

Truman Commons



Response to the City of Madison RFP

August 9, 2019

Prestented By





August 9, 2019

Economic Development Division
City of Madison
215 Martin Luth King, Jr. Blvd, 3rd Floor
P.O. Box 2983
Madison, WI 53701-2983

Re: Response to City of Madison RFP for the Development of 1402 S Park Street.

Dear Selection Committee,

Welton Enterprises, Inc. is pleased to provide this response to the Request for Proposal for the development of the City of Madison owned property at 1402 S Park Street known as the Truman Olson site. As requested, this proposal outlines information on the development team and project specific detail. We took into consideration the feedback provided by the selection committee, city staff and the neighborhood to put forth two options each consisting of two phases that we believe could meet city goals and the needs of the area residents.

We have provided a general level of detail and we would welcome the opportunity to work with the City, the neighborhood and other stakeholders to provide a first-class development that will have a positive impact for generations. In the following response you will find more information on the conceptually named 'Truman Commons' mixed-use development, including:

- 1) An outline of the development team and description of the team experience,
- 2) A description of two design concepts,
- 3) A summary of the proposed financing including the requested proforma and site purchase price,
- 4) The preliminary ownership structure, and
- 5) A description of the potential timeline and major milestones.

Thank you for taking the time to consider working with Welton Enterprises, Inc. on this exciting development project. Please do not hesitate to contact us should you have any further questions on our response outlined below, the development team experience and/or if you need any additional information.

All the Best,

A handwritten signature in black ink, appearing to read 'Paul Molinaro'.

Paul Molinaro
Vice President
Welton Enterprises, Inc.

Development Team

We have put together a highly experienced and capable project team, including:

Respondent/Developer

Welton Enterprises, Inc.

Architect

Knothe & Bruce

Builder

Ideal Builders

Property Management/Compliance

Wisconsin Management Company

Civil & Stormwater Engineer

Burse Surveying & Engineering

Real Estate Consultant

Evergreen Consulting, Inc.

Grocer

We are still working to secure a commitment from a grocery operator that can both serve the neighborhood needs and afford the economics of a newly constructed urban grocery store.

Respondent/Developer – Welton Enterprises, Inc.

Since 1987 Welton Enterprises, Inc. and affiliates' core business has been build-to-suit commercial development with a recent focus on diversifying into new mixed-use/multi-family developments in the metropolitan Madison market. With over 25 principal-owned commercial properties in the portfolio comprising over 1,250,000 square feet and commercial spaces that range from under 5,000 to over 200,000 square feet, we are able to offer our business partners some of the Madison area's finest locations. Leveraging Welton's success in the commercial sector the company has partnered on several new mixed-use projects consisting of 170 apartment units and over 50,000 square feet of commercial space. Welton has also secured additional sites in prime locations that offer options for redevelopment, including the current Pick N' Save site at 1312 S Park Street.

Welton Enterprises, Inc. manages all of the Welton owned commercial assets and management references are available upon request. The principals and employees of the Welton team have combined experience of over 100 years in all aspects of real estate development and management.

Additional information available at: www.buildtosuit.com

Architect – Knothe & Bruce Architects, LLC

Knothe & Bruce is an award-winning architecture and design firm in Madison, Wisconsin. We are currently involved in a wide range of multi-family and mixed-use projects – from historic renovations to modern mid-rise apartments, and from student housing to senior housing campuses. While most of our work is in the Madison area we also work throughout Wisconsin, and in Illinois, Iowa and Colorado. Regardless of the project or locale, we collaborate closely with our clients providing a full range of residential and commercial architectural services.

Since our founding in 1974 we have diligently pursued the best designs and the highest quality construction possible for all of our clients. We bring nearly 40 years of experience to each project that we do. Our 7 licensed architects and 8 staff professionals work collaboratively with our clients to enhance the design and function of the living environments we create. We design for the market, for future residents, and for the community, not for ourselves. We understand the development, realities such as public approvals, market demand, and construction cost. We embrace them in our program and design process. We consider the most important measure of our success is the success of our clients.

Related Projects

| | |
|------------|---|
| Project: | The Boulevard |
| Location: | 3326 University Ave, Shorewood Hills, WI |
| Completed: | 2017 |

| | |
|--------------|--|
| Description: | Mixed-use, 4 story development with 12,000 sf of specialty retail and 38 upscale apartments with 38 heated underground parking stalls. The development features a mix of studios, one bedroom, one bedroom with den, two bedroom and three bedroom apartments with open and contemporary floor plans. |
| Project: | Royster Crossings |
| Location: | 516 Cottage Grove Rd Madison, WI |
| Completion: | Under construction, to be completed in 2019 |
| Description: | Mixed-use development with 17,000 sf of commercial space, 86 apartments, 96 underground parking and 183 surface parking spaces along with a 21,000 sf space for the new Pinney Library. The mixed-use project will have two wings connected by an atrium with the library to be located on the first floor of the west wing. |

Additional information available at: www.knothebruce.com

Builder – Ideal Builders Inc.

In the past five years, Ideal Builders has completed over 2,353,678 square feet of interior office buildouts. Over the past five years, Ideal Builders has also completed 923,925 square feet of ground up, expansion or addition to existing buildings. The largest of these projects was 400,000 square feet. Recent projects of note include three- and four-story buildings for Navitus Health Solutions in Grand Chute, the three-story Parmenter Center Building in Middleton and the one-story Waunakee Community Bank in Waunakee.

Our residential experience comes with 181,601 square feet of ground up, addition and renovation work. The standout projects in this category include a four-story remodel to State Street Apartments, a six-story ground up 3Twenty Apartments and a 116-unit renovation and nine-story addition to Roundhouse Apartments.

We currently have multiple office projects under construction totaling 358,402 square feet. Landmark Oaks is a five-story office building overlooking the beltline with views of the Capitol. A new, five-story Navitus Health Solutions office headquarters and two-story Lumicera office building are under construction on the west side of Madison.

Additional information available at: www.idealbuildersinc.com

Property Management/Compliance – Wisconsin Management Company

Wisconsin Management Company, Inc. (WMC) has been in business for over 40 years, providing professional management services to property owners, investors, housing authorities, non-profit housing organizations and financial institutions. The home office headquarters are centrally located in Madison, Wisconsin with hub offices throughout the geographic territories serviced in Wisconsin and Illinois. WMC is a full-service property management firm with expertise in market rate and affordable management, asset management, resort management, construction and development. WMC has a sizable in-house compliance department and services properties with requirements for HUD (Housing and Urban Development), Section 42, Section 8, Section 515 and RD (USDA Rural Development).

WMC takes pride in being an industry leader, providing excellent financial management services, reporting and expense control, using leading software and technology systems to maximize value to owner, user-experience and marketing exposure. WMC manages a portfolio of just over 4000 units and has a depth of staff and knowledge. The company has a sound philosophy regarding property management and a focus on positive attitude and accountability—*“There are no miracles in this business. We get the job done with good common sense and hard work.”* Staff training includes in-house Leadership Programs, training at the Institute of Real Estate Management (IREM), Certified Occupancy Specialist (COS) designations, National Association of Housing and Redevelopment Officials (NAHRO) Certified Public Housing Manager certifications, and Tax Credit Specialist Certification (TSC). Members of our team currently sit on boards or committees of the local chapter of IREM, The Apartment Association of South Central Wisconsin (AASCW), Movin’ Out and the

Wisconsin Council for Affordable and Rural Housing (WI-CARH). WMC is a founding member of WI-CARH.

Lease ups within the past 5 years include:

| | |
|------------------------|--------------------------------|
| Tribeca I & Tribeca II | West End I & West End II |
| Middleton Station | The Bay Lofts |
| Lake Edge | Nichols Station historic rehab |
| Brody Townhomes rehab | |

Tax Credit Properties currently operated and/or developed:

| | |
|---|--------------|
| Cannery Row | Eagle Harbor |
| Crown Ridge | Elburn |
| Millview | Oswego |
| Village Plaza | |
| DCHR—Dane County Housing Authority Rehabs Verona/DeForest/Stoughton | |

Other Madison Market multifamily properties for reference:

| | |
|------------|----------|
| Park House | Cardinal |
| Briarwood | Yahara |
| Park Tower | |

Additional information available at: www.wisconsinmanagement.com

Burse Surveying & Engineering – Civil & Stormwater Engineer

Burse Surveying and Engineering, Inc. has been providing engineering services to private and governmental clients since 1999. Our staff of Professional Engineers and Technicians has the experience and knowledge to prepare plans and specifications for private developments and public infrastructure projects. Our expertise in state and local requirements, coupled with our experience in site design and construction, has been a cornerstone of our success. We are certified as a Disadvantage Business Enterprise (DBE) with the Wisconsin Department of Transportation and as a Woman Owned Business Enterprise (WBE) with Dane County and the Department of Administration. Our clients rely on our efficient and creative solutions to their unique problems that we execute with technical excellence from the planning stages through construction.

Additional information available at: <https://www.bursesurveyengr.com/>

Real Estate Consultant – Evergreen Consulting, Inc.

Joseph Schwenker will be providing a variety of real estate related input into the development with an emphasis on the economics and deal structuring elements related to the tax credit component of the project. Mr. Schwenker has over 25 years of tax credit experience and in the past three years has been involved in tax credit projects such as Layton Square (57 units Cudahy WI), Fox Crossing (34 units in Burlington WI), Willis Apartments (38 units in Perry IA). In addition, he is involved in the following tax credit developments currently under construction: Novation Senior Apartments (60 units Town of Madison), Fulton Commons (40 units in Fulton IL) and VMC Lofts (60 units in Kenosha, WI). Mr. Schwenker served as the Project Consultant for Gorman & Company on the Union Corners project located in Madison. In this capacity he worked closely with the city staff, elected officials and neighborhood groups on areas such as master planning, land purchase, TIF and entitlements.

Design Concept/Land Uses

After a considerable amount of time analyzing development options, Welton has elected to provide two development options. These concepts for Truman Commons incorporate the information contained in the Wingra Creek BUILD plan, the RFP from the City of Madison and the numerous meetings with neighbors, other various stakeholders and city staff. See Exhibit A for conceptual site plans and renderings for Option 1 and see Exhibit B for conceptual site plans for Option 2.

Project Goals

- Provide the neighborhood with a full-service grocery store and zero grocery downtime.
- Create a walkable urban neighborhood that promotes pedestrian and bike connectivity.
- Build a diversity of housing options that have easy access to downtown and other areas of the city.
- Meet Urban Design requirements with high quality architecture and density on Park Street.
- Plan for the extension of the public street with two options for consideration.
- Treat all stormwater per city policies utilizing an open-air pond thus also creating green space.
- Include a bus stop that would provide public transportation to and from the site.

Assumptions Made

- City of Madison to provide storm sewer (and necessary easements) in South Street with a connection to the development pond.
- City of Madison to provide a signalized intersection accommodating both right-in/right-out and left-in/left-out at the intersection of Park Street and new public street extension under either option.

Option 1 (Site Plan B3)

Phase I (Building A) Components

- 4-story building fronting Park Street.
- 20,088 SF full service grocery store with an outdoor patio.
- 89 stalls of surface parking to serve the grocery store and visitor parking.
- 92 units of market rate apartments.
- 90 stalls of underground parking.
- Additional parking to be added when Pick N' Save store is demolished for Phase II.
- Fitness center & community room for residents.
- Package lockers.
- 6,000 SF rooftop patio with green space.
- Potential neighborhood community room.

Phase II (Building B) Components

- 4-story building fronting Park Street.
- 94 units with a mix of affordable and market rate apartments.
- 70 stalls of underground parking.
- 77 stalls of surface parking (some to serve Building A apartments).
- Courtyard patio with green space.
- Fitness center & community room for residents.
- Package lockers.
- We may share amenities between phases to be able to provide additional shared amenities (i.e. dog run, indoor spa, gaming room, etc.).

Option 2 Differences (Site Plan B4)

Overall Differences

The major difference between Option 1 and Option 2 is the location of the extension of the public street. In Option 1 the public street is along the south lot line of Truman Olson providing the following:

- The opportunity for a more urban and walkable development wherein Phase I and Phase II can be more connected and cohesive.
- An option to connect a future North/South street through properties to the South to foster further development in the triangle and meet connectivity goals of the Wingra BUILD plan.
- A traffic pattern that will be slower and less impactful on both the properties within the triangle as well as adjacent neighborhoods.

In Option 2 the public street is along the north lot line of Truman Olson providing the following:

- A straighter connection to access, as efficiently and quickly as possible, the western portion of the triangle and ultimately through to Fish Hatchery Road.

Phase I (Building A) Differences

The overall project parameters for Phase I under both options are similar including unit count, grocery size, financial projections and TIF requirement. Under Option 2 we would not be able to add any additional surface parking to serve the market rate apartments as proposed under Option 1 and space for an outdoor patio for the grocery store would be limited. Amenities also would be less easily shared between the residents in Building A and Building B in Option 2.

Phase II (Building B) Differences

- 105 total units compared to 94 units in Option 1.
- 86 underground parking stalls compared to 70 stalls in Option 1.
- 64 stalls of surface parking compared to 77 stalls in Option 1.

Conclusion/Preference

We prefer the Option 1 design that achieves a more urban and pedestrian friendly development; however, Option 2 also provides a good opportunity for development if a straighter street alignment is preferred.

Financing

The financing for Truman Commons will require numerous sources of capital. The proforma included provides additional detail on the Phase I financing with the following description of the different components of the capital stack for each phase.

Phase I – Grocery & Market Rate Housing:

The financing for this portion of the project will include:

- 1) Conventional construction financing,
- 2) Equity from Welton entities to meet TIF regulations and bank ratios,
- 3) Tax Incremental Financing, and
- 4) Long term conventional/institutional debt.

Phase II - Workforce/Affordable Housing

The financing for this portion of the project will include:

- 1) An application to WHEDA for the competitive 9% tax credits,
- 2) An application for funds from the City of Madison Housing Trust Fund,
- 3) An application for funds from the Dane County Affordable Housing Fund,
- 4) Other potential programs specific to workforce/affordable housing including AHP,
- 5) Tax Incremental Financing to offset underground parking and other eligible costs with more detail provided in the proforma,
- 6) Deferred developer fee, and
- 7) Conventional non-recourse debt.

Tax Incremental Financing

Tax Incremental Financing will be integral to fund the GAP in the project due to the underground parking cost, potential soil issues, financial capability to attract a full-service grocery store and other costs that are further defined in the proforma and will be more detailed during due diligence. The amount of the TIF funding will meet the “but for” test and be structured pursuant to City policies.

Other Sources/Value Engineering

Welton commits to attempting to access alternative financial sources and value engineering the project in an effort to reduce the amount of TIF request.

Infrastructure Costs

This proposal assumes no cost to either phase of the project under Option 1 or Option 2 for the new public street, intersection improvements, storm sewer improvements, etc. If the road and other infrastructure are not in place by the time the project breaks ground, Welton would lease the parcel from the City on a gross basis (all expenses including special assessments incurred or contemplated during the lease term to be paid by the Landlord/City). We would close on the purchase of the land within ninety (90) days of completion and payoff of the infrastructure improvements.

Ownership Structure

If awarded, Truman Commons will be developed by Welton Enterprises, Inc. on behalf of a to-be-formed entity that will own the asset within the Welton portfolio of entities. Our model is to develop and hold for the long term. The site would be purchased from the City of Madison on a fee simple basis subject to the infrastructure condition described above.

The project would be comprised of two phases. Phase I consisting of the grocery store and market rate housing would be owned by Welton. Phase II consisting of the affordable housing would be jointly owned by the Welton and the tax credit investor.

It is planned that Wisconsin Management Company will be retained as the property management and compliance company for the project (including both the market rate residential and tax credit components).

Process/Timeline

Phase I

To move forward as expeditiously as possible we are proposing that Phase I contain only market rate apartments so the grocery development is not contingent upon a tax credit award nor subject to the timeline. A timeline for a competitive tax credit award would, at the earliest, put the delivery of a project and grocery store into 2022. This timeline could be much later if a project is not awarded tax credits under the first application. Our Phase I timeline is as follows:

Critical Project Milestones:

- 1) Revised RFP submittal 8/19
- 2) Neighborhood Meeting 9/19.
- 3) RFP award 10/19
- 4) Term Sheet negotiated 12/19
- 5) Action by CC and subcommittees on Term Sheet – 1/20
- 6) Land Use Approvals/TIF approval/council resolution 1/20-4/20
- 7) Closing/Land Lease 5/20
- 8) Construction Start 6/20
- 9) Construction Completion 5/21-7/21
- 10) Grocery opens 7/21
- 11) Multifamily lease-up 7/21-10/21
- 12) Stabilization and project close-out 9/21

Phase II

Understanding the need for affordable housing options in the City of Madison, Welton is proposing to provide affordable units in Phase II that would break ground after the completion of Phase I/opening of a new grocery store. We would break ground after receiving the tax credit award and would be applying for competitive tax credits. The preferred timeline would be to apply in December 2020 for an award and ground breaking in 2021 and project delivery in 2022. If unsuccessful on the first application, we would apply again in December 2021 for an award and ground breaking in 2022 with project delivery in 2023.

Exhibit A

Option 1 Conceptual Renderings & Sites Plans





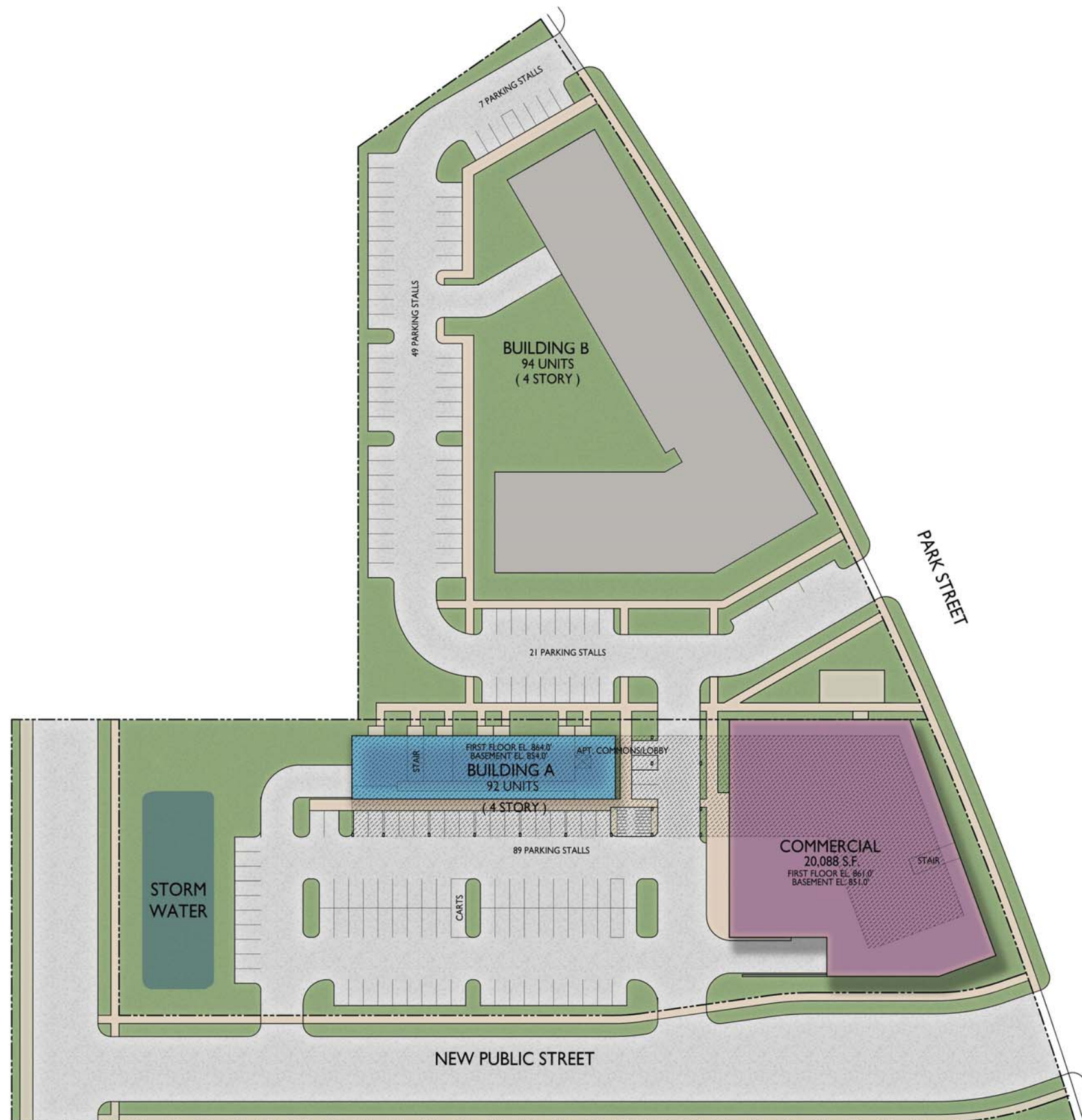






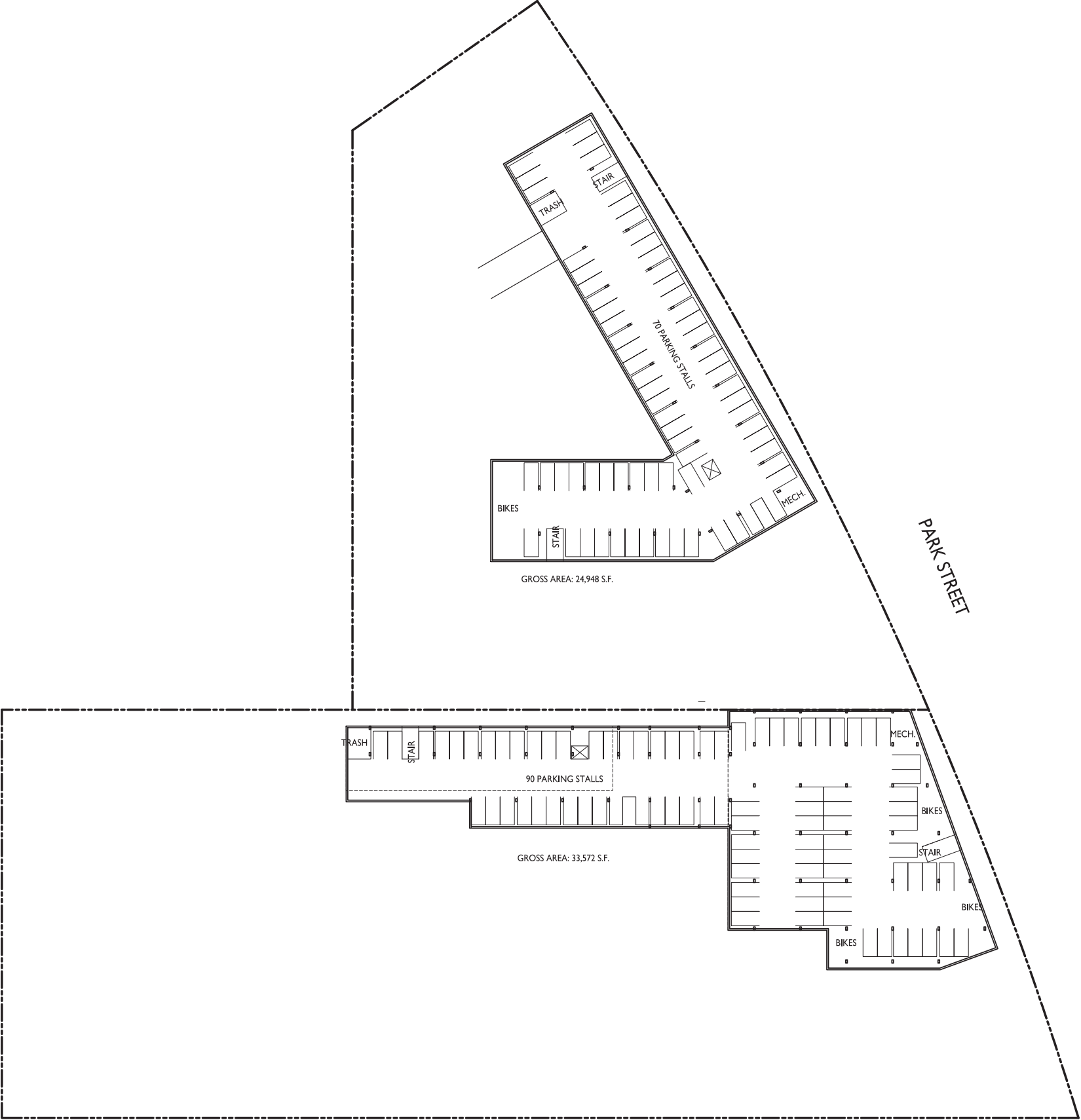






Concept Plan

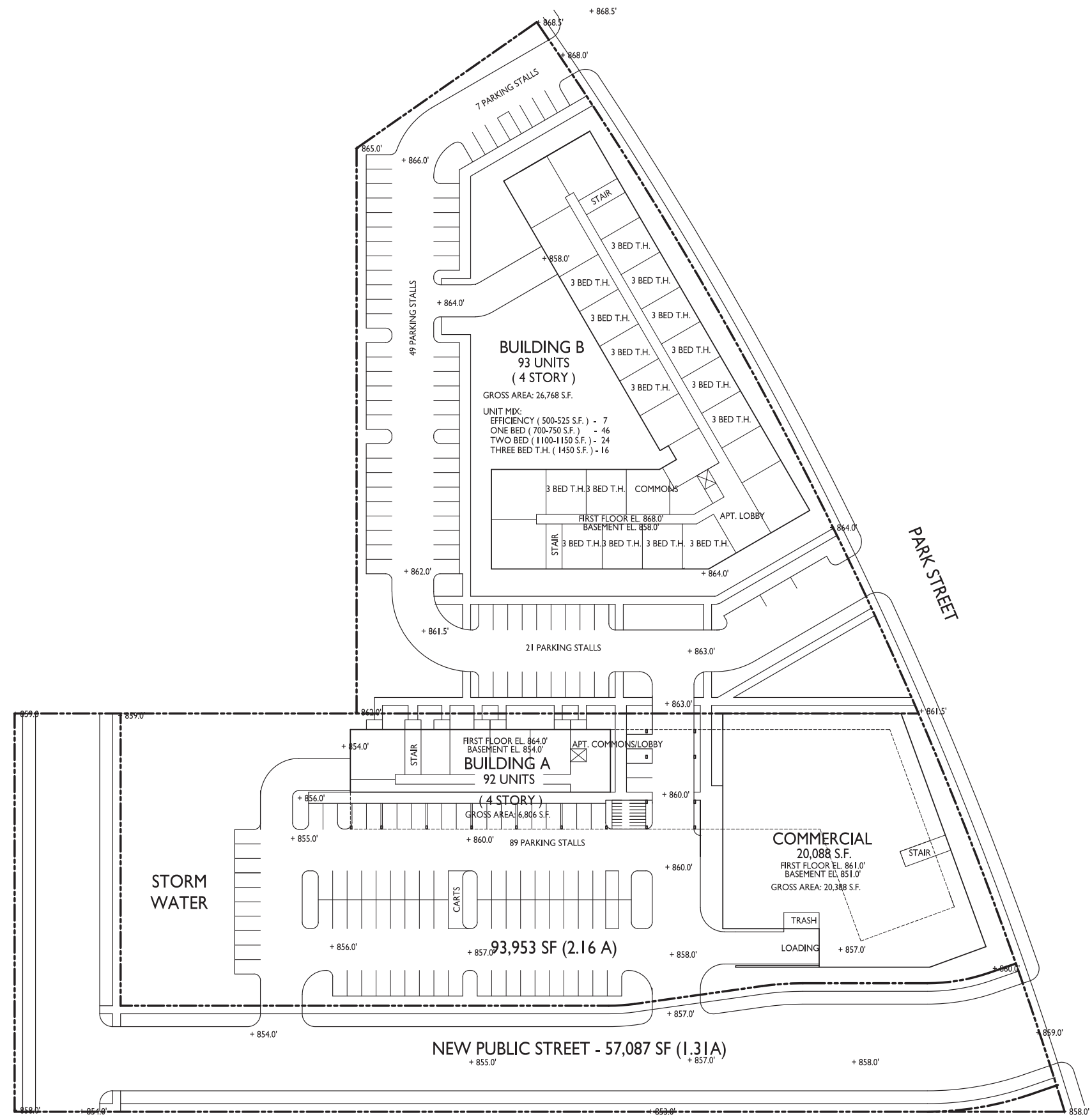




BASEMENT



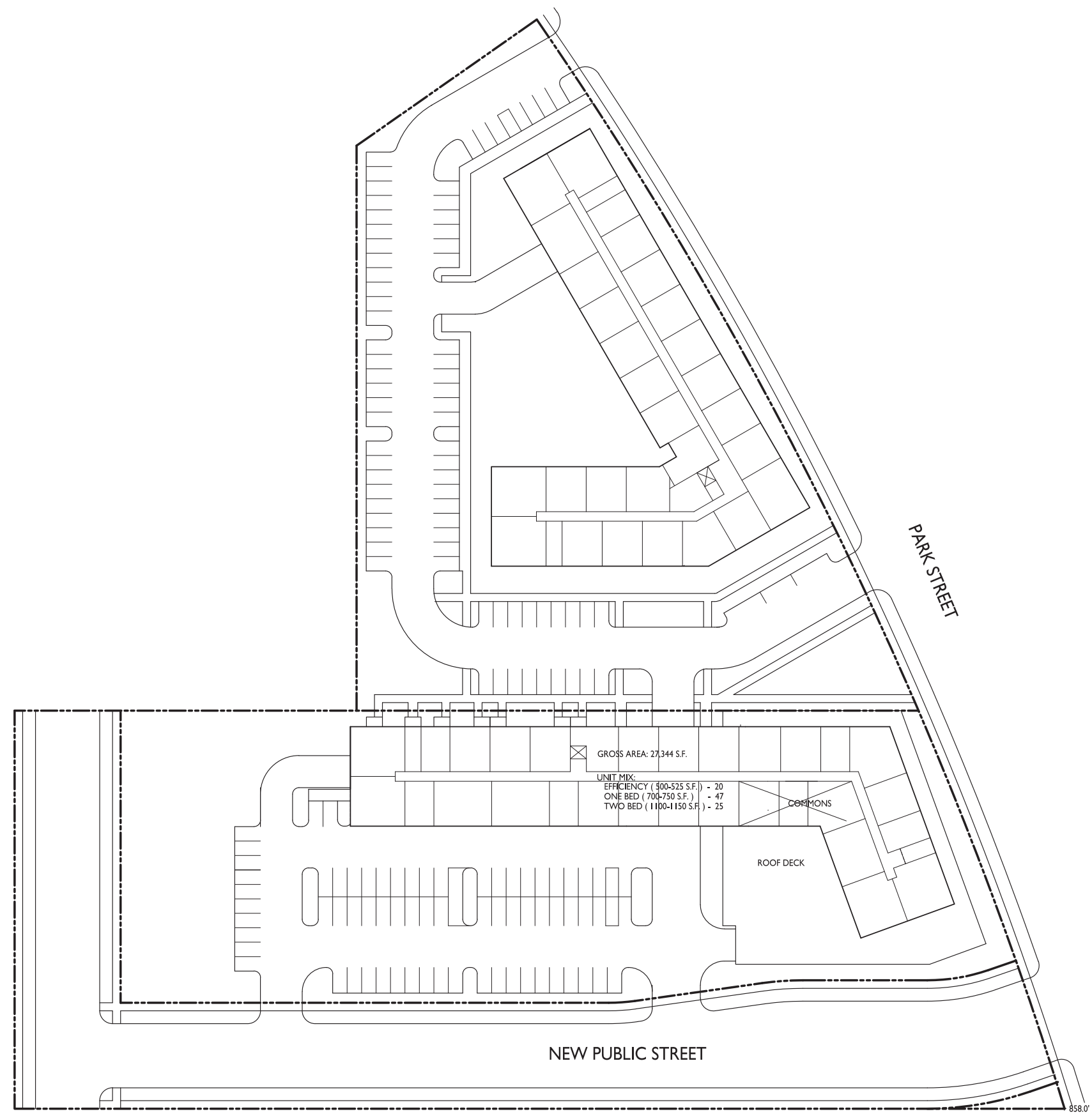
OPTION B3



FIRST FLOOR



OPTION B3



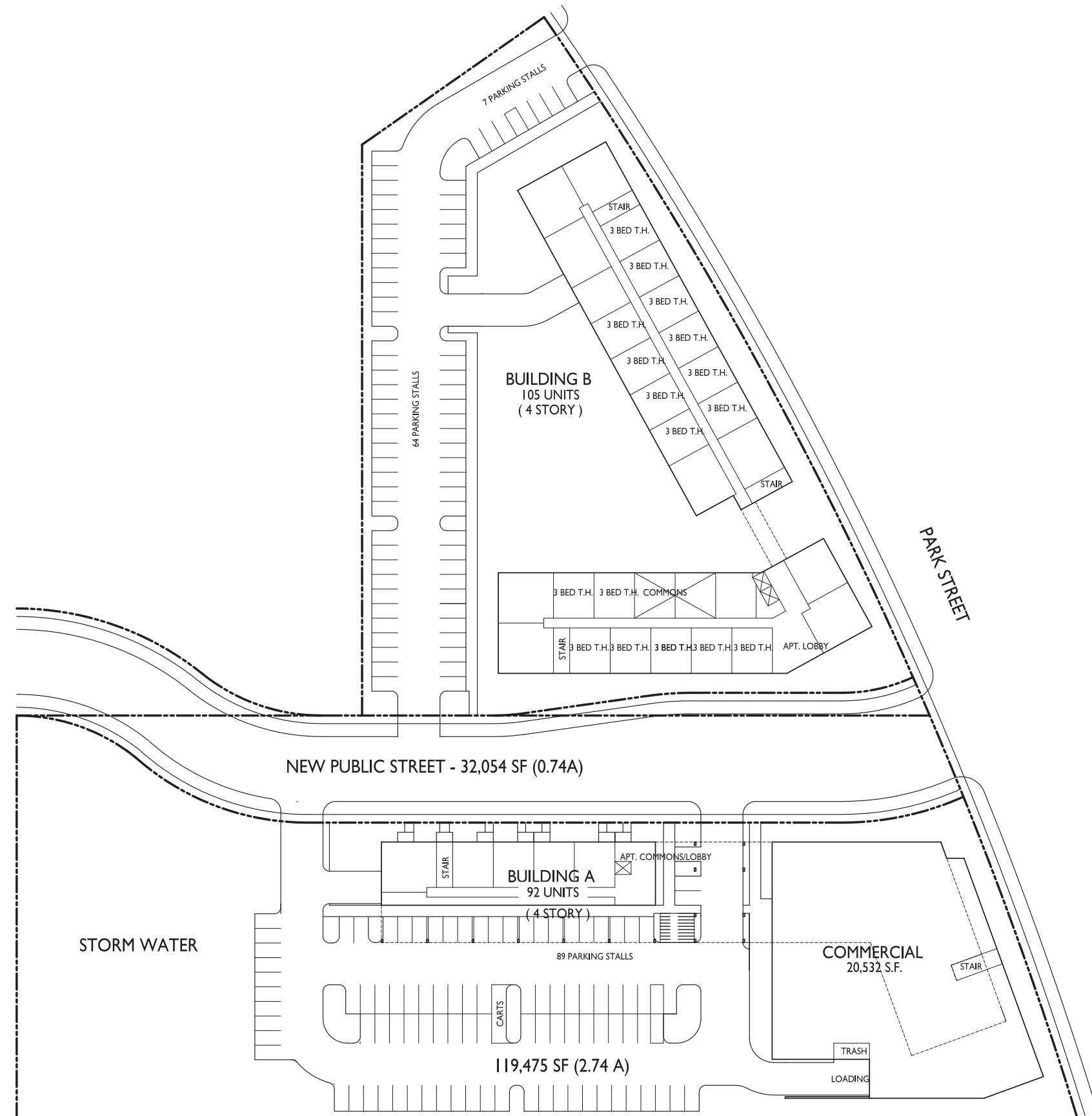
SECOND FLOOR



OPTION B3

Exhibit B

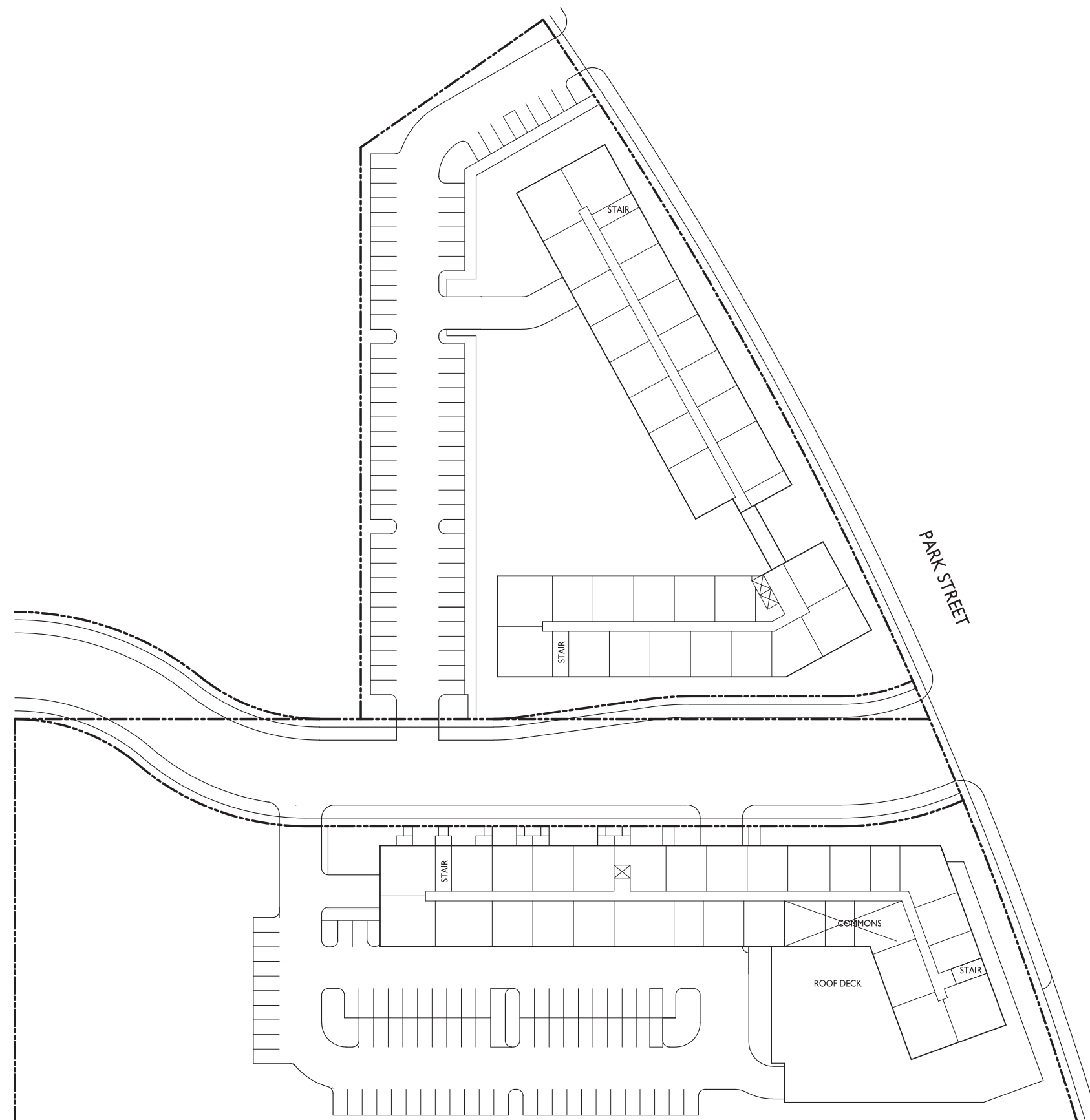
Option 2 Site Plans



FIRST FLOOR



OPTION B4



SECOND FLOOR



OPTION B4

Building A PROFORMA - Market Rate & Grocery

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Potential Apartment Revenue | 1,822,470.00 | 1,858,919.40 | 1,896,097.79 | 1,934,019.74 | 1,972,700.14 | 2,012,154.14 | 2,052,397.22 | 2,093,445.17 | 2,135,314.07 | 2,178,020.35 |
| Less: Apartment Vacancy Allowance | (91,123.50) | (92,945.97) | (94,804.89) | (96,700.99) | (98,635.01) | (100,607.71) | (102,619.86) | (104,672.26) | (106,765.70) | (108,901.02) |
| Less: Apt Expenses | (582,083.50) | (593,725.17) | (605,599.67) | (617,711.67) | (630,065.90) | (642,667.22) | (655,520.56) | (668,630.97) | (682,003.59) | (695,643.67) |
| Potential Grocery Store Revenue | 487,907.38 | 489,831.21 | 491,793.52 | 493,795.07 | 495,836.65 | 517,504.86 | 519,628.92 | 521,795.46 | 524,005.34 | 526,259.41 |
| Less: Grocery NNN Expenses | (96,191.38) | (98,115.21) | (100,077.52) | (102,079.07) | (104,120.65) | (106,203.06) | (108,327.12) | (110,493.66) | (112,703.54) | (114,957.61) |
| Less: Reserve | (10,000.00) | (10,000.00) | (10,000.00) | (10,000.00) | (10,000.00) | (10,000.00) | (10,000.00) | (10,000.00) | (10,000.00) | (10,000.00) |
| NOI | 1,530,979.00 | 1,553,964.26 | 1,577,409.23 | 1,601,323.09 | 1,625,715.23 | 1,670,181.02 | 1,695,558.60 | 1,721,443.74 | 1,747,846.58 | 1,774,777.47 |
| Less: Misc. Partnership/Other Expenses | (5,000.00) | (5,000.00) | (5,000.00) | (5,000.00) | (5,000.00) | (5,000.00) | (5,000.00) | (5,000.00) | (5,000.00) | (5,000.00) |
| Less: Debt Service | (1,188,198.10) | (1,188,198.10) | (1,188,198.10) | (1,188,198.10) | (1,188,198.10) | (1,188,198.10) | (1,188,198.10) | (1,188,198.10) | (1,188,198.10) | (1,188,198.10) |
| Cash Flow | 337,780.90 | 360,766.16 | 384,211.13 | 408,124.99 | 432,517.13 | 476,982.92 | 502,360.50 | 528,245.64 | 554,648.48 | 581,579.37 |
| Cash Return on Equity | 5.98% | 6.39% | 6.81% | 7.23% | 7.66% | 8.45% | 8.90% | 9.36% | 9.82% | 10.30% |

| | | | | | Total |
|-------------|-------------------|----------------|----------------|----------------|--------------------|
| <u>Apts</u> | <u># of Units</u> | <u>Unit SF</u> | <u>Rent/SF</u> | <u>Rent/Mo</u> | <u>Annual Rent</u> |
| Efficiency | 20 | 515 | \$2.15 | \$1,107.25 | \$265,740.00 |
| 1 Bed | 47 | 725 | \$1.95 | \$1,413.75 | \$797,355.00 |
| 2 Bed | 25 | 1125 | \$1.85 | \$2,081.25 | \$624,375.00 |
| Subtotal | | | | | \$1,687,470.00 |

| <u>Parking</u> | <u># of Stalls</u> | <u>Rate/Mo</u> | <u>Annual</u> |
|----------------|--------------------|----------------|---------------|
| Apartment | 90 | \$125.00 | \$135,000.00 |
| Subtotal | | | \$135,000.00 |

| <u>Commercial</u> | <u>SF</u> | <u>Rent/SF</u> | <u>Year 1</u> |
|----------------------------|-----------|----------------|---------------|
| Grocery Store Base Rent | 20,088 | \$19.50 | \$391,716.00 |
| Grocery Store NNN Expenses | 20,088 | \$4.79 | \$96,191.38 |
| Subtotal | | | \$487,907.38 |

Truman Commons Phase I Sources & Uses

Hard Cost

| | |
|--------------------|------------|
| Land Cost | 1 |
| Soil Improvement | 500,000 |
| Building A | 19,748,832 |
| Laundry Centers | 301,700 |
| Grocery TI | 602,640 |
| Grocery Patio | 50,000 |
| Construction Mgmt | 30,000 |
| Apartment FFE | 100,000 |
| Contingency/Misc | 0 |
| Hard Cost Subtotal | 21,333,173 |

Soft Costs

| | |
|---------------------------------|-------------------|
| | Total |
| Permanent Finance Fees (1 pt) | 170,000 |
| Park Fees - \$2,500/unit | 230,000 |
| Legal | 50,000 |
| Architectural & Structural | 259,000 |
| Civil & Stormwater | 35,000 |
| Real Estate Taxes During Const. | 0 |
| Construction Interest | 400,000 |
| Construction Loan Costs (1/2) | 85,000 |
| Commercial Brokers Fees | 370,465 |
| Apt Rent Up (\$500/unit) | 46,000 |
| Lease Up/Debt Service Reserves | 125,000 |
| Misc. | 88,523 |
| Soft Costs Subtotal | 1,858,989 |
| Hard and Soft Cost Subtotal | 23,192,162 |
| Development Fee | 1,391,530 |
| Total Development Cost | 24,583,691 |

Uses

| | |
|-------------------|-------------------|
| Hard Cost | 21,333,173 |
| Soft Cost | 1,858,989 |
| Developer Fee | 1,391,530 |
| Total Uses | 24,583,691 |

Sources

| | |
|----------------------|-------------------|
| Loan | 16,937,769 |
| TIF | 2,000,000 |
| Developers Fee | 1,391,530 |
| Cash Equity | 4,254,393 |
| Total Sources | 24,583,691 |

Mortgage Assumptions

| | |
|------------|------------|
| Equity | 5,645,923 |
| Loan AMT | 16,937,769 |
| AM | 25 |
| I/YR | 5.00% |
| PMT | 99,017 |
| Annual PMT | 1,188,198 |



August 9, 2019

Economic Development Division
City of Madison
215 Martin Luth King, Jr. Blvd, 3rd Floor
P.O. Box 2983
Madison, WI 53701-2983

Re: Financial Documents for Response to New 1402 S Park Street Development RFP

Dear Selection Committee,

Enclosed you will find the requested financial documents:

- 1) Proforma and Sources & Uses for Phase I. We did not provide a full financial analysis of Phase II; however, based on previous submittals and planning we are confident that this portion of the project will be highly successful and financially feasible.
- 2) These documents describe the proposed purchase price of \$1.00 and other pertinent factors. As noted in the RFP response Welton assumes the road, intersection improvements and other costs are the City's responsibility. We would welcome further discussion on this to find a mutually beneficial way to accomplish this development.

Please let us know if you would like any additional information.

All the Best,

A handwritten signature in black ink, appearing to read 'Paul Molinaro'.

Paul Molinaro
Vice President
Welton Enterprises, Inc.