

SOLICITATION FOR DEVELOPMENT PARTNER PROPOSALS

The Hotel Charles | CITY OF SHELBY, NC



SCHOOL OF GOVERNMENT
Development Finance Initiative



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SCHOOL OF
GOVERNMENT

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EXECUTIVE SUMMARY

The City of Shelby (City) in Cleveland County, North Carolina, is pleased to release this Solicitation for Development Partner Proposals (SDP) for the redevelopment of the Hotel Charles (commonly known as the Blanton Building) located at 106 South Lafayette Street (Site) in downtown Shelby (commonly known as Uptown). The City seeks a qualified development partner or partners to redevelop the City-controlled Site into an upscale boutique hotel with first-floor food and beverage and street-level retail (Project). Responses to the solicitation are due by **March 8, 2024**.

This document invites interested development teams to present development concepts for review and consideration by the City. The Development Finance Initiative (DFI), a program of the UNC School of Government (SOG), will help development teams understand and respond to the City's requirements for the Site's redevelopment. This process will culminate in selecting a development partner or partners and negotiating one or more development service agreements pursuant to North Carolina General Statute 158-7.1 and other relevant authorities.

Before releasing this SDP, the City engaged DFI to complete a pre-development analysis to ensure the Project and the proposed public-private partnership have the community's support, the City Council's endorsement, and are financially feasible for development partners.

The Hotel Charles building in Uptown Shelby, NC.



Estimated Timeline

March 8, 2024	Development partner proposals due
Q2 2024	Council selects development partner(s)
Q2–Q3 2024	City and development partner(s) execute a Memorandum of Understanding (MOU)
Q3–Q4 2024	City and development partner(s) execute a development agreement

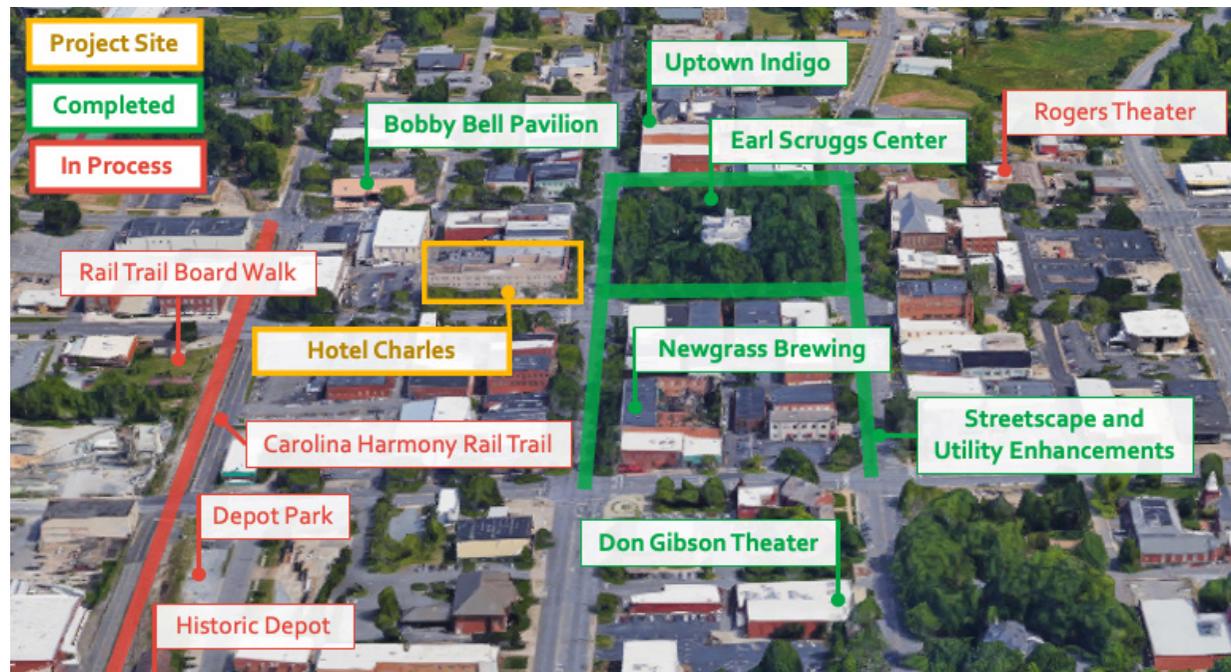
THE OPPORTUNITY

The City seeks an experienced development partner to revitalize the Hotel Charles as an upscale boutique hotel. Located in the heart of Shelby’s Uptown, local stakeholders view the future use of this building as a critical next step within Shelby’s coordinated, strategic approach to Uptown revitalization.

Shelby has a track record of successful downtown projects, including redeveloping several historic buildings. For example, the conversion of the 1907 courthouse into the Earl Scruggs Center, the transformation of a 1939 Art Deco movie house into the Don Gibson Theatre, and the redevelopment of former department stores as breweries, mixed-use retail and apartments, and private event spaces.

City staff said these efforts have resulted in more than \$47 million of public and private investment over the last decade. As a part of these investments, the City spent approximately \$7 million for utility upgrades and streetscape enhancement that have improved walkability and opportunities for growth in Uptown. An additional \$21 million is expected in the next five years, focused on the Carolina Harmony Rail Trail, an associated public park, and the redevelopment of the downtown historic depot station. These past investments and future development plans sit within a few blocks radius of the Hotel Charles.

Past and future planned public and private investments in Uptown, Shelby.



Hotel Charles History

The Blanton Building is a nineteenth-century, three-story building originally constructed in the 1890s as the Central Hotel alongside the Wray Building—home to First National Bank, founded by Burwell Blanton and his sons, Charles and George, in 1895. The First National Bank and the Hotel Charles were integral parts of the City’s economic and social history for more than a century. The Blanton family ran First National Bank for much of that time: from its founding until 1979.¹

The Blanton and Wray buildings were reconstructed after a 1928 fire that damaged much of the Central Hotel. The rebuilt and renamed building, the Hotel Charles, was back in operation the following year. The building is located opposite Shelby’s courthouse square—now home to the Earl Scruggs Center—and is significant for its historical associations with the Blanton family and as the central Uptown hotel until the late 1960s. The Blanton Building is a contributing structure to the Central Shelby Historic District.²

The Hotel Charles in the 1930s (date estimated).



1 The Banker’s House. Historical Significance. Accessed: <https://thebankershous.org/historical-significance/>.

2 National Park Service. Shelby, North Carolina. Central Shelby Historic District. Accessed: <https://www.nps.gov/nr/travel/shelby/cen.htm>.

DFI'S ROLE

DFI provides specialized finance and development expertise to local governments to assist them in attracting private investment for transformative projects in their communities. DFI has engaged in more than 250 projects in communities across North Carolina, South Carolina, and Virginia, attracting more than \$1 billion of private investment over the last decade of operations.

DFI performed a detailed pre-development analysis for the Hotel Charles Project to arrive at a recommended development plan. The analysis included:

- **Market Assessment:** assessing the supply and demand for diverse potential private uses, including hospitality, retail, and multi-family.
- **Site Assessment:** studying the Site's physical constraints and utilizing existing architectural plans and redevelopment concepts to determine a program that maximizes the Site's development potential.
- **Establishing Public Interest:** engaging stakeholders interested in Uptown development, including City staff and elected officials.
- **Financial Feasibility:** projecting the development costs and cash flows to ensure the Project viability for private investors.
- **Public Investment:** identifying the potential avenues by which the public sector can participate to create a feasible path for redevelopment.

DFI's pre-development work thus far will benefit the private developer(s) selected by the City Council by significantly reducing the time, effort, expense, and overall risk required to determine feasibility, conduct due diligence, and move the Project through the City's public planning process. The selected Developer must pay a 1 percent development services fee to DFI as part of any Development Services Agreement related to the development of the Project Site. The fee's terms are detailed in Appendix A.

GUIDING PUBLIC INTERESTS

The City Council, staff, and other downtown stakeholders worked with DFI to identify project-specific public interests to guide the Site's development programming. The City Council endorsed these interests, which should be noted and incorporated within any submitted proposal. The City and DFI identified that development on this Site should:

1. Add accommodations in Uptown that will support current arts, culture, and visitor travel activity.
2. Preserve and reflect Shelby's history.
3. Efficiently leverage public investment to maximize private investment.

MARKET SUMMARY

Regional events, such as music and arts festivals, sports competitions, and holiday events, draw tens of thousands of attendees to Shelby each year. For example, in 2022, the annual Liver Mush Festival had approximately 15,000 attendees, with an estimated 1,600 overnight guests. More than 20 Cleveland County venues host regular events, and nearly a third of those venues are within walking distance of the Hotel Charles. A map of event venues in the county is available upon request.

Shelby’s active music and sports scenes are tied to several influential members of the region’s history: Earl Scruggs, Don Gibson, and Bobby Bell.

Earl Scruggs was born in Cleveland County and became a world-famous bluegrass musician. The singer and songwriter, Don Gibson, was born a few years later in Shelby and was posthumously inducted into the Country Music Hall of Fame in 2010.

These famous musicians established roots influencing today’s local arts and cultural initiatives. Cleveland County’s 1907 courthouse became the Earl Scruggs Center, which now draws more than 5,400 visitors annually and hosts concerts year-round. The Center’s largest concert in 2022 was attended by over 700 people, more than 80 percent of whom traveled from outside of Cleveland County.³ The Don Gibson Theater reopened in 2009 and hosts nearly 50 shows yearly, drawing over 17,000 attendees, of whom more than 40 percent are out-of-town guests.⁴

View of Earl Scruggs Center and Hotel Charles building at the 7th Inning Stretch Festival (2022).



³ The Earl Scruggs Center provides attendance data.

⁴ The Don Gibson Theater provides event and attendance data.

Similarly, Bobby Bell was born in Shelby and became a professional football player inducted into the College Football Hall of Fame. He was then the first Kansas City Chiefs player inducted into the Pro Football Hall of Fame. The Bobby Bell Pavilion hosts the City's farmers' market and dozens of events each year.⁵

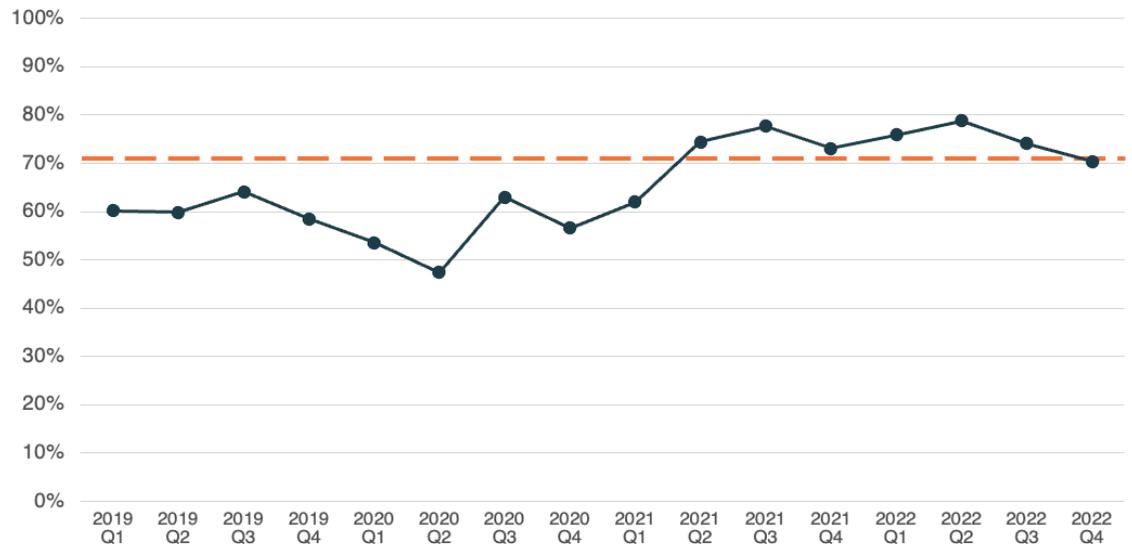
Earl Scruggs, Don Gibson and Bobby Bell murals in Uptown Shelby.



Hospitality Indicators

Hotels across the county—from economy to upper-midscale establishments—are experiencing higher Average Daily Rates (ADR) and occupancy rates than the pre-pandemic results. The 12-month ADR has improved by 20 percent since the pandemic began and reached a peak price of more than \$130 ADR in October 2022.⁶ The occupancy rates surpassed 70 percent in spring 2021 and have since remained above 70 percent. Despite the demand for hospitality options, there are no hotels in Uptown Shelby and only one five-room bed and breakfast within walking distance of Uptown. In addition, the

Average occupancy rate for Cleveland County hotels from 2019–2022.



5 The City of Shelby provides pavilion use data.
 6 STR Report provided by Cleveland County Tourism Department.

opening of a seven-room historic inn within walking distance of Uptown—the Opal and West House—is anticipated in late 2023. There are 14 total hotels in Cleveland County—approximately 950 rooms. Most hotels are located along Highway 74 and not easily walkable to Uptown.

Retail

Similar to hotel performance, retail indicators have also strengthened. The retail vacancy rate in Shelby has dropped from 6 percent in 2018 to 2 percent in 2023, and renovated retail space in Uptown Shelby rents for \$14 per square foot on average. This rate is a \$4 premium over retail rents for the City overall.⁷ During the same period, 100 new businesses opened in Uptown Shelby and 40 expanded.⁸

By 2027, the median household income is expected to increase by 12 percent (to \$56,000) and the population is expected to grow by 2 percent.⁹ With new households moving to the region and low retail vacancy rates, DFI estimates at least 100,000 square feet in unmet retail demand in the county over the next five years. In addition, DFI estimates at least 40,000 square feet in unmet food and beverage demand based on current spending patterns.¹⁰

Due to the unique characteristics of the Hotel Charles and its location in Uptown, a redeveloped space could capture current unmet and future demand through the anticipated food and beverage and retail spaces (for more detail, see the development program section).

Retail activity in Uptown Shelby near the Hotel Charles.



7 CoStar.

8 Uptown Shelby Association.

9 ESRI Business Analyst and NC Office of State Budget Management.

10 DFI Analysis of data from CoStar and ESRI Business Analyst.

DEVELOPMENT PROGRAM

DFI assessed the feasibility of a hospitality program in the Hotel Charles, expanding on previous design efforts completed by a local architect. The previous efforts included an architectural review and test fit analysis of a modernized hotel lobby, restaurant, hotel rooms, and retail space. See details on the associated program below, and select test fit images on the next page. Scaled PDFs of the building’s existing conditions, test fits, and CAD drawings of the PDF files are available upon request.

Additional Considerations

- The proposed program formed the basis of Part 1 and Part 2 applications to the National Park Services (NPS) to determine historic tax credit (HTC) eligibility. The project received notice of NPS approval in March 2018. A request was granted to extend the Part 3 application based on a revised project completion date of December 2025. All relevant materials are available upon request.
- The development program and conceptual plan provided in this solicitation do not represent the final design or program. Developers are encouraged to create an approach that adheres to the public interests approved by the Shelby City Council on August 21, 2023, as a frame of reference for the type of development the City desires.

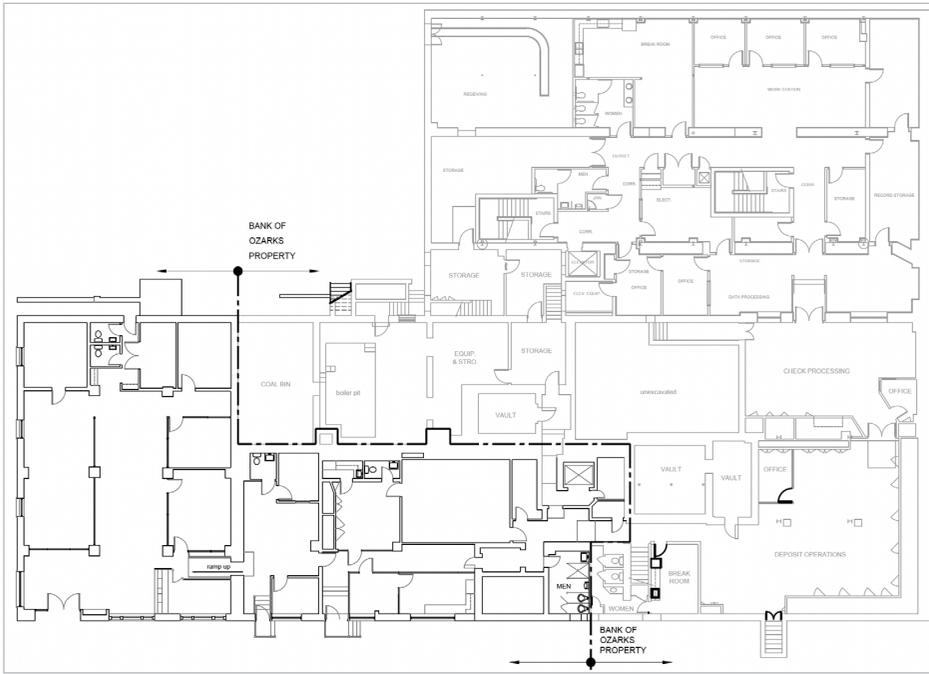
Program Overview

DFI’s analysis identified a potential hospitality and retail program, including estimated ADR, occupancy rate, and retail rental rates generated by current market conditions.

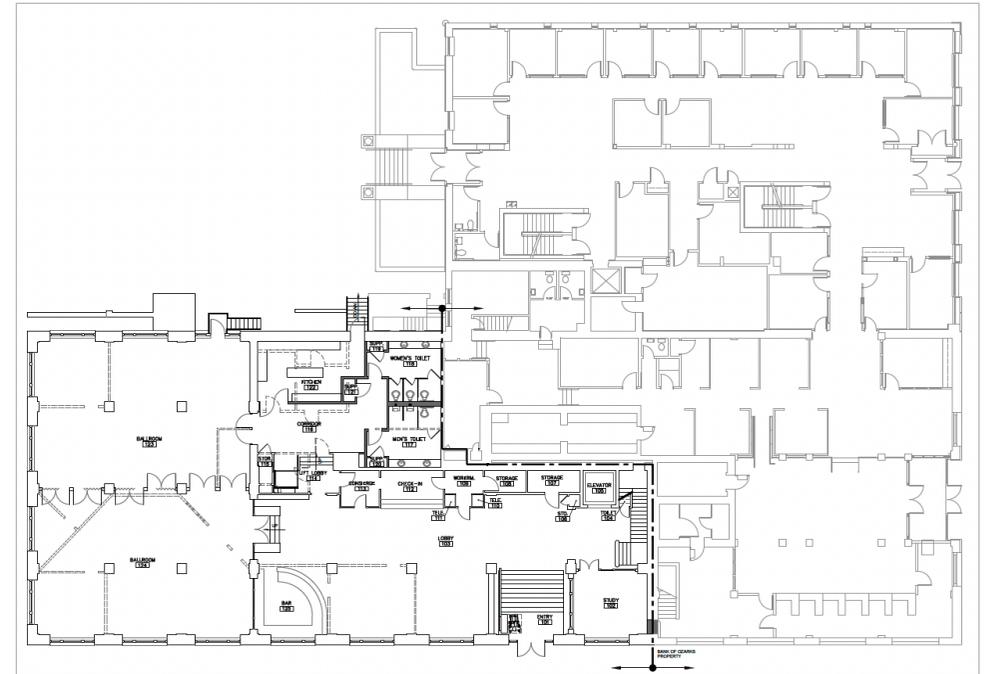
Use	Gross square feet*	Performance metrics
Street-level retail	3,100	\$12/sq ft
Street-level hotel operations	3,100	n/a
First-floor lobby and guest services	1,285	n/a
First-floor food and beverage (plus kitchen)	5,050 (1,120)	50% of room revenue
Second- and third-floor hotel rooms	18,100 sq ft (38 rooms)	\$150 ADR/70% occupancy rate
Parking	not available on-site	parking off-site
Hotel Charles building total	32,000	

* All square foot numbers are rounded estimates based on draft condominium plans between the Blanton and Wray buildings.

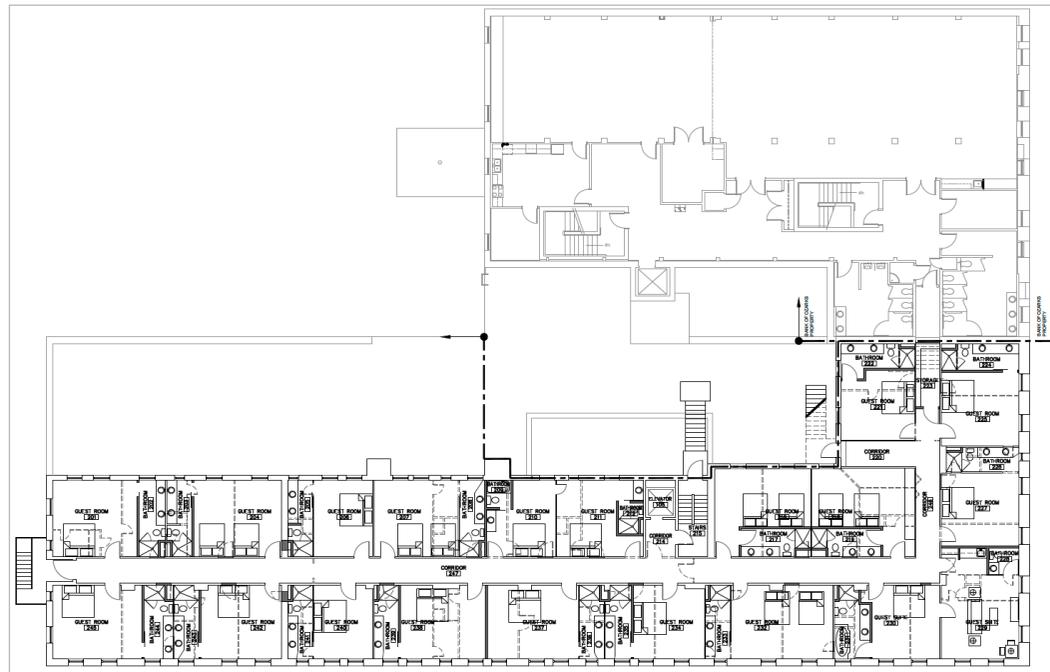
Hotel Charles street-level retail and hotel operations space.



Hotel Charles first floor lobby and restaurant test fit.



Hotel Charles second floor hotel room test fit.



PROJECTED COSTS AND RETURNS

Based on market-comparable projects, DFI estimates the total development costs of this project at \$13.48 million. To account for unpredictable price fluctuations due to the current construction climate, the estimates below include a 10 percent contingency each for hard and soft costs.

Estimated Development Costs (millions)

Acquisition costs	\$0.85
Hard costs	\$9.03
Soft costs	\$3.60
Total	\$13.48

DFI has made the following key assumptions for the Hotel Charles redevelopment:

- **Tax Credits:** Development partner(s) will utilize state and federal historic tax credits.
- **Parking:** The Project does not have on-site parking available. The City is open to discussing parking solutions using currently available parking lots. A map of currently available parking lots is available upon request.

Projected Returns

Using the above program and assumptions, DFI has modeled the Project to determine financial feasibility and returns for the developer and equity investor(s).

DFI estimates that the developer of the Project can achieve market-rate returns at a 12 percent internal rate of return (IRR) and a 6 percent yield-on-cost (YOC) over a seven-year hold without public participation. Detailed versions of DFI's financial assumptions and models are available upon request.

Arched window on the first floor of the Hotel Charles.



POTENTIAL PUBLIC-PRIVATE PARTNERSHIP

The City would consider participating in the Project, as permitted by law, to secure its public interests in this development. The City and DFI can answer any additional questions about public participation as needed.

Local and Regional Support for the Hotel Charles

The City and the DFI team have received significant interest in the Hotel Charles opportunity from local and regional investors. DFI can provide additional information on the expressed investment interest upon request.

In addition, the City is a participant in Appalachian Community Capital's program Opportunity Appalachia (OA). OA has worked with communities in central Appalachia to raise over \$420 million in financing for high-impact economic projects. Shelby, and more than 30 other awardees, received grant resources to access a range of technical assistance. As a result of this funding, Shelby contracted with DFI to conduct a pre-development assessment for the Hotel Charles. The information included in this solicitation reflects an analysis undertaken as part of the OA grant. Shelby and DFI will continue to utilize the OA network in outreach efforts related to this SDP.

Interior lobby on the first floor of the Hotel Charles.



EVALUATION CRITERIA AND SELECTION PROCESS

Development firms responding to this solicitation will undergo an evaluation to identify a viable development partner with a plan that will best serve the identified public interests and will occur within a reasonable time frame. DFI will collect and analyze responses, contact references, and coordinate interviews as necessary.

The following criteria will be used to assess responses:

- Qualifications and experience of the development team, with preference given to those with experience with the type of development proposed in the respondent’s plan for the Site.
- Level of integration of the guiding public interests.
- Quality and success of prior development projects and public-private partnerships.
- References, including those from previous local government partners, if any.
- Demonstrated ability to execute projects of similar scale and complexity.
- Demonstration of confidence in the Project.
- Ability to complete the project within the City’s proposed timeline.
- Ability to integrate additional considerations as identified in the development program section of this document.

After reviewing submitted proposals, DFI may seek clarification. Development teams may not submit additional information after the **March 8, 2024 deadline**, unless DFI requests it. Following the Council’s selection of a development partner for exclusive negotiations, the City will expect the selected partner to submit a proposed Memorandum of Understanding (MOU) and, following the successful execution of an MOU, lead negotiations for a final development agreement.

Estimated Timeline

March 8, 2024	Development partner proposals due
Q2 2024	Council selects development partner(s)
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Submission Process

Development partner proposals are due at **5:00 p.m. EDT on March 8, 2024**. Proposals received after the deadline will not be considered.

Proposals must conform to the guidelines described under “Submission Requirements.” Submit proposals electronically in PDF format. Submit financials in Excel format. Send materials via email to Sara VanLear at vanlear@sog.unc.edu and Rick Howell at Rick.Howell@cityofshelby.com, with the subject line: “Development Partner Proposal: Shelby - 106 S. Lafayette Street.”

All responses are subject to public disclosure under the North Carolina Public Records Law. DFI recognizes that respondents must submit financial information that they may deem confidential and proprietary to comply with the requirements of this solicitation. To the extent permissible by law, DFI agrees to keep confidential any proprietary information included in a response, provided that (1) the respondent identifies the confidential, proprietary portions of the response, (2) the respondent identifies as confidential and proprietary only those portions of the submittal that are confidential and proprietary, and (3) the respondent states why protection is necessary. Respondents shall not designate their entire response as confidential and proprietary, nor shall they designate already public information.

Respondents should email any information they would like to remain confidential under separate cover to vanlear@sog.unc.edu. The email subject must be “PROTECTED: Development Partner Proposal: Shelby - 106 S. Lafayette Street.”

For information concerning the procedure for responding to this Solicitation for Development Partners or clarification of the terms, conditions, and requirements of this SDP, please email Sara VanLear, Project Manager, DFI, at vanlear@sog.unc.edu and Rick Howell, City Manager, City of Shelby, at Rick.Howell@cityofshelby.com.

Submission Requirements

Proposals should include the following information (sections 1–11 below). Appendices are considered supplementary.

1. Letter of Introduction

- Include a summary of the respondent’s qualifications, experience, and reasons for interest in this opportunity. Special attention should be given to a clear statement outlining how this proposal aligns with the guiding public interests. The letter must be signed by a principal or authorized officer of the entity.

2. Proposed Development Plan
 - Number of hotel rooms; expected average daily rate; expected occupancy rate
 - Projected food and beverage plan (if applicable)
 - Amount of retail square feet; expected rents
 - Expected hotel amenities
 - Estimate of parking spaces needed (valet program anticipated)
3. Preliminary Site Plan
 - Preliminary floorplans (if different from current plans shared)
 - F&B details (including kitchen and private rooms)
 - Street-level plans, including potential retail, additional rooms, or back-of-house operations space
4. Development and Financing Assumptions – Provide in Excel format:
 - Sources and uses
 - If public participation is anticipated, propose the public investment structure and amount and provide a financial analysis to demonstrate why such participation is necessary.
 - Required investor return hurdle rate (submit as confidential)
 - Proposed acquisition price
 - Note: the applicable statute requires the property to be conveyed for no less than fair market value.
5. Earnest Money Deposit – Proposed amount and terms
6. Timeline
 - Indicate whether the proposed timeline under “Development Timeline” is feasible. If other, include the proposed timing here. Indicate the development team’s availability to undertake the Project and adhere to the timeline.
7. Description of the selection process for (if not already identified in the development program)
 - Hotel operator
 - F&B partner (if separate from operator)
 - Retail tenants

8. Development Team

- Identify partner firms and roles, including co-developers, architects/designers, and potential general contractors or subcontractors.
- Overview of each firm on the team, including a brief history, licensure, experience working with the Developer, and relationship of the firm's parent company with the office responsible for this project, if applicable.
- Identification and resumes of lead staff (principals and project managers) who will be responsible for negotiating a development agreement with the City and completing the remainder of the pre-construction approval process).

9. Minority and Women Business Enterprise (MWBE) Goals:

- If available, lead Developer's MWBE policy
- If available, historical MWBE performance
- Proposed MWBE goals and strategy to achieve goals

10. Experience and References

- A list of three current and completed projects (preferably in the last five years) relevant to proposed plans. Include the following information:
 - Name, location, and completion date of the project
 - Development team members, including architects/designers and general contractors
 - Scope and scale of the development program
 - Photos/illustrations of the completed project
 - Total development budget by use
 - Capital stack, including governmental sources
 - Financing partners
 - List of current commercial tenants (indicating whether local and/or small business), if available
- A most recent example, if any, of the development team's experience executing public-private partnerships.
 - Include all information requested above in section 4a.
 - Contact information for a representative of the primary public agency partner in the project.

11. Disclosures and evidence of financial stability

- Disclosure of any potential conflicts of interest that could be relevant to this project in any manner.
- Disclosure of any projects/financing on which the team or its members has defaulted.
- Disclosure of whether the Developer or any officer, director, or owner thereof has had judgments entered against him or her within the past 10 years for breach of contracts, governmental or nongovernmental construction, or development.
- Disclosure of whether the Developer has been in substantial noncompliance with the terms and conditions of prior construction contracts with a public body.
- Disclosure of whether any officer, director, owner, project manager, procurement manager, or chief financial official thereof has been convicted within the past 10 years of a crime related to financial fraud or to governmental or nongovernmental construction or contracting.
- Disclosure of whether any officer, director, or owner is currently debarred from bidding or contracting, pursuant to an established debarment procedure, by any public body, agency of any state, or agency of the federal government.
- Other evidence of the financial stability of the Developer (can be submitted under confidential cover as detailed in “Submission Process”).

Additional Information

All facts and opinions stated in this solicitation are based on available information and are believed to be accurate. Nevertheless, neither the City of Shelby nor the UNC School of Government, nor any of their officers, agents, or employees, shall be responsible for the accuracy of any information provided to any respondent as part of this solicitation or vetting process. All respondents are encouraged to independently verify the accuracy of any information provided. The use of any of this information in response to this request is at the sole risk of the respondent.

Those submitting responses to the SDP assume all financial costs and risks associated with the submission. No reimbursement or remuneration will be made by the City or UNC to cover the costs of any submittal, whether or not such submittal is selected or utilized.

The City reserves the right to reject submittals or waive irregularities or informalities in any submittal in its sole and absolute discretion and accepts no responsibility for any financial loss by such action.

Any agreements that may be entered into between the Developer (s) and the City, including but not limited to a Development Services Agreement, are subject to all statutory and legal requirements and ultimate approval by the City Council in its sole and absolute discretion and nothing herein is to be construed as binding on the City. In modeling this project, it is assumed that the City will convey the property to a private developer pursuant to its authority to convey property for economic development under North Carolina General Statute 158-7.1, among other statutory authority.

The City makes no express or implied warranty as to matters of title, zoning, tax consequences, physical or environmental conditions, valuation, financial conditions or economic matters, accuracy of any materials or reports provided, governmental approvals, governmental regulations, or any other matter or thing relating to or affecting the properties described herein or any proposed transaction or agreement contemplated herein.

DFI does not act as a broker or agent of the City, and no representation made by DFI during the solicitation and vetting process shall be binding on the City. Notwithstanding any provision herein, this solicitation shall not constitute an offer to contract on the part of the City. It shall not be construed to impose any legal obligations on the City.

This solicitation does not create any obligation or relationship, such as a partnership, joint venture, or similar legal relationship between the City and any potential party. Any references to “partner,” “partners,” or other similar terms will not be deemed to create a legal relationship or otherwise alter, amend, or change the relationship between any parties in the absence of a formal written agreement specifically detailing the rights, liabilities, and obligations of the parties as to a new, specifically defined legal relationship.

APPENDIX A: DEVELOPMENT SERVICES FEE PAYMENT

The performance by the City or the conveyance or lease of any portion of the property described herein (the “Property”) to the selected development entity and its successors and assigns (the “Developer”) shall be conditioned upon the execution of an agreement (the “Development Services Agreement”) between the City and the Developer pertaining to the responsibilities of either the City or the Developer, or both, regarding any aspect of the development of the Property or any portion thereof (the “Project”). As part of the Development Services Agreement, the Developer shall agree to pay a fee to the City’s consultant (“DFI”) and its successors and assigns for pre-development services provided to the City, and the Development Services Agreement shall provide that DFI is an intended third party beneficiary of the Development Services Agreement. The fee shall be an amount equal to 1.0% (one percent) of the total projected costs of development (including horizontal and vertical development) of the Project as calculated by the Developer in the most recent versions(s) of pro forma and other financial projections (the “Developer Financials”) prepared by the Developer and delivered to City or other parties prior to or contemporaneously with the execution of the Development Services Agreement (and in the event that projected costs are not available at time of execution, then Developer shall provide such costs as soon as possible thereafter), and in the event of any inconsistencies in the projected total costs among different versions of the Developer Financials, the version of the Developer Financials showing the greatest total costs of development of the Project shall be used to calculate the Development Services Fee.

The total development cost shall not include costs related to development of structures that meet all of the following criteria following completion of the development: (i) the entire structure and the entire parcel of land on which the structure is located are owned in fee simple solely by the City; (ii) any financing associated with the structure is an obligation of the City alone; and (iii) the entire structure will be operated either (a) by the City directly or (b) by a contractor on behalf of the City pursuant to a contract executed by the City.

The Development Services Fee shall be due and payable in full to DFI no later than 30 days following execution of the Development Services Agreement. An alternative payment schedule for payment of the Development Services Fee to DFI may be developed as mutually agreed in writing by Developer and DFI; by way of illustration only, such schedule of payments could include deferring payment of the fee until closing on construction financing for the Project. Developer’s obligation to pay Development Services Fee shall not be assignable by Developer to any other entity, nor shall any assignment relieve Developer of its obligation to pay Development Services Fee, except upon written consent of DFI.