

# Work Session

<b>Agenda Item #</b>	7
<b>Meeting Date</b>	January 12, 2015
<b>Prepared By</b>	Sara Anne Daines, HCD Director Roz Grigsby, CD Coordinator
<b>Approved By</b>	Brian T. Kenner, City Manager

<b>Discussion Item</b>	Discussion of Financial Information related to Redevelopment of Takoma Junction
<b>Background</b>	<p>The Council continues its review of the redevelopment options for the Takoma Junction site with a presentation by staff on the financial aspects of the proposals from the four finalists: Ability Project, Community Three Development, Keystar EcoHousing, and Neighborhood Development Company. The presentation will include a review of the RFP process.</p> <p>Background materials include information provided by each of the finalists in response to a series of financial questions posed by the City, the current value of the site, anticipated sale proceeds, and estimated property tax revenue.</p>
<b>Policy</b>	<p>“The City encourages the development of proposals that will act as a stimulus to the commercial district and locally-owned, independent businesses, improve the aesthetic appeal of the district; and are contextually sensitive and environmentally sustainable.”</p> <p style="text-align: right;"><i>Request for Proposals - Takoma Junction Site (January 22, 2014)</i></p>
<b>Fiscal Impact</b>	TBD
<b>Attachments</b>	<ul style="list-style-type: none"> <li>• Financial Questions Regarding Proposals for Redevelopment</li> <li>• Takoma Junction Redevelopment – Anticipated Financial Impact</li> </ul>
<b>Recommendation</b>	To review and discuss the proposals
<b>Special Consideration</b>	<p>The Council has scheduled listening sessions for public comments on the Takoma Junction Redevelopment in the auditorium for the following dates:</p> <ul style="list-style-type: none"> <li>• Wednesday, January 21, 7:00 p.m.</li> <li>• Tuesday, February 3, 7:00 p.m.</li> <li>• Tuesday, February 10, 7:00 p.m. (tentative)</li> </ul> <p>Information on each of the final proposals has been posted online and can be accessed here: <a href="http://www.takomaparkmd.gov/hcd/takoma-junction-rfp">http://www.takomaparkmd.gov/hcd/takoma-junction-rfp</a></p>



City of Takoma Park, Maryland

## **Takoma Junction Redevelopment Proposals**

### **FINANCIAL QUESTIONS**

January 12, 2015

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- 1. Please review the pro forma submitted with your original proposal. If your concept plan has changed since it was initially submitted in May 2014, please update the information to reflect these changes and provide a short narrative explaining the revisions.**

#### **Ability Project**

The concept plan for the Ability Project has changed since the initial submittal. The changes can be summarized as follows

- The pre-school proposed for the R60 lot has been deleted.
- The residential component proposed for the commercial lot has been deleted.

However, the element of the proposal to be developed and funded by the Ability Project has not changed. Revised financial summaries will be furnished by 12/31/14.

#### **Community Three Development**

Our concept plan has not changed since our original submission. We have created several new concept plan sketches during the Open House discussions with the community that evening (including potential reconfiguration of the Co-op's rented parcel). We provided these concept plan sketches and they are now available on the City's website. No revisions have been made to the proforma at this time.

We have not presumed to have "the problem solved" as the constraints are far from fully defined. These concept sketches are merely options and ideas that may inform the basis for a collaborative design that will ultimately result from the public sector, Co-op, community, and developer working together.

#### **Keystar Eco Housing**

Our proforma has been revised to reduce the number of residential units from 31 to 24. Residential parking has been reduced by at least 7 parking spaces to reflect the reduction in residential units. We will maintain a high ratio of affordable housing even though the total size of the residential component will be reduced (square footage and number of units) by 25%. No less than 25% of the units will be set aside as work force housing and more affordable housing (in accordance with the County's Moderately Priced Housing Unit program). The commercial square footage has remained constant at approximately 14,000 square feet.

## **Neighborhood Development Company**

The only change in the Neighborhood Development Company (NDC) and Sorg concept plan proposal was the removal of the single family home to be located on the R-60 lot. However, this element of our proposal submitted in May of 2014 was *not* included in the original proforma financial model. A review of the model indicates that no sources or uses of funds are dedicated to the incorporation of the single family home into the overall development program. Therefore, effectively, no revisions have been made.

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- 2. If your proposal provides for the development of the site in partnership with other entities (for example under a condominium or turn-key arrangement), provide a short narrative explaining how this would be structured and include a letter of interest from each of the partnering entities and information on their financial capacity to complete the project in a timely manner.**

### **Ability Project**

The Ability Project does not propose to develop the property in a partnership or venture with any third-party.

### **Community Three**

Until a more collaboratively formed concept plan has been developed with the Co-op as a team member, we cannot realistically develop a formal structure for the relationship. We do however, given the Co-op will likely occupy a part of the Takoma Junction site as a tenant, see a fairly typical lease structure being formed with buildout requirements, timelines, rental payments, etc. being part of the lease terms.

Outside of the Co-op, we are not dependent on outside partnerships to achieve the proposed build-out.

### **Keystar EcoHousing**

At this time, we are not partnering with other groups but we are open to partnering with the two primary occupants: the Co-op and the Takoma Children's School. We are open to and have proposed and/or discussed joint venture structures, condominium ownership, turn-key rental or combinations of structures with both groups.

## **Neighborhood Development Company**

NDC has proposed to serve as the primary developer of the project proposed. The partners identified through our original proposal have been conceptualized as future owner's/tenants under a lease or condominium purchase arrangement. The structure would see NDC as the master developer establishing direct agreements with those partners who have the financial capacity to either purchase or lease space to be created through the land development process – whether they be partners already identified, or future partners currently unknown.

As indicated in our original proposal and subsequent submissions, NDC anticipates working directly

with potential occupants to structure the development agreements as a part of the feasibility period and due diligence process, when firm capital requirements can be determined with a higher degree of certainty. The financial capacity of individual partners will be a function of larger programming issues to be resolved through the on-going dialogue between the Council and citizens of Takoma Park regarding macro-level issues that impact the project's financing requirements. For example, the resolution of the quantity of underground parking to be provided will have a direct impact on the means necessary to deliver the project. Until this issue is resolved, the potential rents/purchase costs cannot be effectively determined.

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- 3. If not included in your original submission, please provide documentation from anticipated construction and permanent financing sources including proposed tenants, confirming the availability of funds or their interest in investing in the project.**

#### **Ability Project**

Proposed project financing is comprised of the following principal elements:

- Capital grant from the Maryland Dept. of Health and Mental Hygiene. A copy of the grant application was previously provided.
- Equity derived by the sale of tax credits procured through the New Markets Tax Credit program. A letter from Telesis, Inc. was previously provided.
- Bridge financing and member loans provided by the Community Lending division of Eagle Bank. A letter from division president Tom Murphy was previously provided.

#### **Community Three Development**

As stated in our original submission, our team has the experience to finance and execute the proposed redevelopment. Some recently closed transactions include over \$81 million in private equity and debt. We have consummated 7 transactions in the past five years with leading local financial institutions including Eagle Bank, Washington First Bank, Bank of Georgetown, and Burk and Herbert Bank, among others.

#### **Keystar EcoHousing**

The key principals of the project, Don Tucker and Bruce Levin, will provide the required equity investment from personal resources to undertake the project. We have provided bank references in our original submittal. It is not typical to have financing commitments for a project before a concept has been at least preliminarily determined and without having project control. The development team is currently constructing a \$33 million apartment [project at the Takoma Metro Station and has completed development of two projects in the immediate neighborhood.

#### **Neighborhood Development Company**

NDC provided documentation from potential financing sources in our original proposal. In particular, NDC provided a letter of commitment for equity financing from Neighborhood Development Capital (NDCM). These funds shall be used for the predevelopment phase of the project, anticipated to cost \$1,400,000. These funds and the remaining equity shall be used to leverage the necessary senior

debt from NDC's extensive network of financial institutions to build, lease/sell, and operate the project.

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- 4. If your concept plan has changed since it was initially submitted in May 2014, please confirm whether your purchase price for the property has changed. If so, please provide a short narrative explaining the revision.**

**Ability Project**

The proposed purchase price paid by The Ability Project is based upon a land value per square foot of developed area and would not change. This will be reviewed and confirmed by 12/31/14.

**Community Three Development**

Our purchase price has not changed.

**Keystar EcoHousing**

The project size has gotten smaller and the project is more expensive to construct based on the alternative plans for loading under consideration. The proposed purchase has not been reduced however. We believe that with savings from reduced parking and other design changes, the proposed purchase price can be maintained.

**Neighborhood Development Company**

NDC's purchase price has not changed as the concept plan has fundamentally remained the same.

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- 5. Would you consider entering into a long term lease arrangement with the City based upon the fair market value and/or the calculation of fair market value of the property? If so, please describe the lease structure you would propose. If not, why not?**

**Ability Project**

The Ability Project would consider a ground lease. Annual ground rent is typically a function of land value multiplied by a ground lease factor (5 to 6%).

**Community Three Development**

We would entertain a long term lease arrangement with the City if the term were 99 years. This would allow financing terms similar to that available on fee simple parcels. The terms of the ground lease would be similar to the proposed fee simple structure originally proposed.

**Keystar EcoHousing**

We would consider a long-term lease arrangement with the City. We do believe that residential condominium, the Co-Housing component, is not feasible with an unsubordinated ground lease in

Maryland. This change would have an adverse financial impact on the project.

### **Neighborhood Development Company**

NDC would consider entering into a long term lease arrangement with the City based up on the fair market value and/or the calculation of fair market value of the property.

To propose a lease structure at this time would be too speculative. However, NDC can say that the terms of the land lease would simply have to ensure certain financial objectives would be met from NDC's and NDC equity partners' perspective. These terms would include the achievement of development fees, outlined in the proforma, and returns to our investor's at a rate necessary to generate the required equity to leverage the debt financing for the project.

NDC has worked with long-term ground lease structures in the past and can say with confidence that in order to be financeable, the terms of such leases typically require:

- A term of 50-99 years;
- Annual payment equal to 2-3% of the initial land value;
- Annual escalation pegged on inflation.

Should these general terms be met, banks and equity would typically finance such a ground lease.

Both of these financial objectives (developer fee and equity returns) are relatively fixed in terms of proportion of overall project costs. However, the final whole number sums of money – which would form the basis for long term lease payment terms – are highly variable based upon the final development program and necessary predevelopment expenses that may be borne by during pre-development. Pre-development tasks which can take time to complete and add cost to the project if prepared by the developer (e.g., traffic and parking studies, market studies, and geotechnical analysis) may be shifted to City of Takoma Park thus changing the financial terms of the project and, therefore, the potential lease terms.

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- 6. The Takoma Park Silver Spring Coop was identified as the anchor tenant in your original proposal. Provide a short narrative describing the status of your negotiations with the Co-op and steps taken to secure a letter of commitment or intent from them.**

#### **Ability Project**

The Ability Project has worked diligently to reach some form of collaborative agreement with the Coop. As of today, the Coop has indicated it is not prepared to issue any written confirmation with respect to collaboration with any offer. We will continue to engage with the Coop as their new leadership becomes active.

#### **Community Three Development**

The Co-op was not identified in our original proposal as the 'anchor tenant.' A portion of the site was identified as space for 'potential Co-op expansion.' That being said, we met with the Co-op (including several of its Board members) and our architect on November 6th, 2014. We spent

considerable time discussing its operation and plans for expansion. We then toured the interior and exterior of the Co-op's property to discuss how it currently operates and what would affect its operation if it were to expand or be reconfigured. One of the main topics of discussion was loading.

As there are still numerous potential options for the combined site configuration (some of them explored as part of the concept sketches produced during the Open House), we have not asked the Co-op to commit to any terms as so many fundamental constraints are still unknown. We believe a complete list of constraints and redevelopment possibilities cannot not be clearly defined without the Co-op as a full member of the development team, and a development team member chosen, so at this point, we feel it is likely premature for the Co-op to make commitments until we are afforded the opportunity to work together.

Regardless, we seem to have built a good rapport with the Co-op and believe there will be a good working relationship going forward.

### **Keystar EcoHousing**

The development team initiated meetings with the Co-op in January 2014 and submitted written proposals to the Co-op for a joint venture and for fee development after the initial meetings. We were informed that the Co-op would be independently undertaking development of the City lot. We have had a number of additional meetings and a conference call with the Co-op but have not been able to advance discussions of a lease, condominium arrangement, build-to-suit or joint venture. The development team is open to all of these options.

### **Neighborhood Development Company**

NDC is still interested in partnering with the Takoma Park Silver Spring Coop to provide them the necessary space and meet their programming requirements (e.g., loading facilities) to facilitate their desired expansion. No specific negotiations have occurred with the Coop regarding project financing or lease terms. Prior to the open house regarding the Takoma Junction, hosted by the City of Takoma Park, NDC had a meeting with Cooperative staff and board members to help clarify the needs of the Coop with respect to their on-going operation and transitional needs. Resolving these needs (e.g., how the loading and unloading of goods will take place during construction) requires additional specific information from the Cooperative. NDC plans to work with the Coop to secure this information so that feasible strategies for their expansion and operation can be developed.

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- 7. Please provide information similar to that requested in Question #6 for each of other tenants you have identified for the site. Include any letters of intent or commitment you may have secured to document the interest of each of the identified tenants. This information will be kept confidential and not disclosed publicly.**

### **Ability Project**

The Ability Project is seeking a collaborative relationship solely with the Coop.

### **Community Three Development**

No other formal tenants have been identified at this time.

### **Keystar EcoHousing**

The development team has had numerous meetings with the Takoma Children's School and the school continues to be interested. A letter from the school was included in our earlier submittal. No other tenant discussions are underway.

### **Neighborhood Development Company**

NDC has had ongoing discussions with the Takoma Park Children's School regarding their interest in occupying the completed project. Discussions have focused on clarifying their needs and objectives and discussing perceived conflicts with other potential users in association with parking demands and property circulation safety issues. No formal commitment with the Children's School has been made at this time; however, during discussions it has been suggested by NDC that formal agreements be established. These agreements, including potential leasing rates, would be established to expedite future stages of project development.

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# TAKOMA JUNCTION REDEVELOPMENT PROPOSALS

## Anticipated Financial Impact

PROPOSAL	ABILITY PROJECT	COMMUNITY THREE	KEYSTAR / ECO HOUSING	NDC
<b>Land Value</b>				
Proposed Purchase Price	\$ 480,000	\$ 1,500,000	\$ 600,000	\$ 100,000
Appraised Value (approx 1.23 acres)	\$ 1,475,000	\$ 1,475,000	\$ 1,475,000	\$ 1,475,000
<b>Property Tax Revenues Estimate</b>				
Total Property Tax Estimate				
Year 1	\$ 46,000	\$ 68,900	\$ 95,900	\$ 96,900
Year 1 - 10 (Total Revenue)	\$ 504,200	\$ 754,400	\$ 1,050,100	\$ 1,061,400
Takoma Park Property Tax Estimate				
Year 1	\$ 15,100	\$ 23,300	\$ 32,400	\$ 32,800
Year 1 - 10 (Total Revenue)	\$ 166,000	\$ 255,100	\$ 354,800	\$ 358,600
Estimates calculated using current tax rates with CIP adjustment of 2.0%				

**NOTE: The Ability Project**

The Ability Project's proposal provides for the sale of the parcel to one or more identified partners (i.e. The Ability Project, Takoma Park Silver Spring Co-op and/or the Takoma Children's School). Under this scenario, each of the partnering entities would assume sole responsibility for the financing and development of their individual projects. There would not be a single developer purchasing the parcel or overseeing the financing or redevelopment of the site. As of January 8, 2015, the Co-op, one of the identified partners, having originally proposed that the City transfer ownership of the site to the Co-op at no cost, has not formally agreed to the purchase price proposed by the Ability Project nor to the role of the Ability Project group as lead developer.

Given the current development scenario, the information provided herein applies ONLY to the Ability Project's project if it were constructed on the city parcel. The information presented DOES NOT reflect the potential financial impact or the anticipated investment of other partners.

An option that has been presented by the Ability Project group involves the use of the Turner building (the Coop). Under this option, the Ability Project envisions ownership of the City parcel being transferred to the Coop which would then develop its new facility on the site. The Turner building would be renovated and occupied by the Ability Project once the new Coop facility was completed.

## Takoma Junction Proposals: Recent Public Comments

Time	Name	Address	Question:	Type question here:	Question:	Type question here:	Ques	Type question here:
Oct 23 2014 - 1:05pm	Badia AlBanna	211 Ethan Allen Ave	All	What analysis/thought/consideration have you given to the impact of your development on the current residents around Takoma Junction?	All	What considerations have you given to the current resident of Ethan Allen Ave in terms of parking and traffic?		
Nov 20 2014 - 9:57am	Linda Bkolko	117 Sherman Ave	All	Thanks for organizing this open house.	Keystar, LLC / Eco Housing	Really like the Keystar Eco and Neighborhood Dev proposal. Very appealing, good mix of retail/commercial residential.	All	The Co-Op proposal doesn't include enough commercial and residential concept.
Nov 20 2014 - 10:00am	BARBARA Gripper	108 Grant Ave	All	Very good proposal. We have a chance for a wonderful development that will enhance our community. I am appalled that the Co-Op has been so negative when development can only help them.				
Nov 20 2014 - 10:11am	Teal Edeler	419 Ethan Allen	All	We need to consider the Co-Op proposal officially. The community is demanding it and it can only add to the process.				
Nov 20 2014 - 10:03am	Bradley Decker	7300 Hilton Ave	Community Three Development, LLC	We recommend the Community Three proposal.	Community Three Development, LLC	This proposal has the ability to provide the amenities that our surrounding community desires while matching the context of the neighborhood. Please make something happen at this site. We are highly supportive of development here!		
Nov 20 2014 - 10:05am	Morgan Snyder	419 Ethan Allen	All	Takoma Park the city needs take on and resolve the traffic issues at the junction. Move the junction to a four way intersection.				
Nov 20 2014 - 10:09am	Gary Geck	26 Pine Ave	All	Pick one developer and start the real planning and design process. When everyone is working for freelance not contract. You will never get finished ideas.				





**Takoma Junction Redevelopment  
Public Comments 11-21-2014 to 1-7-2015**

Dec 3 2014 8:03am	Linette Lander	1105 Lancaster Rd.	All	In an area already beset with unresolved parking and traffic congestion problems, how will any proposed housing (or other uses that will draw persons to stop in the Junction be handled in such a way as not to worsen these problems?	All	What previous project provides your firm with the most valuable skill and expertise for the particular challenges of development in Takoma Junction and how?	All	Has your firm had any experience with development of or near a traffic circle or roundabout? What (if any is possible) is your assessment of the viability of this solution to traffic congestion and delays in the intersection formed at the Junction, with particular focus on pedestrian safety?	All	What experience does your firm have developing a site in association with a preexisting business? How have any challenges from same been resolved?	All	What particular needs of the City of Takoma Park does your proposal uniquely address and how?
Dec 8 2014 3:05pm	Shannon Baker-Branstetter	318 Ethan Allen Ave	The Ability Project, LLC	While the program described is certainly admirable, it's not clear that this proposal has the development experience and expertise needed to complete a project of this scale in a timely manner. Efficient and aesthetic development of the site should be a higher priority than who the tenants are, which can be decided later in the permitting process.	Keyst ar, LLC / Eco Hous ing	The logistics of daycare drop-off/pick-up during rush hour make the inclusion of TCS a very poor choice for this site. In addition, the air pollution from this intersection would be bad for the children attending the school when they play outside. TCS is a very expensive, exclusive school with a long wait list that caters primarily to well-to-do families, so it's not even clear that selecting it as a tenant serves the public interest.	All	Some residents complain that high density and height of a project is a bad thing and that lots of parking is necessary. This complaint is very elitist and is completely at odds with TP's commitment to sustainability and affordability. Multi-unit, transit/ped/bike friendly development help residents lower per-capita emissions and CAN be more affordable (though of course, not necessarily). TP residents lucky enough to already afford a single family house should not be allowed to deny the same transit access to those who cannot afford a single family house in the name of "aesthetics."				
Dec 8 2014 3:16pm	Shannon Baker-Branstetter	318 Ethan Allen Ave	All	Parking should be minimized to promote sustainability, neighborhood vitality and to make units more affordable. For more information about the costs of overbuilding parking, please see: <a href="http://database.greentrip.org/">http://database.greentrip.org/</a> .								
Dec 11 2014 -	KAIJA BLALOCK	103 SHERIDAN AVE	The Ability Project, LLC	HAS THE ABILITY PROJECT DROPPED ITS PLAN FOR RESIDENTIAL UNITS FOR DISABLED INDIVIDUALS? IF SO, SHAME ON THEM. AS THE PARENT OF A DISABLED ADULT, BOTH OF US LONG TIME TAKOMA PARK RESIDENTS, I WANT TO ALSO EXPRESS MY CHAGRIN AT HOW INCREASINGLY INHOSPITABLE THIS CITY HAS BECOME TOWARD PEOPLE WHO ARE SIGNIFICANTLY DIFFERENT AND LIKELY LOW INCOME	All							
Dec 18 2014	Christina FitzPatrick	215 Manor Circle	All	I am writing to express my support for the process for redeveloping the Junction. I have read the RFP and the proposals and believe the City's decision about the finalists was well-considered and appropriate.	All	I am really dismayed by the tone and vitriol of the objections raised by the people who are up in arms about the process and believe the Co-op was treated unfairly. I urge you to stick with the process despite the fall-out.						
Dec 19 2014	Laurie Kelly	136 Grant Ave	All	In discussions on the choice of development companies and their construction, please make pedestrian safety a priority in the Junction over the convenience of drivers, and yes, even over the interests of small businesses in the area. <del>Please also reconsider the installation of a roundabout</del>								
Jan 1 2015	sekou mapp	carroll avenue	All	I'd like to see residential condos included								