



Redevelopment of 505 W. Chapel Hill Street

City Council Update

May 2021



The newly proposed development options proposed by Fallon and Winn have some key differences from the program agreed to in the MDA.

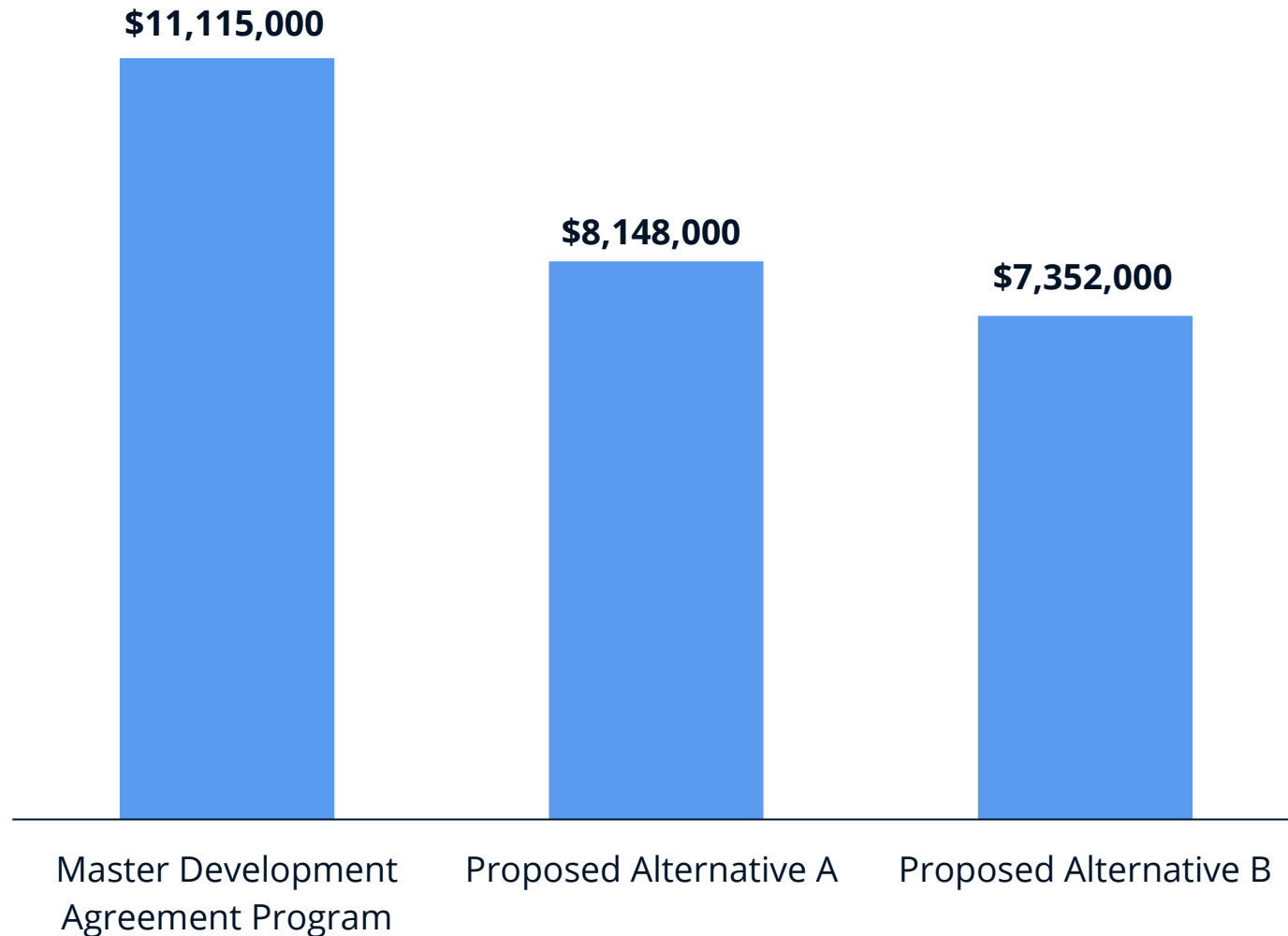
Program Component	Master Development Agreement (MDA) Program	Proposed Alternative A	Proposed Alternative B
Use of Milton Small Building	Office/Retail	Residential/ Retail	Residential/ Retail
Milton Small Building Renovation Method	Conventional	Historically-Certified	Historically-Certified
Minimum Office Program Size	300,000 SF	250,000 SF	250,000 SF
Affordable Housing Units Delivered	80	80	91*
Total Purchase Price	\$9,250,000	\$7,000,000	\$7,000,000
Use of Local Historic Landmark Designation for Milton Small Building	No	Yes	Yes
City Recapture of Residential Building Tax Revenue through Brownfields Exclusion	Partial	None	None
Amount of Additional City Subsidy Required (Loan)	\$0	\$0	\$1,100,000

* 11 additional units created at 80% AMI. The units are rentals for 5 years and then potentially sold as affordable condos in years 6 and 7.

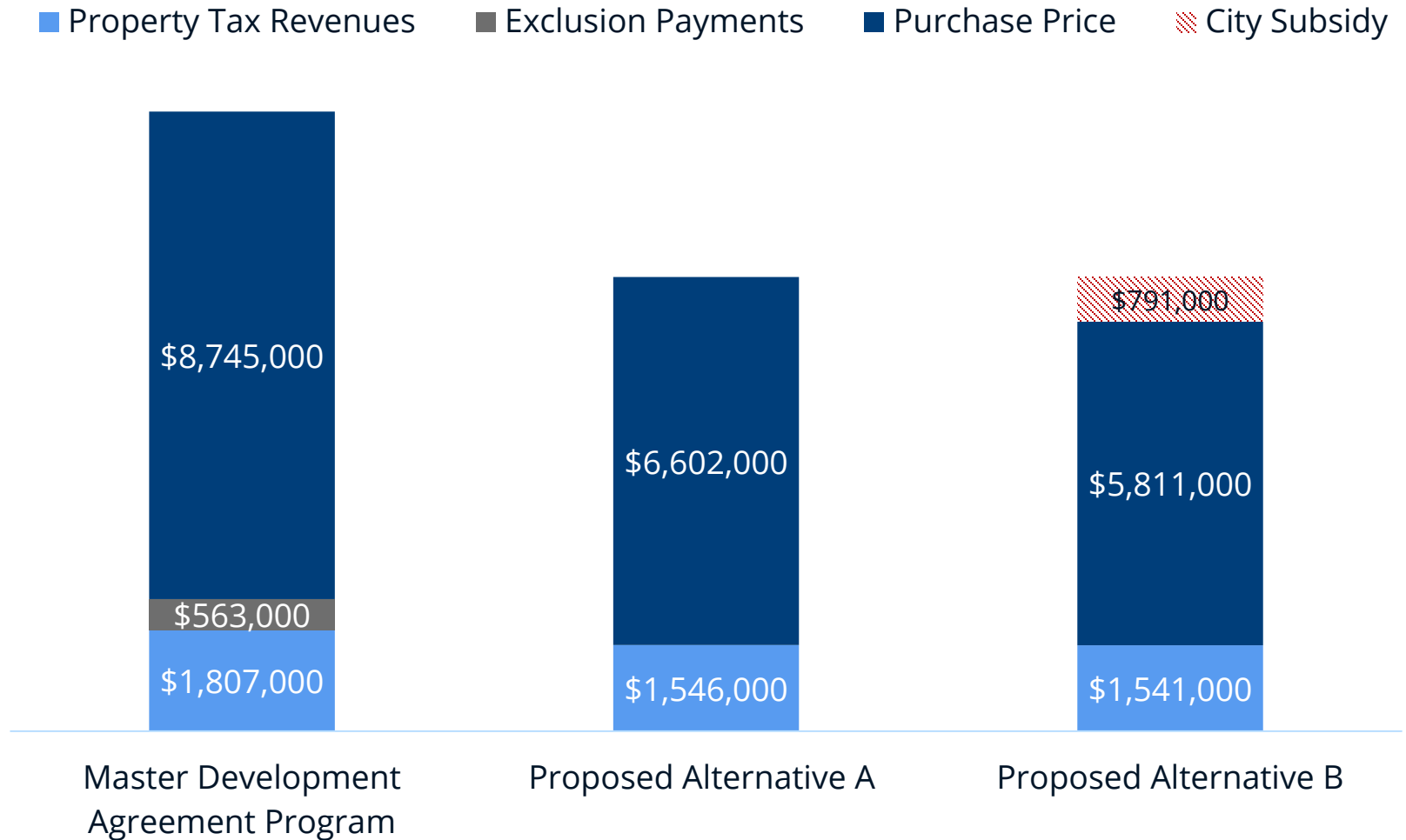
The Fallon Company has articulated several reasons for why it desires to move forward with an alternative proposal at this time.

- Due diligence has revealed that the Existing Building is in a **more distressed condition than anticipated**. The cost of the commercial renovation increased approximately 35+% compared to the original RFP assumption, requiring an alternative use to preserve the building.
- A **residential conversion of the building led by Winn is not feasible without additional financial concessions and subsidy** as the market rents alone do not support the renovation costs.
- **The COVID-19 pandemic has caused significant uncertainty** related to future real estate market conditions, particularly for the office and retail sectors.

The proposed alternatives reduce the net present value of total proceeds to the City over 10 years by \$3 to \$3.8 M from the amount contemplated by the MDA.



The majority of the difference in value between the programs owes to the substantial proposed reduction in the purchase price.



The City defined its core priorities for site development at the outset of the solicitation process.



1. Provide 80 units of onsite housing affordable to residents at 60% AMI in perpetuity



2. Generate significant revenue to the City from the sale of land and future local tax revenues from onsite development



3. Deliver a mixed-use project, including a significant component of office space, with a preference for a minimum of 150,000 gross square footage



4. Preserve the existing Police Headquarters Building as part of the development program



5. Deliver signature design and an activated street-level experience, to support Downtown's identity and vibrancy

Alternative A affects the total revenue generated to the City, size of the committed office program, and the quality of street front activation.



No change - Provide 80 units of onsite housing affordable to residents at 60% AMI in perpetuity.



Reduces total revenue – Reduced purchase price and lower tax revenues, due to local historic landmark designation and lower assumed assessed value.



Reduces total office square footage – Milton Small Building becomes residential; total commitment to commercial square footage reduced from 300,000 SF to 250,000 SF.



No change –Milton Small Building is preserved. Since the scenario assumes use of historic tax credits, the building will be restored to its original design.



Less activated streetscape – Given use of historic tax credits, the design no longer opens up the first floor to W. Chapel Hill St. or brings the building closer to the street.

Alternative B adds additional affordable units above the City's baseline expectation of 80 units, but at a cost of \$800,000 to the City.



Increases total affordable units – In addition to 80 units in the new residential building, 11 additional affordable units at 80% AMI would be included in the Milton Small building.



Reduces total revenue – Reduced purchase price and lower tax revenues, plus additional subsidy from the City to render mixed-income program feasible.



Reduces total office square footage – Milton Small Building becomes residential; total commitment to commercial square footage reduced from 300,000 SF to 250,000 SF.



No change –Milton Small Building is preserved. Since the scenario assumes use of historic tax credits, the building will be restored to its original design.



Less activated streetscape – Given use of historic tax credits, the design no longer opens up the first floor to W. Chapel Hill St. or brings the building closer to the street.

There are several potential pathways forward the City can consider, each with its own trade-offs and opportunity costs.

1. The City can **re-commence negotiations** with the Fallon Company to implement one of the proposed alternative scenarios.
2. The City can **subdivide the site** and attempt to proceed with a residential developer to develop only the new residential building, retaining ownership of the rest of the site for disposition in the future.
3. The City can **re-start the solicitation process** for the full site.



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