RE: Greer Stadium Property Valuation

Background: Metro Nashville's Metropolitan Development Housing Agency (MDHA) issued a Request for Quotation on January 23, 2017 (#969636). The purpose of the RFQ was to identify a Master Developer to lease the approximately 21-acres of the Greer Stadium property.

Frequently mentioned in the document is a desire that the respondent's plans would offer "substantial open space and affordable housing." The plans were to insure the provision of "publicly accessible open space as the focal point of the development." In addition, it was desired that the plans demonstrate connectivity to existing greenways, affordable and workforce housing, sensitivity to the adjacent Fort Negley property and that Chestnut Street would be activated and connected to the nearby neighborhood.

Scoring for the proposals was broken out as follows:

Detailed Plan – 25 points
Experience – 20 points
Quality of team – 20 points
Financial Consideration – 30 points
Diversity Plan – 5 points

The responses to the plan were due on February 17, 2017.

While questions have been raised about the secrecy of the selection process and now ultimately, the selection of a development team with push-back from at least one other developer group, the purpose of this memorandum is to look at the selection methodology with a focus on the financial considerations piece.

Basis for Valuation: The standards set forth in the RFQ for evaluation of the developer proposals appear to be standard and fair. The Detailed Plan section of each proposal would have to address the points MDHA spoke to – substantial open space, affordable housing, connectivity etc. Any respondent that did not address these issues satisfactorily would be disqualified. It is subjective to define what "substantial" means – greater than 30%? What about 40 or even 60%? The proposed density on the remaining developable land would have to be financially feasible and consistent with the greater Nashville development patterns. (A plan that envisioned 50% open space, but surrounded by 40-story towers, for example would not meet that logical standard.)

The "Experience" and "Quality" of the team are also somewhat subjective, but reasonable standards could be applied to sort through and rank responding teams in this area. Likewise, the "Diversity Plan" should be straightforward and objectively rankable.

That brings us to the Financial Considerations. In my opinion, this breaks down into two components. First, and most importantly, as the "Seller," or "Lessor," what is the fair market value of the property? Second, is the proposed "deal" financeable? Is it reasonable to assume that the team will be able to attract the necessary debt and equity capital to facilitate the development and/or what will the burden on Metro to facilitate the financing of the proposed development?

An appraisal submitted in March, 2017 by Neiman-Ross Associates valued the land at $31.8 Million. At approximately 21 acres, that translates into approximately $34.36 per square foot. That figure, given a large, contiguous parcel very close to downtown Nashville where land prices are well north of $150 per square foot seems low. Land sales in the adjoining Wedgewood Houston area vary widely. Core Development's 7.3 acre mixed-use development on Merritt Avenue and Martin Street was assembled in 2013 for slightly more than $11 per square foot – but the area was industrial and completely untested. More recent, smaller land purchases have been coming in at the $40-$45 per square foot. Land sales in the areas around SoBro, near Lafayette Street have been inching upward, a transaction for a hotel use just announced at the old Czann's Brewery location transferred a 1.17 acre parcel for $160 per square foot. One of the more jaw-dropping transactions was the acquisition of the 15-acre Lifeway Campus by Southwest Value Partners for $125 million or $191 per square foot. (While SWVP is planning a massive redevelopment, one could argue there was additional value in the existing buildings and facilities of the campus.)

The point of this discussion is to illustrate that the land valuation of $31.8 million, though subjective, is probably fair given the commitment any developer would have to take in preserving "substantial open space," thereby reducing the density and income production capacity of the tract. So, on a pure sale basis, the starting point of the "Financial Consideration" should be close to this number for a fair basis for Metro. A land lease, therefore, should compute out to a net present value in the $30 million range over the term of the lease, net of any additional commitments that the developer would ask of Metro.

The Cloud Hill Partnership Proposal asks nothing from Metro Nashville in the form of TIF, grants, tax abatements or any other sort of payment. Their proposed structure highlights an infrastructure investment of $7.2 Million all privately funded. In addition, they guaranty a land lease payment to Metro of $1.0 Million - $200,000 upon execution of the lease, and a minimum of $100,000 each year afterwards for 8-years. In addition, the Partnership proposes to give Metro a 30% share of any "Net Cash Flow" available after the repayment of capital for the infrastructure and amenities. In their model, they are showing "Residual Distribution to Master Developer and Metro" with Metro receiving a total of $224,119 in years 6-10. At full build-out, it appears that Metro would receive approximately $63,000 per year for the remaining 89-years of the lease.

As a bit of an academic exercise, if we calculate a Net Present Value for the entire cash stream – the guarantied payments plus the 30% sharing we learn the following:

Discount Rate	Net Present Value
5%	$1,719,439
7%	$1,331,268
3%	$2,498,680

*Discount rate is the compound interest rate used to compute expected future income into present value.

In none of these scenarios do we even approach the current market value of the property. True, after the lease term, the land would revert to Metro, but that is an awful long way away – and John Maynard Keynes' observation of the long-run would apply. ("In the long run, we are all dead.")

By comparison, the Cambridge/One C1ty proposal does ask for a $7 Million Tax Increment Finance loan to assist in the construction period, but their offer on the land lease is substantially different. There would be no lease payments in Years 1 and 2, but afterwards, they would pay Metro $645,000 per year for an initial 50-year term with five 10-year extensions. In their proposal, they illustrated their annual cash flows with inflation assumptions built in throughout the term of the lease. Applying the discount rates above to arrive at a Net Present Value, we see the following:

Discount Rate	Net Present Value
5%	$12,549,040
7%	$8,364,831
3%	$22,013,742

While these values are still below the current appraised value, the Cambridge/One C1ty approach is far closer than the Cloud Hill proposal, and the order of magnitude of the difference is alarming. Even if we subtract out the NPV of the TIF at $7,000,000, we still end up with an NPV of $5,549,040 – over three times the value of the Cloud Hill number.

In simpler yeoman's terms, just looking at the cash flows and comparing them year over year you arrive at the same, though more dramatic conclusion:

Year	Cloud Hill	One City
10	$62,818	$662,234
20	$62,818	$699,236
50	$62,818	$823,946

Is the Cloud Hill team's design so overwhelmingly superior to Cambridge's that they score higher there? That would be up to the review committee, I suppose. Both teams bring substantial experience locally and nationally to the table and the other aspects of their proposals seem similar. The Cambridge/One C1ty proposal appears to be slightly more dense, but preserves roughly the same amount of open space as the Cloud Hill plan; alternatively, the greater density could generate a higher property tax revenue stream for Metro.

The bottom line, is that in my estimation, it is worth asking some hard questions from the selection committee to better understand the rationale for their decision.