

One Townsend Road
Farmington, CT 06032
860-677-8062
FAX 860-677-8094

BARTRAM & COCHRAN

Real Estate & Economic Development Consultants

**WATERVILLE, MAINE
HEAD OF FALLS**

MARKET ANALYSIS

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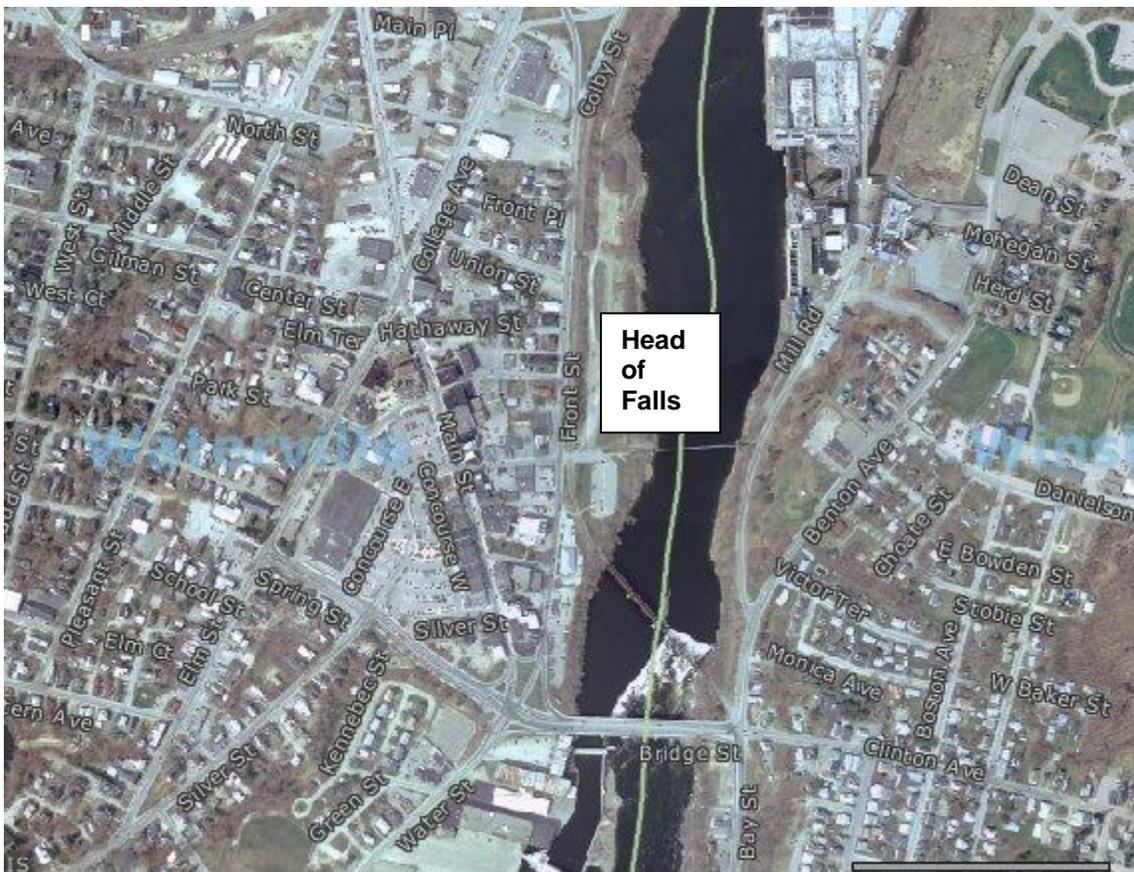
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1. EXECUTIVE SUMMARY

Introduction

Bartram & Cochran was engaged by the Waterville Development Corporation to complete a market analysis for the Head of Falls site in Waterville. An approximately 12-acre site of undeveloped land along the Kennebec River and adjacent to the Central Business District, Head of Falls has roughly 4,600 feet of river frontage. With full infrastructure (water, sewer, telecommunications, etc.) already installed, this well-situated site is bordered by the Kennebec River to the east, Front Street and the Guilford Rail Systems to the west, Bridge/Spring Street to the south, and the Guilford Rail Facility to the north. Both the City and the Waterville Development Corporation (WDC) want this site analyzed to determine its highest and best uses (retail, office, commercial, public and residential) in order to effectively market and (in partnership with developers) develop it.

Head of Falls Waterville, Maine



source: Maine Aerial Photography, Maine Office of GIS

Background

Waterville as its name aptly suggests had an early history closely associated with the waterfront. At one time there were five shipyards in Waterville in addition to a strong fishing industry. These sectors were complemented by lumbering and agriculture. With Ticonic Falls hindering navigation further upstream it was natural for Waterville to develop into a trade and shipping destination. Taking advantage of water power supplied by the Kennebec River and Messalonskee Stream, a number of mills and factories also sprung up in Waterville. Lockwood Manufacturing (cotton textiles) and the C. F. Hathaway Co. (dress shirts) were once thriving manufacturers in Waterville—but exist no more. However, the Hathaway factory has been redeveloped into a mixed use project (Hathaway Creative Center) with retail, office and residential. Finally, Colby College, a prominent liberal arts educational institution and Thomas College, focusing on business, education and technology, are both in Waterville.

In order to put the demographic, economic and market information in proper perspective, Bartram & Cochran reviewed the following information:

- ◆ Profile of Waterville General Demographic Characteristics – 2000 Census
- ◆ Profile of Waterville Selected Social Characteristics – 2000 Census
- ◆ Profile of Waterville Selected Economic Characteristics – 2000 Census
- ◆ Profile of Waterville Selected Housing Characteristics – 2000 Census
- ◆ Kennebec County and Maine QuickFacts from U.S. Census
- ◆ Demographic, economic and social profiles of Kennebec County and Waterville from city-data.com
- ◆ Maine, Kennebec County and Waterville (Zip Codes) Business Patterns (2007)– U.S. Census Bureau
- ◆ Maine Dept. of Labor, Labor Market Digest, August 2009
- ◆ Maine Dept. of Labor, Center for Workforce Research and Information, Commuters into and out from Waterville, Population and Labor Statistics within 30 and 50 miles of Waterville, and Waterville Demographic Summary
- ◆ Work Area Profile Report, Waterville (2006), U.S. Census Bureau
- ◆ Retail Sales in Waterville, Kennebec County and State of Maine (2008), Maine State Planning Office
- ◆ Waterville Population Projections (2009), Maine State Planning Office
- ◆ Waterville Riverfront Master Plan (2001)
- ◆ Waterville Riverfront – Two Cent Bridge Access Improvements (2008)
- ◆ Waterville Zoning Map
- ◆ Waterville Zoning District Requirements
- ◆ Waterville Comprehensive Plan (1997)
- ◆ Waterville Property Assessment Database
- ◆ Maine Statewide Transportation Access Improvement Plan (1996)
- ◆ Head of Falls Waterfront Development, Traffic Impact Study, Wilbur Smith Associates (2006)
- ◆ Comparison of 2001 Plan for Head of Falls with 1996 Plan for Downtown

- ◆ Homes Sales and Data on Waterville and Kennebec County from a variety of sources: homes.com, Yahoo! Real Estate and city-data.com

Conclusions on Highest and Best Uses

The conclusions on the highest and best uses for the Head of Falls are based on the work that has been completed:

- ◆ Demographic, Social, Economic, Housing and Business Analysis
- ◆ Information interviews with stakeholders and others from the public and private sectors at the local, regional and state level including a discussion meeting with representatives from the Waterville Development Corporation, City Council, City Staff, Waterville Main Street and other constituencies
- ◆ Site Visitation and Review

It is perhaps worthwhile to first state that there must always be a careful balancing between what a municipality might desire at a location with what is realistically achievable there. This does not mean that a community should be satisfied with the status quo. In fact, Bartram & Cochran believes it is useful to stretch, think outside of the box and realize exceptional results. However, this process must still consider what is possible, sustainable and works with the surrounding areas. *Furthermore, while current market characteristics and recent conditions must be taken into account, the highest and best uses must also consider, perhaps most importantly, the fact that the evolution of Head of Falls will be a long-term process.*

Many of the following observations that underlie our conclusions compare Waterville to the County and/or the State in order to establish a context or starting point:

- ◆ While Waterville's median age is lower than the county or the state, Waterville's population aged 65+ is somewhat greater than the county or the state
- ◆ Waterville has a smaller average household size
- ◆ Waterville has a much lower owner occupancy rate and much higher rental occupancy rate
- ◆ Waterville has a substantially lower population in the labor force and a shorter average commute to work time
- ◆ Waterville has a higher percentage of workers in service positions but a lower percentage in construction, maintenance, production and transportation positions
- ◆ Industry sector wise, Waterville has a higher percentage of workers in information, education, health, social services, arts, entertainment, recreation and hospitality, and in finance, insurance and real estate (versus the county); however, Waterville has a lower percentage of workers in construction, manufacturing, wholesale (vs. the county), retail, transportation, professional/scientific (vs. the state) and public administration
- ◆ Waterville has a higher percentage of private sector workers and a lower percentage of public sector and self-employed workers (versus the county)

- ◆ Waterville has a lower median household income than the county or state with a higher percentage of families below the poverty level
- ◆ Housing wise, Waterville has a significantly lower percentage of single family detached housing; and on the automobile side of the equation a substantially higher percentage of households with no cars but a lower percentage of households with 2 or more vehicles
- ◆ Median house value (in 2000) in Waterville was lower than the county or state
- ◆ Mortgage and related costs were less in Waterville as were monthly rents, in comparison to the county or state
- ◆ While the *loss* of population in Waterville from 1990 to 2010 was 9.4%, from 2010 to 2030 it is projected to be slightly less, at 8.0%.
- ◆ Waterville has a lower proportion of construction related businesses than either the county or the state. On the other hand retail and financial services are relatively more represented in Waterville than in either of the other two larger geographic areas. Professional services and administrative services are less represented in Waterville than in the county or state overall, while health and social services are more represented in Waterville as are accommodation and food services.
- ◆ Unemployment in Waterville went from 5.3% in June 2008 to 8.5% one year later in June 2009. This 2009 level for Waterville was somewhat higher than the state level (8.2%) but lower than the overall rate in the U.S. (9.7%).
- ◆ Waterville's retail scene has a much higher percentage of Building Supply activity (including hardware stores and lumber yards) than the county or state
- ◆ Food Stores in Waterville are a slightly higher percentage of retail activity than for the state (as well as the county)
- ◆ Waterville General Merchandise activity (including clothing, shoes, furniture, appliances and other general goods) is a considerably lower percentage than the county (although more than the state)
- ◆ Lodging activity in Waterville is well below the state percentage (although slightly above the county)
- ◆ Other Retail activity (including drug stores, jewelry stores, sporting goods, antique dealers, book stores, gift shops) is quite a bit lower, percentage-wise, in Waterville than the state (although slightly above the county)
- ◆ Downtown Waterville currently has a commercial vacancy rate of approximately 50% (including upper floor spaces). Similarly, the Hathaway Creative Center also has a commercial vacancy rate of roughly 50%. Commercial space in Downtown Waterville is typically leasing in the \$6.50-8.50/SF (triple net) range with the Hathaway Creative Center at \$10.50-12.50/SF (triple net).
- ◆ Based on the Traffic Impact Study completed by Wilbur Smith Associates in 2006, there does not appear to be any significant traffic issue surrounding Head of Falls, when built out at projected levels, other than traffic speed for which calming measures have been identified.
- ◆ Waterville home prices ranged from \$27,900 to \$465,000 with a median price of \$129,900 and an average square footage of 1,663 SF.
- ◆ Townhouse and condominium prices ranged from \$44,900 to \$179,900 with a median price of \$111,999 and average square footage of 1,248 SF.

- ◆ Apartment data showed a range of \$630 to \$1,785 per month for apartments ranging in size from 576 SF to 1,411 SF and from studios to one bedroom to two bedrooms. These are statistics for apartments that would be comparable to what might be located at Head of Falls.
- ◆ New or planned apartment complexes include Hathaway Creative Center (67 units), Gilman Street School (35 units, affordable housing) and Pleasant Crossing (21 units, elderly housing—Waterville Housing Authority).
- ◆ As the economy deteriorated in 2008 into 2009, home sale prices were similarly impacted. In Kennebec County and Waterville, home sales steadily decreased from 3Q08 through 1Q09, as did median sales price. 2Q09 saw a slight increase in median sale price for Waterville.

In order to conclude on Highest and Best Uses, it is also important to examine what key strengths can be leveraged and what shortcomings can be modified or overcome or simply dealt with as effectively as possible. In this regard, on the positive side, Waterville is a service center for the surrounding smaller towns which attracts people to the area. Head of Falls has a wonderful and spacious waterfront location including the historic Two Cent Bridge and adjacency to Downtown. Nearby Hathaway Creative Center is setting a positive tone for the area and Head of Falls must play off that while being complementary and not competitive in its uses. Significant education and healthcare sectors play an important role in the economic vitality of the area. Waterville also has much to offer from a lifestyle perspective, including arts and culture. Challenges that face Head of Falls include railroad tracks on the street side, significant vacant space in Downtown, parking considerations, availability of funding for public space development (given the economy) and a location that is somewhat “off the beaten path.” This latter point should be reasonably easily dealt with through strategically placed and well designed signage.

With all of this in mind—and based on our quantitative analysis and information interviews, and informed by our experience in New England—our recommendation is for a Mixed Use Development combining restaurants, retail/shopping, commercial uses, office space, residential, open green space, public gathering locations and public/private event uses. ***With the right mix and massing of uses, and with a number of destination uses (such as unique restaurants) people from town and those from outside of town will be drawn to Head of Falls to multiple venues that will play off each other to produce a cohesive whole that is greater than the sum of its parts.*** Once there, the desired concept would be for people to stop at several different shops, businesses or other venues and then get a snack or lunch or dinner.

Head of Falls also needs to be viewed in a long-term context and, importantly, as an *extension* of Downtown. Creating an attractive gateway at Temple Street will support this concept. Head of Falls and Downtown should be considered as one larger whole, not as competitors. Downtown currently has high vacancy, but in the longer term there will always be some businesses that prefer to locate there (vs. Head of Falls) due to the density and center of activity dimension that Downtown offers.

As mentioned above, Head of Falls needs to be complementary (not competitive) to the Hathaway Creative Center (HCC). Keep in mind also that the Hathaway Creative Center has a head start on Head of Falls and more of the available space will be occupied there before the waterfront development has space available for occupancy. In this regard a moderate amount of residential at a price point below HCC is highly recommended for Head of Falls since this will create a built-in clientele for businesses (retail, restaurants and commercial businesses) that want to locate there by putting “feet on the street”. Private developers will also typically want a residential component in a mixed use development.

Various types of businesses including one or more destination restaurants, cafes, coffee houses and niche retail (specialty foods, unique jewelry, antiques shop, special products for the home, imported women’s shoes, unusual children’s clothes) should play to a diverse audience including the key 21-30 age group as well as older demographic groups also (30-50 and 50-65+). Destination restaurants are a key drawing factor to bring people to a location such as this. A destination restaurant does not necessarily have to be unusually high-end, but rather one that has a well-known reputation, unusual foods or a unique vibe—or all three. At least two restaurants, of different character, would be desirable. Niche retail must be unique, authentic and of the boutique variety—not the standard fare of franchise locations that are found at malls or strip centers. Arts and culture related businesses would be a key sector to have located there. Commercial businesses (such as a tailor, dry cleaner, shoe repair shop, florist) will also want to be located there once residential occupancy and retail businesses are underway.

Smaller, entrepreneurial businesses to medium sized businesses would be ideal to attract to Head of Falls. Opportunities for classes, training and internships in collaboration with Kennebec Valley Community College should be explored.

Open green space, public gathering locations and public/private events, along with the historic Two Cent Bridge will also draw people to Head of Falls and once there they will be attracted to the shops and restaurants. There should be a variety of locations that would allow informal places for people to sit and talk in small groups of two or three with benches and trees, as well as larger spaces to accommodate activities such as an outdoor antique show or car show or other event. A Children’s Garden as part of the open green space would be another mechanism to draw families with children to Head of Falls. Of course, having a trail along the waterfront that is part of a larger multi-use trail system is also an effective means to bring people to the site. Finally, a year-round calendar of events is yet another way to establish Head of Falls as a destination location.

Implementation Plan

In creating the Implementation Plan for Head of Falls, we identified the *Action Steps* that were necessary as well as the associated *Priority, Responsibility* and *Timeline*. A summary of these key actions includes:

- ◆ Create a **Head of Falls Standing Committee (HFSC)** for leadership and continuity
- ◆ Identify a “*champion*” to establish a focal point, “go to” person to make the plan happen
- ◆ Revisit the **Master Plan** to agree on final public and private development directions. Based on the Market Analysis, private development that is appropriate and balanced and sized to Head of Falls would call for approximately the following build-out:

▪ Restaurants, Cafes	7,500 SF
▪ and Coffee Houses	
▪ Retail	10,000 SF
▪ Commercial	3,500 SF
▪ Office	36,500 SF
▪ Residential	<u>7,500 SF</u>
▪ TOTAL	65,000 SF

This mix of private development, including the modest amount of residential, should be able to be implemented within the design constraints of the Master Plan and still be within the (high end) build-out parameters of that plan.

- ◆ Define a **budget for the public development portion** of the Master Plan and an operating budget for maintenance. A Children’s Garden should be one of the public development elements
- ◆ Pursue **funding opportunities** for public sector development
- ◆ Resolve any potential **zoning** related issues
- ◆ Clarify/resolve any **traffic calming** related issues
- ◆ Clarify any **right of way** related issues with the rail system and parking related rights with the Morning Sentinel
- ◆ Develop an **RFP for a Master Developer**. (Private development is too small and concentrated to be able to use multiple developers.) To attract a Master Developer, the RFP should:
 - Use the new brand (described below) to present a reinvented Head of Falls also emphasizing that it is an extension of Downtown and a complement to Hathaway Creative Center
 - Utilize the Master Plan and Market Analysis to communicate a vision for Head of Falls and private development sizing

- Describe existing infrastructure improvements plus TIF District and Pine Tree Zone benefits and incentives
- Promote Head of Falls as a public/private partnership opportunity

Actual build-out planning will take up to one year from selection of the developer allowing for final plan design, approval and financing (completing around 3Q11), and perhaps up to an additional year for phased construction (completing around 3Q12) with leasing of the space over a period of two to three years (completing around 1Q14-1Q15).

Given this timeline for the issuance of the RFP and then the selection of the developer, the economy should be improving by mid-2010 and with it improved financing opportunities for the developer.

- ◆ In developing the new brand for Head of Falls, a concept has been created that invokes and integrates historic and riverfront elements as well as authenticity and, simultaneously, excitement. This brand is designed to communicate the image and feel of a riverfront location where people will be living, working, doing business, shopping, eating, walking and recreating.

As such, the recommended brand for the new, reinvented Head of Falls is

Riverscape at Two Cent Crossing

capturing the historic reference to the Two Cent Bridge as well as the connection to the adjacent Kennebec River.

Using the ***Riverscape at Two Cent Crossing*** brand in concert with the Master Plan and the Market Analysis, the City will be able to effectively market Head of Falls to attract developers who can appreciate the *overall* concept of what the City hopes to achieve.

A logo for this brand should be a rectangle with a gently rounded top showing a graphic of the Two Cent Bridge (side view) at the top, the brand (***Riverscape at Two Cent Crossing***) in the center and stylized blue water at the bottom.

- ◆ **Business attraction** (for office, retail, restaurants and commercial uses) should be a joint effort of the public sector and the developer, leveraging the same aspects as used to attract a developer, namely, the brand, the vision communicated by the Master Plan and Market Analysis, the existing infrastructure and the TIF District and Pine Tree Zone considerations.

This marketing effort, using the ***Riverscape at Two Cent Crossing*** brand will be a key component in making the Master Plan concept for Head of Falls a reality. This brand conveys the correct image and feeling for Head of Falls and can be an effective marketing tool for attracting businesses, residents and tourists to the

area. Restaurants, retailers, office users, commercial users and prospective residents will find it desirable to be located in an area that connects them simultaneously to both history and the river.

Additionally, training, courses and internship collaborations with Kennebec Valley Community College can be a significant incentive to attract businesses.

To begin business attraction it will first be necessary to identify business sub-sectors to be pursued, geographic area of pursuit and approach to be used including collaterals.

Residential tenant attraction would be the responsibility of the Master Developer.

Near Term Success Opportunities to be Achieved

Following are a number of Action Steps that can support the Head of Falls implementation and begin to show progress to the community:

- ◆ Public announcement of *reinvention* of Head of Falls with final public and private development plan and brand roll-out--***Riverscape at Two Cent Crossing***--and identification of “champion” to carry the ball
- ◆ Finalize and complete **upgrades to Two Cent Bridge** and related **gateway plaza improvements**
- ◆ Use **flower planters** (starting in spring) along Temple Street to brighten up the area as well as to announce this as a gateway to the new, reinvented Head of Falls
- ◆ Identify **year-round events** (at least one event for each season) that could take place in public areas at Head of Falls so that the venue becomes a place that people start to visit regularly in advance of private development. This will encourage restaurants, retailers and other businesses to want to locate there as well as nurture potential residential interest.
- ◆ Design and implement **way-finding signage** to Head of Falls so that tourists can be easily directed to the venue from nearby major roadways. Signs should reflect branding (***Riverscape at Two Cent Crossing***) using the brand logo and include arrow direction to the site.
- ◆ Begin to **nurture redevelopment** of adjacent areas—meeting with property owners to review reinvention of Head of Falls

Funding Sources

In addition to **Tax Increment Financing (TIF)** for developers and **Pine Tree Zone** benefits for companies coming into the area, the following sources of funding, subject to

future availability, appear applicable and most may be helpful to the City (along with possible **issuance of bonds**) in implementing the public sector portion of the Head of Falls project:

United States Dept. of Agriculture (USDA)
www.usda.gov

- ◆ Rural Development Housing & Community Facilities Programs
- ◆ Rural Business Enterprise Grants (RBEG) – One possible project might be a shared resource center for small businesses perhaps as a public-private partnership within the private development.

United States Dept. of Commerce – Economic Development Agency (EDA)
www.eda.gov

- ◆ Public Works and Economic Development Program

State of Maine Office of Community Development
www.meocd.org

- ◆ CDBG – Public Infrastructure Grant Program
- ◆ CDBG – Public Facilities Grant Program
- ◆ CDBG – Community Enterprise Grant
- ◆ CDBG – Downtown Revitalization Grant Program

State of Maine Department of Transportation
www.state.me.us/mdot

- ◆ Enhancement Program

While some of these sources may have recently provided funding for City of Waterville projects, Head of Falls development will be continuing for a number of years, making additional funds from these sources possible in the future. Finally, as mentioned in the Implementation Plan, private sources of funding from **sponsorships** and **naming opportunities for public sector venues** should be pursued.

Land Valuation Recommendation

In order to hone in on the land value for Head of Falls it is first useful to look at other possible locations where interested parties (retail, restaurant, commercial, office users) could locate. Residential, as a small portion of the development, will not be an important determinant for this valuation.

Given the unique, prime location of Head of Falls adjacent to both downtown and the river, there will not be exact comparisons of available land in the region. However, by

examining various competitive locations and considering their pros and cons versus Head of Falls, a realistic range of values can be determined.

Other locations in the region include:

First Park - Oakland, ME

- ◆ Sites range from 6 to 28 acres
- ◆ Average price per acre is \$23,403
- ◆ Price range per acre is \$12,476 to \$51,667

Libby Hill Business Park - Gardiner, ME

- ◆ Phase I sites range from 2.4 to 6.9 developable acres at \$32,670 per developable acre
- ◆ Phase II sites range from 1.7 to 13.6 developable acres at \$43,124 per developable acre

Augusta ME

- ◆ Retail/Office site (7.39 Ac.) near The Marketplace at Augusta - \$101,353 per acre
- ◆ Commercial site (3 acres) on Route 3 - \$165,000 per acre
- ◆ Downtown (waterfront) sites are generally built out except where steep topography is an issue

Waterville, ME

- ◆ Commercial/industrial site (5 acres) – Airport Road - \$29,800 per acre

While none of these comparison prices are for property with the exact characteristics of Head of Falls, they do provide a range within which Head of Falls price per acre should fall.

From an office use perspective, the high end Gardiner and Oakland prices of \$43,000 to \$52,000 per acre are a reasonable low end, while the \$100,000 per acre price in Augusta would form a possible high end. While the business parks in Gardiner and Oakland offer better highway access, they do not have the excitement of Head of Falls. And while this is subjective, the adjacency to downtown and the waterfront will clearly be an attraction to many types of businesses. Augusta is a larger, busier location than Waterville and a center of government. But again, Head of Falls will have its attraction to many types of businesses as mentioned above.

While we at Bartram & Cochran are not appraisers, we feel the value range for Head of Falls, with the above comparisons, would conservatively be \$50,000 to \$75,000 per acre.