

## Foundry Building, Cambridge, MA IMPLEMENTATION

October 29, 2014



### Agenda

Welcome

Presentation:

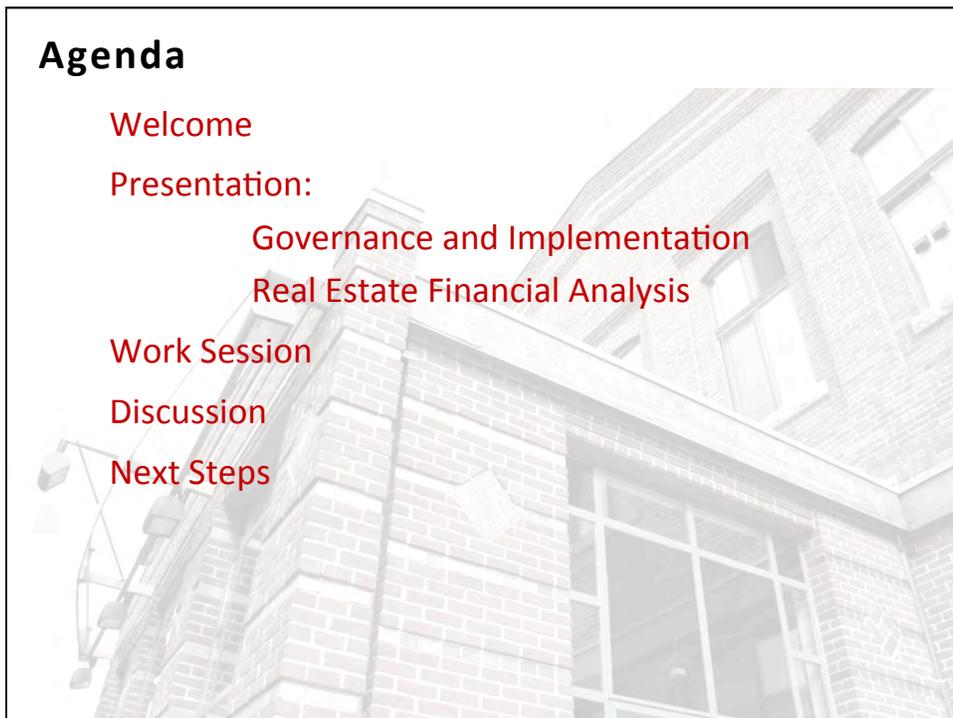
Governance and Implementation

Real Estate Financial Analysis

Work Session

Discussion

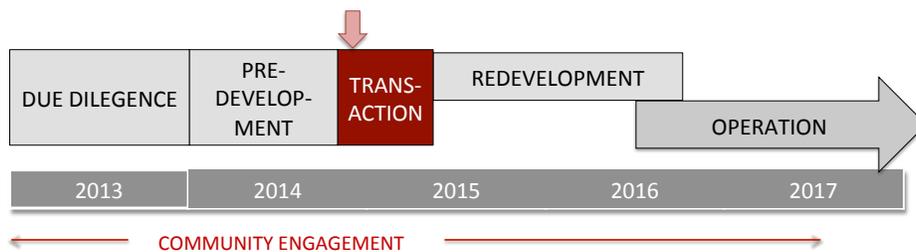
Next Steps



## Development Process

### Transaction Phase

1. Demonstration Plan
2. Disposition Plan
3. Lease
4. RFQ/RFP
5. Developer Selection



## Implementation Participants

Ongoing Community Engagemen . . .

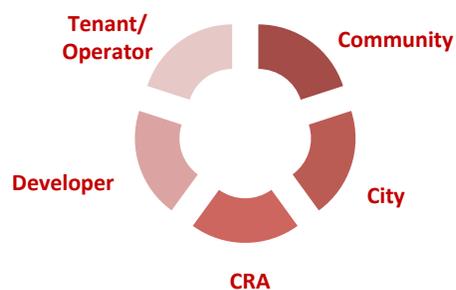


June 2014 Work Session



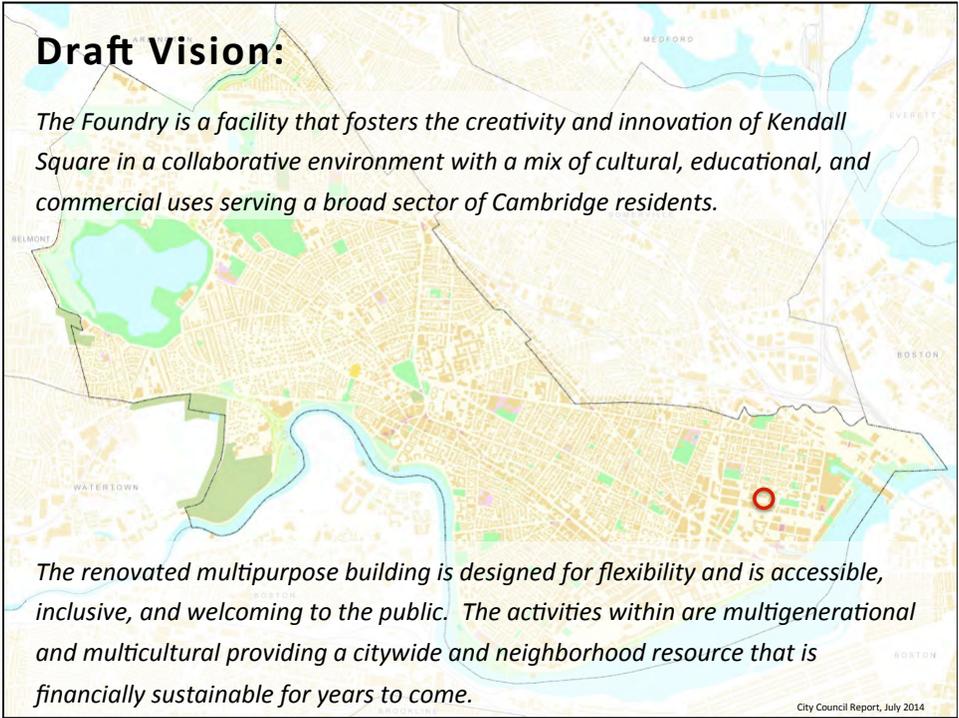
Summer 2014 Youth Outreach

Balance of Interests for Foundry Implementation



**Draft Vision:**

*The Foundry is a facility that fosters the creativity and innovation of Kendall Square in a collaborative environment with a mix of cultural, educational, and commercial uses serving a broad sector of Cambridge residents.*



*The renovated multipurpose building is designed for flexibility and is accessible, inclusive, and welcoming to the public. The activities within are multigenerational and multicultural providing a citywide and neighborhood resource that is financially sustainable for years to come.*

City Council Report, July 2014

**Draft Objectives:**

- **Innovative Programs:** shared use; collaborative environment; workforce training to prepare residents and youth; STEAM activities
- **Physical Assets:** support viable economic activity and productive community use
- **Operational Oversight:** financially sustainable; ongoing management
- **Financial Feasibility:** public/private partnership



Existing Foundry space



Potential space activated

City Council Report, July 2014

## Range of Uses:

- Arts and performing arts studio space
- Cafe
- Community education or job training centers
- Community kitchen/food preparation space
- Early childhood education/day care use
- Family-based commercial recreation
- Gallery, museum, library
- Offices for small companies, start-ups, shared space, non-profit organizations
- Parking
- Performance space and gathering space
- Start-up fabrication (“maker”) space
- Youth programming

*How can we achieve flexible, shared, uses that might change over time, recognizing that all uses won't fit in the building at the same time*

City Council Report, July 2014

## Proposed Governance Model

*How can we maintain this public asset for the long term?*

*How can we ensure public objectives are met at all stages?*

*How can we ensure transparency in governance?*



## Proposed Governance Model

### City Disposition Process

- City retains ownership of land and building
- Planning Board hears and City Council approves Disposition Plan
- City leases building to CRA based on agreed terms



Site Map 101 Rogers Street

HMFH Report, June 18, 2013

## Proposed Governance Model

### Foundry Advisory Committee

- Seven (7) members appointed by City Manager and CRA
- Report to City Manager in consultation with CRA Executive Director
- Serve as “eyes and ears” regarding type of uses and condition of building



## Proposed Governance Model

### CRA Demonstration Project Plan

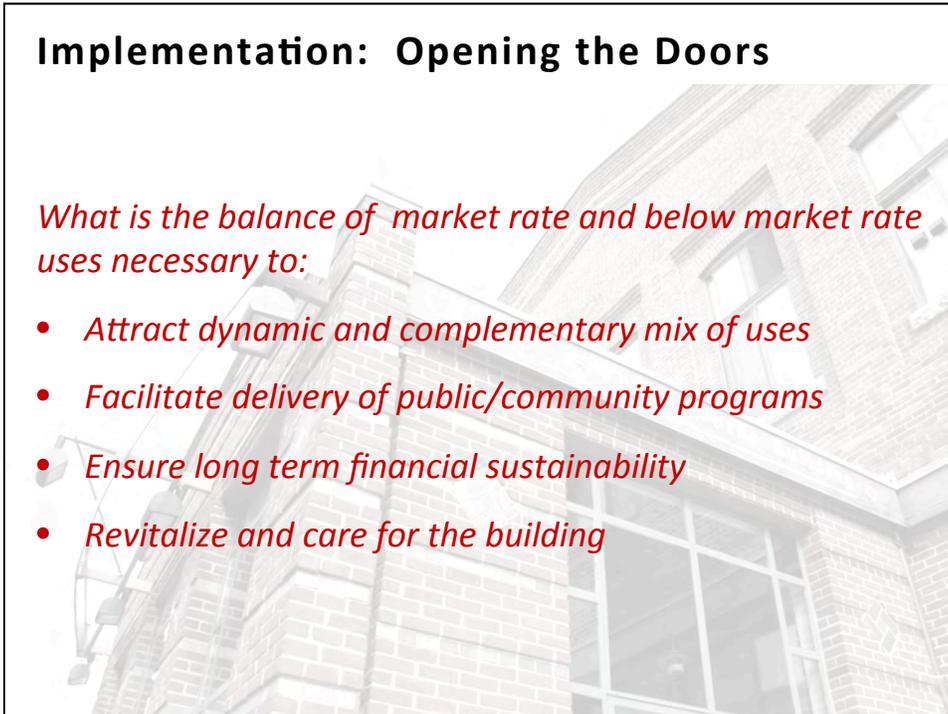
- CRA Board and City Council approval
- Leverage CRA funds to invest in innovative programs
- Enable “Competition of Ideas”:
  - two-step procurement RFQ/RFP
  - evaluate from developers
- Create an innovative model for use elsewhere



## Implementation: Opening the Doors

*What is the balance of market rate and below market rate uses necessary to:*

- *Attract dynamic and complementary mix of uses*
- *Facilitate delivery of public/community programs*
- *Ensure long term financial sustainability*
- *Revitalize and care for the building*



## Input

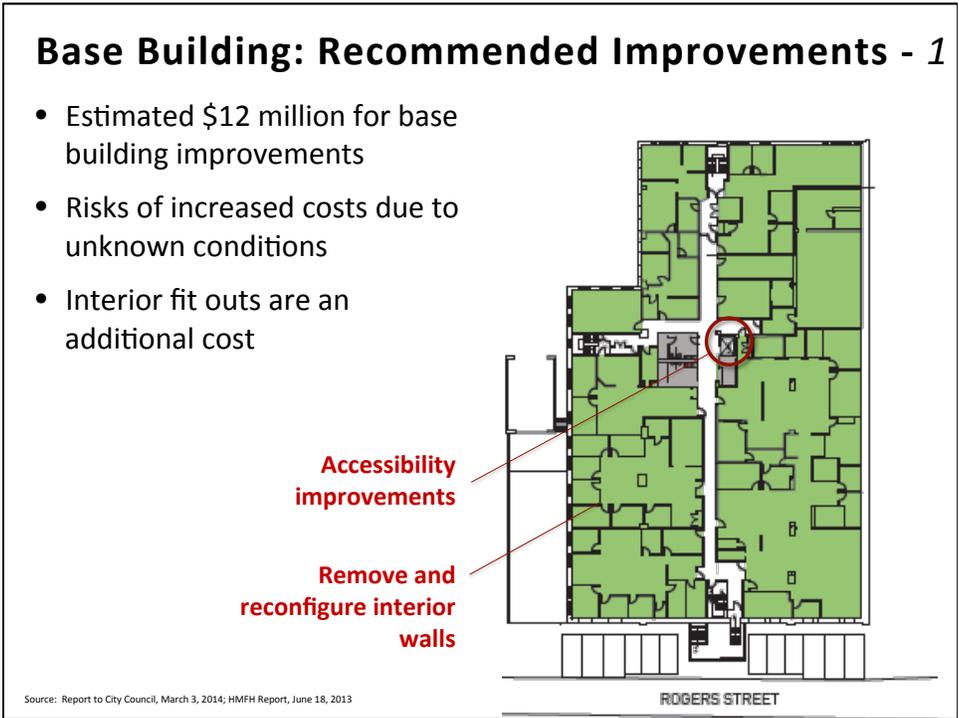
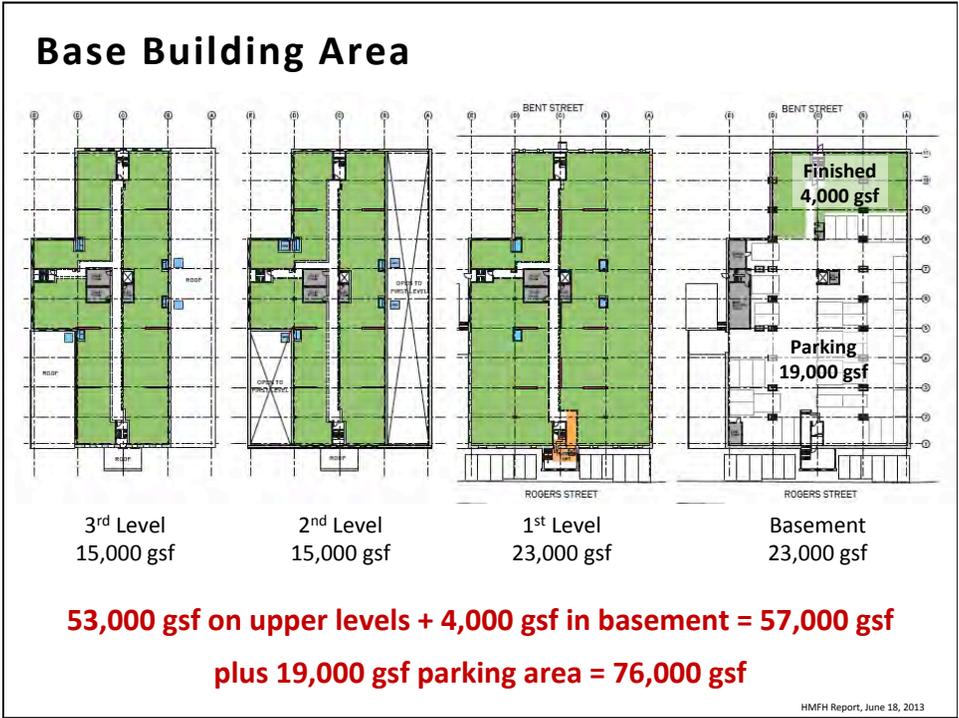
### FAQs fo Project

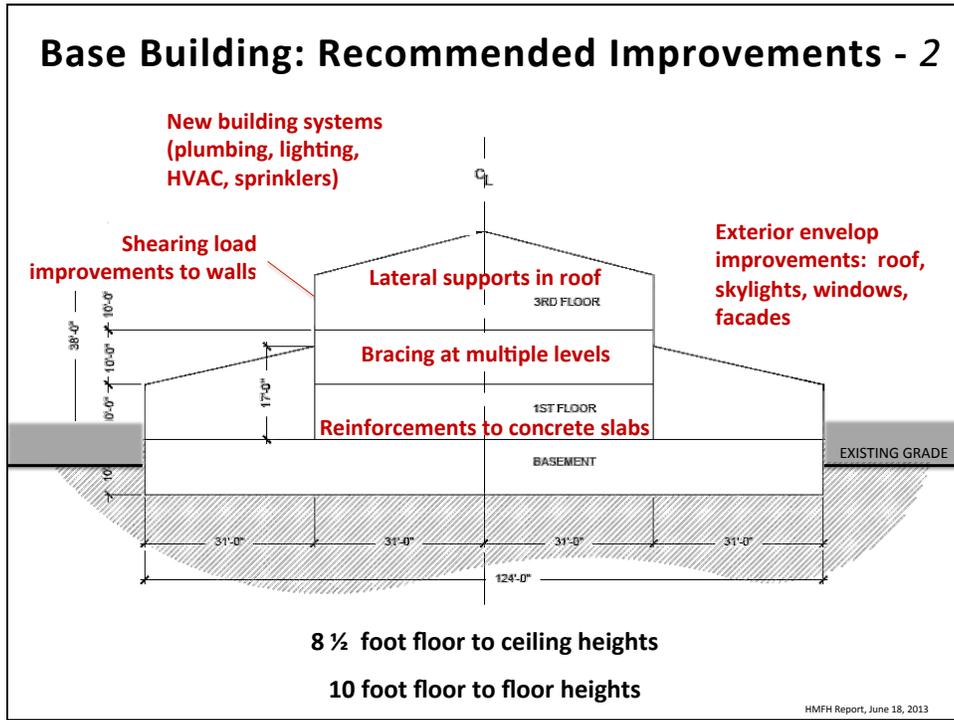
- Index cards
- Write down different questions that need clarifying:
  - financ
  - architecture/construction
  - governanc
  - legal
  - other
- We wil collec and respond:
  - this evening
  - o line / email



## Property Redevelopment

Base Building Improvements	Fit-Out / Finishes	Property Operations	Program Operations	Personal Property
Demolition Remediation Roof Exterior walls Access Utility systems Building core	Flooring Partitions Cabinets Closets Lighting  Kitchen equip. Sound equip. Risers/seats	Utilities Taxes Insurance Building mgmt. Repairs  (building program staff)	Staff Supplies Cleaning Communication	Equipment Desks Tables/chairs Other movable





### Base Building: Initial Work

- Demolish partitions, flooring & drop ceilings




- Expose structure and open floor plan
- Further testing for hazardous materials

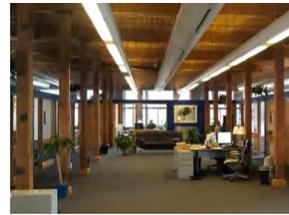
## Range of Uses: Fit-Out Costs



Performance @ \$300/sf



Early Childhood @ \$160/sf



Office @ \$100 t \$140



Retail @ \$120/sf



Maker Space @ \$40/sf



Existing Parking @ \$0/sf

*How can we finish spaces but maximize flexibility between uses . . . ?*

Source: Report to City Council, March 3, 2014; HMFH estimates, August 2014

## Property Redevelopment

Base Building Improvements	Fit-Out / Finishes	Property Operations	Program Operations	Personal Property
Demolition Remediation Roof Exterior walls Access Utility systems Building core	Flooring Partitions Cabinets Closets Lighting  Kitchen equip. Sound equip. Risers/seats	Utilities Taxes Insurance Building mgmt. Repairs  (building program staff)	Staff Supplies Cleaning Communication	Equipment Desks Tables/chairs Other movable
Initial and long term capital reserve	Update with each tenant	Ongoing	Ongoing with each tenant	Update with each tenant



ASSUMES TRIPLE NET



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## Foundry Building Real Estate Analysis

Cambridge Redevelopment Authority and City of Cambridge

October 29, 2014



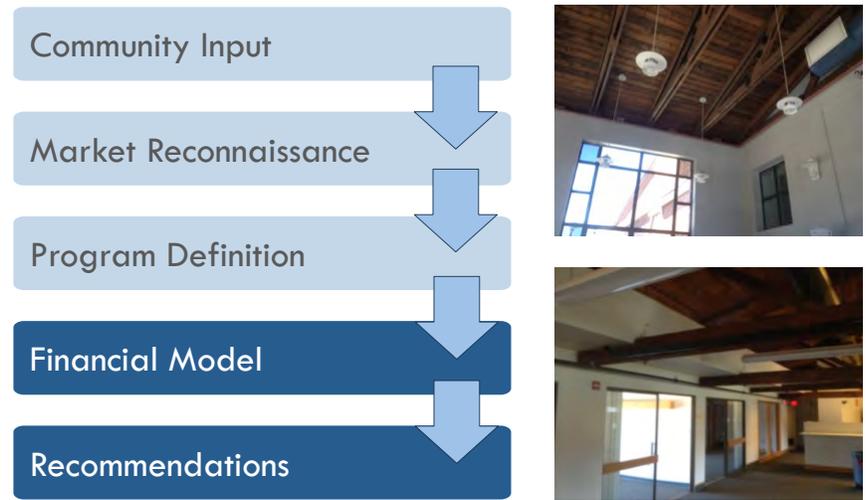
**HR&A is an industry leader in providing comprehensive real estate strategies to unlock value and create vibrant places.**



HR&A Advisors, Inc.

Foundry Building Real Estate Analysis | 22

HR&A was engaged to assess the financial feasibility of a continuum of use scenarios for the Foundry Building.



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Foundry Building Real Estate Analysis | 23

Four overarching principles guided HR&A's approach to the analysis.

- 1** Provide space for a dynamic and complementary mix of uses that support community aspirations
- 2** Ensure long-term financial sustainability and maintenance of the facility
- 3** Align public and private incentives by crafting an appropriate contractual agreement with private developer
- 4** Test balance of market rate and below market rate space necessary to achieve above goals

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Foundry Building Real Estate Analysis | 24

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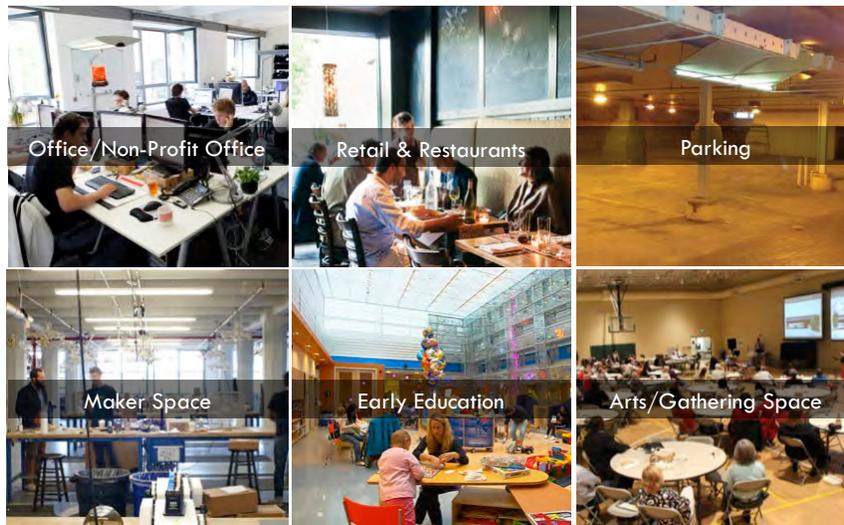
Several key assumptions underpinned HR&A's analysis.

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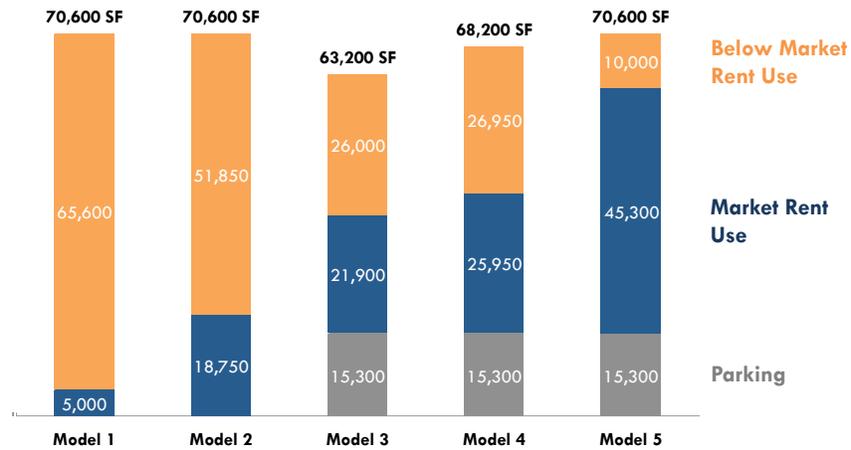
- Assumes a minimum of 10,000 SF for “community uses”
- Assumes \$6 million of City contribution for initial and future capital improvements
- Assumes annual rents from the developer
- Assumes 7.5% developer return cash on cost return
- Rents, costs, and other financial inputs based on local market information and analysis performed by architects/cost estimators engaged by the City/CRA

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A variety of types of potential uses were considered.



HR&A developed five models to test overarching principles against financial realities.



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The model is highly sensitive to assumptions around rents, development costs, and developer return.

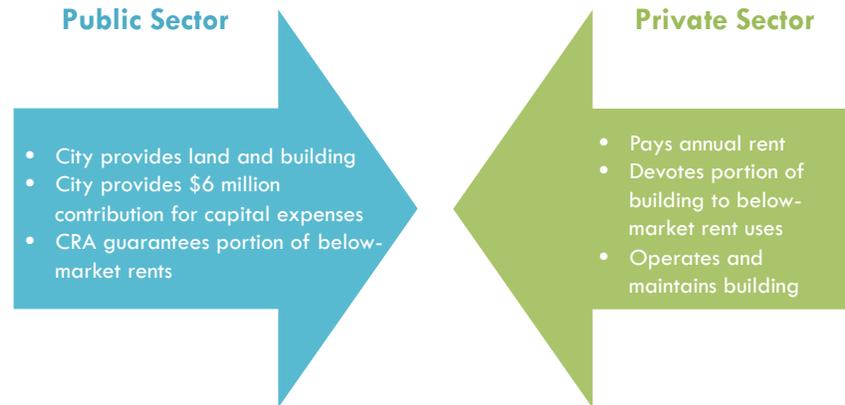
	Retail/ Rest.	Office	Non- Profit Office	Arts/ Gathering Space	Perform. Space	Early Education	Maker Space	Maker Space (Bsmt.)	Parking
Annual Rent PSF (Triplet Net)	\$25	\$40	\$10	\$5	\$5	\$10	\$12	\$12	\$7.50
Hard Construction Costs PSF	←—————→			\$162	—————→			\$93	\$0
Soft Construction Costs PSF	←—————→			\$41	—————→			\$23	\$0
Fit Out* Costs PSF	\$120	\$140	\$100	\$100	\$300	\$160	\$40	\$40	\$0

\* Build Out Cost is cost to fit out rentable space with fixed improvements. It does not include business or personal property of tenants.

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A feasible redevelopment program will balance the expectations of the public and private sectors and optimally align incentives.



Model 1 has a ~\$9.4 million financial gap.

Retail / Restaurant	5,000
Office	0
Non-profit Office	17,200
Maker Space	0
Maker Space (Basement)	15,300
Arts/Gathering Space	27,100
Early Education	6,000
Parking	0
<b>Total</b>	<b>70,600</b>

**\$(9.4) Million**  
Shortfall

**Unlikely to be Privately Financeable**

\* Assuming \$6 million City contribution and \$3.5 million present value of ground rent payments

Model 2 has a ~\$4.1 million financial gap.

Retail / Restaurant	2,500
Office	16,250
Non-profit Office	7,550
Maker Space	0
Maker Space (Basement)	15,300
Arts/Gathering Space	23,000
Early Education	6,000
Parking	0
<b>Total</b>	<b>70,600</b>



**\$(4.1) Million**  
Shortfall

**Unlikely to be  
Privately  
Financeable**

\* Assuming \$6 million City contribution and \$4.1 million present value of ground rent payments

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Model 3 has a ~\$0.8 million financial gap.

Retail / Restaurant	7,500
Office	14,400
Non-profit Office	7,000
Maker Space	4,000
Maker Space (Basement)	0
Arts/Gathering Space	15,000
Early Education	0
Parking	15,300
<b>Total</b>	<b>63,200</b>



**\$(0.8) Million**  
Shortfall

**Potentially  
Privately  
Financeable**

\* Assuming \$6 million City contribution and \$4.3 million present value of ground rent payments

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Model 4 has no financial gap and generates \$900,000 return in addition to ground rent.

Retail / Restaurant	2,500
Office	23,450
Non-profit Office	2,950
Maker Space	9,000
Maker Space (Basement)	0
Arts/Gathering Space	9,000
Early Education	6,000
Parking	15,300
<b>Total</b>	<b>68,200</b>



**\$900,000**  
Value Returned to City/CRA

**Potentially  
Privately  
Financeable**

\* Assuming \$6 million City contribution and \$5.1 million present value of ground rent payments

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Model 5 has no financial gap and generates \$7.2 million return in addition to ground rent.

Retail / Restaurant	0
Office	45,300
Non-profit Office	0
Maker Space	0
Maker Space (Basement)	0
Arts/Gathering Space	10,000
Early Education	0
Parking	15,300
<b>Total</b>	<b>70,600</b>



**\$7.2 Million**  
Value Returned to City/CRA

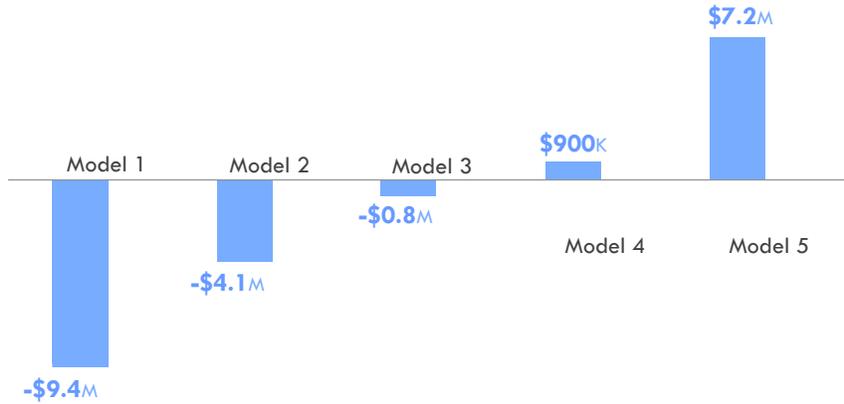
**Likely to be  
Privately  
Financeable**

\* Assuming \$6 million City contribution and \$5.9 million present value of ground rent payments

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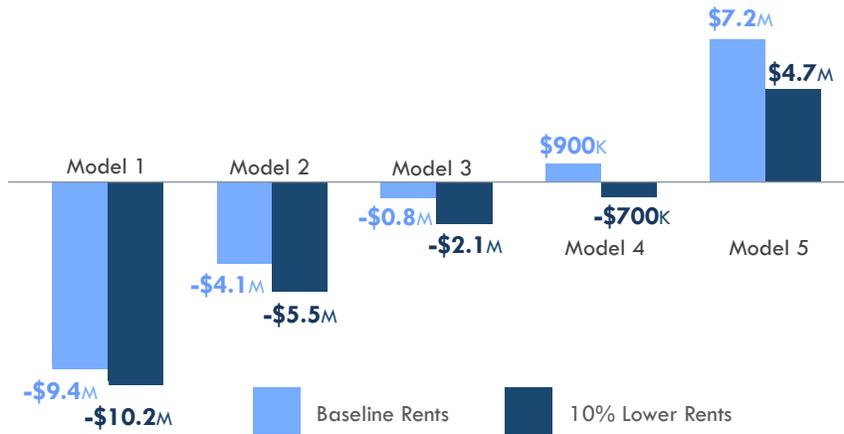
Models that incorporate more below market rent uses ultimately require more subsidy to pencil.



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Lower than expected rents can substantially impact development feasibility, making flexibility important.



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Key Findings & Next Steps

**KEY FINDINGS**

- Project is financially feasible and can be privately financed with a complementary mix of market and below-market uses
- Project can support 25,000+ sf of below-market uses
- RFQ/RFP process needs to allow for flexibility for ideas that have not yet been imagined or modeled

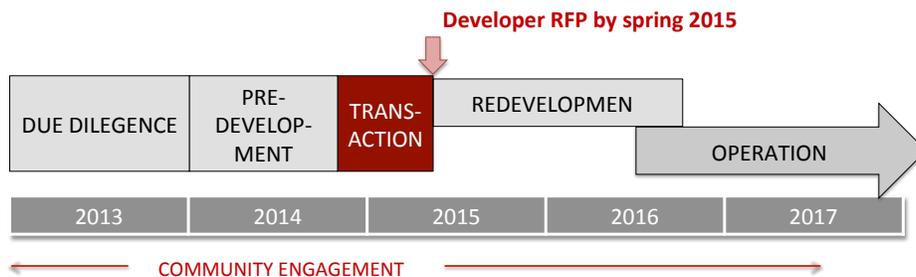
**NEXT STEPS**

- Release developer RFQ/RFP and solicit additional program ideas
- Conduct outreach to potential tenants
- Determine evaluation criteria for developer RFQ/RFP

**Development Process**

**Transaction Phase**

1. Demonstration Plan
2. Disposition Plan
3. Lease
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## Input

### FAQs fo Project

- Index cards
- Write down different questions that need clarifying:
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- We will **collect** and respond:
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## Discussion

### RFP Standard Evaluation Criteria

- Program concept
- Schedule
- Real estate experience/reputation
- Operations experience/reputation
- Capacity: staff and equity
- Project financing (other sources)

***Use Building Vision and Objectives to rank priorities. What's missing?***

***Outline a set of measurable evaluation criteria to review projects.***



HR&A modeled five development alternatives for the Foundry Building.

Use	Model 1	Model 2	Model 3	Model 4	Model 5
Retail / Restaurant	5,000	2,500	7,500	2,500	0
Office	0	16,250	14,400	23,450	45,300
Non-profit Office	17,200	7,550	7,000	2,950	0
Maker Space	15,300	15,300	4,000	9,000	0
Arts / Community	27,100	23,000	13,000	9,000	10,000
Early Education	6,000	6,000	0	6,000	0
Performance Space	0	0	2,000	0	0
<u>Parking</u>	<u>0</u>	<u>0</u>	<u>15,300</u>	<u>15,300</u>	<u>15,300</u>
<b>Total</b>	<b>70,600</b>	<b>70,600</b>	<b>63,200</b>	<b>68,200</b>	<b>70,600</b>

Appendix: Model Inputs

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Other key assumptions that do not vary by use are influential in the model.

Assumption	Value
Developer Cash on Cost Return	7.5%
Debt/Equity	70%/30%
Sub-Tenant Lease Length	10 years
Leasing Commission	6%
Historic Tax Credits	Assumed to not be available
Cost of Public Bid / Labor	Assumed to inflate costs b 25%

Appendix: Model Inputs

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Several overarching principles and considerations guided HR&A's analysis.

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- 55,300 sf of Foundry Building available for use.
- At least 10,000 sf of building dedicated to community uses.
- 15,300 sf parking deck potentially convertible to other uses.
- Public sector construction wages assumed to apply
- Model is designed to measure project feasibility from developer's perspective. Its primary output is residual value, representing present value of building lease.
- City contribution of up to \$6 million potentially available to fill financial gap.
- CRA contribution potentially available to some financial gap.

Appendix: Model Inputs

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