



## **LIBRARY LOT PROPOSALS – RFP #743**

# **REPORT AND RECOMMENDATIONS TO THE CITY OF ANN ARBOR**

**November 23, 2010**

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**I. Introduction:**

In summer 2009 the City of Ann Arbor distributed Request for Proposals No. 743 for the development of a site located at 319 S. Fifth Avenue (the “Library Lot”) in downtown Ann Arbor. In November 2009 a City-appointed Advisory Committee received and evaluated six RFP responses, and based on this evaluation, recommended two proposals for more extensive review. Roxbury Group LLC (“Roxbury”) was formally engaged in July 2010 by the City of Ann Arbor to undertake an evaluation of these proposals, which had been submitted by Acquest Realty Advisors, Inc. (“Acquest”) and Valiant Partners LLC (“Valiant”).

The following constitutes Roxbury’s report and recommendations to the City’s Advisory Committee. The report summarizes the responsiveness of each proposal to the evaluation criteria and requirements described in the RFP, and based on these and other criteria and inputs described in the report, makes a recommendation as to which proponent should be selected to move forward as developer of the Library Lot project. In addition, the report provides a recommended roadmap for advancing the project through the pre-development process with the selected developer.

The evaluation and conclusions contained in this report are based upon a number of data points. These include:

- Background interviews with key community stakeholders and Review and evaluation of a number of background materials;
- The written proposals submitted by Acquest and Valiant in response to the City’s RFP;
- Their written responses to questions raised during the preliminary evaluation interviews; and
- Roxbury’s meetings with each proponent.

This report provides an analysis of the two proposals against the selection criteria articulated by the City in its RFP, as well as the City’s key objectives as described in the A2D2 initiative and its Downtown Plan. In addition, Roxbury conducted a series of interviews with certain key community stakeholders with

whom each of the proponents had interacted during the preparation of their respective proposals in order to get a first-hand understanding and perspective from these constituents regarding the proposed uses for the Library Lot.

It should be noted that this report does not include and is not intended to serve as a feasibility study for the concepts included in the two proposals. Accordingly, for purposes of this report, it is generally assumed that the overall concepts included in the uses for the Library Lot contained in each proposal are valid and supportable from a market and demand standpoint. That said, this report will include certain observations and information gleaned from the community interviews as well as some high level data compiled by the DDA and certain background materials regarding the perceived and/or potential need for the proposed uses. Further, as more clearly described in the Recommendations section below, this report does identify what Roxbury believes to be the appropriate steps in the post-selection process for validating the economic viability of the successful proponent's ultimate development plan.

It should be noted at the outset that both proponents are very well qualified and present strong credentials. Both proposals were prepared in a thorough and professional manner, and notwithstanding the modified timeline for the selection of the preferred developer partner, both proponents remain engaged and enthusiastic participants in the process.

## **II. Background Interviews and Materials**

### **A. Interviews:**

As stated above, Roxbury, with participation by DDA management and staff, conducted interviews with selected individuals whose perspectives on the use of the Library Lot had been previously gleaned from one or both proponents, and who represented a broad cross-section of key community opinion on the relative merits of the uses being proposed by each. The purpose of these interviews was two-fold. The primary purpose was to establish a baseline level of first-hand perspective on the specific elements of each developer's proposal. A secondary purpose was to glean a broader perspective from the interviewees on a range of issues ranging from urban planning, economic development, market demand, downtown development, tourism, job growth and other factors which directly or indirectly

impact the City of Ann Arbor, and in particular the current and future viability of the downtown. The following individuals were interviewed:

<u>Interviewee</u>	<u>Title/Organization</u>
Josie Parker	Director, Ann Arbor District Library
Mary Kerr	President, Ann Arbor Area Convention & Visitors Bureau
Mike Finney	President and CEO, Ann Arbor SPARK
Jim Kosteva	Director of Community Relations, University of Michigan
Bill Villisides	Conference Manager, University of Michigan Conference Services
Diane Keller	President and CEO, Ann Arbor / Ypsilanti Regional Chamber

As noted, these discussions ranged in topics, but also tried to elicit certain information and perspectives that were consistent across all interviews. The questions raised with all interviewees included such issues as:

- The interviewee's specific point of view on need and demand for hotel and conference center space.
- Views on what additional facilities, if any, are needed in the downtown to serve conferences and visitors.
- The role the University of Michigan plays or may play going forward in both generating demand for conferencing and hotel capacity as well as satisfying such demand.
- What having an additional hotel and/or conference center downtown could mean to the interviewee's organization and the community as a whole.
- The desirability and/or suitability of the Library Lot location for such a facility.
- How the interviewee uses existing conferencing facilities and which facilities it uses within the community.
- Views on the broader community benefits and challenges of a hotel and/or conference center on the Library Lot.
- The role and value of public space within the downtown, and particularly at this location, whether as a component of an overall mixed-use development or as an independent use of the site.

The following is a synopsis of the perspectives gleaned from those interviews and comments received which support those perspectives:

- **There is a need for a conference center in downtown Ann Arbor to accommodate current unsatisfied demands within the community.**
  - These needs range from University and business-related symposia and conferences with specific ties to the region to national and international groups with academic, research or technology-transfer focuses which currently by-pass Ann Arbor for major gatherings in favor of other 'innovation-based communities' with facilities that can accommodate them.
  - While the University of Michigan and two downtown hotels offer meeting rooms and banquet facilities that can be used to accommodate conferences, there is not a single facility in downtown Ann Arbor that can both house and meet the conference needs of groups larger than 350.
  - There is broad consensus around the proposition that a facility which can accommodate a minimum sit-down banquet capacity of 500 people would satisfy needs that are currently unattainable on either the University campus or elsewhere within Ann Arbor.
  - Some suggest, however, that given the availability of the Eagle Crest Marriott in Ypsilanti, which can accommodate 500, only a facility that could accommodate up to 650 would be seen as a 'game changer' within the market.
  - Ann Arbor has a high success rate in pursuing outside conferences but many opportunities are not pursued due to current facility limitations.
- **There is likely current demand for an additional full-service hotel in the downtown, but there most certainly would be if a conference center is added.**

- The high room rates at the two downtown hotels coupled with the frequent inability to book blocks of rooms at those hotels suggest an additional downtown hotel is needed to serve current demand.
- While there is less uniformity of opinion on the need for a stand-alone hotel in today's market, there is general consensus on the need for a hotel as part of a conference center development for the conference center itself to be competitive, and further that the addition of a conference center would enhance hotel demand sufficiently to support the addition of a hotel to the downtown.
- **While Eagle Crest in Ypsilanti is managing to capture a portion of the unmet demand, there are certain needs within the community that simply demand a downtown facility.**
  - Local meeting planners prefer hotel and conference space under one roof and those venues are extremely limited downtown.
  - Comments suggest that the availability of a conference center/hotel of the scale discussed above would accommodate industry and University sponsored events that are presently choosing to hold events elsewhere in Southeastern Michigan, and/or electing to forego hosting events altogether that they might otherwise bring to the City.
  - While Eagle Crest can accommodate most conferences, it lacks the amenities and walkability of a downtown location that would appeal to users.
  - Conference attendees prefer meeting venues that are walkable and in vibrant locations.
  - University of Michigan groups tend to only host their events in Ann Arbor proper.
- **The University of Michigan's highly decentralized conference scheduling system creates significant opportunity for a new downtown conference center/hotel development.**
  - Each University department schedules its own conference and hotel space as needed.

- There is no requirement that these departments use or attempt to use University facilities before looking to outside resources.
- While University Conference Services serves as a coordinating and facilitating function to assist in matching demand for event facilities and available supply, there is no centralized function at the University responsible for marketing and managing available conference space, or establishing fixed pricing and service offerings. Rather, individual colleges and departments each establish their own availability and rules.
- The decentralized nature of both supply and demand associated with the University's own conferencing activities, as well as the recognized dearth of large scale meeting space on the Central Campus creates an opportunity for a first class conference facility near to the campus to capture a large share of University demand.
- For those larger events that the University does accommodate, there is typically a need to coordinate a considerable amount of cumbersome logistics associated with securing sufficient overnight accommodations within a reasonable distance to the campus.
- The University cannot draw as many international conferences as it could because of the size limitations of current conference and hotel facilities. Specifically, there is a need, from the University's standpoint, for a facility that can seat 500 for dinner.
- The Library Lot is seen as being sufficiently close to the campus to be a good location for conferences. The location is viewed as a reasonable bridge between the campus and downtown.
- In spite of the recognized need for additional large-scale meeting facilities with adjoining overnight accommodations, the University is unlikely to address the need itself through the construction of an on-campus conference and hotel facility (such as the Kellogg Center in East Lansing).
- **A first-rate hotel conference center in downtown would serve as a meaningful business attraction and retention tool.**

- Ann Arbor is increasingly seen as an entrepreneurial, innovation-based community. The ability to host business and technology conferences downtown would allow Ann Arbor to showcase its appeal as an attractive headquarters location for such companies.
- Downtown restaurant and bar owners would generally welcome the additional business a large scale conference center could attract, viewing it as a good way to address the otherwise cyclical nature of their business.
- **A hotel conference center on the Library Lot would create substantial synergy and community benefit through its proximity to the Ann Arbor Public Library.**
  - There is significant potential to share space and programming between the library and new conference center for the benefit of the community.
  - The public plaza identified in both proposals can serve important community purpose as the town square or gathering place for a variety of Library-based programs and events.
  - The development of this project will create new demand, urgency, and a platform for improving and upgrading the existing Library.
  - If properly designed and coordinated, the development of a conference center adjacent to the Library would permit the Library planners to achieve an optimal size and configuration for their own meeting facilities, thereby avoiding unnecessary or redundant public expenditures.
  - In the absence of a meaningful development of the Library Lot, the Library may be less inclined to make major investments in upgrading its present facility.

B. Background Materials:

Certain conclusions and common perspectives were also gleaned from a number of background materials and analysis provided by the Ann Arbor Convention and Visitors Bureau (AACVB), the A2D2 Initiative and Downtown Plan as well as the DDA.



(i) AACVB Data

- A 2008 report prepared by Equation Research for the AACVB found that only 16% of Ann Arbor visitors and conference attendees are from Michigan.
- That same report found that approximately 32% of Ann Arbor visitors and conference attendees have a relationship with the University of Michigan.
- The AACVB's 2010 Service Plan states that the Ann Arbor area continues to have the highest hotel occupancy rates in Michigan.
- Notwithstanding Michigan's low hotel occupancy rates compared to the U.S. average, Ann Arbor's remain strong even compared nationally.
- The Michigan film industry incentives have positively contributed to the Ann Arbor hotel market over the last two years and Ann Arbor is seeing increasing activity from this industry.
- The Travel Industry Association reports that leisure travel is moving towards shorter trips, closer to home, to lower-cost destinations.
- This same Industry Association expects conference travel to begin recovering in 2010, but companies will continue to spend less on travel expenses, seeking 'second-city' destinations that provide greater overall value.
- *ABC News* recently reported an increase in visitors to smaller cities, which offer lower airfares, affordable hotels, and relatively short trips.

These data points support the views of the interviewees by confirming that:

- Ann Arbor has a strong hotel market, and one that is underserved in its downtown.
- Ann Arbor is already a popular destination for visitors and conferences and will become an even greater draw given the trend to travel to smaller, less expensive venues.
- The downtown lacks large meeting spaces, particularly spaces with combined lodging.
- AAACVB enjoys a high success rate in attracting conferences it pursues, but is constrained in groups it can pursue because of meeting space size.
- The University is responsible for a significant percentage of visitors to Ann Arbor, but a substantial market of potential users exists beyond University-sponsored events.

(ii) DDA Comparable Communities Survey

As part of the background work assembled by the DDA in connection with this evaluation, it conducted an informal survey of comparable university-based communities across the country to evaluate whether any meaningful data or comparisons to Ann Arbor could be drawn.

Specifically, the DDA compiled a series of data points relative to both conferencing and hotel offerings in communities determined to be comparable to Ann Arbor by ePodunk College Towns Index (the “Index”). To establish its basis of comparability, Index evaluated communities on over 15 variables of comparability including such factors as population, total college enrollment, income, employment, entertainment, and cultural assets.

Based on these factors, the Index then grouped the communities into four categories. Ann Arbor was identified as a medium sized college town along with the following other 9 cities:

- Columbia, SC
- Tallahassee, FL
- Madison, WI
- Urbana-Champaign, IL
- Berkeley, CA
- Athens, GA
- Fort Collins, CO
- New Haven, CT
- Provo, UT

The summary of the DDA’s findings are included as Attachment A. As a general matter, the following observations are worth noting:

- Ann Arbor has the highest hotel occupancy rate, but ranks 5 out of 8 in number of hotel rooms downtown.
- Ann Arbor ranks 4<sup>th</sup> out of 8 in terms of total meeting space within its city limits, it ranks at the very bottom of the list in terms of total meeting space in the downtown.

- The largest meeting space in the City of Ann Arbor (6,325 square feet at the Michigan Union) is significantly smaller than the largest meeting space in any of the other comparator cities.

(iii) A2D2 Initiative and Downtown Plan

As stated in the RFP, it is intended that the proposals reflect the principles identified in the A2D2 Initiative and the Downtown Plan. These planning efforts, which have spanned more than a decade, reflect the input and guidance of Ann Arbor’s planning professionals as well as the preferences of citizen participants. While many of the guidelines and conclusions contained in these underlying documents will be more instructive during the design and development phase of the project, certain concepts are directly applicable to the proposals themselves.

The Downtown Design Guidelines identify a series 8 Overlay Zoning Districts that reflect the diversity and character of each of the different environments within the Downtown. The Guidelines take into account those existing features of the Districts that are most valued within the community and create a vision for each area which includes the introduction of new characteristics. The Library Lot lies within the “Midtown District.” According to the Guidelines “this district lacks a strong sense of identity and is a place where creation of a new context should occur. The intent for this district is higher density development...” Similarly, in the section of the Design Guidelines that discusses “The Vision for Downtown”, there is reference to the Downtown’s “civic corridors” which includes Fifth Avenue and the Library Lot site. With respect to these civic corridors, the Guidelines call for “thoughtful placement and coordination” of civic facilities to ensure they become important public spaces.

The development of a conference center on the Library Lot site would provide the very sense of identity the Guidelines anticipate for this district. It would satisfy the expectation for higher density development in this area, and most importantly, would create a compelling opportunity and platform for a broad range of civic, economic development, and community activities.

Further as articulated in the Downtown Plan, one of the four land use goals for the City’s core, speaks directly to the importance of this potential use. The Plan states as follows:

“Goal: Support the private development of a downtown conference/civic center within the Core area. Further investigate the costs and benefits of public funding participation in the construction and/or operation of such a downtown visitor attraction.”

### III. Proponent and Proposal Evaluations

Roxbury’s methodology with respect to evaluating the two remaining proposals involved two separate, but interrelated evaluations. The first was to compare and score both proposals against one another on the basis of their responsiveness to the selection criteria of the original RFP requirements. The second was to assess each on the basis of the perspectives gleaned from the background interview and data together with direct interviews of each proponent intended to answer questions which were not specifically addressed in either the proposals or the follow-on answers to questions raised by the Advisory Committee.

#### A. Responsiveness to RFP Requirements

The RFP includes four specific selection criteria against which the proposals and proponents will be evaluated according to a weighting formula included in the RFP. These selection criteria and weighting are as follows:

(i) Past Involvement with Similar Project(s) – Demonstrated experience in design and completion of projects with the following qualities:

- downtown infill development;
- on-going public-private partnerships;
- community input for design; and
- demonstration of significant impact on the community verified by references.

Weighting: 25%

(ii) Proposed Work Plan – Alignment of proposal with site development objectives outlined in the RFP. Proposals must include information on the schedule anticipated by the proposer, including timing for site plan development and arranging construction financing.

Weighting: 40%

(iii) Financial Capacity – ability to finance proposal, including demonstrated ability to procure financing and complete the work within the proposed timeline.

Weighting- 25%

(iv) Cost Proposal – lease return.

Weighting 10%

(i) Past Involvement with Similar Projects:

A comparison of the two development teams would appear to give an advantage to the Acquest team in this criterion. Acquest demonstrated through its presentation materials, and subsequent interviews that it has significant background nationwide in developing large, mixed-use projects, often involving urban in-fill, and frequently requiring complex public-private finance and ownership structures. Further, to the extent that a conference center and/or hotel were to be included in any final development plan for the Library Lot, Acquest has shown that it has substantial experience in the development of such projects, often in locations involving significant and complicated urban planning challenges. Further, it is clear from the interview process that the projects successfully completed by Acquest necessitated skill in interacting with local municipalities through the RFP, planning and development processes to achieve results that demonstrate significant impact on the community.

By comparison, the Valiant team has been assembled specifically for the purpose of developing a project for the Library Lot. As such, Valiant Partners LLC itself lacks a specific track record of development involving all team members from which to measure it against the criterion. Accordingly, it is necessary to evaluate the depth of development experience by the individual team members with the assumption that this experience is translatable to the Valiant team as a whole. On this score, Valiant team members do present a satisfactorily deep level of experience in financing, developing and managing complex, mixed use projects, many involving elements of the project they have proposed for this site, and some involving far more aggressive public-private partnerships than are being proposed by this site. In particular, the development experiences brought to the team by Michael Bailkin, along with the depth of design and construction experience offered by Carl Luckenbach and Skanska suggest that the team has sufficient depth of experience under this criterion. That said, the successful implementation of a project of the scale and complexity proposed by Valiant would likely require the identification by them

of local of locally-based project management expertise as an extension of their team. Valiant indicated in the interview process that their intention would be to engage such a resource during the pre-development phase of the project.

In summary, while both groups have presented sufficient levels of experience to satisfy the base criterion as articulated, given Acquest's years of experience as a team on projects of similar or greater scale to those being proposed, their team presents an apparent advantage over the Valiant team's experience in this regard. To address this issue, Valiant would need to augment its team in the area of day-to-day project management.

(ii) Proposed Work Plan:

This selection criterion is considered the most important for the evaluation of the proposals and the proponents and focuses on the three Site Development Objectives specifically described in the RFP, which also make reference to the principles and recommendations set forth in the A2D2 Initiative and the Downtown Plan (the "Objectives"). In addition to other general elements of a proponent's work-plan, the RFQ requires that proponents 'provide a creative and responsive proposal' that specifically addresses the Objectives, which are described in the RFQ as follows:

- Environmental Benefits - The development proposal should incorporate to the greatest extent possible environmentally sensitive design and energy efficiency features that follow LEED standards. In addition, the project should propose innovative and environmentally friendly runoff water management and seek to improve water quality.
- Beneficial Use of the Site - Any proposal for this site must demonstrate a clear benefit to the community and be consistent with the recommendations of the Downtown Plan, and A2D2 initiative. Preference will be given to proposals that incorporate a use or uses that provide a publicly available service to the community, for instance, building or open space that may be used for public meetings, recreation, or civic/cultural events.
- Financial Return- The proposal must provide a positive financial return to the City. In the absence of other considerations, the City has a fiduciary responsibility to obtain fair market

value upon the sale of City assets. Long-term lease or other property arrangements will be considered, but must meet this financial return criterion.

What follows is a comparative assessment of both proposals across the Objectives as well as the above selection criteria. As described in specific detail below, while the Acquest proposal presented a strong responsiveness on Environmental Benefits, with respect to the Objectives of Beneficial Use and Financial Return, as well as the general comprehensiveness of the work-plan, the Valiant proposal is far more compelling and significantly more responsive to the RFP as well as to goals articulated in the stakeholder interviews, the A2D2 Initiative and the Downtown Plan.

(a) Environmental Benefits

The first Objective, Environmental Benefits, is a concept also emphasized in the A2D2 Initiative as well as the Downtown Plan. Sustainability is listed in the Downtown Plan, updated in May 2009, as one of nine core values for the Downtown. More specifically, the Plan states:

“The downtown should be developed and maintained such that it continues to provide for future generations a viable economy, a “green” and energy-efficient built environment and transportation network, and social and cultural opportunities.”

In their proposals, both proponents state their commitment to LEED certification. However, in the RFP responses as well as the written answers to the Library Lot Advisory Committee questions, Acquest provides much more detailed information. More specifically, in its proposal, Acquest devotes almost one and a half pages (out of approximately 10 pages of text) to the environmental impact and sensitivities of its project. In the section entitled Environmental Benefits, Acquest provides a thorough evaluation of a variety of positive sustainability factors including the location of the project, benefits of the underground parking facility, and numerous design elements of the project intended to support LEED Gold certification. Among the many specific descriptions and observations of environmental benefits described in the Acquest proposal are:

- The selected site....reduces the environmental impact of suburban sprawl.

- The site is located adjacent to the Ann Arbor Transportation Authority...[reducing] pollution and land development impact from automobile use.
- The @Hotel will offer free bikes for hotel guests and bicycle storage.
- By utilizing the proposed underground storm water detention tank...in the underground deck, combined with the vegetated green roof terraces and pervious pavers in the plaza, the project will limit the disruption of the natural hydrology by reducing pollution from storm water runoff and eliminating contaminants.
- ...[l]ight colored roofs and vegetated green roofs...[will] reduce heat islands to minimize the impact on microclimates and human and wildlife habitats.

In addition to these higher-level descriptions, Acquest provides substantial detail in the following areas: Water Efficiency; Energy and Atmosphere; Materials and Resources; and Indoor Environmental Quality. Similarly, in its written response to questions from the Advisory Committee as to whether Acquest has done enough design work to know whether LEED Gold is achievable, it cites the careful analysis already performed by its design team which concludes that 69 out of 110 available points - enough for Gold certification – are attainable. The response to questions also attaches a detailed LEED checklist for the project.

In contrast, Valiant’s proposal includes a single statement that “The Project will be designed for LEED certification.” Later in the proposal, in the Impact Analysis section, Valiant makes one additional reference that the project will “Serve as a model for green development, through LEED certification of the facilities and the provision of extensive usable open space within the project.” This lack of detail is further underscored in its written response to questions from the Advisory Committee. More specifically, when asked about the anticipated level of LEED certification, Valiant responds “The project will be LEED Certified as a minimum. A LEED Silver or Gold rating will be achieved if the trade-off between first costs, operating costs and long term benefits are positive.”

Against this backdrop, it would be expected that the proposals would devote sufficient response on how the project will advance the sustainability goals of the City - if not providing specific detail on design, materials, and engineering at this early stage, then through concepts, examples, and ideas. Accordingly, the evaluation of the two proposals suggests a greater degree of focus on environment benefits and sustainability from the Acquest team. That said, it is worth noting that many of the elements identified



in the Acquest proposal include a recitation of sustainability items already provided to the site by the DDA's investment in it, or by simple virtue of the site's location, and as such would result from the development of either proposed project.

(b) Beneficial Use of the Site

The second Objective, the Beneficial Use of the Site, expects the proposals to "demonstrate a clear benefit to the community and be consistent with the recommendations of the A2D2 Initiative and the Downtown Plan." To evaluate the proposals against this Objective, it should first be noted that the fundamental difference between the two proposals - namely Valiant's inclusion of a state of the art conference center together with a full service hotel, condominiums and offices, versus Acquest's proposal for a hotel and hotel related retail only - drives much of the analysis regarding community benefit.

Both proposals call for a mixed-use project that meets the requirements of the proposed zoning for the D-1, Downtown Core zoning district. This new zoning overlay for the Downtown is one of five high priority recommendations of the Downtown Development Strategies Project, as implemented through the A2D2 Initiative. Following is a summary description of each project:

Acquest Project Description

- Mixed use project consisting of the following key elements
  - o 148,000 square feet of new development
  - o 8850 square feet of ground level retail space
  - o Eight story, 190 room boutique hotel, potentially expandable to 282.
  - o 5340 square feet of meeting rooms within the hotel
  - o 8,000 square foot public plaza ("Library Plaza") for passive recreation and programming
- Proposed density of 261% floor area ratio ("FAR"), below the maximum FAR of 400% included in the proposed D1 zoning regulations; and building height of 120 feet, below the maximum height of 180 feet.

Valiant Project Description (most recent revisions incorporated)

- Mixed use project consisting of the following key elements
- 178,000 square feet of new development
- 26,000 square foot conference center with capacity for up to 500 in banquet seating, and including potential expansion through above-ground connection to Library
- 150 room, 4-star hotel
- 6 high-end condominiums
- 48,000 square feet of office space
- 5,000 square foot restaurant
- 6,000 square foot public plaza

Project will utilize most of the allowable density on the site and will remain within the maximum height limit of 180 feet.

As stated, the fundamental difference between the proposals is Valiant's plan to develop the conference center on the Library Lot site itself. Given the variation in basic project scope between the two proposals, and the RFP itself required no fixed set of program elements, the most effective set of guiding principles for comparison is embodied in the conclusions and criteria drawn from interviews of community stakeholders and background materials summarized in Section I of this report. Based on the foregoing the following conclusions regarding the beneficial use of the site, and the parties' respective work-plans can be drawn:

- **The clear consensus drawn from community stakeholder interviews and other background materials is that a substantial downtown conference center, with adjacent hotel would provide significant benefits to the community.** While there remain open questions which still need to be resolved regarding the optimal scale and configuration of such a facility, what the interviews and materials described above have clearly reinforced is that there is a remarkable degree of consensus regarding the benefits such a facility would bring to the downtown in terms of satisfying currently unmet demand for University and business gatherings, supporting local restaurant and retail business and improving Ann Arbor's ability to attract and retain enterprises currently being lost to other innovation-based communities in the Midwest and Northeast. With respect to the open question of optimal scale and configuration, the banquet capacity of

500 was most frequently cited as being currently un-attainable in the downtown area and would appear to present a program of sufficient scale and configuration to provide the beneficial impact needed. That said, any successful project should plan for the potential of future expansion if those who suggest a larger event venue is needed prove to be correct. Clearly any final plan for the site will require further feasibility analysis by the successful proponent, though it is noted that Valiant has commissioned an initial feasibility study from the PKF Consulting Group of New York to support the viability of its current plan.

- **By establishing a “game-changing” conference center as its central project element, Valiant has identified the more compelling project for the site.** Of the two proponents, Valiant’s proposal to develop a conference center and hotel on the Library Lot of approximately 26,000 square feet, with the potential for expansion in conjunction with a renovated library, in that it directly achieves this widely sought objective, most strongly addresses the issue of beneficial use of the site. Such a development would define the Midtown District in the very manner envisioned in the Design Guidelines of the Downtown Plan – giving this key district its identity, together with the Public Library, as the civic center and town square of the City – linking the University with the downtown, both physically and programmatically. While Acquest presents an attractive, and potentially viable vision for the development of the site as well, its reliance primarily on a traditional hotel use, with no clear proposed solution on the Library Lot or elsewhere for the development of a complimentary conference center raises several unanswered questions regarding the strength of their overall concept and the means by which the City might later address the need for a conference center at a future date.
- **Acquest itself recognizes the need for a conference center, but does not actually propose to develop one.** Both in their proposal and in subsequent interviews with the Acquest team, they confirmed the importance of a conference center to the long range viability of the plan. In Section 4 of the Acquest Proposal, addressing beneficial use of the site, Acquest states:

“The current hotel program calls for an expansion option as the area evolves into a conference/meeting district demanding additional rooms to facilitate the attraction of desirable functions and group business.”

Further, in their cover letter Acquest notes:

“Our interest in the public/private partnership....extends to the development of a 40,000 to 50,000 square foot public event center ultimately, but not necessarily currently, on the former YMCA site.”

To Acquest’s credit, their proposal is not contingent on either the City’s obligation to build such a center or their rights to the YMCA lot for such purpose. That said, their clear recognition of the need for and likely viability of such a center in the downtown, without a corresponding proposal to incorporate this element into a broader developments, is a disadvantage to their proposal when compared to Valiant’s in terms of beneficial use. This is particularly striking in light of the various combined conference center/hotel projects which Acquest identified as indicative of their background and experience. When asked specifically why Acquest did not include a conference center as a component of their proposal, they indicated that they did not view the site as being large enough to accommodate a sufficiently large enough center.

- **The connection between the Library Lot and a potential expansion of the library as a complimentary use is a unique opportunity for public-private synergies which has been more effectively leveraged by the Valiant team.** While both proposals envision a physical and programmatic connection to the Library, the Valiant proposal evidences a considerably larger degree of forethought and planning relating to potential synergies with the downtown branch of the library, with corresponding potential benefit to the viability and beneficial use of both facilities. Specifically, in addition to the dedicated public plaza, which in both proposals would provide a street level relationship between the library and the project, Valiant’s current rendering and program envisions an above ground connection to an expanded and renovated library. This connection forms the basis for a potential sharing of conferencing and meeting spaces between both facilities, thereby permitting the Library to optimize its own plan for such additional meeting space without the need to construct duplicative facilities. Further, the connection itself presents one potential means of addressing the possible need for expansion of the conference center itself by essentially growing into a renovated Library, and more fully integrating the Library itself into the overall plan for the site. While this potential expansion capability would clearly need to be further articulated as part of any final development plan, it is

apparent from interviews with both Library personnel and the Valiant team that Valiant has spent considerably more time working with the Library to evaluate these possibilities and craft a plan that can maximize the potential synergies between the two facilities.

- **While both plans raise issues of market feasibility associated with their respective planned uses, the Valiant plan goes further in addressing underlying questions of viability through its mixed use approach.** As stated above, both proponents' proposals raise questions of financial and market feasibility which would require further analysis in the post-selection phase, particularly to the extent that public financial support is being sought. Both suggest the addition of a full-service hotel to the downtown, which while anecdotal market evidence would suggest is needed to meet current demand, will require further definition as to pricing, scale and offerings before any final transaction were to occur. Further, the Valiant proposal suggests other uses that may not be fully supported by current market demand, such as luxury condominiums and up to 48000 square feet of Class A office space. Nonetheless, for the reasons already discussed relative to the synergies between a conference center of minimally sufficient scale and an adjoining hotel, the Valiant proposal offers a more compelling case for underlying feasibility than Acquest. With respect to the condominium and office components of the project, while these uses appear somewhat less compelling given current market conditions, Valiant has confirmed that they remain flexible with respect to the inclusion of both items, that both will be dependent on their own market feasibility studies, and that neither component is critical to the financing structure they are proposing or a pre-condition to their pursuit of the transaction. Accordingly, Valiant appears to have presented a mixed-use proposal that is inherently more capable of reinforcing its own uses to achieve greater viability, and remains flexible enough to adjust to market conditions.
- **Valiant has proposed a work-plan for execution of its project that is more comprehensive in nature and reflects a clearer appreciation for the need for community involvement.** Apart from addressing the substance of each proponent's specific proposal for the site, this selection criterion requires that each proponent be evaluated on the basis of their proposed work-plan for achieving their overall visions for the Site. In this regard, both proponents have provided a suggested timeline for advancing their projects beyond the initial selection phase. The respective timelines on their face contain reasonable milestones and evidence a solid understanding by both proponents of the time typically required to complete the

predevelopment and construction phases of projects of the scale and complexity proposed. That said, it is clear from the specificity included within these timelines, as well as the interviews with the proponents and community stakeholders closest to the site, that the Valiant team has spent considerably more time and energy than Acquest in evaluating and planning for the complexities associated with garnering both public support as well as negotiating and formalizing financing for their proposed project. In proponent interviews, the Valiant team demonstrated a clear recognition of the challenges associated with assembling and advancing a project of the magnitude being proposed in a community that is not accustomed to utilizing large-scale public-private partnerships or economic incentives in downtown development. Further, the ground work they had done with various stakeholders to garner input and craft a proposal which is responsive to that input was evident from interviews with the Stakeholder Group. Lastly, Valiant suggested a specific process for reaching agreement on key terms of a transaction around an identified transaction structure and a series of proposed gates for reaching mutual agreement. While their proposed work-plan would likely need to be modified to ensure that the City's various approval processes are incorporated, this work-plan constitutes a credible road map. By contrast, the Acquest team has put forward far less comprehensive plan for moving from selection to financing and closing. While Acquest's obvious track-record for undertaking complex transactions and working closely with municipalities to complete those transactions is self-evident, their team provided very little clarity either in the proposal or in their subsequent interview to suggest that they have given further consideration to the specific game plan for this project. Rather, they appear to be relying largely on that track-record as evidence of their capability to achieve success in this instance. While this is not an unreasonable proposition for a firm of their experience to take, in comparison to the Valiant team's approach this portion of their proposal appears lacking.

In summary, for the reasons set forth above, while the Acquest team scores very high on environmental aspects of their proposal and has presented an attractive use of the Library Lot, Valiant's approach provides a significantly greater beneficial use by providing a game changing project that strongly responds to community and planning aspirations for the downtown, and has presented a credible and community focused approach to executing on their work-plan for that project.

(iii) Financial Capacity, return and Cost Proposal

The remaining elements of the site development objectives, work plan and the selection criteria all address various aspects of the finance, including the financial aspects of the proposed project itself, the financial capability of the development team and the financial impact of the respective proposals on the City. In the interest of conciseness and clarity, the comparison of both proponents and their respective proposals across the range of financial considerations is addressed below.

It is difficult to judge the financial capacity of each proponent outside the context of their respective proposals, and the most relevant inquiry for purposes of the City is whether the proponent has the capacity to deliver on the project as proposed. Setting that criterion aside for the moment, it is a fair observation that both groups bring substantial wherewithal and access to financing based upon their past project experience, and, as such, both present a credible case for having the ability to obtain financing for projects of the scale being proposed.

That said, there is a fundamental difficulty in making statements beyond these generalities in relation to the Acquest proposal on the basis that Acquest has offered no specific plan for financing its proposed project. In the interview phase, and consistent with the discussion on work-plan above, Acquest confirmed that their experience is to address these issues in the post-selection phase, again relying on the proposition that the City should select the team with which it is most comfortable and address the specifics of the proposal, including the means of financing it, in the post-selection phase. Therefore it is impossible at this phase to assess the degree to which the Acquest project can be financed, and assuming it can, the exact degree of public subsidy or incentives that might be asked of the City by the proponent in connection therewith. However, Acquest also confirmed in the interview that based on its assumptions of the development costs and the potential revenue generated by the project, some level of public subsidy would be required.

By contrast, Valiant has provided a very specific proposal for the financing of its project. That proposal, as well as Valiant's most recent modification to it, are depicted in Attachment B.

As the chart reflects, Valiant had initially envisioned a somewhat different mix of uses, including a larger conference center. That transaction suggested the need for \$8.1 million of publically-guaranteed bond financing supported by a payment to the City in the form of ground rent and an additional "payment in

lieu of taxes” (PILOT). The City would realize a small net cash benefit as the payments contemplated were in excess of the debt service required for the bonds. That benefit plus the taxes generated by the residential units totaled roughly \$130,000. Prior to the completion of the review phase, Valiant offered an unsolicited modification to their scope to adjust the financing scheme in certain key respects. By reducing the initial scale of the conference center portion of the project and adding one floor of commercial office space, Valiant was able to strengthen the development’s potential for revenue generation, eliminating the need for any publicly-guaranteed debt. To ensure that this is the case, Valiant has offered to guarantee the amount of financing necessary so that any shortfall is covered by the developer, not the City. Additionally, under the revised proposal, the excess ground rent plus the taxes generated by the residential units total roughly \$275,000, more than double the original offer.

There is, of course, much additional due diligence that would need to be undertaken in the transaction negotiation phase to ensure that this finance structure can indeed be achieved, and further that the developer’s guarantees provide adequate back-stop to satisfy the City. Further, Valiant’s specific offer for payment of the air rights, while positive, merits further evaluation and potential negotiation. That said, the current proposal represents a credible and comprehensive approach to pursuing a transaction which on its face puts all real financial risk associated with the transaction on the developer’s shoulders, and essentially provides a path for privately financing the development without the need for government subsidy beyond the normally available entitlements. Further, by agreeing to assume all financial risk on the project, Valiant has essentially also assumed market viability risk with respect to their proposed program. Accordingly, while a comprehensive market feasibility study may still be an integral component of the next phase of pre-development, this issue is far less of a material point of consideration for the City than it would have been in their original proposal, and that would most certainly be the case with respect to Valiant’s.

In summary, while it is reasonable to expect that the Acquest team, if selected, would diligently work in good faith to achieve an acceptable financing structure to the City, as presented it is not possible to compare the nature of that structure to that being proposed by Valiant’s, and there is every indication from Acquest that their proposal would involve some level of public support. Subject to necessary follow-on negotiation and due diligence, the Valiant proposal is clearly preferable.



#### **IV. Recommendations**

For the reasons set forth in this report it is the recommendation of Roxbury that the Advisory Committee provide a conditional selection of the Valiant team as the developer of the Library Lot.

This selection would be conditioned upon the entering into of a letter of intent between the proponent and the City of Ann Arbor, subject to final approval by City Council, that would set forth the following specific items to the mutual satisfaction of the parties.

- Scope and scale of the project
- Basic deal economics
- Specific terms of financing with timeline for closing
- Development and construction timeline
- Requirements for any further feasibility analysis
- Developer's expectations regarding entitlements and incentives, if any
- Any other specific conditions to ultimate development that the parties may mutually agree upon

The letter of intent would also specify that the project remains subject to the normal entitlement process. The authorization from City Council would permit the DDA and City Administrator the time to put together a development agreement consistent with the terms agreed to, itself subject to ultimate Council approval. An example of such a document is included as Attachment C hereto.

The advantage of this recommended approach is that it will allow the City to move forward to the next phase of the project with a clear understanding of the transaction terms and project scope and intent while still reserving to the City Council and the community all of the rights and obligations for oversight and public input afforded under the full zoning and entitlement process. This approach also allows the City Administrator and DDA to fully participate with the proponent in finalizing the details of the program, financing structure, project viability and timeline in the context of a specific letter of intent to be presented to City Council. Once presented, it gives the City Council specific deal terms to take into consideration well evaluating whether to approve the recommended development team. As such, the Council will also have the opportunity to review and approve the material parameters of the transaction before authorizing the negotiation of a definitive development agreement. Further, this approach will

provide the Council and the community the assurance that in approving the deal terms, they have not in any way waived the community's right to full input into the project's scope and details through the normal entitlement process.

Thank you for your consideration.

Respectfully submitted,

The Roxbury Group, LLC

ATTACHMENT A

General City Data

City	College Name	Major City	Dist to City (miles)	Population	Median House Income	Per Capita Income
Ann Arbor, MI	U of Michigan	Detroit	41	115,299	\$51,434	\$30,410
Athens, GA	U of Georgia	Atlanta	69	111,706	\$36,040	\$21,073
Berkeley, CA	U of California- Berkeley	San Francisco	14	108,885	\$59,335	\$36,844
Boulder, CO	U of Colorado- Boulder	Denver	29	92,871	\$52,277	\$37,380
Columbia, SC	U of S. Carolina - Columbia	Charlotte	93	117,125	\$37,596	\$23,363
Fort Collins, CO	Colorado State University	Denver	65	136,665	\$49,662	\$28,653
Madison, WI	U of Wisconsin- Madison	Milwaukee	80	218,915	\$53,340	\$30,131
Urbana-Champaign, IL	U of Illinois-Urbana/Champaign	Indianapolis	122	117,159	not known	not known

Meeting Space and Hotel Data

City	College Name	Meeting Space (square feet)			Hotel Rooms		Occupancy
		Campus	Downtown	Outskirts	Total	Downtown	
Ann Arbor, MI	U of Michigan	91,667	9,358	80,231	181,256	274	65.4%
Athens, GA	U of Georgia	29,019	101,000	0	130,019	1,250	47.7%
Berkeley, CA	U of California- Berkeley	23,000	69,051	29,173	121,224	not known	not known
Boulder, CO	U of Colorado- Boulder	41,013	25,708	50,038	116,759	361	62.4%
Columbia, SC	U of S. Carolina - Columbia	3,123	116,049	87,278	206,450	2,385	55.8%
Fort Collins, CO	Colorado State University	71,616	15,810	188,437	275,863	43	53.0%
Madison, WI	U of Wisconsin- Madison	0	356,582	296,520	653,102	1,517	61.2%
Urbana-Champaign, IL	U of Illinois-Urbana/Champaign	49,406	11,567	91,664	152,637	not known	not known

**ATTACHMENT B**

COMPARISON

	<b>INITIAL OFFER</b>	<b>REVISED OFFER</b>
<b>I. Program</b>	<ul style="list-style-type: none"> <li>150 room hotel, plus retail</li> <li>32,000 sq. ft. conf. center</li> <li>open space at grade and on conf. center roof</li> <li>12 condo units</li> </ul>	<ul style="list-style-type: none"> <li>same hotel/retail</li> <li>26,000 sq. ft. conf. center</li> <li>open space at grade</li> <li>6 condo units</li> <li>48,000 sq. ft. office<sup>1</sup></li> </ul>
<b>II. Risk to City</b>	<ul style="list-style-type: none"> <li>30 yr. full faith and credit bond of \$8.1 Million, with anticipated debt service of \$545,000<sup>2</sup> secured by ground rent/PILOT (see below)</li> </ul>	<ul style="list-style-type: none"> <li>No City bond. Developer will borrow \$6.9 Million on tax exempt, 30 yr revenue bond issued by EDC, with anticipated debt service and reserves of \$558,269<sup>2</sup> secured by ground rent payments and developer credit (see below)</li> </ul>
	<ul style="list-style-type: none"> <li>No operating risk; developer will operate and guarantee against operating losses</li> </ul>	<ul style="list-style-type: none"> <li>Same</li> </ul>
<b>III. Compensation</b>	<ul style="list-style-type: none"> <li>Ground rent/PILOT               <ul style="list-style-type: none"> <li>1 time payment of 10% of condo unit sales, estimated at \$900,000<sup>3</sup></li> <li>Annual Ground Rent of \$348,784</li> <li>PILOT of \$250,000</li> </ul> </li> <li>Taxes on condos estimated at \$75,000 annually</li> <li>Ground rent/PILOT covers City bond</li> <li>Excess plus condo taxes is \$128,784 annually</li> </ul>	<ul style="list-style-type: none"> <li>Ground rent (no PILOT)               <ul style="list-style-type: none"> <li>1 time payment of 10% of condo unit sales, estimated at \$720,000<sup>3</sup></li> <li>\$775,000 annual ground rent</li> </ul> </li> <li>Taxes on condos, estimated at \$60,000<sup>4</sup></li> <li>Ground Rent covers TIF bond and reserves</li> <li>Excess plus condo taxes is \$273,731 annually</li> </ul>
<b>B. Other</b>	<ul style="list-style-type: none"> <li>Ownership of 32,000 sq. ft. conf center valued at \$9 Million</li> <li>Developer builds public open space at no cost to City.</li> </ul>	<ul style="list-style-type: none"> <li>Ownership of 26,000 sq. ft. conf center valued at \$7.6 Million</li> <li>Same, but no open space on roof of conf. center</li> </ul>

<sup>1</sup> If full office component is not developed, we will increase other uses accordingly.

<sup>2</sup> Reserve fund was not included in initial offer; is included in revised offer.

<sup>3</sup> Offer is same, but anticipate higher sales prices.

<sup>4</sup> Estimate higher taxes per unit due to higher sales prices.

## ATTACHMENT C

### Letter of Intent

This Letter of Intent is entered into as of this \_\_\_\_ day of November, 2010 by and among the City of Ann Arbor (the “City”), the Downtown Development Authority of the City of Ann Arbor (“DDA”) and \_\_\_\_\_ (“Developer”).

WHEREAS, Developer has been selected by the City through a competitive RFP process as the team to be granted certain rights to develop a project above and adjacent to an underground parking garage currently being constructed at a site located on Fifth Avenue between Liberty and William Streets and commonly referred to as the Library Lot (the “Deck”);

WHEREAS, the City, the DDA and the Developer intend to enter into a definitive development agreement setting forth the specific rights and obligations of the parties relative to the granting of such development rights and the particulars of the project to be built above the Deck; and

WHEREAS, as a preliminary step to the entering into of such a development agreement, the parties wish to set forth a further clarification of their respective undertakings and commitments to one another in the following Letter of Intent.

NOW, THEREFORE, the parties hereby agree as follows:

1. Development Rights: Subject to the terms and conditions set for the below, the City shall grant Developer the exclusive right to pursue the entering into with the City and DDA of a the development agreement governing the terms of acquisition, finance and construction for a project, the overall scope and description of which is more particularly set forth on Exhibit A hereto (the “Project”) for a period of time equal to the earlier of \_\_\_\_\_ months from the date hereof, or the date upon which the parties shall enter into a definitive development agreement or cease discussions regarding same. (hereafter the “Development Rights”).
2. Terms of Transaction: The consideration to the City by Developer for the grant of the Development Rights, as well as the overall structure and terms by which the Project will be owned, managed and financed are set forth on Exhibit B hereto.
3. Zoning and Governmental Approvals: Developer shall be responsible for securing all other necessary governmental approvals and incentives in connection with the Project, including without limitation, zoning, site plan approval, and other permits and approvals as may be necessary for the construction of the Project as described. Developer acknowledges and agrees that neither the entering into of this LOI, nor a subsequent development agreement shall constitute the granting or waiving of any necessary approvals under the City’s Zoning Ordinances or other ordinances or regulations governing the development or construction of buildings within the City of Ann Arbor.
4. Parking Rights: The DDA shall reserve not fewer than \_\_\_\_ parking spaces in the Deck in support of the Project. The precise location of such spaces, consideration for such spaces and the means of access to the elevators and stairwells serving the Project shall be agreed upon between the parties as part of the Development Agreement.

5. Other Commitment and Undertakings: Developer shall be responsible for obtaining all financing commitment from debt and equity sources as may be necessary to undertake the Project, and shall undertake all pre-sale activities required in connection with such commitments.
  
6. Conditions Precedent: The parties acknowledge and agree that, except for the provisions of paragraph 6 hereto, the obligations contained in this agreement shall be non-binding, and entirely contingent upon the following conditions precedent:
  - (i) Execution of mutually agreed upon development agreement consistent with the terms hereof;
  - (ii) Obtaining of the governmental approvals and entitlement in accordance with Paragraph 3 above
  - (iii) Securing of such construction financing commitments as may be necessary to undertake the Project, consistent with the terms set forth on Exhibit B, and
  - (iv) Approval of the Development Agreement by the City Council of the City and the DDA board.
  
7. Timing: The parties agree that they will each use good faith efforts to execute a mutually agreeable definitive development agreement consistent with the terms hereof on or before the expiration of date for the Development Rights set forth in Paragraph 1 hereof. The preliminary timeline for the development of the Project is set forth on Exhibit C. The Development Agreement will set forth the final agreed-upon timeline for the obtaining of all necessary approvals, financing and entitlements described in this LOI, as well as Developer's commitments with respect to commencement of construction and completion of the Project.
  
8. Costs and Expenses: Developer shall be responsible for covering its own costs and expenses relating to the negotiation of the definitive development agreement, including without limitation, the cost of its own attorneys, consultants and advisors. In addition to the foregoing, Developer shall reimburse the City and the DDA for the cost of its consultants and counsel used in the preparation of the Development Agreement, with a not to exceed cap of \$\_\_\_\_\_.

IN WITNESS WHEREOF: this Letter of Intent is hereby executed as of the date first referenced above.

DEVELOPER

By: \_\_\_\_\_  
Its: \_\_\_\_\_

DOWNTOWN DEVELOPMENT AUTHORITY - CITY OF ANN ARBOR

By: \_\_\_\_\_  
Its: \_\_\_\_\_

CITY OF ANN ARBOR

By: \_\_\_\_\_  
Its: \_\_\_\_\_

EXHIBIT A

Project description

EXHIBIT B

Ownership and Finance Structure

EXHIBIT C

Timeline