

**DEVELOPING IN
SMALL TOWNS**
WAUKESHAW DEVELOPMENT, INC.
JULY 2016



INTRODUCTION

Waukeshaw will have completed more than \$65M in historic projects throughout Virginia and NC by 2016.

- All market-rate offerings when complete
- All done under the guidelines of the:
 - Department of Historic Resources
 - National Park Service

THE CHALLENGES OF SMALL BUILDINGS IN SMALL TOWNS

Right out of the gate, the odds are against small town development (sometimes for reasons you wouldn't expect):

- Few / no market rate rent comps
- Hard to monetize all the SF that needs to be rehabbed
- Onerous DHR/NPS adaptive reuse parameters (walls, façade, ornate detail)
- Puzzled appraisers in CYA mode
 - Comps non-existent, or difficult to 'normalize' (this equity is important)
 - "External Obsolescence" –you are penalized for being where you are
 - Cap Rates are unreasonably high (small number, huge mover)
- **Skeptical lenders**
- Community bankers do not understand tax credits as equity
- Safe Harbor regs make Fed credits cost prohibitive for small deals
- Limited knowledge in the local developer pool (tax credits are hard)
- Limited 'Exit Opportunities' – Non-recourse financing options, institutional Buyers
- Enterprise Zone grant pool underfunded
- Out of synch valuations – existing owners don't understand actual value
- Ordinances counter to progress – tap fees, water authorities, tax valuation
- Undercapitalized, unsophisticated tenants

**“EXTERNAL OBSOLESCENCE”
THE PENALTY FOR DREAMING BIG**

All things being equal, simple market perception can be a deal killer
This is what location does to valuation (read: Loans):

NOI/CAP RATE = VALUE. LOAN = 80% of VALUE (LTV)

Scenario 1 – Large Market (using arbitrary NOI):
\$50,000 NET ANN INCOME/6.25%CAP RATE = \$800,000
\$800,000 X 80% = Loan of \$640K available to developer

Scenario 2 – Small Town
\$50,000 NOI - 15% EXTERNAL OBSOLESCENCE FACTOR =
\$42,500 NOI (Appraised)/8% CAP RATE = \$531,000
\$531,000 X 80% LTV = \$425,000

Just being in certain zip codes works against you, even if your financial model works!

**BUYING IS EASY,
DEVELOPING IS HARD**

Cheap property attracts all types, but pitfalls abound:

- Many buildings have negative valuation (asbestos, income approach skewed)
- DHR/NPS parameters can be illogical
- Environmental issues
- No parking
- Hard to syndicate credits
- Misunderstanding / lack of knowledge of Tax Credit program
- Hear all the time, confusing tax credits with tax abatement, or ARB with DHR

**TAX CREDITS ARE THE
SAME WAY**

IT CAN BE EASY TO GET THEM . . .

Part 1 – proves the property is eligible.

- Smart towns are proactive
- Have solid register listings
- Pursue district expansions

Part 2 – proves your development plan is eligible.

- Know what counts and what does not
- Know what you can and can't do

Part 3 – Proves you you got the credits

- Know the "rules" – FIS dates, deadlines, etc
- Know the TAX CONSEQUENCES

TAX CREDITS ARE THE SAME WAY

BUT DIFFICULT TO MONETIZE THEM!

- Who 'buys' tax credits??
- What do they 'sell' for?
- Who uses them? And for what?
- What are the tax consequences? Disguised sales, etc
- What is the recapture period
- What are the rules? 50% rule, long leases, PIS dates, sunsets
- What is Safe Harbor – must have expertise
- What does it all cost??

SYNDICATING TAX CREDITS IS EXPENSIVE

High net worth individuals (barring AMT)
Corporations

Due Diligence is necessary – and costs lots of MONEY
Experience is Necessary – 5 year sunset. Why should an investor trust a new developer?

- Brokers often drive market, administer due diligence
- Lawyers – legal for seller, buyer for state and Fed – all at \$400/hr?!
- Lawyers – legal opinion. More lawyers! Teams of lawyers!
- Accountants – opinions, projections

This can get very expensive. Small deals stop making sense for big buyers.

HOW TO GET IT DONE

- Leverage existing data in similar markets
 - We use appraisals against appraisers
 - Tell story of success in other similar markets
- Seek out-of-market, or sympathetic lenders (VHDA, VCC, LISC, HUD*)
- Lever whatever strengths exist for ideas and branding ops
- Create equity through partnerships with municipality
 - Proactive Parking plan, agreements
 - Brick and mortar equity (building for \$1)
 - Grant and lending conduits
 - Backstops for commercial leases
 - Special Structures (long term leases, for IRF for ex)
 - EDA financing – all/partial
 - RE Abatements

WE MUST SHOW AND PROVE IT CAN BE DONE

SAMPLE PROJECTS . . .

JAMES E. MALLONEE H.S.
HOPEWELL, VA



HOPEWELL LOFTS
HOPEWELL, VA



- \$6M Investment
- 50 Market-Rate Apartments
- Retained auditorium for public use
- Completed in 2010

INTERIORS ...



**COMBINED WAREHOUSE SITE
DOWNTOWN PETERSBURG, VA**



**MAYTON TRANSFER LOFTS
PETERSBURG, VA**

- 220 Market-Rate Apartments
- \$26M Total Investment
- 95% Occupancy Rate
- Completed in 2011



PLANTATION TOBACCO BUILDING
BLACKSTONE, VA

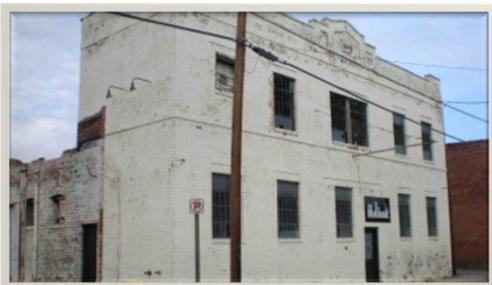


BLACKSTONE LOFTS
BLACKSTONE, VA



- 25 Market-Rate Apartments
- \$2.5M Total Investment
- 95% Occupancy
- Completed in 2011

SOUTHERN EXPRESS BUILDING
PETERSBURG, VA



TODAY: DEMOLITION COFFEE CO



SAME VIEW FROM WEST



**SOUTHERN EXPRESS LOFTS
PETERSBURG, VA**



- Coffee Shop & 8 Market-Rate Apartments
- \$1M Total Investment
- Completed in 2009

THE NASH – NEAR COLLAPSE
PETERSBURG, VA



THE NASH (AFTER)
PETERSBURG, VA



CASE STUDY: THE HENRY HOTEL
\$3.2M – FROM VARIOUS FUNDING SOURCES:

- Historic Tax Credits – State and Federal
- DHCD/Main Street Program
- Enterprise Zone Real Property Grant
- Bank Financing
- IRF GRANT
- Other city incentives



**HENRY HOTEL
ASSESSMENT**

- Asbestos in pipes and tiles
- Lead-based paint suspected
- Comprehensive code-compliant renovation
- Preserving and highlighting historic features
- Rehabilitating and restoring the exterior
- Four commercial spaces on the ground floor
- 1 ADA unit on the ground floor
- 24 studio and one-bedroom units on upper floors

COMPLETION- JUNE 2014



**WHIRLIGIG STATION
WILSON NC \$11M, MIXED USE**



**VOLLIS SIMPSON - WHIRLIGIG
PARK/VISITOR CENTER**



**HOPEWELL SEAPLANE BASE
A NEW 'AIRPORT' ON THE WATER**



**TRAPEZIUM BREWING CO
PETERSBURG VA - \$4.8M**



TRAPEZIUM OPENS JUNE 2016



STUDIO 219
PETERSBURG VA - \$9.8M MIXED USE

Film Credits are not always a driving factor . . .



**HOSPITALITY DEVELOPMENT AS A
DYNAMIC TOOL FOR DOWNTOWN**



DHCD'S VIRGINIA MAIN STREET 2016 CONFERENCE
July 11 - 13, 2016

CREATIVE *Boutique*
HOTELS

CBH is a Joint Venture between:



Kimberly Christner
President and CEO
Cornerstone Hospitality



CORNERSTONE | *hospitality*



Hal Craddock
Retired President/Partner
Craddock Cunningham
Architectural Partners



CRADDOCK CUNNINGHAM
ARCHITECTURAL PARTNERS
ARCHITECTURE · PLANNING · INTERIOR DESIGN



Todd Morgan, MBA
President
MB Contractors, Inc



MB
CONTRACTORS

CREATIVE *Boutique*
HOTELS

**HOTEL MANAGEMENT +
DESIGN/VISION +
CONSTRUCTION/DEVELOPMENT**

**Leadership team ... over 75
years of relevant industry
experience**

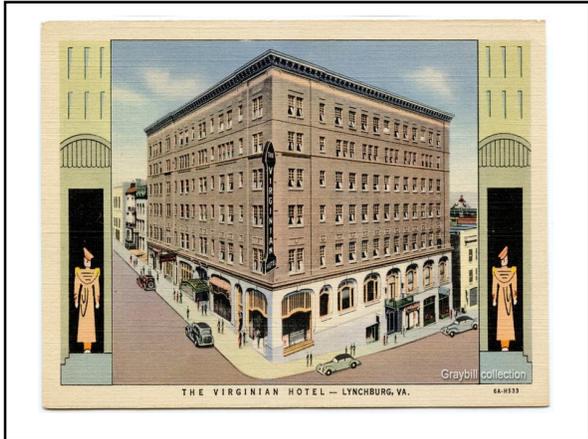
**Over 215 years of industry
leadership**

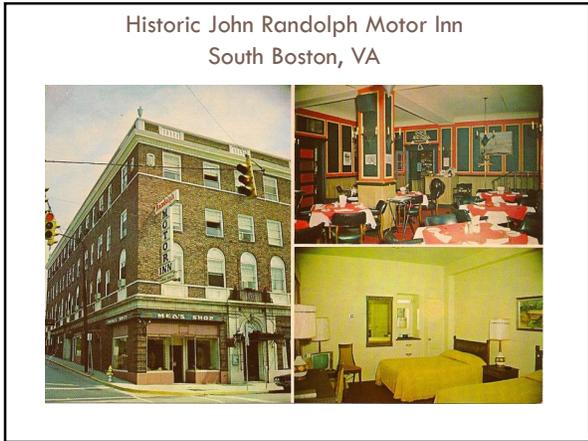
CREATIVE *Boutique*
HOTELS

**HISTORIC ROLE OF HOSPITALITY IN GIVING
VIBRANCY TO DOWNTOWNS**



The
VIRGINIAN
HOTEL
LYNCHBURG,
VIRGINIA
EUROPEAN
MODERN
FIREPROOF
SAME MANAGEMENT
HOTEL FREDERICK,
HUNTINGTON,
W. VA.
FAIRMONT HOTEL,
FAIRMONT,
W. VA.





John Randolph Hotel, South Boston, VA

- Four-story Colonial Revival Building
- Ground Breaking May 3, 1928, at the site of the former Garland Hotel
- “Absolutely a Fire Proof Building” (the Garland Hotel made of wood had burned twice on the site)
- Opening night November 24, 1928 the Princess Theatre Orchestra serenaded stockholders and invited guests while they sat for a buffet dinner.
- The New Hotel included 54 rooms & 25 private baths

Rise of the Auto Oriented Motels & Restaurants Chains

CONSISTENCY
OF
IMAGE & SERVICE



Comeback of Boutiques, Unique Experiential Travel & "Story Telling"



HISTORIC/EXISTING vs NEW - URBAN vs SUBURBAN



2000 SASAKI \$250K MASTERPLAN VISION
\$1 MILLION/YEAR FOR 20 YEARS

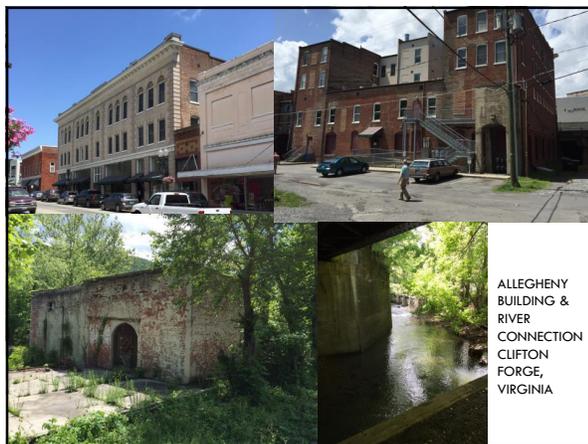














CREATIVE Boutique HOTELS

EVALUATION & STUDY PHASE QUESTIONS

1. IS THERE A VIABLE MARKET NOW OR IN THE FUTURE FOR HOSPITALITY DEVELOPMENT ?
2. IS A UNIQUE & INTERESTING BUILDING, BUILDINGS, OR PROPERTY AVAILABLE & "CONTROLLABLE" FOR DEVELOPMENT TO MEET THE MARKET DEMAND ?
3. CAN THE DESIGN MEET THE MINIMUM DEMAND & TELL A UNIQUE STORY ?
4. CAN A FEASIBLE FINANCIAL & INVESTMENT PROFORMA BE DEVELOPED ?
5. IS THERE AN INDIVIDUAL OR GROUP WHO ARE ENTHUSIASTIC, "BUCK-STOPS-HERE" SUPPORTERS OF THE PROJECT

CREATIVE Boutique HOTELS

WHAT WE LOOK FOR.....WHAT ATTRACTS US

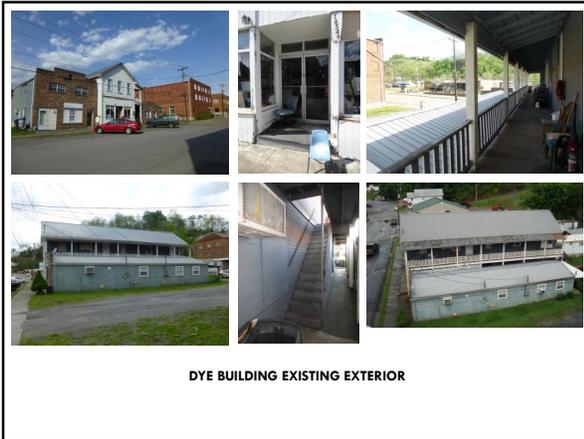
1. HARMONY
2. LEADERSHIP
3. VISION, PLANNING, IMPLEMENTATION
4. FINANCIAL INCENTIVES

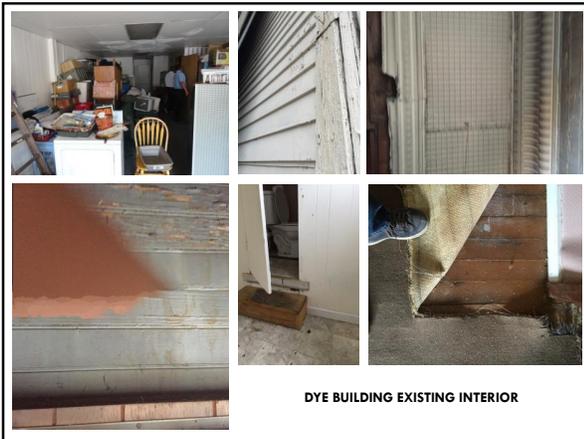
ARCHITECTURAL

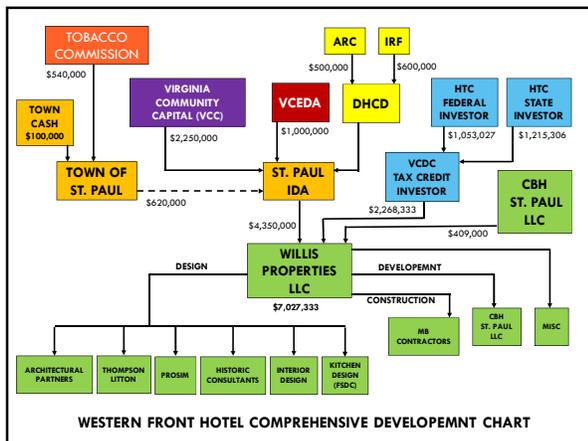




















VIRGINIA HISTORIC PROPERTY & OTHER DEVELOPMENT INCENTIVES

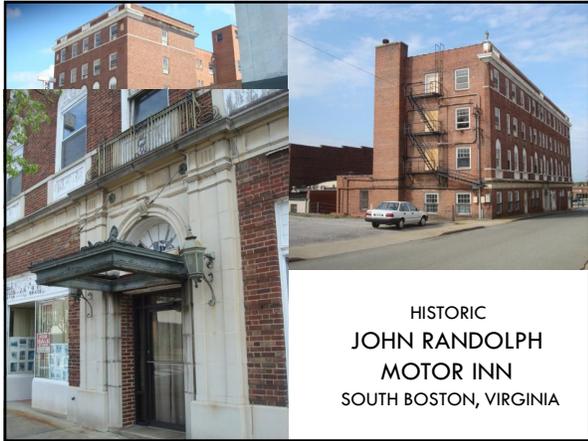
VIRGINIA (25%) & FEDERAL (20%) HISTORIC TAX CREDITS

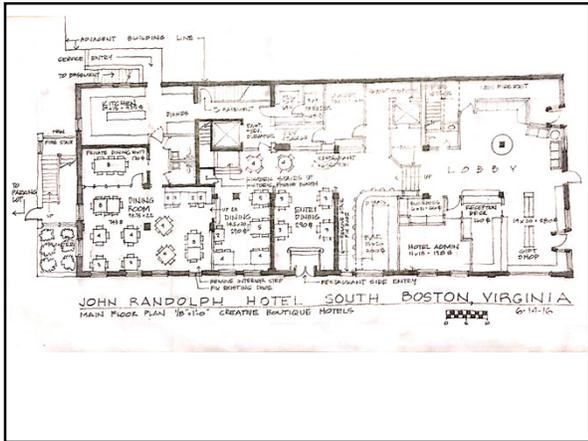
VIRGINIA TOURISM DEVELOPMENT FINANCE PROGRAM (TDFP)
LAST 30% FUNDED THROUGH:
1% STATE SALES TAX - 1% LOCAL SALES TAX - 1% DEVELOPER

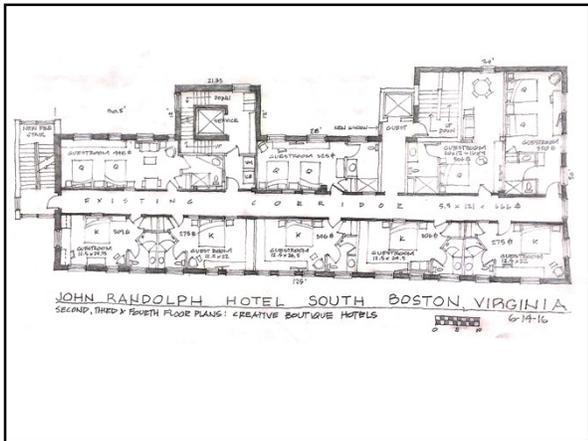
USDA LOAN GUARANTEES
UP TO 70% OF APPRAISAL

FEDERAL NEW MARKETS TAX CREDITS
(39% OVER 7 YEARS)









CREATIVE *Boutique*
HOTELS

QUESTIONS

CREATIVE *Boutique*
HOTELS

THANKS!
