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Attachments: 1. 19-2253_Attachment 1 - GALENARenderingsElevations (002), 2. 19-2253_Attachment 2_Agreement for Sale/Redvelopment of 912-920 King and 116 S. Henry PSA, 3. 19-2253_Staff Presentation

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City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 28, 2019

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:

Consideration of a Contingent Contract to Sell City-Owned Property at 912, 916, 920 King Street and 116 South Henry Street.

ISSUE: Consideration of a contract to sell City-owned property located at 912, 916, 920 King Street and 116 South Henry Street.

RECOMMENDATIONS: That City Council authorize the City Manager to enter into a contract with Galena Capital Partners, LLC to sell the City-owned surplus properties located at 912, 916, 920 King Street and 116 South Henry Street for \$5,300,000 contingent upon (1) approval of the DSUP for these sites by the Planning Commission and City Council; and (2) approval of the sale of these properties by the Planning Commission per Section 9.06 of the City Code.

BACKGROUND: In October 2007, the Mayor's Economic Sustainability Work Group made several

recommendations regarding the City of Alexandria's economic vision and future including encouraging and seeking out commercial development and expanding the City's focus on retail expansion as part of the economic development equation. The Work Group also recommended that the City develop and keep up to date an inventory of properties that it owns; periodically evaluate those properties to determine their long term use which would be in the long term best interest of the City; and sell, lease or otherwise dispose of properties that it determines are not needed for a public purpose after determining what is the highest and best use of these properties.

In 2008, to address the recommendations of the Economic Sustainability Work Group regarding City Assets, the City retained the services of Jones, Lang LaSalle (JLL) to conduct a property inventory study. Of the 361 City-owned parcels studied, JLL recommended that four City-owned properties be considered for immediate disposition. In May 2009, based on the results of the property inventory study, the recommendations of the Economic Sustainability Work Group and City staff, City Council approved four parcels for immediate disposition and declared the properties surplus with their future use based on the highest and best economic use for the City.

Of the four properties referenced in the study, three have been sold and redeveloped including:

- Old Health Department Building (509 N. St. Asaph and the adjacent lot at 511, 513 and 515 Oronoco)
- 200 N. Royal Street (also known as 405 Cameron Street); and
- 1505 Powhatan Street

The fourth property declared surplus in May 2009 was 912, 916 and 920 King Street (including the parking lot at 116 S. Henry Street).

On January 26, 2016, the City received an unsolicited offer from Galena Capital Partners, LLC for the purchase of 912, 916 and 920 King Street, 116 S. Henry Street and 120, 122 and 122 ½ N. Patrick Street.

In Spring of 2016, the City engaged Jones, Lang, LaSalle (JLL) to assist the City in evaluating the financial feasibility and potential land value associated with the redevelopment of the parcels located at 912 - 920 King Street, 116 S. Henry Street and 120, 122 and 122 ½ N. Patrick Street. The scope of this analysis included an in-depth market survey for the Old Town submarket and product types, as well as an analysis and recommendation of the highest and best uses of the properties. The analysis completed by JLL indicated the following highest and best use of these properties:

- On the King Street sites, a mixed-use building composed of ground floor and below grade retail with small office and residential units above.
- On the Henry Street site, three uses including a three level 80 to 90 space parking garage, ground level retail and commercial office space overlooking S. Patrick Street.
- On the Patrick Street sites, a building or series of buildings for low density multi-family residential use or single-family infill townhomes.

Based on the analysis conducted by JLL, staff recommended the disposition of the City-owned properties at 912, 916 and 920 King Street and 116 S. Henry Street and the surplus and disposition of 120, 122 and 122 ½ N. Patrick Street.

On September 27, 2016, City Council authorized the City Manager to issue a Request for Proposals (RFP) for the disposition, sale and redevelopment of City-owned property at 912, 916, 920 King Street, 116 S. Henry Street and 120, 122 and 122 ½ N. Patrick Street to include a provision that proposals shall not result in a net loss of total off-street parking spaces compared to the existing conditions (85 parking spaces) following the process detailed in the City's Real Estate Disposition Policy with the option of issuing a separate solicitation for the sale and redevelopment of 120, 122 and 122 ½ N. Patrick Street. Following four weeks of community engagement, the City issued an RFP for the disposition, sale and redevelopment of City-owned surplus property at 912, 916, 920 King Street and 116 South Henry Street on April 3, 2017. Staff plans to develop in the future and issue a separate RFP for the sale and redevelopment of 120, 122 and 122 ½ N. Patrick Street as the RFP for those properties will likely attract a larger pool of developers interested in providing infill townhomes.

The RFP for the disposition, sale and redevelopment of City-owned surplus property at 912, 916, 920 King Street and 116 South Henry Street closed on July 24, 2017 with the City receiving three (3) proposals.

Following the receipt of the responses to the RFP, the City of Alexandria interdepartmental Real Estate Committee was convened to evaluate and score these proposals and make a recommendation to the City Manager. The senior level managers that make up the Real Estate Committee provide expertise in the areas of facility management and construction, construction financing, planning and zoning, architecture, economic development, affordable housing, public parking and the local real estate market. Jones, Lang LaSalle (JLL) served as the City's consultant and advisor for the development and issuance of the RFP, as well as the evaluation of the proposals received and future negotiations with the awardee.

During the Committee's review process one of the three respondents withdrew their proposal leaving two proposals for the Committee to evaluate and score.

DISCUSSION: As outlined in the RFP, the goals of this sale and redevelopment included the preservation of the historic identity of the area; the need for additional public parking in this area of King Street (minimum of 85 spaces); economic development; and consistency with the City's Old Town Master Plan.

The two (2) remaining proposals/offers were ranked by the Real Estate Committee. Both proposals included a phased approach to the sale and construction of the sites per the requirements of the RFP to maximize the number of available parking spaces throughout the construction period. However, the proposal from Galena Capital Partners, LLC provided the highest offer; provided the highest amount of public parking; the greatest mix of residential units; and included affordable housing. Based on those elements, the Committee ranked the Galena proposal as the highest and best offer.

The **Galena Capital Partners, LLC** proposal includes a **base offer of \$5,300,000**, provides for approximately fifty-two (52) multi-family units of varying scale serving many market segments including some below market rate units; approximately 150 parking spaces; and approximately 10,000-15,000 square feet of ground level retail across the two sites.

- **116 S. Henry Street** - This site will include an automated parking garage of approximately 142 above ground parking spaces and approximately six (6) surface parking spaces. The site will also include two street level retail bays of approximately 3,500 square feet between them and at least 22 residential units over the three floors above the parking garage ranging from 400 to 900 square feet each.
- **912-920 King Street** - This site will include ground floor retail with space to accommodate one trophy retail tenant, with an estimated 6,700 square feet and additional space available through

either a below ground or mezzanine expansion. The site will also include up to 30 dwelling units above of varying sizes, as well as pocket parks and urban greenery to serve residents and visitors.

- **Affordable Housing** - The offeror will pay the affordable housing contribution rate above the purchase price. The affordable contribution is estimated at \$182,000 based on the preliminary design concept.
- **Parking** - The proposal provides for the replacement of all 85 parking spaces across the three City-owned sites as required by the RFP while also providing at least one space for each of the 52 residential units proposed at 116 S. Henry and 912-920 King Street with 11 additional parking spaces. The proposer envisions that not every household will own a vehicle, which could result in up to 30 spaces for public use above and beyond the 85 parking spaces being replaced.

To establish the value of the City-owned parcels prior to entering into any negotiations for the sale of the properties, the City retained the services of an independent appraiser. The independent appraiser provided both a Market Value Appraisal of the combined 912-920 King Street parcels; the parcel at 116 S. Henry Street; and a hypothetical Land Value based on the highest rated proposal as analyzed and rated by the Real Estate Committee.

The independent appraiser established the market value as \$5,300,000, or \$80.00/SF-FAR assuming 66,255 SF (total, all parcels)

RECOMMENDATION: In evaluating and scoring the proposals, the Committee looked at the highest and best use for these sites including additional consideration to proposals that go above and beyond the required 85 parking space minimum. Additionally, the developer had to follow a phasing strategy which maintains the maximum number of available parking spaces throughout the construction period delivering public parking at the Henry Street site first followed by the King Street site. The Committee considered how well the design concepts fit into the historic identity of the area, below-market housing options as well as sustainable design principles consistent with the City's green building standards. The Committee also considered the market value of the parcels as established by an independent appraiser.

Based on these considerations, the offers received and the best and final offer received following receipt of the independent appraisal, the Committee unanimously recommended that the City pursue award of a sales contract to Galena Capital Partners, LLC based on their best and final offer of \$5,300,000 for the subject City-owned properties, which includes \$2,000,000 for the Henry Street property and \$3,300,000 for the King Street properties. The Galena proposal provides a market value offer, provides the highest amount of public parking through an automated parking solution, the greatest mix of residential units, and includes an affordable housing contribution above the purchase price.

Staff determined that the uniqueness of the offering including the size and configuration of the parcels and the requirement to retain 85 parking spaces were the primary factors that determined the value of the offers received in response to the RFP. Galena offered the highest purchase price and provided the City with the best value including use of an automated parking solution that resulted in Galena not only meeting and exceeding the parking requirement but also making the best use of the available land to include retail and residential. Staff also assessed having the City retain the land and lease the property for the proposed project. Unfortunately, Virginia Code §15.2-2100 limits the lease of public property by cities or towns to a period no longer than forty (40) years. This short land lease term makes it not feasible for a project to obtain financing. The market

typically seeks 75 to 99 year leases when making major capital investments.

In the agreement with Galena Capital Partners, LLC, the City negotiated terms that provide the City right of first refusal for the purchase of the new automated parking garage to be located on the Henry Street parcel. During the ten-year period after the completion and opening date of the garage, if the owner, or its successor as owner wishes to sell the garage, the garage owner shall first offer to sell the Henry Street garage to the City. If the parties are unable to reach agreement on the acquisition of the garage within forty-five (45) days following the owner's notice to the City, the garage owner shall be free to sell the garage to any person or entity at a price equal to or greater than that last offered to the City by the garage owner.

Galena Capital Partners is an Alexandria based company focused on developing, building, investing and financing residential, commercial and retail properties in the Washington Metropolitan Area. Managing Partners are Ahmad Abdul-Baki and Omar Abdul-Baki. Galena Capital Partners currently owns and manages several local assets including 22,000 square feet of retail space in Cameron Station, a series of for-sale fee simple town homes at Ellsworth Row in Old Town and other commercial buildings in the Washington DC metropolitan area.

With City Council approval, the City Manager will enter into a contract with Galena Capital Partners for the sale of 912, 916, 920 King Street and 116 S. Henry Street, in the amount of \$5,300,000 contingent upon:

- a) Approval of a Development Special Use Permit (DSUP) and any related land use approvals for this project by the Planning Commission, the Board of Architectural Review, and City Council; and
- b) Approval of the sale by the Planning Commission per Section 9.06 of the City Code to confirm adherence to the City's Master Plan and City Council approval per Section 2.03(g) of the City Charter and Section 15.2-2100 of the Virginia State Code.

Upon entering into a contingent sales contract, the Galena Capital Partners will be required to make a deposit of ten percent (10%), or \$530,000, of the purchase price for the Property. The City will apply this deposit toward the purchase of the properties.

While there has been prior community engagement on the development of these properties, there would be additional community engagement and input sought throughout the contingent process including DSUP public hearings at the Planning Commission and City Council levels.

FISCAL IMPACT: The annual real property tax revenue after redevelopment is estimated at \$340,000 for all subject properties. The tenants and customers of these properties would also be subject to sales, meals, business tangible and other local taxes. The net proceeds after transaction and closing costs are anticipated to be \$5,088,000. Per the adopted City Real Estate Disposition Policy, proceeds will be designated as a source of funds in the City's Capital Improvement Program.

ATTACHMENT:

1. Galena Capital Partners Proposal Renderings (site plans and elevations)
2. Agreement for Sale and Redevelopment of 912-920 King Street and 116 South Henry Street, Alexandria, Virginia
3. Staff Presentation

STAFF:

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