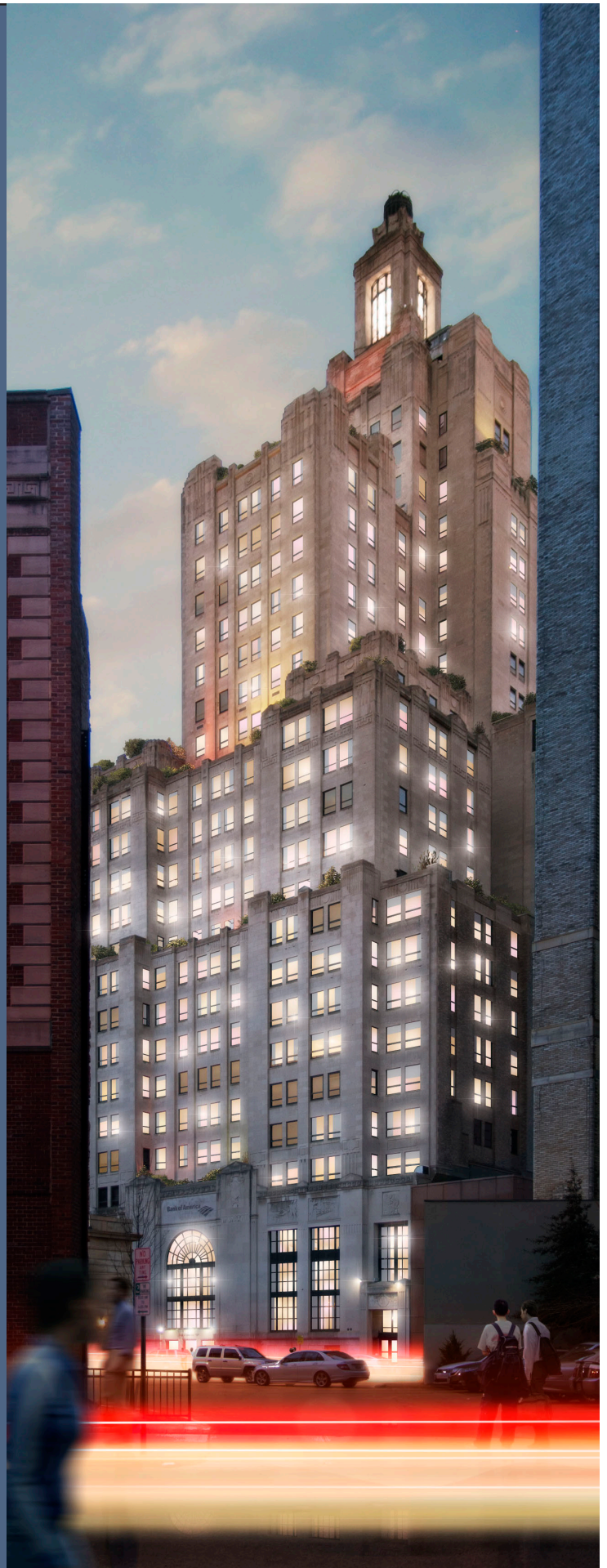


# 111 Westminster

Providence, Rhode Island



**Prepared by**  
*Cornish Associates*  
on behalf of  
*High Rock Development, LLC*

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Cornish Associates  
46 Aborn Street, 4th Floor  
Providence, RI 02903

## Property

- The iconic “Superman” building at 111 Westminster Street in downtown Providence was constructed in 1927 and is also known as Industrial Trust or Industrial National Bank Building, due to its original purpose. Industrial Trust became Fleet Bank, which became part of Bank of America over past decades.
- The building contains roughly 441,000 gross square feet of space, including approximately 55,000 square feet below grade for vault and basement areas. There are 26 stories above grade. The top of the building hosts a four-story lantern that has helped to make this structure an iconic symbol of Rhode Island and the focal point of the Providence skyline for generations. At 428 feet, it is the tallest building in Providence and the tallest in Rhode Island.
- High Rock Development, LLC purchased the building in 2008 and made subsequent capital investment. Total investment to date is roughly \$39.2mm.
- This April, Bank of America vacated the space, leaving it empty after 87 years of being a key component of the capital city’s economy and vitality.

## Redevelopment Plan

- High Rock Development is seeking to convert the building from a single user office building into a mixed-use residential building of approximately 280 rental apartments. The units will be apartments - for rent, not for-sale as condominiums. This strategy seeks to represent the ‘highest and best use’ given economic factors, market demand, civic and economic impact.
- Market demand for apartments, especially urban units, is exceptionally high in Providence at this time. Many downtown apartment buildings are 100% occupied with waiting lists for those waiting to lease when units become available. With low interest rates and market demand for apartments high throughout the country, the economic climate is ideal for this conversion; a rare opportunity in the generational life of an iconic building of this scale. Many leading cities across the country are now incentivizing or experiencing the economic, cultural, and civic benefits of increasing residents in downtown. This shift reflects demographic changes and forecasts for decades to come.
- The lower floors and street level, including the grand banking hall, would remain as retail and office space; with roughly 35,000 square feet of space for shops, restaurants, and professional uses.
- Parking would remain off-site, as it has been through its history of use as office space.
- The building requires significant upgrades and improvements to meet the needs of a conversion and to stabilize the property. Such improvements will position the iconic building for the next 80 years. Significant cost items include:
  - New mechanical systems;
  - Electrical system upgrades;
  - Window replacement;
  - Major façade repairs to the masonry;
  - Upgrades to interior circulation and building safety issues and fire code issues; including elevators and stairs.



## Feasibility Process

Since the Fall of 2012, the owner of the property, High Rock Development, LLC, has followed a pragmatic and inclusive process to evaluate the options for the building. The process has included outreach and discussion with dozens of stakeholders, including state, city and business leaders — to help inform and shape the reuse strategy and evaluation process. Based on feedback, a number of steps have been taken to better understand the opportunity and to quantify the challenges in redeveloping the property:

1. An experienced construction/engineering firm was hired to complete a detailed physical inspection of the building, building systems, utilities, windows, structure, facade, roof, and all other elements. The process included the reuse of past reports, maintenance records, and a detailed physical inspection utilizing various engineers and vendors.
2. In conjunction with the physical evaluation, a conceptual design was completed to layout floor plans, and to establish the most efficient conversion of the property. Structural, mechanical, electrical, and plumbing engineers were enlisted to establish basic systems, inform the design, and to provide costing information.
3. The combination of the physical inspection and conceptual design process informed a detailed construction estimate to support the reuse of the building, as well as to estimate all permitting costs.
4. An experienced real estate development team incorporated the construction cost data into a larger budget which also forecast architecture, engineering, legal, financing, carrying costs, insurance, and all other budget items to support redevelopment. Financing and cost assumptions were based on similar/comparable projects.
5. A comprehensive and independent Market Study was commissioned. The study evaluated apartment, office and retail rents in other properties throughout the city, as well as demographic trends and income levels. The study established an opinion on apartment rental rates for the various unit sizes and types, as well as commercial rents and capitalization rates.
6. The Market Study also evaluated operating costs for similar properties in the city and forecasted ongoing annual costs such as utilities, property management, maintenance and repairs, leasing, and capital reserves.



7. A real estate development team with direct experience in building, leasing, and managing approximately 200 apartment units in Downcity Providence (currently at 0% vacancy) helped to compile the components into an economic model. The model outlines the total project budget and predicts the ability to utilize market debt, to raise additional equity, and to utilize Federal Historic Tax Credit equity. The results of this process established the overall scale of the redevelopment investment.
8. An independent Economic Impact Study was commissioned to better understand the potential job creation, fiscal, and economic impacts of the redevelopment during construction and for decades to come. Also, the report allowed stakeholders to better understand the potential negative impacts of not converting the property at this time — especially as it relates to the long term instability of the regional commercial real estate market.

## **Abstract of Economic Impact Study**

*Authored by HR&A; a real estate, economic development, and public policy consulting firm originally founded in 1976. The firm specializes in conducting economic and fiscal impact studies of organizations, development projects, and policies. The firm serves clients out of its offices in New York, Los Angeles, and Washington, D.C.*

- While the departure of a single-occupant commercial tenant from 111 Westminster is a substantial loss for the City of Providence and State of Rhode Island, it also presents a significant opportunity to build on the downtown revitalization momentum by adding a critical mass of new housing. This approach is aligned with national trends driven by shifting demographics and residential preferences favoring urban, walkable residential development and where businesses are increasingly following talent to these locations.
- ... the relocation of Interstate 195 ... its success depends upon continued investment in downtown. Knowledge-based companies with highly educated workers are demonstrating growing preferences for urban, walkable live/work locations. Providence already has many of the building blocks to be this type of desired location, but must provide more downtown housing opportunities to be a competitive location for these types of companies.
- If this building is not converted to residential use, it will unload over 350,000 square feet of Class B/C space on the Downtown market, where vacancy is already 19 percent. It could take over 25 years to absorb this space.... The end result would be two or more decades of a depressed office market in which tenants would cycle through existing buildings trying to find the best deal.
- Changes to the economy make office absorption of this type and magnitude extremely challenging and potentially detrimental to the City... The resulting supply shock would have a long-lasting, negative effect on property values in the broader downtown market, with landlords having to lower rents as they compete to fill empty space.
- Residential use will generate substantial economic benefits to the City of Providence and State of Rhode Island. During the 30-month development period:

**Project construction would generate a total of \$159 million in one-time economic spending.** This includes an estimated \$98 million in direct spending on construction-related activities and \$61 million in multiplier spending across a range of industries.

**Project construction would support 1,095 full-time equivalent (FTE) job years.** This includes 645

full-time-equivalent (FTE) job years in construction and related industries and 450 multiplier jobs in a range of industries.

**Project construction would generate \$44 million in employee compensation.** This includes \$25 million in employee compensation from direct jobs and \$19 million from multiplier jobs.

- At full build out, the Project will generate substantial impacts on an annual basis. Impacts include:

**The project would generate over \$25 million in economic spending from households and building operations.** This includes \$3.7 million in direct resident retail spending, \$11.8 million in direct operational spending, and \$10.2 million in multiplier spending.

**The project would support a total 230 FTE jobs.** This includes 104 direct on-site jobs in retail, property management, and office-using sectors of the local creative economy.

**The project would generate \$8 million in annual employee compensation.** This includes over \$3 million in direct compensation to workers employed on-site.

- Further, the Project will generate substantial fiscal benefits to the City and State. These will include:
  - \$4.6 million in tax revenues to the State of Rhode Island during construction. \$680,000 in annual revenues to the State of Rhode Island through sales and income taxes. Over 20 years, the Project would produce a total fiscal benefit to the State of Rhode Island of \$12.8 million in net present value terms.
- In addition to Providence itself, many cities across the country are using housing-led economic development strategies to revitalize urban centers. These projects include new development as well as conversion of former industrial, retail, as well as office spaces. The attraction of new residents is contributing to new downtown retail spending, visitor attraction, and other spinoff activity.
- While the Knowledge District is focused on employment growth, its success is dependent upon the provision of attractive housing and amenities for new workers and Providence residents. A December 2011 article in the New York Times noted that Hasbro chose to expand to Providence because young employees ... “preferred an attractive, urban environment”
- Adding another 265 households downtown will help enhance retail spending and increase safety through more foot traffic. This would build on the existing trend in Downtown Providence with the addition of nearly 500 units since 2000... The recent growth in downtown residential is not just a local trend. Nationally, there is growing demand for downtown development in cities across the country based on market factors and the recognition that to succeed, 21st Century cities need to offer a mix of activities and product types.
- Over the past decade, the City of Providence has made significant progress in revitalizing its downtown. Major infrastructure investments, including the relocation of the rail road unified downtown into a compact area. It now boasts an active train station, Providence Place-one of the most successful regional malls, and a convention center/arena... The City and State have worked together in the past to save significant historic assets...the Masonic Temple sat vacant for nearly 75 years until in the early 2000s, hotel developer Sage Hospitality Resources put together a plan and a multi-layer financing package, including nearly \$30 million in federal, state and city investment...
- Property records from the City of Providence Assessor Database indicate that the total value of 111 Westminster is currently assessed at \$31 million. As a vacant building, HR&A estimates that

this figure could drop to \$11 million based on the firm’s experience with national best practices for calculating assessed values for income-producing assets. Applying the local mill rate for commercial real estate to the current assted value, HR&A estimates that 111 Westminster pays \$1.15 million in annual property taxes to the City of Providence. Meanwhile, as a vacant building, HR&A estimates that the property would generate only \$410,000 in annual property taxes. Even if the building is repositioned as a Class B/C multi-tenant space, absorption would come from elsewhere in the market and shift vacancy to other city properties.

## Abstract of Market Study

*Authored by Keystone Consulting Group. Established in 1991, Keystone Consulting Group currently maintains seven regional offices across the country. Through decades of real estate development, valuation, and consulting experience, Keystone Consulting Group offers a full range of real estate services including Valuation Services, Development Services, Market Research and Analysis and Financial Analysis*

- ... The combination of positive demographics, including the increase of young adult renters and downsizing baby boomers, supplemented by homeownership displacement from the housing bust are expected to create significant drivers of demand. In terms of development, “...some fallow development years have further tightened in many markets as developers only now are beginning to catch up. In high barrier-to-entry places, particularly in metropolitan areas along the coasts, new projects may have trouble keeping up with demand.
- The Fall 2012 Multifamily Rental Market Report, released by Sunrise Management & Consulting stated, ... The results of the Rhode Island survey indicate that the state had a dramatic increase in rents from Fall 2011 to Fall 2012. The overall rental increase was 8.05± percent, the largest yearly gain of all the Northeast regions.
- Our market survey indicated that rental premiums for upper floors are typical for the downtown Providence properties... we project absorption of the subject units over a 2.5± year period.
- The subject location is well suited for young professionals, older professionals, Boston commuters, empty nesters, and students. We conclude that this is the tenant profile for the subject.
- Proposed monthly apartment rents:

Apartment Type	Recommended Monthly Rents <small>(based on comparable projects in Providence)</small>
Micro-Studio	\$1,125
Studio	\$1,325
One bedroom/One bath	\$1,675
Two bedroom/Two bath	\$2,175
Three bedroom/Two+ Bath	\$2,750

## Scale of Investment

Approximate values based on feasibility process and intended to represent general scale of the redevelopment project.

### Owner's Write-down of Property Value

Owner's Cost Basis	\$39,200,000
Reduction of Existing Investment (Owner's Write-Down of Property Value)	(\$24,200,000)
Revised Owner's Basis	\$15,000,000

### Redevelopment Costs (Approx)

<i>Property Value</i>	
Revised Owner's Basis	\$15,000,000
<i>Construction Costs</i>	
Building	\$82,128,642
Tenant Allowances	\$500,000
Site-Related	\$300,000
Contingency	\$5,805,005
	\$88,733,647
<i>Development Costs</i>	
Architecture & Engineering	\$5,151,790
Leasing & Commissions	\$887,336
Legal & Professional	\$3,105,678
Financing & Carry Costs	\$12,040,264
Administration & Development	\$3,342,050
Soft Cost Contingency	\$1,482,955
	\$26,010,073
Total Redevelopment Costs	\$129,743,720



## Scale of Investment (cont.);

### *Conceptual Financing of Redevelopment Project.*

The following conceptual capitalization seeks to allow the redevelopment project to move forward.

Due to the building's massive scale, complexity, and historic use as a single tenant office space built in the 1920's, significant capital improvements are necessary to update/replace building systems, complete masonry repair on the exterior, to add necessary circulation, and to meet modern building and fire codes.

In order to make the redevelopment economically viable and to enable any additional investment in the property, an approximate return of 2-6% per year is being sought on the revised level of equity. The equity returns represent significantly below-market rate levels of return, and are based upon a significant write-down of the building value.

The intent of the conceptual capitalization is to outline the results of the feasibility work described herein. In order to redevelop the property, significant investment will be needed by the state, city, and by the owner. The data intends to outline the scale of a potential solution — as a means to provide the foundation for a collaborative discussion and a platform for informed decisions on the methods, vision or policy decisions that would be necessary to work towards a solution.

#### Owner:

Write-down of Existing Investment <sup>i</sup>	<u>\$24mm</u>	Total Owner responsibility of approx. \$94mm
Revised Building Value	\$15mm	
New Cash Equity Investment + Debt <sup>ii</sup>	\$55mm*	

#### City of Providence:

Tax Stabilization Agreement <sup>iii</sup>	\$10-15mm*	[NOT APPROVED OR SECURED; FOR PURPOSES OF DISCUSSION]
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\*The owner's ability to raise the stated amount of new capital (New Cash Equity Investment + Debt) is in direct correlation to a Tax Stabilization Agreement (TSA). Without the ability to secure the \$10-15mm in financing enabled through a sufficient TSA, the owner's ability to raise funds would be limited by that amount (i.e. a reduction from \$55mm to \$40-45mm) – potentially causing the need to seek additional state funding.

A real estate property Tax Stabilization Agreement allows for lower, and more predictable, taxes during construction and as the property is stabilized. The program provides for lower annual operating expenses, and allows the owner to attract a higher level of debt and/or equity to help finance the project. This impact, based on current assumptions represents a range of values, as represented.

#### Federal + Private Investor:

Federal Historic Tax Credit Equity <sup>iv</sup>	\$21 mm
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#### State of Rhode Island:

State Assistance <sup>v</sup>	\$39 mm	[NOT APPROVED OR SECURED; FOR PURPOSES OF DISCUSSION]
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<sup>i</sup> Owner has currently invested \$39.2mm (2008 purchase of the building plus subsequent capital investment). High Rock Development will reduce that investment to \$15mm; representing a value below that of a current third party, market appraisal (2012) which estimated a value of \$18mm.

<sup>ii</sup> Owner anticipates a combination of debt and equity, based on the level of market financing available from banks/lenders and investors.

<sup>iii</sup> Subject property currently pays \$1.15mm in annual property taxes to the City of Providence based on Bank of America occupancy. Per common practice, the exact amount of a reassessment valuation is unknown, but anticipated to be less than the valuation when leased. Per HR&A's Economic Impact Report, the annual property tax value may be reduced to approximately \$410,000 per year. To better enable the owner to secure private financing sources (debt + equity), a Tax Stabilization Agreement is being proposed based upon tax relief during construction, the stated value of the property's current, vacant state, and increasing to market-rate taxes for the improved building over time. This will allow the owner to raise additional debt and or private equity to fund the redevelopment. In the absence of redevelopment, the valuation may continue to decrease or remain static at a reduced rate.

<sup>iv</sup> The existing Federal Historic Tax Credit program, as administered by the National Park Service and the State Historic Preservation Office, is used to restore and protect buildings of historic significance. \$4b is annually utilized across the nation. 20% of construction costs to rehabilitate the property are eligible for tax credits. Those tax credits are granted by the National Park Service/IRS and then sold to private investors. The proceeds from the sale of the credits can then be invested in the redevelopment project - to encourage the proper restoration of historic structures. The program is commonly used in Providence and throughout RI.

<sup>v</sup> Structure TBD.