

DATE: September 23, 2016
TO: Noelle Mackay, City of Burlington, Vermont
FROM: Abe Farkas, Matthew Craigie,
SUBJECT: BURLINGTON TOWN CENTER – FEASIBILITY REPORT REVIEW

Background and Purpose

ECONorthwest was engaged in 2015 to advise the City of Burlington, Vermont regarding the redevelopment of the Burlington Town Center (BTC). The BTC is a substantially sized urban mall located in the core of downtown Burlington. In 2013, the BTC was purchased by a private developer, who has since initiated a plan for a major reconstruction of the mall facility, including a significant expansion of the commercial space at the property, the addition of a multifamily residential component which includes both affordable and student housing as well as market rate units, creation of structured parking, and a reopening of currently vacated city streets. While the project is designed for two phases, the focus is on phase one which includes 90% of the square footage as well as all the public right of way improvements.

ECONorthwest regularly provides analysis and consulting services for public/private redevelopment projects around the country, and has significant experience working on either side of these deals, be it with public agencies or private real estate developers. ECONorthwest's reputation is based on its objective approach to each project and its unbiased recommendations to its clients.

The primary goal of this project is to assess the private developer's development capacity to successfully execute the redevelopment of the BTC, and also to vet the feasibility of the redevelopment plan. This memorandum is the second of two memorandums that ECONorthwest has prepared that summarize findings of our analysis. The first memorandum outlined our findings regarding preliminary development documents, preliminary development financial pro forma, anticipated development costs, and documentation pertaining to the private developer's experience, capability, and the financial capacity of the development team.

This memorandum summarizes ECONorthwest's review of a third party project feasibility analysis. This analysis was conducted by Doug Kennedy Advisors of Norwich, Vermont.

The Feasibility Report

The feasibility study was commissioned by the developer of the Burlington Town Center at the request of the City of Burlington. The analysis is intended to provide an independent third party perspective on the viability of the BTC project.

The report is organized as follows:

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- The Project – This section summarizes project facts including; number of residential units, square footages of retail and office space, details related to parking.
 - Project Context – This section highlights the project’s regional and local area market context.
 - Background Market Factors & Indicators – This section highlights macro-level economic and household indicators of the Burlington region.
 - Residential, Retail, and Office Market Analyses – These sections comprise the bulk of the report and provide detailed demand analyses for each market sector.
 - Parking – This section outlines the parking amounts and arrangements at the BTC project.
 - Absorption Projections & Project Feasibility – This section outlines the project’s sources and uses, cash flows, and financial feasibility.

This organization is typical of a market or feasibility analysis and is similar to how ECONorthwest conducts these types of analyses.

Overall, the methodology of the feasibility analysis is sound, and the report displays in-depth research of the local market and the BTC project. The report clearly identifies that the BTC project is a new product type with considerable amenities for the Burlington market, a factor that differentiates the BTC from other available options within the city and the region and therefore will demand rents that are at the top of Burlington’s market across all sectors.

The analysis spends considerable effort to discuss demand factors within each market sector – residential, retail, and office – that are likely to respond to the project’s delivery to the market.

As it pertains to the residential portion of the project. The feasibility analysis walks the reader through demographic and market trends that impact the Burlington rental residential market. Drawing on a number of sources, the section highlights that there is existing, and in most cases, increasing, demand for affordable, student, and market rate rental housing. The analysis concludes that there is sufficient demand for rental housing at a variety of price levels in the core area of Burlington. In regards to the market-rate residential units, the report indicates that there is convincing evidence that there are enough households that are interested, and capable, of paying the necessary rental premiums to live at the new BTC. That the proposed project has only 139 market rate units, that the project is in highly desirable location with multiple amenities, and that there are approximately 7,000 area households that are likely to move annually, suggests that these units should lease up quickly.

The retail section demonstrates downtown Burlington’s draw as a retail center with particular emphasis on the BTC and Church Street. The section draws from a variety of sources, however cites one study from 2011 for a significant portion of the analysis¹ – a five-year-old study being

¹ The Burlington Retail Study. The Eisen Group, first cited on page 51.

relatively dated in the world of retail real estate. Although, the indicators in the 2011 report are positive and the market has improved since that time. In the year 2011, most of the country, Vermont included, was beginning to recover from the Great Recession.

It is clear from the study and from ECONorthwest's review of the sources cited, that the BTC and Church Street command the highest retail rates in the city of Burlington. The analysis suggests that after pre-leasing of some retail space, an additional 40,000 to 50,000 square feet of retail space can be absorbed by the project annually. This is a significant amount of space to be absorbed at top-of-the-market rents in a market the size of Burlington's. However, the report clearly highlights that the location and quality of the BTC is likely to create increased interest and draw in new tenants. Further, the developer has demonstrated new tenant attraction to the BTC, with LL Bean being the most notable new tenant, and is in ongoing negotiations with other potential retailers.

The office section discusses that a significant portion of the project's 325,000 square feet of new office space is preliminarily committed via Letters of Intent (LOIs²). The remaining portion of the office space not preliminarily committed is 110,00 square feet. The analysis estimates an absorption rate of approximately 38,250 square feet of this remaining space to be annually absorbed. Given the overall small size of the majority of Burlington office tenants³ and the relative small size of the Burlington office market, ECONorthwest followed up with the developer regarding this absorption projection. In these further discussions, the developer identified a number of additional office tenants that have expressed interest in leasing space at the BTC. The developer also indicated that the office spaces at the BTC are easily demised into a variety of office suite sizes. This is an important factor in being able to successfully respond to a market with potential office tenants with a variety of office size demands.

The parking section details on-site and off-site parking at and around the BTC project. The on-site structured parking will be almost completely reconfigured resulting in a total of 926 parking spaces – a 400 space net increase. The report indicates that the project will rely on public and private parking, and that despite localized instances of parking shortfalls, the new BTC parking resources and parking resources in its area will be of sufficient capacity. Transit and alternative transportation modes are not mentioned in this section, however given the project's core downtown location with many services and amenities within reach via walking, biking, or transit, these too will see increased utility.

The final section of the report draws data and information from the developer's projections and estimates, and uses them to create a simplified financial analysis. While this analysis is accurate with its portrayal of the developer's assumptions and projections, there is less in-depth

² Nonbinding agreements between candidate tenants and landlords that stipulate potential lease terms and move the parties towards a binding lease agreement.

³ Page 65 illustrates with 2013 data that 79 percent of office space transactions are for spaces less than 10,000 square feet.

discussion in this section than the previous sections. Additional elements that would be helpful to discuss include:

- A more in-depth discussion of project finance, including an analysis of viable loan rates and capitalization rates within the context of the Burlington market.
- More discussion of the project capital stack (how the funding sources are positioned), including capital preferences and a linkage between project sources and uses.
- More discussion on projected supply of various product types to illustrate that there will likely be some competition for some product types, particularly office.

The Feasibility Report Conclusions

The feasibility report concludes that the project is economically feasible and represents a viable investment for the developer. The majority of the analysis in the report focuses on demand factors for each market sector, with findings that conclude that there is sufficient demand for the BTC to be absorbed by the market. While there could have been more in depth discussion of some financing factors and the supply side, ECONorthwest sees this analysis as generally well-conceived, and is in general agreement with its findings.