

DEVELOPMENT OPPORTUNITY FOR HOTEL & EVENT SPACE OR COMMERCIAL VENTURE



GREY HOSIERY MILL SITE

Downtown Hendersonville, NC

Winter 2016 / 2017



About This Solicitation

This document is an invitation for experienced development teams to present conceptual plans for the redevelopment of the Grey Hosiery Mill in downtown Hendersonville, NC. The City of Hendersonville has engaged the UNC School of Government's Development Finance Initiative (DFI) to create a feasible redevelopment plan for the site that leverages public investment to induce private sector development. DFI will assist developers with understanding and responding to the City's requirements for the Mill's redevelopment. Once DFI and City staff have reviewed all proposals, they will be presented to Hendersonville's City Council with a recommendation for endorsement. While an endorsement by Council is not final approval, it will trigger an exclusive period of negotiation between the City and their selected partner for a development services agreement for the project.

The Development Finance Initiative (DFI) at the UNC School of Government partners with local governments in North Carolina to attract private investment for transformative projects by providing specialized finance and development expertise. DFI partners with communities on projects including building reuse, community development, downtown revitalization, economic development, and neighborhood redevelopment.

The Opportunity

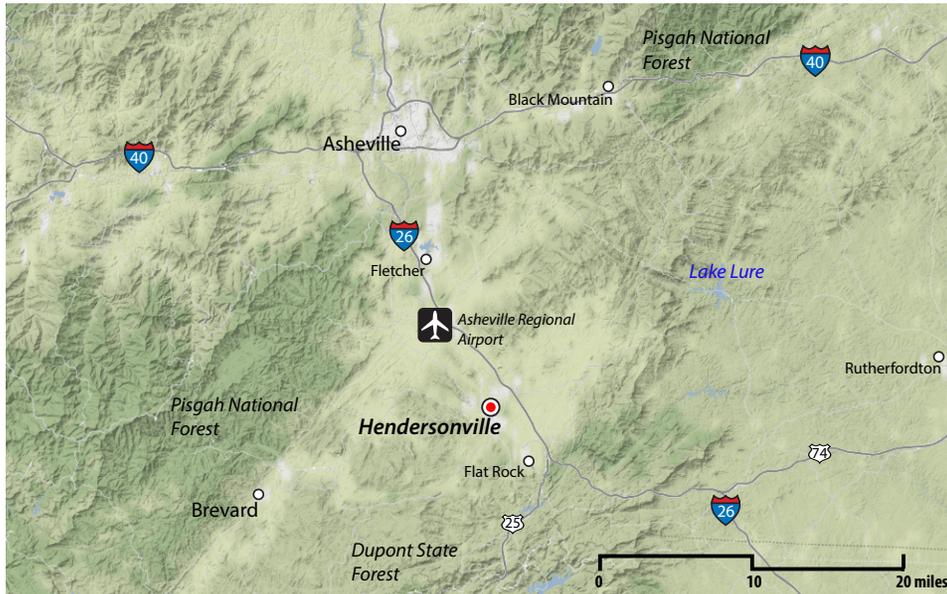


The Grey Hosiery Mill site in Hendersonville, NC offers a prime redevelopment and development opportunity for a downtown hotel and event space. The Mill is a city-owned historic structure ideally situated in the heart of downtown, two blocks east of Main Street between 4th & 5th Avenues. The City of Hendersonville is a thriving, regional tourism destination, but the absence of a full-service downtown hotel and event product is limiting the city's ability to absorb the growing demand. The City Council has identified this project as critical to the continued success of its local tourism market.

While the City Council has worked with DFI on a market analysis to attract a hotel, Council is also open and willing to discuss other commercial uses that meet the City's long range goal of redeveloping this area of Hendersonville.

Hendersonville, NC

Hendersonville, NC is located 20 miles south of the City of Asheville in a valley at the edge of the Blue Ridge Mountains. The Asheville Regional Airport is within 20 minutes of downtown Hendersonville, accessible via I26, with direct daily flights to Atlanta, Chicago, Newark and multiple Florida destinations.



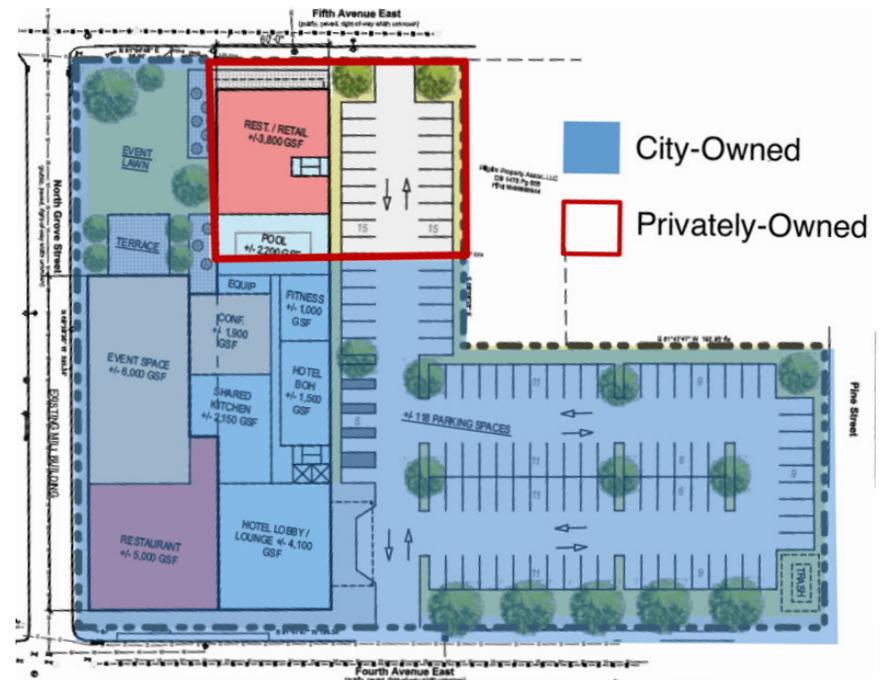
Located within 20 miles of Pisgah National Forest and Dupont State Park, Hendersonville is a gateway to a variety of outdoor recreational activities. Visitors flock to the area for its natural resources and stay in the city for its vibrant, downtown retail and restaurant district. The district is listed on the National Register of Historic Places and cultural amenities such as the renowned Flat Rock Playhouse and Henderson County Heritage Museum anchor the iconic, serpentine Main Street and its 16 blocks of specialty shops, art galleries, entertainment venues and casual-to-high-end restaurants.

Downtown hosts several events year-round that attract thousands of visitors from North Carolina and beyond. The tourism industry is supported by the Henderson County Tourism Development Authority (TDA) and Downtown Hendersonville's Main Street Program which is dedicated to supporting the district's entrepreneurial spirit and maintaining its historic character.

Grey Hosiery Mill

The Mill was built in 1915 and is the only historic early 20th century industrial building remaining in downtown Hendersonville. Additions to the building were made in 1919 and 1947. The 1915 structure sits closest to Main Street, abutting Grove St and 4th Avenue. The one-story brick building is listed in the National Register of Historic Places both for its architecture and industry. Dramatic multi-pane steel-sash windows, wood floors and elevated beadboard ceilings run the length of the original section creating a unique space for special events.

Operations in the single-story mill were halted in 1967 and since then the building has served various uses, including as the temporary home for the Henderson County Library. The City of Hendersonville purchased the 1.68 acre Mill site in 1990 and recently purchased a key adjacent 0.11 acre site. There are three parcels, totaling 0.3 acres, required to complete the proposed development site. The city is prepared to purchase these properties as necessary.



Current ownership of parcels for proposed development concept

Project Development

The City of Hendersonville engaged the Development Finance Initiative (DFI) at the UNC School of Government to conduct predevelopment services for a hotel and event space in downtown Hendersonville and to determine feasibility for the redevelopment of the Grey Hosiery Mill. DFI has made recommendations to the City Council regarding public participation options and is currently soliciting interest from developers for the project.

Development project proposals are due March 1, 2017 and will begin the process for the selection of and negotiations with a development partner. The development is projected to break ground in Q4 2017/Q1 2018.



Interior of 1915 portion of Grey Hosiery Mill Credit: Walter Arnold

Predevelopment Work Completed to Date

DFI performed a four-part assessment to arrive at the recommended redevelopment program, which included:

Market Analysis

Evaluated supply and demand for multiple uses, but in particular hotel and event space. Studied comparable communities to identify the type of hotel product that could be supported by the market area. A comprehensive summary of the findings is available upon request.

Site Planning

Identified site constraints and established the highest and best use of the site that met the City's public interests. Produced high-level conceptual plans to help partners understand public vision. A summary of the findings is available upon request.

Financial Feasibility Analysis

Determined the financial feasibility of a private sector development and modeled options for public participation. DFI's detailed financial analysis is available upon request.

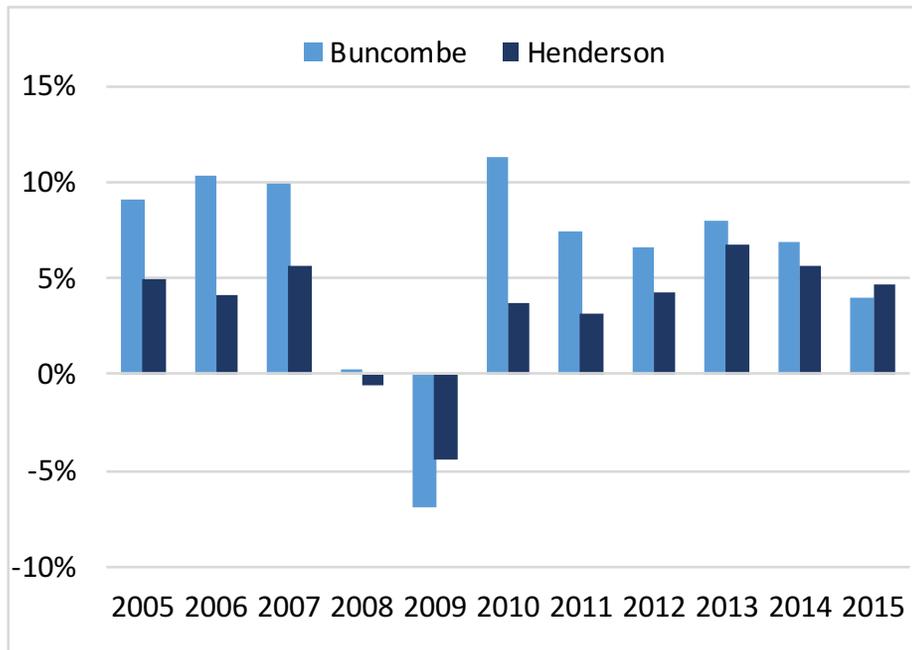
Public Engagement

Engaged with stakeholders to learn more about their vision for downtown, identified and addressed any concerns, and more generally incorporated public interests into the final development.

Market Overview

The City of Hendersonville is a well-established tourism destination experiencing strong year-over-year growth. In 2015, Henderson County was ranked 15th in tourism expenditures behind North Carolina’s major hospitality and convention counties such as Mecklenburg and Wake, homes to Charlotte and Raleigh, respectively. Tourism spending in the county has increased at an annual average rate of 4.9% over five years, surpassing Buncombe County (Asheville) in growth in the last year.

Year-over-year growth in tourism expenditures by county



The market area extends through the Southeast; the top points of origin for overnight leisure visitors are Charlotte, NC; Atlanta, GA; Columbia, SC & Knoxville, TN. Visitors are typically older, upper middle-class, and well-educated couples, a demographic that is also driving the hospitality industry in nearby Asheville.

Visitors are increasingly drawn to Hendersonville for its various offerings. Pisgah National Forest and Dupont State Forest combined attract nearly five million visitors a year. The region has become a prime destination for craft beer enthusiasts, boasting 25+ craft breweries within a 20-mile radius. Sierra Nevada Brewing



Hendersonville NC Apple Festival

Co. alone welcomes tens of thousands of visitors a year to the Henderson County-based brewery. The regional boom in food and drink tourism is driving year-round activity into downtown Hendersonville’s culinary and brewery scene. Additionally, Downtown Hendersonville hosts several events a year, including the NC Apple festival which draws over 275,000 visitors.

The growth in visitation to the area and spending is occurring despite limited options for accommodation. Hendersonville has 690 existing hotel rooms that are primarily highway-oriented budget hotels or Bed & Breakfast options averaging 25 years in age. Henderson County has an additional 348 rooms under development—all more than 2.5 miles outside of downtown. Despite growing demand, there is currently no option for a high-quality, full-service hotel located within a mile of downtown, limiting Hendersonville’s ability to compete with the new higher-end products coming online in Asheville.

Additionally, current event venues in downtown Hendersonville are limited to 100 guests or less due to size. In 2010, the City of Hendersonville commissioned a feasibility study for a new convention center which concluded that due to the city’s proximity to large population centers and transportation hubs, and its diversity of tourism activities, it could successfully attract business for a small to mid-sized convention center. The study indicated, however, that without additional full-service hotel rooms, such an event and convention industry could not be sustained. DFI’s analysis of communities with comparable hospitality markets found that to meet existing demand Hendersonville needs a formal event space that can accommodate roughly 200 guests. The Grey Hosiery Mill redevelopment is a unique opportunity to capitalize on the growing demand for a full-service, unique hotel and event space in downtown Hendersonville.

Preliminary Concept

Due to its proximity to Main Street and its historic character, a hotel on the Grey Hosiery Mill site is a prime opportunity within Hendersonville's thriving tourism industry.

DFI and the City have worked with Samsel Architects of Asheville, NC to develop a hotel program for the Grey Hosiery Mill. Based on this work and DFI's recommendations, the City Council has endorsed the following program for the site*:

Hotel Program

# of Rooms	130-135
Hotel	75,000 SF
Event & Conference Space (200 guests)	7,900 SF
Restaurant	5,000 SF
Retail	3,800 SF

*City Council's endorsement of this program should not preclude developers from submitting proposals with other intended uses for the site.

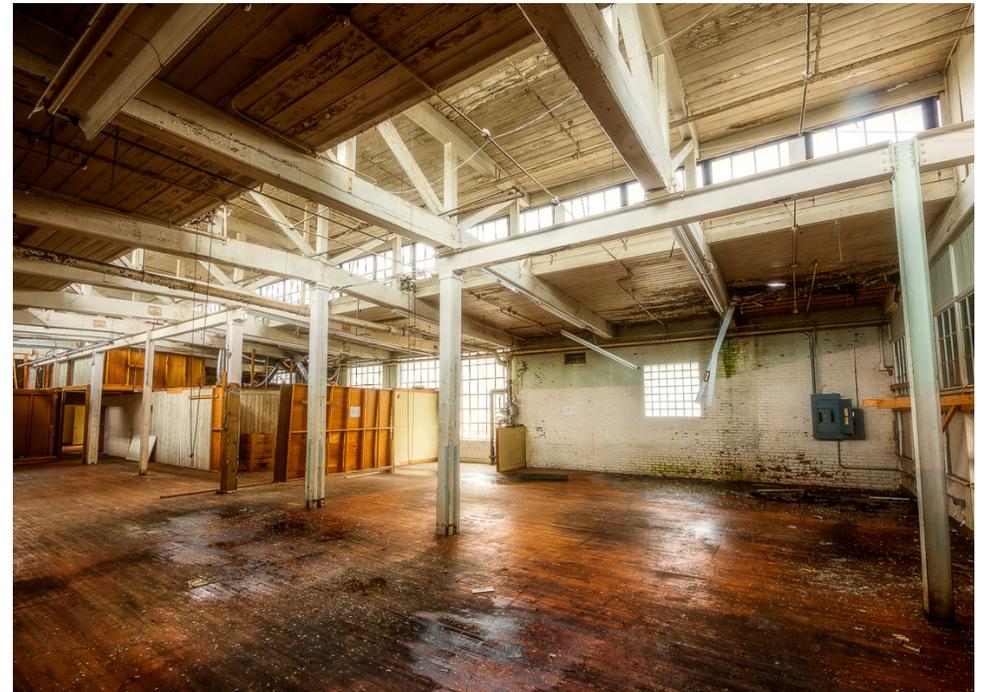
The program calls for the preservation of the 1915 portion of the Mill for reuse as an event space and restaurant, with adjacent new construction for the hotel rooms and facilities. The program also includes 115-118 surface parking spaces and assumes spillover use of the county lot across 4th Avenue. See the full conceptual plans in Appendix B.

Revenue Projections

Based on DFI's analysis of local and comparable markets, revenue streams were projected based on an average daily rate of \$155 with a year-three stabilized occupancy rate of 65%.

Stabilized Revenue Streams

Rooms	\$4,480,000
Food & Beverage	\$1,600,000
Other Operated Departments	\$180,000
Event Space Rental	\$135,000
Retail Lease (NNN)	\$50,000
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Total Revenues	\$6,445,000
<Less> Operating Expenses	\$4,500,000
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Net Operating Income	\$1,945,000



Interior of Grey Hosiery Mill. Credit: Walter Arnold

Project Costs & Returns

Development Costs

DFI estimates total development costs at \$24.7 million, including site acquisition:

Development Costs

Acquisition	\$1,000,000
Hard Costs	\$18,000,000
Soft Costs	\$4,700,000
Developer's Fee (4%)*	\$1,000,000
Total Costs	\$24,700,000

*Includes 1.5% for DFI's "Development Services Fee" – see "Additional Information" section for more details

Financial Sources

Financial Sources

Private Equity	\$6,400,000
Permanent Loan	\$17,300,000
City Loan for site acquisition	\$1,000,000
Total Sources	\$24,700,000

The Grey Hosiery Mill is eligible for Federal Historic Rehabilitation Tax Credits and State Mill Rehabilitation Tax Credits. The program endorsed by City Council does not apply the credits, but this solicitation does not preclude their use.

Public Participation



The City of Hendersonville is prepared to work with a development partner to facilitate the redevelopment of the Grey Hosiery Mill and its connection to Main Street. City Council has endorsed the following public participation options:

- A city loan for the acquisition of the property
- Extension of Main Street streetscape improvements along 4th Avenue

Additional public participation options may be considered should proposals prove their necessity for a successful project.

Project Returns

Using the above program and projected rents, DFI has modelled the project to determine overall feasibility and returns for the Developer and potential Equity Investor(s). Detailed versions of the financial assumptions, operating cash flows, and projected returns are available upon request. With the above outlined options for public participation, DFI estimates that the developer of this project can achieve market rate returns, and is currently estimating an **IRR of 16-18% and an annual yield of 6-8%**.

Submission of Proposals

Developers shall organize their proposals in the format described below. Please submit the requested information in appropriate detail to allow adequate review and evaluation of qualifications and plans. Any information that a respondent requests remain confidential should be sent under a separate cover (see below Submission Procedure).

1. Letter of Introduction

Include a summary of the respondent's basic qualifications, experience, and reasons for interest in this opportunity. The letter should be signed by a principal or authorized officer for the entity.

2. Program Proposal

- Hotel (number of keys, average room size and mix, total gross square footage, amenity package, event space square footage)
- Commercial (total gross square footage, intended use by square footage)
- Parking requirements

Design schematics with illustrative sketches, including the following:

- Overall site design showing how the Mill structure will be incorporated
- Preliminary plans for each floor
- Unit test fits

DFI and the City have worked through multiple iterations of a feasible project on the Project Site with Samsel Architects, Asheville, NC. For additional access to the concept plans appearing in this RFP, contact Nathan Bryant at nathan@samselarchitects.com.

Development Assumptions

- Site acquisition price
- Detailed development budget
- Parking assumptions

Financing Assumptions

- Expected amounts and sources of debt and equity
- Status of commitments from lenders and investors
- Expected average daily rate, occupancy rate, venue rental fee and commercial rents
- For commercial venture, expected economic impact concerning gross sales, production and integration with existing business community of Hendersonville

3. Development Team

- Identification of up to three partner firms and roles, including co-developers, architects/designers, and general contractor.
- Overview for each firm on the team, including brief history of firm, past experience working with the developer, and relationship of the firm's parent company with the office responsible for this project, if applicable.
- Identification and resumes of lead staff (principals and project managers) that will be responsible for negotiating a development agreement with the City and completing the remainder of the preconstruction approval process.

4. Management Team

- Identification of hotel management partner or franchise, and event space management partner (if different from hotel).
- Overview of the management partner(s) including brief history and hotel portfolio, and experience working with the developer.
- Identification and resumes of lead staff.
- For commercial venture, overview of management partners and brief history of the established success of the proposed business in other locations

5. Experience & References

Provide relevant development experience, particularly in developing hotel or event space projects, and historic rehabilitation. Provide information on at least three, and no more than five projects. Each comparable development should detail the following information:

- Location and name of project
- Name of hotel management partner
- Scope and scale of development program
- Photos/illustrations of completed project
- Total development budget by use
- Amounts and sources of debt and equity funds used to finance the project, including governmental sources.

Please provide a point of contact for each capital provider for the project.

- Contact information for a representative of the primary public agency partner in the project
- Developer's role in and ownership for each project (e.g., fee developer, equity investor, and/or property manager).

6. Financial Capacity

Provide evidence of sufficient financial strength to undertake and successfully complete a project of this scale. Please also identify any projects/financing on which the team collectively or individually has defaulted.

7. Disclosures

- Disclosure of any potential conflicts of interest that could be relevant to this project in any manner
- Disclosure of whether the developer or any officer, director, or owner thereof has had judgments entered against him or her within the past 10 years for the breach of contracts for governmental or nongovernmental construction or development
- Disclosure of whether the developer has been in substantial noncompliance with the terms and conditions of prior construction contracts with a public body
- Disclosure of whether any officer, director, owner, project manager, procurement manager, or chief financial official thereof has been convicted within the past 10 years of a crime related to financial fraud or to governmental or nongovernmental construction or contracting
- Disclosure of whether any officer, director, or owner is currently debarred pursuant to an established debarment procedure from bidding or contracting by any public body, agency of another state, or agency of the federal government

Commercial Venture

The City Council and DFI have made no Preliminary Concepts, Revenue Projections or Project Costs and Returns for other commercial ventures. The City Council will review any submission that proposes a venture other than a hotel. The submission should include a Preliminary Concept for the City Council and DFI to review. There should also be a detailed narrative or statistical layout of the proposed economic benefit to the City of Hendersonville and the greater Henderson County. The commercial venture should also demonstrate that there is adequate funding to support the proposed commercial venture. Finally, the commercial venture should determine what additional City involvement would be expected, if the City involvement is different than what is proposed for the hotel project

Evaluation Criteria

The evaluation of developers responding to this solicitation will be undertaken in order to select a partner and plan that is viable, will best serve public interests, and can be completed in a reasonable time frame. The following evaluation criteria will be used to make that selection:

- Qualifications and experience of the development team, with preference given for experience with hotel development and historic rehabilitation.
- Experience of the hotel management partner, with preference given for downtown boutique hotel and event management.
- Quality of the proposed building design and its fit with the surrounding downtown fabric
- Demonstrated ability to secure funding to execute a project of similar scale and complexity in a reasonable timeframe
- Financial benefits to City from the proposed project
- List of active development projects and demonstration of current capacity
- If a commercial venture, experience of the business partner in creating long lasting and viable economic development to underdeveloped areas of an urban environment.
- If a commercial venture, clear and concise data showing job creation and long term prospects for proposed industry under current economic conditions.

Submission Procedure

Development Partner proposals are due at 5:00 p.m. EDT on March 1, 2017. Proposals should be submitted electronically in PDF format to dowling@sog.unc.edu.

Proposals must be prepared in conformance with the guidelines described under “Submission of Proposals.” The email subject must be “Development Partner Proposal: Grey Hosiery Mill, Hendersonville, NC.”

All responses are subject to public disclosure under the North Carolina Public Records Law. DFI recognizes that respondents must submit information that it may deem confidential and proprietary in order to comply with the requirements of this solicitation. Respondents are entitled to request that certain information remain confidential, when permitted by law, as follows: (1) the respondent identifies the confidential proprietary portions of the response, (2) the respondent identifies as confidential and proprietary only those portions of the submittal that actually are confidential and proprietary, and (3) the respondent states why protection is necessary. Respondents shall not designate their entire response as confidential and proprietary, nor shall they so designate information that is already public.

Any information that the respondent would like to remain confidential should be e-mailed under separate cover to dowling@sog.unc.edu. The e-mail subject must be “PROTECTED: Development Partner Proposal: Grey Hosiery Mill, Hendersonville, NC.”

For information concerning the procedure for responding to this Solicitation for Development Partners or clarifications of the terms, conditions, and requirements of this SDP, please e-mail Rory Dowling, Project Manager, DFI, at dowling@sog.unc.edu.

Selection Process

DFI will review all responses, contact references, and coordinate interviews as necessary. After a review of submitted proposals, clarifications may be requested. Unless requested by DFI, no additional information may be submitted by developers after the March 1, 2017 deadline. DFI will enter discussions with the developers having the most viable proposals before finalizing its recommendation of a partner to the Hendersonville City Council. An endorsement by Council of a development partner is not final approval. Rather, it will trigger an exclusive period of negotiations between the City and their selected partner for a development services agreement for the project. DFI will advise the City in the negotiation of a formal development agreement.

The next steps in the timeline for this development project are estimated as follows. The City reserves the right to extend or otherwise modify the following schedule. If and when such changes in the schedule occur, notice will then be provided:

Project Timeline

<u>Deliverable</u>	<u>Date</u>
Development Partner Proposals Due	March 1, 2017
Private Development Partner Chosen	April 2017
Memorandum of Understanding	May 2017
Development Agreement	July 2017
Site Plan Review and Permitting	Q3 2017
Projected Ground Breaking	Q4 2017 / Q1 2018

Additional Information

Consultant Fee

DFI's predevelopment work thus far will benefit the private developer taking on the project by significantly reducing the time, effort, and expense required to move the project through the City's public planning process. The City has therefore agreed in a contract fully executed on December 1, 2015, to include a "Development Services Fee" contingent upon the execution of one or more agreements regarding any aspect of the Project or any portion thereof. The Development Services Fee shall be an amount equal to 1.5% of the total project costs. The terms of the fee are further described in Appendix A of this document.

Disclaimers

All facts and opinions stated in this solicitation are based on available information and are believed to be accurate. Nevertheless, neither the City of Hendersonville nor the UNC School of Government, nor any of their officers, agents, or employees, shall be responsible for the accuracy of any information provided to any respondent as part of this solicitation or vetting process. All respondents are encouraged to independently verify the accuracy of any information provided. The use of any of this information in the preparation of a response to this request is at the sole risk of the respondent.

Those submitting responses to this solicitation assume all financial costs and risks associated with the submission. No reimbursement or remuneration will be made by the City or UNC to cover the costs of any submittal, whether or not such submittal is selected or utilized.

The City reserves the right to reject any or all submittals at its sole and absolute discretion and accepts no responsibility for any financial loss by such action.

Any agreements that may be entered into between the developer(s) and the City, including but not limited to a Development Services Agreement, are subject to approval by the City Council. DFI does not act as a broker or agent of the City, and no representation made by DFI during the solicitation and vetting process shall be binding on the City.

The City reserves the right to waive irregularities or informalities in any submittal in the exercise of its sole and absolute discretion.

The City of Hendersonville is an equal opportunity employer. It encourages minority- and women-owned firms to respond to this and all other solicitations.

Appendix A: Predevelopment Fee Agreement

The conveyance or lease of the property described herein (the “Property”) to the successful bidder and its successors and assigns (the “Developer”) shall be conditioned upon the execution of an agreement (the “Development Services Agreement”) between the City and the Developer pertaining to the responsibilities of either the City or the Developer, or both, regarding any aspect of the development of the Property or any portion thereof (the “Project”). As part of the Development Services Agreement, the Developer shall agree to pay a fee to the City’s consultant (“SOG”) and its successors and assigns for predevelopment services provided to the City, and the Development Services Agreement shall provide that SOG is an intended third party beneficiary of the Development Services Agreement.

The fee shall be an amount equal to 1.5% of the total costs of development of the Project as calculated by the Developer in the most recent version(s) of pro forma and other financial projections (the “Developer Financials”) prepared by the Developer and delivered to lenders and/or investors prior to the execution of the Development Services Agreement, and in the event of any inconsistencies in the projected total costs among different versions of the Developer Financials, the version of the Developer Financials showing the greatest total costs of development of the Project shall be used to calculate the Development Services Fee. The Development Services Fee shall be due and payable in full to SOG no later than 30 days following execution of the Development Services Agreement. An alternative payment schedule for payment of the Development Services Fee to SOG may be developed as mutually agreed in writing by Developer and SOG; by way of illustration only, such schedule of payments could be tied to the receipt of any developer fees by Developer. Developer’s obligation to pay Development Services Fee shall not be assignable by Developer to any other entity, nor shall any assignment relieve Developer of its obligation to pay Development Services Fee, except upon written consent of SOG.

Appendix B: Conceptual Plans

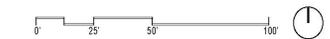


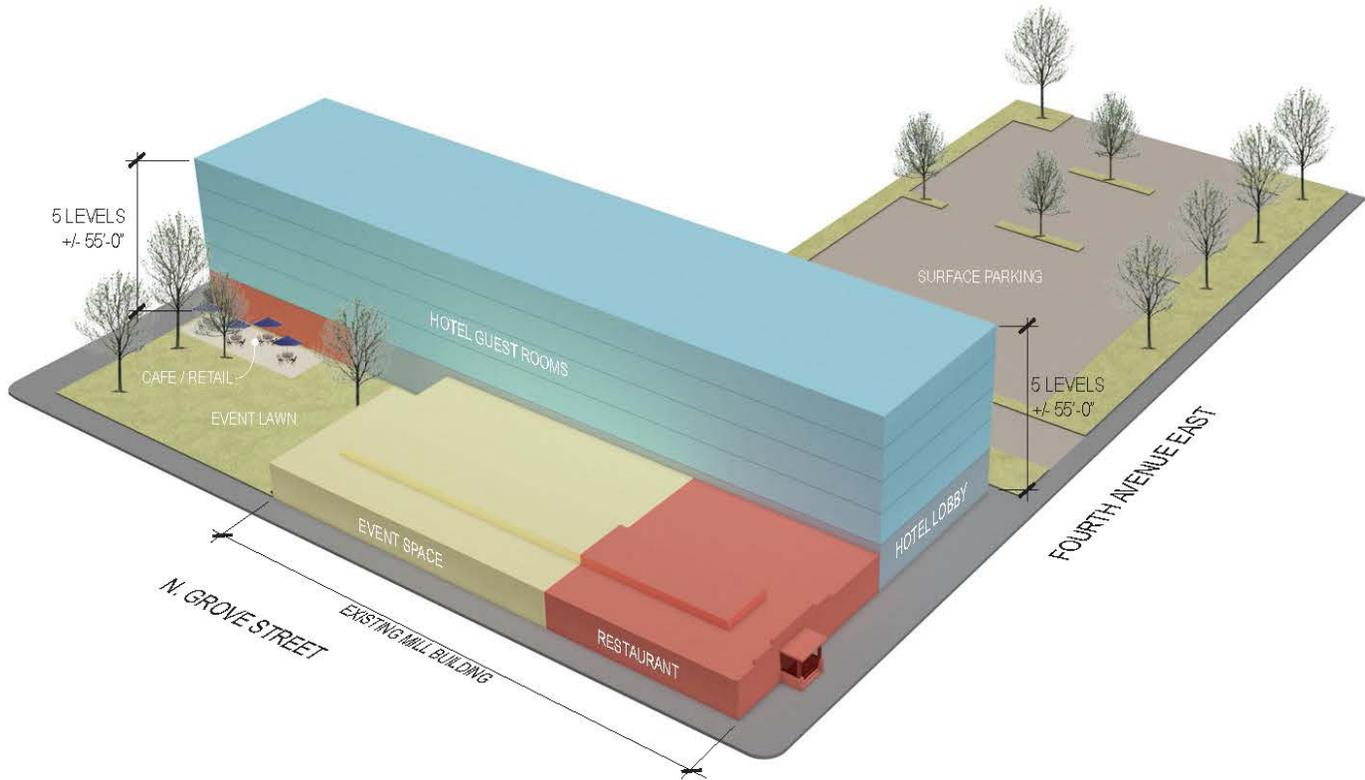
130-135 TOTAL UNITS
115-118 PARKING SPACES
+/- 96,560 GSF
+/- 74,520 NLA (77%)

+/- 57,820 NLA HOTEL
+/- 8,800 NLA RETAIL
+/- 7,900 NLA EVENT

UPPER FLOOR PLAN (2-5)

GROUND FLOOR PLAN





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115-118 PARKING SPACES
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