



The Delaware North Building

UNIVERSITY OF MARYLAND

COLVIN INSTITUTE *of*
REAL ESTATE DEVELOPMENT

2017 CASE STUDY CHALLENGE

TEAM 28

EXECUTIVE SUMMARY

Uniland Development's Delaware North Building, named after its primary tenant Delaware North, represents the largest and most prominent private development in the recent renaissance of Buffalo. The project was driven by an RFP issued by the hospitality company Delaware North for their new global headquarters. Coming in at \$110 million and 330,000 gross square feet, this project is an award winning mixed-use development housing Delaware North's 110,000 square foot global headquarters, a 116 room, 4-star Westin hotel, 83,000 square feet of additional Class A office space, 10,000 square feet of retail, and 5,400 square feet of high-class restaurant space. Paired with the main building is a structured parking garage with space for 600 vehicles.

For nearly two decades, Buffalo saw stagnant growth and population decline as people moved to the suburbs, and away to other major metropolitan hubs around the country. In recent years, however, Buffalo has found a new launchpad for growth by turning back to its roots. Cultural powerhouses just outside of Downtown, like Allentown and the Elmwood Village, have seen a boom in residency and vibrancy as Western New Yorkers have followed the nationwide trend of moving back to the City. This momentum has now leached into the Downtown corridor, with a newly redone Main Street bringing back storefront retail. Delaware North itself embodies this notion of Buffalo roots. As their namesake implies, the company was founded at the corner of Delaware and North street in Buffalo in 1915. Over the course of the next 100 years, Delaware North grew into a global hospitality business, incorporating lodging, sporting, airport, gaming, and entertainment industries along the way.

With the advent of their 100th year in business quickly approaching, Delaware North required a new global headquarters that was of a caliber indicative of an international company, and could support the company now and into the future. Uniland's proposal was built on the same vision as Delaware North's to create a world class facility, and this proposal was ultimately chosen by Delaware North as the project in which to invest. The decision to stay rooted in Buffalo was made in competition with relocation to Boston, a city which Delaware North is also heavily invested. This fact alone speaks to the importance of this project in Buffalo's turnaround, and how the city and region have regained a place of importance in national and international circles.

With Delaware North's move into this building in 2016 marking the project's completion, the project is both a seed and beacon for future development in the city. The Delaware North Building not only anchored a prominent economic driver to the city, but expanded and took a key downtown area to the next level in terms of amenities and retail offerings. In addition to keeping the second largest company in the city here, this building won the 2017 Award for Mixed-Use Development from ULI NY, the 2017 Golden Brick Award for Building of the Year from Buffalo Business First, the 2016 Award of Excellence from the Upstate NY Chapter of NAIOP, and Project of the Year from BOMA.

CITY/DOWNTOWN OVERVIEW

Buffalo is New York’s second most populous city with 250,000 residents, behind New York City. First coming to prominence as the ‘City of Light’ at the turn of the 20th century, Buffalo was the site of many innovations in science, technology, and commerce. Connecting the great lakes with the Atlantic Ocean via the Erie Canal, Buffalo grew wealthy on the regional trade passing through its port. The development of railroads and the population movement to the West diminished Buffalo’s capacity as a trade hub, and the city slowly eroded over the last half of the century.

However, Buffalo has found a renewed sense of revitalization at the turn of the 21st Century, again becoming a center for science, technology, and academics. Institutions such as the Buffalo Niagara Medical Campus and Roswell Park Cancer Institute act as major draws to the City and development. Private projects like the \$90 million Conventus medical office building, and University at Buffalo’s \$375 million Jacobs School of Medicine will also join the downtown medical campus. Equally important to economic development is the renaissance of culture about the city. Neighborhoods around the city center are seeing increases in residency as young people move in from the suburbs to be closer to the events and attractions the city has to offer.



Map of Buffalo

Source: Stamen Maps

PROJECT OVERVIEW

<i>name</i>	Delaware North Building	
<i>address</i>	250 Delaware Ave Buffalo, NY	
<i>type</i>	Mixed-Use	
<i>cost</i>	\$110 million	
<i>area</i>	1.95 acre	
<i>size</i>	Office (class a)	193,000 sf
	Hotel	104,000 sf
	Retail	10,000 sf
	Restaurant	5,400 sf
	Total Gross	330,000 sf
	Parking	600 sp
<i>features</i>	LEED Silver accreditation 7,000sf public garden Teaching/Test Kitchens	
<i>programs</i>	Brownfield Remediation ECIDA PILOT Program ECIDA Tax Abatement	
<i>developer</i>	Uniland Development	
<i>builder</i>	Uniland Construction	
<i>architect</i>	Diamond-Schmitt Architects HHL	
<i>anchor tenant</i>	Delaware North (RFP issuer)	
<i>tenants</i>	General Services Admin. The Cullen Foundation KeyBank Rachel’s Mediterranean The Westin Patina 250	

DEVELOPMENT TEAM



UNILAND DEVELOPMENT

Founded in 1974 by Carl J. Montante, Uniland began in the industrial sector, concentrating on warehousing and manufacturing. Over the years, the firm has grown into a family of brands, with services including development, construction, sales, and property management. In its history, Uniland has developed more than 12 million square feet of space across all product types in Western New York which is its primary geographic focus. A locally owned full-service development company, Mr. Montante and his family are deeply rooted in the operations of Uniland, and are invested in continuing to make their home city of Buffalo better for everyone.



UNILAND CONSTRUCTION

A division of the Uniland family of brands since 2014, Uniland Construction is a Design/Build firm that services all Uniland development projects, as well as contracting on other regional developments. The firm is currently contracted for over \$100 million in new construction in the WNY region.



DIAMOND SCHMITT ARCHITECTS

Established in 1975 and now based in Toronto, Diamond Schmitt Architects Incorporated has achieved international recognition for design excellence in a broad range of building types. Working on projects both regional and abroad, DSAI has earned recognition from the American Institute of Architects, the Urban Land Institute, and numerous sustainability certifications from USGBC.



DELAWARE NORTH

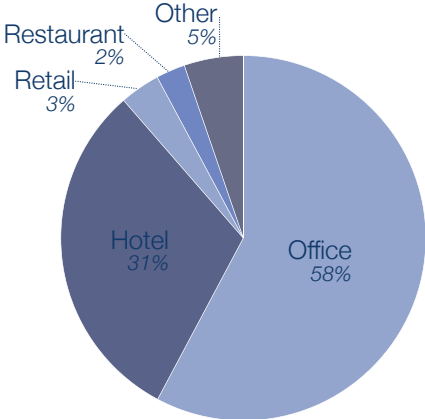
Delaware North was started in 1915 in Buffalo as Jacobs Brothers, by Marvin, Charles, and Louis Jacobs. The company specializes in food service and hospitality, namely at sporting venues across the US and Canada. Since its inception, the company has also taken further hospitality roles in airports, racing and gaming venues, and national parks. The company has grown to have 55,000 worldwide associates and boasts a yearly revenue in excess of \$2.6 Billion. With facilities under management such as TD Garden (home of the Boston Bruins) and their recent acquisition of Patina Restaurant Group, Delaware North is a company that is at the top of the food service industry. To celebrate the company's 100th anniversary, Delaware North Companies initiated a rebranding across all its service companies to become today's Delaware North. As part of this rebranding, the company looked to build a Class A global headquarters for its corporate administration, research, and experimental divisions.

MARKET STUDY

When determining the amount of space to build in this building, the baseline was determined by Delaware North in their RFP. A complication of this baseline, however, was Delaware North’s need for expansion space. This presented a problem: RFP respondents needed to figure out how to provide a major option to Delaware North, which plans to expand its rentable space within 5-10 years, without having the space sitting vacant instead of collecting rent while the tenant waits to use it. To solve this problem, Uniland proposed and Delaware North agreed that this ‘growth space’ would be leased to other tenants at intervals that were specifically aligned with Delaware North’s lease options on these spaces. For example, Delaware North wanted the option to lease an additional 20,000 square feet within five years of their initial lease commencement. To facilitate this, Uniland decided to lease this space to other tenants for lease periods shorter than it would otherwise have done to ensure the space was available to Delaware North, should they want to exercise their option.

Uniland then needed to determine how much office space should be built in addition to Delaware North’s spaces to capture the market demand for other office users that would want space in the building. With the building designed to be “trophy level” office space (A+), the availability of renters within the Buffalo market is relatively small at this elevated price point. In regard to these rates, Uniland stated that the asking price for this office space is at the upper limit of the market. Estimated asking rent for Class A+ office space in this building is between \$25-\$27 per square foot.

Uniland decided to build a moderate amount of speculative office space, 83,000 square feet, based on their own internal market study. This speculation on demand was proven to be low, as during pre-construction, the building pre-leased to 90% occupancy. In the wake of this, Uniland felt that they had missed out on a high demand for office space in the market. After construction had started, Uniland even considered altering the construction plans to add two additional floors of office space to the project after construction to capture this missed demand, but by this time it was too late. In order to make this large change Uniland would have pushed the completion date for 250 Delaware past the agreed upon date that Delaware North required for move in.



Program Distribution

Although Uniland missed capturing some excess capacity, they made the best economic decision with their assumptions at the time of pre-development. In the face of this missed opportunity, Uniland finds a silver lining in that they don’t believe they will face vacancy issues any time soon. Uniland also spent very little on marketing and promotion, as multiple executives at Uniland stated that the additional office space “practically sold itself.”

SITE DESCRIPTION

The 1.95 acre site that is now 250 Delaware was originally multiple parcels. These included the original Delaware Court Building, a two-story mixed use building built in 1917 that fronted Delaware Avenue and wrapped the corner on West Chippewa Street. Other parcels included a gas station on the corner of South Elmwood Avenue and West Chippewa Street, and surface parking creating infill between the two buildings.

250 Delaware is located within the Central Business District (CBD) of Buffalo. The site's location on Delaware Avenue and South Elmwood Avenue, which are both main automotive arteries to downtown, makes it easily accessible by car. A few blocks west of Main Street and the Niagara Frontier Transportation Authority Light Rail, the site is also within convenient walking distance to a wide variety of public transit options.

The neighborhood around the site is labeled a severely distressed, with 28.5% of the population of the central business district below the poverty line. This has been the case in the community and along Chippewa Street for the past few decades. Only in the past 5-10 years has the area seen an initiative to clean up the streets

and businesses through groups like the Chippewa Alliance. A community coalition of business and property owners in the area, the Chippewa Alliance advocates for aesthetic and structural updates to the area as a way to boost community engagement. Uniland has been a member of the alliance prior to acquiring the property at 250 Delaware, and committed to developing a better and safer sense of community as a result of the project.

In addition to transit access, the site is closely located to important cultural corridors and civic centers. Less than ½ mile South is Niagara Square, which connects to City Hall, the Buffalo Convention Center, and a multitude of other office buildings in the CBD. This quick access to the major businesses of Buffalo became a key reason for the development of new office space at this location.



Street View of West Chippewa Street



Map of Central Business District

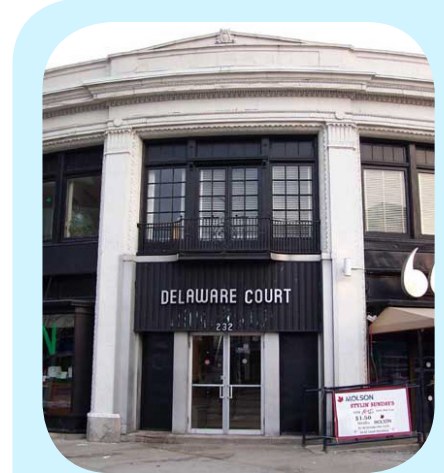
SITE DESCRIPTION

A unique condition of the original parcels was their ownership by the same entity (BTC Block 20 Inc.), a rare condition in downtown Buffalo. This provided a unique opportunity for Uniland to acquire a large amount of land in the Central Business district for large scale development.

Uniland's purchase of the properties was originally speculative with the initial plan to renovate and continue operating the properties as-is until a larger scale development made sense. This large scale development quickly arose, in the form of the Delaware North RFP.

Environmental Remediation Requirements

Due to the previous use of the site as a gas station, Uniland conducted an environmental study on the site as a whole to identify to what extent the site had become contaminated from gasoline and other auto related byproducts. Testing and research revealed that the underground gasoline tank had ruptured, and allowed petroleum to seep into the surrounding soil. The level of contamination qualified the project to apply for and receive brownfield tax credits to facilitate remediation before new construction. A fortunate outcome of the contamination of part of the property was that, post consolidation, the entire property was eligible for remediation credits, not just the previously affected gas station parcel.



Delaware Court Building

The Delaware Court Building, which had occupied the site since 1917, was a particularly interesting piece of architecture. Designed by Lansing, Bley and Lyman Architects, the building was a 2 story, mixed use structure with a terra cotta façade. This façade became a central focal point to both Uniland and local historic preservation groups, who both sought to incorporate it into future developments. This façade would become the subject of hot debate during pre-development; preservation groups threatened an application to designate the building a historic landmark which would prevent demolition.



DEVELOPMENT VISION

The scope of the project was largely dictated by Delaware North which was expressed through it's RFP. Several of the key drivers from this RFP were to:

1. Create an impressive, sustainable and efficient office environment for its employees that includes floor plates equal to or exceeding 28,000 square feet
2. Provide for significant future expansion Include a hospitality training center and test kitchen to support the International Hospitality Management Division and Food Services group, and provide lodging for trainees, vendors and various business associates who visit Buffalo from diverse locations around the world
3. Provide adequate adjacent parking to meet Delaware North's needs
4. Supply state-of-the-art conference facilities and meeting space to host business partners and officials from across the U.S. and its international locations

Taken together, Delaware North wanted to truly make this headquarters the center of new growth for the company.

Uniland took these parameters, and conceived of a project that addressed these key issues as well as incorporated the community's wishes. From Michael Montante, Director of Development at Uniland, "I don't believe that there is another site out there in Buffalo that would have given Delaware North the exposure that they currently have. As the building stands now it is very visible and prominent, which is what is needed for a global company's headquarters." The design of the project draws on the history of Buffalo, and reinterprets it into a modern construction that serves all the needs of a growing, global company. While serving the company who originally commissioned it, the project also engages the surrounding community, and serves as a catalyst to reinvigorate a distressed neighborhood.



Proposal Render

Source: Diamond Schmitt Architects

PLANNING AND ENTITLEMENTS

The project saw little opposition in the entitlement process. The building and site plan were mostly as of right; only a few variances were needed which were not hard to get approved. This ease of approval was due in no small part to Unilands proactive approach to engaging and supporting the community in its planning process for the building. Their planning process engaged concerned parties and community interest groups with the intention to work proactively towards common goals to get the project done in a way that would satisfy everyone. These efforts focused specifically on community safety and design performance and aesthetic.

Following years of seedy and illicit behavior on West Chippewa, area residents were keen on the project continuing and enhancing the safety measures that have been put in place. This point was most contested in the design of the parking garage. Instead of simply being a concrete structure, the garage was designed to be more open and safe; stairwells incorporate glass walls and bright colors for more visibility. Retail space was added on the ground floor to engage South Elmwood Avenue and contribute to the community's goal of having 'eyes on the street' to prevent loitering in urban dead zones.

The biggest hurdle to overcome for Uniland on this project was in regard to the historic nature of the Delaware Court building. Because the site is on a highly visible corner of downtown Buffalo, preservationists were concerned with keeping this historic 100 year old structure. Uniland originally attempted to keep the existing facade and develop a new building behind it. Due to years of neglect and deterioration of the terra cotta pieces, it was determined that

“ We had an opportunity, the city had an opportunity, and the community had an opportunity to do something great here ”

- Michael Montante
Director of Development
Uniland Development

saving the original was infeasible. Instead, the design opted to recreate the facade exactly. This option satisfied both Uniland and the community, and refreshed the historic fabric of the neighborhood to last another 100 years.

Architect Selection

In its RFP, Delaware North required that the new headquarters be of a world-class design quality, indicative of a global company. Uniland engaged local architecture firm HHL for site plan and building design for its initial RFP response. After being selected as designated developer, Uniland and Delaware North jointly worked together to further the design of the building.

A new design competition was launched to recruit a more widely known designer, and invitations were sent to Toronto-based firms Diamond-Schmitt Architects, and NORR Architects; in addition, the regional firm CJS Architects was extended an invitation, with a second submission from HHL rounding out the entries. Delaware North and Uniland together chose the proposal from Diamond-Schmitt Architects to be developed.

Public Incentives

Like other rust belt cities whose economy was heavily tied to manufacturing and trade, Buffalo has seen a large decline in population and business over the past 50 years. Due to this decrease in demand an increase in vacancy and a subsequent drop in rental rates made new construction

PLANNING AND ENTITLEMENTS

nonexistent within the City for many years. Only in recent years, Buffalo has begun to see increased demand in hand with the end of its 50 year population decline. Residents are beginning to follow the nationwide trend of moving back to denser, urban environments from the suburbs and Buffalo is beginning to see more demand for uses in historic downtown buildings. This demand for space has made it worthwhile for developers to start to renovate these structures. To help facilitate this interest in downtown development, creative financing and public assistance are both necessary for almost all adaptive reuse and new build projects in the city. Only until very recently did it make economic sense to build a new building in downtown Buffalo, due to the large supply of existing buildings available for repositioning.

Brownfield Tax Credits

Brownfield tax credits were used to finance the cleanup of environmental contamination at the site. As Michael Montante put it, “Kudos to NYS to have the brownfield program in place, this project wouldn’t have been feasible without it”. Brownfield tax credits are a state financial tool used to offset some of the cost of cleaning up “dirty” sites around New York, and to incentivize the redevelopment of these dirty parcels. This works via a refundable tax credit system in proportion to the amount of environmental cleanup needed, with an additional amount in proportion to the size of the development. Conservatively speaking, if Uniland received a 12% credit on the total project cost of \$110 million, then the state would provide \$13.2 million in refundable tax credits. Since Uniland did not have taxable income in excess of \$13.2 million in the year after they placed the project in service, the state was obligated to refund the balance of the tax credit in the

form of an income tax refund check. Uniland only spent \$1.5 million on environmental cleanup, thus, unlocking the full incentive of \$13.2 million from NYS contributed a critical piece of the capital stack.

Erie County Industrial Development Agency Tax Abatements

With a specific project return in mind from the outset, the project was modeled out to reach this number in the best way possible, but this project was simply not possible without a decreased tax liability tied to this development. A tax abatement was necessary to make the cost work for Delaware North and in turn, the entire project. The reason being that in a traditional office lease, property taxes pass through to the tenant. Because of this, and since DNC was looking at multiple locations outside of Buffalo, it was necessary to reduce the taxes to a certain point such that it made financial sense for Delaware North to stay in Buffalo. Both the city and the region knew how vital it was to keep such a large company in the city, not only for the jobs they produce, but for the subsidiary business that they create.

Development Timeline

September 2012	Land purchased from BTC Block 20 Inc.
October 2013	Application to ECIDA submitted
December 2013	ECIDA Incentives approved
March 2014	Demolition begins
May 2014	Remediation complete Foundations installed
October 2014	Top-off of structure
April 2015	Acceleration of interior build-out to meet move in deadline
October 2015	Core and Shell completed
August 2016	Interior fit-outs completed

BUILDING ANALYSIS

RFP Requirements

Delaware North, in its RFP, was very particular about the requirements of the new space, and in the program elements and amenities it wanted to see in its world headquarters.

For the new building, Uniland needed to provide:

1. Class A Office space, with various sized meeting centers to connect with global business
2. Hotel component, to lodge visiting guests and employees from around the world
3. Hospitality Training Center, with Test Kitchen, for training employees and developing new products with Food Services Group
4. Restaurant Space, for Patina Corp
5. Expansion office space
6. Parking



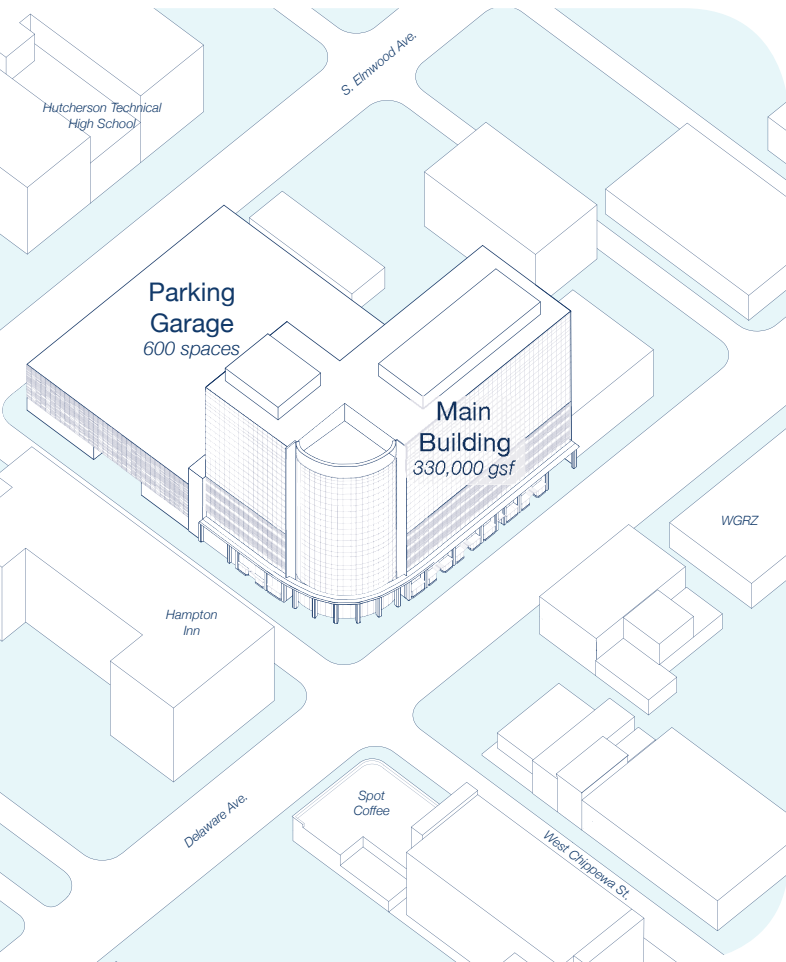
Site Plan

Source: Uniland

Site Plan Analysis

250 Delaware occupies 1.95 acres, which is over 50% of the city block that contains it, making it one of the largest new developments in the central business district. The site is partitioned into two main parts; the main building and the parking garage. The project contains 5,400 square feet of ground floor restaurant space, a 116-room hotel, 10,000 square feet of ground floor retail, and 193,000 square feet of Class A office. The parking garage contains 600 spaces to support the main tenant spaces. An urban garden separates the hotel lobby from the parking garage.

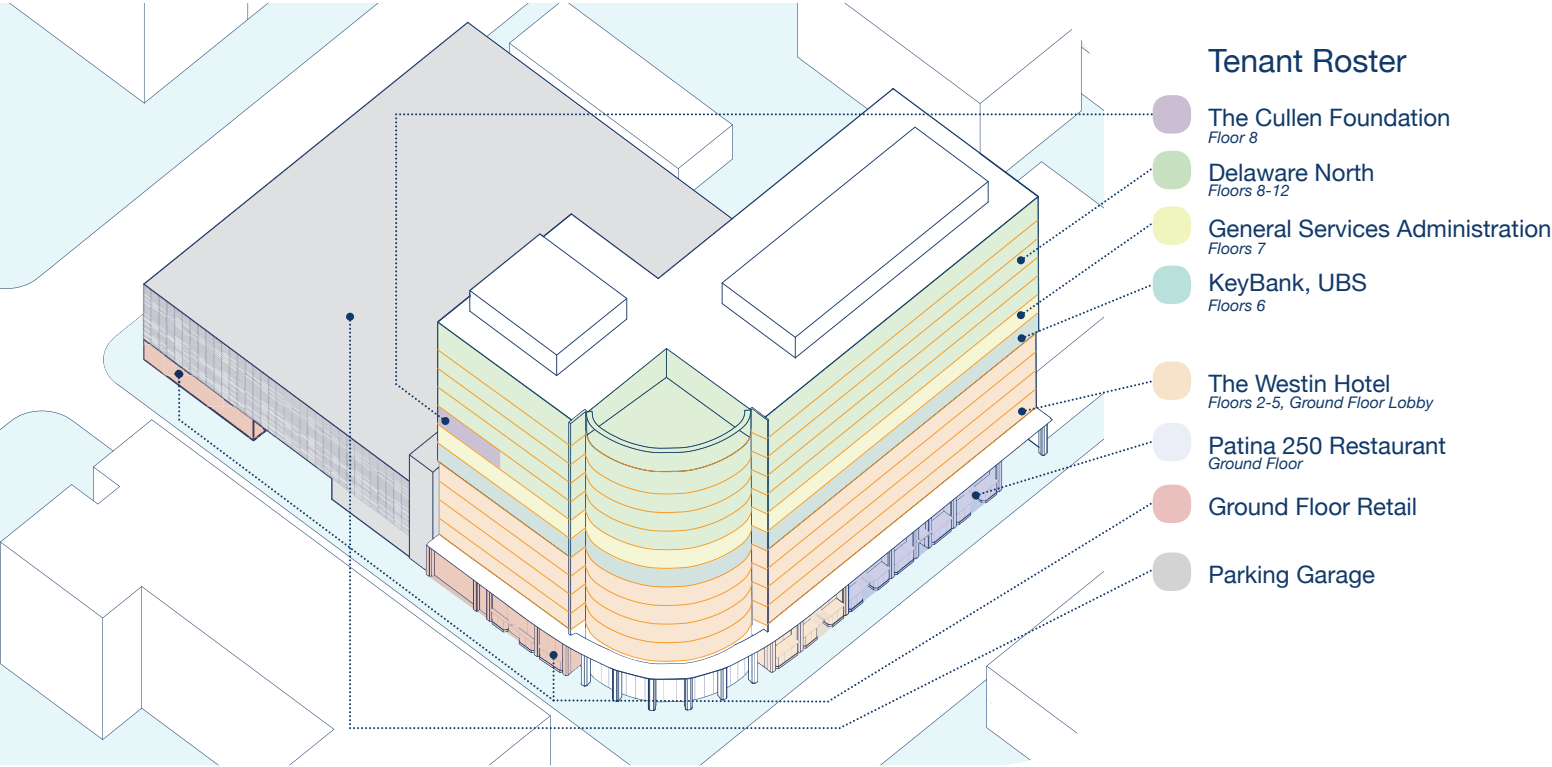
The main building occupies the footprint of the previous structure along Delaware Avenue and West Chippewa Street, while the parking garage occupies nearly the entire west half of the property. An internal access road runs along the northern edge of the property, providing access to the parking garage from Delaware Avenue.



Garden Rendering

Source: HHL

BUILDING ANALYSIS



Building Analysis

The design intent of the main building was to preserve the past while creating a world-class headquarters oriented towards the future. Delaware North was keen in stating in its RFP that the building be suitable for a global company. Local architecture firm HHL worked with Uniland in the beginning stages of the development to develop the overall site plan and basic layouts, with Diamond-Schmitt Architects creating the final concept design.

Class A Office Space

Delaware North required very particularly designed offices as part of its design requirements. The size of floor plates was a key design point for the company. Having researched and conducted effectiveness studies, a floor plate area of 28,000 square feet was determined to be ideal. This size fit the dimensions of the site perfectly, being just larger than the footprint of the existing building. For its internal space builds,

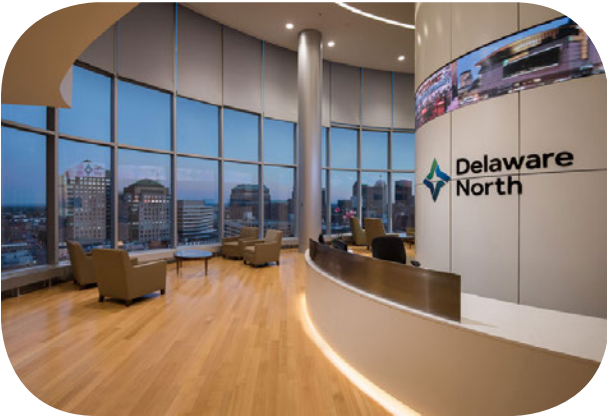
Delaware North coordinated with Diamond Schmitt on the core and shell design, and engaged design firm Gensler for interior design and layouts. The key nexus point of the office space is the “Hub,” the double-height central auditorium and meeting place for the company located in the oval corner of the building. This spectacular space provides stadium seating for in person employees, with panoramic views of the city back dropping an elaborate teleconferencing rig to connect the headquarters with its outposts around the world.



“Hub” Auditorium - Delaware North

BUILDING ANALYSIS

The workstation space radiates from the Hub on the 10th floor, and up the top 3 floors of the building. The executive suite on the 12th floor opens up onto a green roof patio, with spectacular views of the entire city.



Delaware North Lobby

Hotel

The Westin Hotel, which is operated by Delaware North, occupies floors 2-5 of the building. The rooms are drawn back slightly, behind the daylight screening, from the footprint edge to give more privacy to the occupants from the busy street below. A world class hotel was specifically requested in Delaware North’s RFP in order to convey the prestige of the company to visiting business associates and employees coming to Buffalo for training. In order to fill this need for prestige, engaged Westin to bring their first location to Western New York, and the first four star hotel to Buffalo.



Banquet Room of the Westin Hotel

Restaurant Space

Delaware North is also the owner of the Patina Restaurant Group, one of the foremost operators of premium restaurant and catering establishments. The addition of a restaurant outlet is tied with the training kitchens, to provide a testing grounds for new menus and to train new employees.



Bar at Patina 250

Additional Tenants

Not all of the unused floor area of the building is part of the expansion space. At opening, floors 6 through 7 were designed as available to lease to third parties. This space saw a great deal of interest even before construction, seeing the building 90% pre-leased prior to construction. Notable other tenants include Keybank, the GSA, and The Cullen Foundation. Ground floor retail is filled with Osteopathic Wellness Medicine of Western New York, a Keybank branch location, and local restaurant Rachel’s Mediterranean Cuisine, located in the retail space of the parking garage. At stabilization, the building was at 100% occupancy.

BUILDING ANALYSIS

Parking

The parking ramp is a necessary amenity to the building; Buffalo transportation is centered around the car, making parking a requirement for employees and guests, and to relieve traffic pressure on the surrounding area.



View of Parking Garage from South Elmwood Ave.

A design concern of both Uniland and the community, the parking garage needed to be more than a standard, prebuilt concrete structure. Wary of the area’s previously notorious reputation, residents were concerned that a standard garage would be dark and unsafe, not to mention an unsightly mark on the character of the neighborhood. With these concerns in mind, the parking garage took on some of the characteristics of the main building, obtaining a screened terra cotta facade, ground floor retail fronting South Elmwood Ave., and glass-walled stairwells with bright, colorful interiors. Complete with secured entry points, Uniland took what is usually the least attractive part of a development and created a community-integrated focus point.



Terra Cotta Facade

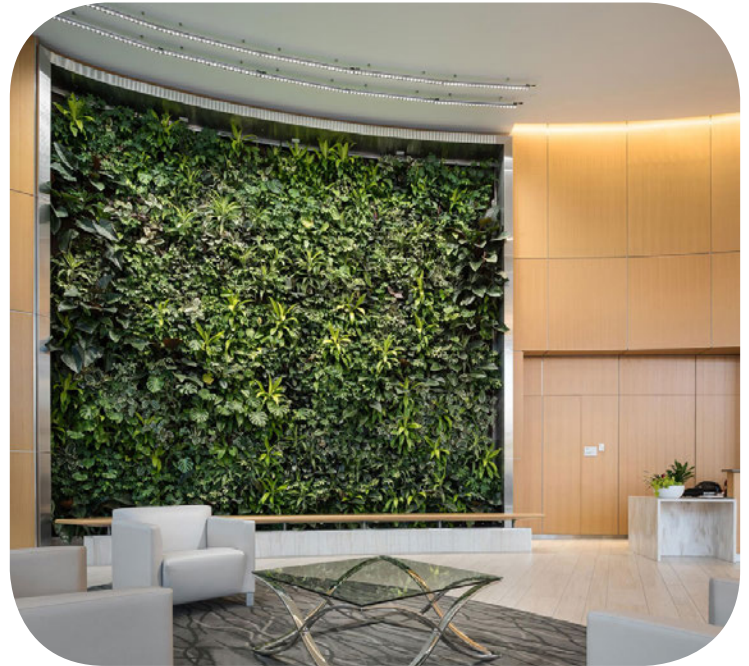
Both Uniland and the Historic Preservation Board were interested in maintaining as much of the original structure as possible. However, due to the structural demands of the proposed project, and the decayed state of the existing buildings, it was not possible to reinforce and renovate the structures already present. This presented another unique opportunity to reinvigorate something old into something new. While the existing facade could be dismantled and replaced, it was chipped, broken, and stained. Uniland instead opted to completely recast the terra cotta facade and install it in the same place as the original. The design and construction teams worked with Boston Valley Terra Cotta, a Buffalo-based manufacturer, to recreate the facade from existing pieces, and even some original molds found in the basement. The facade today speaks as a metaphor for the development as a whole, the embrace and reinvention of the old into the new.

SUSTAINABILITY

250 Delaware is a certified LEED Silver project, and demonstrates a number of sustainability measures to achieve this. The construction period contributed to these measures through soil remediation, and through a construction waste management plan that diverted 50% of waste from landfills. These actions together removed and prevented pollutants from entering the environment and surrounding community. The building's location lent itself towards public transportation access and alternative commuting. While the campus contains a 600 car parking garage, it also contains parking for 40 bicycles, a welcome amenity that builds off the new bike lanes along Delaware Ave. The proximity to the NFTA-Metro Light Rail 2 blocks away encourages use of mass transit, which reduces automobile pollution.

The building's design contributes in a number of ways towards sustainability. The exterior facade uses treated glass to reduce heat absorption, and the terra cotta battens act as sun shading elements to prevent excessive heat gain through the hotel floors and the parking garage.

Inside the building, low flow water fixtures prevents excessive and wasteful water use. Sophisticated equipment was used in the HVAC system to monitor Indoor Air Quality. But perhaps the most simple addition to this system is the Living Wall installed in the lobby. The largest installation of its kind in western New York, the wall contains over 1000 plants, providing fresh oxygen exchange, which has been documented in tenant experience of the lobby space.



Green Wall, located in Office Lobby



LEED Silver Designation

CAPITAL FORMATION

This project's total cost was \$110 million, a large investment for a private sector project in Buffalo. Obligated from conveying the full scope, Uniland explained the capital stack at a high level. The debt used a traditional scheme of construction financing, which converted to permanent financing upon project stabilization. Based on a standard assumption that financing received was at least 75% of the cost of the project, this loan was in the amount of \$82.5 million.

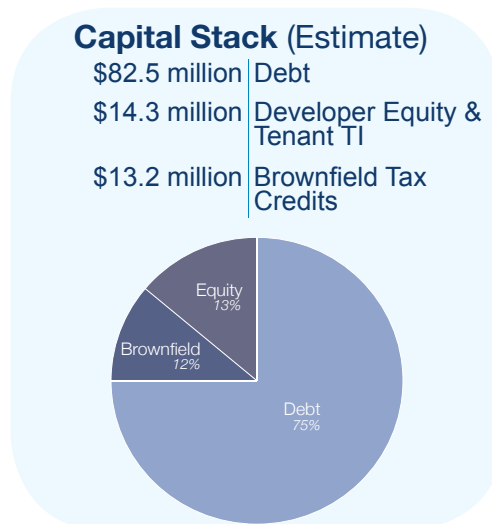
For equity, Uniland searched for multiple ways to reduce the amount of personal equity needed upfront without disproportionately reducing their returns. Uniland wanted to own the building at the end of the day, but with as little out of their pocket as possible. A creative way this was accomplished was to have some tenants essentially pay rent upfront. Instead of paying \$25 per square foot over the course of their lease, Uniland offered tenants the option to pay a lump sum of rent "up front," which Uniland then diverted into the capital stack as up front equity on their part. This system allowed tenants to pay the proportionate amount less than \$25 per square foot going forward as rent, and it allowed Uniland to reduce the amount of personal equity in the deal. Since several of their tenants, primarily Delaware North, are very large and successful companies with available assets, this was a "win-win" for both parties.

To qualify for brownfield credits there needs to be a certain amount of contamination already inherent on the site from past uses. After this initial qualification, the level to which you clean up the site then determines what percentage of benefits the project may receive. To promote development on the site, and not just cleanup, NYS offers incentives to help cover remediation costs as well as an incentive on new development

on the site. These benefits were put in the capital stack, even though Uniland knew that they would not come into effect immediately.

Some of these financial benefits came in upon completion of the project and the rest will come in over the course of the next 5 years. Because of this, this money needed to be "lent" to the capital stack so that it could exist during construction and be paid back as the benefits actually rolled in.

For this project, Unilands capital markets group had two capital stacks. They had a short term and a long term capital stack because of the fluidity and timing of the Brownfield benefit. The long term capital stack looks as follows:



What changed in this in the short term is the Brownfield credits. The initial portion of the credits only became available after construction completion (about 5% of the benefit) with the rest available over the course of 5 years. Since this money didn't actually exist to cover the project cost at the time of construction, it needed to be replaced in the short term in the form of a bridge loan. M&T bank covered two thirds of this obligation, with Uniland covering the rest.

CAPITAL FORMATION

Project Performance to Proforma

One of the biggest issues with performance so far has been because of this temporary replacement of the Brownfield equity with additional developer equity. Project returns have not been quite where they would be if Uniland had less equity in. This was mostly planned, as Uniland knew that the Brownfield benefits would not be received immediately. Uniland has stated that the state has been slow to get them these benefits.

In regard to anticipated lease rates, Uniland admitted that they did go slightly lower than they would have liked on some leases, but in exchange for lower upfront rent Uniland included escalations that will make up for this initial discount over time. Uniland is currently hitting their performance targets, but over the next few years they will start to be right where they want to be as their additional equity can be pulled out as they begin to receive the Brownfield credits.

One of the biggest drags on performance comes in terms of parking. Because of market forces, Uniland is currently charging \$90-\$100/month per parking stall in the structured ramp on site. Because of the above and beyond design that went into making the parking ramp more safe and attractive to the community, Uniland told us that they needed to be closer to \$225-\$300

per month per parking stall, an infeasible rate in downtown Buffalo.

In determining uses of these funds, use of publicly available information was used to estimate project costs. Since only the office and parking components of this project received public assistance, the costs of these portions of the project were publicly published. Because the retail aspects of this project were not allowed to receive economic development incentives per law, the cost of the hotel and the ground floor retail spaces were not issued with this publication, and have been estimated in proportion to the rest of the project cost.

Future Strategy

Uniland is a build/hold company. Despite being Delaware North’s global headquarters, Uniland is still owner of the building, and expects to hold the building for an indefinite term. Uniland believes in the staying power of what they develop, and this is shown as they currently manage over 100 properties in the Western New York region. They develop buildings with the sole intention of holding them indefinitely, and this project is no different.

Capital Uses (Estimate)				
	ECIDA	% Total Cost	Estimate	% Total Cost
Acquisition	\$3.8M	7%	\$3.8M	3%
Hard Costs	\$41.5M	78%	\$91.42M	83%
Soft Costs	\$5.8M	11%	\$12.78M	12%
Remediation/ Abatement	\$2M	4%	\$2M	2%
Total Cost	\$53.1M		\$110M	

DEVELOPMENT IMPACTS

The Delaware North Building is the first new high-rise built in Buffalo in over 25 years. While the current economic turnaround of the region has provided a stable base for new investments, the project stands on its own merits, and shows that new development can be done, and done well. The success of the project has created effects that extend beyond the development realm in three major categories: it retained one of Buffalo's largest companies in within the region, it created a denser and more vibrant urban condition within the City, and has changed the quality of the community immediately surrounding it.

Keeping Delaware North in its home of Western New York was certainly a win for Buffalo. 375 jobs that pay an average salary of \$97,000 stayed in a region where the median income is \$48,000 were retained in the area by Delaware North. Looking forward, Delaware North plans to create 65 new jobs with an average salary of \$70,000 within the next 10 years. The added benefit of locating an international headquarters in the city also draws a large amount of attention and interest in the city. As Michael Montante put it "Every city needs as many company headquarters as they can get their hands on."

The City and County reaped great benefits from the new development. Even counting abatements and incentives, the property generates an estimated \$338,000 in city and county taxes annually, with a 14% annual increase. Over the next 10 years, the City is expected to collect \$4.8 million in new tax revenues. All this, compared to the \$47,000 collected prior to Uniland's acquisition and development, makes a marked impact in the city's bottom line each year.

Apart from tax gains, the City also is able to further its initiatives towards a denser and more vibrant urban core. In the year since completion, the City passed its new zoning code, dubbed the "Buffalo Green Code," which places importance on urban living and development. This project incorporated many of the key principles of this new code, and serves as a key example of how to implement the City's new planning vision.

While this development has created far reaching benefits, it has not benefitted everyone in the same capacity. The project is located in a highly distressed area, and does not directly address the issue of poverty or economic opportunity. The building's amenity offerings and employment opportunities are not aimed at the demographic existent in the community surrounding it. Eligible for new market tax credits, this project delivered one of the highest end buildings in the city and is for a class of people that is not directly represented by those in the immediate neighborhood.

Overall, through a collaborative design process Uniland, the City of Buffalo, Erie County, and Delaware North were able to deliver a beautiful and high-class building that furthers the progress Chippewa Street and the City of Buffalo have shown over the past few years.

OPERATING ISSUES

We were alerted to several operational issues with the building. With the building being fully leased, storage space is at a premium. Much of the allotted storage space for each tenant is filled to the max, with some tenants using their parking spaces as auxiliary storage space.

Once the building was up and running it was realized that there was no space allotted for a garbage room. With a full service hotel, two restaurants, and several floors of office space this quickly became an urgent need. A small space was carved out of the service garage to serve this, but a deal needed to be struck to keep a compactor in enclosed garage space that was reserved for a tenant. This temporary fix has proved to be very costly as they have garbage pickup 5 days a week, and they are eagerly looking forward to the implementation of this longer term solution.

One of the biggest concerns of management is how the building will perform in a severe chill with high occupancy in the hotel. The building has yet to be tested in temperatures below zero coupled with an occupancy above 80% in the hotel. They are worried that the boiler and hot water capacity may not be enough to keep up with the heating and hot water demands of so many people all using the building at once.

Although the elevators are optimized to minimize the wait time for each passenger, management thought it was wasteful when multiple passengers on the same floor, going in the same direction, would all be instructed to take separate elevators.

Finally, the public parking aspect of the parking ramp has turned out to cause some of the most recurrent problems with the entire development. A surprising amount of people get “stuck” trying to exit the ramp because the payment machine only accepts credit card, and many people have broken the gate that monitors which cars come and go in an effort to cheat the system.



Marketing Imagry

Source: Uniland

LESSONS LEARNED

The biggest hinderance to project returns appears to be the lack of a formal market study by Uniland. With the site originally being bought on a speculative basis, the need for a market study at the time of purchase was low. Uniland's plan to wait for an opportune time to redevelop this site would have necessitated a study be done eventually, but quick timing of the Delaware North RFP soon after acquisition prevented a thorough study from being performed.

Despite the lack of a formal study, Uniland still identified a niche hole in the market for premium class A office space. Because very little of this class A office space existed in Buffalo, it was tough to determine how much of the market was willing to pay a premium to move up to a type of space that didn't currently exist here. Uniland's gut feeling of demand for office space was not wrong, however they missed an opportunity to capture more of the market. If the development timeline had not been expedited to meet Delaware North's needs, more time could have been directed towards testing the market and ultimately delivering an amount of office space that would have fully captured the market.

This risk of venturing into this new office market was eased by Delaware North's plan to expand into more office space over time. Should Uniland have overestimated the demand for high class office space, Delaware North's expansion options would have filled the space over time which reduced the risk of extended vacancy to Uniland.

The importance of community outreach was apparent in the success of this development. The fact that a historic building in a prime location was able to be deconstructed by a developer in Buffalo speaks volumes. The extent to which Uniland worked hand in hand with stakeholders to find solutions that worked for everyone was not an accident. In Buffalo, proposals for new build real estate projects usually come with a fair amount of pushback. Uniland credits the fact that this project went through the approvals process rather easily to developing a working relationship with the community. Uniland held regular meetings communicating plans and projections to the community, and actively engaged community interests with respect, and with the goal of finding a mutually beneficial outcome for everyone.

CONCLUSION

Buffalo's renaissance in the past five years has changed the nature of development in the region. What was thought impossible only a decade ago is now within reach through a collaborative public/private process. The efforts of both Uniland and Delaware North to bring this project to fruition build upon and embrace the historic roots of Buffalo, while creating growth and opportunity for the future.