

REDEVELOPER SELECTION SUBCOMMITTEE REPORT AND RECOMMENDATIONS TO COUNCIL

Dated: March 1, 2011

Evaluation of Potential Redevelopers for the Union Hotel, Flemington, NJ

Background

On March 16, 2010 the Borough Council held a Special Council Meeting at Reading-Fleming Intermediate School to listen to the concerns of the public on the need to redevelop the Union Hotel.

At its regular meeting held on April 26, 2010 the Borough Council requested that the Planning Board determine if the Union Hotel should be designated an Area in Need of Redevelopment under State law. The Planning Board directed its consultant, Carl Hintz, PP, AICP, LLA, ASLA of Clarke Caton Hintz to prepare a study on whether the Hotel qualified as an Area in Need of Redevelopment. A public hearing was held by the Board on June 7, 2010 at which it recommended to the Council that the Hotel be declared an Area in Need of Redevelopment. After a public hearing at its June 14, 2010 regular meeting Council adopted a resolution designating the Union Hotel an Area in Need of Redevelopment pursuant to the Local Redevelopment and Housing Law of the State of New Jersey.

At its regular meeting held on June 29, 2010 the Borough Council authorized the preparation of a Redevelopment Plan for the Hotel. At its regular meeting held on July 12, 2010 the Borough Council formed a Redevelopment Plan Committee to assist the Borough in the preparation of the Plan. The Committee consisted of Planning Board members Todd Cook, Bill Wachter, Jeff Doshna, Mary Melfi, Susan Engelhardt and Phil Greiner (three of the six Planning Board members served as alternates for the others), Borough Council President Erica Edwards, members of the Historic Preservation Commission Pam Barrick and Anelle DiSisto and Bob Benjamin of Flemington Furs (sometimes accompanied by or substituted for by his attorney George Dilts). Carl Hintz and John Hatch of Clarke Caton Hintz and Rob Beckelman, Esq. provided professional guidance and support. The Committee met seven times between May and September 2010 to review drafts of the Redevelopment Plan and recommend it to the Planning Board and Borough Council.

On September 21, 2010 the Borough Council hosted an informational session at the Historic Courthouse at which Carl Hintz made a PowerPoint presentation on the draft Plan and responded to public questions and comments. At a regular Borough Council meeting held on September 27, 2010 Carl Hintz made a presentation on the Redevelopment Plan for the Union Hotel. That same evening the Council designated a Committee of the Council - Sandra Borucki, Robert Hauck and Erica Edwards - to receive initial inquiries from interested redevelopers.

At its regular meeting held on October 25, 2010 the Borough Council held a public hearing on the Redevelopment Plan (following an introduction on October 12, 2010) after which the Council adopted the Plan. Thereafter the Redevelopment Plan Committee reconvened to establish criteria for the evaluation

and selection of a redeveloper for the Hotel. A series of meetings was held resulting in review criteria that are described later in this Report.

Once the criteria were prepared they were distilled into preliminary questions to be utilized during interviews with potential redevelopers. A Selection Subcommittee was formed, consisting of Mayor Erica Edwards (then Council President), Councilman Marc Hain, Councilman Phil Greiner (then Councilman-Elect) and Planning Board Chairman Todd Cook (hereinafter, the “Subcommittee”), with the assistance of Carl Hintz, to efficiently manage the interview process. The Borough’s redevelopment attorney reinforced the need to proceed with a small subcommittee, for efficiency and because a larger group of people on the selection subcommittee would significantly increase the chances of conflicts of interest. Four potential redevelopers then came forward expressing interest in the redevelopment of the historic Union Hotel. They were: Mr. DeCostas, owner of the National Hotel in Frenchtown (“DeCostas”); Eric Berger of Phoenix Realty Resources, LLC (“Phoenix”); a team consisting of Mark Mulligan, Bill Vogt, Mark Bellin and Dave Dallas, partners under the name Union Hotel Redevelopment Group, LLC (“UHRG”); and under the name of Cirquell, LLC, Joe LoPiccolo, Frank Banisch and Matt McPherson (“Cirquell”).

Following the first set of interviews, the Subcommittee ranked the four and decided on a second set of interviews with the two top-ranking teams: UHRG¹ and Cirquell (McPherson opted out of the Cirquell team as a redeveloper but remains part of the proposed project). Each of these two teams was interviewed a second time and then given a set of follow-up requests for information on previous projects, preliminary concepts and plans for the redevelopment, pro-forma statements, financial capability of the partners and projected costs for the project, including square foot assumptions. Each team was given one week to supply the information.

Members of the Subcommittee then visited projects that the two teams suggested. These included the nearby projects by UHRG as well as their project in Easton. Mr. LoPiccolo and Mr. McPherson met Subcommittee members in Jersey City where Mr. LoPiccolo has been working for several years.

Evaluation

The following are the criteria that were considered for judging each team:

- Previous experience and success with projects the size and scale of the Union Hotel;
- Creativity and innovation of the Proposal;
- Approach to the project, including staging, financing, mix of uses, etc.;
- Estimated per square foot costs for redevelopment;
- Pro-forma statements and estimated development costs;
- Financial capability;
- Market analysis and viability for the completed project;
- Means to solve any parking needs;
- Experience with other historic properties;
- Ability to purchase the Hotel from the current owners;

¹ Mark Bellin is no longer a participant in the UHRG partnership.

- Interest and involvement in the Flemington community.

Each of these criteria as applied to each team is discussed in turn below.

Previous Experience and Success with Projects the Size and Scale of the Union Hotel

Members of the Subcommittee visited projects of both top-ranked teams. Information on other projects was also offered by the teams.

UHRG has successfully completed projects of similar size and scale of the Union Hotel, as well as some larger projects. The partners still retain ownership of those, maintaining them several years after completion. Examples include the Unity Bank in Flemington, the Grand Colonial restaurant in Union Township, the Flemington National Bank building in Flemington, the Washington Bank Building (Wachovia) in Washington Borough, the former Flemington Electric building, and a formerly-vacant department store building in Easton, Pennsylvania. The projects shown included a mix of residential and commercial uses in appropriately renovated historic structures of varying scales.



Bank of America - Flemington

Cirquell provided Subcommittee members a tour of its projects in Jersey City, which are primarily either new construction of infill residential condominiums, or renovation of rowhouses which were developed for apartments or condominiums. Generally, the size and scale of these projects were considerably smaller than the Union Hotel.



336 8th St. – Jersey City



340 8th St. – Jersey City



336 8th St. – Jersey City

Creativity and Innovation of the Proposal

UHRG proposes to renovate the 28,000sf Union Hotel and add a new structure in the rear of approximately 12,000sf. The first floor of the Hotel would be a restaurant to be operated by the owner of “55 Main,” a successful restaurant in the Borough. There would also be space set aside for retail shops. The second floor may have some meeting rooms, as well as apartments. The third and fourth floors of the existing building would be apartments, as would the addition of about 12,000sf. UHRG has proposed that the Borough own some or all of the land under the Hotel, which is a requirement for the Borough to obtain a concessionaire's permit from the ABC.

Cirquell proposes two restaurants on the ground floor, to be operated by Matt McPherson, a successful local restaurateur, as well as retail space. It envisions the second floor as additional restaurant space, and interim use as office/retail space. On the third floor it proposes to restore the hotel rooms, with interim office space. The fourth floor is proposed for entertainment, meetings and catering. The basement would be used for storage and preparation for the restaurant(s). A second phase would be the construction of a parking garage (structured parking), a new mixed use building over the parking structure, conversion of the office on the second and third floor of the Hotel to boutique hotel, museum, café and reading lounge (although it is not clear which uses will be converted from the first phase).

Both UHRG and Cirquell propose restoring the exterior of the Hotel to historic guidelines. Cirquell also proposes to keep and renovate the existing brick and frame “wings” at the rear of the building, thus potentially allowing for the use of a Federal Historic Tax Credit. UHRG proposes replacing the rear wings with a new addition.

Timing or Phasing of Construction

UHRG proposes to complete the project at one time, not in phases. It plans to tear down the rear frame structure and construct an addition attached to rear of the Hotel. The uses proposed are a restaurant and bar on the first floor, as well as retail space. The second, third, fourth floors of the existing building as

well as the new addition are proposed for residential apartments, which may eventually become condominiums.

Cirquell proposes two phases. The building would be renovated with some interim uses in the first phase; the second phase would include the construction of structured parking with luxury housing and commercial space above, and additional renovations for new uses in the Hotel building. The initial redevelopment contemplated is for two restaurants and a bar and some retail space on the first floor, meeting rooms on the second floor, with possible hotel rooms, and catering and entertainment on the fourth floor (see description above).

From information provided at the interviews and in the pro forma, UHRG is assuming a \$182/sf cost for the project which includes both renovation and new construction. Cirquell assumes a cost of \$135 to \$155/sf for historic restoration, and \$145-165/sf for new construction. Costs were not provided for their proposed second phase.

In the consultants' informed view utilizing the facts at hand, the construction costs presented by UHRG are realistic and from that perspective the project appears feasible. The costs presented by Cirquell appear low in view of the level of work required in the existing building, calling into question the feasibility of the project (costs for Cirquell's second phase of work were not included). Moreover, it is inadvisable to phase a project of this nature which involves risking the viability of the lower floor development to complete construction on the upper floors.

Pro-Forma Statements

UHRG's pro forma statement was submitted, including construction and some soft costs. Their pro forma proposes that the property be purchased by the Borough, with the Borough, "... recouping the funds spent ... by charging the restaurant a stepped up price over 20 years (for the liquor license)." In addition, UHRG is proposing some form of "long-term" tax abatement for the site.



Unity Bank - Flemington was

No pro-forma was submitted by Cirquell, which advised it would conduct the appropriate evaluations and provide same if it designated as the redeveloper. Therefore, no evaluation of its project costs could be performed.

Financial Capability

Both teams were asked at the second interviews to provide financial statements or net worth of the partners or partnership. This was followed up with a written request to both teams.

UHRG provided a summary that suggests strong financial capability to carry out the proposed project. More detailed information and back-up would be required prior to finalizing any agreements.

Cirquell did not provide any information on their financial capability.

Market Viability For the Completed Project

Both proposals include viable elements though there are some market-based differences.

Cirquell is proposing two restaurants with Matt McPherson as the owner/operator. He has a proven track record in Flemington with his Matt's Red Rooster restaurant located a block from the Hotel. Cirquell has suggested non-residential uses on the 2nd to 4th floors.



Matt's Red Rooster Restaurant - Flemington

UHRG believes that residential apartments is the most financially viable use for the upper floors in this market, with the hope that condominiums will be viable as the market improves.. UHRG also has a restaurateur (the local "55 Main"), another popular establishment in Flemington.

Means to Solve the Parking Needs

Parking is limited on the site due to a parking easement for Flemington Fur Company for 45 spaces. The short term solution is to combine that lot and the balance of the Union Hotel with properties to the east in a new surface lot. This would allow improvements to Spring Street including new trees, reduced curb cuts and additional on-street parallel parking. The long term solution is a parking deck to accommodate anticipated new development in the Borough.

In the meantime, both developers have indicated that they have a good working relationship with Flemington Fur Company. Mr. Mulligan of UHRG currently has shared parking with Flemington Fur Company on nearby lots and UHRG "...looks forward to working with them (FFC) as a partner in these areas." In other words, a clear parking plan was not described in the UHRG proposal, although they believe that they have a strategy for working out parking issues.

Cirquell claims to have worked out an agreement to use the air rights over Flemington Fur Company's lot for a future parking deck. Without a pro forma, however, it is not possible to judge the viability of that solution. In the shorter term, they state that they will negotiate with the Borough and County for use of extra parking in the area.

Obviously, both teams have the ability to work with the Borough to use excess parking owned by the County on the south side of Main Street.

Experience With Other Historic Properties

Both redevelopers have had experience with historic properties. UHRG partners have completed several high-profile and successful projects in Flemington that respect the historic integrity of the buildings. These projects include the bank building on the corner of Main Street and Bloomfield Avenue, Gavel Hall the former Egg Auction on Park Avenue, the former Flemington Electric building, and the Unity Bank on

Main Street. Dave Dallas of UHRG also renovated the Grand Colonial restaurant and hotel in Union Township on westbound Route 173. Photographs of various projects are included with this report.



Gavel Hall - Flemington

Joe LoPiccolo of Cirquell has familiarity working with the historic preservation office in Jersey City. Most of his projects in Jersey City are located within historic districts or are older buildings. Frank Banisch owns an historic building on Main Street. Matt McPherson has his restaurant in an historic building on Bloomfield Avenue. Photographs are included with this report.

Ability to Purchase the Hotel From the Current Owners

Cirquell has a contract with the current owners, with the closing on such sale subject to certain contingencies.. Neither Cirquell nor the Hotel owners have offered to disclose any of the terms of the contract.

UHRG has indicated that they have in the past attempted to negotiate a purchase of the Union Hotel Property and that they are willing to undertake additional negotiations though no proposed purchase amount has been specified. In particular, UHRG has urged that the Borough participate in the purchase of the land under the Union Hotel to satisfy the requirement that the Borough own a portion of the project in order to facilitate acquisition of a concessionaire's permit from the ABC so that alcoholic beverages may be served on the property.

Interest and Involvement in the Community

Both teams have had extensive involvement and interest in Flemington. Messrs. Mulligan, Vogt and Dallas of UHRG have all renovated existing historic buildings in the Borough.



Former Flemington Electric - Flemington

Mr. Banisch of the Cirquell team is a professional planner who has his consulting business located in Flemington and has provided consulting services to the Borough. He owns an historic building on Main Street.



Banisch Offices - Flemington

Comparative Evaluation

1. **Previous Experience:** Although both groups have experience successfully developing historic properties, UHRG has a broader range of experience and more experience directly relating to issues likely to be relevant for the Union Hotel project. Cirquell has primarily completed smaller, residential projects. It did not provide information showing significant experience with mixed use and commercial projects.

In contrast, UHRG has completed residential, mixed-use and commercial projects of varying scales, including projects significantly larger than the Union Hotel. In addition, it has completed a wide range of historic/ commercial projects in Flemington.

2. **Creativity and Innovation of the Proposal:** Both teams have put together workable concept plans for the building. UHRG's proposal seems to be more realistic given the market conditions in Flemington.
3. **Project Approach:** The two teams provided contrasting approaches. UHRG intends to complete the project in one phase; Cirquell describes a short and long term approach to the project.

UHRG provides a clear, concise path forward for renovating the Hotel in a single phase. In addition, their initial cost estimate appears to be more realistic and supportable, given the level of work required.

4. **Pro Forma Statements:** UHRG provided an initial pro forma, while Cirquell did not., UHRG's information appears to be realistic and supportable, given the condition of the building and the state of the market in Flemington.
5. **Financial Capability:** Again, UHRG provided initial information, while Cirquell did not. UHRG's information indicates that the team has sufficient financial capability to complete the project.
6. **Market Viability:** Both teams have suggested a mix of uses that includes retail and restaurant space. UHRG also proposes rental housing; Cirquell, at least in its first phase, proposes commercial uses. Both proposals appear to be viable, although the Subcommittee had a preference for adding new housing units downtown.
7. **Means to Solving the Parking Needs:** Both teams anticipate working with the Borough, County and Flemington Furs to solve the parking needs for the project. Cirquell appears to have had additional conversations with Flemington Furs about the long-term disposition of their surface parking lot behind the Hotel. On the other hand, UHRG team members have long experience dealing with the Borough's parking issues since they have developed properties in the area.
8. **Experience with Historic Properties:** Both teams have extensive experience working with historic buildings, but UHRG's experience is broader, more directly related to the work required at the Union Hotel and includes several successful projects in Flemington.

9. **Ability to Purchase the Hotel:** Cirquell appears to have come to some arrangement with the current owners regarding the purchase of the Hotel, although details have not been made public. Given the work required, the Subcommittee had some concern that a tentative arrangement has been made without a full understanding of the costs and the Borough's goals.

UHRG indicated that it has been in contact with the owners, but has not engaged in substantive negotiations toward an agreement. However, its proposal appears to be more realistic regarding costs and the goals of the project.

10. **Interest and Involvement in the Community:** Both teams include members who are involved in and committed to the community. For Cirquell, Frank Banisch has been a consultant to the Borough and owns a significant building on Main Street. Matt's Red Rooster is a thriving business in the Downtown.

UHRG's entire team has long experience in and commitment to the Borough. Many of the best historic redevelopment projects in the Borough in the past few years have been completed by members of UHRG.

Conclusion and Recommendation

UHRG is comprised of an experienced team of developers who have successfully undertaken multiple historically sensitive developments on the scale of the Union Hotel. Members' depth of relevant experience shows in the team's realistic assessment of market status, financially viable uses, construction costs, construction timing, and the importance of a liquor license to the long-term financial viability of the re-established Union Hotel as well as the way in which the acquisition of a concessionaire's permit must be undertaken. Moreover, UHRG demonstrated impressive financial strength and depth with its choice of members, among them Dave Dallas of Unity Bank. Finally, UHRG's pro forma, the only pro forma received by the selection subcommittee upon its request of both redeveloper candidates, demonstrates knowledge of the market and process. Therefore, on the strength of its development record, as well as its financial stability and depth, and submissions made to the Subcommittee, and conditioned on the developer being willing to negotiate a fair market value acquisition of the Union Hotel property from its owners, whether or not the acquisition includes participation by the Borough as required in order to obtain a concessionaire's permit from the ABC, the Subcommittee recommends the selection of the Union Hotel Redevelopment Group led by Mark Mulligan, Dave Dallas and Bill Vogt as redeveloper of the Union Hotel property. It shall be further understood that the designation of a redeveloper is also subject to a condition that the redeveloper reach an acceptable redevelopment agreement with Flemington Borough Council.