

TO: Port Commissioners DATE: Feb 12, 2014

FROM: Rob Fix COPIES: Carolyn Casey

Mike Stoner Frank Chmelik

SUBJECT: Recommendations for Waterfront District Developer Selection

Action Requested

Motion to authorize the Executive Director to enter into an Exclusive Negotiating Agreement "ENA" with Harcourt Development LLC. The ENA will be for a period of 120 days, during this time we will attempt to negotiate long term definitive agreements. The long term agreements will be subject to Commission approval.

BACKGROUND

In 2013, the Port of Bellingham issued a Request for Proposals (RFP) for the Downtown Waterfront Development, with a stated preference for securing a Master Developer for at least the 10.8-acre Initial Development Opportunity (IDO). The RFP was released May 15, 2013 with a deadline of July 10, 2013, and resulted in the submission of nine (9) proposals; four (4) from Master Developers, three (3) from Granary Developers, and two (2) from niche developers.

The Master Developer respondents consisted of:

- Harcourt Developments;
- Uniting Creatives/Four Pillars Development (received 11/2 months after the RFP deadline);
- Viking Development¹ (subsequently withdrawn in October); and
- Williams & Dame Development/Loci Development;

The Granary Developer respondents consisted of:

- Quay Property Management (QPM);
- Tollhouse/Zervas Group; and
- Willson/Blethen and Associates

The niche developers, whose proposals for affordable housing and a hotel will be provided to the selected Master Developer, consisted of:

- Bellingham/Whatcom Housing Authority
- InnSight

EVALUATION PROCESS

The Port contracted with real estate consulting firm Heartland to work with the Port in creating and promoting the Initial Development Offering (IDO) and in evaluating the responses the Port

¹ Withdrew from consideration prior to scheduled interview.

received. The Port also consulted with former Port Business Development Director Lydia Bennett, CRE West Coast, in this evaluation process and Bennett was part of the interview team.

Heartland established an evaluation process that included research on the proposals and developers; phone panel interviews with each Master Developer and Granary candidate; inperson panel interviews with each Master Developer and Granary candidate and additional meetings with the interview panel to discuss alternatives.

Because of the essential project partnerships and significance of the Waterfront District development, the Evaluation Committee included representation from the City of Bellingham, Whatcom County and Western Washington University.²

At the in-person interview, each developer was able to bring their team and make a full presentation of their development concept and team capabilities to execute that concept. In addition, some of the developers were contacted for clarification of their proposals or to answer additional questions. Because the goal was to select the most qualified developer, the Port maintained varying degrees of dialogue with potential developers during the evaluation process.

The initial Request for Proposals (RFP) delineated the main evaluation criteria for this process. The key elements were: (i) Capability of Developer; (ii) Development Concept; and (iii) Transaction Structure.³ Because of the complexity of this project, the six-month evaluation process reached far beyond a simple rating structure of these elements.

FINDINGS

The Evaluation Committee reviewed many different elements of the submitted proposals. It became clear that development experience and financial capacity were two of the key factors in predicting the success of a project of this magnitude and complexity. Because any of the master development proposals would need to meet the goals and objectives set forth in the adopted Waterfront District Subarea Plan and related agreements and regulations, the interview panel recognized that final site development plans may be required to undergo modifications from the initial RFP submittals.

It was the opinion of the full Evaluation Committee that each of the respondents had development concepts and tenant mix proposals that would add value to the Waterfront District. Some included unique ideas such at Uniting Creatives' proposal of locating a base for the Sea Orbiter or Tollhouse/Zervas Group's proposal to develop a hydro-electric plant within the Granary Building. While this memo recommends that the Commission authorize the Port to enter into an Exclusive Negotiating Agreement (ENA) with a single master developer, the Evaluation Committee strongly encourages the selected master developer work with the other respondents to see if some of their development proposals could be part of the overall site development.

Three Granary-only proposals were submitted to the Port. Each of these proposals underwent the same rigorous consideration by the Evaluation Committee. While the Port had the option of entering into a development agreement with a Granary-only developer and carving that portion of the site out of the IPO, the Evaluation Committee determined that coordination between a master developer and a Granary-only developer would be essential to: (i) ensure consistency in

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² Not all interview committee members were present for all interviews. See full membership at end of report.

³ See end of document for full RFP criteria listing.

development quality; (ii) ensure full-site planning in terms of areas for Granary parking; and (iii) to meet a master developer's need for a Waterfront District site entrance that was compelling and that set the right tone for the overall development. Therefore, the team has recommended a preferred Granary developer, but will ask the master developer to seek a development agreement between those two parties directly. This may or may not result in redevelopment of the Granary Building because that outcome will be determined through those negotiations.

RECOMMENDATIONS

It is the unanimous recommendation of the Evaluation Committee that:

- 1) <u>Harcourt Developments</u> be selected as the Preferred Party with which the Port enter into exclusive negotiations to effect a mutually binding development agreement; and
- 2) <u>Tollhouse Energy/Zervas Group</u> be the preferred Granary Building developer and that Harcourt, as preferred Master Developer, work closely with Tollhouse/Zervas to integrate their Granary plans into a refined development concept for the IDO that is economically viable as well as consistent with the approved Waterfront District Subarea Plan.

While it was considered that Tollhouse/Zervas and Harcourt's interests could be run on parallel but separate tracks, in reality, concepts for the Granary cannot help but have an impact on the vision and viability for development of the broader IDO. Therefore it is critical these interests be pursued in collaboration to ensure the interests of Tollhouse, as a niche developer, do not take away value from those of Harcourt as Master Developer.

As illustrated in more detail below, Harcourt as Master Developer and Tollhouse/Zervas as Granary Developer are each clearly the most qualified across all respective criteria provided in the RFP.

1) Capability of Developer:

- <u>Harcourt Developments</u> is a vertically-integrated development firm with operations in 10 countries. They have taken several projects of significant scale through the master development process and have retained a significant vertical development component as well. Many of their projects consist of redevelopment of formerly industrial waterfront, including Titanic Quarter, Liberty Wharf, and Stanley Dock, among others.
- Tollhouse/Zervas is not a real estate developer, but the company has relevant project management experience from complex hydroelectric projects. Clearly they have capability on team to handle a hydro-electric element -- if pursued by the City -- of the project, overall design and construction management as well as the Living Building Challenge component. The partnership with Zervas Group Architects brings considerable development experience to the equation. This partnership, plus the strength of Tollhouse's vision for the Granary, the commitment they have shown, and the professionalism of their submitted materials all combined to make them the top choice for this project.

2) Development Concept

<u>Harcourt Developments</u> provided the most cohesive vision for development of either the IDO or the broader Waterfront District. While the Harcourt submittal extended beyond the IDO and included some development concepts that may not be feasible due to in-water development restrictions, Harcourt projected an understanding of the need to develop a comprehensive site development approach. After interviews and subsequent

conversations, Harcourt's principals sent a letter to the Port stating that they could scale back their initial proposal to the 10.8 acre IPO and stressed their commitment to ensure that their more refined site development concept would meet the visions, goals and community standards found in the Waterfront District Subarea Plan and related development agreements and regulations.

<u>Tollhouse/Zervas</u> provided by far the most detailed conceptual plan for the Granary of all respondents, going so far as to line up prospective tenants to correspond to desired tenant mix. Their vision to create only the world's fifth (5^{th)} building to satisfy the requirements of the Living Building Challenge is laudable, ambitious, and exciting. This project approach would set a very positive tone for both IDO and Waterfront District redevelopment.

3) Transaction Structure

- <u>Harcourt Developments</u> proposed a joint-venture structure where the Port would commit
 the land and they commit the predevelopment expenses and development expertise.
 Harcourt stated that they were not seeking an additional Port subsidy.
- <u>Tollhouse/Zervas</u> proposed paying fair market value and is willing to discuss alternatives, which could include investing in on-site improvements. Their desired method for control of land for desired additional surface parking is unclear and would require additional discussion with Master Developer. Tollhouse/Zervas agreed to provide all required equity.

4) Key Business Terms

- <u>Harcourt Developments</u> acknowledged the proposed key business terms and propose these be reviewed within broader negotiations toward a Development Agreement.
- Tollhouse/Zervas did not explicitly react to key business terms, but have essentially
 indicated through submitted materials in their proposal that they would satisfy the key
 business terms that would be relevant to a Granary Developer.

NEXT STEPS

With this recommendation, I am asking the Port Commission to approve a resolution authorizing me to enter into an Exclusive Negotiating Agreement (ENA) with Harcourt. During this period Port staff and our consultants will work with Harcourt Developments to:

- Establish a concept plan for the IDO site;
- Negotiate a Letter of Intent (LOI) or Memorandum of Understanding (MOU) that will signify the major business terms of a transaction between the Port and Harcourt Developments; and
- Negotiate a Development Agreement between the Port and Harcourt Developments documenting the LOI/MOU agreement reached between the Port and Harcourt Developments in rigorous detail. The Development Agreement may be accompanied by

a Statutory Development Agreement [between Harcourt Developments and the City of Bellingham], as well as other related documents.

If the Commission agrees with this plan of action, I also will connect Harcourt leadership with the other developers who submitted plans for the site, including the preferred Granary developer, to see if any partnerships can be established.

I understand that the Waterfront District is an important community asset and will work to establish opportunities in this time period to update the community and our partners on this project.

ADDITIONAL MATERIALS AS NOTED IN RECOMMENDATION:

EVALUATION COMMITTEE:*

Kelli Linville, Mayor Of Bellingham Steve Swan, VP WWU Tara Sundin, City Of Bellingham Carolyn Casey, Port Lydia Bennett, CRE West Coast Matt Anderson, Heartland Jack Louws, Whatcom County Executive Rob Fix, Executive Director, Port Mike Stoner, Port Sylvia Goodwin, Port Doug Larson, Heartland

*Not all members present for all interviews

RFP EVALUATION CRITERIA

1. Capability of the Developer:

- Materials submitted demonstrate financial strength and ability;
- Developer competence demonstrated through performance track record;
- Demonstrated capacity to take on this project, including appropriate involvement from executive leadership within your firm; and
- Overall strength and experience of the development team.

2. Development Concept:

- Demonstrates a mix of uses and site layout that helps support 18-hour per day usage, including ground floor retail wherever feasible;
- Works with adjacent neighborhoods and with adjacent working waterfront, reflects the history of the site, and fits into the character of Bellingham;
- Encompasses most or all of the Initial Development Opportunity;
- Defines phasing plan for investment and project build-out, including criterion and/or factors that will be used to activate each phase.
- Strives to achieve a high level of sustainability, not only for individual buildings, but on a Waterfront District-wide level;
- Strives for enduring and high-quality job creation;
- Seeks to hide parking by minimizing surface parking and employing approaches to place it in structures, below grade, or wrapping/tucking it with pedestrian friendly uses; and
- Demonstrates pedestrian orientation and provides and enhances coordination and connectivity both among individual uses in the Waterfront District and between the Waterfront District, Old Town, Downtown, and other surrounding areas.

3. Preferred Transaction Structure:

- Clearly illustrates how preferred transaction structure best supports realization of a viable project that meets or exceeds the Port, City, and Community's Vision for redevelopment of the Waterfront District;
- Demonstrates a logical phasing plan that matches City planned infrastructure construction and works with Port environmental cleanup;
- Offers Fair Market Value for the Initial Development Opportunity;
- Demonstrates financial commitment to the Port early by maximizing non-refundable payments to the Port: and
- Minimizes closing contingencies (those not otherwise required by the Port).

4. Key Business Terms:

Acknowledgment of Key Business Terms



Harcourt Developments (UK) Limited

Devonshire House, Manor Way, Borehamwood, Hertfordshire, WD6 1QQ

Matt Anderson HEARTLAND LLC 1301 First Avenue Suite 200

Seattle, WA 98101

Re: Port of Bellingham

Dear Matt,

I refer to our various discussions following our presentation last September on the exciting prospect of developing at the Port of Bellingham.

We understand that the soon to be adopted Waterfront Master Plan is the result of many years of collaboration by the Port, City and community. Our goal is to work within the Initial Development Offering (IDO) defined within the RFP as the first of several phases of development over the long-term. We welcome the opportunity to collaborate with the Port and the City to refine the plans for the IDO and future phases to implement our shared vision of a truly unique and vibrant waterfront district.

If successful, we look forward to progressing this with you and the Authorities at Bellingham.

Yours sincerely,

Director

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