Financing Mixed-Use Development: Accommodating the New Market

Paula Levine
Wells Fargo Multifamily Capital

Richard H. Schaupp
Clarion Partners

Sal Torre
Estreich & Company, Inc.

Michael Weinstock
M&T Bank

Moderator:
Arthur Collins, II
Collins Enterprises, LLC

Case Study of Mixed-Use, Transit Oriented Development Project

Hudson Park, Yonkers, New York

Colllins, LL.C.

The City of Yonkers, New York, adopted a highly detailed master plan for its central commuter rail station area that contained certain specifications regarding the types of development the city wanted on available vacant land in the area. The zoning for the area was amended to provide as-of-right status for developments that conform to the design standards contained in the master plan. Compliance with New York State's extensive environmental review requirements was waived for such projects, since the impacts of development contemplated by the master plan had already been studied in detail and mitigation of adverse environmental impacts provided.

Early in this process, a developer was selected through a request-for-proposals process to plan the redevelopment of two centrally located sites, immediately adjacent to the train station. As the city developed its plan and conducted its environmental impact review, the private developer began site planning and provided information to the city planners regarding economic and market realities. Information provided by citizens, environmental consultants, other professionals, and the developer were integrated as the process progressed and the master plan and designs for the two sites were adjusted.

The result is the development of Hudson Park, a two-phase project that contains 560 middle-income rental residential units, public pedestrian access to a renovated waterfront, restaurants, office and retail space, and immediate access to the train station through carefully designed walkways and entrances that provide security to riders.[1] Hudson Park is a dramatic transit oriented development where parking provided is approximately 50 percent less than the amount required by traditional urban zoning. This is possible because the buildings and area appeal to commuters who travel to work by train and the developer's marketing was designed to attract them. The developer saved $25,000 in development costs for each parking space not constructed, and residents save $6,000 annually for owning one car instead of two. Three high quality restaurants and a number of retail stores catering to the middle-income populations of these buildings have appeared in the neighborhood. This project and the public amenities provided by the government to support it are credited with sparking considerable additional private sector interest in the area.

[1] Phase 3 may be under construction in 2013.

Corollary Environmental Benefits of Such Projects

The corollary environmental and economic benefits of using land use controls to shift settlement patterns to urban-oriented living are equally dramatic. At a density of 15 rather than 7.5 dwelling units per acre, 40 million new households will consume half as much land. At 7.5 units per acre, these households will occupy nearly 5.5 million acres for housing alone. If we double the net density per acre, that figure is cut to roughly 2.5 million acres, a savings of nearly three million acres, just under 5,000 square miles: an area about the size of the state of Connecticut. Not developing three million acres saves the materials needed for the construction of, and the vehicle miles travelled on, thousands of miles of roads. It also saves millions of tons of salt and sand, hundreds of thousands of acres of wetlands and habitats, and millions of square feet of impervious surfaces, thereby reducing stormwater runoff and surface water pollution.

Less water use and better water quality are two of the main corollary benefits of compact, mixed-use development. Historically, single-family, suburban homes use more than 100 gallons of water per capita per day, while multifamily housing can use as little as 45-75 gallons. Lawn care alone is responsible for up to 50% of annual household water usage, with car washing and swimming pools responsible for about 20% more. Studies have shown that at higher densities water use drops to half the amount of lower density areas.

Moreover, costs for installing water infrastructure to houses in dispersed suburban neighborhoods can cost a municipality $10,000 more than the infrastructure in urban areas and water service costs are proportionately lower in denser developments. More compact development allows for shorter transmission systems, making them more efficient to operate and less susceptible to water loss through leakage. Encouraging compact neighborhood design on smaller lots reduces water demand for landscaping. Directing development to areas served by existing infrastructure and maintaining that infrastructure can make systems more efficient.

Local actions that facilitate green buildings, green construction technology, solar and wind facilities, and other green initiatives add to the positive transformation of the domestic economy and complement efforts to increase the local tax base, building public support for the associated environmental benefits of climate change mitigation. In fact, jobs in the emerging green economy are among the most robust employment sectors. Action at the local level can embody both environmental and economic objectives: the two are not necessarily in opposition. Economic growth can follow adoption of climate mitigation strategies.

Illustrative of the type of development that is within the power of municipalities to encourage, and that reduces energy consumption and CO_2 emissions, is Hudson Park, which is an enhanced transit oriented development (TOD) project in Yonkers, New York. Located next to the main commuter rail station in the downtown, it is designed for and marketed to young professionals, most of whom commute to Manhattan or one of

the other New York City boroughs. Hudson Park occupies 4.362 acres and contains 560 rental apartments, along with 15,000 square feet of commercial and office use.

The density of this development is 128 dwelling units per acre, much more than the 15 dwelling units per acre used for the climate change mitigation calculations above, but somewhat typical of the residential density needed around express-stop transit areas to generate the ridership required to make commuter rail service economically viable. If we could shift 25 percent of the nation's next 40 million households, or 10 million households (27 million people) from single-family dwellings on quarter acre lots to developments such as Hudson Park, the corollary benefits to the environment would be dramatic. To illustrate, such a shift would save 876,951 acres of impervious coverage, 573 billion gallons of annual stormwater runoff, and 394 billion gallons of potable water per year.

M&T Bank

COMMERCIAL REAL ESTATE

M&T Bank's Commercial Real Estate Division offers a full range of services from construction and development lending to portfolio and secondary market mortgage financing. Our Relationship Managers take the time to understand what's important to your business in order to best provide advice and customized solutions to help you achieve your financial goals.

The M&T Advantage

Dedicated Team of Professionals. Your M&T Relationship Manager specializes in commercial real estate and works closely with you and our M&T Product Specialists to develop a financing package that best suits your needs.

Reputation of Excellence in Service. M&T's Commercial Real Estate Division has a long-standing reputation of service excellence. Living in the markets they serve, our Relationship Managers are well positioned to understand the unique challenges your company faces. In addition, your Relationship Manager retains control of your relationship, from origination and construction to servicing.

Extensive Product Offerings. M&T provides a variety of services beyond financing, including:

- Treasury Management Services
- Lockbox
- Escrow and Lease Security
- Remote Check Deposit
- Capital Markets
- Investment Banking
- Trust and Investment
- Underwriting and Trustee Services
- Banking Services for Your Company and Employees
- Insurance (Property, Environmental)
- Equipment Leasing for fixtures and equipment

Commercial Real Estate Financing

Construction Financing: M&T can assist you in providing financing for new construction and renovation for all property types.

Permanent Financing: M&T can provide both long- and short-term permanent financing for property acquisition to repay construction financing or to refinance existing debt.

Government-Assisted Financing: M&T provides credit enhancement through our Letters of Credit to support industrial development, affordable housing, and other activities.

Secondary Mortgage Financing: M&T provides financing alternatives via:

- CMBS
- Institutional Placement
- Delegated Underwriting and Servicing (DUS) lender for Fannie Mae and Freddie Mac
- HUD FHA Multi family programs

Syndications: M&T has the ability to syndicate existing deals and act as an agent bank. M&T will act in the capacity of agent bank and syndicate longer construction and other facilities when appropriate.

To learn more, contact your local M&T Bank Relationship Manager or visit www.mtb.com/corporate

M&T Bank
Understanding what's important®

M&T Bank Corporation

M&T Bank was founded in Buffalo, NY in 1856. Our parent company, M&T Bank Corporation (NYSE: MTB) is one of the 20 largest US based commercial bank holding companies.

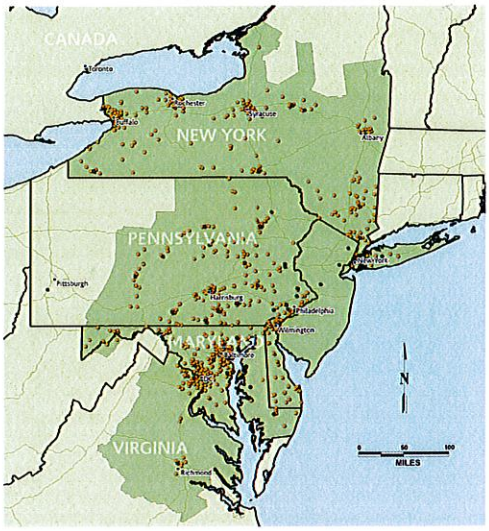
- M&T Bank Corporation total assets of **$77.9 billion**
- More than **770 retail** and **commercial branches**, more than **2,000 ATMs** and over **16,000** employees located throughout New York, New Jersey, Maryland, Pennsylvania, Washington, D.C., Virginia, West Virginia, Delaware and Ontario, Canada
- Serving over **2 million retail customers** and **190,000 businesses**

Considered one of the country's most highly regarded regional banks, M&T Bank is consistently recognized for financial strength and sound management.

- M&T's balance sheet remains strong, despite the credit problems facing our nation. M&T's capital levels – the amount by which assets exceed liabilities and the most important measure of a bank's safety and soundness – exceed all regulatory requirements
- Profitability contributes to a bank's capital ratios. While some financial institutions have been losing money, M&T remains solidly profitable with net income of **$859 million** in 2011
- Total deposits at M&T grew from $49.8 billion on December 31, 2010 to $59.4 billion on December 31, 2011
- Of the largest 100 banks operating in 1983, only 23 remain today and among those remaining, M&T ranks **1st in stock price growth** over that period*

M&T Bank actively supports the communities it serves, and sees this investment as a key to success.

- **"Outstanding" Community Reinvestment Act** rating from the Federal Reserve Bank
- Through the M&T Charitable Foundation, the Bank made **$17.1 million** in charitable donations to over **4,100 organizations** in 2011
- More than **2,700 M&T Bank employees** volunteer their time with more than **4,700 community and not-for-profit organizations**



- M&T Retail Branch
- M&T Commercial Office
- Footprint
- Major Roadway

M&T Bank Deposit Ratings

	Long Term	Short Term
Fitch	A	F1
Moody's	A2	P-1
S&P	A	A-1

M&T Bank is committed to serving businesses of all types, from small startups to large national corporations, with a complete range of financial products and services which include:

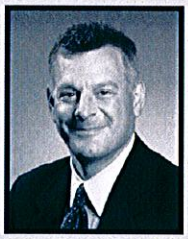
- Asset Management
- Commercial & Real Estate Credit Services
- Corporate Trust Services
- Equipment Financing
- Interest Rate Management
- Wealth Advisory Services
- International Trade Services
- Investment Banking & Capital Markets
- Merchant Services
- Tax-Exempt Financing
- Treasury Management Services

*1983 Stock Price Source: Compustat and/or bigcharts.com

ny Ask the Expert – Finance

Trust: Building a relationship with your lender is the forefront of creating value

mw Michael Weinstock



M&T Bank

Trust. You will find the word on a dollar bill and in the names of many financial service companies. You also experience it almost every day in your decision-making process. We choose which news sources to trust from the increasingly segmented media market, which health care providers we trust to treat us and which restaurants we trust to feed us a safe, healthy meal.

Providers of credit also differentiate themselves based on trust. Lenders wishing to establish high levels of trust with their clients refer to themselves as "relationship lenders." Other lending sources build their business model on the benefits of providing the cheapest money. These are two different approaches, and it's up to each borrower to decide which model best serves their own business needs.

While the term relationship varies between institutions, its intent is to define a long-term and expansive relationship between the lender and client. The degrees of relationship lending are now more apparent than at any time in the past, which is one of the lessons we can take away from this recession. CMBS lenders are at one end of the spectrum and healthy community lenders are at the other.

While CMBS lenders have, in the past, provided lenient structures and pricing, their ability or willingness to renegotiate terms and provide additional financing is minimal. In many cases, lenient structure and pricing have ended up being a one-shot deal. Likewise, major banks that derived substantial portion of their profits from trading activities may also be inherently more transactional.

Community banks, on the other hand, are driven by a desire to sustain the relationship, and have improved customer service during the past few years in order to be more competitive. Many commercial real estate investors now see the benefit of what they have been paying for from their relationship banks: staying the course, structuring and restructuring to improve a deal, and providing a consistent source of capital throughout the economic downturn are the essential elements of these relationships.

Community banks, on the other hand, are driven by a desire to sustain the relationship, and have improved customer service during the past few years in order to be more competitive. Many commercial real estate investors now see the benefit of what they have been paying for from their relationship banks: staying the course, structuring and restructuring to improve a deal, and providing a consistent source of capital throughout the economic downturn are the essential elements of these relationships.

The downturn has provided many lessons to reflect upon during the coming months and years. Increased volatility arising from globalized capital highlights the value of forming and maintaining long-lasting relationships. Borrowers now need to be more concerned with the performance and culture of their lenders, making due diligence a two-way street. It is becoming apparent that financial institutions that followed market trends and changed their operations to elicit quick paybacks for risky ventures have been damaged both financially and culturally.

Many of us pursuing a relationship-lending model have remained committed to finding customers who want our consistent behavior over a prolonged period of time, and who are knowledgeable about their business and have a long-term vision. By doing this, we have partnered with customers who operate based on similar values and behaviors as ourselves.

These relationships were forged during a period of time when seeking relationships was, quite frankly, difficult at best, due to the prevalence of transactional behavior and its immediate rewards. Consequently, we have been able to support those customers as they have supported us in return. These behaviors have enabled us to have a more stable operating environment.

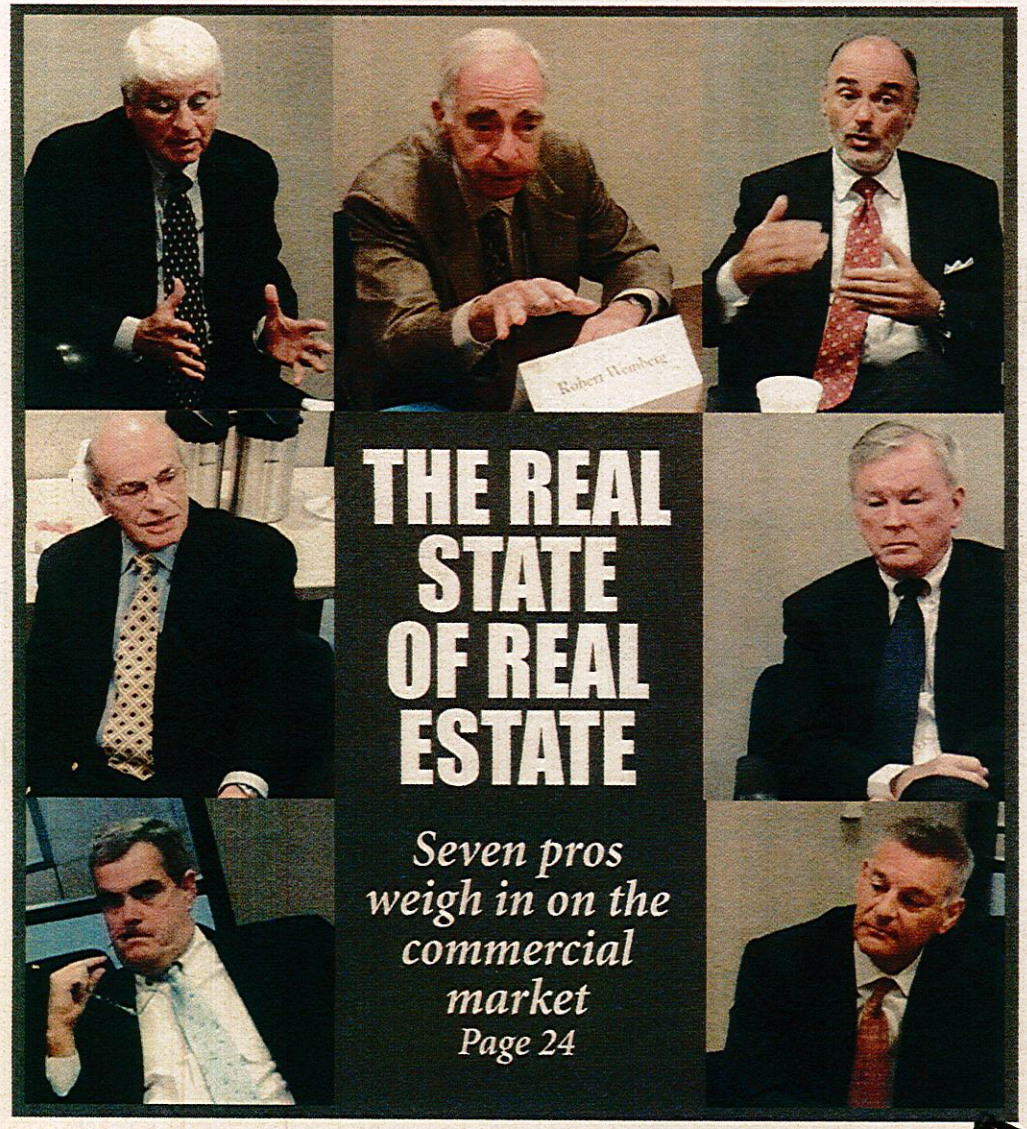
As we are likely to continue to experience increased economic volatility from global capital impacts, relationships will continue to provide a natural hedge. Building a relationship with your lender helps to increase trust, with each party clearly understanding the inner workings of the other, and helps to lessen the stress between the borrower and the bank. Yes, while price and structure are integral components of any business deal, consistency and execution are now in the forefront of creating value.

Michael Weinstock is an administrative vice president and group manager for commercial real estate lending at M&T Bank, Tarrytown, N.Y.

WCBJ WESTCHESTER COUNTY BUSINESS JOURNAL

- **OPINION:** TELLING OBSERVATIONS
- **DEALS & DEEDS:** LATEST LEASES IN PURCHASE
- **POLITICS & POLICY:** BUDGET CUTS LIKELY

YOUR BEST SOURCE FOR LOCAL BUSINESS NEWS | *westfaironline.com* September 26, 2011 | VOL. 47, No. 39 | $2.50



THE REAL STATE OF REAL ESTATE

Seven pros weigh in on the commercial market

Page 24

JOBS PICTURE UPBEAT FOR WESTCHESTER

BY PATRICK GALLAGHER
pgallagher@westfairinc.com

In what turned out to be a precursor of more good news for the Westchester employment picture, OrthoNet Holdings Inc. announced Sept. 15 it would keep its headquarters in White Plains and planned to add 155 workers.

Despite discouraging national jobs data, unemployment continued to decline in Westchester County, dropping to 6.5 percent in August from 6.7 percent in July and from 7.1 percent a year ago.

In New York state, the unemployment rate held steady at 8 percent from July to August, and was down from 8.4 percent in Aug. 2010.

The OrthoNet announcement, including plans by the orthopedic services company to invest $4.5 million in the expansion of its headquarters, was hailed by numerous political figures, including Gov. Andrew Cuomo and Westchester County Executive Rob Astorino.

"Westchester has been the home of our company since its founding and for the last 16 years, and we continue to be very impressed with the qualifications of the local workforce," said Roger Shedlin, CEO of OrthoNet.

Financial incentives, including up to $3 million in Excelsior tax credits from Empire State Development, played a major role in keeping OrthoNet – which had reportedly been considering a move to Connecticut – at its White Plains location.

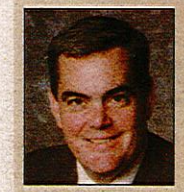
In Westchester, the marked drop in the unemployment rate may have been affected by what was a significant decline in the civilian labor force, both for the state as a whole and for the lower Hudson Valley region that comprises Westchester, Putnam and Rockland

Jobs, page 2

MEDIA PARTNERS

Wemstocc

POWER PANEL



William V. Cuddy Jr.
Executive Vice President
CB Richard Ellis • Stamford
Broker and consultant
Corporate and institutional real estate
Chairman
Westchester County Association's Economic Development Task Force

"Attitude can be everything. We've been through quite a few recessions … but it's never as bad as it seems when you are in the moment. We're New Yorkers and I think it's our nature … to be critical thinkers … Westchester is tremendously resilient. We have some great industries and as we look at the challenges we have to match it up with the opportunities."

– William V. Cuddy Jr.

Alfred B. DelBello
Partner
DelBello Donnellan Weingarten Wise & Wiederkehr L.L.P.
White Plains
Land use and zoning and government relations
Chairman
Westchester County Association
Former New York state lieutenant governor, Westchester county executive and Yonkers city mayor

"The county government is moving in the opposite direction of what you believe would be best for the county."

– Alfred B. DelBello

John R. McCarthy
Owner and President
McCarthy and Associates • White Plains
Broker and consultant
Commercial real estate

"If you listen to all of the discussion here, it really goes back to leadership, direction – or lack of direction … the federal to the state to the county to the municipality. Bob (Weinberg) is right on with regard to, you know, the 'home rule,' and unfortunately I just don't see Westchester County in my lifetime changing anything that we've discussed today."

– John R. McCarthy

John H. Meyer
Founder and Principal
John Meyer Consulting • Armonk
Professional engineer and professional planner
Site planning, environmental studies, civil engineering and related construction services

"Government is just kind of swimming around. They don't know where to go. There are projects we've worked on where the planner of the town has a larger fee than our fee and he'll tell you that our fees are not cheap. … we need leadership … people that are going to make decisions … valid decisions, and not throw out incentives … they're

On Sept. 8, the Business Journal hosted "The Real State of Real Estate," a roundtable that brought together seven industry experts for a candid discussion on the commercial office markets in Westchester and Fairfield counties. Following are edited excerpts. For more, go to our website, westfaironline.com.

SPECIAL REPORT: The Real State of Real Estate

BUSINESS JOURNAL: *How have the markets changed over the last 15, 20, 30 years in terms of the types of businesses here? What's fueled that change and how has each county's image changed, sans the big corporate players?*

ROBERT P. WEISZ: (Companies began) relocating from New York City. That started in the late '50s and '60s, more intense in the '70s and part of the '80s. Westchester was the primary focus of a number of companies and the main reason was the convenience to (the) city and the proximity to the homes of the principals of these companies. … the infrastructure in terms of transportation, housing and school districts. Quality of life was never an issue. It is still not an issue today.

MICHAEL WEINSTOCK: I think in the early '80s there were 17 world headquarters in the Fairfield County area …

ALFRED B. DELBELLO: I just want to add, it wasn't just coming from New York City, because in those days Texaco … was looking around the world for a location. It would have been very normal for them to locate in Houston, Texas, and they came to Westchester County.

BUSINESS JOURNAL: *You were Westchester's county executive at the time?*

DELBELLO: Yes, we brought them to Westchester, and I asked John McKinley the CEO why he selected Westchester out of the whole world and he said, No. 1, New York state is a mature state in its relationship with the corporate world and No. 2, Westchester had accessibility to the world … to the financial centers … I thought it was very telling when they said it's a mature state with regard to its relationship with businesses. And I think there, there's been such dramatic change.

(are) not as large anymore. There was a trend of separating top executives from back offices. … corporate headquarters had an average of 700 people, some more than that, (and that has) shrunk to sometimes 150 (or) 200 … So that trend started the large vacancies we see.

DELBELLO: Coincidentally, within that exact same time frame occurred the passage of the Taylor Law in the late '60s and early '70s, allowing for collective bargaining … The cost of public employees, particularly the teachers when they unionized, started causing property taxes to escalate unbelievably, causing the cost of living in this area to almost become untenable, as it is today.

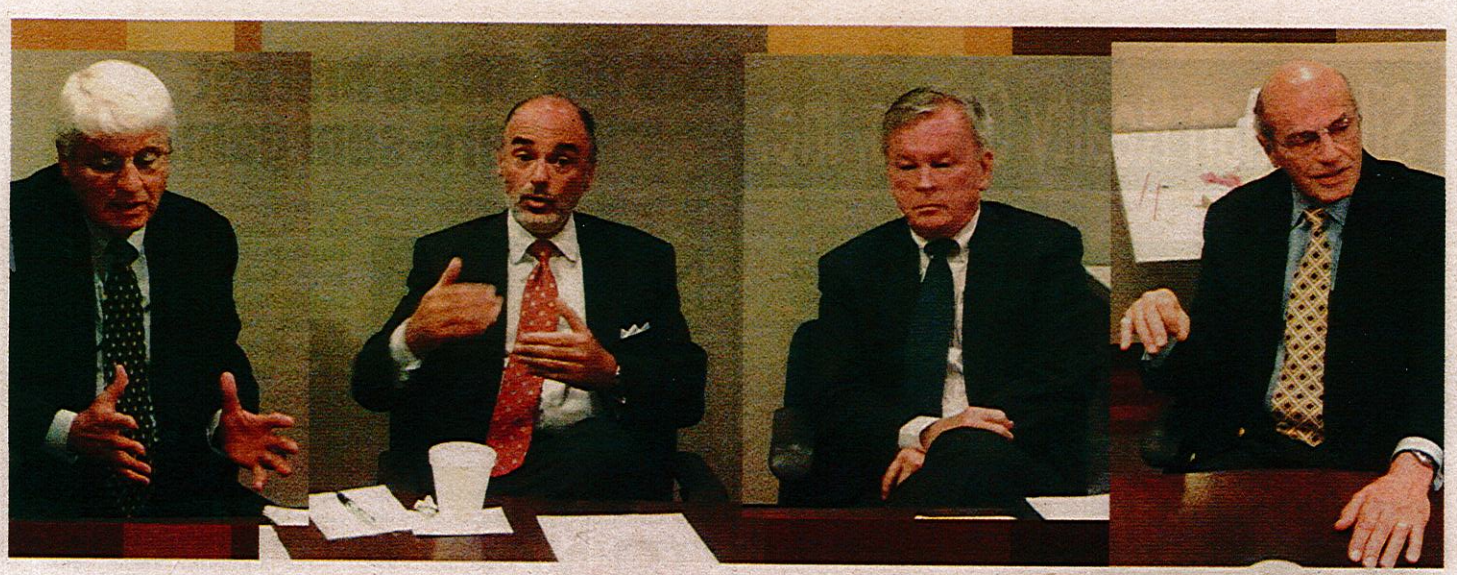
In those days, it was a very affordable community (with) a very well-educated workforce. Now it has, as we all know, the highest property taxes in the U.S.

JOHN H. MEYER: It's not just the teachers, it's the first responders, it's the public works employees – they all have tremendous benefits that are just impossible to be able to afford by these communities. Al is absolutely right.

Westchester still has a great workforce, and it still offers a lot, but the lower-level employees have no place to live. … People who ordinarily would be living in Westchester live in Dutchess, Putnam.

BUSINESS JOURNAL: *Is this in Fairfield County as well, in terms of affordability?*

JOHN R. MCCARTHY: Fairfield County, back in the '80s (saw) all the migration to the Naugatuck Valley … they were all going to go up to Shelton and Trumbull, and then the market pulled back. When the market pulls back, the people don't go up there because there's affordable housing within the immediate area. And all those guys in Shelton, Trumbull, New Haven,



WEINSTOCK: Over time … that has moved further and further out. Ridgefield used to be the boonies and that's where you went because when you got out of college you couldn't go back to Westport, you couldn't go to Greenwich and you couldn't get into New Canaan. It's not affordable anymore.

But it was also space requirements, you know, the age of the computers. Remember the file rooms? All the files? And so, our space – 20,000 square feet is now (10,000 square feet). All those space requirements get shoved down, and they're useful space requirements now which require heating and air conditioning and the like for the computer systems or the (workers).

MCCARTHY: You used to have, Mike, more built-out spaces and stuff like that. Now there are more open plans, so when you do that, the square footage requirement … consolidates to a great degree … The mergers and acquisitions of the mid-80s took the whole middle market out of the market. We had bet so much money on them staying and growing and being part of this whole marketplace.

Whether it was the Taylor Act or New York … waking up and saying, 'We can tax these people a lot more.' I think that's what started the migration, but … nobody in their wildest dreams in the '80s would have ever, ever thought that General Foods would have been acquired. I mean, it was just unconscionable, it just would not happen. And when that took place, it was an eye-opening experience. Like, 'Oh my God, if that can happen, IBM could be taken over' and all that. And that would decimate this whole marketplace that we were in.

MEYER: Well let's talk about IBM. They're still in Armonk and the reason is because of cooperative government, which I happen to know about. At the time, 20 years ago, IBM decided they were going to move out and the supervisor of the town of North Castle (Jack Lombardi) said to me (that he) had a conversation with (former CEO Lou) Gerstner (to keep the company there). … and they increased the zoning density on the property (to) allow IBM to build a new headquarters. And then they decided to rip apart the old building and (sought) approval to build an all-weather connection between the new headquarters

BUSINESS JOURNAL: *OK, we know how we got here. Where are we headed?*

WILLIAM V. CUDDY JR.: Until you look back, it is very difficult to plan for the future. A lot of these facts drive the situation we have today and set the table for planning: issues of housing, cooperation and zoning, corporate transitions and how they operate and function, the age of our inventory. And it's a challenge … But it's really just the evolution of what we were due to face inevitably at some point anyway.

This surge in commercial office construction that took place from 1970 to 1985, which accounts for approximately 75 percent of all of our office inventory anyway – it's a bit of a pig in the python. It was designed and organized and planned at a point in time that fit business at that point. Now we're at that natural obsolescence of the design and function of that inventory.

This is one of the most opportunistic times to repurpose this inventory, bring in more diverse industries, be at the cutting edge of what tomorrow's commerce will require.

ROBERT F. WEINBERG: I don't disagree with that. I think mixed-use will be our solutions, but I'll give you some historical views. When I first went into the business, in the late '50s as a builder, we – I'm talking about the industry, generally – were (building as many as) 15,000 units a year of housing of every type. … the real failure I think is the loss of the workforce housing. We were not building high-end housing. We were building housing for the people. So there was a workforce in the county for those big companies to draw on. The attitude changed. … we have gradually become just a place for rich people.

DELBELLO: We also have a great deal more competition than we ever had, from New Jersey and South Carolina and so forth. These other states have become awfully aggressive in attracting industries out of the metropolitan area.

MCCARTHY: But they were aggressive too, Al, in the '80s and '90s. You know, the Atlantas, the Houstons, the Charlottes.

Robert F. Weinberg
President
Robert Martin Co. • Elmsford
Commercial and residential real estate developer
Senior Partner • G&S Investors
Shopping center developer

"Money's available, there's no shortage of equity capital. There's only a shortage of getting government out of the way. Government is our biggest problem. It is our obstruction. … Get out of my way, just get out of my way."

– Robert F. Weinberg

Michael Weinstock
Group Vice President
M&T Bank • Tarrytown
Commercial real estate lending

"The weaker players have filtered through. They weren't able to accomplish some things but the stronger ones have. … And so the flavor-of-the-day was always to say there's no money out there, the banks aren't lending … But that's not true."

– Michael Weinstock

Robert P. Weisz
President • RPW Group Inc.
White Plains • Landlord and commercial real estate developer

"There are positive aspects and unfortunately the reason is desperation. But we don't care what the reason is, the reality is that we are moving in that direction. … There are a lot of positives in this picture – we are concentrating on the negative."