

November 13, 2019

Peter Dewan, Chair (*via e-mail*)
Downtown Development Authority
410 Abbot Road
East Lansing, MI 48823

RE: Letter of intent to acquire the DDA properties at 314 – 344 Evergreen Avenue

Dear Mr. Dewan,

Convexity Properties is pleased to present this offer to acquire the Downtown Development Authority (DDA) Site at 314-344 Evergreen Avenue in East Lansing. As you know, we have been active in the East Lansing community since 2015 and have a positive relationship with the community, City Staff, the DDA/BRA and Council. We would like to highlight the reasons why Convexity is the ideal purchaser and developer of the DDA Evergreen Avenue site:

1. Attractive Offer Terms

- Purchase price: \$3.0 million. Convexity will pay the DDA's bi-annual debt obligations until the development is completed. Upon project completion, the amount remaining (\$3.0 million less payments made) will be paid.
- Balance of DDA debt addressed through Interlocal payments from an amended Brownfield Plan.
- 341-345 Evergreen Avenue deeded to City for use as public parkland.
- Convexity's ability to access the property tax increment generated by The Abbot, The Graduate Hotel and the proposed development on the DDA site to fund the required City Infrastructure work, park expansion, debt relief provided by the Interlocal and other eligible expenses while limiting the reimbursement period to 15 years (only an additional 6 years beyond the current plan)
- City infrastructure work and park improvements included in proposed project: \$5.0 million.

Our Full Letter of Intent is attached. Integral to this offer is that the land deeded to the City of East Lansing shall be public parkland and not made available for any future development whether public or private. Additionally, by the deeding of this property, the City understands and agrees that the public benefit provided by the expanded and improved park provides a diverse and unique use to the Site Plan which shall satisfy the diversity requirement of the occupancy ordinance (Ordinance No. 1384) for both The Abbot and the proposed development on the DDA Site.

2. Financial Capacity

Convexity is the real estate arm of DRW, a Chicago-based trading firm with approximately 1,000 employees and ten offices in five countries. We finance real estate developments with only two sources of capital: (i) internal equity – which we have (we do not need to raise equity from third party investors), and (ii) conventional construction loan financing from a bank. This simple funding structure provides the DDA with certainty and speed of execution. In addition, because of our experience in the local market we have current / real-time data on development costs and projections, which will facilitate underwriting to secure a construction loan.

3. Knowledge of Development Process and Certainty of Delivery

We acquired our downtown East Lansing assets in late 2015 and have been an active market participant ever since. In the four years since acquiring, Convexity has delivered on obligations to improve the blighted properties and provide necessary public improvements, something that previous parties failed to accomplish over the course of the 12 years preceding our acquisition. Our project at 100 West Grand River (The Abbot) and the companion development at 124-140 West Grand River (The Graduate Hotel) successfully incorporate many elements required for such projects to positively contribute to the urban context, the community and ultimately the development's success. The same knowledge and experience will be committed to the redevelopment of the DDA Site including: (i) creative design approach focusing on both the building and public realm, (ii) proven project team including in-house expertise, legal counsel, architecture/engineering consultants and contractor(s), (iii) detailed understanding of necessary zoning approval(s) and process, (iv) infrastructure improvements which benefit the City, (v) working with Staff and the MEDC to approve a Brownfield Plan, and (vi) negotiating a development agreement with the City.

4. Development Schedule & Closing

Given our experience, knowledge of the process and financial capabilities, we propose the following schedule whereby Convexity would close on the purchase in late March 2020 upon Council approval of: the Site Plan, amended Brownfield Plan and Development Agreement:

- *November 13, 2019:* LOI submitted
- *December 18, 2019:* LOI signed/accepted by DDA
- *March 24, 2020:* City Council approval (after Plan Commission, DDA and BRA recommendations)
- *September 1, 2020:* Convexity files for building permit
- *November 2, 2020:* Construction commences
- *May 20, 2022:* Construction complete

The March 24, 2020 Council approval allows for closing on the DDA Site prior to the DDA’s scheduled April 1, 2020 principal and interest payment of approximately \$247,000. With diligence and collaboration this date is achievable. For consideration, this closing date would be around the time RFP responses may be received if it were published in December. Factoring in the developer selection, due diligence, planning and design, approvals and financing, a 2021 closing could be expected for a well-qualified and experienced RFP respondent. There are obvious risks associated with this more protracted timing and process.

5. DDA Debt Taken Care of

Convexity will pay the DDA’s debt shortfall from closing until six months after receiving a Certificate of Occupancy for its building on the DDA Site. At that time, Convexity will pay the DDA \$3.0 million less payments made to cover debt shortfalls up until that time. Beginning in 2023 we propose including Interlocal payments to the DDA as part of the amended Brownfield Plan such that the DDA receives \$300,000 each year through 2031 to cover the future remaining debt obligations. The tables below illustrate this structure:

Current Situation						
		(1)	(2)	(3)	(4)	(1 + 2 - 3 - 4)
	Principal Balance	Principal Payment	Interest Payment ⁽¹⁾	Interlocal Reimbursement	341 / 344 Income	Shortfall
2020	\$5,470,000	\$110,000	\$273,500	\$16,524	\$122,050	\$244,926
2021	\$5,360,000	\$110,000	\$268,000	\$85,101	\$124,491	\$168,408
2022	\$5,250,000	\$110,000	\$262,500	\$86,016	\$126,981	\$159,503
2023	\$5,140,000	\$110,000	\$257,000	\$86,939	\$129,520	\$150,541
Cumulative Shortfall 2020-2023:						\$723,378

Convexity Proposal						
		(1)	(2)	(3)	(4)	(1 + 2 - 3 - 4)
	Principal Balance	Principal Payment	Interest Payment ⁽¹⁾	Interlocal Reimbursement	Convexity Payment	Shortfall
2020	\$5,470,000	\$110,000	\$273,500	\$16,524	\$366,976	-
2021	\$5,360,000	\$110,000	\$268,000	\$85,101	\$292,899	-
2022	\$5,250,000	\$110,000	\$262,500	\$86,016	\$286,484	-
2023				Convexity Cash Payment to DDA	\$2,053,641	
					\$3,000,000	
Cumulative Shortfall 2020-2023:						0

(1) LIBOR + 200 bps. LIBOR assumed to be 3.0%.

6. Work funded by Convexity and reimbursed through an amended Brownfield Plan

Convexity will fund \$5.0 million of public infrastructure work around the DDA Site. This work shall include:

- Extension of Albert Avenue to the west connecting with Valley Court Drive and through what is currently Parking Lot #8.
- Creation of a vehicle free pedestrian / bicycle zone inclusive of both hardscape and landscape elements along the existing Evergreen Avenue right-of-way from the Albert Avenue extension northbound towards the Oakwood neighborhood.
- Extending 12" water main to the west and connect with existing water main in the Valley Court Drive right-of-way.
- Extend the large combination sewer north towards the Oakwood neighborhood within the Evergreen Avenue right-of-way.
- Incorporate new park side surface parking lot for approximately 50 hourly parking spaces.
- Expand the park to include the 341-345 Evergreen property and eliminate the portion of Valley Court Drive between the 341-345 Evergreen parcel and the existing park. The combination of existing public land and the 341-345 Evergreen property adds approximately 52,000 square feet (1.2 acres) to the existing park. This represents a 30% increase in park area which results in a total park area of approximately 5 acres.
- It is understood that simply adding open public park space without a better understanding of expectations or a more specific program will not address broader community desires. It is envisioned that the eastern portion of the park will be developed with community input and focused on flexible outdoor event space suitable for festivals, performances and other activities. It will include a combination of hardscape, landscape elements/plantings, lighting, site furnishings and possibly modest structure(s). Of the \$5.0 million allocated for infrastructure work, \$1.5 million shall be dedicated for work specific to actual park improvements.

Convexity has planned on an additional \$4.0 million of expenditures to be reimbursed through the amended Brownfield Plan. This shall include:

- Demolition and abatement costs incurred to date for the 2015 demolition of the buildings on the 341-345 Evergreen property.
- Demolition and abatement of the buildings that currently exist on the DDA Site.
- Environmental and unsuitable soils remediation on the DDA Site, inclusive of importing and compacting fill, as may be required.
- Earth retention system necessary for excavation and protection of the public alley and underground utilities in the alley.
- Consultant fees and permit fees associated with the all work listed above.
- Other allowable eligible construction costs inclusive of contingency.

Convexity would be reimbursed from tax increment revenues by amending its current Brownfield Plan to include a new building on the DDA Site and the public property where work is to be performed. The amended Brownfield Plan will include reimbursement for work associated with The Abbot and surrounding public infrastructure as approved in 2018, the \$5.0 million funding for the expanded public infrastructure and the \$4.0 reimbursement for work outlined above. These amounts, inclusive of the statutory interest and amount reimbursed directly to the DDA through the interlocal for the balance of the DDA debt results in approximately a 15 year repayment duration (commencing with the completion of The Abbot) based on an estimate of the aggregated incremental assessed value of \$25.0 million. The increment is inclusive of The Abbot, The Graduate Hotel and the proposed development on the DDA Site. Because Convexity can amend the current Brownfield Plan, and it includes multiple buildings that produce a significant increment, the repayment period is significantly faster than it would be under any proposal from a different company that relies on the increment generated by a single development.

7. Tasteful Design and New Public Park

Planning for the DDA Site is integrally related to the broader urban context of East Lansing, the City's desired public infrastructure improvements and the adjacent developments currently under construction. These buildings and what is

proposed for the DDA Site are the built form that will establish the downtown's new west side, replacing vacant, underutilized and blighted properties with new construction and varied uses. The improved and expanded park becomes the western terminus to downtown, an arrival forecourt for those approaching downtown on the Albert Avenue extension and a transitional environment from downtown commercial districts to the residential neighborhoods to the north and west. The park's expansion and improvement is intended to provide a flexible and programmable outdoor venue for community events while also providing significant open space.

The proposed building massing and typology speaks to the immediate and broader context. On the southern portion of the property is the building's taller portion which is in approximate alignment with height of The Graduate Hotel. The north portion the building steps down to seven stories as a transition from the Grand River building scale to that of the residential neighborhood to the north. The height of this northern portion would be allowed in the lesser B-2 Zoning District (approximately 80 feet). Addressing the park and fronting on the now pedestrian only Evergreen right-of-way, walk-up type residences or townhomes are proposed. In addition to providing a pedestrian scale and activity, the walk-up units conceal the necessary structured parking from view. The three primary building elements are further refined architecturally, to both unify the building's overall expression while simultaneously speaking to the more immediate context. Similar to both The Graduate Hotel and The Abbot, the building's materiality will be a combination of masonry, glass and metal panel. The building will contain a maximum of 230 market rate residential apartments and approximately 180 parking spaces. The building will be programed with both communal and private occupied roof terraces at building setbacks. Convexity is committed to sustainable design and building practices. Similar to The Abbot, we will design and incorporate energy efficient building systems and utilize regionally sourced building materials and products.

8. Conclusion

In your evaluation of the attached LOI, please consider all of the above and Convexity's proven ability to collaboratively program, design, finance, manage and successfully deliver quality projects and developments. This offer provides a unique opportunity for the City of East Lansing and the DDA: The elimination of the DDA legacy debt and the incorporation of over an acre of new parkland programed and developed with the needs and wants of the broader community result in a precinct that can truly be referred to as The Park District. Only Convexity can make and deliver this offer which is possible and can be implemented without any direct City funding.

Sincerely,

A handwritten signature in blue ink, appearing to read "David Nelson", with a long horizontal flourish extending to the right.

David B. Nelson
Partner, Head of Global Investments & Real Estate, DRW Holdings, LLC

cc:

Tom Fehrenbach, Director, Department of Planning, Building & Development / City of East Lansing
Aaron Blatt, Director of Acquisitions / Convexity Properties
Chris Oakley, Director of Design / Convexity Properties
David Pierson, Partner / McClelland & Anderson, LLP

Attachments:

Letter of Intent
Architectural Plans

LETTER OF INTENT

Please consider the following non-binding letter of intent (“LOI”) as an outline of the basic business terms under which Purchaser would acquire the fee simple estate of the Property from the Seller. The terms of this LOI are as follows:

SELLER: The fee simple owner of the Property (“Seller”).

PURCHASER: An affiliated entity of DRW Real Estate Investments LLC (“Purchaser”).

PROPERTY: The real property located at 314, 328, 334, 340 and 344 Evergreen Ave (“Property”).

In addition to the Property itself, Seller shall transfer to Purchaser all personal property used in connection with the Property including intellectual property such as hard and soft (i.e. electronic) versions of plans, drawings, specifications, contracts, permits, studies, appraisals and agreements with adjacent properties.

PURCHASE PRICE: The purchase price for the Property will be three million dollars (\$3,000,000) (“Purchase Price”). The Purchase Price will be paid as follows: until six (6) months after Certificate of Occupancy, Purchaser will cover any shortfalls on the DDA’s debt obligations. Upon the six (6) month anniversary of Certificate of Occupancy Convexity will pay the remaining balance (e.g. \$3.0 million less amounts paid up until that point to cover debt shortfalls).

OTHER CONSIDERATION: In addition to the Purchase Price, Purchaser will deed its ownership in 341-345 Evergreen Ave. to Seller at no cost to Seller, for use as a public park. This is intended to satisfy the occupancy ordinance for all of the Purchaser-owned downtown properties. In addition, Purchaser will reimburse the City of East Lansing for \$5.0 million of infrastructure improvements around the Property, the scope of which will be further defined in a development agreement.

AMENDED BROWNFIELD PLAN: Purchaser proposes an amended Brownfield Plan which will include the following eligible activities:

Approved in Current Brownfield Plan: \$4,832,345
City Infrastructure: \$5,000,000
Other Eligible Expenses: \$4,000,000
Interest: \$4,504,477
TOTAL: \$17,336,823

Repayment: 15 years (2034)

In addition to the above, the Downtown Development Authority will receive \$2.9 million in total reimbursement from the amended Brownfield Plan.

PURCHASE & SALE AGREEMENT: The purchase and sale of the Property is subject to the negotiation and execution of a purchase and sale agreement (“PSA”) in form and substance satisfactory to both Seller and Purchaser (collectively the “Parties” and individually each a “Party”), and consistent with the terms set forth in this LOI. Purchaser shall, within a reasonable period following Seller’s acceptance of this LOI (estimated to be less than three (3) business days), provide Seller with an initial draft PSA.

EARNEST MONEY DEPOSITS:

Purchaser will make an initial deposit of twenty five thousand dollars (\$25,000) within two (2) business days from full execution of the PSA (the “**Initial Deposit**”). The Initial Deposit and any accrued interest is refundable to Purchaser if Purchaser terminates the PSA on or before the expiration of the Diligence Review Period (as hereinafter defined).

In addition, if Purchaser provides notice that the Diligence is acceptable (“**Due Diligence Acceptance Notice**”), Purchaser will make an additional deposit of twenty five thousand dollars (\$25,000) within two (2) business days from the Due Diligence Acceptance Notice (the “**Additional Deposit**”). The Initial Deposit and Additional Deposit (collectively the “**Earnest Money**”) shall be held in an interest bearing escrow account with a title company mutually agreed upon by Seller and Purchaser (the “**Title Company**”). The Earnest Money and any accrued interest is refundable to Purchaser if Purchaser terminates the PSA on or before the expiration of the Entitlement Period (as hereinafter defined). The Earnest Money shall be credited against the Purchase Price.

DILIGENCE DELIVERY:

Seller shall deliver to Purchaser true and complete copies of any information in its possession or control, customarily pertinent to Purchaser’s due diligence process (collectively referred to as the “**Diligence**”), within two (2) business days of execution of the PSA. The actual date upon which Purchaser receives the entirety of the Diligence and a written certificate from Seller that it has delivered to Purchaser all Diligence shall be referred to as the “**Diligence Delivery Date**”.

DILIGENCE REVIEW PERIOD:

Purchaser shall have sixty (60) days, commencing on the later of the Diligence Delivery Date or the execution of the PSA, to conduct its review and inspections with respect to the Property (“**Diligence Review Period**”). During the Diligence Review Period, Purchaser and its representatives shall have reasonable access to the Property and be entitled to conduct all inspections, reviews and other undertakings relating to the Property and the acquisition thereof typically performed by a purchaser. This shall include, but is not limited to: completion of a satisfactory physical and environmental inspection of the Property, soil borings, Phase I (and Phase II, if necessary) environmental and engineering tests, inspections and audits of the Property and records, review of title to the Property, and any other such diligence as Purchaser may require. The Diligence must be satisfactory to Purchaser, in its sole and absolute discretion. At any time during the Diligence Review Period, Purchaser shall have the right to terminate the PSA for any reason (or for no reason) whatsoever, in Purchaser’s sole discretion, by providing written notice to Seller on or before the expiration of the Diligence Review Period.

Notwithstanding anything contained herein to the contrary, in the event Purchaser’s consultants need additional time to complete their scope of work for reasons out of Purchaser’s control, Purchaser will notify Seller in writing and request a twenty (20) day extension of the Diligence Review Period, which shall not be unreasonably withheld by Seller.

ENTITLEMENT PERIOD:

The Entitlement Period shall begin upon the completion of the Diligence Review Period and continue until City Council approval of a Special Use Permit, development agreement and amended Brownfield Plan (“**Entitlement Approval**”).

If Entitlement Approval is not received by June 30, 2020, at any time after that Purchaser shall have the option to terminate the PSA and be refunded its Earnest Money and any accrued interest.

TITLE & SURVEY: Seller, at Seller's cost, shall deliver to Purchaser, within fifteen (15) days of execution of the PSA: (1) an ALTA owner's extended coverage title commitment or preliminary title report covering the Property and issued by the Title Company, (2) legible copies of all title documents referenced therein, and (3) a current ALTA survey of the Property listing current Schedule B title exceptions.

Seller will be required to convey to Purchaser a good and marketable title, free and clear of all existing liens and encumbrances, except as may be approved in writing by Purchaser. Title will be insured by an ALTA Owner's Form B title insurance policy, with extended coverage, zoning, restrictions, tax parcel, survey and such other endorsements as Purchaser may require.

**REPRESENTATIONS & WARRANTIES;
ENVIRONMENTAL:** Under the PSA, Seller will make customary representations and warranties to Purchaser which shall be supported by a holdback or a guaranty acceptable to Purchaser.

CLOSING: The closing of the purchase and sale of the Property ("**Closing**") shall be the earlier of: (1) ten (10) business days after expiration of the Entitlement Period or (2) two (2) business days after Purchaser's written notice to Seller ("**Closing Date**").

CLOSING EXPENSES & PRORATIONS: Seller shall be responsible for the title insurance premium for an ALTA title insurance policy with extended coverage and, as applicable, zoning, contiguity, restrictions, tax parcel and survey endorsements, one-half of any escrow or closing charges by the Title Company, current survey and its own attorneys' fees. Purchaser shall be responsible for the cost of any title insurance endorsements (other than as described above), one-half of any escrow or closing charges by the Title Company, its due diligence costs, and its own attorneys' fees. Any state, county and local transfer taxes, as well as all other expenses, shall be paid according to local custom. Real estate taxes and other customarily prorated items shall be prorated as of the Closing Date, with any re-prorations thereof to occur as soon as actual costs can be ascertained.

BROKERAGE COMMISSIONS: Seller recognizes that Purchaser is not represented by a broker. Seller is solely responsible for any and all commissions due to Seller's broker, and any such commissions shall be paid upon transfer of title to the Property on the Closing Date.

EXCLUSIVITY: In consideration of Purchaser's effort and expense in analyzing the purchase of the Property, Seller shall not, and Seller shall cause its officers, employees, representatives and agent to not show, market or offer the Property for sale, or discuss, negotiate, solicit or pursue any offer for the purchase of the Property, and/or enter into a contract or a letter of intent for the sale of all or any portion of the Property, with any other party. This period of exclusivity ("**Exclusivity Period**") shall occur from the date of Seller's acceptance of this LOI to the earlier of: (1) the full execution of the PSA or (2) the date falling forty-five (45) business days after the first set of comments to the PSA are provided by Purchaser or Seller following Seller's acceptance of this LOI.

Commencing upon the full execution of this LOI and continuing through the later of the (1) Exclusivity Period, (2) termination of the PSA, or (3) Closing Date (as applicable depending on PSA execution and the Parties proceeding to Closing), Seller agrees that it will disclose to Purchaser any new or amended offers or inquiries it receives regarding any proposal or offer to purchase the Property.

Without limiting the foregoing or anything contained in this section titled "Exclusivity", the Parties agree to negotiate the PSA, and diligently pursue the execution of the PSA, in good faith.

Except as expressly provided below: (1) this LOI is intended solely as a preliminary expression of general intentions, and (2) the Parties intend that no Party shall have any contractual obligations to the other with respect to the matters referred herein unless and until a definitive PSA has been fully executed and delivered by the Parties. Prior to delivery of a definitive executed PSA, and without any liability to the other Party, any Party may: (1) propose different terms from those summarized herein in good faith, and/or (2) unilaterally terminate all negotiations with the other Party hereto after a good faith attempt to arrive upon acceptable terms has been made. Notwithstanding the foregoing, the terms contained within the section of this LOI titled "Exclusivity" shall be binding and enforceable upon the Parties and shall survive the termination or expiration of this LOI.

If the foregoing is acceptable, please arrange for an authorized representative of Seller to execute this LOI in the space provided below and return a signed copy to the undersigned at the letterhead address or scan a signed copy and return via electronic mail. Notwithstanding anything contained in this LOI to the contrary, if a Party executes this LOI and a counter signed LOI isn't returned by the other Party to the executing Party within three (3) business days of the executing Party's initial signature delivery, this LOI shall become null and void.

Sincerely,

CONVEXITY PROPERTIES LLC

By: Convexity Management LLC, Manager

By: 
Name: David Nelson
Its: Partner, Head of Global Investments & Real Estate, DRW Holdings, LLC

Accepted and agreed to this ____ day of _____, 2019:

SELLER: _____

By: _____

Name: _____

Its: _____

cc: Tom Fehrenbach, Director, Department of Planning, Building & Development / City of East Lansing
Aaron Blatt, Director of Acquisitions / Convexity Properties
Chris Oakley, Director of Design / Convexity Properties
David Pierson, Partner / McClelland & Anderson, LLP

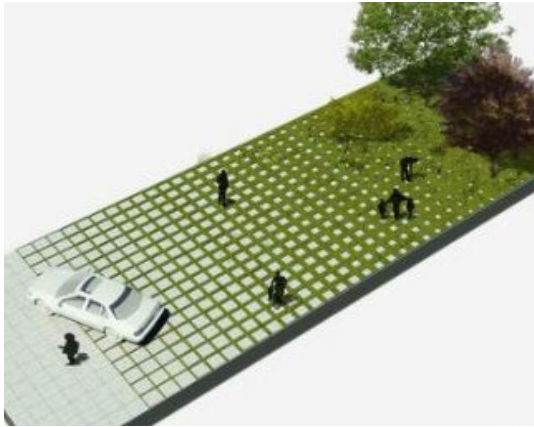
ALBERT COMMONS | AERIAL VIEW



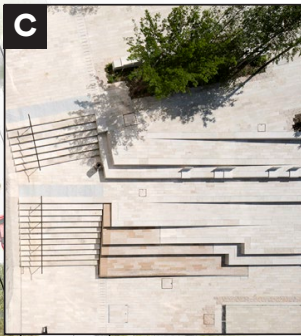
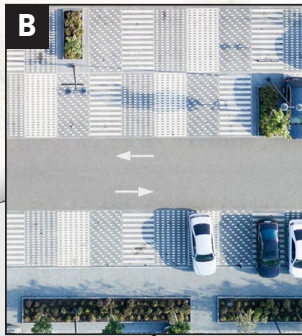
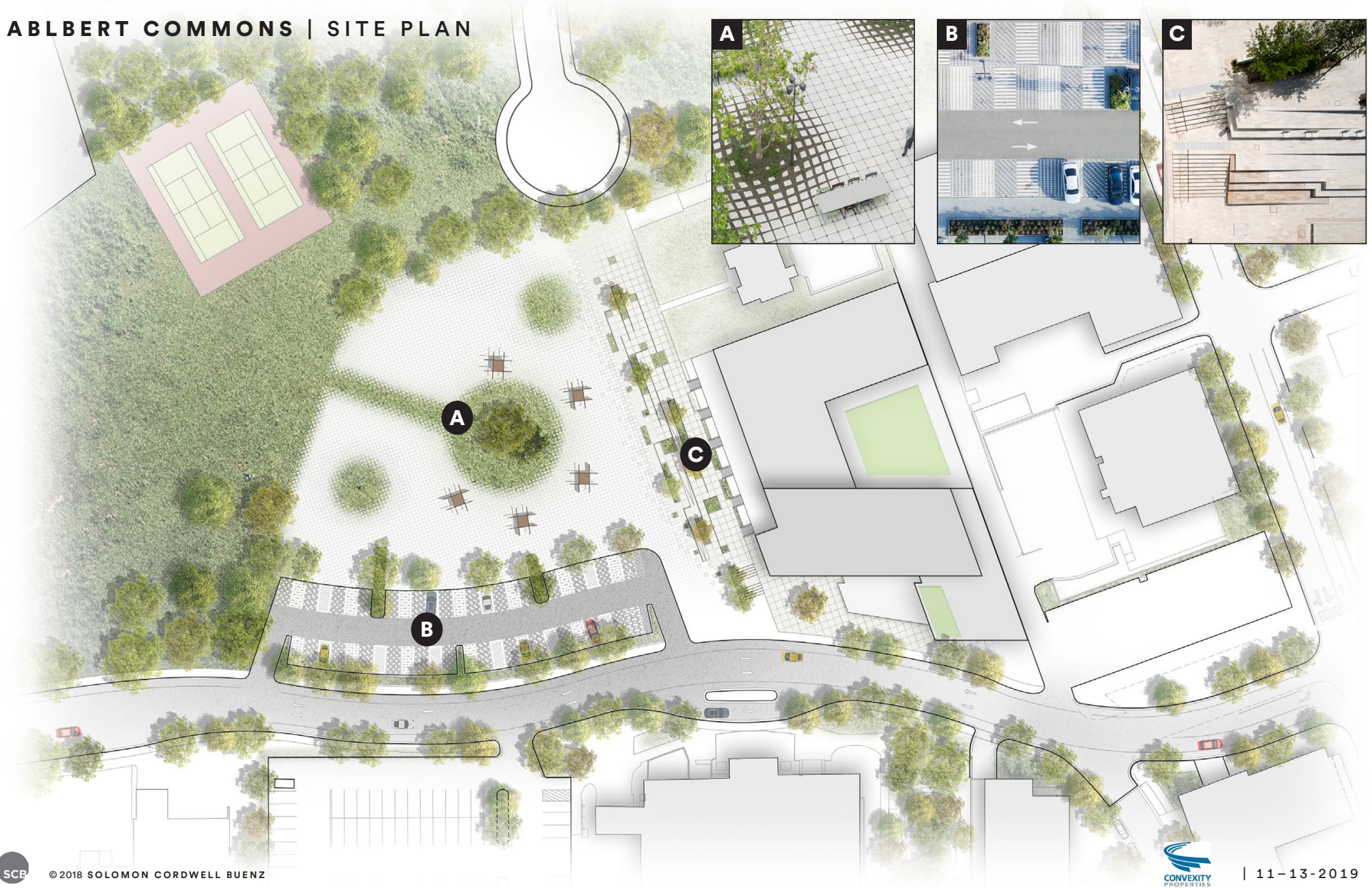
ALBERT COMMONS | PERSPECTIVE



ABLBERT COMMONS | REFERENCE IMAGES



ABLBERT COMMONS | SITE PLAN



ALBERT COMMONS | ILLUSTRATIVE PROGRAMING

FINAL EVENT TO BE DETERMINED WITH CITY'S INPUT

