Greenwich Train Station Development Deal
Questions Raised at BET Budget Committee
July 17, 2019

<u>DAVID WEISBROD'S HANDOUT</u>

1. The value of the Town's air rights. The value of the Town's air rights is derived from the value of the existing office structures. Valuation determined simply from the Town's property assessment records (the methodology used by the as per the external appraisers) may not incorporate important factors such as those cited below. It is requested that the following information be provided to enable a better understanding of the property's market value:

Cash flow of the office buildings (for calendar years 2017, 2018 and six months 2019 broken down by:

- **rent per square foot paid by existing tenants**
- **lease maturities by tenant**
- **square feet of vacant space (if any)**
- **identity of existing tenants**
- **annual operating expenses of each office building**

Current market rent per square foot for office space at the rail hub assuming property features equivalent to Greenwich Plaza

Current market rent per square foot for office space at the rail hub assuming building is fitted with up-to-date amenities

The value of the Greenwich Plaza office buildings assuming stabilized leases at market rent, based on factors as per above and assuming no air right lease encumbrance

Each year, Greenwich Plaza certifies and submits to the Assessor a full accounting of all property income and expenses, as well as a rent schedule. Connecticut General Statutes 12-63c states that information submitted to the Assessor disclosing rental-related income and operating expenses is exempt from disclosure.

2. **Enhanced value creation upon Town approval of zoning changes. Proposed expansionary zoning has been submitted for approval to the Planning and Zoning Commission, which will meet on July 30 to review. Zoning changes would consist in part of:**
   - **Total gross floor area of 54,710sf vs. 47,376sf currently allowed by zoning**
   - **Floor Area Ratio (FAR) of 0.6583 vs. 0.57 currently allowed by zoning**
   - **Total building coverage 62.8% vs existing legal non conforming 46.3%**

   What is the enhanced value creation that would accrue to the developer if these zoning proposals are adopted, i.e. what is the value of the proposed retail space once fully developed and leased?

   The proposed expansionary zoning has no effect on retail. Greenwich Plaza did not request (nor does it need) the proposed zoning changes to relocate and upgrade its retail on Railroad Avenue. The expansionary zoning is necessary only to allow the development of the proposed new, larger cinema in a new location on the second floor on the west side of the block, which will contain fewer total seats than the existing cinema. Note that the language of the proposed zoning text amendment specifically ties the enhanced zoning to Cinema uses: "Theatre or cinema uses…are recognized as having unique indoor requirements necessary for public assembly…as such…[P&Z] may permit a building coverage of up to 65% and authorize a floor area ratio of up to 0.5 for Theatre or Cinema uses."

3. **Proposed Partnership structure. In consideration for the Town's sale of its air rights, should we receive cash as opposed to accepting the developer's equity contribution to a project where the developer owns 100% of the equity and the Town will have no financial stake?**

   The Town Administration chose to leverage an existing Town asset for tangible public benefit. This approach was preferable to cash that would result in a one-time deposit to the General Fund with an underdetermined future appropriation. It is the opinion of the Town Administration that the public will receive a recurring, sustainable benefit and greater enhancement to the Town from these tangible benefits versus cash. The value of the public benefit is further increased because all future maintenance requirements of the public benefits are the sole expense and responsibility of Greenwich Plaza.

   Regarding the financial stake, the Town has "financial stake", through taxes, in every property in Town. Greenwich Plaza is investing 100% of the project expenses and is assuming 100% of the risk. The Town will only convey air rights after 100% of the public benefit is constructed and approved.

   If the Town would like cash instead of the tangible public benefits, this concept can be discussed with Greenwich Plaza, Inc.

3a What is the full value of the project (retail plus office) to the developer upon stabilization?

The value of the project will depend entirely upon what market rents and cap rates are three/four years from now when construction is anticipated to be completed. The value will depend on whether, and to what extent, rents increase over the rents charged today for similar uses.

4. Have alternative partnership structures been considered. The Town does not appear to benefit from any potential cash flow upside in the proposed development itself; other private-public partnership arrangements have been structured to enable municipalities to accrue such benefits; have such alternative arrangements been considered?

See response to question 3.

5. Previous air rights appraisals. Who performed the redetermination appraisal in 2017; did both the developer and the Town do appraisals and if so, how was value determined? Please provide us with copies of these appraisals.

For purposes of setting the rent (which is a different methodology than valuing the air rights, see question 6), the Town engaged CBRE to perform an appraisal to redetermine the rent payable under the air rights lease as of 2017. Greenwich Plaza engaged Cushman & Wakefield to perform its appraisal. CBRE determined the rent to be $240,062.50 per year. Cushman & Wakefield determined the rent to be $201,250.00 per year. In order to avoid the expense and uncertainty of obtaining a third appraisal, the Town and Greenwich Plaza agreed to a compromised rent amount of $220,656.25 per year. Please see response to question 43 and 44 for copies of appraisals.

6. CBRE and Cushman Appraisals. After accounting for Tract One not being included in the redetermination appraisal, how do we reconcile the value of $3.843million in the 2017 appraisal with the CBRE value of $9.9million?

The air rights lease (Section 22) provides that for purposes of determining the rent payable under the lease, the value of Tract 1, and the value of the improvements within the air rights, are excluded. This limitation, however, only applies to the rent determination pursuant to the air rights lease. The air rights lease does not govern the appraisal of the present value of the air rights and the improvements that will revert to the Town upon the expiration of the air rights lease. Accordingly, CBRE's $9.9MM and Cushman & Wakefield's $7.1MM appraisals both include the value of the improvements within the air rights above Tract 1, Tract 2, and Tract 3 that will revert to the Town upon the expiration of the lease.

6a. The 10% discount rate used in the appraisal seems very high for The Greenwich Plaza property which is located in a prime spot benefitting so directly from proximity to the Greenwich rail station.

Several factors are considered in determining the applicable discount rate. Such factors include the length of the remaining lease term, the condition of the improvements and the demographic and economic trends of the immediate area, and the level of confidence an investor would have in the projected cash flow stream. Here, there is significant uncertainty regarding the future status of the property at the expiration of the lease. Notwithstanding this uncertainty, CBRE used a discount rate of 10%, which CBRE indicated is in the middle of the range of customary discount rates. Similarly, Cushman & Wakefield applied a discount rate of 11.5% to the reversionary value of the air rights and a 6% discount rate to the annual rent cash flows under the lease. Please see page 103 of the Draft Redevelopment Agreement for greater analysis of discount rate by the Town's commissioned appraisal from CBRE.

6b. The 2.5% growth factor applied to the property's appreciation is not understandable without knowing the current lease terms, vacancy rate, etc.

The 2.5% growth factor is not property specific. It is an assumed growth rate, and is toward the higher end of published market growth rates as indicated in CBRE's appraisal (see page 102) of the Draft Redevelopment Agreement for greater analysis of growth factor.

7. Rental payments by Town on Commuter Lot "A". What is the rationale for the Town continuing to pay 50% of the rental receipts on Commuter Lot "A" in the context of the developer providing the Town a perpetual easement; whereas the termination of the air rights lease provides no mirroring perpetual rental payments by the developer to the Town?

The sharing of the rental income reflects the fact that the Town will continue to use a portion of Greenwich Plaza's property to operate the commuter lot. The sharing of rental income does not change as a result of this proposed project and transaction. The conveyance of the Air Rights to Greenwich Plaza is in exchange for the public benefit improvements.

DETAILS OF DEAL

8. Want better understanding of valuation and cash flows before and after transaction (chart).

Fiscal Year	Air Rights Lease	Commuter Parking Lot Revenue	Property Assessment	Grand List
19-20	$ 220,656	No Change	No Change	10/1/18
20-21	$ 220,656	No Change	No Change	10/1/19
21-22	$ 220,656	No Change	Revaluation	10/1/20
22-23	$ 220,656	Defray Expenses	No Change	10/1/21
23-24	Hold Harmless	No Change	Impairment removed	10/1/22
24-25	Hold Harmless	No Change	No Change	10/1/23
25-26	Hold Harmless	No Change	No Change	10/1/24
26-27	Hold Harmless	No Change	Revaluation	10/1/25
27-28	Hold Harmless	No Change	No Change	10/1/26
28-29	$ -	No Change	No Change	10/1/27

Assumptions:

1. Construction complete Summer 2022
2. Impairment removed, GPI assessment increases
3. Commuter parking lot revenue, upon completion GPI will increase from $500 to 5% of annual receipts to help defray expenses related to managing lot.

9. What other deal structures were considered?

See response to question 3.

10. Is deal contingent on P&Z approval of presented plans? If so, what is your expectation if P&Z doesn't grant zoning changes or imposes other requirements?

Yes, the deal is contingent upon Greenwich Plaza, Inc. (GPI) completing the P&Z process and obtaining final site plan approval. If P&Z and GPI do not come to consensus on how to proceed, the buildings will remain as they are except that the existing theater building will probably need to be demolished in the next few years.

11. Lot A – how does open access for commuters impact GPI ability to attract tenants; does easement permit GPI to limit access/change entry; what is rationale for revenue sharing arrangement (is it a lease payment for use of their parcel)?, can the lot be deed to Town for no additional payment or revenue sharing agreement?; are residents with Lot A parking permits verified as actual residents rather than workers commuting into town?; do any tenants' employees use Lot A for parking?

The commuter lot on A-Level does not impact GPI's ability to attract tenants; GPI's tenants park on B and C Levels. The proposed easement does not permit GPI to limit access/change entry to A-Level. The rationale for the revenue sharing arrangement is that each party gets the percentage of revenues obtained from parking spaces on the land it owns. The Town administers A-Level and all A-Level parking permits are verified as actual residents. No tenant employees use Lot A for parking.

12. Is Town's easement to Lot A protected if GPI sells its assets?

Yes. Please see Exhibit I, Municipal Lot Easement of the Greenwich Transportation Center Redevelopment Agreement. Paragraph 12 of Easement reads "This Easement and the rights and obligations herein contained shall run with the land and be binding upon the Grantor and the Grantor's successors and assigns."

13. What is the size of the park (length/width)?

The preliminary plans submitted to P&Z show a 3,794 SF park. It is not a perfect rectangle, but the approximate dimensions are 70 feet in depth by 54 feet in width.

14. Deal equates to two independent transactions -- a capital lease and a transaction. BET needs to understand reporting and impact on taxpayers; what is the GASB accounting for the capital lease. Very concerned about transferring value from one parcel to another; may sets a precedent.

Town's Comptroller Response – the Finance Department has embarked on a major project to become compliant with GASB 87: Leases. The reporting period for this statement is for the period starting July 1, 2020. The standards that apply today for lease accounting will be changed. Substantially all leases that are longer than one-year will be treated as Capital Leases. Short-term Leases will continue to be reported as Operating Leases. There are exceptions for "Investment Assets (Rental Property) and Intangible Assets" that are currently being reviewed with our outside auditors. The Lease Liability will be measured at the PRESENT VALUE of the future payments or receipts, depending on who is the lessor or lessee. Future payments, whether from the lessor or lessee, must be discounted using an interest rate. If an interest rate is undetermined, the incremental borrowing rate (an estimate or the rate charged for borrowing like goods for the same term) should be used. Remeasurement should take place each fiscal year if there are changes to the term of the lease. For example, in this case, if the annual payments increase. If a remeasurement is required, there is a possibility that the discount rate may need to be changed if there is a change in the lease term or the likelihood of exercising purchase has changed. Under current conditions, capital lease liabilities are not recognized on the corresponding fund's general ledger and financial statements and lease payments are recognized as they are paid or received. Currently, the lease agreement with Greenwich Plaza Inc. is recognized in the Parking Fund, a Proprietary Fund. Regarding the GASB accounting question that will take effect July 1, 2020, fund accounting entities' capital lease liabilities will be recognized in the Town's CAFR in a fund statement to government-wide reconciliation as follows:

- Capital lease liabilities will be added to the government-wide financial statements. In this case, they will be under the "Business-type Activities" section since the lease will reside in the Parking Fund, or a Proprietary Fund.
- Payments of capital lease principal are eliminated from the statement of activities.
- The capital lease liabilities are also summarized in the notes to the CAFR.
- The related capital assets are also added to the government-wide statements. (it is unclear how the "air rights" will be valued and if they would be included in our fixed assets overall. See previous comments regarding a possible exception for intangible assets). This needs to be resolved with the outside auditors, RSM US LLP.

15. Why use different methodologies for valuation of air rights for purposes of calculating the lease payments vs for a sale?

See response to question 6.

VALUATION

16. Value is being created for both the Town and GPI. Need to confirm that the Town is getting its fair share of the value.

Agreed.

17. The valuation should encompass what is possible on the site.

The appraisals of the air rights attached to the Redevelopment Agreement both encompass what is possible on the site. Greenwich Plaza's current office buildings "max out" the site under existing zoning. Accordingly, conveyance of the air rights does not provide any additional expansion ability to Greenwich Plaza. Also, see response to questions 22 and 23.

18. What are the methods for calculating the value of the public benefit? Why is a percentage of construction costs the method selected? Value of the public benefit of station/park also benefits GPI.

See Section 4.2 of the Redevelopment Agreement. The Town will engage a construction consultant to audit the cost of constructing the public benefits. Accordingly, the actual construction costs of the public benefits constitute the minimum benefit to the Town. The long-term value of the public benefits is actually much higher because GPI has committed to maintaining the public benefits in perpetuity, saving the Town from having to budget any annual maintenance costs. Moreover, a successful development project will increase the value of the entire area (not just part owned by GPI) and the Town will benefit from that economic development through a higher Grand List. None of the public benefits create revenue for GPI.

19. Air rights are valued at today's values, but the land value is included as of 2037/2057.

The air rights appraisals attached to the Redevelopment Agreement provide a valuation of the air rights as of September 21, 2018. No land is being transferred, sold, or otherwise transacted. The value of the air rights is the sum of the present value of all rental payment through end of the lease term and the present value of the Town's reversionary interest at the end of the lease term.

20. $9.9 million valuation for air rights, when calculated by acreage or square footage, is lower than the value of current residential grand list.

Residential and commercial properties have different valuation methods.

21. Town is committing to use Lot A for a municipal lot. If it stops, then the Town has given up its air rights for no tangible benefit (only benefit of using a new station, park).

See response to question 7.

<u>FUTURE DEVELOPMENT</u>

22. Are there further growth/expansion opportunities on south side parcels? Has GPI identified plans for the south side development?

Other than the proposed train station on the south side of the train tracks included in the P&Z submission, there are no other plans for any development on the south side. Additionally, the south side is currently “maxed out” under existing zoning, nothing additional can be built there, and GPI has no intention of seeking any further development on the south side.

23. What development opportunities would be available on site once GPI has unobstructed rights to development on parcels 2 and 4? Can GPI sell the development on parcel 2 and 4 (including the use of the air rights in perpetuity).

There are no development opportunities on parcels 2 and 4. As indicated in response to question 22, the south side is “maxed out” and nothing additional can be built there. Yes, in theory GPI could sell the development on parcel 2 and 4 (including the use of the air rights in perpetuity), but the new owner would be subject to the same restrictions, the property would still be “maxed out” and the new owner would not have any development opportunities either.

24. How does this transaction fit with POCD objectives?

As it relates to the 2009 Plan of Conservation and Development (POCD) the proposed improvements and use specifically address Greenwich's goals of preserving and maintaining the viability of Downtown and promoting transit.

The proposed improvements also address the Draft 2019 POCD objectives:

- *Objective 4.2 Encourage sustainability initiatives and infrastructure to reduce negative impacts on the environment.*
- *Objective 4.5 Enhance and promote accessibility and connectivity between parks, open spaces, and public access areas in Greenwich.*
- *Objective 5.4 Continue to strengthen Downtown as the Central Business District of Greenwich and the core of the community by creating and implementing improvements to the public realm to improve vibrancy, parking, and recreation spaces.*
- *Objective 5.7 Decrease traffic congestion*
- *Objective 5.8 Increase bicycle infrastructure*

25. How will transfer of air rights in perpetuity impact the FAR available for Greenwich Plaza for tracts 1, 3 and 4. Is the south side development maxed out under current zoning regulations? Should we/can we limit development on the south parcels to the current zoning rules in perpetuity?

See answers to questions 17, 22, and 23.

26. What is retail square footage and parking space count before and after transaction?

The first document in the publicly available P&Z submission is a 21-page narrative letter, which summarizes and explains the entire proposed redevelopment. Pages 8-10 of that letter contain detailed charts of all square footage and parking space counts. The document can be found here.

27. Impact on traffic and drop-off/pick-up not detailed. Can improvements to the north and south side of Railroad Ave be addressed? Do plans include bike racks, better bus drop-off/pick-up.

The P&Z submission includes an approximately 150-page Traffic Impact Study prepared by the firm of Kimley-Horn and Associates, Inc. Improvements to the north and south side of Railroad Avenue are addressed. The plans include bike racks on the south side of the tracks next to the platform. The plans include better bus and shuttle drop-off/pick-up.

28. Town would benefit from more parking near the train station. Can GPI's planned development address this concern.

The proposed plan submitted to P&Z results in a net gain of 18 parking spaces on or adjoining Railroad Avenue.

OTHER ISSUES

29. Will the Parking Fund be self-sustaining without the air rights lease payments?

The Parking Fund is currently not self-sustaining. For the last 18 fiscal years the Parking Fund has budgeted an operating deficit (expenses exceeding revenue). Parking Fund Balance as well as General Fund contributions to the Parking Fund have balanced the fund. Projecting from FY2020, using 2% growth in expenses and revenue and planned capital, shows fund balance to be negative in FY2022.

Based on the projected construction completion of summer of 2022 and the five-year hold harmless provision, there can be no possible negative impact on the Town budget as a result of the absence of the air rights lease payment until FY2027.

30. Concern about impact on commuters during construction

GPI and its construction company will coordinate with ConnDOT and MetroNorth to create a construction phasing plan to minimize detrimental impact to commuters during construction. In addition, the Town will notify commuter parking permit holders of construction plans.

DOCUMENTS REQUESTS

31. The audited financial statements for Ashforth Company, Greenwich Plaza, Inc. and AP Construction

These are private records of private companies that contain protected, non-public information.

32. The auditor's accounting for the lease

See response to question 14.

33. The ownership breakout of GPI

Greenwich Plaza Inc. is a wholly owned subsidiary of Ashforth Properties, Inc., a Connecticut corporation.

34. Title Report for "permitted encumbrances"

The May 21, 2019 Title Report can be here.

35. The construction budget

The following is based on the current "design" level of drawings and plans:

$10,000,000	New Northside Train Station
$2,700,000	New Southside Train Station & Dropoff
$2,300,000	New Park and Staircase to RR Platform
$6,900,000	Northside Sitework & New, Covered Parking
$15,600,000	New Luxury Movie Theaters
$7,500,000	Renovated and New Retail
$45,000,000	**Total**

Prior to executing the Redevelopment Agreement, the Town will hire a construction estimator to review this budget (see question 40 below).

36. Property & Topographic Survey

June 18, 2019 Survey of Property by Redniss & Mead can be found here.

37. Deed from NY New Haven Railroad to Greenwich Plaza dated July 14, 1965

Deed can be found here.

38. Property Overview of 1970 Construction, Parcels 1-4

Property layout can be found here.

39. Letter: Metro-North to Town and GPI, maintenance of Greenwich Railroad Station

May 12, 1987 letter can be found here.

40. Letter: GPI agreement to reimburse Town for fees & expense related to estimate of costs for Public Benefit Improvements

June 28, 2019 letter can be found here.

41. Letter: Agreement Memorializing Rent Determination 1997-2017

July 6, 2000 letter can be found here.

41a. Appraisals for Air Right Rent – Tract II & III, 1997-2017

Flanagan Associates Appraisal Report can be found here.
Jerome Haims Realty's November 15, 1999 Appraisal Report can be found here.

42. Letter: Agreement Memorializing Rent Determination 2017-2037

June 28, 2019 letter can be found here.

43. Town's Appraisal for Air Rights Rent – Tract II & III

CBRE's July 2, 2019 Appraisal Report can be found here.

44. GPI Appraisal for Air Rights Rent – Tract II & III

Cushman & Wakefiled's December 19, 2018 Appraisal Report can be found here.