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1/9/09
BMT*

Bernard F. Lynch
City Manager

TO: Mayor Edward Caulfield
And
Members of the Lowell City Council

FROM: Bernard F. Lynch, City Manager *BFL*

DATE: January 2, 2009

SUBJECT: **MOTION OF 11/25/08 BY COUNCILOR KAZANJIAN
"REQUEST THE CITY MANAGER REPORT ON THE
FINANCIAL STATUS OF TRINITY DEVELOPMENT AND
THE HAMILTON CANAL PROJECT".**

I have been in contact with Adam Baacke, Assistant City Manager / DPD Director regarding the above-mentioned motion. Adam has informed me the current economic situation nationally and regionally has created a number of barriers to conventional real estate development financing. The shortage of available credit has been particularly damaging to many development projects causing delays and cancellation of many planned project. The foreclosure crisis and associated decline in housing prices have caused problems for many other projects. While these factors have complicated the planning for phase I of the Hamilton Canal District, fortunately it does not appear that either will have an adverse impact on the start of this important project. Because the Hamilton Canal District has always been envisioned as a ten-year project, it is impossible to predict or project how current market conditions might impact subsequent phases which will take place under future market circumstances.

Unlike many conventional real estate projects, the first phase of the Hamilton Canal District consists almost exclusively of the restoration and reuse of existing historic structures. This phase includes the Appleton Mills, which will be converted to affordably-priced live/work housing for artists and creative professionals, and the remaining Freudenberg building which will be converted to commercial office space. As a result, tax credits and the associated investor equity will be the primary financing mechanism for this phase. These tax credits are sold to investors and the money raised from the sales is used to repay construction financing and cover other project costs directly, thereby substantially reducing the amount of permanent mortgage debt that is required for the projects and might be difficult to obtain in the current economic climate. Because the first phase will not include any for sale housing, housing price depreciation is not expected to be a major problem either.

Mayor Edward Caulfield & Members of the Lowell City Council

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The primary financing challenge to Phase I of the Hamilton Canal District is the existing condition of the Appleton Mills and the steps that must be taken to preserve its eligibility for historic preservation tax credits. As Members of the Lowell City Council are undoubtedly aware, the remaining Appleton Mills buildings have severely deteriorated as a result of years of neglect by their former owner. Addressing this deterioration along with the added premium costs of dealing with floor plan inefficiencies, historic window issues, atypical floor-to-floor heights, structural challenges during construction, and added HVAC costs result in a cost premium of \$15-18 million relative to a comparable new construction project. New construction is not a viable option on this site because compliance with state and federal historic preservation laws associated with the past and planned public expenditures on this project require that every effort be made to preserve the historic resources on the site.

Trinity has submitted an informal request to the Commonwealth of Massachusetts Executive Office of Housing and Economic Development to assist with this premium using funding associated with the Growth Districts program. If the requested funding can be secured and all parties involved are cautiously optimistic that it will be, Phase I will be in a good position to proceed as planned in late Spring 2009.

If you have any further questions, please do not hesitate to contact me.

Thank you.

cc: Adam Baacke, Assistant City Manager / DPD Director
George Proakis, Director of Planning and Permitting
James Errickson, Urban Renewal Project Manager