

Analysis of Potential Increased Property Tax Revenues Attributable to Municipal Sewer Service in the Concord Street and Main Street/Route 28 Study Area

Executive Summary Report

Prepared for

Town of North Reading, Massachusetts

Prepared by

FXM Associates

Kleinfelder SEA Engineering

July 7, 2011

Introduction

The Town of North Reading, Office of Community Planning, issued a request for proposals (RFP) for professional services in connection with the proposed installation of sewer in certain areas of the Town, specifically along Concord and Main Streets. The analysis is to be based on commercial development potential allowed under current zoning, potential commercial property value and density increases attributable to sewer service, and market factors that might limit buildout potential.

FXM Associates was retained by the Town of North Reading to conduct this analysis. SEA Engineering was retained as a subcontractor by FXM to compile a comprehensive data base drawn from Town of North Reading Assessor's records and GIS. This *Executive Summary Report* summarizes the analyses and findings of the consultant's work to estimate potential additional commercial property tax revenues assuming the installation of sewer service to commercial properties on Concord and Main Streets. In addition to this *Executive Summary Report* FXM prepared a *Technical Memorandum* that includes a full discussion of data sources and methods, supported by detailed tables and graphs.

Study Area and Buildout Potential under Current Zoning

Figure A depicts the Study Area, including current zoning. The Concord Street portion of the Study Area includes 31 parcels, none of which are in residential use. The Main Street portion of the Study Area includes 146 parcels, of which 11 and for the purposes of this analysis, parcels now in residential use were excluded from consideration of buildout potential since. As subsequently discussed, there is more than enough buildout potential under current zoning for parcels now vacant or in commercial use¹ to absorb all foreseeable market demand. This does not mean that areas along Main Street now in low density residential use could not be considered for commercial redevelopment, nor that assembly of some parcels would not be desirable for mixed-use or other redevelopment, but rather that it is not necessary for the purposes of this analysis to consider buildout potential on those parcels now in residential use. The table below highlights key characteristics of commercial land uses within the Study Area.

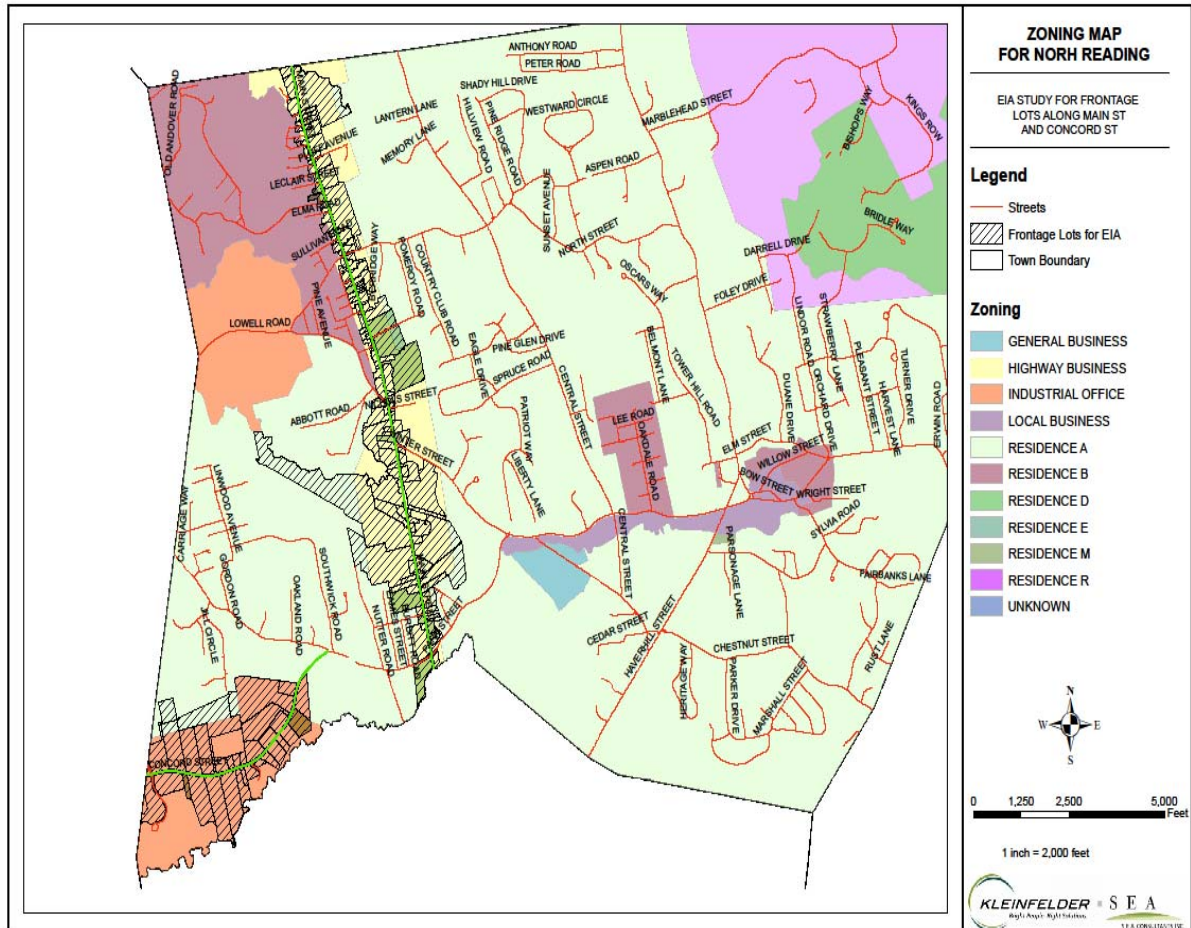
**Selected Characteristics of Commercial Properties
And Buildout Potential under Current Zoning**

	Concord St.	Main St.	Combined
Acreage	156	210	366
Assessed Value of Land	\$ 19,500,000	\$ 42,100,000	\$ 61,600,000
Buildings Square Footage (SF)	965,000	1,150,000	2,115,000
Assessed Value of Buildings	\$ 50,700,000	\$ 81,200,000	\$ 131,900,000
Buildout Potential (SF)	11,708,000	15,989,000	27,697,000

Source: North Reading Assessor's Records, Zoning Bylaws and GIS

¹ As used in this report, "commercial" includes land uses categorized as commercial/industrial under current zoning.

Sewer Impact Study Area Frontage Lots along Main Street and Concord Street



Approach and Methods

To accomplish the objectives of this study, FXM utilized a variety of data sources from records of the North Reading Assessor and the Towns GIS data base to establish detailed characteristics of Study Area land uses, to population and employment projections prepared by the Metropolitan Area Planning Council to help estimate potential market demand for new development. Interviews were conducted with a cross section of property and business owners along Concord and Main streets, as well as with commercial real estate brokers and other knowledgeable public and private sector officials. With the exception of the Assessor's records and Town GIS, no single data source or analytic method was relied upon to derive estimates of additional municipal revenue potentially attributable to sewer service. FXM developed a spreadsheet model that incorporated data from several relevant secondary sources, including proprietary information

obtained from FXM subscription data services, and tested a range of probable market value and growth scenarios. It is important to note that the economic assessments accomplished for this study should *not* be construed as an appraisal derived from individual parcel assessments. Formal appraisals were clearly beyond the scope and budget for this assignment. The FXM estimates are for general planning purposes only and should not be used as the basis for changing current assessments of individual properties once sewer service is provided. The following bullet points summarize the analytic steps, data sources and methods FXM used for this study:

- Compiled parcel by parcel Study Area data from the North Reading Assessor and Town GIS and prepared a Master Parcel Data Spreadsheet. All estimates of land area, existing buildings square footage, and assessed values of land and buildings are based on this data base. FXM assumes no responsibility for omissions or inaccuracies in this data base.
- From the Master Parcel Data spreadsheet, subtracted areas of wetlands and existing building footprints, as well as parcels currently in residential use to estimate the baseline area from which buildout under current zoning could occur. This approach is not as rigorous as a parcel by parcel analysis of development potential, which was beyond the scope of this study. However, analyses of selected individual parcels suggest that the estimate derived for total buildout potential is not unreasonable. Furthermore, even if the buildout estimate is overstated the magnitude of potential development under current zoning so vastly exceeds foreseeable market demand that the method used is acceptable for the purposes of this study.
- Compiled and analyzed relevant socioeconomic data from publicly available secondary sources, such as the Massachusetts Department of Labor and Workforce Development, the Metropolitan Area Planning Council (MAPC), the US Department of Commerce Regional Economic Information System, websites for selected communities in the market region; and proprietary data from A.C. Nielsen *Claritas Site Reports* and Co Star *Property Information Systems*. From these sources, FXM analyzed historical and projected trends in employment by type of industry, historical and projected trends in commercial space absorption, and applied square footage per employee estimates derived from relevant empirical studies (including prior work by FXM) to estimate regional and local demand for office, retail, and other commercial space in the local and regional market areas.²
- Compiled and analyzed relevant data from Co Star *Property Information Systems* comparing average per square foot leasing prices for office, retail, and other commercial space within the local market area reported for communities with and without municipal sewer service to areas zoned for commercial uses. The availability of sewer service is not the only reason that market prices for commercial properties differ between communities, so FXM made some adjustments to the derived price differentials to account for tax rates, accessibility, and scale of development. It was found, for example, that prices reported for certain commercial uses in North Reading

² In this study, the local region market area is defined as comprising the communities of North Reading, Reading, Wilmington, Andover, North Andover, Middleton, and Lynnfield.

were not representative of the local market averages reported for other communities. On closer examination, FXM determined that the small sample size and mix of commercial uses now in North Reading most likely accounted for the variation in average prices. When deriving incremental revenue potentially attributable to sewer service, therefore, FXM relied primarily on the differences in market averages (adjusted as noted above) between all communities with and without sewer to commercial areas within the local region.

- Developed a spreadsheet model for testing a variety of reasonable hypotheses for market growth and price differentials attributable to sewer service. The principal difference in these scenarios is the assumptions made for market growth potentially captured within North Reading. FXM thus developed a low range estimate based upon North Reading capturing new growth based on a moderate increase in its current share of local market area employment, and a high range estimate based on North Reading capturing a higher share of projected increases in local market area employment and commercial space.

Summary Findings

The FXM estimates of additional tax revenues attributable to municipal sewer service within the Concord Street and Main Street Study Area are shown in the table below. The revenue estimates are based on the current commercial tax rate of \$13.47 per \$1,000 valuation.

Analysis of Potential Increase in Annual Property Tax Revenues Attributable to Municipal Sewer Service

	Concord St.	Main St.	Combined
Current Assessed Value	\$ 70,207,734	\$ 123,323,207	\$ 193,530,941
Current Property Taxes	\$ 961,846	\$ 1,689,528	\$ 2,651,374
Potential New Tax Revenues: Existing Uses			
Low Range	\$ 27,000	\$ 58,000	\$ 85,000
High Range	\$ 55,000	\$ 269,000	\$ 324,000
Potential New Tax Revenues: Projected Market Growth			
Low Range	\$ 222,000	\$ 294,000	\$ 516,000
High Range	\$ 444,000	\$ 588,000	\$ 1,032,000
Potential New Tax Revenues: Existing Uses Plus Projected Market Growth			
Low Range	\$ 249,000	\$ 352,000	\$ 601,000
High Range	\$ 499,000	\$ 857,000	\$ 1,356,000

For existing commercial properties within the Concord Street and Main Street Study Area, and based largely on land value increases attributable to sewer service, FXM estimates that the Town

of North Reading could realize between \$85,000 and \$324,000 in additional property taxes annually at the current commercial tax rate of \$13.47 per \$1,000 in valuation.

Potential new commercial property tax revenues attributable to sewer service within the Study Area, derived from additional development based on projected market growth, are estimated to range between \$516,000 and \$1,032,000 annually. Under foreseeable market conditions, full absorption of projected new growth is expected to require at least 10 years. The combination of land value increases and new development of buildings within the Study Area is estimated to provide between \$601,000 and \$1,356,000 annually at full absorption of projected new growth. The table shows incremental revenues from new growth separately for Concord and Main Streets based on the relative buildout potential of each area. However, this is not meant to imply that development will or should occur in this fashion – under current zoning there is ample buildout potential within either area to absorb foreseeable market driven growth. Even with this large hypothetical buildout potential scattered throughout the Concord and Main Streets Study Area, however, it may be necessary or desirable to consider exceptions to current zoning that might be needed for individual development proposals to succeed in an extremely competitive market environment.

The High Growth Range market and revenue estimates assume that new development in North Reading will parallel the growth by type of space projected for the local region. About 60% of the employment growth projected is for businesses that use office space. Currently, office space represents less than 20% of the commercial buildings square footage within the Study Area. Retail space accounts for about 20% of projected growth, and currently represents about 40% of commercial buildings square footage within the Study Area. These assumptions are made to assure analytic consistency for the particular purposes of this study, but may or may not reflect actual market potential in North Reading. A detailed market study specific to individual properties within the Study Area was beyond the scope of this study.

In addition to the above, there is a vast amount of vacant space currently available in existing buildings (4 million SF among the six communities) as well as industrial park scale vacant parcels available elsewhere. Many of these opportunities for development/redevelopment are already served by sewers and have necessary infrastructure in place to support new/expanded commercial uses. Not all the vacant space is suitable or appropriate for capturing projected new growth, but many of the vacant buildings and parcels present strong competition for new employment in the region, and may affect the assumptions regarding North Reading's share of future new development.

It should also be noted that a single major development could dramatically alter the total growth potential and additional municipal revenues derived in this analysis, which is based on long term projected employment growth within the local region. Without municipal sewer the Town of North Reading will continue to forego opportunities to meet current and projected demand for commercial space. This assessment is based on the actual experience and judgment of property owners and commercial realtors interviewed during the course of this research and FXM's independent assessment of current and foreseeable market conditions, including competition for new growth by other communities within the local market area that already provide sewer to commercial areas.

Additional Observations and Recommendations

Other Considerations Influencing Development Potential

- Availability of sufficient, reliable water supply is important threshold requirement to increase industrial and commercial uses, generally, and to accommodate biotech companies in particular.
- Potential competitive aspects of major development sites in North Reading as well as the Concord Street industrial area in Wilmington could influence the type, pace and volume of commercial and industrial build-out in the Study Area.

Recommended Implementation Strategy & Next Steps

- Inform Concord Street property and business owners about planning for municipal sewer installation, and confirm their future redevelopment and business expansion.
- Consider a phased approach to municipal sewer, beginning with the Concord Street Study Area, and secure funding for pre-development planning, engineering and legal services.
- Determine water supply needs for potential additional Concord Street commercial and industrial uses, and pursue options to ensure adequate capacity.
- Discuss with the Town of Wilmington and MWRA an agreement to extend existing sewer service to property on the north side of Concord Street and beyond.
- Determine estimated cost for Concord Street sewer installation, and prepare a cost-benefit analysis for Concord Street and identified western sub-area.
- Determine adequacy of telecommunications infrastructure, service and coverage in the Concord Street Study Area, identify upgrades/improvements needed.
- Document Main Street/Route 28 roadway/traffic and circulation improvements needed to accommodate future volume, circulation and activity centers associated with Study Area potential build-out with municipal sewer.