

# City of Alexandria, Virginia

## MEMORANDUM

**DATE:** OCTOBER 5, 2018

**TO:** THE HONORABLE MAYOR AND MEMBERS OF COUNCIL

**FROM:** MARK B. JINKS, CITY MANAGER

**SUBJECT:** PROPOSED FINANCIAL INCENTIVE FOR THE PROPOSED 699 PRINCE STREET HOTEL (NOT A PUBLIC HEARING ITEM)

**ISSUE:** Provision of a financial incentive related to the conversion of 699 Prince Street back into a hotel.

**RECOMMENDATION:** Allocate \$375,000 from the City's Alexandria Investment Fund to be paired with \$375,000 in Alexandria Economic Development Partnership (AEDP) funds set aside for economic development incentive purposes in order to provide a \$750,000 one-time grant to incent the conversion and redevelopment of 699 Prince Street back into a hotel.

**BACKGROUND:** On March 30, 2018 the National Center for Missing and Exploited Children (NCMEC) sold their existing 66,000 SF headquarters office building and adjacent garage to J River 699 Prince Street LLC, doing business as CAS Riegler. CAS Riegler was chosen from a handful of bidders who responded to NCMEC's building sale RFP and was the only bidder who intended to keep the building use commercial. Later this year, NCMEC is scheduled to vacate the building and move to leased office space at 333 John Carlyle Street in the Carlyle neighborhood.

Over the summer, the new building ownership worked to finalize their hotel pro forma, including the identification of a boutique hotel operator, to assure the project was financially sound and could attract investment and financing. Concurrent with that process, the project was updated to reflect better known costs which when totaled raised significant challenges in being able to secure financing for the project. The all-in development costs are estimated at \$54 million which is over \$400,000 per room. As a result, the developer approached the City and the AEDP to discuss financial incentives to assure that the hotel conversion project can proceed.

### **699 Prince Street existing conditions**

- retail space- currently used as internal office
- office space- owner occupied (NCMEC)
- under new ownership, the building is now returned to taxable status after more than 20





CAS Riegler has identified Aparium Hotel Group as a partner in the development of a new 135-room boutique hotel with food service/restaurant in the historic George Mason Hotel at the corner of Prince Street and South Washington Street. "Aparium was founded in 2011 by a Chicago hospitality executive and entrepreneur and a luxury hotel veteran. The company brings C-suite service and accommodations to underserved—yet distinct and important—cities while maintaining and celebrating the unadulterated character of each. Driven by the belief that all hospitality experiences should be fueled by the poetics of their surroundings, Aparium was born with an intense focus on unearthing the amazing moments unique to every city. ([www.aparium.com](http://www.aparium.com))"

After evaluating the return to the City, staff believes the boutique hotel and restaurant proposal provides significant fiscal return to the City, achieves planning and business district priorities and creates the most valuable highest and best asset (measured by real estate assessment). The financial evaluation clearly demonstrated need.

Staff is recommending the award of an Alexandria Investment Fund grant totaling \$750,000, half of which (\$325,000) is from City funds set aside for economic development purposes. The remaining \$325,000 will be funded from Industrial Development Authority bond fees, which AEDP receives.

The Alexandria Investment Fund, or AIF, was established by City Council as part of the FY 2017 budget process for the purpose of providing the City and AEDP a tool to attract and retain job creating and revenue generating businesses. All grants awarded from the AIF are performance-based requiring companies to meet specific performance milestones before grant funds are distributed. If a company fails to meet the required milestones, funds will be "clawed back." The AIF is funded through a combination of City General Fund monies and AEDP related Industrial Development Authority bond fee earnings.

As noted above, prior to recommending this grant, AEDP, City staff and an outside expert on real estate development economics conducted due diligence on the company's financial projections. A Performance Agreement will be developed, which will outline specific requirements that must be satisfied for the \$750,000 Alexandria Investment Fund grant to be disbursed to CAS Riegler. The Performance Agreement will be between AEDP and CAS Riegler, and funds will be disbursed to the company after they are transferred from the City and the Industrial Development Authority to AEDP.

In addition to the fiscal return to the City, retaining this building as a commercial use achieves the following goals:

- a. Continues the commercial use of this asset, which is located on a main gateway to Old Town, and is surrounded by other commercial uses to include office and retail space.
- b. Provides boutique hotel room inventory to our core tourism district.
- c. Historic preservation of one of the City's first hotels.
- d. Adaptive reuse of an existing building to a higher and better use.
- e. Conversion to hotel use decreases the daily single occupancy vehicle trip generation.
- f. Provides additional hotel room nights to help meet National Science Foundation increased demand for hotel room nights.

**FISCAL IMPACT:** The projected net fiscal impact to the City for a boutique hotel is 528% greater than an alternative residential conversion which is the likely outcome if the hotel project cannot be financed.

Project Return on Investment ("ROI") to the City is modeled as follows:

	<b>Taxes Generated</b>	<b>Incentive</b>	<b>Net</b>	<b>Incentive as % of Taxes Generated</b>
5 year ROI	\$8,680,232	\$750,000	\$7,930,232	9%
10 year ROI	\$17,360,461	\$750,000	\$16,610,464	4%
15 year ROI	\$26,040,697	\$750,000	\$25,290,697	3%
20 year ROI	\$34,720,929	\$750,000	\$33,970,929	2%

The City's investment would be fully recovered in the first year of hotel operation-anticipated to be 2020. This would be the quickest ROI of any project the City and AEDP have provided a financial incentive for.

**STAFF:**

Stephanie Landrum, President & CEO, AEDP