#### ICMA conference

#### SUCCESSFUL PUBLIC-PRIVATE REAL ESTATE DEVELOPMENT PROCESS

Rob Hunden, CEO Hunden Strategic Partners

October 21st

OCTOBER 20–23, 2019 / MUSIC CITY CENTER, NASHVILLE, TN / #ICMA2019

# OVERVIEW

- + Key steps in the development process
- + Real world examples
- + Q&A





#### Hunden Partners - Areas of Expertise

Master Placemaking

Physical Programming

Market Feasibility

**Financial Feasibility** 

Funding Options/Public Incentives

Economic & Fiscal Impact Analysis

**RFQ/P** Processes

Partnership Options

**Business Plans** 





#### HSP.... Host, Stay, Play



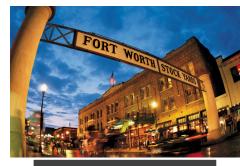
Chicago



Phoenix



San Juan



Fort Worth

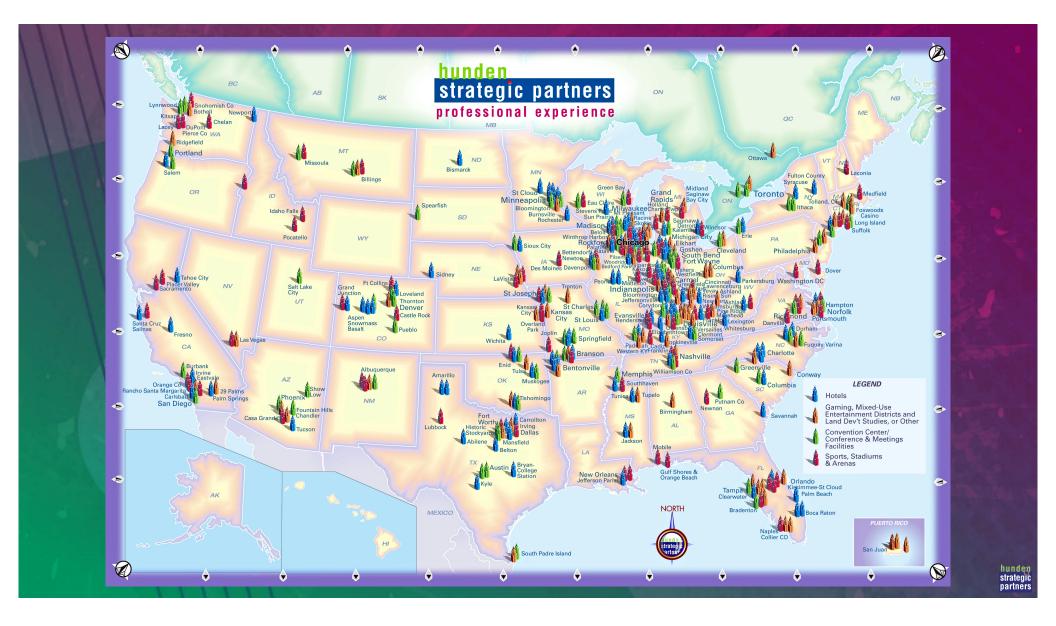


Kentucky



Madison







#### Rob Hunden, President & CEO

#### Public and Private Sector Employment Experience

City of Indianapolis Bond Bank/Mayor's Office 1996 - 1998 Capital Markets, Consulting 1999 - 2005 Hunden Strategic Partners – 2006 - Present

25 Years of Industry Experience Nationwide 600+ Projects and Studies Speaker, Teacher and Author Move projects from Concept to Reality









# Why is order important???

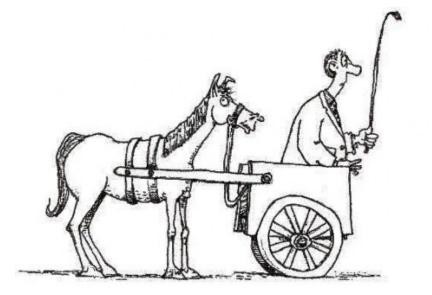




#### Cart Before the Horse

If you do not go through a logic process, you will confuse yourself and the market you are trying to attract. Common missteps include:

- Deciding what to build before you know the feasibility....
- Issuing an RFP before you have a financing mechanism/plan....
- Negotiating with developer before getting approvals from politicos...





#### 8-STAGE MODEL OF REAL ESTATE DEVELOPMENT

- 1) Market Feasibility
- 2) Site Analysis
- 3) Financial Feasibility & Gap Analysis
- 4) Financing and Incentive Options
- 5) Business Plan (Public Projects)
- 6) Political Leadership/Financial Approval
- 7) Developer RFQ/P Process + Development Agreement
- 8) Final Design, Budgeting, Funding

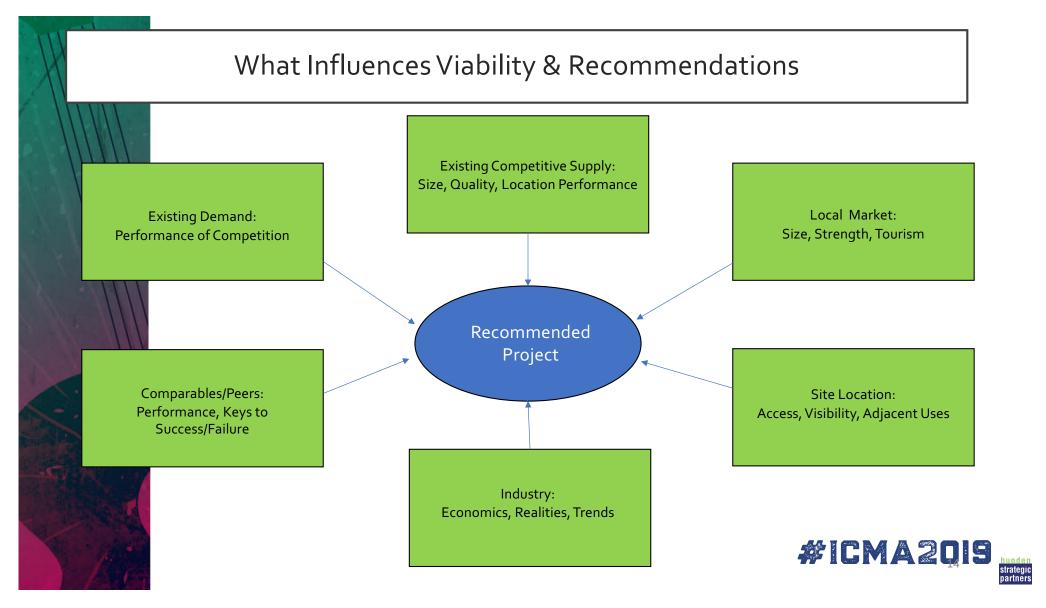


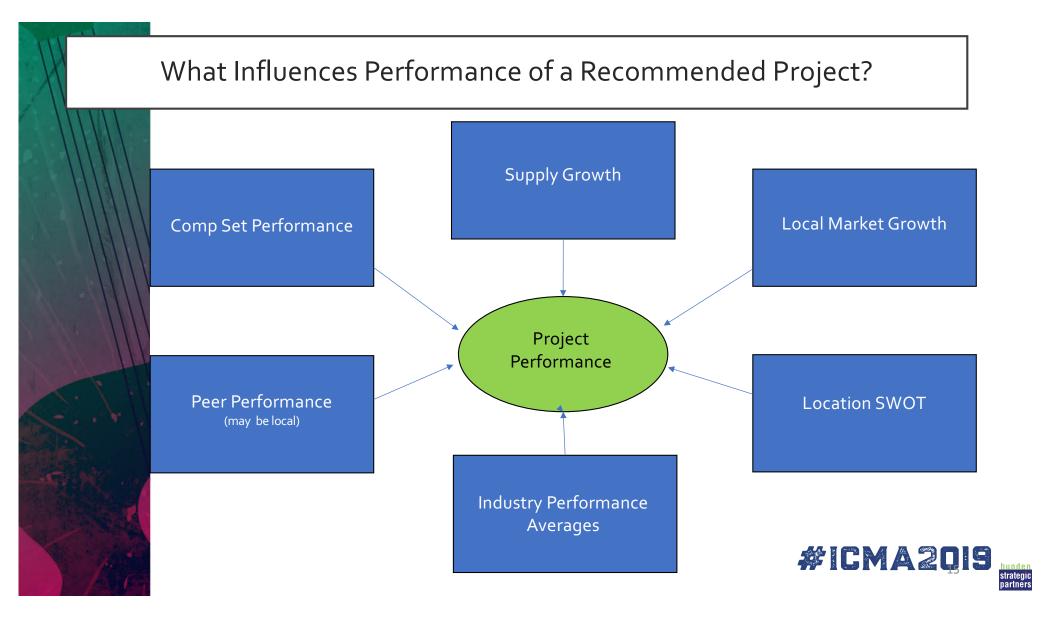
# Market **Feasibility & Site Analysis** hunden #ICMA2019 strategic partners

#### MARKET & SITE ANALYSIS

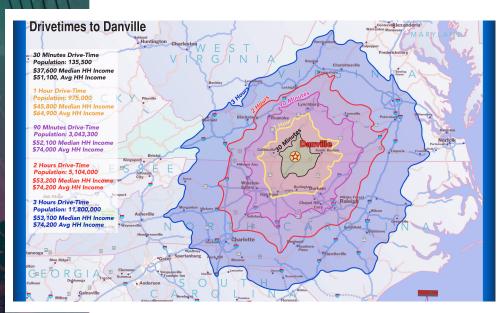
- Define market area
- Evaluate competitive supply
- Evaluate existing demand
- Project future market area demand
- Compare subject proposal to competition/comparables
- Project market demand for subject proposal
- Determine ways to make subject more competitive







#### SPORTS MARKET ANALYSIS



- What is the *relevant* market area?
- Local Supply/Demand
- Metro Supply/Demand
- Regional/National Events
- Accessibility
- Weather and Hotel Situation
- How do Comps Perform?
- Local Anchor Organizations





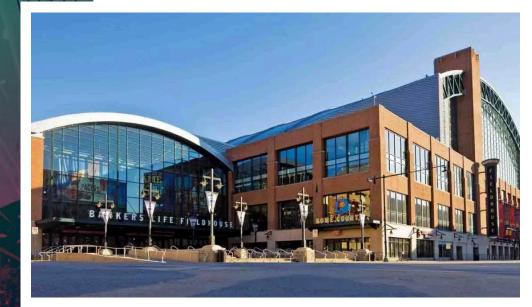
#### CONVENTION MARKET ANALYSIS



- What is the *relevant* market area?
- Relevant Supply Performance
- Demand Interviews: Convention, Consumer, Sports, Corporate, Local
- Air Connectivity
- Walkability
- Hotel Package!
- How do Comps Perform?



#### ARENA MARKET ANALYSIS



- What is the RELEVANT market area?
- Relevant Supply Performance
- Demand Interviews: Concert, Family Shows, Leagues
- Capacity breakpoints
- Pre-/Post-Activity
- Premium Amenities
- How do comps perform?



#### HOTEL MARKET ANALYSIS



- What is the RELEVANT market area?
- Quality of Supply
- Competitive Supply Performance (Demand)
- Demand Generators: Corporate, Leisure and Group
- Occupancy Breakpoints



#### HOW TO ASSESS SITE OPTIONS

Occupancy Percent by Day of Week by Month - November 2017 - October 2018

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Avg
Nov - 17	36.3%	53.2%	61.0%	64.4%	62.1%	68.9%	68.9%	59.5%
Dec - 17	28.3%	50.9%	54.7%	53.6%	42.7%	43.8%	39.6%	44.1%
Jan - 18	25.3%	42.5%	53.9%	57.2%	36.5%	29.2%	29.9%	40.4%
Feb - 18	27.6%	59.3%	65.0%	61.6%	44.9%	42.1%	41.4%	48.8%
Mar - 18	40.4%	63.9%	71.9%	69.9%	59.1%	74.6%	70.3%	64.6%
Apr - 18	45.9%	69.2%	80.0%	82.6%	79.2%	84.5%	83.4%	73.8%
May - 18	39.9%	57.7%	70.0%	74.7%	75.0%	88.4%	87.1%	70.7%
Jun - 18	52.1%	83.2%	84.1%	83.9%	69.2%	74.4%	79.8%	75.4%
Jul - 18	53.3%	77.0%	78.4%	75.7%	71.0%	67.3%	68.4%	70.1%
Aug - 18	46.7%	76.9%	84.2%	84.4%	74.7%	77.9%	82.6%	75.7%
Sep - 18	39.7%	59.6%	70.1%	73.4%	68.1%	71.4%	71.3%	64.2%
Oct - 18	61.9%	79.2%	85.6%	84.6%	76.9%	86.3%	86.9%	80.5%
Average	41.5%	64.6%	71.6%	72.2%	63.6%	67.4%	67.3%	

Sources: Smith Travel Research





- Accessible?
- Large enough for venue plus parking? Is it flat?
- Weather impact surface type?
- Ownership?
- Hotels, restaurants, retail?



## Financial Feasibility & Gap Analysis

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#### FINANCIAL FEASIBILITY

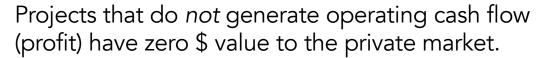
#### FINANCIAL ANALYSIS

Do the profits from the Project support the development cost? That is the key question. For most P3 projects, the answer is no...otherwise, the private sector would build.









If a project generates operating cash flow (profit), but *not enough* to pay back the development cost plus profit to investors, then it will have a sizeable financial feasibility gap.





#### HOW DO WE KNOW THE FINANCIAL GAP?



#### FINANCIAL RATIOS

We use two approaches to determine the gap, but "supportable financing" is the primary one. How big of a loan can be supported by project cash flows? How much private equity will investors risk based on project cash flow? Cash is KING!

Debt + <u>Equity</u> = Supportable Financing.

Cost of Project – <u>Supportable Financing</u> = Financial Gap to be Filled



#### PROPERTY VALUATION APPROACHES

- Cost
- Sales comparison
- Income or capitalized value: most relied upon
  - Add up all future profits from operations
  - Add up sales proceed from a sale in 10 years
  - Discount that amount to today's dollars
  - That figure is your value

We use the Income approach to check the supportable financing approach. Typically the results are very similar.



#### FINANCIAL FEASIBILITY





#### BANKS LIKE PREDICTABILITY

There is a reason that brands proliferate so quickly and unique projects are, well, unique....predictability!

Banks like to loan money to predictable projects (Starbucks, Hampton Inn, etc.).

There are dozens of "comps" that give them confidence that this one will perform just like the others.

Your cool P3 project usually has few comps or the cash flows can't be predicted with as much comfort.



#### WHY IS MY PROJECT SO HARD?

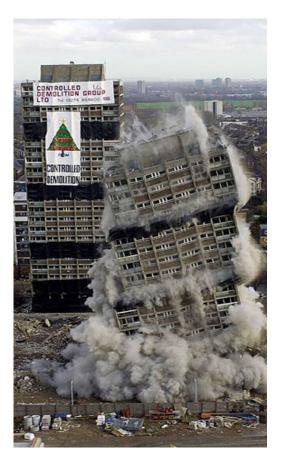
## HOW DO THEY PUNISH MY PROJECT?

Banks protect themselves in three ways:

- Higher interest rate (risk/reward)
- Lower loan-to-value ratio
- Higher Debt Coverage Ratio (DCR)

#### HOW DO WE MITIGATE THIS?

Public sector can provide guarantees or other value to projects to give banks comfort. Backstops, rebates, abatements, etc. Can also invest directly in project.





#### THE SCHOOL OF HARD KNOCKS!

#### FINANCIAL FEASIBILITY

WOO-HOO!

project is greater than the cost, then THE PROJECT IS FEASIBLE!

If the value of the





# Financing and Incentive Options

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#### PUBLIC SECTOR AS A FINANCIAL CONTRIBUTOR TO DEVELOPMENT

Public tools **encourage** and **assist** in development and help make projects **financially feasible in** four ways:

- Reduce front-end cost, the amount that must be financed
- Reduce financing costs, on-going debt service
- Reduce operating costs, i.e. improve project cash flow
- Facilitate process (time=money) with upfront due diligence, etc.





DON'T BE A TOOL, USE ONE!

## The public sector can be like a Swiss Army knife. Primary tools include:

- Land assembly
- Financing assistance
- Other (easy permitting, fund studies, reduce red tape, etc.)





PRIMARY TYPES OF TOOLS

#### LAND ASSEMBLY

- Major role of development agency or city/county
- Saves time, effort, money for private sector
- Allows for more flexibility with larger parcels
- Can write down cost
- Ownership is known and favors redevelopment
- Can be contributed as incentive to private project



IMPORTANCE OF LAND ASSEMBLY

#### EXAMPLES OF FINANCIAL ASSISTANCE

#### FINANCING ASSISTANCE

- Bond financing (reduces interest cost); revolving loan fund
- Loan guarantees (reduces risk and cost)
- Tax credits/abatements
- Tax increment financing (TIF)
- Leases
- Historic Tax Credits (state & federal)
- Opportunity Zones (federal)
- Special improvement districts



#### USE OF TIF SUPPORTED FUNDS

- Infrastructure
- Property acquisition
- Relocation assistance
- Environmental remediation
- Feasibility studies
- Project finance
- Facade improvements

ALWAYS REFER TO YOUR STATE LAW FOR CONSTRAINTS AND ALLOWABLE EXPENSES !!



TIF FUNDS

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#### LOCAL FINANCING & LOCAL TOOLS FOR DEVELOPMENT

#### OTHER INCENTIVES

- Air rights. transfer of rights to develop above or below a price of public land. typical above public parking garages and with public transit projects.
- Land write-downs. public sells land for less than market value to developer as an incentive.
- Technical support (funding feasibility studies)
- Public infrastructure via community development block grants and other bonding abilities
- Zoning incentives/density bonus
- Ease of permitting/waiving fees
- TIF without TIF: abate taxes, PILOT



Business Plan: Ownership, Financing, Management (Governance)

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## If you build it, will they come?

Nope!

Ownership

Management

Marketing/Sales

Funding – Upfront Capital

Funding – Ongoing Support (Operations & Capital Reserves)

Preference for an Enterprise Model: Facilities Operate as a Business,

- Revenues & Expenses Tracked
- Impact Tracked
- Accountability





## **Operating Models**

Many operating models, but three primary categories:

- Private Management
- Authority/Nonprofit Hires Management (can be independent or private)
- Public Management
  - Departmental mixed with other items
  - Enterprise Option







## **Operating Trends**

Trend is toward private management, regardless of ownership of facility:

- Dallas
- Chicago
- Detroit
- Los Angeles

Some convention centers make money now! Not much, but something...and that's better than operating losses.









## Order is Important....Just Ask Evansville

- Get political approval and buy-in for the project and financing approach <u>before</u> going to market.
- Do you have the funds to fill the gap?
- Do you have the political approval to provide the funds?
- The X factor for all projects is leadership.





## Developer Selection: RFQ/P Process + Development Agreement

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#### SOLICITING A DEVELOPER

The developer selection process is initiated through a request for qualifications (RFQ) or request for proposals (RFP).





#### DEVELOPER SELECTION

#### PURPOSE OF RFQ / RFP

- Tool to achieve public goal
- Means of introducing competition in a redevelopment project to ensure a qualified development team is selected
- A marketing tool to attract private development





#### DEVELOPER SELECTION

# Keys to a Successful Process

- Have your recent market and financial feasibility study complete
- Get political and financial buy-in to the deal (generally)
- Be prepared to discuss financial incentives with developers
- Site control is critical





#### **RFQ / RFP OPTIONS**

- RFQ followed by RFP
  - ► Developer's expression of interests
  - ► Generally preferred process
  - Most efficient, but will seem longer than antsy electiondriven officials want
- RFP only (good for management company selection)
- RFQ only (decent for architect selection)



#### DEVELOPER SELECTION

### **TERM SHEET**

#### MEMORANDUM OF AGREEMENT (MOA) OR UNDERSTANDING (MOU)

- Agreement with "preferred developer"
- Clearly define project
- Detail performance & schedule obligations
- Set performance guarantees
- Determine option payment
- Specify termination provision



## DEVELOPER SELECTION

#### DEVELOPMENT AGREEMENT

- Puts term sheet into a legal document
- Formal contract
- Developer needs to secure private financing
- Public to commit to financial and related tools
- Real estate attorney on your side of table (\$\$\$)
- ALWAYS SET TIMELINES!



# Final Design, Budgeting & Funding

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# Budget Goes Up, Funding Can Dry Up!

- Deal points regarding land control, funding, incentives, can impact loans and insurance
- Lawyers are a pain, slow process, but critical
- Project viability may change as costs go up
- Always put in more contingency





## THANK YOU

## Questions?

Rob Hunden President and CEO Hunden Strategic Partners 213 W Institute Place, Suite 707 Chicago, Illinois 60610 (O) 312.643.2500 (C) 312.933.3637 www.hundenpartners.com rhunden@hundenpartners.com

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