



Redevelopment of 505 W. Chapel Hill Street

City Council Work Session

September 19, 2019



Agenda



SUMMARY OF PROCESS TO DATE

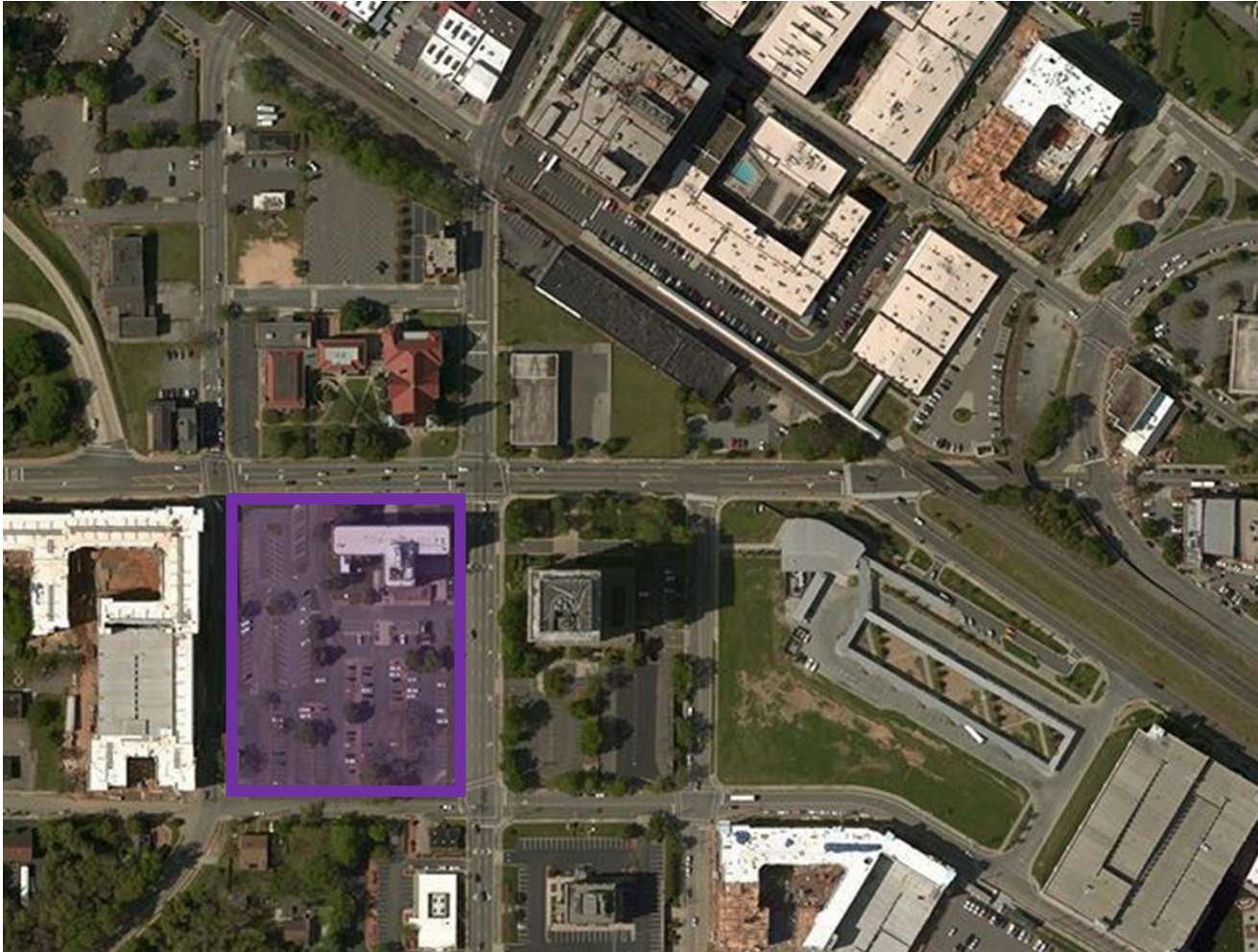


RECOMMENDED DEVELOPMENT TEAM

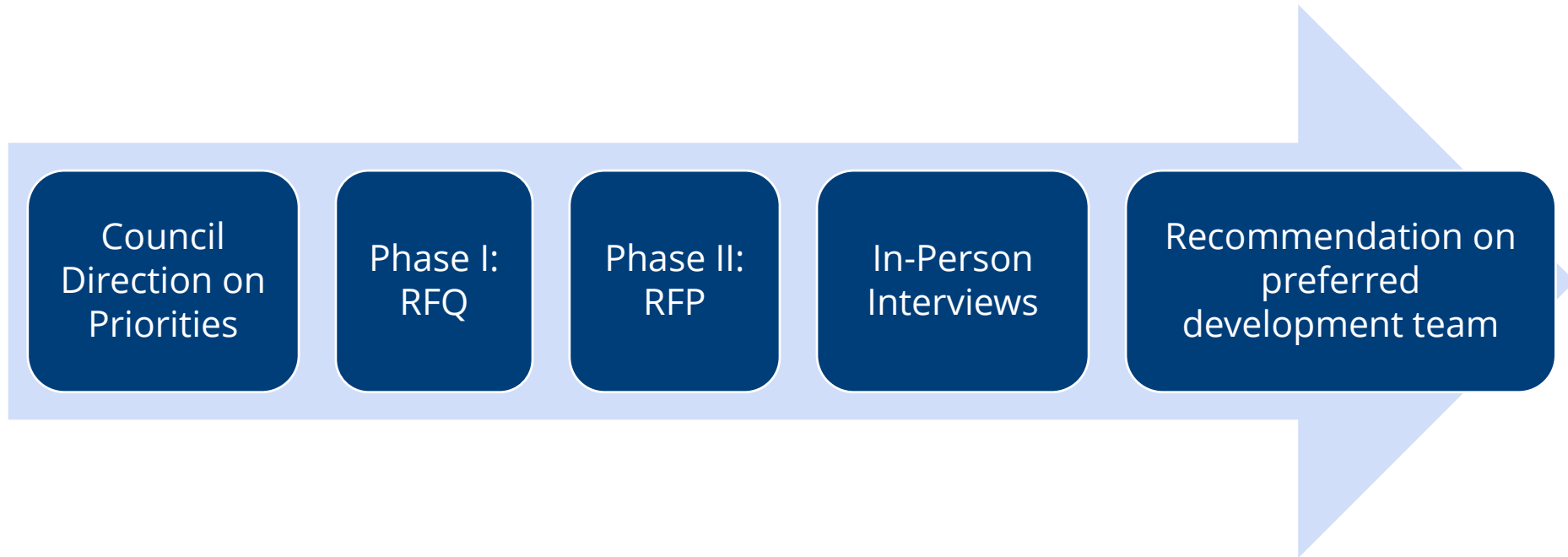


PROJECT NEXT STEPS

The City of Durham is pursuing a competitive disposition process to select a development entity to redevelop the former DPD HQ site.



The City and its consultant team have completed a competitive two-phase disposition process, including in-person interviews.



City Staff Involved In Disposition Process

The City's staff evaluation committee, which has been involved throughout the entirety of the disposition process, is composed of leaders from the following departments:

- **Community Development**
- **Economic & Workforce Development**
- **Finance**
- **General Services**
- **Planning**
- **Transportation**

The RFP asked development teams to respond to five defined City objectives for the site:



1. Provide 80 units of onsite housing affordable to residents at 60% AMI in perpetuity



2. Generate significant revenue to the City from the sale of land and future local tax revenues from onsite development



3. Deliver a mixed-use project, including a significant component of office space, with a preference for a minimum of 150,000 gross square footage



4. Preserve the existing Police Headquarters Building as part of the development program



5. Deliver signature design and an activated street-level experience, to support Downtown's identity and vibrancy

Respondents could submit up to two scenarios, structured to assess the trade-offs between onsite affordability and revenue generation.

Program Component	Scenario A – Mandatory	Scenario B – Optional
<i>Affordable Housing</i>	Minimum of 80 onsite units affordable at 60% AMI in perpetuity	No minimum number of affordable units to be included onsite
<i>Generation of Financial Return</i>	Maximize return to City, given program requirements	
<i>Delivery of Mixed-Use Development</i>	Mixed-use must include a significant component of office space, with a preference for a minimum of 150,000 GSF	
<i>Preservation of Existing Building</i>	Existing building should be preserved and incorporated into the development program	
<i>Signature Design and Activated Street-Level Experience</i>	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	

RFP responses were evaluated based on alignment with articulated City priorities for site development.

Program Component	Scenario A – Mandatory	Scenario B – Optional
	Total Points	Total Points
Provision of Affordable Housing Units	35	10*
Generation of Financial Return to City – Offered land price, including delivery schedule, deal structure & pro forma	20	45
Generation of Financial Return to City – Tax revenues	10	10
Delivery of Mixed-Use Development, including significant office component	20	20
Preservation of Existing Building	5	5
Signature Design and Activated Street-Level Experience	10	10
Total Points Possible	100	100

*Respondents may choose to include a component of affordable units in Scenario B, which could be provided either onsite or at another site within the vicinity of Downtown Durham.

The City evaluated complete responses according to evaluation criteria outlined in the RFP.

The staff evaluation committee received responses from 3 teams:

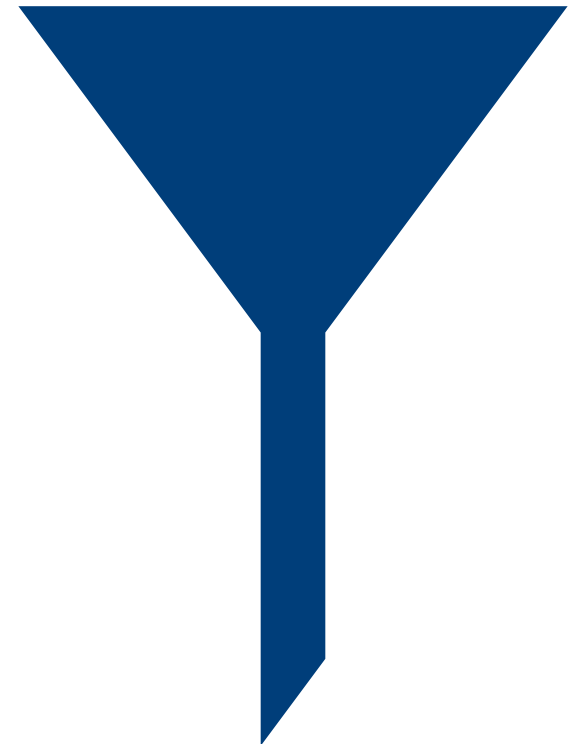
- **Akridge**
- **HM Partners**
- **The Fallon Company**

After meeting on 7/23/19 to review responses, the committee decided to invite two teams to interview:

- **Akridge**
- **The Fallon Company**

Interviews were held on 8/14/19 in Durham.

3 Complete RFP Responses



2 Teams Invited For Interviews

Following the interview process, City staff gave teams a defined window of time to amend two elements of their responses.

**Residential unit
count (Market
and Affordable)**

**Financial offer for
site, including
timing of
payment(s)**

- After interviews on 8/14/19, respondents were notified on 8/15/19 of this revision period, and were given a deadline of submitting any amendments by 8/19/19.
- The City received revised proposals from both firms.*

**Akridge submitted amendments to their proposal after the deadline had expired.*

As an outcome of this process, the evaluation committee reached a unanimous decision to recommend the Fallon Company.

The staff evaluation committee's recommendation is to move forward with the Fallon Company as its preferred development entity, and Akridge as its second preferred development entity.

Reasoning for Recommending the Fallon Company



Approach to Affordable Housing

- WinnCompanies, Fallon's residential development partner, is one of the nation's largest and most experienced owners and managers of affordable housing
- The team's creative approach to financing affordable units as a scattered 4% LIHTC deal is unique, and Winn's plans to purchase the tax credits promotes a seamless transaction, minimizes development risks, and demonstrates a deep commitment to long-term success

As an outcome of this process, the evaluation committee reached a unanimous decision to recommend the Fallon Company.

Reasoning for Recommending the Fallon Company



Preservation of Existing Building

- Fallon's design preserves the structure and brings it out to W. Chapel Hill Street, creating an activate street-level experience for pedestrians
- The design opens up a portion of the building's ground floor, allowing pedestrians to flow through into an unrestricted central plaza



Modern Urban Design

- Site design embodies a positive execution of City's UDO and activates site on all four corners, with pedestrian connections and large open plaza
- Wrapped podium parking so no large garages are visible at the street level

As an outcome of this process, the evaluation committee reached a unanimous decision to recommend the Fallon Company.

Reasoning for Recommending the Fallon Company



Timing of Payments and Approach to Financing

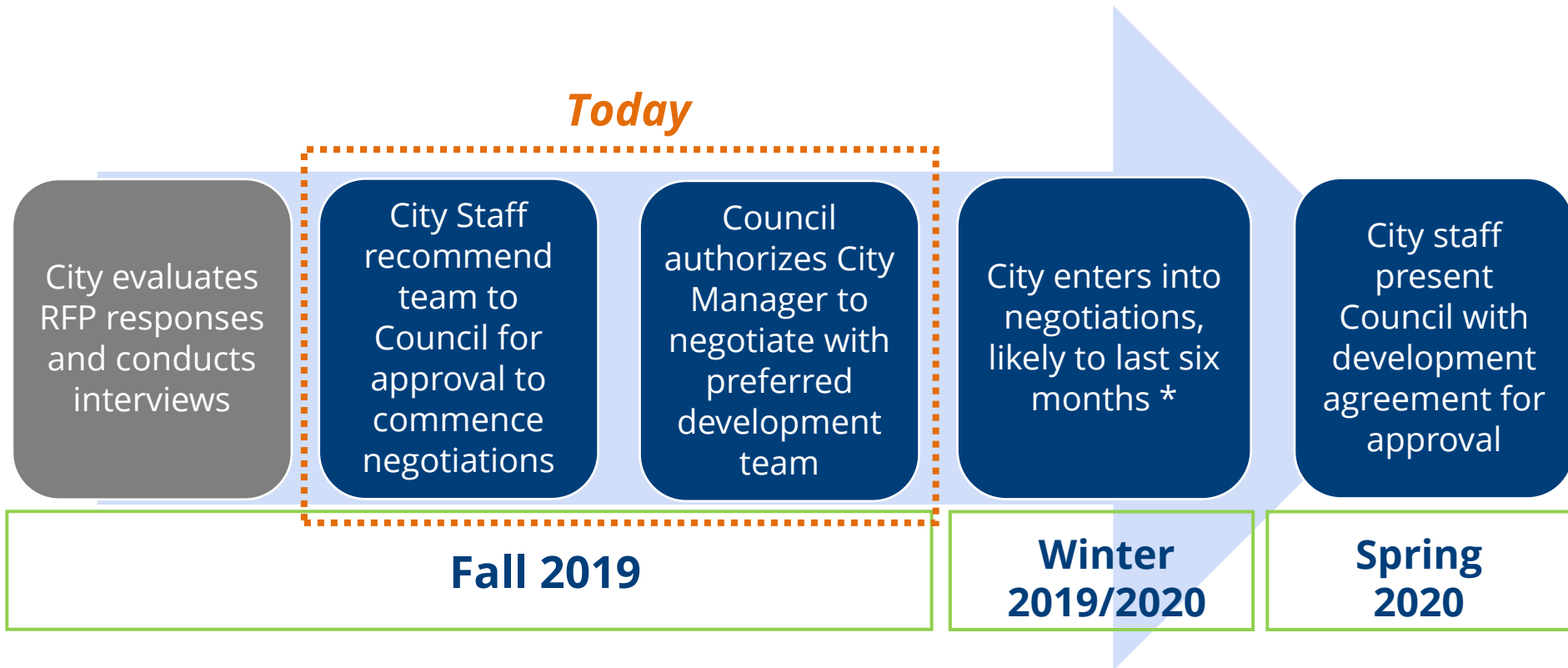
- Favorable deal structure to City – land payment payed nearly in full (94%) upon closing
- Deal structure minimizes risk to City
- Fallon spoke to plans to provide internal equity to support early phases



Team Management

- Streamlined management structure of the team, with Fallon's lead executives involved directly in the project, will ensure ease of communication with City staff and help streamline the negotiations process

Authorizing the City Manager to commence negotiations as soon as possible will help maintain critical project momentum.



**At any point in the negotiations process, the City may choose to terminate negotiations with its preferred development team and commence negotiations with its second preferred development team.*

APPENDIX

Overview of Financial Offers

	Akridge	The Fallon Company
Scenario A One-Time Land Offer	\$10 M	\$6.75 M
Scenario A 10-Year NPV of Total Projected City Tax Receipts	\$11.2 M	\$10.2 M
Scenario A Revised Offer	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, reflective of a total commercial development program of at least 350,000 SF.
Scenario A Revised Offer, Submitted After Deadline	\$11.25 M	N/A
Scenario B One-Time Land Offer	\$19.25 M	\$13.35 M
Scenario B Revised Offer	No Change	Assuming a total commercial development program of 350,000 SF, the revised land offer is a purchase price of \$15.1 M.
Scenario B Revised Offer, Submitted After Deadline	\$21 M	N/A

Overview of Development Programs

	Akridge	The Fallon Company
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 SF new office tower	300,000 total, 226,500 SF new office tower, 73,500 SF of renovated office in existing building
Treatment of Parking	Structured garage	Parking podium

The A and B land offers allow the City to assess the cost of onsite units vs. maximizing proceeds and using funds to provide units elsewhere.

Assumed Per Unit Cost to City to Provide 1 Unit of Affordable Housing*



\$160,000

In a Downtown Location,
Comparable to 505 W. Chapel Hill



\$120,000

In a Peripheral, non-Downtown
Location

	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

**Costs are based on assumptions from Community Development Department, and do not include the cost of land.*



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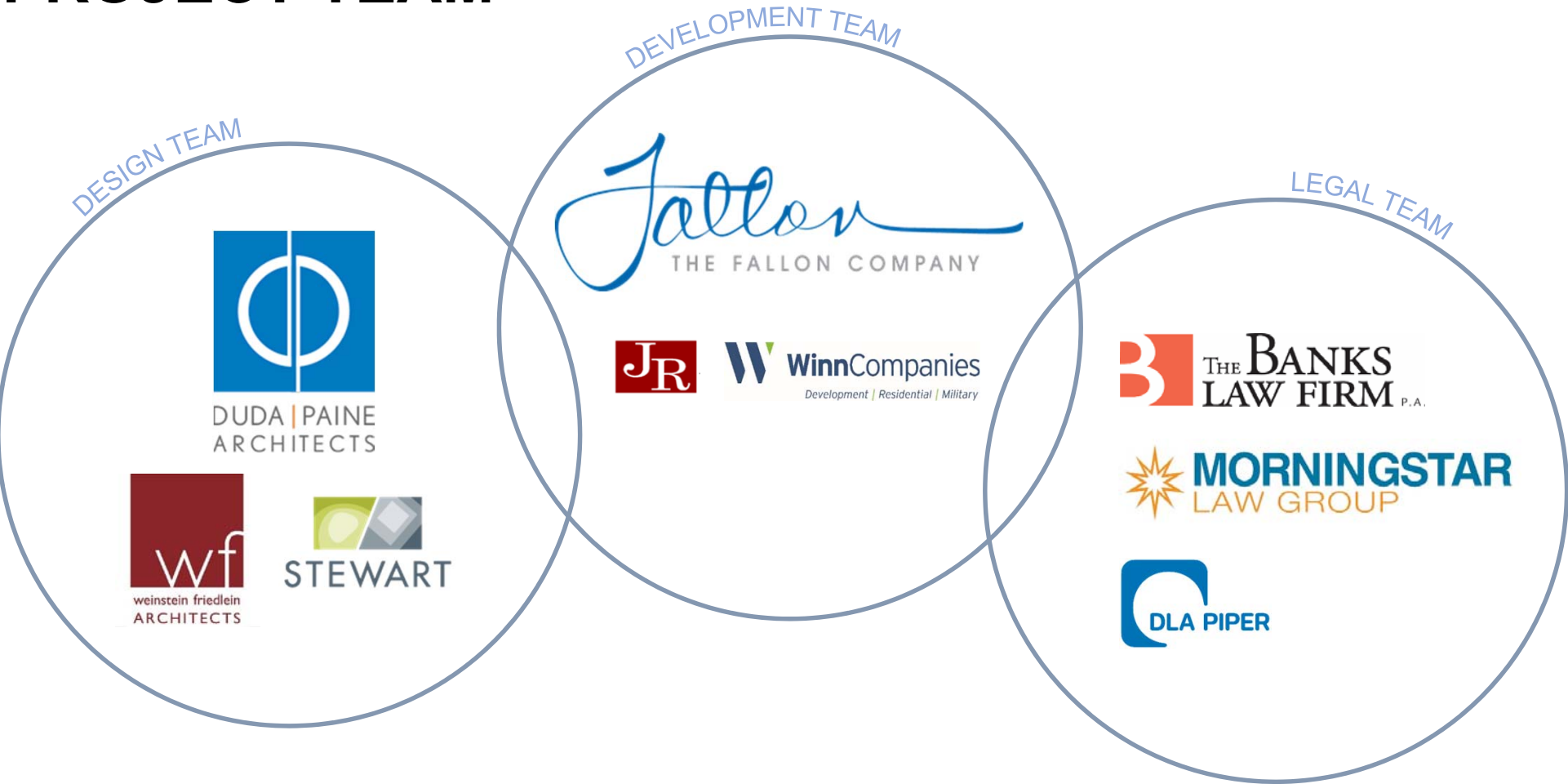


505 W. Chapel Hill Street Redevelopment

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PROJECT TEAM

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THE FALLON COMPANY

MASTER DEVELOPER

FIRM OVERVIEW

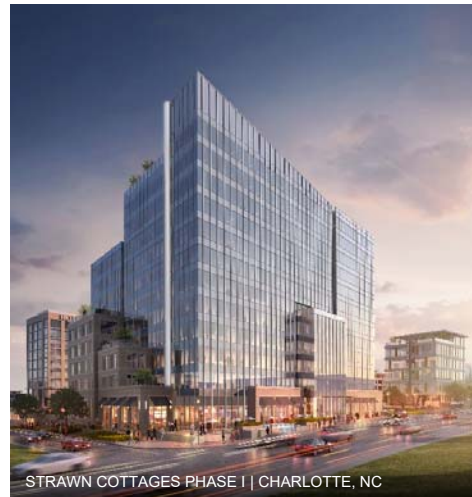
- Founded: 1993
- Locations: Boston, Raleigh, Charlotte
- Core Focus: Urban, mixed-use projects

STRENGTHS

- Vision & Placemaking
- Commitment to Quality
- Financial Strength
- Product Diversity
- Our People

EXPERIENCE

- Developed over \$5 billion in real estate
- Mixed-use, commercial, hospitality, residential



WINN COMPANIES

RESIDENTIAL
DEVELOPMENT PARTNER

FIRM OVERVIEW

- Founded: 1971
- Locations: 22 states and D.C.
- Core Focus: Affordable, mixed-income, senior housing, market-rate, military, and mixed-use

HIGHLIGHTS

- Largest manager of affordable housing in the US & 2nd largest manager of military housing
- 6th largest multifamily housing manager
- 3,000 employees, 318 veterans
- Diversity: More than half of Winn's team members are minorities
- Provides homes to 300,000 residents
- Operate housing in North Carolina for 15+ years



PROJECT VISION









COMMUNITY IMPACTS

- Affordable Housing fully integrated into a *true mixed-income community*
- Activated public realm
- Retail opportunities for local businesses
- M/WBE participation
- 1,500+ permanent jobs
- \$800,000+ annual tax revenue
- New Gateway to Durham
- Anchor tenant opportunity
- New community hub



QUESTIONS?

Fallon
THE FALLON COMPANY



APPENDIX

505 W. CHAPEL HILL STREET PROJECT VISION

GUIDING PRINCIPLES

- **Create a Thriving Mixed-Income, Mixed-Use Ecosystem**
 - Integrated affordable housing
 - Synergistic uses
 - Walkable, inviting street level
 - Promote diversity and community
- **Optimize Benefits to Durham**
 - Community
 - Economic
- **Enhance W. Chapel Hill Streetscape**
 - Honor the building's history
 - Preserve and enhance existing structure
- **Promote Community through the Public Realm**
 - Ample greenspace
 - Flexible, programmed community space
 - Pedestrian connectivity
- **Emphasize Gateway Location**
 - Iconic entry into downtown
 - Signature office building



PHASE I RESIDENTIAL

CONCEPT

- Maximize benefit of affordable housing to City of Durham through:
 - on-site affordable housing and/or
 - purchase price to fund off-site affordable housing
- Integrate affordable units seamlessly into residential community
- Tie residential to other uses in the development; create synergies
- Local hiring with attention to maximize M/WBE
- Winn's *Connected Communities* to ensure resident services and community environment

FINANCING PLAN

- Leverage state and federal resources (e.g. HUD, State Agency)
- Winn's unique experience financing *mixed-income* developments including unique purchase of Tax Credits and condo/master lease structure
- Winn will be in Durham for the long term with feasible and sound financing structure
- In 48-year history, Winn has never missed a mortgage payment, property tax bill or had a foreclosure



PHASE I EXISTING STRUCTURE

CONCEPT

- Pay homage to history of building design
- Activate ground floor with retail and landscape
- Public art opportunity on façade
- Enhance existing structure through distinct creative office space
- Accentuate façade and activate W. Chapel Hill St. corridor

FINANCING PLAN

- The Fallon Company (TFC) to serve as general partner and invest internal capital
- TFC will form joint venture partnership with third-party limited partner
- If necessary, TFC able to fund renovation through construction loan and internal equity



PHASE II NEW OFFICE

CONCEPT

- Celebrate gateway location entering downtown from S. Duke St.
- Headquarter tenant location targeting knowledge-economy office users
- Highlight strengths of mixed-use community and placemaking elements
- Maximize views and foster amenity-level and/or rooftop activation
- Create distinct nodes of activity at the ground level

FINANCING PLAN

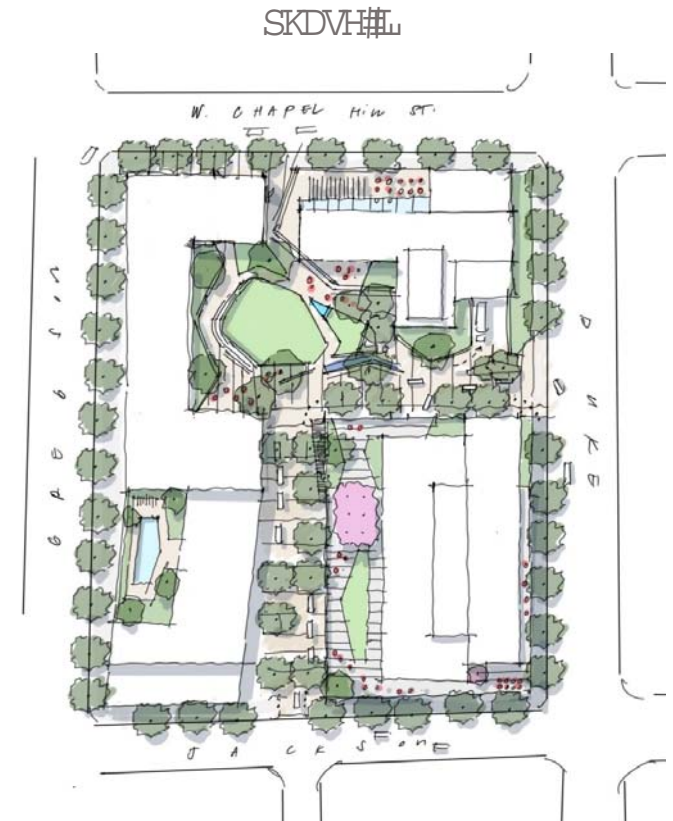
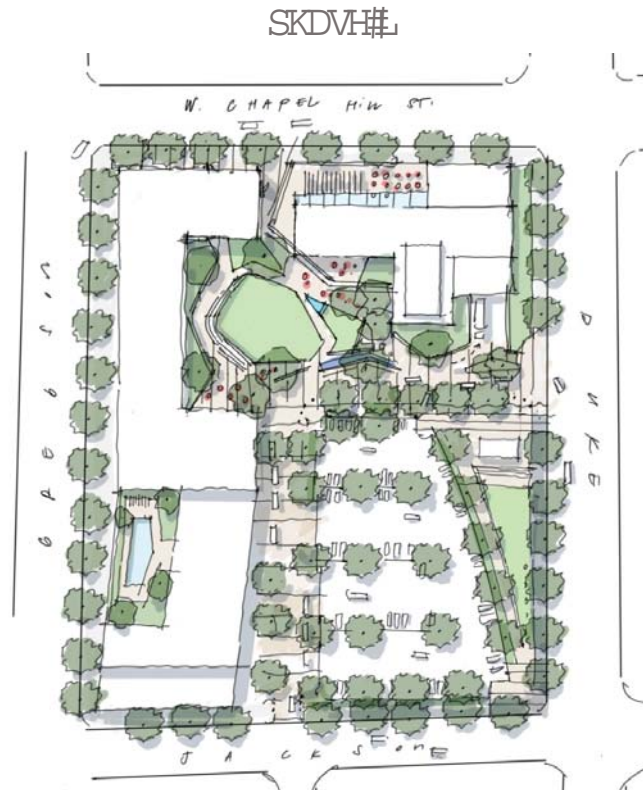
- TFC to serve as general partner and invest internal capital
- TFC will form joint venture partnership with third-party limited partner
- Phase II carries disproportionate burden of parking cost to support Phase I



PUBLIC REALM & PHASING

APPROACH

- Activate interior of site, breaking up super block
- Create a central plaza for the community and tenants to thrive
- Encourage pedestrian traffic both around and through the site
- Provide flexibility of space for events and dynamic programming
- Enhance the Phase II surface lot both through landscaping improvements and community events (e.g., farmer's markets, food trucks, etc.)



DOWNTOWN CONNECTIVITY

