

MEMORANDUM

TO: Brad Murphy, Planning Director

FR: Joe Gromacki, TIF Coordinator

DATE: May 4, 2010

**SUBJECT: EDGEWATER HOTEL: IMPACT OF CONDOMINIUMS ON GAP**

On January 28, 2010 I gave a preliminary presentation to the Common Council concerning the Edgewater Project. During the presentation, an alder asked whether the proposed condominiums were included in the City's value estimate for the project. I responded that neither the cost nor the value of the condos were included in staff's preliminary estimates. In addition, as the condo sales prices would at least equal their construction cost (i.e. a "wash) condominiums did not contribute to the proposed \$16 million gap. Further, TIF Policy prohibited assistance to luxury condominium projects, so that element of the project would have to be funded without TIF anyway.

I added that in staff's estimation, many, if not all the condominium units would likely end up as hotel suites, which in the end would add value to the project—which would be beneficial to the City. If the condos sold, they could add perhaps \$7 to \$10 million to the value—also beneficial to the City,

Therefore, staff viewed the project as a hotel project, not a hotel and partial residential condominium. In a presentation graphs entitled "Impact of Design Changes on Cost, Value" and "Impact on Investment, Gap", I pointed out that the project was financially infeasible without the total number of hotel units proposed, i.e. an eight-story 192-room project.

On April 1, 2010 I received a letter from Mr. Fred Mohs, with my aforementioned presentation graphs attached, that misconstrued the January 28, 2010 presentation to mean that the project would be feasible as a six-story project. I believe that the intent of the letter was to convince the Landmarks Commission and perhaps Plan Commission that the project could be reduced without financial implications.

As the attached graphs (with my postscript added) clearly indicate, this is not the case. The impact of reducing the project to a six-story hotel would reduce its value to approximately \$35 million from \$44.8 million. This would result in less equity and loan proceeds, increasing the gap to \$33 million and reducing profitability from about 10% to 3.5%. In short, as a six-story hotel, the Developer would not construct the project nor would the City provide financial assistance.

I hope that this clears up any misunderstanding that Mr. Mohs' letter may have caused. Please share this with the appropriate committees and planning staff for their consideration.

## Impact of Design Changes on Cost, Value

	8 story 192 Rooms	Six Story 156 - 160 Rooms	1 Story 82 Rooms
<b>Cost</b>			
Land & Demo	\$ (9,000,000)	\$ (9,500,000)	\$ (10,000,000)
Hard	\$ (41,750,000)	\$ (40,050,000)	\$ (32,900,000)
Parking	\$ (4,900,000)	\$ (4,900,000)	\$ (4,900,000)
Soft	\$ (8,950,000)	\$ (9,500,000)	\$ (8,600,000)
Residential	\$ (7,500,000)	\$ (3,750,000)	\$ -
Public Access	\$ (17,900,000)	\$ (17,900,000)	\$ (17,900,000)
<b>Total Cost</b>	<b>\$ (90,000,000)</b>	<b>\$ (85,600,000)</b>	<b>\$ (74,300,000)</b>
Estimated NOI	\$ 4,131,000	\$ 3,290,000	\$ 2,054,000
Estimated Value	\$ 44,800,000	\$ 35,000,000	\$ 21,000,000
Coverage @ NOI	1.73	1.01	0.93
Profit @ 20 - 30 Yrs	10.2%	3.5%	-8.6%

### Comments

Assuming loan and equity stay constant, debt coverage decreases, bank not lik  
Investor profit decreases, investors likely to pull out or reduce investment

Postscript: Value and profit are reduced by the loss of two stories

## Impact on Investment, Gap

	8-Story	6-Story	1-Story
NOI	\$ 4,131,000	\$ 3,290,000	\$ 2,054,000
Value	\$ 44,800,000	\$ 35,000,000	\$ 21,000,000
Debt Coverage Ratio	1.73	1.73	1.73
Desired Equity Return @ 30 yrs	10%	10%	10%
Total Cost (Uses)	\$ (90,000,000)	\$ (85,600,000)	\$ (74,300,000)
<b>Sources of Funds</b>	<b>8-Story</b>	<b>6 - Story</b>	<b>1-Story</b>
Max. Equity @ 10% IRR - Hotel	\$30,975,000	\$ 20,000,000	\$ 10,000,000
Loan - Hotel	\$30,125,000	\$ 22,700,000	\$ 14,184,000
Developer Share of Public Acc	\$5,400,000	\$ 5,400,000	\$ 5,400,000
Residential Loan & Sales	\$7,500,000	\$ 3,750,000	\$ -
<b>Total Sources</b>	<b>\$74,000,000</b>	<b>\$ 51,850,000</b>	<b>\$ 29,584,000</b>
<b>Gap</b>	<b>\$ (16,000,000)</b>	<b>\$ (33,750,000)</b>	<b>\$ (44,716,000)</b>

Postscript: With value reduction, loan and equity are reduced, and gap increases.

**CITY OF MADISON  
OFFICE OF THE CITY ATTORNEY  
Room 401, CCB  
266-4511**

Date: May 3, 2010

**MEMORANDUM**

TO: Landmarks Commission

FROM: Katherine C. Noonan, Asst. City Attorney

RE: Variance from provisions of the Landmarks Ordinance

Since the Landmarks Commission meeting of November 30, 2009, several questions have arisen regarding the variance provisions in Sec. 33.19(15). Should the Commission consider a variance for the Edgewater application on May 10, 2010, the appropriate standards are in Sec. 33.19(15)(c). Standards 1. and 3. are relevant to the Edgewater project and on November 30, 2009, the Commission focused on standard 3., which states that;

“In the case of new construction, the proposed design incorporates materials, details, setbacks, massing or other elements that are not permitted by the ordinance but which would enhance the quality of the design for the new building or structure, provided that said new building or structure otherwise complies with the criteria for new construction in the Historic District in which the building is proposed to be located and provided further that it would also have a beneficial effect on the historic character of the visually related area”.

Questions arose regarding the interplay between the language in Sec. 33.19(15)(a) and the language of the variance standards in Sec. 33.19(15)(c). There was discussion about whether the “general purpose and intent” language in Sec. 33.19(15)(a) referred to Sec. 33.19(1), which sets forth the purpose and intent of the Landmarks Ordinance, or Sec. 33.19(10)(a), which states the purpose and intent of the Mansion Hill Historic District provisions. The second question about Sec. 33.19(15)(a) related to the meaning of the language “visually compatible with the historic character of all buildings directly affected by the project and of all building within the visually related area”.

I will discuss both phrases below, however, a decision on a variance request should not rest on their interpretation. Sec. 33.19(15)(a) does not provide the standard(s) by which the Commission evaluates a proposal and should not be treated as a requirement that must be satisfied in order to approve a variance request. Rather, it authorizes the Landmarks Commission to vary the review criteria in historic districts and sets out the rationale for the variance process in the context of historic preservation. The decision of whether to approve a variance request should be based instead on Sec. 33.19(15).

To read Sec. 33.19(15)(a) as either a standard or a limitation on when a variance can be granted would inject conflict with Sec. 33.19(15)(c) and (d) because (d)2. authorizes a variance when there is visual incompatibility, and the purpose and intent are not mentioned in any of the standards. Conflict should be avoided when interpreting language in the ordinance. Sec. 33.19(5)(a) is not irrelevant, however, it should inform the Commission's consideration of the standards, not be a substitute for the standards.

A reading of the "purpose and intent" language of the Landmarks Ordinance and the Mansion Hill Historic District indicates that they are not mutually exclusive. The latter is brief, although it does refer to the more extensive provisions in Sec. 33.19(6)(d)1.-4. for designating landmarks and landmarks sites, and the creation of Historic Districts. These provisions build on and complement the purpose and intent of the entire Landmarks Ordinance, stated in Sec. 33.19(1), to provide the whole context of the broad purpose of historic preservation.

Regarding the question of how large an area should be considered, i.e., "all buildings directly affected by the project", visual compatibility is still the framework, as stated in Sec. 33.19(15)(a). "Visual compatibility" with buildings directly affected by the project suggests some visual connection is intended. Therefore it is not likely to include the entire historic district, however the language suggests it is greater than the "visually related area". It likely varies depending on the specific project and the area with which is shares a visual connection. Again, this provision is not a standard that must be met. If it were, it would be in Sec. 33.19(15)(c).