



Engineering and Environmental Services

MEMORANDUM

To: Members of the Board of County Commissioners

From: Jay Gibson, General Manager

Date: June 4, 2018

Subject: **Update on the Admin II Retail Restaurant Leases**

Background

In 2015, the Board approved the programming and conceptual design for renovations to the former county courthouse located at 201 E. Main Street, now known as the Admin II building. In addition to more than 160,000 square feet of County office space, the renovation includes two retail spaces on the first floor that have been designated and designed specifically for restaurant use. At the Board's direction, these restaurant spaces were included in the ground floor specifically to help facilitate and encourage a more active streetscape in this section of Main Street.

Each lease space is approximately 3,000 square feet, with additional patio area for outdoor dining on the E. Main Street side of the building. The spaces are designed with separate entrances so that they will be available to be used during nights and weekends when the rest of the building is not open to the public.

Leasing restaurant spaces within a large County owned office building has a number of complex issues that must be carefully worked through in order to achieve the County's goals and interests. To assist in the successful leasing of these two spaces, staff has assembled a team that includes Downtown Development Inc (DDI) to ensure coordination with current and emerging downtown issues, and MSH Consulting Group, a Restaurant Consulting firm, to help the County understand and address the myriad topics involved in leasing restaurant spaces. These issues include the importance of securing well-qualified tenants, helping to develop and organize the proposal format to elicit complete business and financial plans, and helping to market the opportunity to a broad cross section of potential tenants.

Guiding Principles for Securing Successful Tenants

Staff recommends the following set of Guiding Principles for this leasing effort to guide the selection of the best tenants for the space, based on a Request for Qualifications and Proposal (RFQ/P) process that will be further outlined below. The Guiding Principles aim to capture the goals and objectives articulated by Board members at various discussions regarding the Admin II building and street level retail activity over the past several years, the input of DDI and MSH Consulting Group, and fundamental financial principles to protect the County's investment.

The financial principles are critically important as we move into the tenant selection and leasing phase because the selected tenants must have the financial wherewithal and experience to be successful. The failure rate of restaurants during the first several years is very high, and it is in the County's interests to choose tenants that have the greatest likelihood of success so that the space is not left empty in this highly visible location, and turnover is low.

These Guiding Principles also support the goals and implementation strategies included in the recently completed Downtown Durham Master Plan developed by DDI, which involved extensive community input. Based on the Boards input and the County's overall financial interests, the following guiding principles will be used to assess potential tenants:

1. Activation of E. Main Street – Selected tenants will play a pivotal role in activating this section of E. Main Street. Tenants will be selected in part on their plan to create a destination that will encourage downtown workers, visitors and residents to patronize restaurants located on E. Main Street, and provide a great experience when they arrive. The selection process will seek at least one restaurant that serves breakfast and lunch, and at least one that offers sit down dinner service, with ABC permits, and extended operating hours that include nights, weekends, and holidays. The County is providing outdoor tables and chairs for the outdoor patio dining areas for both leased spaces, increasing the visual impact and activity along the street frontage.
2. Strong Business Plans and Solid Financials– To ensure the long-term viability of any tenants selected to lease these spaces, the selection process will require prospective tenants to provide proof of available financial capital and operating funds, a letter of credit from a lending institution, and investor equity. Additional requirements include evidence of successful business experience and proof-of-concept in a well-developed and complete business plan. The financial component of the submittals includes projected income and expense statements, cash flow projections, and balance sheet. All submittals will be examined and assessed by knowledgeable and experienced finance and restaurant industry professionals as part of the evaluation process.
3. Diverse and Small Business Participation – Staff's goal is to ensure that all small, diverse and women-owned businesses are aware of this opportunity, and that they are encouraged to submit their proposals. In addition to traditional advertising venues, our partners at DDI and MSH Consultant Group will engage in extensive community outreach and marketing of this opportunity to encourage participation of small, local and diverse and women-owned businesses. To this end, staff is excited to have the participation of two non-profit partners to assist businesses in preparing their responses.
4. Quality Products at Affordable Prices – It is important for the restaurants in this location to include a variety of affordable meal options for downtown workers, residents and visitors. Prospective tenants will be asked to provide sample menus with prices, and will be evaluated on the quality and affordability of their offerings.
5. Uniqueness – The Durham restaurant scene is renowned for the exciting variety of dining experiences, and the broad diversity of cuisines available. Prospective tenants will

be encouraged to offer restaurant concepts that contribute a unique element to the downtown restaurant market to create an attractive dining option for customers.

RFQ/P Process

Leasing commercial space in the private market place typically involves the owner of the property (Landlord) enlisting the services of a commercial broker to market the space with the goal of attracting a well-financed tenant who will pay the highest rental rate the market will bear. Brokers show the space to potential tenants, and lease offers made by prospective tenants include financial statements documenting the tenants' profitability and wherewithal to pay the lease rate, and the broker represents the landlord's interest to negotiate the most advantageous lease terms and conditions.

In this case, the County seeks to achieve additional community goals spelled out in the Guiding Principles above that are not typically considered in a standard leasing scenario. To help ensure a broad look at potential restaurant tenants that can help achieve the Guiding Principles, the County will secure restaurant tenants through a Request for Qualifications and Proposal (RFQ/P) process. The RFQ/P process will include the input of DDI and the MSH Consultant Group.

Because most restaurant operators are likely to be unfamiliar with preparing a response to an RFQ/P, staff has connected with two local organizations to provide technical assistance to those who chose to take advantage of their services. The Institute, the County's MWBE Consultant (Executive Director Farad Ali), is available to provide technical support for any MWBE business owner who desires assistance. In addition, North Carolina's Small Business and Technology Development Center at NCCU, an extension service of the UNC System, has agreed to assist with business and financial planning for small and medium sized businesses that might be interested in the leased space. Both organizations are well-prepared to guide proposers through the development of their business plan, budget, and financial projections to ensure that all requirements are met, and the submittal is responsive. They will also serve to connect business owners seeking capital financing with lenders and investors that are prepared to offer financial services.

The (RFQ/P) will be a two-step process which will allow for an overall 90-day response period. In the first phase, proposers will submit their Qualifications and Business Plan.

A detailed business plan includes the following:

- Sources and Uses of Funds for the first year of operation
- Letter of Credit
- Business organization and resumes of the principals and key staff members
- Restaurant Business Concept
- Management Team
- Marketing Strategy
- Operations Plan
- Growth Strategy

Proposals will be evaluated and the most qualified proposals will be asked to provide fully developed financial projections to complete the evaluation process. In a separately sealed Financial Projections and Proposal, proposers will be asked to provide:

- Proposed base lease rate, tenant improvement allowance, percent profit shared with the landlord, and other lease rate modifications that may be proposed
- Sources and Uses of Funds
- Capital Budget
- Sales Projections
- Labor Costs
- Projected Profit and Loss statements

As stated earlier, the County has an opportunity to achieve objectives beyond simply the rental lease rate. Following the Guiding Principles as outlined above, and the RFQ/P process, tenant selection will balance qualitative assessments with financial assessment. The criteria upon which all proposals will be evaluated, and the scoring methodology that weighs each criterion consistently across all proposals is in development, and will be included in the RFQ/P.

Activities and Timeline

Staff has developed a project schedule that targets a lease start date of January 1, 2019. County staff, in collaboration with our Consultant partner MSH Consultant Group, and DDI are currently developing the RFQ/P documents and forms, and finalizing lease language.

June – September

- Advertise and market the RFQ/P to engage as many qualified proposers as possible.
- Hold pre-proposal site visits for prospective tenants to examine the space and formulate questions to assist in preparing their responses.
- Written questions from proposers will be accepted and responses issued to all proposers in an addendum to the RFQ/P.
- Proposers will have 45 days from initial advertisement of the opportunity to complete and submit their Qualifications and Business Plan.
- Responsive proposals will be evaluated and scored. The top scoring proposers will be invited to make a presentation to the selection committee.
- Proposals that are selected to move into the second phase will be given an additional 30 days to submit their fully developed Financial Projections and Proposal.

October – November

- Responses to the RFQ/P to be submitted and evaluated.
- Two tenants will be selected to begin negotiation of the lease agreement.

December – January

- Staff to seek Board approval of the negotiated leases.

- Lease term begins. Tenants to begin upfit of their leased spaces. Completion of the tenant upfitting could take approximately 120 days.

County Manager's Recommendation: The County Manager recommends that the Board receive the update and endorse the guiding public interests and RFQ/P leasing process for the Admin II retail component so that work can timely proceed.

Attachment: Briefing Sheet on Successful Business Plans