

2017

George Mason High School Commercial Development Strategic Roadmap



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City of Falls Church

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Project Summary

The City of Falls Church (the “City” or “Falls Church”) seeks to redevelop its 34-acre George Mason High School and Mary Ellen Henderson Middle School campus (the “GMHS Site”) with a new high school. As a means to lower the cost of the new facility, the City intends to offer as much as 10 acres of the 34-acre campus for commercial development (the “Site” or “Project”). This Strategic Marketing Roadmap is intended to guide risk identification and mitigation; land entitlement; transaction structure; procurement; and the City’s role in infrastructure development and future marketing of the Project in order to maximize value to the City while achieving strategic planning goals.

Falls Church has invested significant time and resources in planning both the commercial and educational components of the Project. The following studies and public presentations demonstrate the breadth and depth of consideration the City has given to the future of the GMHS Site:

- 2014 GMHS/MEHMS Campus Planning Roadmap
- 2014 RTKL Site Capacity study
- 2014 ULI Technical Assistance Panel Report
- 2016 Link Strategic Partners Fact Finding presentation to the School Board.
- 2017 Perkins Eastman GMHS Feasibility Study
- 2017 Alvarez & Marsal Valuation Study

Overview of the Roadmap

The City devised a campus planning schedule ranging from a feasibility study through construction of the school and the Project’s commercial uses. This roadmap offers a targeted set of actions to market the commercial component of the GMHS Site, focused on a 17 month period within the GMHS project.

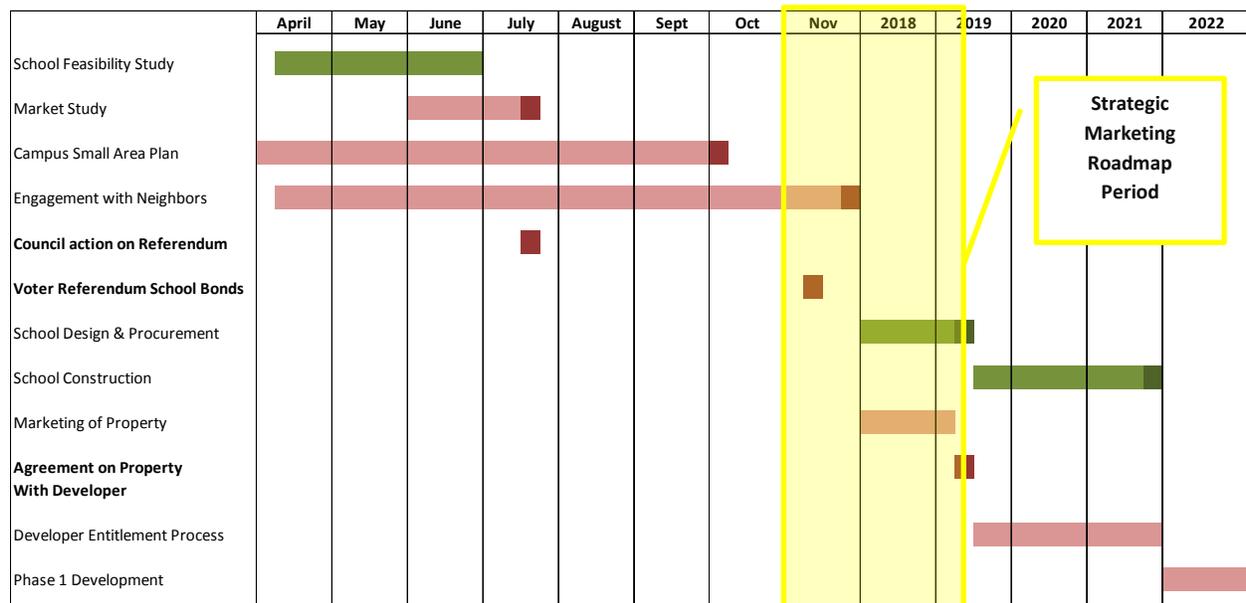


FIGURE 1: CAMPUS PLANNING SCHEDULE AND MILESTONES



Specifically, this document provides recommendations to prepare the 10-acre commercial site for development and marketing to the development community, with an ultimate goal of selecting a private partner to design, build, finance, operate, and maintain a mix of private uses. The roadmap is composed of five key areas, each with a critical success recommendation and a set of actions. The five areas and recommendations include:

- RECOMMENDATION**
- Entitlement: Launch the entitlement process prior to solicitation release
 - Risk Assessment: Conduct a risk assessment and work to mitigate risks to the City and Project
 - Transaction Structure: Remain open to a variety of transaction structures that meet the City’s goals
 - Procurement: Conduct a two-step RFP procurement, containing a Step 1 Conceptual RFP and Step 2 Refined RFP
 - Negotiation: Close the transaction under the terms proffered in the bidder’s proposal

	Year	2018				2019		
	Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Entitlement								
Complete Small Area Plan		◇						
Continue stakeholder engagement								
Subdivide parcel for commercial and educational uses								
Approve land use and zoning at site			◇					
Risk Assessment								
Conduct risk assessment								
Execute risk mitigation plan								
Transaction Structure								
Finalize upfront payment requirement								
Determine condo optionality								
Confirm desire to maintain land ownership								
Determine development preferences								
Determine value of CDA								
Procurement								
Conduct Developer Roadshow								
Notify industry and media of upcoming opportunity								
Craft Step 1 Conceptual RFP			◇					
Release Step 1 RFP/receive bidder responses								
Notify industry and media of solicitation								
Market solicitation via network, website, and social media								
Conduct industry forum								
Evaluate responses/downselect bidders								
Craft Step 2 Refined RFP				◇				
Draft form transaction documents								
Release RFP/receive proposals								
Evaluate proposals								
Select development partner					◇			
Negotiation								
Negotiate Agreement to Enter / Exclusive Rights Agreement								
Developer Due Diligence								
Negotiate Ground Lease								◇

◇ Council Approval

FIGURE 2: ROADMAP SCHEDULE OF ACTIVITIES



The City is advised to begin the entitlement process as soon as possible, prior to issuance of a solicitation. This would involve stakeholder engagement regarding desired uses and density at the site. Zoning is anticipated to be completed within the first quarter of 2018. Finalizing the zoning will eliminate entitlement risk and uncertainty for potential bidders and signify the City's intent to support the development of a robust Project, which should in turn increase value to the City. During the zoning designation process, the City should conduct a risk assessment, craft a risk mitigation plan, and begin its execution.

During this period, City leaders will also select required transaction structure features such as the timing of bidder payments to the City and long term ownership preferences based on policy goals and initial discussions with market players during the Developer Roadshow.

Using inputs from the risk assessment, transaction structure preferences, and Developer Roadshow feedback, the Step 1 RFP will be prepared for release in the second quarter of 2018. After 60 days, Step 1 RFP responses will be compiled and evaluated. Leveraging respondents' feedback, the Step 2 RFP will be finalized for release in the third quarter of 2018 with partner selection expected by the end of the calendar year.

Transaction document negotiations will launch immediately after partner selection, with the intent to execute a ground lease by March 2019.

Post-Partner Selection

Project groundbreaking will be linked to the delivery of the new high school. Negotiations will occur for approximately nine months through Q3 2019, while a design concept is formulated. Design will continue in 2020 and 2021, while the new GMHS is constructed, and will culminate in construction documents and financial and business closing by the end of 2021. Site development and construction is expected to begin in 2022 and continue for three full years, with products delivering throughout 2025. The development is anticipated to be income stabilized from an investor standpoint by 2026.



Site Description

Location

The GMHS Site is located in the northwest corner of the City, bounded by Leesburg Pike (also known as West Broad Street) to the south, Haycock Road to the east, Falls Church Drive (an unsigned Metro and I-66 access road) to the west, and other City-owned properties, currently leased to the University of Virginia and Virginia Tech, to the north.

Surrounding Uses

Properties to the north of the Site include the West Falls Church Metro Station, a Metro parking garage and surface lot, the Virginia Tech/University of Virginia Northern Virginia Center and a City-owned parking lot leased by the universities. East of the Site is a strongly-tenanted commercial strip center anchored by a grocery store, behind which sits several moderate density multifamily apartment buildings. A recently developed townhome community is located across West Broad Street from the Site.

Improvements

The Site is currently improved with the George Mason High School structure (completed in 1954, with minor additions over the years and a major renovation in 1994) and surface parking lots related to the schools (including the adjoining Mary Ellen Henderson Middle School (completed in 2005).



FIGURE 3: GMHS COMMERCIAL DEVELOPMENT SITE

Transportation and Access

The GMHS Site is conveniently served by a variety of transit and public transportation options. The Site is accessible and walkable from the West Falls Church Metrorail Station, and there are two WMATA bus lines (28A and 3T) with stops at the Site's edge or at the West Falls Church Metrorail Station. Vehicular access is available from I-66 (exit 66), Leesburg Pike and Haycock Road. There are two vehicle access points to the Site, including a driveway on Haycock Road and a right-in, right-out entrance from the school property onto Leesburg Pike.



Pedestrians can access the school facilities and other nearby uses from these streets. A pedestrian overpass provides access from the Metrorail Station to the Site, the UVA/VT Northern Virginia Center and neighboring properties. The Project features a Walk Score of 71, with routine retailing needs being readily accessible on foot.



FIGURE 4: 20 MINUTE/ 1 MILE WALKING DISTANCE MAP (WALKSCORE.COM)

The Site is also characterized by a rising topography. Elevation increases approximately 30 feet from the northwest corner near the Metro pedestrian overpass (378 feet) to the current high school site (400 – 402 feet).

Potential Development Program

The market should determine the optimal mix of uses that will profitably satisfy the City’s goals and vision for the Site. A successful program will balance the City’s economic development objectives with market realities regarding the Site’s ability to absorb each product type efficiently and in a timely manner.

The site is poised for mixed use development with an estimated 3.5 Floor Area Ratio based on market conditions. Potential project drivers include:

- Creating a destination to attract visitors from beyond the City limits;
- Leveraging multi-family premium values for Metro proximity to create a development platform to support a broader mix of uses;
- Building on existing demand for 55+ age-group housing and its attraction to the overall City of Falls Church location and amenity base;
- Utilizing a site with the size and location to create a critical mass of diverse uses;
- Adding Metro accessible Class A office space to Falls Church that is competitive with nearby commercial office centers;
- Leveraging synergies with existing and possibly expanding educational programs anchored by the Virginia Tech and UVA Northern Virginia Center and middle and high school focused families;
- Realizing potential for a hotel near the Metro and highway; and
- Creating a prominent public civic space that can help shape the overall project’s identity.



Key Questions

Questions for participants should focus on what they do and do not want to see at the Site, as well as why they believe the Site should be developed. Requesting opinions on various uses, such as residential, office, retail, hotel/meeting rooms, and civic space may generate more actionable and refined feedback.

Timing of Zoning Action

Quickly initiating the rezoning process will demonstrate the City's intent to encourage dense, mixed use development at the Site. Having a specific zoning designation in process, even if not approved, will signal to the development community allowable and encouraged uses, as well as the Site's potential development envelope. This will eliminate entitlement risk, improve land value and decrease the likelihood of a re-trade during transaction negotiation.

This process should be in motion during the first quarter of 2018, prior to solicitation release, to enable bidders to offer more realistic design concepts during the request for qualification stage, and firm values during the request for proposal process (described in more detail below).

Proposed Land Use and Zoning

Falls Church's zoning ordinance contains 13 discrete zoning districts. In addition to by-right uses, many districts allow for nonconforming uses through special exception approvals. The B-2 zone is recommended for the GMHS Site as it offers the most flexibility and potential for density. B-2 encourages the commercial uses desired by the City, while allowing residential uses critical for the Project's market and financial feasibility. Additionally, the B-2 zone allows the City's tallest structures with a 75 foot height by right and up to 40 additional feet through special exception. To facilitate cost effective structured parking and a dense program of mixed uses, height is a critical aspect of this Project.

In addition to the B-2 zone's ability to meet the Project's physical goals, its legal and planning intent also aligns with the City's policy goals for the GMHS Site. Specifically, this zone is designed to:

- Create a business area which will provide a range of commercial activities at a level of development more concentrated than other commercial areas.
- Ensure that development is responsive to spatial, visual and pedestrian considerations.
- Promote an environment to attract new businesses and retain existing businesses.
- Provide a variety of retail and service-oriented businesses to respond to consumer needs.

In addition to designating the future land use and zoning of the Site, the City must subdivide the single 34 acre parcel to demise the 10 acre portion reserved for commercial uses. Until the parcel is subdivided, the City will be unable to transfer the real estate to a private developer.



Relevant By-right Uses (B-2)	Special Exception Uses (B-2)	Building Envelope Restrictions (B-2)
<ul style="list-style-type: none"> Hotels, motels Business and professional offices, including medical and dental Clinics Offices for medical, dental and optical laboratories and offices for scientific research Restaurants Inns, bed and breakfasts Recreational or community facilities Mixed-use redevelopments 	<ul style="list-style-type: none"> Residential development within mixed-use development projects Sidewalk cafes 	<ul style="list-style-type: none"> 75' height limit 40' height bonus for residential uses in mixed use projects Residential structures must be 4 stories at minimum Tallest structures are located on primary street frontage Retail is adjacent to major thoroughfares

FIGURE 6: B-2 ZONE OVERVIEW

Parking Relief

The City’s off-street parking requirements are conservative and do not reflect the unique attributes of the GMHS Site. Proximity to Metrorail affords up to a 20% reduction in required parking in the City’s zoning ordinance. The mixed use, 18-hour nature of the desired development program may also facilitate shared parking among uses with inverse peak periods. Shared parking further reduces the parking requirement by approximately 10%. For example, office users will occupy parking garages during daytime business hours, while a percentage of dining and retail customers will rely on parking in the evening.

	Requirement per Zoning Ordinance	Recommended Minimum Requirement
Apartments	Studio – 1.0 spaces per unit 1BR – 1.5 spaces per unit 2BR – 2.0 spaces per unit	Studio – 0.8 spaces per unit 1BR – 0.8 spaces per unit 2BR – 1.6 spaces per unit
Office	1 space per 450 GSF	1 space per 450 GSF
Retail	1 space per 300 GSF	1 space per 300 GSF
Hotel	1 space per key 1 employee space per 10 keys	0.75 space per key

FIGURE 7: PARKING RELIEF RECOMMENDATION

Based on these reductions, the City should prepare for, and communicate to the development community, its intent to approve a parking relief exception, if so desired, to serve market driven requirements. The recommended minimum parking requirements shown in Figure 7 represent a 30% reduction in required parking spaces compared to the City’s zoning ordinance, when applied to the development program described above.



Key Entitlement Actions

	Timing
Complete Small Area Plan	December 2017
Continue stakeholder engagement	October 2017 – March 2018
Designate land use and zoning at site	January – March 2018



Risk Assessment

Recommendation 2: Conduct a risk assessment and work to mitigate risks to the City and Project

GMHS is an attractive opportunity for real estate development firms experienced with assuming, managing, and pricing development risk. The land value of the GMHS Site is a function of the bidders' expected return on investment generated by controlling and developing the Site to its most productive economic use and their assessment of development risk.

For projects of this magnitude, each stakeholder, Falls Church and the selected developer, should understand clearly who bears what risks and how that impacts the underlying financial arrangement. Risk should be borne by the party able to do so most efficiently and cost-effectively. As illustrated in Figure 8, the City should work to shift as much risk as is reasonable and cost effective to the selected developer.



FIGURE 8: P3 RISK ALLOCATION

Risks to Falls Church

The GMHS Project introduces numerous risks to the City, some of which are more easily mitigated than others. Market and real estate cycle risks are unavoidable, but a normal part of commercial real estate development. These risks can also likely be shifted to the developer. Entitlement and political risks can largely be addressed through City-led efforts described previously and by carefully planning and executing a procurement to identify a credible partner whose goals and incentives are aligned with the City's.

Real Estate and Capital Markets

Market/Development Risk

The City's desire for dense commercial development may be challenging given finite demand for office and retail uses at the GMHS Site.

Mitigation Technique: A well-crafted solicitation and transaction structure can transfer most risk associated with the development (construction, operating, etc.) to a 3rd party and ensure the City's title to and control of the underlying land is not at risk. Risks are not easily transferred to the private sector,



<p><u>REAL ESTATE & CAPITAL MARKET</u></p> <ul style="list-style-type: none"> • Mixed use density may not be demanded at GMHS • Real estate cycle may not align with city’s payment schedule • Interest rates will rise by groundbreaking 	<p><u>PROJECT</u></p> <ul style="list-style-type: none"> • Site Prep due to limited due diligence • Construction costs may rise by groundbreaking • Occupancy and Operating (especially under a TIF scenario)
<p><u>REGULATORY</u></p> <ul style="list-style-type: none"> • Uncertain entitlements may dampen value 	<p><u>POLITICAL</u></p> <ul style="list-style-type: none"> • Upfront payment will reduce value • Poor RFP response/Project stalls • Protests stall project • Construction site near schools causes discontent

FIGURE 9: GMHS RISKS TO FALLS CHURCH

however, if a program is not market driven. Falls Church should carefully consider demanding uses that do not align with market realities.

Real Estate Cycle Risk

The region has experienced sustained growth during a long, positive real estate cycle. Some experts believe that the end of the current cycle is approaching, leading to difficulty financing and tenanting projects. Should the City take the Site to market during a downturn, upfront and long term value may be negatively impacted.

Mitigation Technique: Expedite solicitation to launch phase 1 development prior to a potential downturn.

Interest Rate Risk

Interest rates have remained at historic lows, facilitating access to cheap capital for development across the region. Should interest rates rise following developer selection, but prior to transaction closing, value may be negatively impacted.

Mitigation Technique: Limit project delays to execute prior to increases in benchmark rates and define a rate threshold within which the developer must continue to deliver promised value.

Project

Site Condition Risk

The City has not conducted detailed due diligence of the Site to test for environmental, geotechnical, or other conditions that may increase the cost of site development, and thus decrease value.



Mitigation Technique: Prior to executing a ground lease with the City, the selected developer will be offered a due diligence period to identify any issues that may impact the proposed development program or land value. Issues that arise after this period will be the developer’s responsibility to mitigate with little to no impact on the City’s land value.

Construction Risk

Bidders will be required to provide realistic price commitments for the commercial development to help the City offset taxpayers’ cost to construct a new high school.

Risks are not easily transferred to the private sector if a development program is not market driven.

Mitigation Technique: The City is advised to lock in a development scope (with limited allowances for deviation) and land price at the time of award. Should construction costs rise after negotiating a transaction, the developer will be responsible for these costs, either through a contingency or by adding additional project financing.

Occupancy and Operating Risk

Demand for some uses may not meet expectations, challenging the project’s ability to meet revenue forecasts. Additionally, unforeseen operating cost increases could endanger project profitability.

Mitigation Technique: The City’s development partner should assume all occupancy risk and risks related to unforeseen spikes in operating expenses.

Regulatory

Entitlement risk

Value could be negatively impacted by selecting a developer prior to finalizing the rezoning process as developers will be unable to determine the maximum development envelope. If the requisite height and density required to achieve a developer’s market vision for the Site is not available, then value may be negatively affected. While the City has expressed a desire to embrace density, without legal guardrails to help define and protect the Site’s development potential, a developer will likely price this risk into its offer, thus reducing the value of the Site to the City.

Mitigation Technique: The City should initiate the rezoning process prior to releasing a solicitation for a development partner and seek to conclude this process prior to the expiration of any due diligence period, offering private bidders a degree of confidence in the Site’s density and product mix potential.

Political

Upfront payment

Conducting a financial closing on the GMHS Site prior to vacating the existing high school increases a number of risks a developer must assume, including financing, market, and interest rate risks. Each of



these risks will be priced for an uncertain market two years in the future. Additionally, a development partner who offers an upfront payment will have an expectation of a reasonable return on the capital it can no longer invest in other projects while waiting for the Site to become available for development. The cost of this return will be priced into a developer’s offer and may reduce the value of the Site to the City.

Mitigation Technique: The City should stagger payments it collects to capture sufficient value upfront to service or reduce the principal associated with the high school’s construction bonds, while delaying release of the majority of land value until the developer takes possession of the Site.

Solicitation Response

Competition is key to ensuring maximum value. The ability to generate upfront value and influence development choices that result in long term value requires competition among a reasonable number of qualified bidders.

Mitigation Technique: A carefully crafted solicitation with Project parameters that are appealing to private developers, and one that allows flexibility for innovation, while addressing the City’s goals, will encourage bidder submissions and increase competition.

Protest Risk

A project of this scale will require significant investment by teams who respond to the City’s development solicitation. Unsuccessful bidders may protest the City’s selection for a number of perceived process flaws, but those that are subjective present the largest risk. For example, claims from unsuccessful bidders who believe that the City unduly dismissed their proposals because they prioritized the wrong types of uses or suggested a timeline that did not align with the City’s goals will be difficult to disprove.

Mitigation Technique: Falls Church has engaged in a highly transparent, public process to study and plan the dual education and commercial uses at the GMHS Site. Continuing this model by clearly outlining and differentiating development requirements and preferences reduces protest risk by unsuccessful bidders.

Key Risk Assessment Actions

	Timing
Conduct risk assessment	December 2017
Execute risk mitigation plan	December 2017 – March 2018



Transaction Structure

Recommendation 3: Remain open to a variety of transaction structures that meet the City’s goals

Falls Church should pursue a transaction structure that minimizes risk to the City and transfers market, development, and construction risk to the private partner. The City should outline specific requirements that are mandatory for it to execute a transaction, but avoid being so prescriptive as to constrain value, limit market innovation, and ultimately shift risk back to Falls Church. Requirements that the City should consider include:

- Long term fee simple ownership of the land;
- An unsubordinated ground lease (meaning that the City’s ownership interest in the land is never at risk due to developer default);
- A meaningful “initial payment” at the end of 2019 (to support school construction bond debt service); and
- Receipt of remaining land value, “balance of payment” upon occupancy of the new high school and transfer of physical control of the Site to the developer.

Falls Church should pursue a transaction structure that minimizes risk to the City and transfers market, development, and construction risk to the private partner.

Beyond these key requirements, the City should offer a set of preferences that bidders can selectively address to improve their proposal’s competitiveness. Examples include:

- Minimal ground lease term;
- Maximum long-term revenue; and
- Long term revenue participation (potentially from retail sales or at Project sale or refinancing).

Each developer’s capital sources vary, as do their underwriting criteria. Falls Church must not limit developers’ interest in the Project by prescribing a specific transaction structure, outside certain high-level parameters, such as the desire for a long term ground lease. Instead, the City should evaluate the value and risk proposed by each bidder, after confirming that the team adheres to the Project’s threshold requirements.

Condominiums

A key consideration of the City’s transaction structure is land ownership, which relates directly to the viability of offering condominium uses at the Site. Condominiums would likely require the City to sell its fee simple interest in a portion of the Site and could encumber future redevelopment flexibility. Despite



these limitations, condominiums may offer significant benefits to the Project and should be considered carefully as a viable option for Falls Church.

Condos serve a part of the market not interested in rental housing and contribute to the Project’s product diversification. With unit sizes typically larger than rentals, condos generate fewer units overall per 100,000 sf of building area, supporting the City’s goal of limiting future public services.

Condos also command a higher possible value than rentals, and thus higher per unit real estate tax proceeds. This higher value helps support high-rise construction, which the City has expressed an interest in pursuing at the Site. Finally, condominiums help establish a higher income-oriented overall Project concept, design and operations, potentially leading to higher future tax revenue.

Public Finance Tools

The City has considered the use of tax increment financing (“TIF”) and community development authority (“CDA”) instruments to fund upfront infrastructure costs and possibly ongoing marketing of the newly created commercial district. CDAs and TIFs are public finance tools used to attract private investment by lowering costs otherwise incurred by a commercial developer. It should be noted, however, that in the valuation study conducted by Alvarez & Marsal, all infrastructure required to prepare the 10 acres commercial development were assumed by the prospective developer and the cost of such infrastructure was accounted for in the estimated \$43 million to \$45 million land value. Neither a TIF nor a CDA are necessary to accomplish the City’s goals on this site at this time.

A TIF structure to lower developer costs for infrastructure for the commercial development is not a viable option for this site as future tax revenues are anticipated to support payment of the bonds associated with the construction of the new GMHS.

A CDA could be considered by the City as a means to generate additional tax revenue from the site, and could be analyzed for the relative value of receiving money up front versus receiving a potential future stream of funds.

Key Transaction Structure Actions

	Timing
Finalize upfront payment requirement	December 2017 – January 2018
Determine condo optionality	December 2017 – January 2018
Confirm desire to maintain land ownership	December 2017 – January 2018
Determine development preferences	December 2017 – January 2018
Determine value of CDA	December 2017 – January 2018



Procurement Approach

Recommendation 4: Conduct a two-step RFP procurement, containing a Step 1 Conceptual RFP and Step 2 Refined RFP

The complex nature of the GMHS program and the City’s desire to leverage private sector capital, ideas, and innovation lends itself to a Two-Step RFP approach. As compared to a single step RFP or Negotiated RFQ, both common procurement methods for a project like the GMHS Site, the Two-step RFP process minimizes upfront cost to bidders, encouraging more firms to respond and results in more firm value proposals. Figure 10 summarizes each of these common procurement processes.

In the Two-step RFP process, bidders will first respond to a Conceptual Request for Proposal (“Step 1 RFP”) outlining their past experience and conceptual plan for the Site. The Step 1 RFP stage, estimated to span 4 months, encourages industry innovation and creativity within the context of the City’s goals and vision for the Site. Responses will also help the City to confirm the market viability of its

desired uses. Teams will be required to provide detailed qualifications, team descriptions, demonstrations of financial capacity (such as financial statements, relationships with lenders, declarations of any recent bankruptcies, liens, or judgements), a conceptual site plan (including types of uses, gross square feet of uses, road network, and building massing), and notional pricing.

Based on the volume and quality of responses, the City may downselect to a narrow group of bidders who will be invited to respond to a Refined Request for Proposals (“Step 2 RFP”). The Step 2 RFP will offer bidders a refined set of goals and requirements based on development concepts presented in Step

Procurement Process	Advantages	Drawbacks
Two-step (Conceptual RFP → Refined RFP)	<ul style="list-style-type: none"> Minimizes upfront offeror costs, increasing competitiveness Allows for most thorough pre-selection due diligence 	<ul style="list-style-type: none"> Long timeframe
Single-step (RFP only)	<ul style="list-style-type: none"> Quick timeframe to partner selection 	<ul style="list-style-type: none"> May discourage offeror interest due to cost May encourage conservative proposals
Negotiated RFQ	<ul style="list-style-type: none"> Quick timeframe to partner selection Offers flexibility 	<ul style="list-style-type: none"> No hard commitment at selection Requires good negotiating support No price differentiation at selection

FIGURE 10: TYPICAL REAL ESTATE DEVELOPMENT SOLICITATION PROCESSES



1 RFP responses as well as any updated City requirements. Within the Step 2 RFP, the City should also offer form transaction documents (eg. agreement to enter into a ground lease and/or ground lease) and request bidder comment on those documents to streamline negotiations after award. Step 2 RFP responses will require a detailed financial plan, including sources and uses, an offer of land value to the City, and a commitment to a specific level of commercial development to generate long term tax revenue.

Following award, the selected developer will begin to generate a design concept collaboratively with the City during transaction negotiations to maintain Project momentum. Should the negotiations break down, the City will have the right to purchase all designs and other pre-development work products at a price agreed upon at the Project’s outset.

Key Solicitation Components

The City’s goals and requirements should be clearly described for bidders in the solicitations. The City should make a distinction between features a bidder must offer to be responsive to the Two-step RFP as compared to those priorities the City values, but can proceed without in deference to market considerations. When possible, priorities should be described as goals to allow flexibility and innovation in proposals, and to attract a broad set of bidders. Examples of the City’s Project goals and requirements are shown in Figure 11.

Requirements	Goals
Demo existing high school and prep site for development	Create a sense of place and offer a destination to residents of the City and the surrounding region
Provide affordable housing at a minimum of 6% of residential units at 60% of AMI	Generate long term economic impact for the City
Deliver upfront land value to the City, possibly staged	Leverage and build upon access to Metrorail
City maintains long term ownership over the Site (with the exception of possible for-sale housing)	Create synergy between surrounding educational users and the Site, including new GMHS and universities
Dedicate a minimum of 30% of the gross square footage to commercial uses	Include civic space - approximately 8,000’ (possibly a promenade)
Full service hotel	Prioritize studios and 1 bedroom units within residential uses

FIGURE 11: GMHS DEVELOPMENT GOALS AND REQUIREMENTS

Evaluation Factors

Evaluation factors for the Project should prioritize financial value offered by bidders, and their perceived ability to deliver that value. Though value is the primary goal, this Project offers an opportunity for Falls



Church to pursue additional policy objectives such as catalyzing the growth and diversification of the west end. A thoughtful, market-oriented development program is also critical to attracting adequate capital to deliver value to the City. To enhance the Site’s value and ensure that bidders can continue to fulfill the City’s redevelopment goals for the Site, an evaluation of bidders’ proposed development approaches and past performance with similar projects is necessary.

The best way to attract qualified development teams is to present a clear value proposition with political backing to ensure timely execution.

Marketing the Opportunity

The best way to attract qualified development teams is to present a clear value proposition with political backing to ensure timely execution. To the extent possible, solicitations should avoid requiring project components that could limit its financeability. For example, while the City may prioritize a short ground lease term, a development team would not be capable of financing a project of this scale under a ground lease period that didn’t outpace the term of its longest financing..

Allowing adequate time for responses also encourages bidders by demonstrating that the City is seeking thoughtful responses in a competitive environment. For a project of this size, 60 days is recommended for each of the RFP issuances.

Crafting an aesthetically pleasing, internally consistent, concise, and well-structured solicitation attracts bidders and more clear responses. A jumbled, or poorly drafted solicitation signals to the development community that a project may not be well-planned or uniformly championed.

Finally, the City’s understanding of and agreement on its own goals and their relative priorities must be conveyed clearly to bidders to demonstrate the City’s ability to execute the transaction efficiently. Clearly describing priorities such as value, programmatic control, and design control help bidders address the City’s goals, either by meeting them, offering alternatives, or explaining why a particular priority may be problematic.

Marketing Channels

The procurement marketing strategy for GMHS must be Project-specific and leverage multiple marketing channels, both before and after solicitation release.

Pre-solicitation release

- **Developer Roadshow** – City leaders meet with targeted developers with experience executing projects similar to GMHS to alert them to the upcoming opportunity.
- **Notices from Local and National Industry Organizations** – Notices through industry media to alert firms of the upcoming opportunity. Such outlets include the Washington Business Journal, DC Building Industry Association, ULI Washington, P3 Bulletin, and the International Economic Development Council.



Post-solicitation release

- **Notices from Local and National Industry Organizations** – Notices through industry media to alert firms that the solicitation is live and to provide a response deadline.
- **Industry Forum** – City-hosted, two to three hour event to provide potential offerors with an overview of the financial and technical elements of the Project through a visual presentation. Allows the City to convey its goals and priorities as well as the solicitation process, typically involving high profile speakers. Site tours should be included to demonstrate the Site’s physical features and relationship between the commercial and educational developments.
- **Direct Communication with Real Estate Development Industry Entities** – Outreach to a database of developers who have attended industry forums, bid on similar projects, or expressed interest in large scale public projects.
- **Falls Church Websites** – Project solicitation notices and advertisements to be posted on City websites.
- **Social Media** – Posts on City and consultant Team social media accounts, as permitted by procurement law.

Key Procurement Approach Actions

	Timing
Conduct Developer Roadshow	January– February 2018
Notify industry and media of upcoming opportunity	January– February 2018
Craft Step 1 RFP	January– February 2018
Release Step 1 RFP /receive bidder responses	March – April 2018
Notify industry and media of solicitation	March 2018
Market solicitation via network, website, and social media	March 2018
Conduct industry forum	March 2018
Evaluate responses/downselect bidders	May 2018
Craft Step 2 RFP	March – May 2018
Draft Form Transaction Documents	January – May 2018
Release Step 2 RFP/receive proposals	June – July 2018
Evaluate proposals	August 2018
Select development partner	August 2018



Transaction Negotiation

Recommendation 5: Close the transaction under the terms proffered in the bidder's proposal

After a carefully planned and executed development team selection process, the City will have commitments from its partner on major business terms, including, but not limited to, upfront value to Falls Church; a development program that will produce long term revenue; and a transaction structure that meets the City's goals. During the negotiation process, the City will work to close the transaction under those terms offered and committed to by the selected developer.

Agreement to Enter / Exclusive Rights Agreement

Immediately following partner selection, the City will work with the developer to execute an Agreement to Enter into a Ground Lease (sometimes called an Exclusive Rights Agreement). This document will outline the major business terms to be incorporated into the subsequent ground lease such as legally defined real estate boundaries; specific payment amounts and timing; deadline for closing; and entities involved in the transaction. The Agreement will also define the terms of access to the property for due diligence prior to the closing date. Access rights and restrictions will be particularly important for Falls Church as the Site is an active education campus, with two schools that will be in session during developer due diligence.

Due Diligence Period

Once the Agreement to Enter is executed in December 2018, a 60 day developer due diligence period will begin. During this period, the selected developer will conduct a title survey to ensure that the property has no encumbrances or development restrictions. The team will conduct a phase 1 environmental assessment, geotechnical study, storm and sewer water capacity and requirement studies, and all other surveys and inquiries necessary for them to execute the ground lease under the promised terms.

Ground Lease

During and after the due diligence period, the City will negotiate a ground lease for the property. The ground lease will first incorporate major business terms, such as term of the lease and ownership interests, stated in the Agreement to Enter. Additionally, terms for reversion of improvements at the end of the term, insurance requirements, indemnification, mortgages and subordination, lease assignment, and policy goals like affordable housing will be defined.

The ground lease will contain restrictions related to use of the property and a detailed development program defining product types, design guidelines, reasonable delivery timeframes, proffers to the City, and meeting and communication guidelines.



The document will contain mechanisms to enforce developer performance and define the conditions under which either the developer or City could default on the ground lease. These conditions must be reserved for serious actions that undermine project viability or major commitments, as investors and lenders will not finance a project with trivial, subjective, or unreasonable default terms. Additionally, to be financeable, the lease must provide adequate periods for the developer and lender to cure, or mitigate, the issue causing a default.

For example, the developer will be required to construct the agreed-upon development program, but if the market shifts dramatically after ground lease execution and before construction, making one of the proposed uses infeasible and putting the project’s viability at risk, the lease must allow a cure period during which the developer and City can agree to a revised program.

Outside Counsel

The Project at the GMHS Site is large and complex, and will require a long term partnership with a private entity. A transaction of this magnitude requires specialized legal knowledge that extends beyond business term negotiation. As such, Falls Church should acquire outside counsel with experience in complex public-private real estate transactions to draft, review, and execute the final transaction documents and protect the City’s interests.

Key Transaction Structure Actions

	Timing
Negotiate Agreement to Enter / Exclusive Rights Agreement	September 2018
Developer Due Diligence	September – October 2018
Negotiate Ground Lease	October 2018 – March 2019