

DATE: October 21, 2016
TO: Keith Stahley and Renee Sunde
FROM: Lorelei Juntunen
SUBJECT: SUMMARY OF STAFF REVIEW AND RECOMMENDATIONS FOR GRISWOLD'S PROPERTY RFP RESPONSES

The City of Olympia created a review committee that includes City staff and representatives from ECONorthwest, the National Development Council, and Pacifica Law Group to evaluate responses to a request for proposals for downtown development projects on the former Griswold property (308-310 4th Ave. East). The City's intention is to select the development team that can best partner with the City to generate new private development on this City-owned property. Consistent with community renewal statutes, the City's intention is to return this blighted property to economic use as quickly and efficiently as possible. The committee's review serves as input to staff's recommendation to Council regarding which development team is best positioned to implement this redevelopment vision.

Responses to the City's request for letters of interest were due September 23, 2016. The City received two responses, both of which met the requirements of the City's request, from Big Rock Capital Partners and Capital Recovery Center. The review committee then interviewed each team on October 13, 2016.

Based on the written responses and the interviews, the review committee recommends **Big Rock Capital Partners** for this project. This memorandum summarizes the committee's review supporting this recommendation.

Exhibit 1 provides an overview of the written proposal responses, organized according to the requested content in the City's request for proposals.

Exhibit 1: Summary: Requirements for Complete Proposal Responses

Requirement	Big Rock Capital Partners	Capital Recovery Center
Identify and describe the developer including developer's name and contact info for primary project contact	BRC formed in 2015 to serve a Thurston County market. BRC partnered with a foreign capital provider. Collectively the Principals have developed, built, or transacted over \$80 million and 1 million sq. ft. of built space.	CRC is a nonprofit entity that provides housing assistance, counseling, and other mental health services to low income individuals returning to the County from incarceration.
Identify each person or team member	<ul style="list-style-type: none"> • BRC – general contractor [Ryan Clintworth Managing Partner] • MSGS Architects [William Sloane, Principal] • Richmond Engineering – Mechanical / Electrical Engineers • MC Squared – Structural Engineers • KPFF – Civil Engineers • Prime Locations – Property Management • Zach Kosturos – Broker 	<ul style="list-style-type: none"> • CRC – Developer [Ann Rider, Executive Director] • Swalling-Walk Architects [Sheila and Craig Swalling] • Forma Construction [Drew Phillips] • Capital Finance Consultant [Jim Kainber]
Demonstrate financial capacity (including guarantors)	Newly formed entity with two small real estate assets in its control. Cash held at Heritage Bank. Proposal claims net worth in excess of \$3.5million, and backing from “high net worth Japanese family” with \$900 million in annual, privately controlled revenue.	The project will “leverage public and private capital funds, as well as private commercial financing... A proposal to the legislature for capital funds is forthcoming...” Other capital funds will be philanthropic. The team has engaged a capital finance consultant to assist with fundraising.
Describe relevant experience for up to 5 projects; City's interest is in current or recently completed projects in similar markets	Proposal describes three projects for which members of the team provided pre-development and/or general management services: 14 th & Republican and Union & Madison in Seattle, and the Baywood Building in Olympia. Proposal lists BRC as the primary developer for mixed-use student housing at Mottman Village, a 4-story, 164-bed facility with street level retail podium. It also highlights BRCs role as general contractor for the Thurston-Mason Mental Health Triage Center, Olympia's Cunningham Building, and the Washington Center for Performing Arts.	<p>Forma provided examples of construction projects in Olympia, including historic renovations (such as the Walker Building), commercial construction (Market Center and the Westside Clinic & Surgery Center), and public private partnerships (Hands on Children's Museum).</p> <p>Swalling provided examples of design work for a number of buildings: the Association of Washington Cities, the East Bay Public Plaza Facility, SafePlace (remodel and upgrades) and others.</p> <p>CRC did not provide examples of buildings they have developed.</p>

Experience or strategy for marketing and managing projects, including approach to public involvement	Proposal recognizes that “community engagement... is imperative to project success.” MSGS will organize input workshops and sessions to gather input from a range of stakeholders (business owners, the Heritage Commission, customers, etc.). The proposal recognizes that accessing public funding will require transparency and integrity in public process. The proposal’s approach to marketing and managing the eventual building is less well-formed, but the team has already engaged a broker and building management firm as part of the team.	The proposal references prior public input as supporting the project, but does not describe an approach to ongoing public engagement. CRC will manage the facility, serving as both developer and landlord. Tenants will all be nonprofit, including in the market-rate retail space (which will be occupied by the Downtown Welcome Center and the Downtown Ambassador Program). Other tenants will include CRC, the Thurston County Needle Exchange, and Olympia Free Clinic. Housing will be affordable units. “Marketing will therefore be largely unnecessary.”
Initial concepts for:		
Anticipated target market	Workforce, college students, artists, and entrepreneurs of the millennial generation, potentially qualifying for some federal affordable housing funding sources.	See tenant list above.
Expected mix of uses and estimated square footage	“Collaborative working environments” (such as WeWork) plus 2 floors of small apartments (three stories total).	“Low income housing, public space, restrooms for community use, retail, office, and clinic space for nonprofit organizations seeking a more coordinated location.” Street level market rate retail, two floors of office and clinic space, and one floor of low income/emergency efficiency studio apartments. No parking, but CRC will contract for staff parking on adjacent lot (four stories total).
Floor plans	Included in proposal.	Included in proposal.
Building elevations	Included in proposal.	Included in proposal.
Preliminary description of project financing, including sources and uses	Uses: land acquisition (9%, \$306,000), soft costs (13%), and direct hard costs (79%) total about \$3.5M. Source: HUD section 108 (15%), Developer investment (10%), and conventional bank financing (75%) total about \$3.5M. Proposal notes that “aggressive” assumptions are required to make underwriting targets as the financing is currently structured.	Uses include land purchase (\$343,000) and Construction (\$3.6M). Total project cost listed at \$7.4M. Sources: \$1.9M from philanthropy, local service organizations, and individuals, \$843,000 in contributions from the City (including a full land write down), \$400,000 from the County, and \$3.5M from the State. Bank financing for about \$800,000 will complete the capital stack.
Proposed development schedule for due diligence period, DDA, construction, and occupancy	Included in proposal. Preconstruction expected to being Q4 of 2018, with Certificate of Occupancy targeted for Q3 of 2019.	Not included in proposal.

After an initial review of the proposals, the evaluation committee invited each team to interviews to better understand strengths and weaknesses of their proposals. At the interviews, each team provided an overview of their respective projects and answered questions specific to their proposed project timeline, financing structure, and expected community benefit. Consistent with community renewal statues, the City's intention is to return this blighted property to economic use as quickly and efficiently as possible. For this reason, the committee paid particular attention to the realities and details of each team's financing structure, and the timing with which each project might move forward.

Based on the combined written proposals and interview results, Exhibit 2 compares each proposal to the evaluation criteria included in the RFP.

Exhibit 2: Evaluation Against Criteria

Developer experience	Big Rock Capital Partners	Capital Recovery Center
Success in developing similar urban redevelopment projects	BRC is a newly formed entity, whose partners have experience in construction management and some limited experience as lead developers. The projects they have completed as general contractor are consistent with expectations.	Swalling's design work is consistent with the City's expectations. Forma's construction management experiences are solid contributions to the team. However, CRC has not developed properties, and as the proposed lead developer, has no relevant experience.
Quality of representative projects	Projects are generally of the quality and type expected for this site.	See above.
Qualifications of the project team and key project managers	Team is well qualified to manage construction on a project of this scale. The proposal expresses solid conceptual understanding of the needs of a PPP (including the need for public engagement).	See above.
Financial capacity	During the interview, the review committee gained better certainty regarding the financial capacity of the team, particularly with regards to the availability of the team's equity investment. Some questions regarding compliance with HUD Section 108 program, details of the capital stack, and take-out financing remain. However, in general, the proposal provides a path toward successful project execution.	Very limited. While the team has had initial conversations with some potential tenants for their proposed project, the development is largely dependent upon philanthropy, State funding, and other public allocations that have not yet been secured.
Experience in partnering with the public sector in redevelopment projects	This would be a first foray into public-private partnership for BRC, though team members have participated in PPP projects in capacities other than as lead developers.	None, though team members have participated in PPP projects.
Proposal requirements and preferences		
Degree to which the preliminary development concept and site design meets the RFP requirements and preferences	The proposed project meets the intent of the RFP. Its focus on millennials as a target market and inclusion of ground floor collaborative work space makes sense given the site's location close to an entertainment district.	The proposal meets the intent of the RFP for mixed-use development that includes housing uses.
Demonstrated market viability	The proposal is forthright that alternative financing mechanisms (such as Section 108 loans) will be required and that aggressive assumptions are necessary to make the project pencil. The committee noted in particular that hard construction cost estimates seemed low. While more work is needed to understand market viability, in concept, the proposal outlines a path that could lead to successful execution.	Entirely dependent upon philanthropy and future public allocations.

Project timing and commitment to move forward	The proposal outlines a viable (though possibly aggressive) project schedule and set of commitments from partners. Additional financial due diligence will be needed, as well as exploration of the market for collaborative work spaces.	Project timing not discussed in the proposal, and commitment to move forward depends on capital fund raising efforts. During the interview, the team acknowledged this uncertainty in timing.
Sustainable and resource-efficient standards that may include design, construction, renovation, and demolition are preferred	Project examples include buildings that meet LEED standards, and the team expressed willingness to explore options for resource-efficient development.	Proposal references a desire for sustainable building design features. Project examples include buildings that meet LEED standards. The team expressed willingness to explore options for resource-efficient development.
Innovative and creative design elements are encouraged	Design standards reflect a modern structure that fits into a historic neighborhood.	Design standards reflect a modern structure that fits into a historic neighborhood.

Based on the written responses and interviews, the review committee recommends **Big Rock Capital Partners** for this project. The project itself meets the intent of the City’s RFP, as well as the Downtown Strategy to add housing appropriate to an entertainment area and bring economic development and jobs to Downtown. While more conversation about the project finances (particularly HUD Section 108 loans and cost estimates) is needed, these remaining details would be appropriately explored through more detailed negotiations with the selected developer.

The review committee was impressed with the thought that went into the Capital Recovery Center’s proposal. It brings much-needed social services and affordable housing to the area, while allowing for synergy among nonprofit providers that could increase effectiveness of service delivery. However, a stated intent of the RFP is to identify projects that will “return this property to productive economic use quickly.” The need for substantial fund-raising to support the project will extend the timeline for development, potentially considerably. This increases the City’s risk as property owner in ways not anticipated in the City’s solicitation process to date. Further, there may be other sites in Downtown that are more appropriate for this use.

If Council accepts this recommendation, the next step would be to enter into a period of negotiations with Big Rock Capital Partners through execution of an exclusive negotiating agreement (or ENA). During this period, the City could gain a more thorough understanding of, and agreement on, all of the major financial levers in the potential site disposition, including land value, appropriateness and amount of a potential HUD Section 108 loan or other loan source, and amount of developer equity in the deal. Development program, operating models for community work space, and project timing will also be clarified. Given the degree of thought included in the proposal and Big Rock Capital’s stated availability to begin work, we initially assume that an ENA period will require 60 – 90 days. Assuming negotiations are successful for both parties, the City would then subsequently enter into a disposition agreement that would transfer property to the developer most likely at the time construction begins.

Further detail regarding this schedule will be forthcoming based upon discussions with the selected developer.