
MERCHANTVILLE REDEVELOPMENT COMMITTEE MINUTES

Committee Meeting #4
May 12, 2015 6PM
Merchantville Borough Hall

1. DEVELOPMENT AND REAL ESTATE TRENDS

Nick Cangelosi, a Development Officer from Michaels Development Company, spoke to the committee about real estate trends. His company strictly develops residential properties.

Design trends:

1. *Sustainability* -environmentally friendly materials, efficient mechanical systems, cloud devices to monitor utilities, sustainable materials and ‘green leases’ where tenants agree to composting, proximity to public transportation.
2. *Open Floor Plans*
3. *Reduction of dwelling sizes* (i.e., micro units), with increased demand for common area space for social gatherings, wifi cafes, and work from home areas).
4. *Urban renaissance* - Millenials and Empty Nesters want to live in urban areas, where walkable and transit oriented experiences where they can work, live, and play, within a short distance.

Residential Real Estate Market: There has been almost a 5% increase in home prices. 10.5% year ending January 2014 and 4.5% year ending January 2015. Mortgage rates are currently very low – however, rates are expected to rise quickly. There is a short window for low interest rates now. While home buying is strong, first time home buyers are on the decline. Millenials want to rent, rather than buy, for various reasons, including mobility, student debt, risk aversion, etc. The rental market is very strong.

Developer Financing: It is easier to finance strictly residential, then it is to finance mixed-use structures. Banks are still risk averse – it is still challenging to get financing.

Revelopment Plans and RFPs: He cautioned that developers want flexibility in the redevelopment plan. It’s best to let the developer use his imagination. He often sees towns put out RFPs that are not financially realistic for a developer. He thinks it’s wise to get developer input earlier on in the process. Otherwise, the municipality will put out a RFP that will never be implemented. He cautioned that the more times that you issue the RFP, the less attractive it looks to developers. On the other hand, once developers start to see movement in a particular location (start to see the demolition, construction activity, etc) for a project, it starts to peak interest.

Economics:

It's all about economics. With smaller sites, developers need density because it makes it more feasible to make a profit. He provided several examples of construction costs where the higher density numbers were the only instance where developer could make a profit. There are a lot of costs involved with development, including: acquisition costs, taxes, demolition costs, environmental cleanup costs, Municipal Fees, Soft costs (architects, engineers), construction costs, debt service.

As an apartment building example (we promised not to hold him to these numbers), he used \$130/sf for middle of the road construction costs for 50-units and \$110 sf for 200 units. Some members felt these numbers were too low. Parking costs \$200/sf. Parking structures costs \$25,000-\$30,000 per space for above ground. \$75,000 per space underground.

As a single family detached dwelling example, he used \$50K for acquisition, \$105/sf for middle of the road construction for 2200 sf home, with soft costs of \$75,000. The total costs of project were more than the expected sales price of \$285,000.

If not doing a lot of density, he suggested doing a higher end product. Need to generate \$1800-\$1900 month rent. He thinks you should promote sustainability – 2 miles to the Riverline, 4 miles to Ferry Avenue, close to NJ Transit bus.

Developers want at least a 15% profit. 20-30% is more typical. They may be willing to get a smaller profit up front if they feel it is in an up and coming area and that the asset will increase over time. The typical debt service coverage ratio is 1.15- 1.2 (?).

We discussed other examples in other communities:

He sees Collingswood as the poster child. Lumber Yard in Collingswood is 4-5 stories and about 200 units. His company typically wants to see at least 70-80 units for affordable units.

Voorhees Center – problems getting commercial tenants; county wound up moving in to some of the space. He does not recommend agreeing to any rent baseline levels (you can't guarantee that).

Racetrack - \$2300/month rent. Apts at CH mill on Rt 38 are getting \$1800 month rent. The Garden State Properties Sisters thought that it would be challenging to get that rent in Merchantville, but most of the existing housing stock is older housing.

Other things discussed:

Developers like clear site control. Here, it is good because the Borough owns all but 1 of the properties slated for development. It does still need to work out a shared parking arrangement with Verizon and the Church.

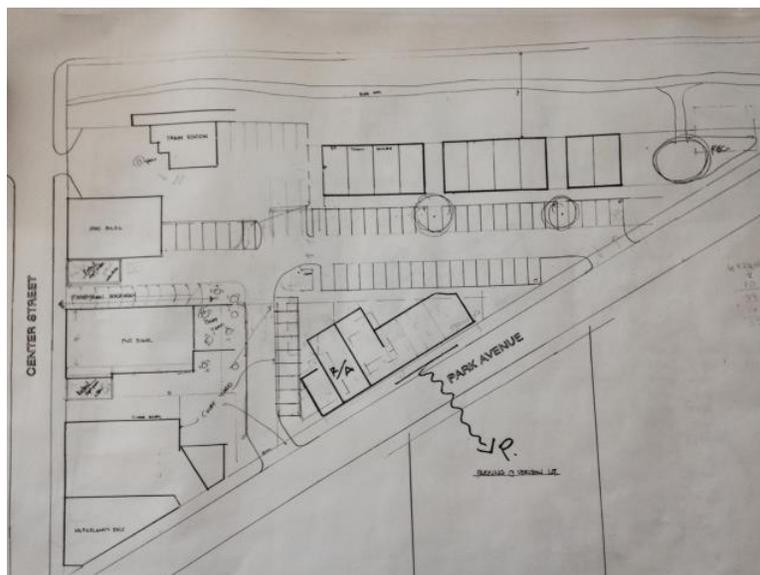
On the one hand, it's such a small project (less than 2 acres) that the Borough may want to do it in-house (i.e., facilitate the project itself) to maintain control over exactly what is proposed and to achieve Borough's goals, etc. There is an equity line of credit available on the PNC Bank property. The Borough could provide construction guarantees (if only want to do something small scale like townhouses and some small mixed-use buildings, for example). Reinvestment Fund micro loans- which are not so bottom-line driven. It would be a small builder you are not going to get a high end developer for such a small site and limited density. On the other hand, he cautioned that the Borough may want to convey the property to developer early on because the cost of development will be so much less. Prevailing wage rates will result in much higher construction costs.

Kathy Laufer and Rita O'Brien from the Garden State Properties Group said that there are not many commercial rental opportunities available in the Borough now. There have been several potential tenants that wanted to move into the downtown, like a pottery painting place, that couldn't find space so located to other towns. So there is a demand for commercial space. Wirth was sold, but it fell through again. There is a 5-year lease for nurse training on the 3rd floor of the medical office building. We discussed opening up the first floor façade for retail space.

Merchantville retail space is currently getting \$1/sq ft per month (\$12/sqft per year) (i.e. \$1,000 per month for a 1,000 sq ft storefront). It is expensive for tenants to get up and running, particularly restaurants in older buildings that need to be retrofitted. For example, 'It's a cupcake' had to put roughly \$10,000 into its space before it opened its doors. They suggested that if PNC bank is slated for a restaurant that there be investment to get the building outfitted for a commercial kitchen. Otherwise, may be too costly for a new tenant to do. We discussed pop shop in Medford going into old bank building.

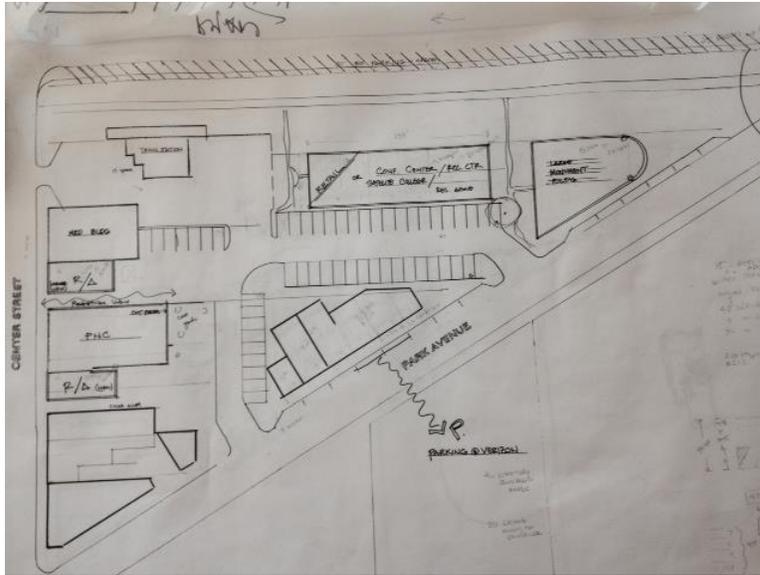
2. CONCEPTS REVIEW

RDG fined-tuned the concepts that were developed last time and presented more formal sketches.



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We also discussed previous proposals for the site that were not successful. We talked about the density and parking structure of the AST development and the public resistance that played into that project not moving forward. We also looked at Fieldstone's plans and discussed the pros and cons of them. We talked about desire for street level activity - - residential uses are not permitted on first floors currently in zoning ordinance and are discouraged in the Master Plan.

PNC Bank Building – Nick sees it being used for commercial purposes and sees a grandfathered drive-thru as a plus (like for a starbucks) because it's hard to get drive-thrus approved in downtowns. He has seen former banks converted to restaurants, but he has never seen them converted to residential buildings.

3. CIRCULATION AND ON-STREET PARKING

Mara met with County Engineer. The County is open to changes in circulation patterns and on-street parking, including a roundabout at the intersection of Park and Chestnut Ave, widening Park Avenue in order to accommodate adequate on-street parallel parking spaces, as well as angled parking on Chestnut Avenue. The cart way on Chestnut Avenue is currently 39 feet. The County r.o.w. is only 40 feet. The cart way on East Park Avenue is 27-28 feet and the County r.o.w. is 50 feet. We discussed the possibility of turning North Chestnut into a one-way street with parallel and angled parking. We also discussed that the one-way should lead people into the town (westbound), rather than out of town. Same for any changes in Park Avenue circulation.

Kathy and Rita discussed the perception that there is not enough short-term parking for customers. Mara discussed the parking study that was conducted several years ago – i.e., that there is a misperception that there is not short-term parking available for customers because of the high visibility of Centre Street, which has the highest occupancy rates. However, even when Centre Street was fully parked, there was always parking available on Park Avenue. Optimal parking occupancy is 85%. It was rare that street segments ever hit that mark. There seems to be a parking management problem. People from out of town are not sure where to park,

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particularly for long-term parking. There are also parking lots that are not being utilized, where shared parking would be appropriate (i.e., Verizon parking lot, and 23 West Park Ave). We also discussed modern day suburban parking expectations.

3. PUBLIC OUTREACH

Flyers have been posted in library, municipal building and website for public workshop. Some have gone up in storefronts. Mara has also been posting updates on Facebook page and minutes are being posted on municipal website. We will also have a table at the Birthday Celebration/Music Fest.

4. PUBLIC WORKSHOP DATE

May 28th at 7:00 pm in Wellwood Park. Committee members are requested to attend.