

# MIDTOWN

## SANTA FE

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## Bi-weekly Progress Report

CITY COUNCIL / GOVERNING BODY

February 10, 2020

# Progress Reports & Presentations

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## Meet the Developer

- Open and **competitive solicitation process** led to selecting the highest ranking master developer and entering an Exclusive Negotiation Agreement

## Planning Workshop (Midtown Charrette)

- Critical **development concerns** were raised as part of developer's site evaluation and assessment, which led to mutually terminating the Agreement

## Midtown Moving Forward

- With a commitment to **transparency and create a shared understanding with the public** on the critical predevelopment issues, the City's Midtown team will be presenting regularly on the issues and requesting guidance and decisions from the Governing Body



# Midtown Moving Forward

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## **7 Strategic Tactics Teams / 7 Development Concerns**

1. Land Use Zoning
2. Development Planning
3. Infrastructure & Utilities
4. Existing Buildings and Furniture, Fixtures & Equipment
5. Public Finance
6. Procurement & RFEI
7. Public Engagement



# Midtown Moving Forward

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## **Cities Investment Considerations for Disposition & Development**

- Levels of Investment Range as the Governing Body affirms goals for specific sites
- Goals range along a spectrum from Economic Returns to Community Benefits





# Key Presentation Points

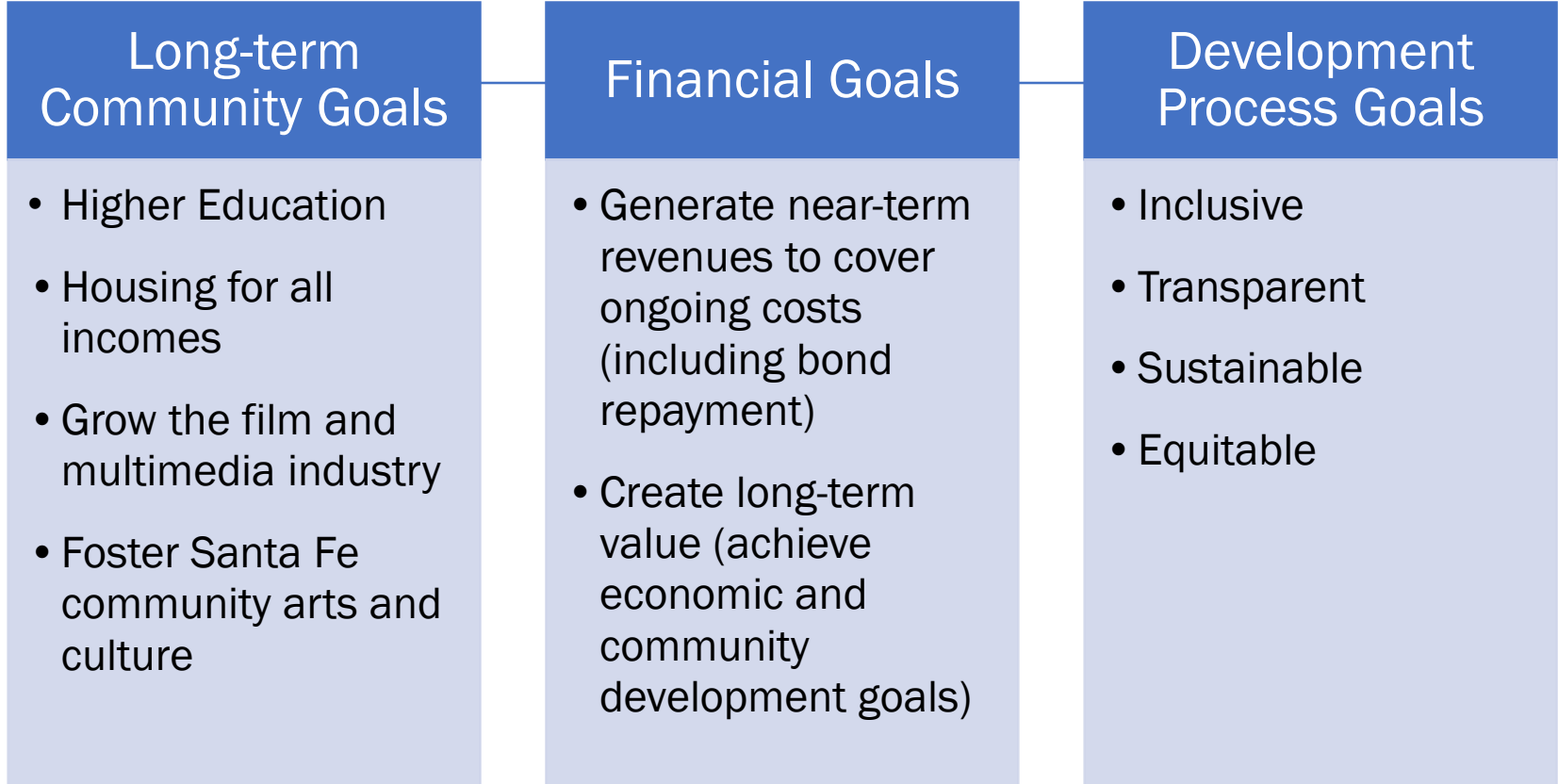
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1. Review City's goals and guiding principles for the Midtown Site
2. Brief background and previous decisions for Midtown Site as a City resource
3. Understanding the Midtown Site's current market value perspective and the City's investment role for increasing value
4. Preliminary and near-term strategies for moving forward

# Background:

## Three Goal Areas for the Midtown site

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# Solicitation process to gather development and business interests from the market

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# Key Market Feedback: Midtown is a distressed asset

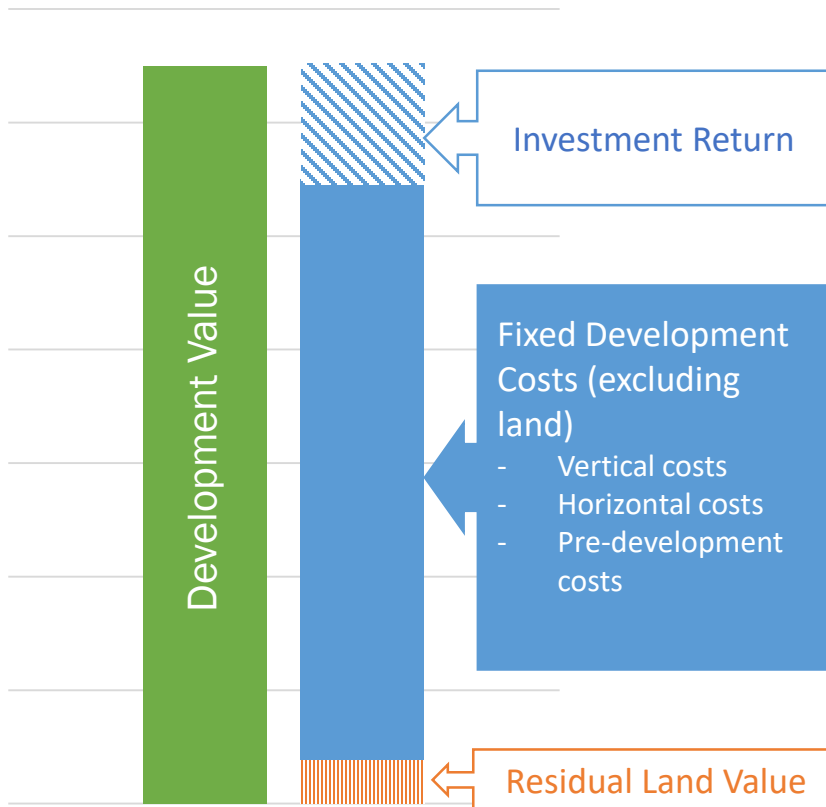
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## Master developer assumed or estimated:

- A significant public investment is needed to design and build infrastructure, and establish land use zoning, which will set the foundation for future development
  - A need for additional points of circulation access is needed from surrounding commercial corridors
  - An uncertain investment risk around the timing of infrastructure investment and implementation against the realization of projected future revenues from development
  - The uncertainty of commercial and mixed-use development in a post-COVID economic environment
- **Based on these factors, the master developer determined that the investment needed to create land value exceeded their risk parameters for ongoing resource investment**

# Understanding the Master Developer's Decision

Developers evaluate what they can afford to pay for land based on total project revenues minus their costs and a minimum expected return

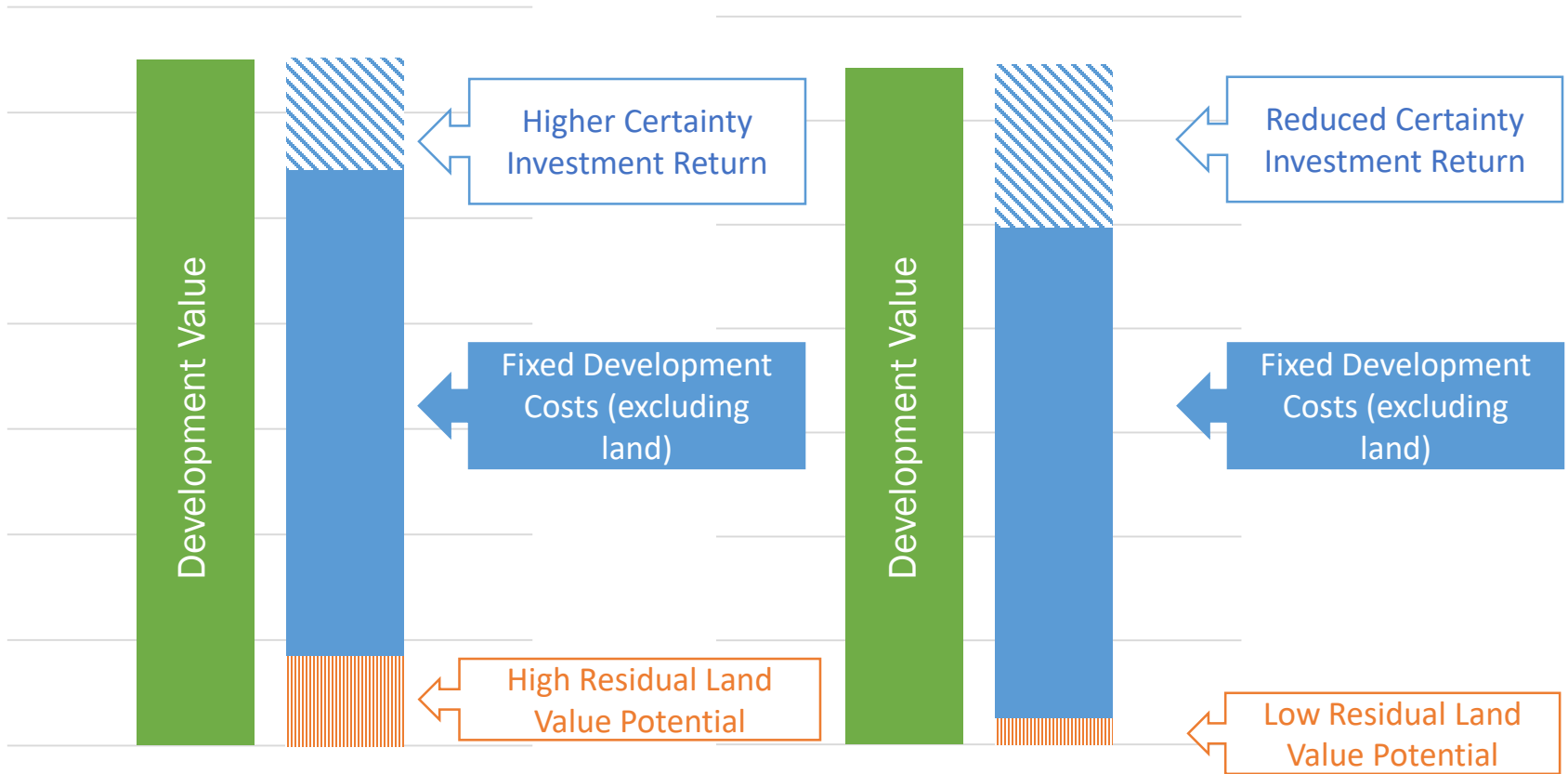


- The minimum developer return is driven by the perceived risk and uncertainty of development
- Costs include vertical costs (buildings), horizontal costs (site preparation, infrastructure), and pre-development costs (e.g., entitlement)
- What is left is the highest amount the developer thinks they can pay for the land

# High costs and uncertainty affect levels of project feasibility

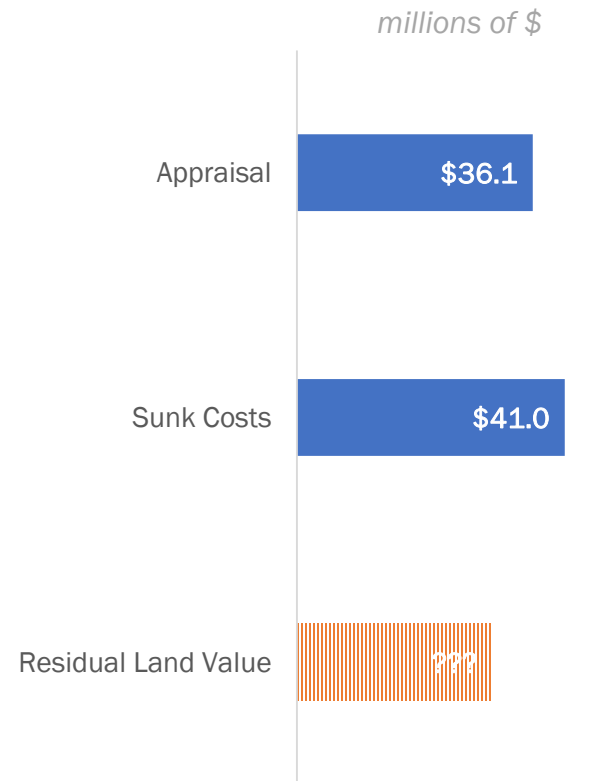
## Higher Development Feasibility

## Lower Development Feasibility

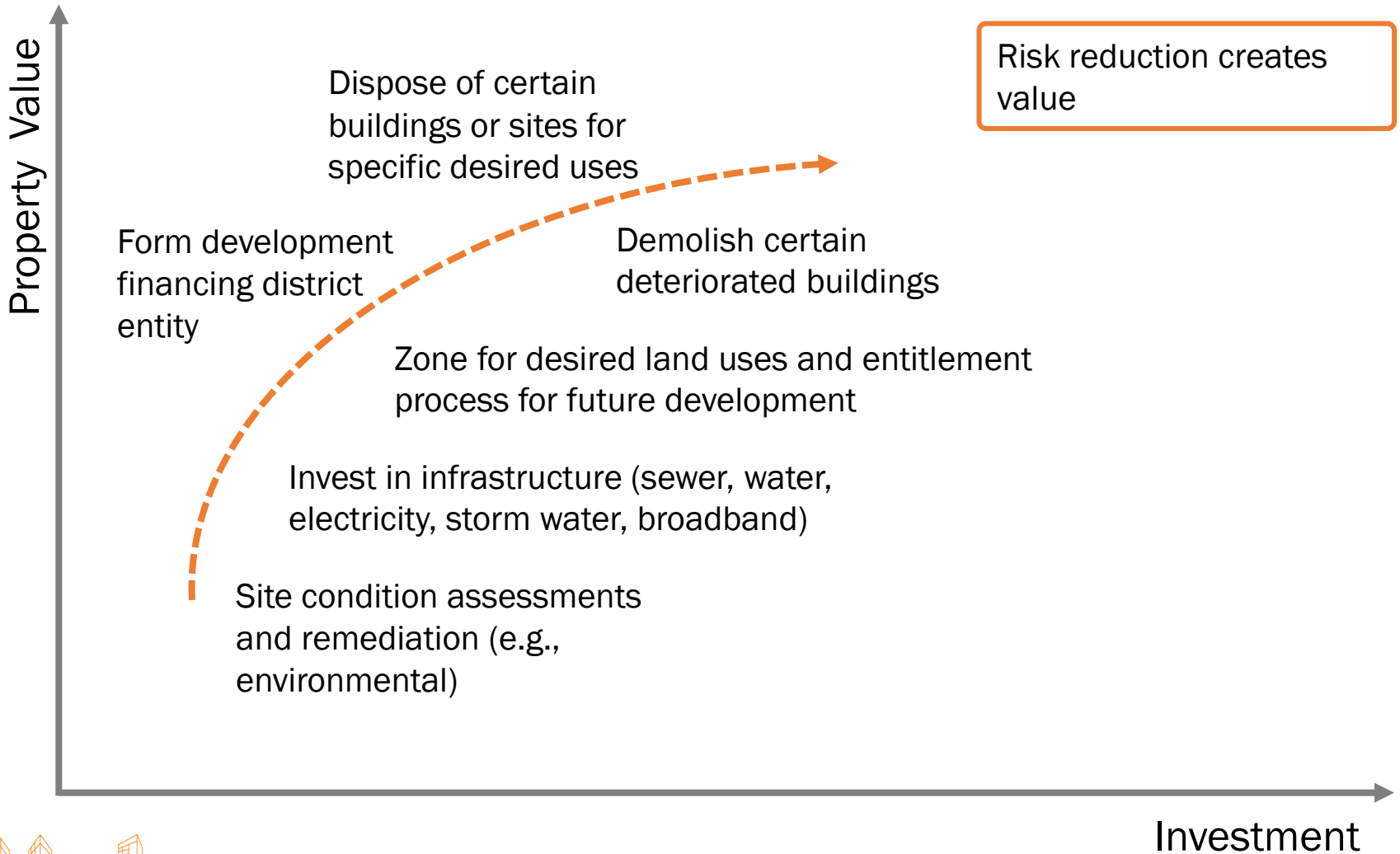


# Residual Land Value is One Way to Express Property Value – Best Reflection of Developer Value

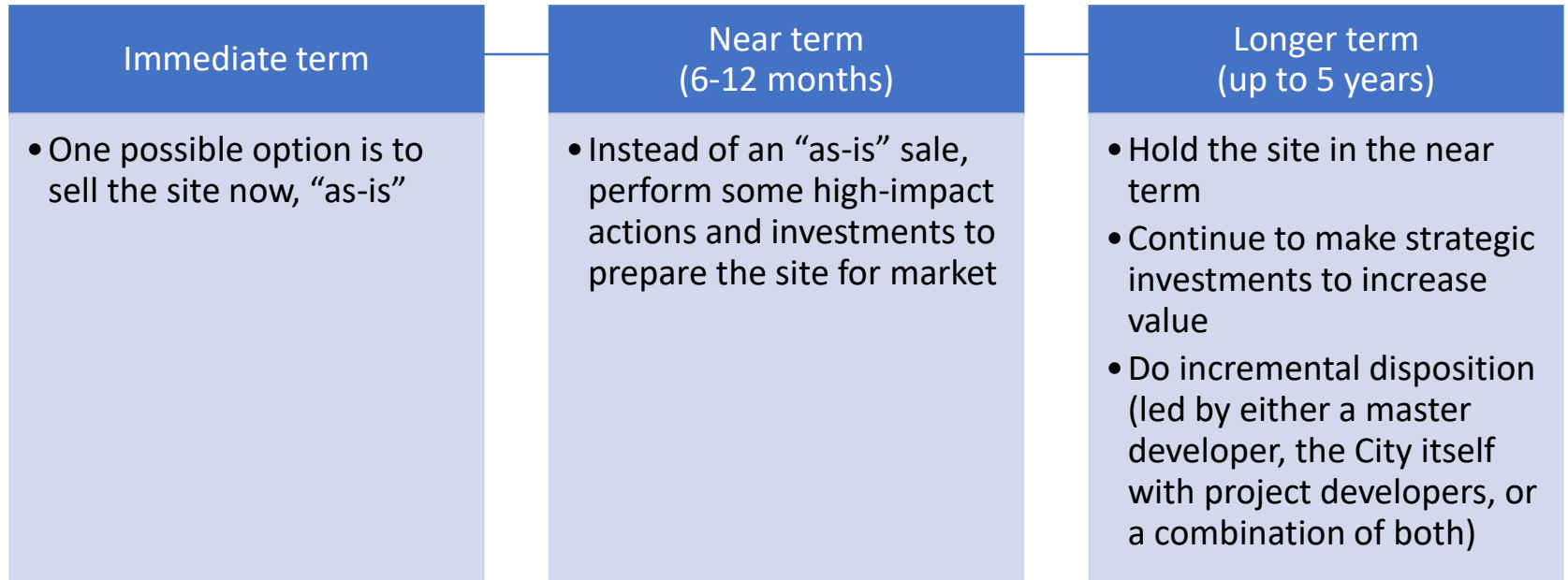
- Appraisal tends to be more useful for individual buildings or land with a single use
- Elements of appraisal:
  - Replacement costs
  - Comparable Properties
  - Net Operating Income, Income Capitalization Approach
- The residual land value depends on the site's potential for development and the development program chosen by the City
- The City has the opportunity to accept a lower land value in exchange for the developer providing public benefits such as affordable housing



# What Now? The City can reduce risk uncertainty with targeted investments and actions that also increase land value



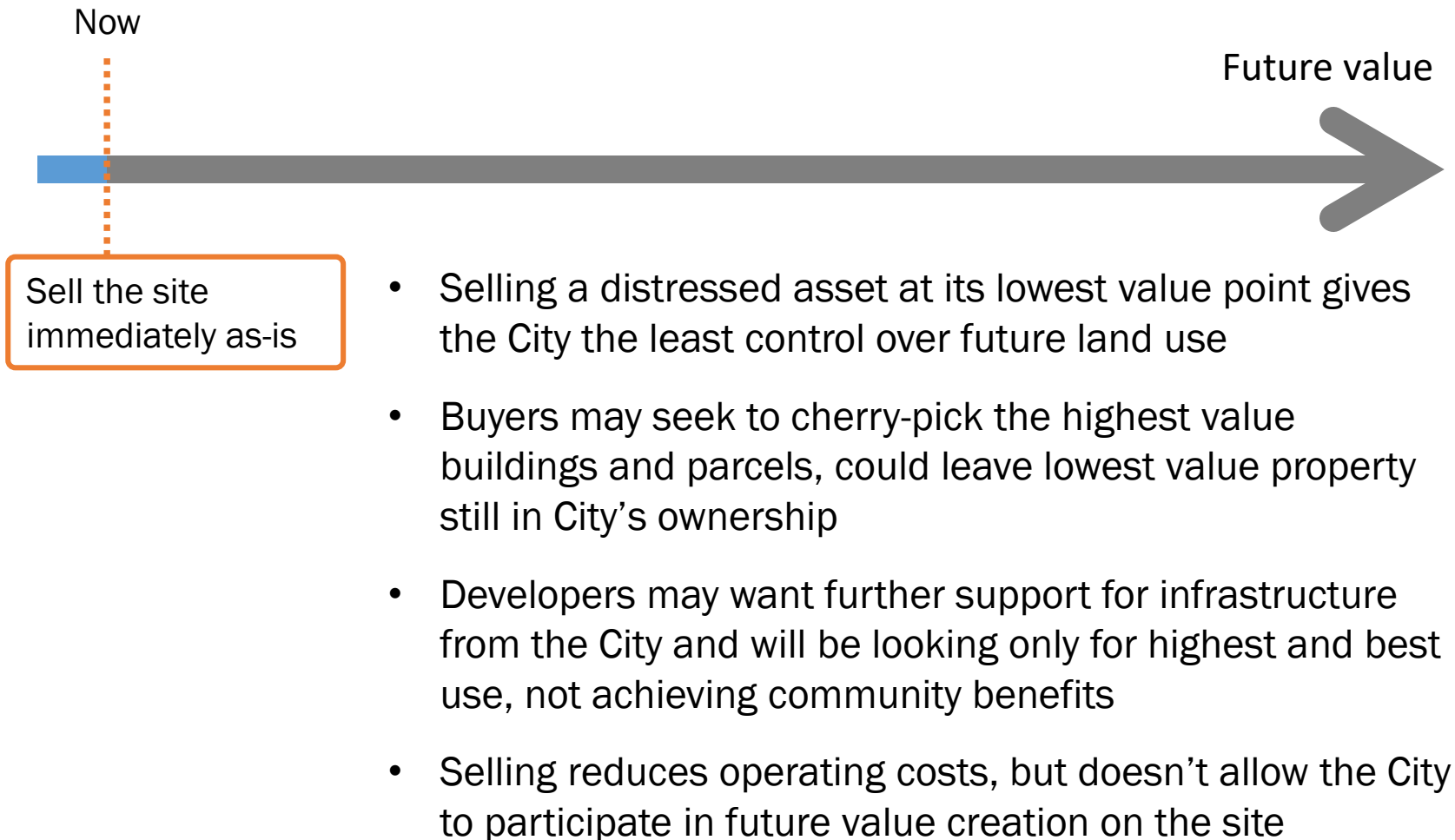
# Possible decision points for additional investment related to Midtown disposition



- The City can decide to sell the Midtown property at any time, but the amount of return the city receives will also depend on what the City does before the sale to increase value
- Making this decision will also depend on which of its goals the City wants to achieve from simply economic returns to both economic and community goals

# Possible decision points - immediate

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# Next decision point – approximately 6-12 months

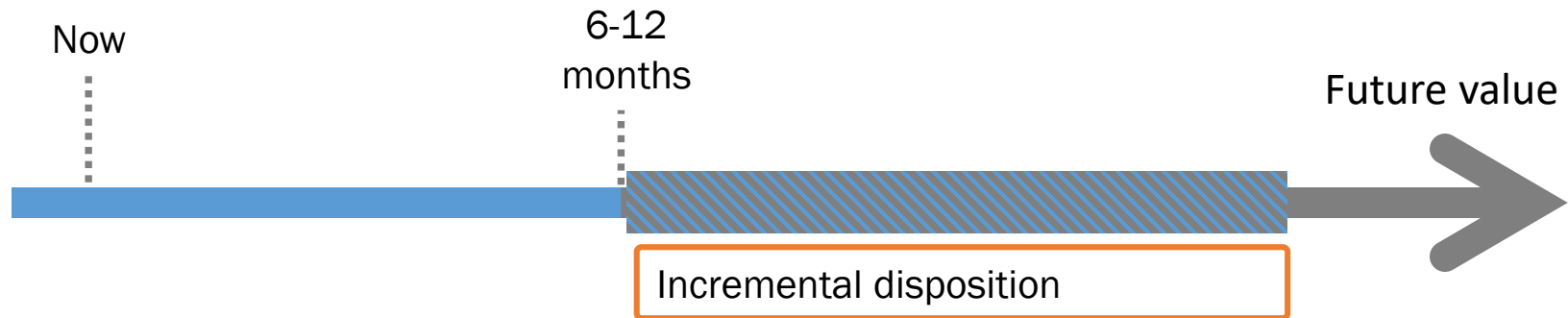


- Near-term City investments will help reduce uncertainty and create value for the City
- Near-term investments will help create near term value for potential uses, creating more potential of “synergy” (e.g., arts and multi-media)
- Near-term investments might include:
  - Demolish existing deteriorated buildings and implement targeted improvements
  - Rezone for desired land use; establish entitlements process for future development
  - Disposition of certain buildings for rehab/ reuse for desired uses
  - Undertake environmental site assessments and remediation, as may be required
  - Establish financial structure for public financing, such as Municipal Redevelopment Area
- **Pursuing this path leaves open the option to do an incremental disposition and gives the City more leverage to achieve community goals**



# Longer term decisions

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- Disposing of the site incrementally:
  - Requires the most investment of City resources, **but**
  - Has the most potential for the City to participate in the economic value that gets created down the road
- This path also allows the City to best pursue its community goals

# Relationship between achieving City's goals and disposition/investment decisions

Goals	As-is sale (immediate)	Minimal investment (6-12 months)	Incremental disposition, increased investment (up to 5 years)	
Community	Higher Ed			
	Mixed income housing			
	Film/multimedia			
	Arts/culture			
Financial	Offset/reduce costs	?		
	Long-term value			
Process	Inclusive			
	Green			
	Transparent			
	Equitable			

# Upcoming Progress Reports and Presentations

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## NEXT STEPS

- We'll be back in two weeks to talk about more specific options related to investing to create value
- What would be required, what could be achieved