City of Manchester
Department of Finance

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M E M O R A N D U M

Date: May 29, 2013

To: Honorable Board of Mayor and Aldermen

From: William E. Sanders

RE: *Millyard Parking Demand Study*

Attached is the Millyard Parking Demand Study prepared by Mr. Peter Flotz of the Lansing Melbourne Group. Mr. Flotz will be at the BMA meeting on June 4th to discuss the report.

Respectfully submitted,

William E. Sanders

In Board of Mayor and Aldermen
Date: 6/04/13
On motion of Ald. Long
Seconded by Ald. Roy
Voted to authorize the Finance Officer to request a fee estimate from the Lansing Melbourne Group to develop alternatives for uses, design and financing.

City Clerk

Memo to: William Sanders
City of Manchester

From: Peter Flotz

Date: June 4, 2013

Subject: Bedford Lot
Parking Demand Study TASK ONE

In March, 2013 the City commissioned Lansing Melbourne Group (LMG) to undertake a site specific parking demand feasibility study for the development of a parking garage on the Bedford Street lot. This task was recommended last year in our update of the original Parking Master Plan work we conducted on behalf of the City. The goals of this phase of the work were to:

- determine the demand for new capacity in the Millyard;
- interview property owners to determine latent and potential demand;
- interview tenants to determine current conditions and growth plans;
- assess the likelihood that new capacity might cannabalize existing permit sales; and
- present the financial and fiscal impacts of a new facility at a macro level.

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Subsequent to the initial authorization, LMG requested the City's approval to proceed with geotechnical and environmental surveys. This approval was granted at the May 7 Board of Alderman meeting. The results of those surveys are presented in a separate report.

Overall Impressions

In late March of 2013, we interviewed a number of tenants and landlords representing a cross section of Millyard stakeholders. Our overall impression, when compared to our original work on the 2006 Master Plan, was that the area is quite a bit more vibrant, with a large number of mature, stable companies, and an exciting group of young, fast growing tech oriented companies that are changing the face of the Millyard. It is clear that two trends are dominant in the Millyard. First, activity and density appears to increase from south to north; and second, many companies are "growing in place", increasing employee density far above previously seen levels rather than adding more square footage. The first observation has to do with the Pandora building being empty, which skews the impression. With the University of New Hampshire adding space in Pandora, demand will begin to increase in the south end of the Millyard.

During the course of our visit, we also noted that the Number 1 Mill had completed its renovation to apartments and was opening up for leasing. This represents a significant change in the Millyard and is the logical next step for its redevelopment as a balanced, fully functional neighborhood. The recent opening of a grocery store south of Granite

Street strengthens the viability of the residential use. Given the early success of the project LMG would suggest that it is reasonable to assume more of the same will follow.

Roster of Interviews

The following section will list the contacts we made during our field work. While not exhaustive, we believe it is representative of the key stakeholders in the Millyard. In addition to these interviews, we met extensively with City departments to obtain base mapping, key statistics, and estimates of parking and tax revenues. The following is a list of the interviews we conducted (note that multiple persons from the same organization may have been present but may not be listed in the interest of brevity).

During our visit, meetings were held with:

Seth Wall, Massachusetts College of Pharmacy and Health Sciences, Owner and Tenant
Paul Mailhot, Dyn, Tenant
Lisa King, CLD Consulting Engineers, Tenant
David Roedel, Roedel Companies (Hilton Garden Inn), Owner and Operator
Don Clark, DEKA, Owner and Operator
Mike McDonough, Fratello's Restaurant, Owner and Operator
Roger Williams, New Hampshire Institute of Art, Owner and Operator
Arthur Sullivan, Shane Brady, Brady Sullivan, Owner and Operator
Fred Urtz, Lavallee Brensinger Architects, Condo Owner and Operator
Gary Sears, University of New Hampshire, Owner and Operator
Jean Irvine, Riverstone Insurance, Tenant
John Madden, JCM Management, Owner
A later phone interview was conducted with:

Sherry Leonard, Callogix, Tenant

We also had a working session with Andrea Foster of PKF Consulting/Boston to discuss general market conditions for hotels in the Manchester area.

As an inducement to have the stakeholders speak freely, we will not attribute specific comments or data to specific owners or tenants, but rather assemble them all into meaningful trends or commentary in the following sections. LMG believes that an adequate cross section of data was obtained to develop a meaningful conclusion.

Objective Data

As the stakeholders were interviewed, LMG sought to obtain certain metrics with respect to key drivers of parking demand such as building occupancy, demand characteristics such as user schedules (day v night, rigid v flex scheduling, etc), and employee density. In addition, we asked about shadow demand that might exist from unused space, lower than normal employee counts, or permits that might be "in a drawer", that is paid for monthly but not actually being used on the streets.

Building Occupancy -- It is important to first understand what space is currently available within the buildings that are in place today. In a historic high density district like the Millyard, it is unlikely that new demand would be driven by new construction because of the lack of available land. Rather, it would come from the continued occupancy of the buildings that currently exist. Based on an identification of the larger blocks of space available in the buildings identified by the owners in the interviews, at least 230,000 square feet of space is currently available. (The Millyard contains approximately 3.9 million square feet of space. It should be noted that we have identified only space that was available from stakeholders we interviewed, this is not an exhaustive vacancy study). We believe that at least 50,000 square feet of that space has a credible tenant commitment and will be occupied by the end of this year (2013). Later discussions will focus on the potential demand that exists from this empty space, but based on our observations within the various buildings in the area we believe it is likely that it could all be leased if there were sufficient parking and other amenities available to tenants.

User Characteristics -- The Millyard has traditionally been home to moderate size tenants with a specific desire to be in a Loft or Historic space and with a willingness to trade some minor inconveniences for the "cool factor" and ambience of the Mill buildings. The tenants are overwhelmingly office oriented, with scattered restaurants throughout and a small number of service businesses such as hair stylists. The office tenants typically operate on a 8:30 to 5:00 pm schedule, with peaks occurring immediately before and after lunch. The few larger restaurants in the Millyard experience conflicts with office demand during their lunch periods. The growth of the student population at University of New Hampshire is primarily an after hours activity, with 60% of the students enrolled in night classes. In addition, some of the younger, faster growing companies are experiencing extended work hours that are adding demand late into the night and on the weekends from employees.

Employee Density -- During our interviews, we asked about employee counts. As we conducted meetings in each stakeholder's offices, we were able to make observations firsthand of each operation. What was most striking was the wide variance in the working environments, and the resulting variance in parking needs. This variance suggests that the ultimate planning for infrastructure such as parking cannot rely solely on traditional metrics such as occupancy or size of the buildings alone to plan for future facilities. In fact, the demand for parking in the Millyard is likely to depend more on the ultimate mix of employers than the absolute size of the spaces. Our research found tenants with densities as low as 2.0 employees per 1,000 square feet (a 100,000 square foot tenant) to as high as 6.7 employees per 1,000 square feet (a 30,000 square foot tenant with plans to hire more staff). The lower density offices tend to be financial services with employees that require quiet or privacy to deal with clients, and the higher density offices tend to be technology driven with a need for collaborative environments and call centers. Traditional professional offices (such as engineers and architects) appeared to be in the more expected 3.0 to 4.0 employee per thousand square foot density.

Shadow Demand -- There is a long standing practice in the Millyard for building owners to have parking permits "in a drawer", that is, pay a monthly fee for permits that remain unused. Because of the limited amount of on site parking at most of the mill buildings, owners often find it difficult to secure new tenants without assurances that parking will be available. While there is no financial harm to the system as the permit fees are paid every month, it is difficult to perform effective operational management if the true number of parkers cannot be distinguished accurately from the number of permits sold. The relationship of parked vehicles to permits sold is artificially skewed such that a higher than normally tolerable "oversell" rate can be accomodated in the system. When a new tenant occupies a vacant space or a lease is renegotiated with a higher density operation, the system cannot see the change coming through any increased permit sales nor can it absorb the addtional users. In addition, we interviewed owners that indicated they were using such permits that were being paid for by a different owner, suggesting that a secondary market now exists in the Millyard for monthly permits. Through the course of our interviews we identified one owner with 185 unused permits, of which 57 are being "loaned" to another owner. This puts into perspective the value of parking in the Millyard, given that this owner is willing to spend $99,900 (185 x $45 per month x 12 months) annually to protect this supply of parking.

Known Tenant Additions. As discussed in the building occupancy section above, we learned that a 50,000 square foot space in the north end of the Millyard is tentatively leased to an engineering company. From what is known, we would estimate that this would generate demand for 200 new spaces/permits. In addition, the company identified in the employee density discussion is currently constructing space vertically adjacent to their existing space, which will double their size. They have already hired staff to be in the new space starting in May, 2013, and they expect to fill the space completely within a year. This will add an additional 200 spaces of demand.

Subjective Data

This section will quantify general subjective observations and commentary from the Stakeholders and from our interpretation of the way the buildings are being used and the tenants are approaching their employees. In general, we noted that the tenants in the Millyard are in their location due to their desire to be in historic, non traditional environments. Their choice of location has less to do with economics and geography than with creating a unique environment in which to build employee loyalty and non financial satisfaction. Of course, there is a limit to the inconveniences that a company is willing to tolerate to provide this environment, and again and again what we were told was that the number one issue in the Millyard is "parking".

In an effort to provide a flavor of the comments received in the meetings we held, the following presents an unvarnished list of what we heard:

- *We have 35 employees now but could expand to 50 in the space we have today.*
- *The success of Jefferson Mill changed the face of parking in the north end of the Millyard by adding to the demand.*
- *The area under Bridge Street would be a great parking opportunity.*
- *Employees will do what you tell them to do when it comes to parking.*
- *The growth in students presents some great housing opportunities.*
- *UNH seems to be complementary to tenants in the Millyard.*
- *The Art Institute runs its own shuttle......it even goes to the grocery store.*
- *Visitor parking is non existent (four comments).*
- *Restaurants present a challenge.*
- *We have 42 employees but buy 45 permits so we can park our consultants and auditors.*
- *Our students find lots of housing options at affordable rates.*
- *Daytime group banquets don't work because of parking conflicts.*
- *Its tough to do permit placards with restaurant employees due to turnover.*
- *Small retail tenants don't do well because of parking.*
- *The capacity for UNH to expand student populations has little to do with the size of the building they are in.*
- *The landlord built us a garage inside the building.*
- *Jefferson Mills area needs 150 new spaces for the new tenant coming in.*
- *We'd like to see this whole building be high tech users.*
- *We need a shuttle dedicated to the Millyard (6 comments).*
- *Its always about parking in the Millyard.*

Demand for Parking

The interviews revealed the following specific spaces that are available for lease:

- Pandora 100,000 sf

• Jefferson Mill	50,000 sf (now taken)
• 250 N. Commercial	30,000 sf
• 540 N. Commercial	50,000 sf
• 150 Dow	30,000 sf (under construction for expansion)

This totals 260,000 square feet of space. The space in Jefferson Mill and 150 Dow was discussed earlier and represents real demand coming on stream within the next 12 months for 400 new permits. The remaining 180,000 square feet of space would generate demand for between 540 and 1080 new spaces, depending on the character of the tenants that are attracted to the space.

As discussed in the sections above, the "shadow demand" from unused permits is potentially formidable. There are currently 1501 spaces in the various "zones" (yellow, green, blue, and red) plus the Myrna lot. The City currently has sold 2027 permits for this area. The Myrna lot and Green Zone face the largest potential shortfalls, with 278 permits sold for the 139 spaces in the Myrna lot and 478 permits sold for the 203 spaces in the green zone. We would normally expect and overall oversell rate of 120% in an area like the Millyard, and overall, the rate of 135% is slightly high. A targeted rate of 120% would require an additional 227 spaces in the Millyard.

Recent counts by the parking department indicate that 200 to 400 vacant spaces are available on any given day, which compares well to the "shadow demand" that was uncovered. But attention must be paid to balancing the higher oversell rates in the individual areas. The City should target a 90 percent occupancy rate to minimize searching and unnecessary traffic circulation.

As told to us during the interviews on a number of occasions, there is a real need for short term parking for business visitors and some of the smaller users. During the planning of any new facility, short term parking can be served if a shuttle is available. However, LMG would recommend that the City consider a small number of short term meters near the main entrance of each Mill building on the street to allow for visitor parking less than 90 minutes. Again, this should minimize traffic and circulation as people hunt for spaces.

Summary of Demand

To summarize, we believe that the reasonably known demand in the Millyard is as follows:

• Immediate demand from incoming tenants	400 spaces
• Immediate demand from short term meters	25 spaces
• Potential Shadow Demand	227 spaces
• Potential from Unoccupied Spaces	540-1080 spaces

This leads us to conclude that there is immediate demand for a structure with 475 to 500 spaces (80 percent of the first three categories) for public use and that planning should be underway to identify the possibility of adding that many spaces again if the current economic trends continue. This demand is independent of what might happen if current tenant mixes change and become more like the high density high tech users we interviewed, or if currently underutilized Mill buildings (such as those used for storage) change to functional offices or residences.

Economics

The primary purpose of this effort was to understand the demand characteristics of the Millyard with respect to (1) unsatisfied demand currently in place; and (2) the propensity for any new facility to cannabalize existing permit sales and affect the economics of the parking fund. Clearly, much has changed since our initial master plan efforts, and even since our update last summer. The answer to the first question is that significant demand exists or is about to exist with a high level of confidence. The second question is perhaps more subtle, though it appears that the highest level of demand by the highest number of new users will be either immediately adjacent to or within walking distance of the Bedford lot, and it is likely these new users will fill the new garage rather than existing permit holders.

The purpose of this section is to outline the basic economics of a garage on the Bedford lot site. This is specifically NOT a financial feasibility study nor is it meant to provide detailed cost estimates. This is simply a first step of many in the plan we recommended last summer to answer the parking needs of the Millyard and protect the economic base that has been established. For purposes of this analysis we will make the following assumptions:

• Cost of a new garage in Manchester	$15,000 per space (for vertical construction)
• Site Preparation Costs	$1,000,000 (utility relocation and piles)
• Soft Costs	15% of hard costs (design and supervision)
• Closing/Financing Costs	3% of total costs

Given these assumptions, a new 500 car garage on the site would incur capital costs as follows:

500 spaces @ $15,000 hard cost per space $7,500,000

Site Prep (underground relocations)	$1,000,000
Soft Costs(design/testing/supervision)	$1,275,000
Closing/Financing	$ 293,250
Total Construction Costs	$10,068,250

As discussed in our previous studies, it should be noted that the value of parking from the standpoint of the user in most markets is insufficient to cover the costs of garage construction when viewed as a stand alone economic analysis. Manchester is no exception to this rule. At a monthly rate of $75 for a garage permit (the current rate for the Victory Garage), if the City is able to oversell the garage at a rate of 105%, the revenue garnered from a 500 space garage would be:

500 spaces x 1.05 oversell x $75 per month x 12 months = $472,500 annually.

If one assumes that an additional amount can be generated from short term parking spaces on the ground floor and some incidental lease space, it would be reasonable to assume that the revenue could be $500,000 annually. Since the City already operates a garage and has its parking system in place, one could expect that the operating costs of a 500 car facility should range between $50,000 and $75,000. For the purpose of this discussion, we will assume a net cash flow available for debt service of $425,000 to $450,000.

Typically, bond documents focused on revenue will require that the debt service coverage ratio (income available for debt service divided by debt service) remain in the range of 1.2 to 1.35. Thus a free cash flow of $450,000 might be reduced to $333,000 to $375,000 for purposes of bond covenants.

The City maintains a AA bond rating, which would result in borrowing rates among the lowest in the market because of its strong financial statement and conservative practices. Assuming that the bonds are taxable to preserve the most flexibility for the City, and that the rate might be in the 4.5% range, the $10,000,000 total cost could be amortized over 25 years at approximately $600,000 annually. This projected free cash flow from permit sales might cover slightly more than half the debt service. The gap in required cash flow would range between $200,000 and $275,000 annually.

Options to Cover the Gap

As part of our interviews and field work, LMG evaluated a number of options to determine how the City might deal with the gap.

Option 1 - Existing Cash Flow. The City currently generates approximately $1,500,000 in free cash flow from the parking operation. The revenues of the system have been relatively stagnant but expenses have been well controlled so net income has been consistent or improving. Currently this positive cash flow contributes to the general fund and using part of it for this debt service would negatively impact general operations.

Option 2 - Raise rates. The $75 rate is currently charged in the Victory Garage. One could argue that a new facility, under cover and convenient to the Millyard, might be slightly more valuable to users and could justify a higher rate. While the elasticity of the demand is beyond the scope of this analysis, it is useful to understand that each dollar in increased rate per month for a monthly permit would add $6000 per year in incremental revenue. Therefore it would require a $40 or $50 monthly increase to make a meaningful difference, which is unrealistic. However, we would suggest that the City consider offering a premium "Reserved" parking permit at a $110 to $125 rate that would provide a user with a guaranteed specific space at a convenient location near an elevator to develop some incremental income.

Ancillary Uses - We believe that further study is warranted to determine the architectural and market feasibility of adding a private use to the project, either above or next to a new parking facility. After discussions with a number of stakeholders, three uses initially made sense: apartments/condos, select service hotel, and student housing. Each presents particular challenges, but we would summarize them as follows:

Apartments or Condos - Based on the success of the recently opened renovated Mill apartment project, it is clear that there is demand in the marketplace for living in the Millyard. The question in our assessment is at what price. The Mill project represents truly unique product at market rate prices, and we believe the cost basis for this project is lower than what might be experienced building atop a parking garage from scratch. We cannot determine whether apartments would add incremental value to the cash flow from the project to the City, and in fact they may seek public subsidy to make the project economically viable. Condos, on the other hand, may serve to provide a more economically feasible option, but the use of air rights under New Hampshire law would need to be further evaluated. This option is recommended for further exploration in the next Phase of the work.

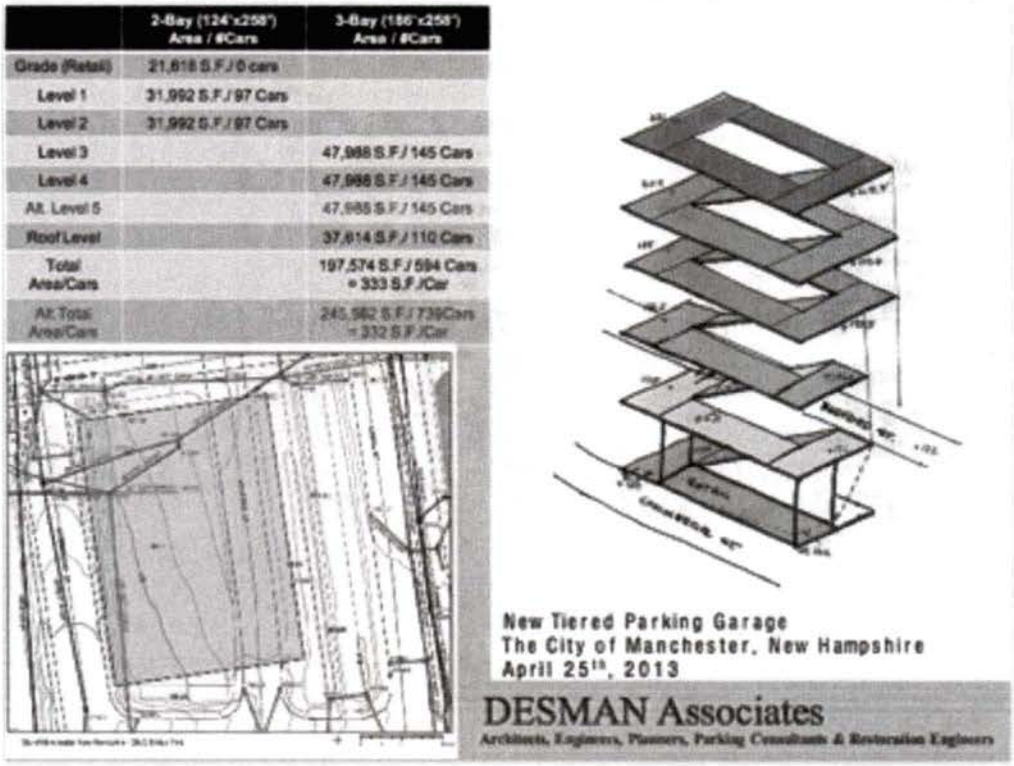
Select Service Hotel - We specifically explored this option with PKF Consulting during our site visit. While the overall market for hotels in this part of New Hampshire is somewhat weak, a primary cause is the age and location of the current inventory. Interviews with the Hilton Garden Inn at the very south end of the Millyard and background data from PKF suggests that new product designed to meet the needs of the business traveler is indeed economically viable in downtown Manchester. LMG is currently involved in a similar project on behalf of Lansing Charter Township in Michigan. Under that arrangement, the Township prepared a pad adjacent to their new parking garage and transfers the deed to the hotel at a nominal fee ($10). In exchange, the hotel pays the Township a voluntary fee of 3% of each room night fee. In this case, the Township also manages the Property Owners Association and collects and additional fee for snow removal, lawn maintenance, etc. Parking is free in the new garage but if the Township chooses to charge in the future there will be a wholesale rate to the hotel. In this example, if such a project were developed atop the Bedford Lot garage, the City could expect an air rights lease rate of: 3% x 365 nights x 120 rooms x 65% occupancy x $120 average rate = $102,500 annually. Since it is reasonable to expect to pay to park in downtown Manchester, and the current competitive rate is $10 per night, one could expect to generate $10 x 50% wholesale rate x 365 nights x 120 rooms x 65% occupancy = $142,350 annually. Total potential revenue from this use could therefore be $244,850. This could potentially cover the gap, and would be expected to grow over time so that the City might eventually garner significant incremental income.

Student Housing - While mentioned often by stakeholders given the often quoted population of 10,000 students in downtown Manchester, we find the potential for profitable student housing development on air rights to be limited due to the high construction costs. LMG would suggest that we seek out specific information from two or three developers familiar with student housing in New England to confirm these economics, but we are relatively confident that the economics are dubious.

Conclusion and Recommendation

Based on the observations made during our site visits and subsequent analysis, we come to the following conclusions:

- Demand for parking in the Millyard has reached a point where additional capacity is necessary.
- Additional growth of employment in the Millyard is likely in our opinion, especially as a critical mass of similar companies appears to be developing. This will result in higher parking demand within existing spaces due to higher employee densities.
- Between the current oversell conditions, need for short term parking, and known users that are going to be occupying spaces currently empty, there is a need for 500 spaces.
- The Bedford Lot is a viable centrally located site currently controlled by the City.
- There are no parcels available within a reasonable walking distance that could serve as additional surface parking, so structured parking is the only real choice for additional supply.
- The economics of parking in Manchester result in a need to either subsidize a new facility from existing revenues or develop ancillary income through additional users in the new facility.
- The Bedford Lot can accomodate a parking facility of 590 to 750 cars based on our conceptual analysis (see following illustration).



We recommend that the City proceed to study the potential development of a parking garage on the Bedford Lot under three potential delivery scenarios: (1) a public garage with public funding; (2) a joint venture or public private development with a parking garage and additional land use that results in the City sharing risk with an ancillary user; and (3) a private development, with an investment by the City to ensure public parking availability. In order to come to a definitive plan for development, the City should undertake the following work program immediately:

Conduct a study of the market for hotel rooms, likely limited service, and the development cost parameters that would result in a successful project. This should include a study of likely brands and recommendations.

Conduct a study of the market for apartments/condos, and make recommendations for economics of an air rights development composed of for rent or for sale product and cost parameters.
Perform preliminary design workshop exercises with staff and key stakeholders/decision makers to understand the capacity of the site and the regulatory framework. Develop scenarios for the garage only and garage with other uses to determine likely costs and premiums for adding other users.
Conduct economic feasibility studies that estimate both revenues and costs in the likely scenarios to provide a framework for decision making, including financing options.
Analyze the current pricing structure of parking in the Millyard to develop a plan that incentivizes users in to the garage and values the convenience of the on street parking appropriately.
Begin long term conversations for future sites as demand grows.
Test the various scenarios in the marketplace and report results to the Board of Aldermen for a GO/NO GO decision.