
MEMORANDUM

To: Jina Propst, Stacey Poston, and Summer Alston (City of Durham)

From: The Fallon Company and WinnCompanies

Date: 03/19/2021

Subject: Requested Changes regarding 505 W. Chapel Hill Street

The Fallon Company, WinnCompanies, and our local development partners have invested over half a million dollars to date in order to make considerable progress toward turning a conceptual vision of 505 W. Chapel Hill Street into an actionable reality. **Notwithstanding the unexpected impacts of the COVID-19 pandemic on commercial real estate and our exhaustive due diligence findings, we are prepared to move forward on the development based on the solutions detailed below.** This proposal would also keep on schedule the critical components of the overall project such as (i) the construction of the 80 units of affordable housing within a new, mixed-income residential building, (ii) the historic renovation of the Existing Building, (iii) minority equity and project participation, and (iv) construction of a new, skyline defining Class-A office building to continue Durham's economic growth.

For the reasons described in this memo, the current transaction structure is not feasible despite our continued belief in and enthusiasm for the project's importance to the City of Durham. The Purchase and Sale Agreement requires us to terminate the contract today to prevent our deposit from becoming non-refundable. We respectfully submit the below required changes in order to again move forward together on the redevelopment of 505 W. Chapel Hill Street.

1. **A Residential Conversion of the Existing Building.** Given the distressed condition of the existing building and our thorough due diligence findings, the office hard costs associated with the commercial renovation increased approximately 35+% compared to the original RFP assumption. The cost increase, coupled with the uncertainty of office demand timelines as the result of the COVID-19 pandemic, requires an alternative use in order to retain and preserve the existing building. The following changes will need to be made to the transaction documents to effectuate a solution:
 - a. A market rate residential conversion is not feasible without some financial subsidy as the market rents alone do not support the renovation costs. To create the financial support needed, our plan is to carefully restore the Existing Building to recreate its historic, mid-century architectural significance and thus enable it to qualify for both federal and state historic tax credits in order to minimize the required purchase price reduction to the City. **We will also seek the local historic landmark designation, with approximately \$1 million of the revised purchase price held back and then released once the local designation is achieved.**

b. In addition to the above available public financing capital sources, **the developer will need to be allocated 100% of the Brownfields real estate tax benefits attributable to the new residential building**, i.e. both the County and City portion of real estate tax exclusions. Over the first five years of operations, these Brownfield tax exemptions are critical to both proposed residential buildings’ financial viability given the increased construction costs.

2. **North Carolina Department of Transportation Requests and Restrictions.** The unforeseen request of a new left hand turn lane from Gregson Street onto Jackson Street imposes extreme hardships on the new residential building by reducing the overall rentable square footage (in addition to the impact of moving traffic closer to the ground floor units). This threatens the building’s financial viability and therefore the 80 units of affordable housing that the development will create. We are currently working with the City of Durham’s Department of Transportation to analyze the State’s findings and then re-approach the NC DOT together given that this requirement was not anticipated as part of the RFP response. **The NC DOT’s offsite improvements request will need to be resolved prior to closing.**

3. **Purchase Price Adjustment from \$9.25 million to \$7.00 million.** The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organization as a “Global Pandemic”, continues to cause heightened uncertainty in both local and national market conditions. This uncertainty is having a direct impact on real estate, particularly the office and retail sectors. **We are faced with an unprecedented set of circumstances, and while we have taken steps to estimate the effect of COVID-19 on this transaction, the continued economic and capital markets uncertainty coupled with the above due diligence findings requires a price adjustment to make the project feasible.**

The net result of these changes to the City would be as follows:

	<u>Current</u>	<u>Proposed</u>
Total Purchase Price	\$9,250,000	\$7,000,000
Existing Building Use	Commercial	Residential
Existing Building Restoration	Conventional	Historically Certified
Existing Building Local Landmark Designation	No	Yes
New Residential Building – Brownfields Tax Exclusion	Partial	Full
Minimum Commercial Square Footage	300,000 SF	250,000 SF
NC DOT Offsite Improvements Request	TBD	Removed

We have also evaluated a residential option that include workforce housing units at the Existing Building, but that would require an approximate \$100,000 per unit subsidy from the City. We are happy to discuss this scenario with you if of interest.

We are grateful for City staff’s collaboration and support over the past year, and we have collectively worked hard to explore every possible solution to the unforeseen challenges (while also accomplishing many important milestones to date including a successful rezoning with restrictive covenants for affordable housing, minority participation and mission, etc.). **To continue to deliver on key components within the project’s anticipated schedule, we will need to begin the re-drafting of the transaction documents as soon as possible to maintain the targeted May 2021 closing date.** We stand ready to advance this solution together and to answer any remaining questions on the due diligence materials previously provided to City staff.