

MEMORANDUM

TO: Steve Powers, City Administrator
FROM: CBRE
DATE: August 20, 2015
RE: Proposals for Development of Library Lot

Pursuant to the criteria set forth by the City in the Offering Memorandum for the Ann Arbor “Library Lot,” the development proposals submitted by the deadline of June 1, 2015, and interviews conducted on July 7, CBRE would like to make the following recommendations regarding the selection of finalists to participate in a community engagement and best-and-final-offer (BAFO) round. It is our expectation that the City will select a preferred development team following review of the BAFOs.

In short, the recommended finalists are developers with long histories and experience with successful high density development projects and excellent references from other cities. Further, the developers have made proposals with strong economic terms for the City, including no or minimal City incentives, with development visions that will contribute to the vitality of downtown Ann Arbor. Assuming these finalists participate in the community engagement and BAFO round, we would expect there to be certain revisions to design, pricing, uses, etc. based on feedback received and the competitive bidding process.

As stated in the Offering Memorandum, the evaluation criteria is focused broadly on the following:

- Financial Resources, Structure, Benefit and Value to City
- Conceptual Project Planning/Design/Architecture, including alignment with, economic development, public space and other goals
- Proposal and Development Team Experience
- Experience with engaging community stakeholders

RECOMMENDED FINALISTS (not in any order):

- CA Ventures-Acquest Realty Advisors-Hughes Properties (“CA-Acquest-Hughes”)
- Core Spaces

CA VENTURES-ACQUEST REALTY ADVISORS-HUGHES PROPERTIES. CA-Acquest-Hughes’ proposal is recommended as a finalist for the following reasons:

- Purchase Price. The purchase price offered is higher than all but Core Spaces’ at \$5.11 million. The Developer would further pay market rate to purchase and/or license for use the approximately 200 parking spaces required for their project.
- Incentives. Developer only requests \$570,000 to support the design and construction of the plaza space.

- Experience. Developer has significant experience in high density, urban development including in Ann Arbor as well as other Big Ten college cities, as well as working on the development of city-owned property.
- Uses. Developer has proposed a mixed use project including high end residential, boutique hotel and ground floor retail. This will add to the diversity of downtown and provide an active, pedestrian-friendly plaza and engagement of Fifth Avenue.
- Financing and Equity Contribution. Developer has demonstrated ability to provide equity and source financing of a successful development.
- Risk. We believe the City's risk in pursuing a development with Developer would be minimal and consistent with normal development risks.
- Plaza. Developer will retain ownership and bear the costs associated with maintenance, security, and programming of the civic plaza. Proposal includes unique design elements for public space that will benefit from community engagement. Their consultant Project for Public Spaces has significant national experience in planning public space utilization and proposed extensive use, programming and budget is strong.

CORE SPACES. Core Spaces' proposal is recommended as a finalist for the following reasons:

- Purchase Price. The purchase price offered is the highest offered, at \$10.0 million for the development rights and \$5.0 million to acquire 200 parking spaces (and would also consider paying market rates for licensing of the parking spaces, if so desired by the City).
- Incentives. Developer requests no incentives from the City or DDA.
- Experience. Developer has significant experience in high density, urban development, and presents strong references from public officials in other cities who have worked with their team.
- Uses. Developer has proposed a mixed use project including high end residential, boutique hotel, office space and ground floor retail. This will add to the diversity of downtown and provide an active, pedestrian-friendly plaza and engagement of Fifth Avenue.
- Financing and Equity Contribution. Developer has demonstrated ability to provide equity and source financing of a successful development.
- Risk. We believe the City's risk in pursuing a development with Developer would be minimal and consistent with normal development risks.
- Plaza. Developer will retain ownership and bear the costs associated with maintenance, security, and programming of the civic plaza. Proposal includes unique design elements for public space, including exciting "placemaking" and iconic features that will benefit from community engagement.

RECOMMENDED ELIMINATION (not in any order):

- Duet
- Morningside
- AJ Capital – the Graduate

As part of the City's developer selection process, it is CBRE's responsibility to identify comparative deficiencies in proposals and risks to the City. Those deficiencies may be financial or perceived developmental risk on the high profile City-owned parking structure in downtown Ann Arbor. While certain development teams and/or their respective proposals have merit, the City must ultimately make decisions based upon the selection criteria outlined in the OM.

DUET. Duet's proposal is recommended to be eliminated for the following reasons:

- Purchase Price. The purchase price offered is lower than recommended finalists, despite similar density and a proposed 13-story building.
 - Developer requests that purchase price payment to the City be contingent upon and delayed until successful completion of project. The City would undertake substantial development risk in addition to normal risk involved in a development such as that contemplated. In essence, the City will be acting as an "equity partner without being compensated for the risk undertaken.
- Incentives. Developer requests substantial upfront and ongoing incentives from City.
- Experience. While Developer is a respected real estate attorney in Ann Arbor, Developer does not have the demonstrated experience in performing real estate development projects of similar size, complexity and scope.
- Financing Project and Equity Contribution. The Developer is investing little to no equity in project, other than perhaps a development fee. We have concerns with Developer's ability to source debt funding and secure external equity partners. Further, the proposed equity financing would not be considered strong by industry lending standards.
- Risk. We believe there would be a significantly higher degree of risk of failure and/or delay that cannot be changed by modifying the terms of the proposal.
- Plaza. Developer proposes that City retain ownership and bear the costs associated with maintenance, security, and programming of the civic plaza. Further, close to 90% of the funding for the construction of the plaza is proposed to be from the DDA and it is unclear how much Developer will allocate on an annual basis for the maintenance, security and programming of the plaza, though Developer requests \$100,000 annually to be set aside from TIF for this purpose.

MORNINGSIDE. Morningside's proposal is recommended to be eliminated for the following reasons:

- Proposed Economic Terms. While the Morningside team has extensive development experience the economic terms of their proposal are substantially less favorable to the City than the recommended finalists. We believe it would take a minimum of 10 years for the City to even "break even" on the project based on the concessions requested.
- Purchase Price. The proposed purchase price of \$2.5 million is substantially lower than two recommended finalists, despite similar density and building height. We believe the developer has given the City little credit for City's substantial financial investment in the parking structure. This City investment eliminates significant development cost and risk for the developer.
- Incentives. Developer requests substantial upfront and ongoing incentives from City.
 - Developer has requested 200 parking spaces be provided in the underground parking structure at no cost for 80 years.

- Developer requests the City to grant 25% of the first 10 years of Tax Increment Fund (TIF) capture.
- Developer requests the City contribute an unknown number of parking spaces on P1 level for the purposes of 200 bicycles, 106 for which Developer would make no payment for up to 100 years.
- Developer requests City to pay CBRE's fees.
- Plaza. Developer proposes that City retain ownership and bear the costs associated with maintenance, security, and programming of the civic plaza. Developer has proposed a low annual operating budget for the plaza space.

AJ CAPITAL – THE GRADUATE. AJ Capital - the Graduate's proposal is attractive and would likely be given further serious consideration. However, it has been eliminated as the Developer intends to pursue another Ann Arbor location.

We would be happy to discuss our recommendations at your earliest convenience.