



CITY OF DURHAM | NORTH CAROLINA

Date: March 18, 2014

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Kevin Dick, Director, Office of Economic and Workforce Development

Subject: Proposed Economic Development Incentive Agreement with Austin Lawrence Partners East, LLC (ALP East, LLC) for Capital Investments and Architectural Elements at 119 West Parrish Street, 113 West Parrish Street, 118 West Main Street, 120 West Main Street and 122 West Main Street and 202 North Corcoran Street within the Community Development Area (CDA), inside Downtown Durham.

Executive Summary

This item describes the tenets of a proposed economic and community development agreement between the City and Austin Lawrence Partners East, LLC

Recommendation

1. Hold a public hearing on the proposed economic incentive agreement per G.S. 158-7.1; and,
2. Authorize the City Manager to execute an economic and community development agreement with Austin Lawrence Partners, LLC for a total incentive payment amount not to exceed \$3,973,095.00 over a 15 year period.

Background

Austin Lawrence Partners East, LLC (ALP East, LLC) is proposing the development of a twenty-six (26) story mixed-use building, known as the City Center, at 119 W. Parrish Street (former Woolworth site) and the redevelopment of the deteriorated Jack Tar motel into a boutique hotel at 202 N. Corcoran Street.

The proposed project components, with a minimum projected capital investment of \$65 million dollars should have transformational impacts on downtown. The proposed twenty-six (26) story City Center would incorporate new construction at 119 West Parrish Street and the restoration of five (5) existing building facades at 113 West Parrish Street, 118 West Main Street, 120 West Main Street and 122 West Main Street. The other component would involve the redevelopment of the deteriorated Jack Tar Motel located at 202 North Corcoran Street into a 74-room hotel with ground level retail space and a parking garage consisting of approximately 260 spaces.

The Center City project may have the potential to usher in a new standard of development in the area by delivering a modern residential tower on top of new commercial and retail space that is slated to include tenants with business uses conducive to the growing downtown economy. The new construction component of the City Center would consist of two levels of sub grade parking, a five-story plinth with ground-level retail and four levels of office space, and a modern twenty (20) story residential tower consisting of 133 apartments. The site's five historic facades would be rehabilitated and incorporated into ground floor retail. It should be noted that the project has been reviewed by the Historic Preservation Commission and its building design was approved by that body and the Planning Commission on April 1, 2013. The projected square footage would be approximately 424,000 square feet, which includes approximately 145,000 square feet of commercial, retail and office space. The project would also include modifications to the streetscape along three street frontages (Main, Parrish and Corcoran Streets) for the project.

The portion of the City Center at 119 West Parrish Street is currently vacant open green space. This site was home to the Geer Building until 2003 when it was demolished. This structure was five stories and its design was modeled on a Florentine Palace. The buildings at 113 West Parrish Street and 118-122 West Main Street are all two story structures constructed in the first two decades of the twentieth century. The Downtown Durham Historic District Preservation Plan indicates that these structures are contributing to the historic character of the District, and lists them as being in a variety of conditions ranging from sound to blighted. The Downtown Durham Historic District was designated by the City Council on May 15, 1989 and the Downtown Durham Historic District Preservation Plan was adopted on the same date. The Plan provides guidance on the types of exterior building and site modifications that are appropriate to the character of the Historic District.

The project is slated to include the restoration of specific architectural elements of three storefronts along Main Street and two along Parrish Street. These areas would be integrated into the architecture of the entire project. The City Center would also rebuild the lost urban street frontages on West Parrish, North Corcoran, and West Main Streets at a scale and style that is compatible with the existing and past surrounding street frontages. Finally, the building would add a dynamic and lively architectural element to Durham's skyline.

The City Center development would provide approximately 170 parking spaces onsite, which is targeted for residents and approximately 50 flex parking spaces for office tenants. The commercial portion of the building would generate a total demand of approximately 360 parking spaces. To meet the parking demand that would be created by all of the office and retail tenants, approximately 310 parking spaces would need to be secured elsewhere downtown.

To this end, ALP East, LLC recently put the Jack Tar property at 202 North Corcoran Street, which is directly across the street from the City Center site, under contract for an option to purchase the property with the intention of rehabilitating the asset in a manner that is consistent with its historical character. Presently, the Jack Tar site consists of a 44 room hotel, approximately 15,000 square feet of office space, approximately 15,000 square feet of ground floor retail, and a 260 space parking deck. Of these 260 spaces, 170 would be slated to meet the City Center retail parking demand, 50 would be for the general public and 40 would be reserved for hotel use.

The Jack Tar hotel project would involve the rehabilitation of a contributing building in the Downtown Durham Historic District. ALP East, LLC would maintain as much original material as possible while designing the project. As previously mentioned, the City Center project would be in done in tandem with the Jack Tar parking deck component to meet the majority of its commercial parking demand. ALP East, LLC plans to redevelop the remainder of the asset into a 74-room hotel directly adjacent to the Durham Convention Center. These rooms would be priced at competitive rates. The Jack Tar project is forecasted to provide 14,000 square feet of ground floor retail and a rooftop bar/lounge that will be open to the public.

As a result of preserving architectural elements of the building facades immediately adjacent to the City Center Building, and redeveloping the deteriorated Jack Tar motel, inclusive of its parking garage, the project would expand Durham's tax base by generating new property, sales and occupancy taxes and would create new permanent jobs. This project would continue to enhance the downtown environment; which was identified as an objective of the 2007 Downtown Master Plan and endorsed by the City Council and many downtown stakeholders. The jobs expected to be created by the project (either directly by the developer or by the potential tenants) would consist of the following types of positions: 250 construction-related, 500 office-related(some could be re-located jobs), 75 retail-related; and 10 hotel-related with benefits. The Durham Workforce Plan component of the agreement would ensure that Durham Career Center registrants have the initial opportunities to apply for available construction positions and hotel positions, all of which would be directly created by the project. In addition, the developer would work with the Office of Economic and Workforce Development to inform potential tenants of the services provided by the Durham Career Center in connecting Durham Career Center registrants.

The Bull City Connector stops directly in front of the proposed project location, offering a free and environmentally sustainable transportation option for workers.

Issues and Analysis

All City payments would be "performance based". This means that ALP East, LLC would not receive any payments from the City until after the project construction is complete; the existing building facades' architectural elements have been restored and integrated into the project; and requisite occupancy of commercial, office and retail spaces has been met. Before any city payments are made, the incremental property tax revenue generation will be realized by the City. In other words, public dollars would follow private performance and investment. A Durham-Based Business Plan and Durham Workforce Development Plan would also be required for the project. These plans would stipulate that ALP East, LLC and/or its general contractor would make good faith efforts to engage Durham-based firms, including small and disadvantaged business enterprises (SDBE's) in the construction work that is done relative to the project and that ALP East, LLC would engage the Durham Career Center System in efforts to hire temporary and permanent staff related to the project. In addition, relationships have been formed with North Carolina Central University, Durham Technical Community College and other entities in the area that provide hospitality and customer service training.

Staff is proposing a \$3,973,095.00 incentive to be paid over a 15 year period beginning after the buildings are completed. No payments to ALP East, LLC would be made prior to completion and evidence that the project has included the restoration of specific architectural elements of the front and side facades of the historic adjacent buildings. Verification of the stated capital investment amounts would also take place prior to

payments being made. Finally, in order to ensure that the new, anticipated jobs are maintained, the commercial, office and retail spaces would be required to maintain a minimum percentage occupancy and the hotel would be required to operate continuously to remain eligible for each annual payment made under the agreement.

An interdepartmental team of City staff members have reviewed the developer's development budgets for both the City Center Building and the rehabilitation of the Jack Tar property. Team members sought to evaluate and validate the reasonableness of certain elements of the project costs. More specifically, the team analyzed costs relative to the rehabilitation of the parking garage, the IRR (internal rate of return), and the construction costs associated with the City Center Building with particular focus on the residential components. The preliminary outcomes of the evaluations are as follows:

- The City General Services Department enlisted the services of a structural engineer to validate the cost assumptions relative to the Jack Tar parking deck and concluded that the developer's budget did not exceed industry norms.
- General Services also evaluated the construction costs relative to the City Center and concluded that the costs were reasonable according to on industry standards.
- RKG, an economic development consulting firm, validated the IRR assumptions and concluded that the developer's target is reasonable. The developer has also submitted information from two institutional investment firms that align with the opinion of RKG.
- The Durham Convention and Visitors Bureau (DCVB) analyzed the projected year-end occupancy rates for the hotel market and concluded that 61.7% was the industry target. With an occupancy rate that the DCVB concluded would fall between 60% and 68% over the first 15 years of operations, it was concluded that the project was within reasonable assumptions.

ALP East is still in the process of identifying the hotel operator for the Jack Tar component of the project.

On February 24, 2014, the Durham County Board of County Commissioners voted unanimously to allow County staff to negotiate a public-private development agreement in an amount not to exceed \$3,974,715.00 with ALP East, LLC to help support the project.

A matching City contribution would be consistent with the City and County objective to strengthen the coordination between the two governmental entities as it pertains to economic development incentives and would generate approximately \$11,338,419.00 in tax revenues over the life of the 15 year incentive period. Also, staff has verified that a total public contribution of \$7,947,810.00 or \$6,000,000.00 net present value (NPV) is needed in order for the project to be financed. The proposed City contribution would represent approximately 50% of this incentive amount.

A minimum expenditure of at least \$65,000,000 in Capital Investment (including the residential component) would consist of taxable improvements that would positively impact the city's tax base when construction is completed. The project is consistent with the Major Property Investment project incentive sub-section of the Resolution for the Economic

Development Financial Investment and Incentive Policy approved by the Durham City Council on April 4, 2011, which states that a project, within 10 years of the Council's approval, must directly result in capital investment of at least \$45,000,000 in mixed-use development within a CDA and that the maximum incentive payment can't exceed 16% of the qualified capital investment. A substantial portion of the qualified capital investment amount consists of hard construction work that would be subject to the Durham-based Business Plan, providing an opportunity for local contractors to bid on the project, including Durham-based SDBE's.

At its Monday, March 17, 2014 meeting, the City Council approved the following deal points to be incorporated in any Economic Incentive Agreement with Austin Lawrence Partners East, LLC. The deal points are as follows:

1. Both the City and County would include a provision stipulating the prohibition of the application and use of local landmark tax credit/exemptions by the developer;
2. The payment schedule would be consistent in the City and County agreements with approximately equal payments between the City and County, including identical project commencement and completion dates;
3. The City and County would include stipulations that if either party was to reduce its incentive payment in any way, then the other governmental entity would be allowed to reduce its payment;
4. Inclusion of a cross default provision for the City and County that would stipulate if the Developer were to default on an agreement with one party, then they would be in default on the other agreement;
5. Inclusion of the Durham-Based Business Plan including goals to be set for the percentage of contracts awarded to Durham-based firms and SDBE's and the Durham Workforce Development Plan; as part of the Durham Workforce Plan, the developer would commit to participation in the Durham YouthWork Internship Program.
6. The developer will make every attempt to ensure that potential tenants are knowledgeable of the Durham livable wage and to encourage that jobs created as a result of the project pay the Durham livable wage, where possible.
7. The City would include provisions relative to the mandated architectural elements approved in the certificate of appropriateness (COA) that relate to the City Center development be stipulated in the agreement between the City and the Developer (described below); architectural elements related to the Jack Tar site would be stipulated in the County's agreement with the developer and be enforced by the County.
8. The architectural elements are restored and integrated into the project; and a certificate of compliance is issued before the completion deadline.
9. The hotel must remain in continuous operation such that the hotel is open and available to accept hotel room occupants at least 95% (346 days) of the applicable year.
10. The commercial, office and retail spaces will maintain a minimum level of occupancy to ensure long term, minimum job creation.

In its approved Certificate of Appropriateness, ALP East, LLC has committed to restoring the following architectural elements as outlined for each building facade (118 West Main, 120 West Main, 122 West Main, 113 West Parrish, and 115-117 West Parrish Street). The architectural elements are as follows:

1. 118 West Main Street:

A three-story building that features only a single storefront on Main Street. This simply detailed structure featured four symmetrically spaced double-hung windows with transoms on the second and third floors, each topped by a decorative diamond panel. This building also featured a metal cornice, prismatic glass transom on the storefront, collapsible awnings, and a staggered parapet. Finally, this structure also had metal signage above and below the first story cornice.

Original Materials to Retain:

- Brickwork
- Decorative diamond panels
- Flat rectangular decorative band above third floor windows (easy to confuse with concrete infill, but it shows in the historic photos)

Missing features recommended for re-creation:

- Second floor pressed metal cornice
- Second and third floor window opening proportions (assumed exist behind concrete infill)
- Double hung sash and transoms within second and third floor window openings
- Square brick pediment at top of façade
- Cast stone cornice above first floor storefront

2. 120 West Main Street:

A two-story brick structure building. The second story featured five window casings, each holding a triple-hung window. These windows were not symmetrical, with the two ends being slightly smaller than the rest, and limestone caps and sills. The building also featured metal cornices, and brick detailing.

Original Materials to Retain:

- Brickwork
- Second floor window openings, stone sills and lintels

Missing features recommended for re-creation:

- Second floor pressed metal cornice
- Double hung window sash with transoms at second floor
- Simple cornice (wood?) over first floor storefront- framing remains

3. 122 West Main Street:

A two-story brick structure with a single storefront on the first floor, metal cornices, and four equally spaced windows casings on the second floor. These casing each held a single triple-hung window with limestone caps and sills. The front facade features some simple brick detailing under the second story cornice.

Original Materials to Retain:

- Brickwork
- Second floor Window openings, window sash, stone lintels and sills

Missing features recommended for re-creation:

- Second floor pressed metal cornice
4. 113 West Parrish Street:
Original materials to retain:
- Brickwork
- Missing features recommended for re-creation:
- Second floor pressed metal cornice
 - Second floor window opening proportions (assumed exist behind concrete infill)
5. 115 – 117 West Parrish Street:
Original materials to retain:
- Brickwork
 - Granite window sills
 - Storefront openings at ground floor level (i.e. the 2 intermediate brick piers are original)
- Missing features recommended for re-creation:
- Second floor pressed metal cornice
 - Second floor window 1/1 double hung wood windows
 - Sheet metal cornice above storefront (original remains but is in bad condition)

Alternatives

The City Council may decide to not approve the Economic and Community Development Agreement or may decide to approve it with changes. Choosing the former option would likely eliminate the chances for redevelopment of two deteriorated parcels Street property given the fact that the ability of ALP East, LLC to develop the property is contingent upon public investment.

Financial Impact

The Cash Flow Analysis (Exhibit D) identifies the financial impact to the City. Existing property taxes for each parcel based on a current tax rate of \$0.5675 per \$100 valuation as well as projected incremental property taxes were provided by the Durham County Tax Office. It also identifies the following revenue sources to the City from the project: property taxes, sales taxes and occupancy taxes. The payments proposed would be a \$3,973,095.00 paid over a 15 year period that would be approximately 5% of the qualified capital investment amount of \$72.5 million and be paid from incremental tax revenues slated to be generated from the project. There would be no impact on the existing general fund, because incentives would be paid from future tax revenues. Based upon current tax valuations, over \$4,911,118.00 in incremental property taxes, \$3,402,472.00 in occupancy and retail sales taxes would be generated as a result of this project, yielding total tax revenues to the City of \$8,313,540.00 over 15 years beginning in fiscal year (FY) 2016 (assuming that the construction project begins in FY14 and is completed in FY16). This would result in a net revenue gain to the City of \$4,340,446.00

The private to City investment ratio for this project is comparable to ratios for the following downtown projects:

Austin Lawrence Partners East, LLC – 16.3 to 1

Concord Hospitality Enterprises Company – 16.6 to 1
Hotel Durham (formerly known as Holland Hotel) – 16 to 1
21c Museum Hotel – 6 to 1
West Village – 13 to 1
American Tobacco – 5.3 to 1

SDBE Summary

While no specific SDBE provisions are specifically required by ordinance for this agreement, it is understood that if this agreement is approved, ALP East, LLC would be required to develop and implement a plan to make good faith efforts to use Durham-based firms for contracting activities. There would be goals applied for the use of Durham-based firms, as well as the subset of these firms that are Durham-based and also registered as SDBE's. ALP East, LLC would also be required to enter into a Workforce Development plan to ensure that Durham Career Center registrants would have the first opportunity to apply for the available jobs that would be created.