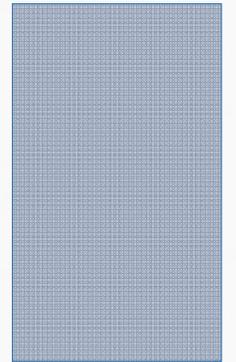


CITY OF HENDERSONVILLE HOTEL RECRUITMENT PROJECT



DEVELOPMENT FINANCE INITIATIVE
OCTOBER 18, 2016



AGENDA

- Development Finance Initiative (DFI)
- DFI - Hendersonville Project Background
- Pre-Development Process
- Guiding Project Interests & Site Selection
- Conceptual Plans & Financial Analysis
- Solicitation Process
- Public Q&A

DEVELOPMENT FINANCE INITIATIVE (DFI)

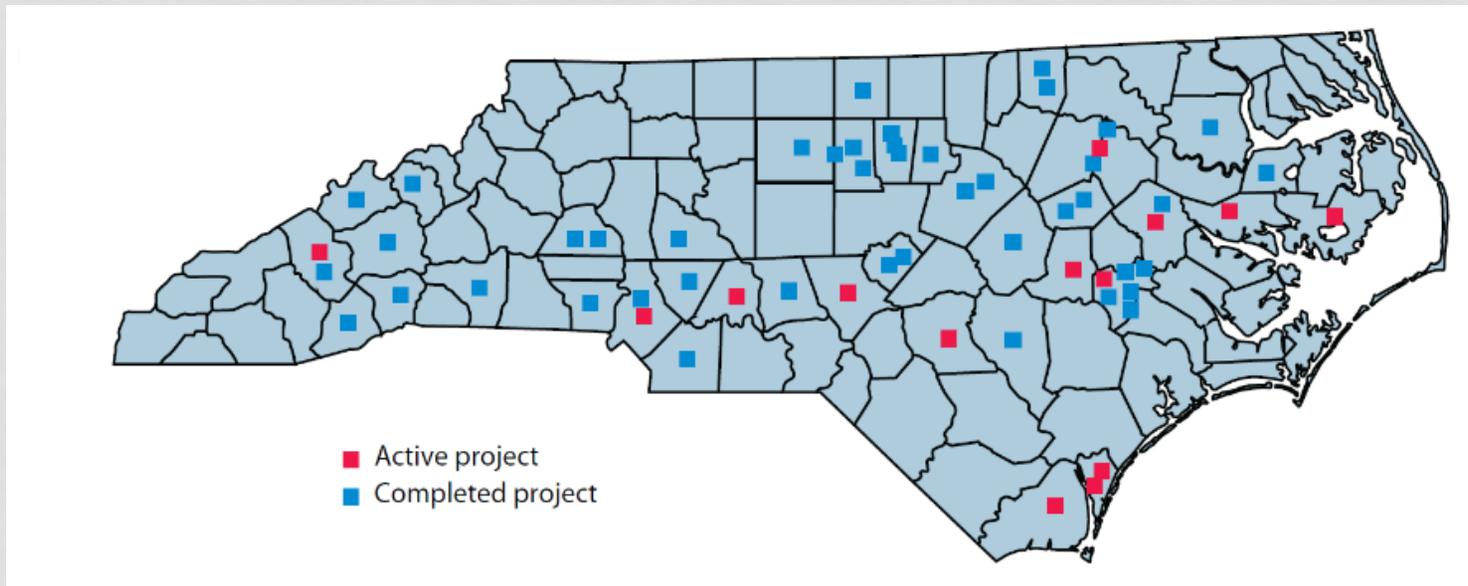


DFI at the **UNC School of Government** partners with local and State government to attract private investment for transformative projects by providing specialized finance and development expertise.

DEVELOPMENT FINANCE INITIATIVE (DFI)

DFI team includes subject matter experts in:

- Community & Economic Development (CED)
- Real Estate Development & Finance
- Public Finance
- Land Use and Planning
- Market Analysis
- Public Private Partnerships



HISTORY

The City of Hendersonville and the Historic Seventh Avenue District (HSAD) engage DFI to assist with the development of strategies to attract private investment into and around the 7th Avenue District.

DFI delivers final project recommendations for HSAD.

The City of Hendersonville engages DFI to provide predevelopment services with regards to a hotel in downtown.

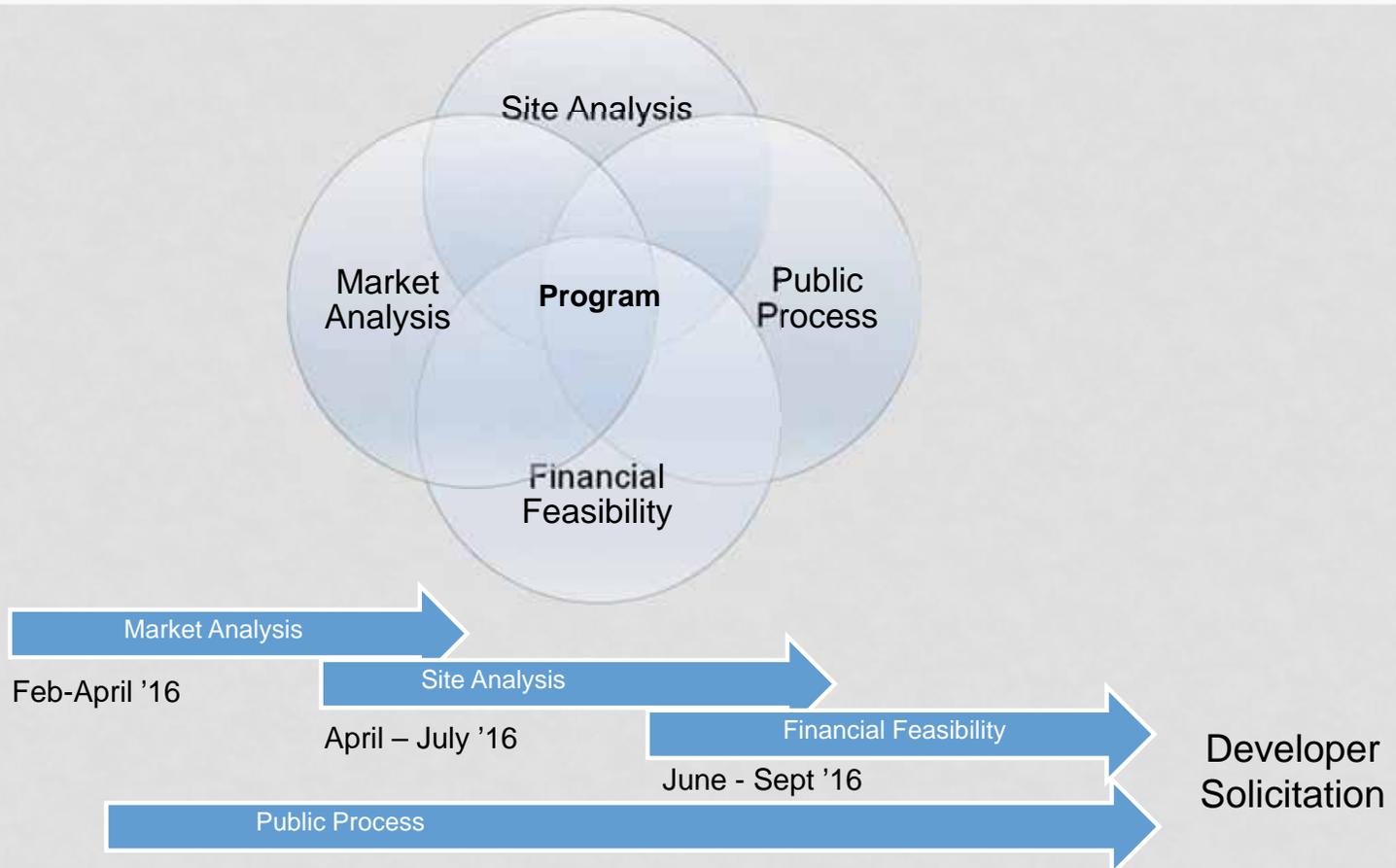
January '14

June '14

December '15

PRE-DEVELOPMENT PROCESS

DFI PROCESS OVERVIEW



MARKET ANALYSIS FRAMEWORK

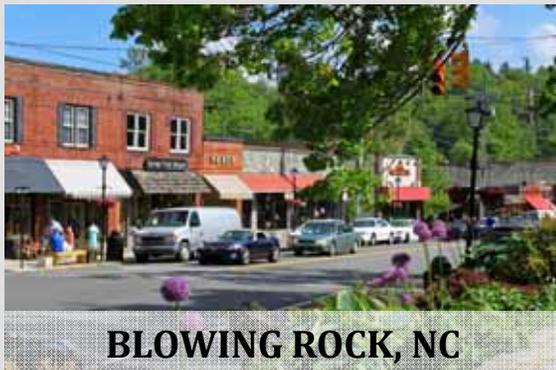
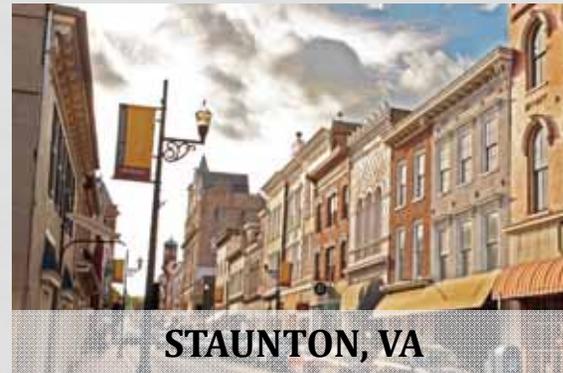
Objective – evaluate development potential for a hotel, as well different uses including residential, retail, office. For each potential use, the market analysis includes...

1. Definition of the primary market/trade area
2. Analysis of demand drivers
3. Projections of future growth based on current demand, demographic trends, and Hendersonville-specific capture rates
4. Analysis of competing supply (current and future)

INITIAL HOTEL MARKET FINDINGS

- Demand indicators (such as occupancy rates, total room stays and occupancy tax growth) show no new demand for additional “highway” hotels and B&Bs
- Limited high quality, full-service product
 - Average age 25 years
- Significant downtown draw with vibrant, walkable retail district
- No downtown supply within walking distance
- Opportunity for downtown boutique hotel with event space

COMPARABLE COMMUNITIES



KEY FINDINGS FROM COMPARABLE COMMUNITIES

- Occupancy rates are higher in downtown hotels
- Downtown products demand significantly higher room rates
- Hendersonville market can support new full-service rooms downtown
- Limited accommodations in downtown area constrain attendance at potential events
- Higher event capacity in downtown area has been shown to spill over into additional demand for other accommodation

GUIDING PROJECT INTERESTS & HOTEL SITE SELECTION



GUIDING PROJECT INTERESTS

- Maximize public benefit and minimize public investment
- Project likely to spur other private development
- Project contributes to vitality, culture and economy of City (e.g. event space)
- Project respects existing City fabric (height limits, historic buildings, design aesthetics, etc.)
- Integration with Main Street
- Connection to Historic Seventh Avenue District

SITES STUDIED



RECOMMENDATION

Guiding Public Interests	Mill	Dogwood
Maximize public benefit and minimize public investment	✓	
Project likely to spur other private development	✓	✓
Project contributes to vitality, culture and economy of City (e.g. event space)	✓	✓
Project respects existing City fabric (height limits, historic buildings, design aesthetics, etc.)	✓	✓
Connection to Historic Seventh Avenue District	✓	
Integration with Main Street	✓	✓

GREY HOSIERY MILL

HOTEL SITE ANALYSIS

SITE ANALYSIS

- Identify and understand current site constraints
- Show how the development program may fit into the topography of each site
- Help future redevelopment partner(s) understand the public vision

What it is not...

- An architectural rendering with lots of details
- A final guiding document

CONCEPT: GREY HOSIERY MILL



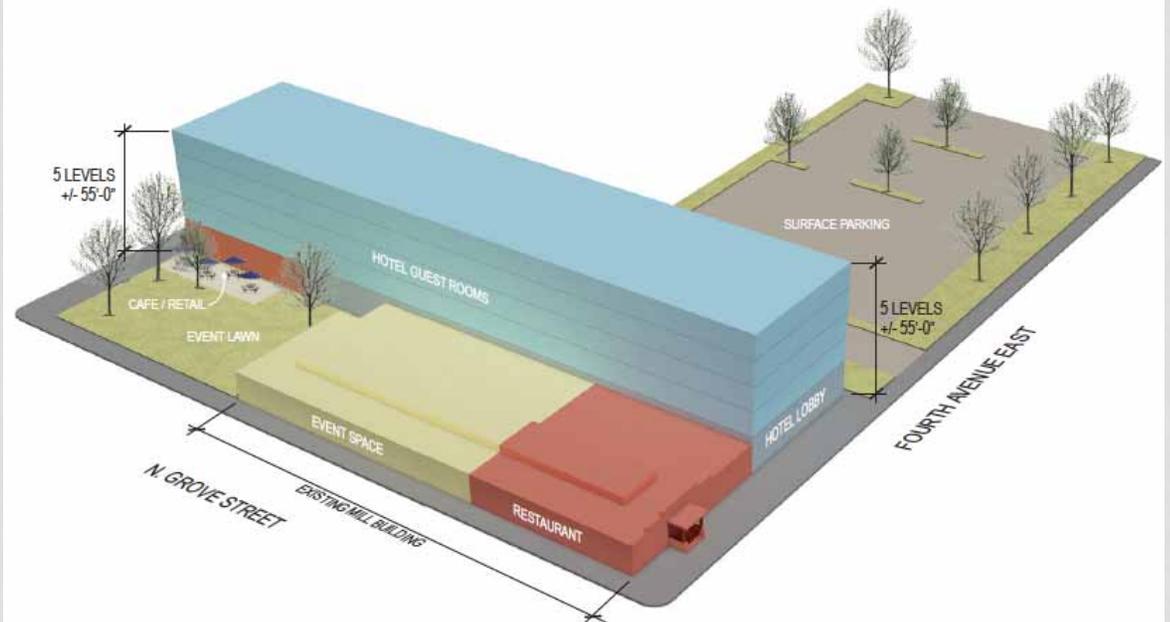
UPPER FLOOR PLAN (2-5)

GROUND FLOOR PLAN

CONCEPT: GREY HOSIERY MILL

Hotel Program

Floors	5
# of Rooms	130 - 135
Parking Spaces	115-118
Event Capacity	Est. 200 (6,000 SF)
Retail Space	3,800 SF



GREY HOSIERY MILL

FINANCIAL FEASIBILITY ANALYSIS

FINANCIAL ANALYSIS OVERVIEW

DFI built a customized financial model that tests different conceptual programs and attempts to:

- Identify key assumptions based on market research
- Estimate development costs
- Analyze financial feasibility
- Guide public investment approach

Objective: Limit the amount of public participation/investment needed to attract private development

BASE CASE SCENARIO

Base case scenario (no public involvement) is currently unattractive to private market...

	Projected	Target
IRR	13-15%	16-20%
Upfront Equity	25% of Total Sources	15-20% of Total Sources

PUBLIC PARTICIPATION

DFI is confident that the following public participation options will attract private investment:

- Seller financing with property currently owned by City
- Extending streetscape improvements along 4th Avenue

SOLICITATION PROCESS

SOLICITATION GOALS

- Provide an overview of the pre-development work completed by City/DFI
- Explain solicitation process to private developers
- Explain roles to private developers
- Market the opportunity to targeted developers
- Attract qualified teams interested in executing development
- Provide flexibility for Council's discretion

QUESTIONS?

APPENDIX



FINANCIAL ANALYSIS ASSUMPTIONS

	Mill
Acquisition	Require purchase of adjacent site(s)
Premium Construction Costs	<ul style="list-style-type: none">• Type III-A: Noncombustible exterior walls• Historic Rehab for event/restaurant space• Demolition & remediation of parts of Mill• Foundation to address poor soil conditions
Parking	Surface parking built to accommodate <u>only</u> hotel guests
Revenue	65% Occupancy Rate \$155 Average Daily Rate

FEASIBILITY W/PUBLIC PARTICIPATION

DFI modelled the following public participation option to test feasibility:

- Seller financing for the private acquisition of the Grey Hosiery Mill site

Private Returns	
	Mill
IRR (Target: 16-20%)	17 – 19%
Cash on Cash (Target: 8-10%)	8 – 9%

PUBLIC PARTICIPATION IMPACT

	Mill
Sale of City-Owned Parcels	\$730,000
Public Participation	
Loan to Developer	(\$730,000)
Total Public Investment	--
Interest from Loan	\$30,000
Street Improvement Debt Service	(\$84,000)
Tax Revenue	\$85,000
Annual Revenue	\$31,000

CONCEPT: GREY HOSIERY MILL



- City-Owned
- Private Ownership



CONCEPT: DOGWOOD LOT



128-132 TOTAL UNITS
385-390 PARKING SPACES
 +/- 84,900 GSF
 +/- 65,660 NLA (77%)

+/- 56,860 NLA HOTEL
 +/- 3,200 NLA RETAIL
 +/- 5,600 NLA EVENT
 (EXCL. GARAGE)

- City-Owned
- Private Ownership



ASSUMPTIONS

	Mill	Dogwood
Acquisition	Require purchase of adjacent site(s)	
Premium Construction Costs	<ul style="list-style-type: none"> • Type III-A: Noncombustible exterior walls • Historic Rehab for event/restaurant space • Demolition & remediation of parts of Mill • Foundation to address poor soil conditions 	<ul style="list-style-type: none"> • Type III-A: Noncombustible exterior walls
Parking	Surface parking built to accommodate <u>only</u> hotel guests	Parking Deck required to accommodate hotel guests + replace 157 parking spaces (at minimum)
Revenue	65% Occupancy Rate \$155 Average Daily Rate	

DEVELOPMENT BUDGET

Uses	Grey Hosiery Mill	Dogwood Site
Acquisition	\$1.0M	\$0.8M
City-Owned Parcels	<i>\$0.73M</i>	<i>\$0.5M</i>
Adjacent Parcels	<i>\$0.27M</i>	<i>\$.3M</i>
Hard Costs	\$18.0M	\$18.2M
Historic Rehab	<i>\$1.7M</i>	--
New Construction	<i>\$8.5M</i>	<i>\$9.4M</i>
Parking (Servicing Hotel Only)	<i>\$0.2M</i>	<i>\$2.3M</i>
Other (FF&E, Sitework, TI, etc.)	<i>\$7.6M</i>	<i>\$6.5M</i>
Soft Costs	\$5.4M	\$4.9M
Total Development Cost	\$24.4M	\$23.9M

FEASIBILITY W/OUT PUBLIC PARTICIPATION

Private Returns		
	Grey Hosiery Mill	Dogwood
IRR (Target: 16-20%)	13 – 15%	12 – 14%
Cash on Cash (Target: 8-10%)	5 – 6%	4 – 5%

FEASIBILITY W/PUBLIC PARTICIPATION

DFI modelled the following public participation options to test feasibility:

- Seller financing for the private acquisition of the Grey Hosiery Mill site
- City-funded private parking at Dogwood site (Spaces to accommodate hotel guests + replace existing public spaces)

Private Returns		
	Grey Hosiery Mill	Dogwood
IRR (Target: 16-20%)	17 – 19%	16 – 18%
Cash on Cash (Target: 8-10%)	8 – 9%	7 – 8%