



# EVALUATING PROJECT FEASIBILITY

PRESENTED BY:  
ROB HUNDEN



INTERNATIONAL  
ECONOMIC DEVELOPMENT  
COUNCIL

# AGENDA

- + HSP OVERVIEW
- + MARKET & SITE ANALYSIS
- + FINANCIAL FEASIBILITY
- + LOCAL FINANCING & TOOLS FOR DEVELOPMENT
- + DEVELOPER SOLICITATION
- + QUESTIONS & ANSWERS

# HSP OVERVIEW



**hunden**  
**strategic partners**

President & Principal in Charge



Rob Hunden

## Public and Private Sector Employment Experience

City of Indianapolis Bond Bank/Mayor's Office

Horwath Landauer/Grubb & Ellis

C.H. Johnson Consulting

Hunden Strategic Partners

## 20+ Years of Industry Experience Nationwide

550+ Projects and Studies

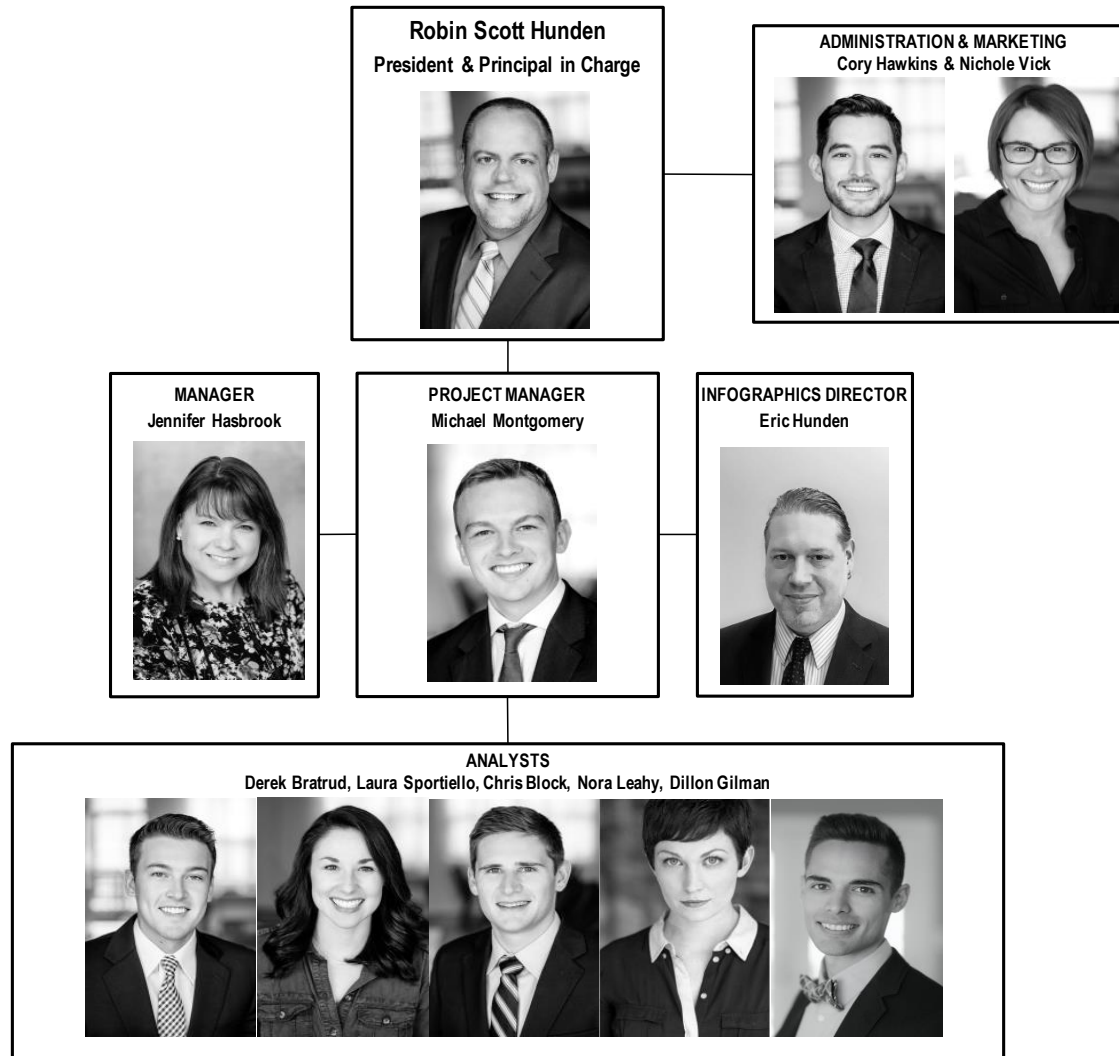
Repeatedly Recommended by Clients

Speaker and Author

Move projects from Concept to Reality

Actively Involved Leading Your Study

## Hunden Strategic Partners



# Team Overview



# HUNDEN

# STRATEGIC

# PARTNERS

## Specialties



Market Feasibility

Competitive Positioning

Programming – Physical & Site

Financial Projections

Gap Analysis/Funding Alternatives

Management Selection & Negotiation

Economic Impact Analysis

Community Engagement Plans

Partnership Options

## Experience



Parks, Recreation & Open Spaces

Mixed-Use Developments

Retail, Office and Restaurant

Hotels and Hospitality Services

Entertainment/Specialty Market

Youth & Multipurpose Sports Complexes

Arenas & Stadiums

Performing Arts Venues

Convention, Conference & Expo Centers



# PROFESSIONAL EXPERIENCE



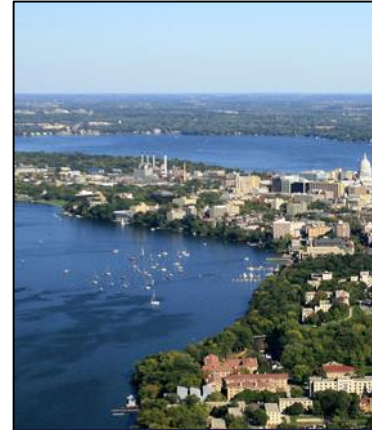
# HSP Repeat Clients



**Chicago**



**Minneapolis**



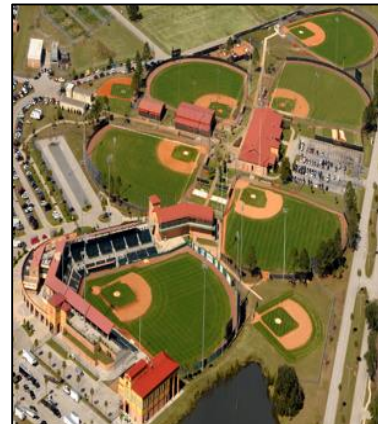
**Madison**



**Fort Worth**



**Indianapolis**



**Florida**



**Kentucky**



**Evansville**

# 8-STAGE MODEL OF REAL ESTATE DEVELOPMENT

1. Predevelopment
2. Market, Financial & Political Feasibility
3. Site & Engineering Analysis
4. Financing
5. Contractor Negotiations & Public Approvals
6. Construction
7. Marketing
8. Building Occupancy & Management



## Market Analysis

- ❖ define market area
- ❖ evaluate competitive supply
- ❖ evaluate existing demand
- ❖ project future market area demand
- ❖ compare subject proposal to competition/comparables
- ❖ project market demand for subject proposal
- ❖ determine ways to make subject more competitive

## Land Use Types

- ❖ housing
- ❖ retail
- ❖ office
- ❖ industrial
- ❖ hotel
- ❖ mixed use
- ❖ specialty (convention/conference/performing arts/sports facility)

## Housing Market Analysis

- ❖ demand: employment, schools, commute-time
- ❖ trends: purchase prices, rents, amenities, crime, grocery stores, building permits
- ❖ available land / infrastructure
- ❖ access, travel patterns, parking
- ❖ competitive and complementary developments
- ❖ buyer / renter profiles
  - census data
  - attitudinal surveys

## CityWay Mixed-Use Development

Indianapolis, Indiana – 2010



## Retail Market Considerations

- ❖ demand: households, employment, tourism
- ❖ trends: population, households, income, retail sales, development patterns
- ❖ visibility, access, travel patterns, traffic counts
- ❖ competitive & complementary stores
- ❖ anchor tenants & tenant mix
- ❖ national trends
  - big boxes
  - lifestyle centers
  - mixed-use new-urban developments



## Kansas City Power & Light District

- Kansas City, Missouri – 2006/2007



## Office Market Considerations

- ❖ demand: employment projections
  - “Office” is not an economic or NAICS sector
  - Excellent job projections, but not by office sector
- ❖ shifts from class C to class B to class A space
- ❖ anchor tenants
- ❖ space for larger tenants
- ❖ competitive space
- ❖ national trends
- ❖ telecommuting/work from home
- ❖ green buildings

## Margaret T. Hance Park

Phoenix, Arizona – 2016 - 2017



## Industrial Market Considerations

- ❖ proximity to suppliers & buyers
- ❖ labor market conditions
- ❖ competitive sites
- ❖ lease or purchase options
- ❖ access and ingress & egress
- ❖ national trends
  - warehouse/distribution space
  - emphasis on distribution
  - electronic inventory management

## Hotel Market Considerations

- ❖ proximity to demand generators
- ❖ location, location, location
- ❖ access, visibility
- ❖ competitive supply
- ❖ demand trends
- ❖ economic/demographic trends
- ❖ demand components
  - transient
  - group
- ❖ trends
  - extended stay
  - green
  - lifestyle brands

## Autograph Hotel

Fort Worth, Texas – 2017



## Fort Worth Hotel, Convention Center & Arena Studies

Fort Worth, Texas - 2001 – 2004, 2013 - 2015



## Mixed-Use Market Analysis

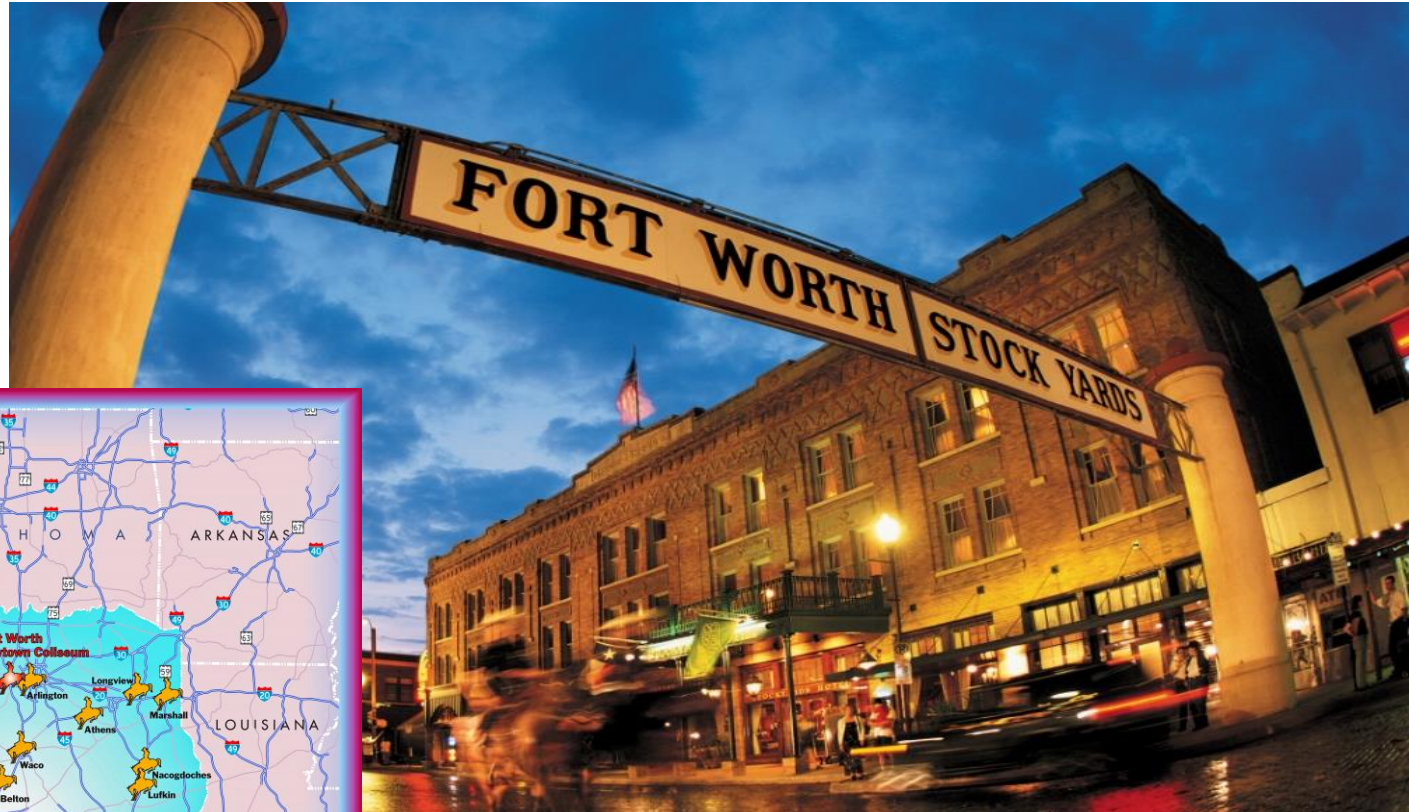
- ❖ usually office, retail, and housing together
- ❖ demand
  - desires for “urban” conveniences
  - environmental considerations/gas prices
  - not necessarily the sum of individual parts
- ❖ trend
  - new construction – urban/suburban commercial areas
  - rehabilitation – downtowns and urban streets
- ❖ forces
  - infrastructure costs
  - anti-sprawl
  - sense of place



# Experience

## Fort Worth Stockyards Historic Mixed-Use District

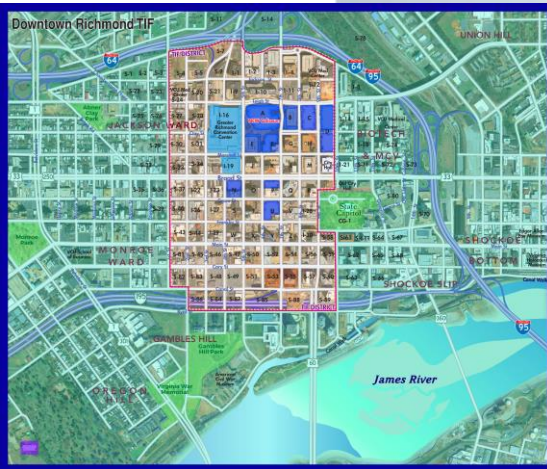
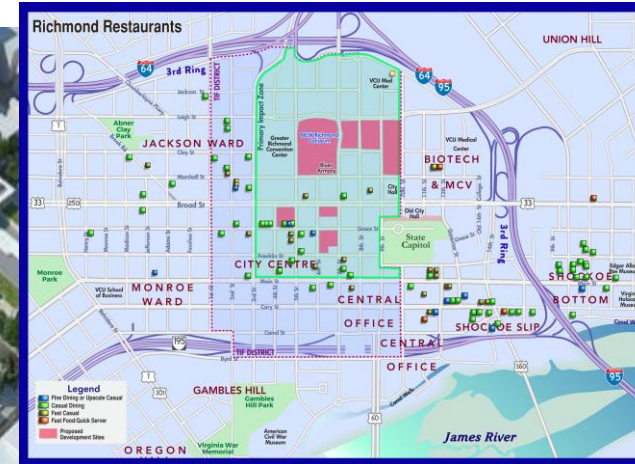
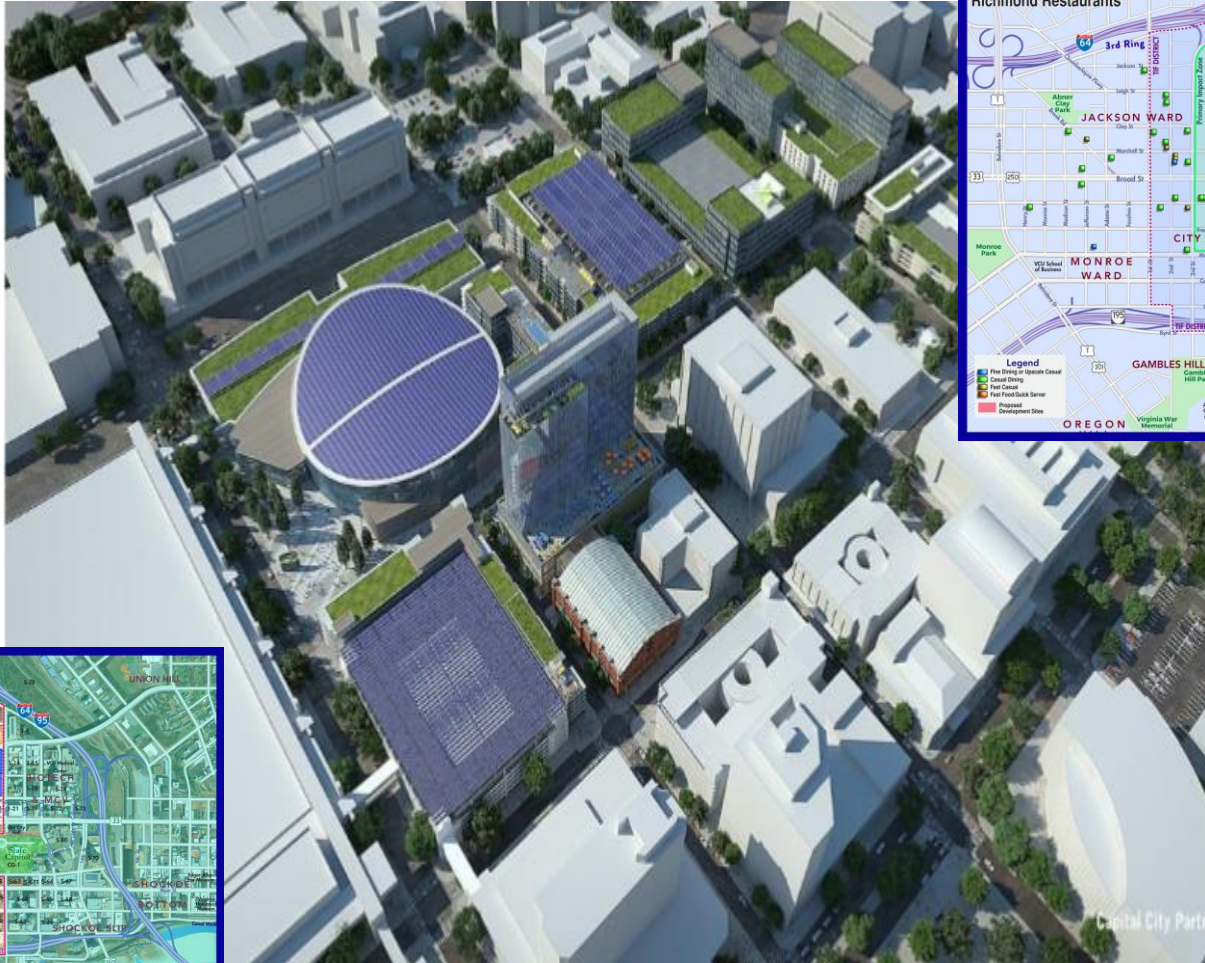
Fort Worth, Texas – 2016



# Experience

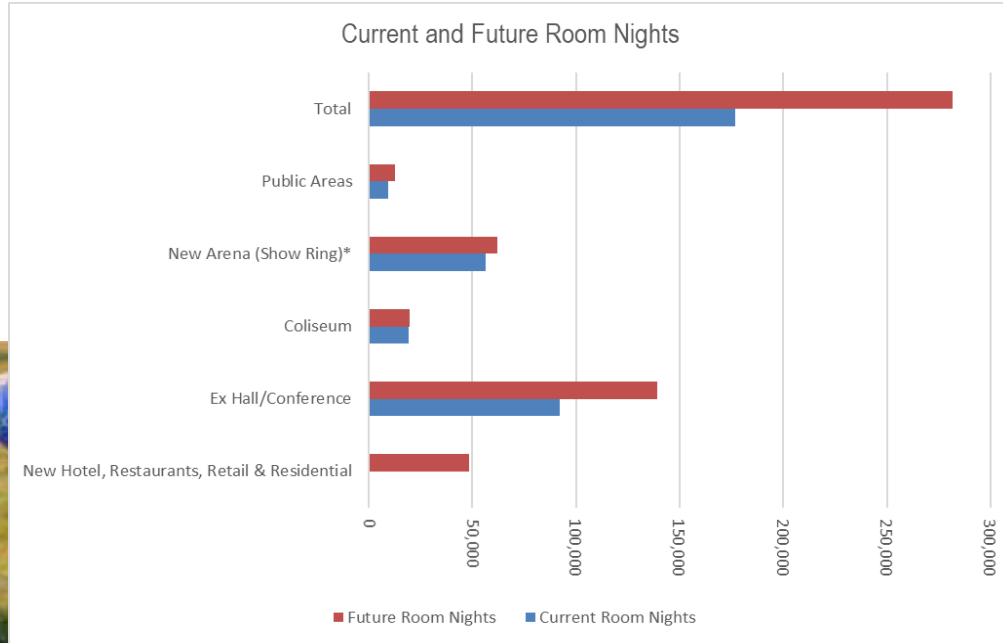
## North of Broad/ Downtown Redevelopment Master Plan

Richmond, Virginia – 2018 - Present



## Alliant Energy Center Campus Master Plan

Madison, Wisconsin – 2016 – 2017; Present



## Downtown Mixed-Use District

Jackson, Mississippi – 2018 - Present



Project Overview - Target Program		
Element	SF	%
<b>Area</b>		
City of Jackson (5.68 acres)	247,421	73.26%
Jackson Redevelopment Authority (1.70 acres)	74,205	21.97%
Private Sector (0.37 acres)	16,117	4.77%
<b>Total</b>	<b>337,743</b>	<b>100.00%</b>
<b>Total Project Buildout</b>		
Total Building Coverage	175,858	52.07%
Total Open Space Coverage	161,885	47.93%
<b>Gross Floor Area (GFA)</b>	<b>337,743</b>	<b>100.00%</b>
Floor Area Ratio (FAR)		
<b>Program</b>		
Commerical	89,844	5.76%
Residential (583 units)	528,572	33.88%
Entertainment - Event	176,475	11.31%
Office	53,388	3.42%
Hotel (335 rooms)	167,680	10.75%
Parking	544,016	34.87%
<b>Total</b>	<b>1,559,975</b>	<b>100.00%</b>
<b>Open Space*</b>		
Outdoor Event Lawn	21,750	7.39%
Sidewalk, Furnishing Spaces	220,904	75.01%
Landscaped Areas	43,959	14.93%
Retention Pond	7,870	2.67%
Raingardens	--	--
<b>Total</b>	<b>294,483</b>	<b>100.00%</b>

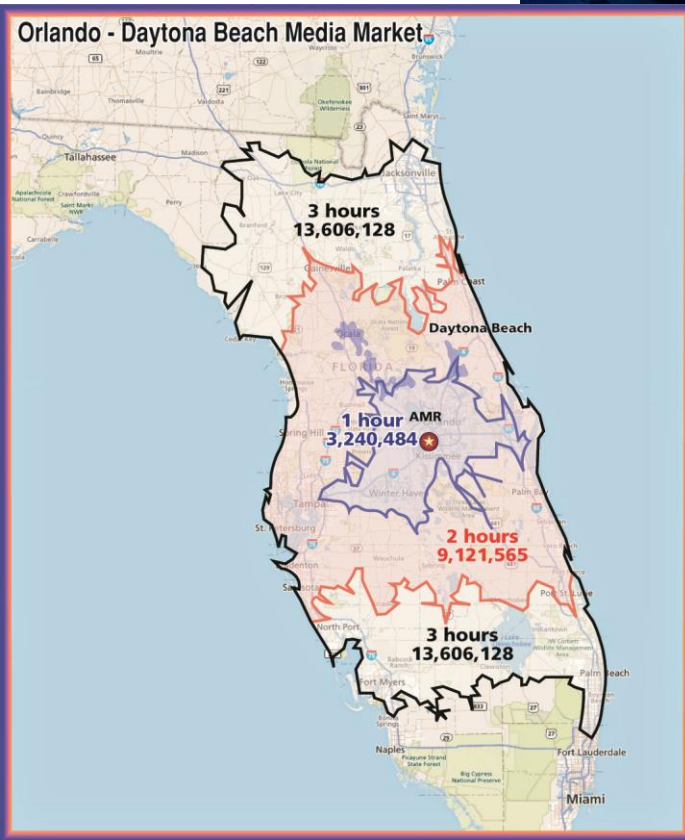
\*These figures include infrastructure outside of the property boundaries

Source: City of Jackson

# Experience

## Orlando-Area Entertainment Arena & Mixed-Use District

Osceola County, Florida – 2016 - 2017



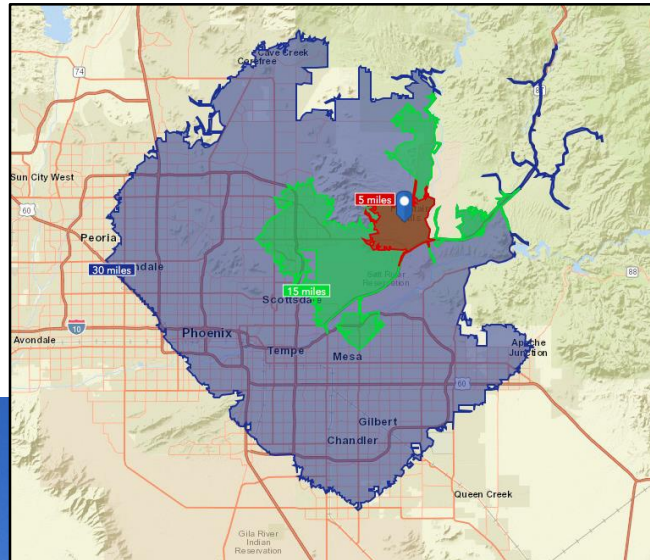
## Specialty Uses

- ❖ overall market size/capacity
- ❖ location, access, visibility
- ❖ competitive supply (regionally/nationally)
- ❖ demand
- ❖ demographics (effective buying income)
- ❖ building and usage trends
- ❖ public appetite for financial support
- ❖ what economic activity is being leaked to other markets by not having convention center/arena/ fairgrounds/entertainment district

# Experience

## Crystal Lagoon & Mixed-Use Development

Fountain Hills, Arizona – 2017



## Market Analysis – Data Sources

- ❖ census, american community survey
- ❖ BLS (employment); BEA (income)
- ❖ ESRI, claritas (demographics, retail, business)
- ❖ local building permits
- ❖ national and local real estate brokers
- ❖ departments of economic development and/or labor



## Site & Engineering Analysis

- ❖ visibility, access, surrounding property characteristics
- ❖ natural conditions & contamination
- ❖ size, shape, topography, soils, wetlands
- ❖ on-site infrastructure
- ❖ off-site infrastructure
- ❖ conceptual design & detailed site plans
- ❖ analysis done in context of regulatory constraints

## Infrastructure

- ❖ on-site
  - parking, internal circulation
  - curbs, curb cuts, sidewalks
  - storm water drainage & retention
  - water and sewer
  - gas, electric & telecommunications
  - rail right-of-way & spurs
  - greenspace requirements
  - existing easements
  - lighting

## Infrastructure

- ❖ off-site
  - perimeter road capacity, circulation, turn lanes, traffic signals
  - highway & transit access, bridges, underpasses, rail crossings
  - on-street & off-street parking
  - water, sewer, & storm water capacity
  - gas, electric, & telecommunications capacity
  - police & fire protection
  - lighting
  - R-O-W improvements

## Engineering & Design

- ❖ engineering studies
  - environmental
  - traffic
  - geotechnical
- ❖ conceptual design
- ❖ detailed site plans

*Be prepared for anything!*

## Engineering & Design

- ❖ parking objectives & requirements
  - regulatory requirement vs. need
- ❖ surface vs. structured costs
- ❖ parking ownership & management
  - shared parking
  - joint ventures
- ❖ parking as an incentive
  - long-term lease
  - resource/garage financing
  - satellite parking

# FINANCIAL FEASIBILITY

## Financial Analysis

- ❖ projected investment return
- ❖ projected cash flows
- ❖ perceived risk
- ❖ financial ratios
- ❖ net present value (NPV)
- ❖ internal rate of return (IRR)

## Components of Investment Analysis

### development costs

- ❖ hard costs
- ❖ soft costs

### transaction & costs (assumed to sell in 10 years)

- ❖ sales proceeds
- ❖ broker fee

### cash flow

- ❖ operating revenue
- ❖ operating expenses
- ❖ capital improvements
- ❖ NOI available to repay debt/equity



## Common Financial Projections

### **development costs**

- ❖ hard costs
- ❖ soft costs
- ❖ tenant improvement costs
- ❖ contingency

### **sources & uses statement**

- ❖ development & financing costs on one side
- ❖ sources of funds loan(s), equity, grants on other side

## Common Financial Projections

### **operating pro forma**

- ❖ detailed projection of revenue & expenses
- ❖ many assumptions about rental/occupancy rates, etc.
- ❖ results in net operating income for return on investment model

### **supportable capital structure**

- ❖ what will NOI support in terms of debt and equity?

## Financial Analysis – Development

### development costs

- ❖ hard costs
- ❖ tenant improvements
- ❖ soft costs
- ❖ A&E fees
- ❖ permit fees
- ❖ construction loan interests
- ❖ construction insurance
- ❖ pre-leasing marketing costs
- ❖ developer fee

## Example Building

### hard costs

site preparation	\$200,000
building construction	\$8,500,000
tenant allowance	<u>\$1,350,000</u>
<b>total hard costs</b>	<b>\$10,050,000</b>

contingency (5% of hard)	\$502,500
soft costs (20% of hard)	<u>\$2,010,000</u>
total development costs	\$12,562,500
property acquisition	<u>\$1,500,000</u>
<b>total capital requirements</b>	<b>\$14,062,500</b>

square feet	100,000
<b>develop. cost per sq. ft.</b>	<b>\$125.63</b>

## Chicago Riverwalk Expansion

Chicago, Illinois – 2012 - 2015

Revenue by Block  
35-Year Period

	Conservative		Likely		Optimistic	
Existing	82.8%	\$ 131,913,133	80.0%	\$ 177,210,499	74.8%	\$ 227,365,969
Marina*	3.1%	\$ 4,875,699	3.4%	\$ 7,634,926	4.3%	\$ 13,044,831
Cove*	1.6%	\$ 2,604,594	1.8%	\$ 4,017,471	2.3%	\$ 6,995,818
River Theater*	2.0%	\$ 3,108,519	2.0%	\$ 4,517,232	2.6%	\$ 7,857,156
Swimming Hole**	2.9%	\$ 4,607,878	3.2%	\$ 7,075,431	4.0%	\$ 12,131,095
Jetty**	2.9%	\$ 4,564,976	3.1%	\$ 6,915,858	3.9%	\$ 11,843,549
Boardwalk**	4.8%	\$ 7,647,575	6.4%	\$ 14,138,301	8.2%	\$ 24,897,365
	<b>100.0%</b>	<b>\$ 159,322,373</b>	<b>100.0%</b>	<b>\$ 221,509,719</b>	<b>100.0%</b>	<b>\$ 304,135,783</b>

\* Opens 2015

\*\* Opens 2016

Source: Hunden Strategic Partners



## Example Building

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## Example Building

### Sources & Uses Statement

<u>Uses of Funds</u>	<u>Amount</u>	<u>Sources of Funds &amp; Rate</u>	<u>Amount</u>	<u>% of Total</u>
Land Acquisition	\$1,500,000	First Mortgage 20yr (7%)	\$9,140,625	65%
Hard Costs	\$8,700,000	Mezzanine Loan 10 yr (14%)	\$2,109,375	15%
Tenant Allowance	\$1,350,000	Private Equity (25%)	\$1,406,250	10%
Soft Costs	\$2,010,000	Public Grant	\$1,406,250	10%
Contingency	\$502,500	<b>Total</b>	<b>\$14,062,500</b>	<b>100%</b>
<b>Total</b>	<b>\$14,062,500</b>			

## Market & Financial Ratios

### two critical cash flow analyses:

- ❖ net operating income (NOI) of building vs. development cost
- ❖ businesses within the building
  - Retail – Rental Rate often Based on Sales
  - Hotel – Daily Occupancy & Rate Based
  - Office – Rent Based on Market
  - Industrial – Rent Based on Market
  - Parking – Daily and Monthly Occupancy and Rate Based on Market



## Example Building

### Simple Pro Forma

Gross Square Feet	100,000	
Building Efficiency	90%	
Net SF or Gross Leasable Area	90,000	
Rent/ Sq. Ft.	\$24.00	
Equals Potential Gross Revenue	\$2,160,000	
Less Vacancy (5%)	\$108,000	
Equals Effective Gross Income	\$2,052,000	
Less Operating Expenses	\$585,000	
Equals Net Operating Income	\$1,467,000	
Less Capital Reserves	\$50,000	
Cash Flow from Operations/Net Operating Income	\$1,417,000	
Less First Mortgage	\$862,810	
Less Mezzanine Debt Payment	\$404,396	
Equals Net Income or Pretax Cash Flow	<u>\$149,794</u>	10.7% Return on Equity

## Financial Ratios

### ❖ debt

- debt coverage ratio

$$\text{NOI} / \text{debt service loan}$$

- loan to value ratio

$$\text{loan amount} / \text{market value}$$

### ❖ valuation

- capitalized value (rough for market value)

$$\text{NOI} / \text{capitalization rate}$$

- capitalization rate

$$\text{NOI} / \text{sales price (in our example, NOI / capital costs = 10.1\%)}$$

## RiverVision District Plan Update

Davenport, Iowa – 2013 - 2014



### Restaurant and Nightlife Options in Downtown Davenport

Casual Dining	Upscale	Fast Casual	Bars and Pubs
<ol style="list-style-type: none"> <li>Hit Parade Buffet</li> <li>Antonella's Pizza</li> <li>Falbo Brothers Pizza</li> <li>Me &amp; Billy Kitchen and Bar</li> <li>Barrrell House 211</li> <li>Mantra Indian Cuisine</li> <li>Sippie's Grill &amp; Craft Beer</li> <li>Front Street Brewery</li> <li>Kong's Thai Bistro</li> </ol>	<ol style="list-style-type: none"> <li>Brady Street Chophouse</li> <li>Phoenix</li> <li>Duck City Bistro</li> <li>Woodfire Grill</li> <li>Bix Bistro</li> <li>Trattoria Tiramisu Lounge</li> </ol> <p><b>Café</b></p> <ol style="list-style-type: none"> <li>Cafe d' Marie</li> <li>Downtown Central Perk</li> <li>Redband Coffee Company</li> <li>Downtown Deli</li> <li>Tommy's Cafe</li> <li>Brewed Awakenings</li> </ol>	<ol style="list-style-type: none"> <li>Subway</li> <li>Beignet Done That</li> <li>Big Dog's Hot Dogs</li> <li>Bowls Urban Eats</li> <li>Emmanell's</li> <li>Fresh Deli- by Nostalgia Farms</li> </ol> <p><b>Diner</b></p> <ol style="list-style-type: none"> <li>Harold's Chicken Shack</li> </ol>	<ol style="list-style-type: none"> <li>Boozies</li> <li>Brady Street Pub</li> <li>Kilkenny's</li> <li>Mac's Tavern</li> <li>Shenanigan's</li> <li>3rd Street Bar &amp; Grill</li> <li>Waterfall Lounge</li> <li>The Office Cocktail Lounge</li> <li>River Music Experience</li> <li>Blackhawk Bowl and Cocktails</li> <li>Carriage Haus</li> <li>Dam View Inn</li> <li>Front Street Brewery - Tap Room</li> <li>Gateway Pub</li> <li>Connections Nightclub</li> </ol>

### Downtown Davenport - Retail Inventory\*

Building or Business Name	Location	Vacant SF	Total SF
Union Arcade Retail	111 E 3rd Street	8,108	8,801
4th & Brady	4th & Brady	1,700	1,700
Blackhawk Hotel Retail	200 E 3rd Street	0	3,000
Bayer Building	230 W 3rd Street	0	5,979
Del Rich Loan Company	224 W 3rd Street	0	3,570
United Cigar Building	324 Main Street/202 W 3rd Street	0	16,400
Renwick Building Retail	324 Brady Street	0	6,954
Studio 78	520 W 2nd Street	0	2,520
Executive Square	400 Main Street	0	5,652
Bucktown Center for the Arts	225 E 2nd Street	2,355	17,598
Shinnanigans Pub	303 W 3rd Street	0	5,000
SiS International	108 E 2nd Street	0	1,552
312 N Main	312 N Main Street	0	7,100
418 E 2nd St Retail	418 E 2nd Street	0	4,357
Veit Vettes & Collector Cars	221 E 2nd Street	0	3,645
Upper Level Antiques	321 E 2n Street	0	3,148
Riverbend Antiques	419 Brady Street	0	5,571
Neat Stuff	320 Brady Street	0	2,247
Major Art & Hobby	201 E 2nd Street	0	3,516
Iowa Pawn Bros	325 E 2nd Street	0	574
H & R Beauty Supply	330 E 4th Street	0	5,760
German-American Heritage Center	712 W 2nd Street	0	3,762
Davenport Tractor	318 E 2nd Street	0	2,953
Company 38 Antiques	526 W 2nd Street	0	1,248
The Gift Basket	110 E 2nd	0	1,568
<b>Total</b>		<b>12,163</b>	<b>124,175</b>
<b>Vacancy</b>		<b>9.8%</b>	

\*In mixed-use buildings, square footage classified as retail by the assessor's office was used to determine total square footage  
 Source: Hunden Strategic Partners

## Example Building

### Supportable Debt & Equity

#### Supportable Debt

Stabilized Year Operating Income	\$1,467,000	
Divided by Coverage Ratio		1.4
Supportable Debt Service	\$1,047,857	
Supportable Debt, @ 7%, 20yrs	\$11,101,013	79% LTC
Actual First Mortgage Based on 70% LTC	\$9,843,750	
Actual First Mortgage Payment	\$929,180	
Amount Remaining for Mezzanine Loan	\$537,820	
Supportable Debt @ 14%, 20 yrs	\$3,562,050	
Actual Mezzanine Loan Based on 15% LTC	\$2,109,375	
Actual Mezzanine Payment	\$318,486	

#### Equity Requirements

Total Capital Requirements	\$14,062,500
Less Supportable Debt	\$11,953,125
Equals Amount Left to be Funded	\$2,109,375
Less Grant Amount	\$1,406,250
Equals Equity to be Repaid	\$703,125
Cash Flow Available to Pay Equity	\$169,334
Return on Equity	24.1%

## Example Building

### profitability

#### ❖ unleveraged cash-on-cash return

- NOI/total capital requirements
- in our example  $\$1,467,000$  divided by  $\$14,062,500 = 10,4\%$

#### ❖ leveraged cash-on-cash return

- cash flow (after debt service) / owners equity
- in our example,  $\$169,334$  divided by  $\$703,125 = 24.1\%$

## Property Valuation Approaches

- ❖ cost
- ❖ market or sales comparison
- ❖ income or capitalized value
  - **most relied upon**
  - **what does income support based on cap rates?**

## Example Building

**capitalized Value: net operating income  
capitalization rate**

net operating income	<u>\$1,467,000</u>
capitalization rate	9.3%
	=
capitalized value	\$15,774,000

## Example Building

### Loan to Value

	<b>Loan to Value (LTV)*</b>	<b>Loan to Cost (LTC)</b>
First Loan Amount	\$9,843,750	\$9,843,750
Second Loan Amount	\$2,109,375	\$2,109,375
Total Loans	\$11,953,125	\$11,953,125
Value	\$15,774,194	\$14,062,500
First Loan to Value	62.4%	70.0%
Second Loan to Value	13.4%	15.0%
Loan to Value	75.8%	85.0%

\* Based on 9.3% Cap Rate



## Example Appraisal / Building

### Appraisals Compare Cap Rates

	Comp A	Comp B	Comp C	Total/Average
<b>Price</b>	\$10,000,000	\$5,500,000	\$8,000,000	\$23,500,000
<b>NOI</b>	\$950,000	\$500,000	\$735,000	\$2,185,000
<b>Cap Rate</b>	9.50%	9.09%	9.19%	9.30%

# INCENTIVES

## public sector as a financial contributor to development

a variety of tools **encourage** and **assist** in development and redevelopment.

these tools help make projects **financially feasible** four ways:

- 🌐 reduce front-end cost, the amount that must be financed.
- 🌐 reduce mortgage finance costs, on-going debt service.
- 🌐 reduce operating costs, i.e. improve project cash flow.
- 🌐 facilitate process via programs and policies.



## Sources of Tools

### **public entities borrow money**

- ❖ to spread the cost of a project over time
- ❖ lack of cash

### **types of debt**

- ❖ public-use bonds
- ❖ private activity bonds

## Primary Types of Tools

- ❖ financing assistance
- ❖ land assembly
- ❖ other (easy permitting, etc.)



## Financing Assistance

- ❖ bond financing
- ❖ loan guarantees
- ❖ revolving loan fund
- ❖ tax credits/abatements
- ❖ tax increment financing (TIF)
- ❖ leases, sale-leasebacks
- ❖ special improvement districts

## Land Assembly

- ❖ acquiring land
- ❖ eminent domain
- ❖ land banking

## Other Incentives

- ❖ air rights
- ❖ land write-downs
- ❖ technical support (funding feasibility and other studies)
- ❖ public infrastructure
- ❖ zoning incentives/favorable zoning
- ❖ easing of permitting/waiving fees



## Bond Funding

- ❖ allows communities to pay for large projects over time, typically 20 – 30 years; often matches the useful life of the project.
- ❖ difficult to come up with money all at once, so these can match future revenues with future obligations.

## Types of Bonds

- ❖ general obligation bonds (GO)
  - full faith and credit of the community
  - benefits everyone more-or-less equally
- ❖ public use revenue bonds
  - paid from user fees, etc. (sewers, toll roads)
- ❖ certificates of participation (COPs)
  - lease revenue “sharing”

## Types of Bonds

### **private activity**

- enterprise zone bonds
- qualified redevelopment bonds
- qualified exempt small issues
- exempt facility bonds
- qualified non-profit bonds
- qualified mortgage bonds
- industrial development bonds (IDBs)

## G.O. Bonds

- ❖ backed by full faith and credit of government entity. paid by general tax revenue.
- ❖ used for items that do not typically generate revenue:
  - roads
  - government buildings
  - schools
- ❖ limited by debt caps. some require public referendum.
- ❖ debt ratio impacts credit rating (just like your personal credit)

## Revenue Bonds - Public

- ❖ backed by revenue generated from a project.
- ❖ underwriters often require debt service reserve fund, which is pre-funded with a bond issues (provide safety net). Sometimes require additional credit enhancement if revenue is unpredictable (e.g. hotel).
- ❖ used for items that do generate revenue:
  - ❖ parking garage
  - ❖ utilities
  - ❖ toll Roads, airports, ports, bridges
  - ❖ universities
  - ❖ tax increment districts
- ❖ only tax exempt if they meet public use tests.

## loan guarantees & zero interest loans

- ❖ a loan guarantee
  - promise by a government to **assume a private debt obligation** if the borrower defaults.
  - established **to correct perceived market failures** by which small borrowers lack access to the credit resources available to large borrowers.
- ❖ sometimes a city/county will loan money to a project with a **very low or zero percent** interest rate.
- ❖ in other cases, the public can loan a project money but will essentially have **no recourse** (on purpose) if the owner fails to pay back the loan.

## Tax Credits

- ❖ allow recipient to reduce their tax obligations.
- ❖ can be offered at federal, state, and local levels (but states usually control local credit ability)
- ❖ common tax credits:
  - business facility
  - capital investment
  - community bank
  - enterprise zone
  - historic
  - distressed community
  - low income housing

## Tax Abatements

- ❖ a reduction or exemption of obligation to pay taxes
- ❖ usually applies only to the incremental tax created from development
- ❖ often property taxes, sometimes sales taxes
- ❖ legislated or negotiated



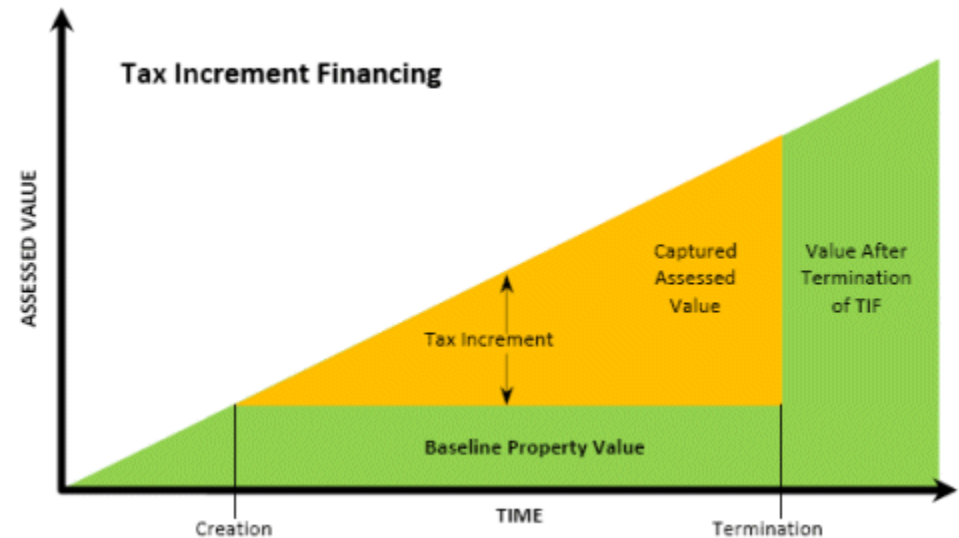
## Kentucky Tourism Various Studies

Ongoing Contract



## tax increment financing (TIF)

- ❖ public investment in private development
- ❖ reimbursed from future incremental tax revenues generated by property value appreciation from a designated area.
- ❖ “but for” test required
- ❖ “blight” test required



## Use of TIF supported funds

- ❖ infrastructure
- ❖ property acquisition
- ❖ relocation assistance
- ❖ environmental remediation
- ❖ feasibility studies
- ❖ project finance
- ❖ façade improvements

REFER TO STATE LAW  
FOR CONSTRAINTS  
AND ALLOWABLE  
EXPENSES

## Other Incentives

- ❖ **air rights.** transfer of rights to develop above or below a price of public land. typical above public parking garages and with public transit projects.
- ❖ **land write-downs.** public sells land for less than market value to developer as an incentive.
- ❖ **technical support** (funding feasibility studies)
- ❖ **public infrastructure** via community development block grants and other bonding abilities
- ❖ **zoning incentives**/density bonus
- ❖ **easing of permitting**/waiving fees
- ❖ **TIF without TIF:** abate taxes, self tax

# DEVELOPER SOLICITATION



## Soliciting a Developer

**Developer selection is often initiated through a request for qualifications (RFQ) or request for proposals (RFP).**

## Navy Pier Expansion

Chicago, Illinois – 2013 - 2016



## Purpose of RFQ / RFP

- ❖ tool to achieve public goal
- ❖ means of introducing competition in a redevelopment project to ensure a qualified development team is selected
- ❖ a marketing tool to attract private development



## Before RFQ / RFP Process

- ❖ gain political consensus on project concept, objectives and range of possible incentives
  - detailed understanding of project feasibility is important
  - understanding of incentives that may be offered is also critical
  - casting a wide net is not always effective. Specificity is key

*DON'T LEAVE THIS UP TO THE DEVELOPER OR CONSULTANT!*

- ❖ have understanding of bidding laws, requirements and confidentiality
- ❖ identify lead agency, selection criteria, and selection process

## Land Control Options

- ❖ public agency controls land – most common.  
*puts public in control.*
- ❖ agency seeks developer for specific site not controlled.  
*less public control.*
- ❖ agency solicits development for unspecified site.  
*many unknowns.*

## RFQ / RFP Options

- ❖ RFQ followed by RFP
  - developer's expression of interests
  - generally preferred process
  - time consuming
- ❖ RFP only

# Experience

## Wild Horse Pass Restaurant & Entertainment District

Chandler, Arizona – 2015 - Present



## Request for Qualifications (RFQ)

- ❖ an invitation to potential developers to:
  - developer's expression of interests
  - register their interest in the project
  - provide enough information to help you choose a small list for further consideration
- ❖ cast wide net
- ❖ create a “short list” of potential developers
- ❖ short-listed developers more likely to respond to costly

RFP

## Request for Proposals (RFP)

- ❖ used after RFQ to get more information and commitment from short-listed developers
  - proposed deal structures
  - detailed project financials
- ❖ RFP-only selection process
  - developer's expression of interests
  - qualifications & proposal in same package
  - expensive for developer to respond given unknown competition
  - lessen the risk and increase the response by declaring who the other RFP recipients are

## Request for Proposals (RFP)

### ❖ RFP includes:

- project concept and background
- conceptual design (optional)
- market study (optional)
- suggested deal structure, including public subsidy if appropriate

## Request for Proposals (RFP)

### ❖ RFP includes:

- operational relationship: public-private
- preliminary financial analysis (optional)
- schedule for project and developer selection
- evaluation criteria and selection process
- rules for contacting agency and political leadership



## A Certain Flexibility...

the RFP should demonstrate a way for the developer to participate and realize a return on investment,

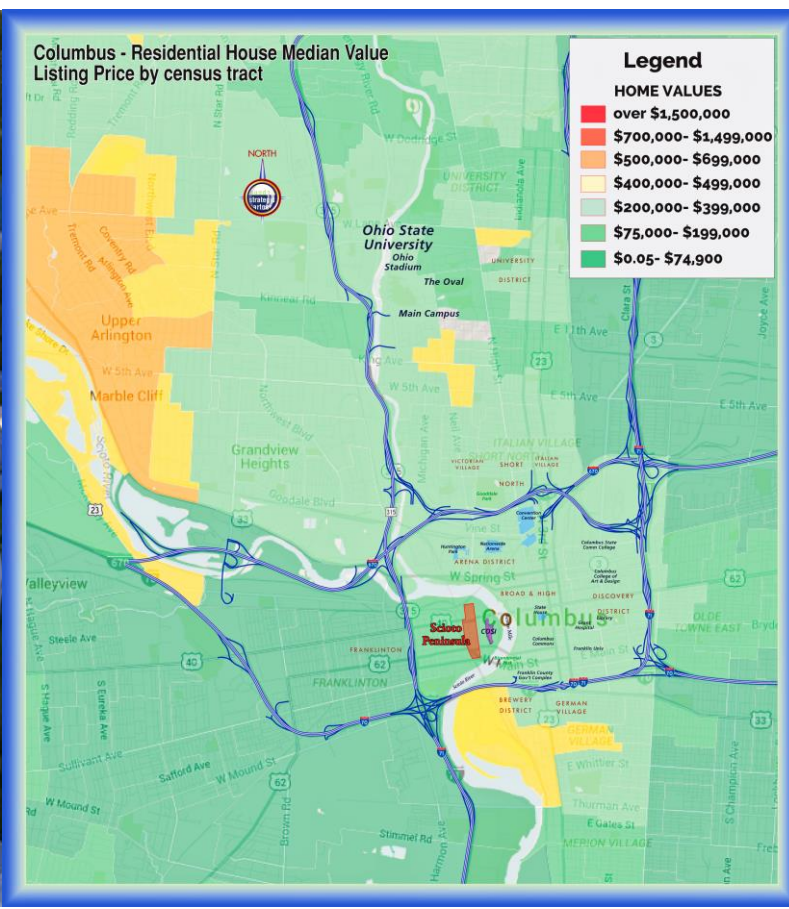
**AND**

encourage the developer to respond with an even better way to participate and realize public and private objectives.

*overly complicated requirements will limit qualified responses, especially in good economic times.*

## Scioto Peninsula Mixed-Use Development Plan

Columbus, Ohio – 2016



## Developers Should Submit...

- ❖ corporate qualifications, similar projects, references
- ❖ project team organization, project manager, individual resumes
- ❖ developer understanding and approach
- ❖ proposed development program and commitments
- ❖ public-sector responsibilities
- ❖ private-sector responsibilities
- ❖ capital and operating projections and financial proposal
- ❖ financial credentials

## Market the RFP through...

- ❖ Regional real-estate journals
- ❖ Local commercial leasing guides
- ❖ Discussions with fellow professionals
- ❖ National Organizations (ULI, IEDC, ICSC, NAIOP, realtors' associations, state and local builders' associations)
- ❖ Local and perhaps national newspapers
- ❖ Feasibility consultants (Typically knows many developers through networks, experience)
- ❖ Web

## Evaluation & Selection

- ❖ selection committee (3 to 5 members)
- ❖ evaluate proposals against criteria; prepare a rating system for committee
- ❖ interview: Continue rating, assess personality: Can you get along?
- ❖ select “preferred developer”
  - Ranking developers allows room for negotiating. Puts first-ranked on notice that they are not only one you are willing to go with.
- ❖ approval by board(s) and/or council(s)

## Convention Hotel Study & Developer Selection Process

Evansville, Indiana – 2011-2014



## Criteria typically include...

- ❖ appropriateness of project concept
- ❖ creativity of concept
- ❖ economic development benefits
- ❖ financial risk and return to EDO
- ❖ knowledge and experience with similar projects
- ❖ financial strength of proposed deal
- ❖ design appeal (if applicable)
- ❖ thoroughness, creativity, and clarity of response

## Developer Negotiations

- ❖ typically, the selected developer is designated the *preferred developer*, subject to satisfactory negotiations
- ❖ the EDO may want to get initial commitments on key business terms as part of the selection of the preferred developer



## Memorandum of Agreement (MOA) or Understanding (MOU)

- ❖ agreement with “preferred developer”
- ❖ clearly define project
- ❖ detail performance & schedule obligations
- ❖ set performance guarantees
- ❖ determine option payment
- ❖ specify termination provision
- ❖ other contract terms

## **(Re)Development Agreement**

- ❖ puts MOU into a legal document
- ❖ formal contract
- ❖ developer needs to secure private financing
- ❖ real estate attorney on your side of table (\$\$\$)

## Do's and Don'ts

**don't issue a blind RFP, go on a fishing expedition or otherwise proceed without having done the right studies!**

**know how much \$\$ you need to provide to make the deal work. developers don't want you to waste their time. most agencies don't get this, thinking by giving away land that developers will come rushing. they won't.**

## Erie Bayfront Hotel & Convention Center

Erie, Pennsylvania – 2003-2005



## public-private partnerships: lessons

- ❖ case it on a strategic plan
- ❖ need a political champion
- ❖ best if done from “project revenues”
- ❖ communicate...communicate...
- ❖ involve stakeholders
- ❖ good consultants and good attorneys cost money.  
Good investment.

## **public-private partnerships: lessons**

- ❖ define public-sector benefits and costs
- ❖ know when to walk away
- ❖ RFQ/RFP process is slow...may miss market
- ❖ private developer is partner...not adversary
- ❖ banks will want changes in development agreement
- ❖ it's not done until you move dirt, and then its still not done

## RFP Bloopers

from a document issued as an RFP:

“(the organization) discourages lengthy submittals”

required components:

- ❖ transmittal letter
- ❖ developer information
- ❖ development team
- ❖ proposed associate members
- ❖ developer experience
- ❖ developer history, financial position & abilities
- ❖ other (participation with minority-owned businesses; approach to worksite safety ...)

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## RFP Bloopers

required components (continued):

- ❖ technical approach
- ❖ project understanding
- ❖ project approach
- ❖ project management approach
- ❖ project staffing approach
- ❖ other (participation with minority-owned businesses; approach to worksite safety ...)

# AGAIN?

## RFP Bloopers

from the same document ...

response due date:  
october 8

development team to recommend award:  
late october

agreement finalization:  
“officers will meet with the successful development team between september 28 and october 5.”

## RFP Bloopers

from the same document ...

**among the listed selection criteria:**

- ❖ quality of the development team's proposed product (*was not requested*)
- ❖ the degree of creativity shown in the development proposal (*was not requested*)

# QUESTIONS & ANSWERS