



Date: September 25, 2019

To: Thomas J. Bonfield, City Manager
Through: W. Bowman Ferguson, Deputy City Manager
From: Jina Propst, Interim Director, General Services Department
Subject: Update of Disposition Process for 505 W. Chapel Hill Street

Executive Summary

The City of Durham, General Services Department, in conjunction with the Office of Economic and Workforce Development, and the Community Development Department, and with advisory services provided by the consultant firm HR&A Advisors, is pursuing a two-part process for the disposition and redevelopment of 505 W. Chapel Hill Street. Phase I featured a Request for Qualifications (RFQ), followed by a Phase II pre-qualified Request for Proposals (RFP). The City invited four teams to respond to the RFP, based on evaluation of the nine RFQ responses received. The City received three RFP responses, which were evaluated by the City staff evaluation committee according to criteria laid out in the RFP. The City then invited two teams to Durham for in-person interviews, held on 8/14/19. After completing interviews, the staff evaluation committee met to discuss and evaluate information presented in the interviews and reached a unanimous decision to recommend The Fallon Company as the preferred development team. The next step in the disposition process is to begin development negotiations with the City's preferred development team.

Recommendation

The General Services Department recommends that City Council receive an update presentation regarding the disposition of 505 W. Chapel Hill Street, a recommendation on a preferred development team, and further recommends that City Council authorize the City Manager to begin negotiations with The Fallon Company in order to reach a development agreement for 505 W. Chapel Hill Street.

Background

The City and its consultant team began planning for the disposition of 505 W. Chapel Hill Street in August 2017. The process began with a series of public engagement activities and a review of existing City plans and policies governing the use of land downtown, to understand community and City priorities for the site. As an outcome of this process, Council gave direction on its priorities to guide site development, and the City and its consultant team developed a competitive, two-phase disposition process designed to achieve these Council priorities.

The RFP articulated five priorities based on direction from Council, listed in order of priority:

- 1. Affordable Housing:** Provision of 80 on-site units affordable at 60% AMI in perpetuity
- 2. Generation of Financial Return to City:** Maximize return to City, given program requirements, including the one-time land offer, the generation of ongoing tax revenue, and the deal structure, delivery schedule, and financing plan that inform the land offer
- 3. Delivery of Mixed-Use Development:** Provide a mix of uses, including a significant component of office space, with a preference for a minimum of 150,000 GSF

4. **Preservation of Existing Building:** Existing building should be preserved and incorporated into the development program
5. **Signature Design and Activated Ground-Floor/Street Frontage:** Development program must exhibit creative, best in practice urban design that emphasizes the site's location as a key gateway into Durham, and promotes an activated street-level experience

The General Services Department has now completed both phases of the two-phase disposition process. Four of the nine teams who submitted qualifications in response to the RFQ were invited to respond to the full RFP. The lead entities of the four teams invited to respond to the RFP are: Akridge, based in Washington, DC; HM Partners, based in Raleigh; The Fallon Company, based in Boston; and Wexford, based in Baltimore.

Three of these four teams submitted responses to the full RFP. Wexford did not submit a proposal, due to an inability to secure a suitable affordable housing development partner.

The staff evaluation committee evaluated the three RFP responses according to the criteria laid out in the RFP, while HR&A Advisors assessed the financial offers and pro formas submitted by each team. The evaluation committee met on 7/23/19 and unanimously decided to invite two teams to interview: Akridge and The Fallon Company. The staff evaluation committee held in-person interviews with the two finalists on 8/14/19. After completing interviews, the staff evaluation committee met to discuss and evaluate information presented in the interviews. Both teams submitted strong proposals and presented development programs that meet the City's priorities and deliver a transformative development.

Following the interview process, the staff evaluation committee offered a period of revision where respondents could make amendments to two elements of their proposals: the residential unit count of both affordable and market rate units, and the financial offer for the site, including the anticipated timing of payment(s) to the City. Respondents were notified on 8/15/19 of this revision period, and were given a deadline of submitting any amendments by 8/19/19. On 8/19/19, The Fallon Company submitted a revised offer, and Akridge submitted a letter stating no changes to their unit count or site offer. Akridge then submitted a second letter on 8/30/19, after the deadline for revisions had expired, with a revised offer.

As an outcome of the evaluation process, inclusive of information gathered during the revision period, the committee came to a unanimous decision to recommend The Fallon Company as the preferred development team.

This recommendation is based on the following:

- **Approach to Affordable Housing:** WinnCompanies, the Fallon Company's residential development partner, is one of the nation's largest and most experienced owners and managers of affordable housing. Winn has a demonstrated long-term commitment to its projects and does its own programming to build a true sense of community. For 505 W. Chapel Hill St, the team is proposing an interesting and creative financial model, whereby they will do a scattered 4% LIHTC deal, treating 80 of the residential units as a condo and using LIHTC equity to finance those units. WinnCompanies, intends to purchase its own tax credits for the deal, which will minimize development risks and support a more seamless transaction. By owning the equity, they are further deepening their commitment to the project's long-term success.
- **Preservation of Existing Building:** While preservation of the existing building was not mandatory per the RFP's evaluation criteria, the evaluation committee appreciated

The Fallon Company's plans and designs for preserving the structure. By bringing the building out to W. Chapel Hill St., the design helps activate the street, while the design decision to open up a portion of the ground floor to allow pedestrians to flow through the site promotes the type of vibrancy and urban streetscape in line with the City's priorities.

- **Urban Design:** The Fallon Company's site design promotes a vision reflective of the City's UDO and helps create a site that is active on all four corners, via pedestrian connections and a large open plaza. The design features podium parking, so there are no large garages visible. The placement of the new office tower creates a new sightline for drivers coming off of 147 and creates an opportunity for logo placement/signage for a new corporate headquarters.
- **Timing of Payments and Approach to Financing:** The Fallon Company proposes providing a payment of \$8,750,000 entirely upon closing, which is a favorable deal structure to the City. The remainder of \$500,000 is due upon commercial tower building permit. Moreover, The Fallon Company spoke directly to their ability to provide internal equity to support early phases of project development, and recounted their previous experience delivering a major mixed-use project in Boston during the Great Recession, which gave the evaluation committee strong confidence in the team's ability to deliver, even if macroeconomic conditions worsen.
- **Team Management:** The committee appreciated the streamlined management structure of The Fallon Company's team, with the lead company's executives responsible for investment and development decisions directly involved in the project.

The table below provides an overview of the financial offers and development programs of each team that was interviewed:

	Akridge	The Fallon Company
Original Financial Offer		
<i>Scenario A One-Time Land Offer</i>	\$10 M	\$6.75 M
<i>Scenario A 10-Year NPV of Total Projected City Tax Receipts</i>	\$11.2 M	\$10.2 M
Revised Financial Offer		
<i>Revised Scenario A One-Time Land Offer</i>	No Change	The Fallon Company submitted a revised offer based on the delivery of additional new office space, with a revised land offer of \$9.25M for 350,000 GSF commercial space.
<i>Revised Scenario A Offer, Submitted After Deadline</i>	\$11.25 M	N/A
<i>Revised 10-Year NPV of Total Projected City Tax Receipts</i>	\$11.1 M	\$11.9 M

	Akridge	The Fallon Company
Development Program		
Residential – Total Units	416	300
Number of units affordable at 60% AMI	80	80
Revisions to Affordable Housing Program	No Change	The Fallon Company expressed a desire to offer units at a variety of affordability levels, to include units affordable at 30% and 50% AMI to serve as designated relocation units for DHA, as well as supporting the best practice of creating a mixed income ecosystem to foster economic mobility.
Revisions to Affordable Housing Program, Submitted After Deadline	Akridge revised its affordable housing program to include 10 units affordable at 80% AMI, bringing the total number of income-restricted units to 90.	N/A
Commercial Office Space	185,000 GSF new office tower	350,000 GSF total, spread across 276,500 GSF new office tower and 73,500 GSF of renovated office in existing building. Gross square footages for the new office tower and the renovated existing building include both office and retail space. (Total retail space in both commercial buildings is approximately 10,500 GSF.)
Treatment of Parking	Structured garage	Parking podium

Impacts of Revised Scenario A Offers on Projected Tax Receipts:

- The increase in affordable units in Akridge’s revised program (80 units to 90 units) and associated decrease in market rate units (336 units to 326 units) leads to a decrease in real property tax revenue associated with the development program.
- The increase in Fallon’s revised development program, with the new commercial tower increasing from 180,000 GSF to 266,000 GSF of office space, leads to an increase in projected real property tax and personal property tax revenue associated with the development program.

Trade-Offs Between Scenario A and Scenario B Offers

The RFP was structured to help Council assess the inherent trade-offs between providing affordable units onsite versus maximizing proceeds from site disposition and using those funds to construct affordable units elsewhere in Durham. Based on assumptions from the City’s Community Development Department regarding the per unit cost to the City to provide a unit of affordable housing, the table below provides an illustrative overview of how many hypothetical affordable units could be constructed by the City using the revenue forgone by accepting the lower land offer in Scenario A, which includes the onsite affordable units, versus the higher land offer in Scenario B, which includes no onsite units.

The unit counts presented below are based on the assumption that the per unit cost to construct an affordable unit in a Downtown location is \$160,000, and \$120,000 for a more peripheral, non-Downtown location. Neither of these per unit costs include the cost of land.

	Revised Scenario A Land Offer	Revised Scenario B Land Offer	Delta Between A and B	Units in a Downtown Location	Units in Other Locations
The Fallon Company	\$9,250,000	\$15,100,000	\$5,850,000	37	49
Akridge	\$11,250,000	\$21,000,000	\$9,750,000	61	81

While The Fallon Company is the staff evaluation committee’s preferred team, the evaluation committee recognizes that negotiations can hit roadblocks for a variety of reasons and the City may fail to reach an agreement. In this case, staff recommends the City reserve the right to enter into negotiations with Akridge, should the City fail to come to terms with The Fallon Company.

The anticipated milestones and dates for the negotiations and disposition process are as follows:

Milestones/Dates

- Agenda Item with City Council Recommendation – September 19, 2019
- City Council authorizes City Manager to enter into negotiations with preferred development team – TBD
- City staff negotiate with preferred development team – Negotiations period anticipated to last approximately six months
- City staff present City Council with development agreement for approval – TBD, likely Spring 2020

Financial Impact

This memo outlines a varying array of financial offers which will be determined during the negotiation process.

UBE Summary

Not Applicable

Attachments

- Attachment A – Rationale for Preferred Development Team
- Attachment B – The Fallon Company Additional Requested Detail
- Attachment C – Akridge Response to City Council at Work Session
- Attachment D – Akridge Packet Provided to City Council at Work Session