
Conceptual Adaptive Reuse Study

2 Washington Street &
10-12 Washington Street

Peabody, MA

March 2019

Prepared and compiled by Peregrine Group, LLC | Real Estate Advisory

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I. Executive Summary

With the City of Peabody and the Massachusetts Development Finance Agency (MassDevelopment), Peregrine Group worked with stakeholders to compile a conceptual analysis of adaptive re-use opportunities for two parcels in Peabody, adjacent to the intersection of Washington Street and Main Street. The report looks at a concept that integrates the two properties below into one overall development concept. However, the analysis was completed at the individual property level in the case that each property goes through a separate request for proposal (RFP) or development process.

- 2 Washington St. – a prominent three-story historic estate house with a two-story carriage house on the corner of Main St and Washington St.
- 10-12 Washington St. – the former St. Paul’s church sanctuary and lower-level function space plus a 1950’s addition classroom wing to the original church. The property includes a paved surface parking lot of 30-50 spaces.

The effort was initially launched in January 2018 with a tour of the properties and surrounding neighborhood, as well as a dialogue with a key set of stakeholders and city officials. During these initial discussions, several objectives were identified for any re-use plan for the subject properties:

- Preserve the buildings
- Generate activity, ideally in arts or cultural activities
- Complement and/or act as catalyst for other current or planned initiatives in the district, and as a means of extending downtown activity eastward along Main Street
- Maintain some level of public access (partially dictated by acquisition funding)
- Consider general economic feasibility; related to both capital investment and ongoing operations to allow some level of market financing to accompany anticipated subsidy, grant and philanthropic sources. The understanding expressed was that the repositioning of the buildings may not be achievable solely through market feasibility, but the intent was to seek a solution that could be partially supported by market sources of funds.

With the defined objectives, a cooperative evaluation of re-use and redevelopment opportunities evolved over a series of months. Outreach to local stakeholders and to local institutions helped gather ideas and measure interest and opportunities. Regional precedents for the re-use of similar properties were evaluated. Past studies of 10-12 Washington St were reviewed to understand the building layouts and existing conditions. Ongoing and planned activities and developments in the district were also considered to seek to avoid competing interests and to leverage the existing momentum taking place in Peabody.

The re-use concept outlined herein was shaped by this process and intends to best meet the above stated objectives. ***The recommended conceptual program includes a combination of residential apartments and creative commercial spaces for 2 Washington St.; a flexible mixed-use program with a live-work component. In the past, there has been interest in re-purposing the property at 10-12 Washington St. as a children’s museum. If the children’s museum concept moves forward, 2 Washington St. can still successfully incorporate a combination of residential apartments and creative commercial spaces at a smaller scale.***

The program and re-use opportunity that is outlined within this report should be considered as a general recommendation and guideline for a more detailed development process. More refined design and

engineering, tenants, and operating and financing partners will likely adapt and evolve the program. As such, the purpose of this report is to act as a foundation and data point to support a more specific redevelopment plan.

II. Subject Properties

2 Washington Street

Built in 1895, 2 Washington Street is comprised of an approximately 8,400 square foot (not including basement), three-story estate building with a connected two-story carriage house of approximately 3,000 square feet. The estate house has been vacant after multiple renovations through past decades.

The Carriage house was formerly converted to rental apartments, but has been vacant for several years.

Per the historic nomination form for the district:

One of the area's most elaborate and architecturally significant houses is the Thomas O'Shea House, 2 Washington Street ... Built by Josiah B. Thomas, a prominent Peabody manufacturer, the transitional Queen Anne/Colonial Revival house is L-shaped in plan, with both ends of the L terminating in two-story pedimented porticos. The center section of the house is dominated by a conical-roofed tower rising above the roof line. The clapboard facades are decorated with two-story pilasters, an elaborately carved entablature around the entrance, broken scroll pediments above the windows, a carved frieze, and dentils along the cornice. A Colonial Revival carriage house is adjacent to the main house. The O'Shea House is on the site of the Bell Tavern (1757-1840). In its prominent location at the corner of Washington and Main Streets, it provides an anchor to the Washington Street district.¹



10-12 Washington Street

The property is comprised of two sections; the former St. Paul's Episcopal Church and the attached classroom wing. St. Paul's Church was built in 1913, and the classroom wing was constructed later in 1952. St. Paul's Church totals approximately 6,200 square feet, and is made up of a traditional 3,100 square foot sanctuary space with a high vaulted exposed wood ceiling and stained glass windows, and a similar scale lower level meeting space below the sanctuary. The classroom wing totals approximately 4,700 square feet and connects to the church on the sanctuary level via a common stair. This section of the building has three floors with six offices and five classrooms of various sizes – served by a double-loaded corridor.



A surface parking area to accommodate 30-50 parking spaces is located adjacent to the structures. The total square footage of the combined 10-12 Washington Street parcel is roughly 11,000 SF +/-.

¹ National Register of Historic Places inventory—Nomination Form; Washington Street Historic District; Peabody, MA | NPS Form 10-900 | August 1985

Neighborhood Context

Located blocks from the heart of Peabody Square, the city's Central Business District, both parcels have the potential to capitalize on existing foot traffic and commerce that characterizes the district - and to extend the activity eastward along Main Street. The Peabody Institute Library and the Peabody Historical Society & Museum (Elizabeth Cassidy Folk Art Museum) are located in close proximity. Recent and ongoing public infrastructure and planning initiatives are focusing development attention along the Main Street corridor. The effort includes looking at greenway connectivity between Peabody and Salem.

From a transportation standpoint, the two subject parcels are located in close proximity to multiple MBTA bus routes and the Peabody Transit Shuttle. Highway access is available to Routes 1, 128, I-95, I-93, and I-495.

Previous Study

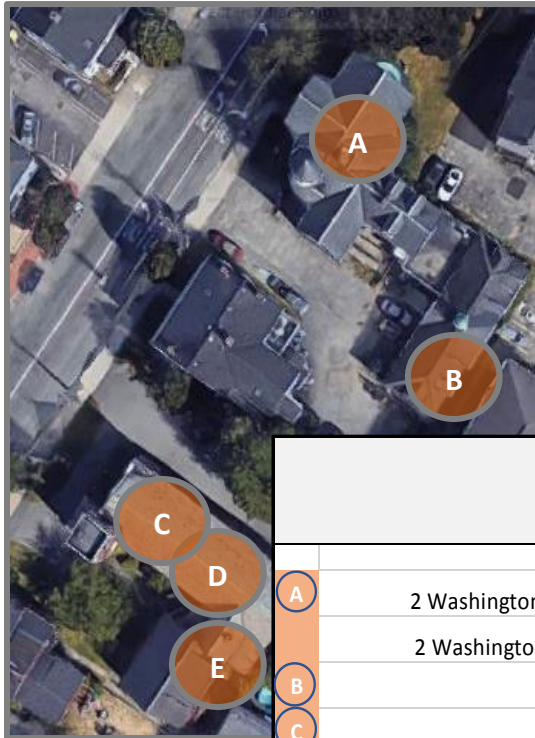
As referenced, the 10-12 Washington St. property has been previously evaluated and studied in detail. Most notably, in 2014, a *Site Review* titled "Proposed Children's Museum at St. Paul's Church" was completed by ARQ Architects on behalf of the City of Peabody. This scope of work was commissioned to reflect community interest in the potential to reposition the vacant church and adjacent historic home (at 16 Washington St.) into a source of community activity and a civic resource in the form of a children's museum. The team has further explored the concept of a children's museum in a separate report, but were able to draw from the information in the 2014 report for evaluating the alternative concepts as well.

In July of 2018, Pinck & Co. completed a *Building Assessment* titled "12 Washington Street" for 10-12 Washington St. [Please see Exhibit 3.0.] The report was intended to advise the City of Peabody on the existing conditions of the former St. Paul's Church property through a survey and the establishment of a scope of work to stabilize the building for re-use. The work focused on building envelope conditions, life safety, accessibility, and included baseline parking lot improvements.

In this exercise, the noted previous studies were significantly leveraged to inform opportunities, building layouts, conditions, and to guide the order of magnitude improvement budget for redevelopment.

III. Recommended Re-use Program | *What?*

Based upon a series of factors further outlined below, a recommended path is to redevelop the subject properties into **a combination of residential apartments and creative commercial spaces; a flexible mixed-use program with a live-work component.**



The adaptive reuse concept is based upon looking at the “campus” of buildings as a connected, symbiotic ecosystem. The varied commercial spaces and rental apartment units can leverage shared common amenities and functions such as common gathering spaces, reception, conference/assembly and display/gallery spaces, as well as coordinated marketing and programming/events.

				WORK	LIVE
		Approx. Gross Area	Approx. Usable Area		
A	2 Washington Estate House - Ground Floor	3,270	3,270		
	2 Washington Estate House - Upper Floors	5,112	5,112		
B	2 Washington Carriage House	2,800			2,800
C	10-12 Washington Sanctuary	3,155	2,820		
D	10-12 Washington Church - Lower Level	3,155	2,706		
E	10-12 Washington Classroom Wing (three levels)	4,713	4,404		
TOTAL		22,205	18,312		2,800

Structure & Operations

The contemplated program is not intended as an intensive facility that is narrowly focused, but rather as a centrally-managed and centrally-marketed/leased complex. Interested “work” tenants will rent specific areas within the buildings. Residential dwellers will rent apartments. The shared elements and common programming will link all users as a community.

Along a continuum of offerings within live/work programs, there are loosely affiliated rental spaces versus highly managed and structured communities. On one end of the spectrum, users rent a space within the facility for their use – akin to an apartment resident leasing an apartment or a tenant within an office building. As tenants, they have access to common areas, but are largely independent. On the other end of the spectrum are targeted communities that admit members into a well-defined operating model rich with programming and services. This end of the continuum includes some incubator programs, and often requires a vetting of applications and acceptance for members within a narrowly defined profile. Such enterprises are often managed through a board of directors and/or advisory committee structure. The plan outlined herein contemplates a program in the center of the continuum – establishing a clear community and brand, with shared programmatic elements, but for a broad

platform for users – without a narrowly defined tenant/member profile that may limit the volume of potential users.

The outlined use will require a dedicated management entity to oversee general operations, marketing and rental of spaces, selection, onboarding of new tenants, event programming, and general facility-related property management functions. The exact structure and governance will likely evolve as users and tenant interest is solidified through a more detailed development plan.

Local institutions could play a key role in many aspects. For example, The Enterprise Center at Salem State University often receives leads from start-up entities or those in the market looking for commercial spaces. Connections with existing institutions, groups, and associations could manifest into actual physical use of the space for varied programs, through shared staff and resources, or more indirectly by making connections and providing support. Please see [Exhibit 2.0] for suggested examples of potential affiliations within the region.

In the outreach to potential affiliates and stakeholders as part of this exercise, no established, existing entity/organization was clearly identified to fulfill the role of managing the outlined program. However, as the concept advances, the city or lead project manager should continue to reach out to these potential organizations.

Tenants & Users

The volume and diversity of physical spaces within the subject properties offer a broad range of opportunities for different users/tenants. Given the range of varied physical spaces, and the lack of a single identified user, it is recommended that the potential “work” uses remain flexible and varied, while still being complementary. A community that focuses on one particular function or a pointed and distinct user group (ie. limited to groups such as only fine artists, start-up technology businesses, or music professionals) may be too restrictive. In the outreach to potential affiliates and stakeholders as part of this exercise, no single tenant or specific, targeted user group was identified.

The general, open approach is intended to help broaden demand and mitigate risk of dependence on a single user type. Potential commercial or work uses may include, but are not limited to:

- Artist studios in various form and function; especially those that may benefit from common display/gallery or coordinated sales events
- Classroom spaces for music lessons, arts-based classes, or yoga classes
- Creative industry offices; including graphic design, technology, or design – firms that may be interested in co-working spaces
- Light industrial users
- Non-profit or local/regional cultural offices

An inherent challenge with such a varied tenancy will be to maintain a strong brand. This challenge may be best addressed through common signage and logos, as well as through community-level programs and events to foster cohesion. For example, in Providence (RI), an operating, marketing and events platform *In Downcity* fosters a strong community culture across multiple buildings, city blocks, unaffiliated office and retail tenants and residential tenants through coordinated efforts such as a newsletter, tenant directory, as well as annual social and cultural events.

The inclusion of residential/live units provides multiple levels of benefit, including stabilizing the expectation of recurring cash flow from monthly rental fees, providing an 18-24 hour presence which increases security, and extending hours of daily activity. The residential component helps differentiate

the commercial areas from other options in the competing marketplace. Potential commercial users may be driven by the ability to live in close proximity. Conversely, demand for residential apartments will be further driven by the desire for users to work in an adjacent building.

Physical Spaces

Commercial tenant areas and artist studios may include areas that are private in nature, but offer access to shared common elements. For office spaces, small businesses may require and benefit from common reception, access to conference room or meeting areas, and shared amenities such as a coffee area and common printers. It should be noted that within the notion of studios or light industrial spaces, there are a wide range of physical needs depending on the variation and type of creative activities sought. For example, industrial artists may require heavy equipment. Ceramic artists may need kilns. Graphic designers and those that rely on technology-based media have criteria for success that differ from the traditional painter or illustrator, photographer, or glass artist. The offerings within and throughout the properties can accommodate an array of users - from hobbyists looking to rent a 100 square foot open studio area, to small design firms that would like several thousand square feet of space to be fit-out. The combination of distinct rooms, offices (i.e. upper floors in 2 Washington St., classrooms and offices in the classroom wing of 10-12 Washington St.), and open areas (sanctuary, lower level) provide flexibility to meet demand. (Each building is further outlined in more detail within the following section.)

The properties should be stabilized and improved through new building systems, envelope improvements, code and accessibility upgrades, and then fully fit-out as demand and tenant commitment shape usage through a pre-leasing phase.

The historic aesthetic and grandeur of 2 Washington St.'s ground floor is a logical space to allow for public interaction, display or gallery space, conference areas, reception and other "front of house" components for the campus. The former carriage house of 2 Washington St. lends itself to restored residential apartments (the building's most recent active use) in a distinct and separate, but closely-connected physical setting. The layout of the apartments, although in a state of disrepair, remains intact within the building footprint.

Building-by-Building Programming

Within the subject properties, there are multiple and varied opportunities due to the physical layout, scale, and relationship with the streets, parking and sidewalks.



A conceptual re-use program includes the following scale and use:

			WORK	LIVE
		Approx. Gross Area	Approx. Usable Area	
A	2 Washington Estate House - Ground Floor	3,270	3,270	
	2 Washington Estate House - Upper Floors	5,112	5,112	
B	2 Washington Carriage House	2,800		2,800
C	10-12 Washington Sanctuary	3,155	2,820	
D	10-12 Washington Church - Lower Level	3,155	2,706	
E	10-12 Washington Classroom Wing (three levels)	4,713	4,404	
TOTAL		22,205	18,312	2,800

A On the ground floor of the Estate House, the relationship with the street, attractive entrance, and the grand historic character allow for common areas for display, gallery, sales and other public interaction. The area of the ground floor can act as the “front of house” for activities throughout the mixed-use community, even if 10-12 Washington St. is separately developed into a children’s museum.

For tenants/users, there is a clear value and benefit to providing a welcoming and attractive space for community sales events, meetings/conference areas and reception functions. This space may best provide for continued public access, albeit at limited times and with access controls in place.

The existing kitchen area could be re-positioned in a limited fashion to allow for basic food service support via coffee, ability to warm foods, common refrigeration, etc. A warming kitchen, at minimum, would be helpful to support catered events.

The upper floors of the estate house offer physical challenges and opportunities as they could accommodate either live or work areas – given divisible and varied room sizes, aesthetically pleasing interior spaces and some plumbing and building systems infrastructure. This area may be best approached as flexible work space that could be adapted based on demand, with basic infrastructure and code items addressed as part of the initial redevelopment. A thoughtful design could allow for conversion to residential space in a future phase.

As a starting point, it is recommended that the upper floor spaces be marketed and offered as commercial/work spaces. And, as the overall program stabilizes and evolves, be re-evaluated as residential apartments if and when demand dictates. This decision may be evaluated through a cost benefit analysis of making the required physical improvement investment to accommodate apartments. The recommendation to start as work spaces is informed by issues of the interplay between the use of the lower level as shared spaces for both buildings. And, to limit the initial level of investment in the upper floors until the overall concept is stabilized and proven. Typically, the cost for residential re-use far exceeds adaptation into flexible work spaces. This is driven by the intensity of work to bring utilities, partitions/privacy and to meet code requirements within the subject areas.

Life safety and fire codes, as well as accessibility will be a significant physical challenge within the detailed fit out. These issues will need to be further evaluated through a design process. At this conceptual level, these items are carried within assumed costs, but are not able to be fully defined.

B The former carriage house, which has been most recently utilized as apartment housing, provides basic infrastructure (circulation, plumbing, etc.) and layouts that may be redeveloped into approximately four refreshed dwelling units. The conceptual approach is intended to limit cost, while also limiting renovations that may alter the historic context of the structures. The physical setting of the carriage house, set back off of the primary roadway, and with distinct/separate access from the estate house, offers some degree of privacy and separation for an intentional and dedicated use as rental apartments.

The level of affordability required or targeted within the rental units will need to be further discussed within the context of housing goals at the city-level. From a programming, implementation, and management standpoint, targeting relatively low (workforce/non-luxury) price points would likely be consistent with the targeted live/work users. Based on a survey of the apartment market, an average monthly rent of \$1550 per month was targeted within the analysis included herein.

C The former sanctuary space is a large, vaulted area. Re-use examples of former churches across the country offer a number of varied programmatic opportunities, but given the building's position within the context of the other structures, and within the neighborhood, the open space may best lend itself to be a flexible "work" area. The window fenestration and open span create a large

volume that could be mostly maintained – limiting the budget and visible alterations to the 1913 structure.

It is recommended to seek consistent, day-to-day use by creating flexible, adjustable stalls/studios for artists or users rather than relying on only using the entire space for events such as art sales or gallery use. The intent is to balance the desire to create activity and preserve the buildings, while also providing a practical and steady pattern of use and income to help afford the capital investment and to support the ongoing operating expenses. Sizing of stalls and partitions within the space can be defined by precise user demand, but should be constructed in a relatively flexible manner that can change and adapt over time - while being able to maintain the overall architectural integrity of the historic Sanctuary.

D The lower level of the sanctuary building offers functional, basic space to offer at a relatively affordable price point. As opposed to the sanctuary, this space may be more malleable and able to be fit-out and divided in a more substantial and permanent manner. This area offers baseline work spaces for those seeking a well-located, affordable workspace – while benefitting from the value created through being part of the larger campus/community. As part of any re-use plan, existing conditions and physical issues such as accessibility and mold/water damage from the foundation issues [see Exhibit 3.0] must be comprehensively addressed.

E The classroom wing, on all levels, offers spaces of various sizes and layouts from former classrooms and offices. As in the lower level of the sanctuary, these areas – after base building stabilization improvements are completed-- may be best positioned for those seeking a well-located, affordable workspace, while benefitting from the value created through being part of the larger campus/community. The classroom wing could accommodate the needs of a different user group than the sanctuary or the lower-level of the sanctuary as varied, and more private offices and rooms could be attractive as offices for local non-profits, small businesses or as secondary office space that replaces home office or shared workspace offerings. The current configuration of offices and classrooms with common bathrooms should be leveraged as much as possible.

Additional Notes on Programming

The recommended approach contemplates that the campus is redeveloped concurrently due to efficiency within many elements of the process and program. However, the natural physical separation of 2 Washington St. from 10-12 Washington St. could allow for a phased or separate approach to development.

Within the recommended program, the residential component represents less than 15 percent of total square footage. Additional residential units would allow the program to be more balanced. The residential uses are limited herein due to existing physical layouts, and desire to maintain the architectural integrity of the buildings. Also, the cost to convert many of the areas to residential units would further challenge the economic model. Essentially, converting other areas of the campus to add more residential units would require more intensive rehabilitation work which would increase costs that would not be off-set by increased revenues.

IV. Key Factors to Inform Recommended Program | Why?

The program outlined above was shaped and informed by a number of considerations, including consultant team experience with dozens of adaptive re-use projects, and through a survey of similar programs within the region. The following are key factors that informed the conceptual re-use program:

Goals and objectives as defined by stakeholder discussions

- Preserve the buildings
- Generate activity, ideally in arts or cultural activities
- Complement and/or act as catalyst for other current or planned initiatives in the district, and as a means to extending downtown activity eastward along Main Street
- Maintain some level of public access (partially dictated by acquisition funding)
- Consider general economic feasibility; related to both capital investment and ongoing operations to allow some level of market financing to accompany anticipated subsidy, grant and philanthropic sources. The understanding expressed was that the repositioning of the buildings may not be achievable through solely market feasibility, but the intent was to seek a solution that could be partially supported by market sources of funds.

The outlined program is intended to meet all of the listed objectives.

Physical Structure/Layout/Condition

Recommended uses are intended to work with the existing architectural integrity of the buildings to minimize the amount of capital needed to renovate the spaces and to preserve the structures.

Life safety and fire codes, as well as accessibility considerations, will be a significant driver of the final detailed program. Fire separation of distinct uses or program and accessibility (code compliant/multiple means of egress, elevator and/or ramp access) will need to be further evaluated through a design process. The conceptual evaluation herein assumes that these items will be addressed through elevators, ramping, new fire protection/sprinkler and alarm systems and related improvements. Previous building studies have evaluated these issues (particularly at 10-12 Washington St.) in detail and further analysis will be required in any development plan. The order of magnitude budget [Table 1.0] reflects the estimated cost of these elements.

Market Financing Components

As outlined further in [Table 1.0], the market viability of re-use opportunities for the subject properties is challenging. This is evidenced by the fact that the properties remain largely vacant and have seen capital disinvestment over many years. Any re-use plan will require creative financing structures, subsidy, and likely investment returns that are below market and/or to be achieved over an extended investment timeframe.

To help address this challenge, considerations in shaping the recommended program include:

- The residential units, although limited in volume, provide a consistency and diversification to the anticipated income stream, while also adding a competitive advantage through the possibility of live/work. In interviewing the development professional that managed the AS220 development, a successful live-work artist community in Providence [see Exhibit 3.0],

- it was stated that the residential was both the “backbone” and “economic engine” of the live/work model. Ideally, the balance of residential to commercial would shift in favor of a greater density of residential units. However, as described above, the physical structure, layout and condition creates an economic challenge – as the cost to convert more of the listed spaces to apartments would further hinder the economic model as well as challenge the goal of working within the integrity of the existing structures.
- While considering recommended re-use opportunities, part of the process was to identify challenges within alternative plans:
 - Recommending an element of residential use is driven by the the difficulty in financing properties as standard, speculative market retail and/or office space. Such a program may be difficult to finance without credit-worthy tenant commitments. Market financing, such as bank construction loans, often looks to the level and strength of tenant lease commitments when lending funds. The inclusion of residential apartment units may allow more flexibility in underwriting, as there is typically no expectation of pre-leasing. Lenders look to the validity of expected rents and occupancy by studying the market for similar apartments. In the same manner, strong affiliations or management structures/community/programmatic components for the “work” aspects may help to secure some level of market financing/debt. As an example, the North Shore Alliance for Economic Development may help to provide opportunities to connect into an existing network of potential interested parties. Such relationships may also better position the project for grants, subsidy and philanthropic sources of capital.
 - Social event space (wedding or other social event rental) was stated, by stakeholders, as a desired reuse for portions of the properties. One concern with this use is that it may be competing directly with other efforts now taking place within the district, as an existing event operator is actively developing an alternate location. Also, in order to be financed through market sources, the demand would need to be well-proven through market study or through an experienced local operator. In addition, the potential for seasonality and weekend/weekday consistency of use may create a more unpredictable cash flow projection than the recommended program.
 - Hospitality rooms (hotel, lodging) may be challenging to underwrite through typical market financing sources. The relatively small number of keys/rooms that could physically be accommodated would limit operating efficiency. In addition, market financing sources often provide less debt, as a percentage of value, than for other property types. For example, hotel or inn bank financing may typically equate to 60-65% of value, whereas apartment financing may typically equate to 75-80% of value.
 - Narrowly focused cultural or social venture offices, as a standalone use (without residential or the varied spaces described herein) at 2 Washington St., may be

consistent with many of the listed stakeholder goals – but may prove to not allow for as much market financing opportunity as the recommended approach. In addition, that program may rely heavily on a single or small group of users, while also relying entirely on a combination of fundraising, grants and other non-market financing for ongoing operations in addition to the one-time capital costs to repositioning the subject properties.

Residential Presence & Activity

The inclusion of residential uses at 2 Washington St., even in a limited quantity of units, provides a key ingredient to sustained success. The presence of people through extended hours can provide increased security, visibility of activity, vibrancy and helps to stabilize redevelopments. The residential presence can act as both stabilizing force and activity generator in early stages of the redevelopment, and help to sustain balance against work/commercial hours of operations and vacancies.

Parking

With limited off-street parking (30-50 spaces within a shared lot), the proposed balance of uses somewhat mitigates concerns on limited parking. For example, if the buildings were repositioned as a single, large event space, creative solutions would need to be explored to accommodate peak times of high parking demand. If a single office user occupied the spaces, parking demand may be focused on specific days and times (i.e., 9 a.m. – 5 p.m. on weekdays). The combination of described varied and mixed uses may help to mitigate parking limitations. With a stabilized and operating program, it is likely that parking will need to extend to on-street, and to other designated areas within the downtown.

V. Economic Scale and High Level Feasibility | *How?*

The following table offers an estimated budget of capital cost/potential investment for the described adaptive re-uses of 2 Washington St. and 10-12 Washington St. separately. The tables are informed by the previous, more detailed study of 10-12 Washington St., as well as by the development experience of the team. The numbers and assumptions provided herein are intended as a general guideline – to be refined by the final program, design, engineering, phasing, permitting, sources of funds and other elements of a full-scale real estate development project.

TABLE 1.0						
ESTIMATE OF CAPITAL BUDGET				ORDER OF MAGNITUDE		
	10-12 Washington Street			2 Washington Street		
Land/Lease	\$0		Assume zero in carried land basis/transaction cost for simplicity per stakeholder discussions	\$0		Assume zero in carried land basis/transaction cost for simplicity per stakeholder discussions
Stabilization						
Demolition	\$95,600					
Hazmat/Abatement	\$40,116		per Pinck & Co July 2018 Order of Magnitude Costs; Section 9 & 10.			
Exterior (Wood + Masonry)	\$127,990					
Doors & Windows	\$170,325					
Roofing	\$93,450		Abstract from report: "...a full scope of work to stabilize the building and make it ready for a tenant or user to implement their own interior improvements. We also include site work, such as parking lot re-paving, drainage and landscaping at Washington Street..."			
MEP+Fire	\$708,000					
Elevator & Access	\$370,000					
Site & Parking	\$201,000			\$200,000		Allowance for site improvemnst (paving, landscaping, lighting, signage)
General Req + Cond	\$319,747					
Escalation	\$67,671		derived from Pinck & Co. report escalated @ 3%/year to Dec 2020 start			
Subtotal Stabilization	\$2,193,899	\$199	Calculated /SF	\$1,789,120	\$160	Per SF allowance based upon Pinck study of 10-12 Washington + experience on comparable projects
Add'l Fit-out to allow base condition for WORK tenant readiness	\$248,250		Allowance of \$25 per usable SF; based on comparable projects	\$293,370		Allowance of \$25 per usable SF; based on comparable projects
Add'l Fit-out to allow base condition for LIVE apartments				\$98,000		Allowance of \$35 per usable SF; based on comparable projects
Tenant Improvement Allowance	\$198,600		Allowance of \$20 per Usable SF; based on program and comparables	\$102,240		Allowance of \$20 per Usable SF, not incl first floor; based on program and comparables
Subtotal	\$2,640,749			\$2,282,730		
Furniture Fixtures & Equip [Allowance]	\$200,000		Allowance based on program and comparables	\$100,000		Allowance based on program and comparables
Hard Cost Contingency	\$396,112	15%	per Pinck & Co. report adjusted	\$342,410	15%	Allowance based on program and comparables
	\$3,236,862			\$2,725,140		
Architectural & Engineering	\$291,318	9%		\$245,263	9%	
Organization, Legal & Professional	\$80,922	3%	Driven by percentage of hard costs. Informed by prior reports + project experience	\$68,128	3%	Driven by percentage of hard costs. Informed by prior reports + project experience
Finance, Capital Campaign & Carry	\$32,369	1%		\$27,251	1%	
Development Admin	\$64,737	2%		\$54,503	2%	
Soft Cost Contingency	\$70,402	15%	per Pinck & Co. report adjusted	\$59,272	15%	
Subtotal	\$539,747	17%		\$454,417	17%	
Totals	\$3,776,609	\$343	Order of Magnitude Scale	\$3,179,557	\$284	Order of Magnitude Scale
Total Capital Budget Conceptual Combined			\$6,956,165			

The development challenge is to establish a dependable, recurring revenue stream to help offset the investment of capital improvements, as well as to sufficiently cover operating expenses such as utilities, janitorial, leasing and management, insurance and related recurring monthly or annual expenses. From a market perspective, Net Operating Income (NOI) is used to derive the market value of a property (via the income approach to valuation). A NOI is calculated in the following table based on a number of listed assumptions.

TABLE 2.0					
2 Washington Street					
10-12 Washington Street					
Approx. Market Valuation					
	<u>2</u>	<u>10-12</u>	<u>Total</u>		
<i>Annual</i>	<u>Washington</u>	<u>Washington</u>			
LIVE					
Estimated Number of Units (Apts)	4	-	4		Derived from existing residential layout within the Carriage House; small two bedroom units
Average Live (Apt) Monthly Rent	\$1,550	-	1,550		Per survey of apts within the submarket, assumption of basic levels of finish, value per affiliation with live/work
Annual Gross Potential Income - 'Live' Spaces	\$74,400	-	74,400		
WORK					
Per Square Foot Rent - average	\$14.50	\$14.50	\$14.50		Equivalent of gross lease, where Landlord pays for majority of operating expenses. Rent/fee listed as /year. Blended average assuming smaller spaces at higher rate, larger footprints at lower per square foot rate. Derived from market survey. Assumes relatively low fit-out/Tenant Improvement Allowance. Premium due to collaboration/community aspects of the program
Gross Rental Income from 'Work' Spaces	\$121,539	\$143,985	\$265,524		Rent assumed on all areas, including first floor of 2 Washington St
Total Potential Gross Income	\$195,939	\$143,985	\$339,924		
Less: Vacancy & Collection Losses	(\$13,716)	(\$10,079)	(\$23,795)	7%	Value as stabilized
Effective Gross Income	\$182,223	\$133,906	\$316,129		
Less: Operating Expenses*	(\$95,047)	(\$84,405)	(\$179,452)	\$8.50	Assumption based on market comparables. Assume high level of management/coordination. Assume minimal/low real estate property taxes. Staffing and programming expenses should also seek funding from alternative sources.
Net Operating Income (NOI)	\$87,176	\$49,501	\$136,677		* Operating expenses include recurring, day-to-day expenses for the facility such as utilities, insurance, landscaping/snow removal, trash and recycling, real estate property taxes, maintenance, janitorial and supplies. Property management, including dedicated staffing for programming and functions (as described within the body of the report) would also be included.
			Market Value	Capitalization Rate	
Approx. Market Value as Operating Property Apply Capitalization Rate to convert Net Operating Income to Approximate Market Value	\$1,452,938	\$825,018	\$2,277,955	6.0%	Range of capitalization rates offered as sensitivity analysis.
	\$1,162,350	\$660,014	\$1,822,364	7.5%	Unique operating model may drive ambiguity in the proper rate in the marketplace and in underwriting process.
	\$968,625	\$550,012	\$1,518,637	9.0%	
Approximate Supportable Construction/Perm Loan Amount @75% Loan to Market Value	\$1,089,703	\$618,763	\$1,708,467	6.0%	Range of capitalization rates offered as sensitivity analysis.
	\$871,763	\$495,011	\$1,366,773	7.5%	Unique operating model may drive ambiguity in the proper rate in the marketplace and in underwriting process.
	\$726,469	\$412,509	\$1,138,978	9.0%	

With a forecast and stabilized NOI, a capitalization rate (%) is applied to convert the predicted annual income into a market value for the operating asset. As a measure of general economic feasibility, the market value of a property should be greater than the capital budget or investment to create the completed, operating real estate asset. The market value is also an essential benchmark for market financing. For a mixed-use development project, typically banks would be willing to finance via construction loan, an amount of 65-80% of market value (subject to other constraints). The analysis in [Table 2.0] indicates that market financing will only cover approximately 20% of the overall capital budget. As a result, additional sources of capital need to be identified for approximately 80% of the project budget. The need for subsidy would likely be assumed on any re-use plan for the subject properties due to their current condition and the need for substantial work to provide for a functional, code compliant asset.

This speaks to a need for additional funding sources such as municipal, state and federal grants and programs, state and federal tax credits, and philanthropic private sources. For example, the use of Federal Historic Tax Credits could provide a net offset of between 12-18% (based on comparable investments) of total project costs depending on a number of factors.

The more precise capital budget that results from a complete and detailed design, engineering, permitting and bidding process will inform and refine the size of the funding gap. The potential for a flexible acquisition cost may be an important cost factor. Likewise, the ability to utilize potential affiliations and partnerships – rather than to create an operating entity from scratch will allow greater ability to leverage experience and expertise in seeking funding.

Exhibit 1.0 | Precedents

Exhibit 2.0 | Affiliations

Exhibit 3.0 | *Building Assessment* for 10-12
Washington Street | Pinck & Co. | 2018

EXHIBIT 1.0 | Precedents

The following contains content on regional precedents with similar programmatic elements. They may be helpful to reach out to as the reuse concept for these properties are further fleshed out:

- An example of a program with similar elements exists in **the Lydia Pinkham Factory in Lynn, MA**.
 - Over one-hundred independent artists ranging from glassblowers to pianists create in a collaborative environment.
 - Lydia Pinkham Labs was established in 1886 for production of famous apothecarist Lydia Pinkham’s vegetable compound and herbal women’s tonic.
 - 2,000 – 15,000 square feet of commercial, light industrial, and office spaces are available for rent for affordable fees, ranging from \$6-12/square foot, including utilities and access to a commercial kitchen and bathrooms.
 - There are no additional membership fees; spaces are leased by artists looking to connect with like-minded individuals in the area.
 - An annual Open Studios event charges a participation fee per artist. Profits raised from the event go directly toward marketing and publicity campaigns to attract more buyers and, in turn, potential tenants to into the space.

- A strong precedent was found **at AS220 in Providence, RI**. AS220 is a nonprofit community arts center. Initially founded in 1985, the organization has grown to now occupy three buildings of an approximate total of 100,000 square feet. Among many programs, their spaces include galleries, performance venues and artist studios that allow for public access at times. From a perspective of scale, the group serves over 5,000 artists and 93,000 visitors on an annual basis.
 - Most relevant to the subject properties is the first phase of AS220’s development, which included the fit-out of a historic, vacant building of 22,600 square feet:
 - First Floor - commercial (rental) spaces, a performance gallery space, and small theatre
 - Second Floor - 14 private work studios with a small, common gallery, and shared office space for the nonprofit
 - Third Floor – 11 residential (live/work) artist studios with a small performance space. The artist studios share common bathrooms and a common kitchen.
 - The capital investment was completed in phases:
 - Phase 1 was an investment of roughly \$1 million to stabilize the building, fit out the interior to accommodate the program, and provide life safety components to meet code. The result was a minimalist, but functional setting. It should be noted that the building was a historic former commercial office building – a different building type than the subjects.
 - Phase 2 followed by nearly 10 years and built upon the energy established in the first phase. The work included in the second phase combined existing street-level commercial spaces with the theater to provide a more welcoming and flexible space for gallery use, exhibits, and small performances. It connected and improved

outdated kitchen spaces to help support visitors by offering food service and bar access to those watching a performance or visiting the gallery. On the second and third floor, similar improvements were made to enhance the existing program through improvements that could not be afforded in the initial phase. Total investment for Phase 2 was roughly \$2 million.

- The Phase 1 capital investment was funded through a combination of individual gifts, corporate gifts, government and foundation grants, and other fundraising activities (27%), state historic tax credits (4%), city funding (20%), and through mortgage debt (50%).
 - Phase 2 capital investment was funded through a combination of individual gifts, corporate gifts, government and foundation grants and other fundraising activities (76%) and the remaining funded through state historic tax credits. Per discussions with professionals involved, the ability to raise funds in Phase 2 was greatly aided by the success and track record of success on the first tranche.
- **Co-Creative Center in New Bedford, MA** is also a solid precedent. Two historic buildings totaling 10,000 square feet was developed by the Waterfront Historic Area League (WHALE), a local nonprofit with over 50 years of experience in related endeavors. The buildings were renovated to become a mixed-use coworking, live/work spaces, small makerspace, flexible office space, and a shared gallery.
 - Another precedent is the **Wedding Cake House (managed by the Dirt Palace artist collaborative) in Providence, RI** is another comparable program, albeit the project is early in the development process. This precedent is more targeted in its mission/user group.
 - The Dirt Palace is an existing artist collaborative founded in 2000. It hosts artists in residence (roughly seven at a time) for periods of two-three years. The original space contains live/work studios with shared library, shared kitchen, and a print shop. It is housed in a historic building on the urban fringe of downtown Providence.
 - The Wedding Cake House, in similar scale and architecture to 2 Washington St., is a former residence that now stands as an iconic, endangered historic structure that has seen years of disrepair. The intended redevelopment program is to host more than 20 artists per year. More specifically, the artist residency program will operate as an extension of the existing operation, with a focus on mid-career local artists. The program will connect artists to the public through exhibits, events, initiatives, and gallery showings. The program will also provide short term/hospitality rooms for patrons that want to experience the setting, local art, and be immersed into the energy of the space.
 - The program and construction is currently in the fundraising stage, and relies heavily upon committed volunteers and artists.

EXHIBIT 2.0 | Affiliations

The following contains content on local, regional entities or organizations with similar programmatic elements and/or who may have overlapping interests or tenants. They may be helpful to reach out to as the reuse concept is further fleshed out.

- **North Shore Art Association (Gloucester, MA)** hosts over 600 members. Consulting on potential needs with such a well-established group would help bolster awareness and reach a large platform of artists.
- **Peabody Arts Association** - currently utilizes gallery space at 33 Washington St. potential for combined gallery events, overflow space, etc.
- **The Creativity Lab at the Peabody Institute Library** is an existing community makerspace located in close proximity. The mission is to provide all visitors with the space, tools, and learning opportunities they need to become inspired creators and explorers of art, technology, science, and fabrication. This includes access to public access to technology for “3D printing, sewing, sound recording, laser cutting, woodworking, computer programming, vinyl cutting, jewelry making, graphic design, electronics, and more.” Working with this established program may be beneficial to providing functions that they cannot accommodate in their existing space, or in working with users of that space who are seeking to graduate to a more specific or dedicated facility.
- **Northeast Arc** “helps people with disabilities become full participants in the community; choosing for themselves how to live, learn, work, socialize, and play.” The organization is connected to 700 nonprofits to match individuals to programming for employment training. Some creative economy examples include Northeast Arc’s Leatherworks Museum, Shrine Jewelry Studio, and Breaking Grounds Coffee Shop and Black Box theatre in Peabody, Mass. The potential to accommodate space or program needs could be beneficial.
- In parallel to the arts-based efforts, multiple sources noted the opportunity related to potential demand for music-based event and training spaces. Affiliations with the local school system or more regional vocal or instrumental teachers has been used in other municipalities to enliven spaces, particularly if the spaces offer a central location and areas for small performances. Per the stakeholder discussions and in research of existing music-lessons within the submarket, there may not be a clear and immediate demand for such a use at present time, but such a use and affiliation could prove to be an opportunity in the future. Strong operations within the market, such as Ekletico School of Music on Main Street, may help in defining the need for expansion or missing teeth within the music education landscape.