CITY OF CONCORD

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City Manager's Office

Thomas J. Aspell, Jr.
City Manager

REPORT TO MAYOR AND CITY COUNCIL

FROM: Matthew R. Walsh, Dir. of Redevelopment, Downtown Services & Special Projects

DATE: March 22, 2017

SUBJECT: Former Allied Leather Tannery: Purchase Option Agreement with Caleb Development Corporation

RECOMMENDATION:

Accept this report and set the attached resolution authorizing the City Manager to enter into a Purchase Option Agreement with the Caleb Development Corporation concerning the sale and redevelopment of a portion of the former Allied Leather Tannery located at 35 Canal Street, Penacook for public hearing on May 8, 2017.

BACKGROUND:

1. *Historical Overview*: The former Allied Leather Tannery site was once a sprawling complex of a dozen industrial buildings set on approximately 50 acres located in Concord as well as the neighboring Town of Boscawen. The portion of the complex located in Concord was approximately 6 acres in size.

   The Concord portion of the complex was initially developed in 1846 for the purpose of manufacturing sail cloth and other textiles. The site was anchored by the historic Penacook Mill, which was demolished in 2008 after a portion of the structure collapsed.

   Textile operations at the site ceased during the Great Depression of the 1930s. Following the Great Depression, the property was sold and converted into a leather tannery. Through a series of mergers and acquisitions, the complex would eventually become owed by the Allied Leather Corporation and would grow to be the largest leather tannery in New Hampshire. At the time of its closure in 1987, the tannery employed approximately 300 people and was one of the City's largest private sector employers.

During the period of 1987 through 1997 the property was mired in bankruptcy proceedings and fell into severe disrepair. In 1997, a local resident purchased the entire 50 acre complex for $25,000. Despite good intentions, this individual was unsuccessful at redeveloping the site.

On June 17, 2002, the City Council approved Resolution #7325, which enacted a "Hazardous Building Order" against the Penacook Mill property. This action was necessary as the property had become a public hazard and attractive nuisance stemming from years and neglect and resulting severe structural deterioration. Shortly after the condemnation action, the City concluded that the deteriorated condition of the property, coupled with significant environmental issues which accumulated over 160 years of industrial use, would make redevelopment of the property infeasible for the private sector. Therefore, the City embarked on an ambitious plan to acquire, assemble, and cleanup the Concord portion of the complex in order to remove these significant impediments to redevelopment. Property acquisitions occurred incrementally during 2003, 2004, 2006, and 2012. Ultimately, the City acquired a total of 8 parcels comprising 6.15 acres of land with 125,000SF +/- of buildings.

During the period of May 2002 – September 2014, the City's **net** capital investment in the acquisition, cleanup, and redevelopment of that portion of the former tannery complex in Concord was approximately $4.86 million, of which $1.963 million, or 40%, was financed by the City. The remaining funds were derived from a variety of State and Federal grants.

In 2011, the City the sold a 2.11 acre portion of the site located at 4 Crescent Street to Vermont based developer DEW Crescent Street Properties L.L.C. for the sum of $338,200. The property was redeveloped into a 16,578SF medical office building valued at $1,833,700. Currently, approximately 10,500SF is leased to Penacook Family Physicians, an affiliate of Concord Hospital. Approximately 4,500SF in the building remains available for lease. Redevelopment of this site was supported by infrastructure improvements which were designed and constructed by the City. The cost of those improvements was financed, in part, through a Tax Increment Finance (TIF) District.

2. *Marketing Efforts*: Final cleanup of the 4.04 acre former Penacook Mill / Amazon Realty site was completed in September 2014. In January 2015, the City issued a Request for Proposals for the purpose of engaging a commercial real estate broker to market the property. In March 2015 the City engaged the NAI Norwood Group of Bedford, New Hampshire to market the property. To support marketing efforts, the City engaged a design team which prepared conceptual site plans depicting how the property could potentially be redeveloped. Following the completion of development concepts and a comprehensive marking package, the property was put on the market in August 2015 with an asking price of $540,000.

   The NAI Norwood Group has been diligently marketing the property for the past 20 months. The property has several positive attributes, including the following, which have been highlighted as part of marketing efforts:

   - Close proximity to I-93.
   - Frontage on the Contoocook River.
   - Walkable location in newly renovated Penacook Village.
   - Environmental cleanup has been completed and the property has secured a "Covenant Not to Sue" from the State of New Hampshire.

- New storm water infrastructure is in place linking the site to the Contoocook River.
- The property is located in a Tax Increment Finance (TIF) District which could potentially assist developers with infrastructure improvements if required to support redevelopment of the property.

However, despite these attributes, a strong economy, and robust real estate market, developer interest has been very low. City Administration believes this can be attributed to the following factors:

- Only 2.5 acres of the 4.04 acre site is developable due to leather and coal ash materials which have been encapsulated at the site. This reduced lot size precludes the opportunity for large developments, consequently suppressing developer interest. In addition, waste materials encapsulated on that portion of the site to be conveyed to a developer further reduces the site's attractiveness in the marketplace, as developers typically prefer opportunities that do not have such complications.
- The traffic count for Canal Street is 7,019 vehicles per day (circa 2011). This volume of traffic is too low to attract most retail tenants.
- The elevation of the site sits approximately 8' (or 2/3s of a story) below Canal Street. This circumstance reduces curb appeal of the site, and may also present other development challenges.
- Poorly maintained properties abutting the site complicate marketing efforts.
- Penacook Village's low population density generally limits opportunities for mixed use and commercial projects.
- A relatively high tax rate also complicates the marketability of the site.
- Lastly, lack of market absorption of existing vacant commercial spaces in Penacook makes it very challenging to interest developers in potentially building mixed use, office, and commercial uses.

DISCUSSION

1) *Caleb Group Purchase Offer:* On November 29, 2016, the Caleb Development Corporation made a written offer to acquire the property. Founded in 1992, Caleb is a not-for-profit affordable / workforce housing developer based in Swampscott, Massachusetts. They are similar to CATCH Neighborhood Housing based here in Concord. Caleb currently owns 29 properties featuring nearly 1,700 residential units located in four states, including New Hampshire. Presently, they have 71 employees and a goal to expand their portfolio by 50-100 units annually.

2) *Caleb's Development Plan*: Caleb desires to enter into a Purchase Option Agreement with the City to acquire approximately 2.5+/- acres of the 4+/- acre site in order to develop a 54 unit affordable housing development. The remaining 1.5 acre parcel will be retained by the City, and could become a new riverfront park in the future if desired by the City in its sole discretion.

   Caleb's project will feature two separate buildings likely developed in two phases containing 30 and 24 units, respectively. Of the total 54 residential units planned, a maximum of 14 shall be 2-bedroom units. The rest shall be 1-bedroom units. While the majority of the project will be geared towards households earning 60% or less of the Area

Median Household Income, six of the units shall be “market rate” with no income restrictions.

As part of its project Caleb will attempt to preserve and reuse the 2,600SF brick office building at the site as part of its project. However, they are under no obligation to keep the structure should it prove economically infeasible to renovate. Should Caleb elect to not reuse the building, they will demolish it at their expense.

It is also important to note that Caleb does not desire to preserve and reuse the 4,100SF former waterproofing building located near the river. Therefore Caleb will demolish this building at its own expense.

This project will be funded, in part, by Low Income Housing Tax Credits (LIHTCs). Idiosyncrasies associated with that program are partially driving the likelihood that this project will be developed in two phases as previously described. In addition, because of timing associated with LIHTC funding cycles, it is likely that Phase I would start construction in the spring of 2019. Phase 2 would follow approximately 12-24 months later.

Due to Low Income Housing Tax Credit requirements, the development will be a multigenerational family housing project, with a preference for senior citizen tenants.

Because the project will only have fourteen 2-bedroom units, City staff, using multipliers developed for the City’s Merrimack Valley School District impact fee calculations, estimates that this development may generate approximately 2 school-aged children.

Once both phases of the project are complete, this development will create approximately $3 million in new assessed value. It is projected that the development will generate approximately $115,000 in new property taxes upon full build out in 2021/2022.

A preliminary site plan concept for the project is attached to this report.

3) *Summary of Purchase Option Agreement Terms and Conditions*: The following is a summary of key terms and conditions of the proposed Purchase Option Agreement. A complete copy of the Agreement, including exhibits, is attached to this report.

   a. Price: $540,000 (this is a full price offer).

   b. Deposit: Buyer will provide a deposit in the amount of $5,400. The deposit shall become nonrefundable after the 90 day due diligence period.

   a. Closing: Not later than December 31, 2018. This affords the Developer approximately 18 months to complete market feasibility studies, undertake development permitting, as well as securing financing for its project (including LIHTCs).

   b. Infrastructure Improvements: The City has no obligation to design or construct any infrastructure to support Caleb’s project. Further, no public improvements are proposed, or anticipated, as part of this project.

c. Environmental Obligations: The City will have no residual responsibilities for the environmental condition of that portion of the former Tannery site sold to the developer. However, the City will retain its obligations regarding on-going environmental monitoring of the 1.5 acre residual property it will own after the Developer's parcel is subdivided from the premises.

d. General Contingencies: Caleb's obligation to close on acquisition of the property, and the City's obligations to convey the property, are subject to the following conditions:

    i. The results of a 90 day due diligence period, during which Caleb shall determine whether the property is in suitable environmental condition for its proposed project. During this period, Caleb will also review all existing easements and deed restrictions to ensure they are acceptable and will not impede their project. They will also review title to the property to determine whether it is good, marketable, and insurable.

    ii. Caleb securing all financing for its project, including Low Income Housing Tax Credits.

    iii. Caleb securing a "Finding of No Significant Impact" from the US Department of Housing and Urban Development in conjunction with environmental reviews undertaken as part of the LIHTC application process.

    iv. The Buyer securing all development permits and approvals required for its project; including subdivision of premises into two lots with configurations that shall be acceptable to Buyer and Seller.

    v. The City securing amendments for any of the environmental institutional controls governing the property, including the Ground Water Management Permit, Activity and Use Restrictions, or the Covenant Not to Sue.

    vi. That the Buyer shall be solely responsible for all infrastructure improvements required to serve its proposed development (if any), as well as the cost of demolishing remaining structures at the property not preserved and reused as part of the Buyer's project.

e. Special Provisions: Lastly, as part of this Agreement, Caleb shall agree to the following special deed restrictions:

    i. A deed restriction that, in the event the property is ever sold to a tax exempt entity, the full amount of property taxes which would have been owed if the property was taxable shall be paid to the City, Merrimack Valley School District, County, and State of New Hampshire. This provision shall not preclude Caleb from using certain assessing provisions made available to affordable housing developments per RSA 75-1-a.

    ii. A deed restriction, which shall permit the City, at its sole discretion, to reacquire the property at a price equal to that paid by Caleb in the event the Developer does not commence construction of its project within 24 months of acquiring the property. However, this provision shall not be included in the deed in the event the developer 1) secures a building permit and 2) enters into a construction contract prior to Closing. Given the developer will not close on acquisition of the property without first obtaining its development permits and approvals, as well as financing, it is very unlikely the project would stall for 24 months after the property is sold to the Developer.

4) *Staff Recommendation*: Staff recommends that the City Council authorize the City Manager to enter into the Purchase Option Agreement for the following reasons:

a. The proposed use is appropriate for the village setting.

b. The proposed use is financially feasible and will likely be economically viable in the local market.

c. The City will receive its full asking price of $540,000 for the site. After paying a commission to the NAI Norwood Group and other closing costs, staff estimates that net proceeds to the City will be approximately $496,800.

d. The City has no obligation to build any infrastructure to support this development. Therefore, no additional TIF investments are planned at this time. While the City Council may wish to consider development of the long-discussed riverfront park at some point in the future, the City has no obligation to develop such a park under the terms of the proposed Purchase Option Agreement.

e. Should the City Council ever wish to develop a riverfront park adjacent to this new project, the residential development will be an excellent complimentary use.

f. The addition of 54 new households in the Village will help support existing businesses, as well as help make Penacook more attractive for future economic development.

g. The proposed project will be attractive and will greatly improve the aesthetics of the Canal Street gateway into Penacook Village.

h. The proposed development will create $3 million in new assessed value and $115,000 in new property tax revenues. Coupled with the adjacent medical office building completed in 2011, redevelopment of the former Allied Leather Tannery will ultimately result in approximately $5 million in new assessed value on 4.5 acres of land ($1.11M per acre), generating approximately $185,000 in total new property tax revenues annually.