out analysis, particularly structured parking, serves as a financial drag on financial performance. Parking construction costs represent an estimated 13 percent, on average, of total project costs..

Property tax relief is key

Early in the redevelopment build-out period (first five to seven years), the city of Meriden will, likely, need to grant favorable real property tax treatment (PILOT or Long-term tax abatement) to redevelopment projects within the TOD zoning area, as this will greatly influence the financial performance of the subject project.

Key Findings

Which Development and Operating Pro Forma Factors Can be Favorably Influenced by the City of Meriden?

Real Property Taxes

Acquisition Costs

**Parking
Requirements**

Cost of Parking
Construction

Site Improvements

Methodology: Financial Feasibility Analysis

4ward Planning employed quantitative and qualitative analysis to inform its creation and use of development and operating pro forma.

Following are key development and operating pro forma inputs utilized and/or measured:

Development Pro Forma

- Acquisition Costs
- Demolition Costs
- Infrastructure & Site Costs
- Hard & Soft Construction Costs
- Construction Cost per Parking Space
- Dwelling Units per Acre
- Developer Fee

Operating Pro Forma

- Rent per SF
- Annual Vacancy Rate
- Operating Expenses per SF
- Net Operating Income
- Return on Equity
- Internal Rate of Return
- Capitalization Rate

Methodology: Financial Feasibility Analysis

4ward Planning assumed constant values for the following development pro forma inputs, for practicality sake:

Development Metrics

Multi-family Rental Hard and Soft Costs:	\$130/s.f.
Retail Hard and Soft Costs:	\$130/s.f.
Office Hard and Soft Costs:	\$200/s.f.
Demolition Costs:	\$17/s.f.
Developer Fee:	5% of total costs
Efficiency Factors:	Residential (85%); Commercial (90%)
Structured Parking Cost:	\$20,000/space
Surface Parking Cost:	\$3,500/space
Average Dwelling Unit Size:	850 s.f.

Pro forma inputs are informed by the preceding market analysis, interviews with developers and brokers, and commonly accepted industry standards.

Methodology: Financial Feasibility Analysis

4ward Planning assumed constant values for the following operating pro forma inputs, for practicality sake:

Operating Metrics

Monthly Residential Rent: ¹	\$ 1.65/s.f.
Annual Retail Rent:	\$18.00/s.f.
Annual Office Rent:	\$15.00/s.f.
Annual Vacancy Factor (residential):	3%
Annual Vacancy Factor (commercial):	5%
Operating Expenses (residential)	\$ 4.00/s.f.
Operating Expenses (commercial)	\$ 8.00/s.f.
Capitalization Rate (residential)	6.00%
Capitalization Rate (retail)	7.50%
Capitalization Rate (office)	8.00%
Real Property Taxes:	\$ 4.00/s.f.
Inflation (annually):	2.2%

Pro forma inputs are informed by the preceding market analysis, interviews with developers and brokers, and commonly accepted industry standards.

¹ We assumed residential rents would be higher than existing rents for newly built product with higher end amenities.

Methodology: Financial Feasibility Analysis

Site Name	Acreage	Improvement Value	Total Assessed Value
11 Crown Street	1.62	\$817,700	\$1,280,100
116 Cook Avenue	3.69	\$172,000	\$1,085,200
128/138 Colony Street	0.64	\$ 59,400	\$ 219,200
24/38/44 Colony Street	1.73	\$ 35,000	\$ 550,900
25/33 Colony Street	0.29	\$ 0	\$ 163,800
8 South Grove Street	2.36	\$216,300	\$1,010,300
Factory H	7.21	\$ 0	\$ 624,100
Hub Site 1	1.33	\$ 0	\$ 787,448
Hub Site 2	2.30	\$ 0	\$1,361,752
Totals	21.17	\$1,300,400	\$7,082,800

Methodology: Financial Feasibility Analysis

Site Name	DU/Acre	Total DUs	Commercial S.F.	Required Parking
11 Crown Street	43.2	70	0	70
116 Cook Avenue	54.2	200	0	200
128/138 Colony Street	46.9	30	4,000	46
24/38/44 Colony Street	46.2	80	6,000	104
25/33 Colony Street	41.4	12	4,000	28
8 South Grove Street	40.3	95	10,000	135
Factory H	41.6	300	0	300
Hub Site 1	45.1	60	4,000	88
Hub Site 2	52.2	120	0	120
Totals		967	28,000	1,091

Methodology: Financial Feasibility Analysis

Site Name	ROE	IRR	Total Project Cost	Parking Cost
11 Crown Street	6.63%	6.93%	\$12.03MM	\$1.29MM
116 Cook Avenue	7.36%	8.09%	\$30.98MM	\$3.67MM
128/138 Colony Street	7.28%	7.98%	\$5.61MM	\$0.84MM
24/38/44 Colony Street	7.48%	8.29%	\$13.53MM	\$1.92MM
25/33 Colony Street	7.29%	8.00%	\$2.79MM	\$0.51MM
8 South Grove Street	7.28%	7.97%	\$17.17MM	\$2.49MM
Factory H	7.89%	8.92%	\$43.34MM	\$5.50MM
Hub Site 1	6.98%	7.54%	\$11.37MM	\$1.61MM
Hub Site 2	7.40%	8.17%	\$18.48MM	\$2.20MM
Averages & Totals	7.29%	7.98%	\$155.30MM	\$20.03MM

Takeaway: Financial Feasibility Analysis

Our financial analysis, using custom development and operating pro forma, demonstrate that any of the nine proposed redevelopment sites are feasible, though offer return rates on the lower end of what market area developers will likely consider acceptable.

Projects which require little to no upfront capital investment for demolition and site preparation (HUB Sites 1 and 2 are examples) will, no doubt, be of greater appeal to experienced developers than will properties requiring greater such investment. However, the city of Meriden can mitigate such a “development penalty” by agreeing to subsidize or write-down certain pre-development costs such as demolition, enhanced infrastructure and environmental remediation, where it exists.

Additionally, and of significant importance, the city of Meriden can also favorably influence the financial return rate associated with redevelopment activity within the half-mile TOD district through the easing of parking requirements (4ward Planning identified parking – and structured parking, in particular – as a material drag on financial performance for all of the development scenarios modeled), and contribution of land parcels, at no cost, to the development entity.

Finally, the city should give serious consideration to assisting early development projects (those occurring within the first three to five years) with its authority to grant long-term property tax abatements or PILOTs, as such real property tax treatment will have significant and favorable impact on a development entity’s financial return, without adversely impacting the city’s ability to deliver municipal services.

Making clear to the development community the city’s willingness to assist redevelopment activities with one or more of the above recommended actions will do much to accelerate early investment activity.

General & Limiting Conditions

4ward Planning LLC has endeavored to ensure that the reported data and information contained in this report are complete, accurate, and relevant. All estimates, assumptions, and extrapolations are based on methodological techniques employed by 4ward Planning LLC and believed to be reliable. 4ward Planning LLC assumes no responsibility for inaccuracies in reporting by the client, its agents, representatives, or any other third party data source used in the preparation of this report.

Further, 4ward Planning LLC makes no warranty or representation concerning the manifestation of the estimated or projected values or results contained in this study. This study may not be used for purposes other than that for which it is prepared or for which prior written consent has first been obtained from 4ward Planning LLC. This study is qualified in its entirety by, and should be considered in light of, the above limitations, conditions, and considerations.



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APPENDIX

H. Site Development and Adaptive Reuse Costs for 128 Colony Street

Appendix H: Adaptive Reuse Costs for 128 Colony Street

**The
SULLIVAN
Architectural Group**

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Salvatore P. Talamo Jr., A.I.A., NCARB

May 17, 2013

Project: 128 Colony Street

I. Property Description

1. 3 Floors of wood frame construction with a full basement at 65' x 40" or 2,600 sq.ft./floor.
2. Rear two story wood frame addition with full basement at 15 x 40 or 600 sq. ft./floor.
3. No significant site development, driveway or parking.
4. Building exterior could be of the "Second Empire" of the Victorian era. Building has beautiful lines and proportions however is now in disrepair.

II. Suggested Renovation Approach

1. Demolish rear addition, poor condition would prove too costly to renovate.
2. Renovate main structure into 6 residential units, 2 per floor. Building area would support large one bedroom units, perhaps a small two bedroom would fit.
3. Any multi-family above 4 units requires 2 means of egress. A second stair needs to be added and the current one fire rated.
4. Any multi-family with 4 or more units must be handicapped accessible. Without an elevator only the ground floor need comply. Wavier may be available due to height of first floor above grade.
5. Building requires re-siding and re-roofing. Basic attractive lines of the building should be maintained. Ornate detail could not be cost effectively re-produced.
6. Site requires development for driveway, parking and recreation area. Property seem likely to support 1 parking space per unit and little more.

III. Concept Estimate

General Conditions	\$20/Sq.Ft.
Sitework	\$10/Sq.Ft.
Concrete/Masonry/Metals	\$ 6/Sq. Ft.
Rough Carpentry/Gyp-Crete/ Siding/Roofing/ Doors & Windows/Insulation/Firestopping	\$25/Sq.Ft.
Finish Carpentry/Drywall/Paint/ Tile/Flooring/Window Coverings	\$22/Sq.Ft.
Kitchen & Bath Cabinets/Top	\$ 6/Sq.Ft.
HVAC/Plumb/Sprinkler/Elec	\$35/Sq.Ft.
Contingency/Fee/Insurance	<u>\$10/Sq.Ft.</u>
	\$134 / Sq.Ft.
Building Area	7,800 Sq.Ft.
Total Construction Cost	\$1,045,200

Note: This estimate is for conceptual review and only to judge order of magnitude relative to cost.

IV. Summary

1. 128 Colony Street is a building of sound wood framing and attractive architectural lines, suitable for renovation to a multi-family use.
2. The cost to demolish and construct new is approximately the same as renovation, perhaps slightly less with a more efficient layout. This does not however take into account the historic value of the building.
3. Maximum re-development would be an additional basement one-bedroom unit and an additional studio unit on each floor of the addition. This would bring the total to 9 units however supporting parking and renovation costs would make this more difficult to achieve.

