Date Issued: February 13, 2018

City of Hamilton

REQUEST FOR PROPOSALS

Contract Number: C11-66-17

Request for Proposals
Pier 8 Development Opportunity

ADDENDUM 11

The following queries and responses, issued by the Procurement Section shall form part of the Request for Proposals documents for the above, and the revisions and additions noted herein and any attachments shall read in conjunction with all other documents. This Addendum shall, however, take precedence over all previously issued Request for Proposals documents where differences occur.

Included in this Addendum are: 5 Pages for Addendum 11

1.0 EXPLANATION OF FINANCIAL PROPOSAL EVALUATION METHODOLOGY

The City has received several inquiries respecting the methodology by which Financial Proposals will be evaluated. Further to the description found in RFP Evaluation Process subsection 3.3, and any clarifications provided in previous Addenda, the City would like to make the following clarifications and announcement of amendments:

1.1 Financial Proposal Evaluation Methodology and Model

(a) The City intends to employ a proprietary evaluation model that estimates the discounted present value of all anticipated payments using the information provided in each Proponent’s completed Bid Form 2.

(b) Each payment component for each Block will be discounted to a present value amount by applying a pre-set discount rate at the anticipated effective month of payment;
c) The Upfront Payment shall not be discounted as it is payable on the Commencement Date, which is also the first day of the analysis. For evaluation purposes, the Commencement Date will be January 1, 2019;

d) The City acknowledges that in practice, only the Upfront Payment and the Minimum Purchase Prices (MPPs) are fixed and certain. By contrast, the Fair Market Value (FMV) Share and Value Add Share (VAS) payments are variable and can only be precisely quantified at a future date. Therefore, the City will employ the following methodology in order to estimate the future payment values for FMV Share and VAS, solely for the purposes of evaluating Proposals:

(i) Each FMV Share payment estimate shall be made on a block-by-block basis by executing the following steps:

1. Take present-day land values for each Development Block and project (i.e., inflate) over the horizon of the project in order to establish a universal future-value look-up schedule for the fair market land value of each Block. Present-day values for the Mixed Use Blocks will be made using a “residual land” approach (in accordance with as-of-right entitlements) to create a matrix of possible land values for each type of permitted use. The mix of proposed uses on a proportionate floor area allocation basis will be used to determine a corresponding weighted average residual land value;

2. Look up the FMV land value from the projection schedule in the effective month for the FMV Share payment. The look-up value for Mixed Use Blocks will be in accordance with each Proposal’s unique intended configuration of uses for the Block;

3. Subtract the MPP paid from the FMV; and

4. Apply the proposed FMV Share Rate to the positive difference between the FMV and the MPP.

5. This FMV Share payment will ultimately be discounted and the result will contribute to a single present value of all anticipated payments resulting from the Proposal.

(ii) Each Value-Add Share payment estimate for condominium properties (all types) shall be made on a building-by-building basis by executing the following steps:

1. Take present-day residential condominium price-per-square-foot sales values for each unit type (e.g., 1-bedroom, 2-bedroom, etc.) and project (i.e., inflate) over the horizon of the project in order to establish a universal future-value look-up schedule;

2. Take present-day commercial price-per-square-foot sales values for each property type (e.g., office, retail, etc.) and project (i.e.,
inflate) over the horizon of the project in order establish a universal future-value look-up schedule;

3. Look up the per-square-foot sales value factor(s) from the appropriate projection schedule in the effective month of the payment;

4. Multiply the sales value factor with the proposed square footage allocation for each unit or commercial property type proposed within the building and sum the results to estimate the building’s Gross Revenues in accordance with the proposed unit and type configuration;

5. Apply the proposed VAS Rate to the Gross Revenues to determine the estimated VAS payment; and

6. This VAS payment will ultimately be discounted and the result will contribute to a single present value of all anticipated payments resulting from the Proposal.

(iii) Each Value-Add Share payment estimate for income-producing properties (all types) shall be made on a building-by-building basis by executing the following steps:

1. Take present-day stabilized Net Operating Income (NOI)-per-square-foot values for each income producing property type (e.g., rental residential, retail, office, hotel, etc.) and project (i.e., inflate) over the horizon of the project in order to establish a universal future-value look-up schedule;

2. Establish a capitalization rate for each income producing property type (e.g., a capitalization rate for each of rental residential, retail, office, hotel, etc.) that will be applied universally throughout the time horizon of the project;

3. Look up the asset type-specific, per-square-foot-NOI factor from the projection table in the effective month of the payment;

4. Multiply the NOI factor with the allocated square footage of each property type proposed within the building to estimate an annual stabilized NOI;

5. Divide the annual stabilized NOI by the asset type’s universal capitalization rate to determine an estimated stabilized property value; and

6. Apply the proposed VAS Rate to the estimated stabilized property value to determine the estimated VAS payment.

7. This VAS payment will ultimately be discounted and the result will contribute to a single present value of all anticipated payments resulting from the Proposal.
e) All Proposals shall be evaluated using the same model, methodology, and set of assumptions. The only variations will be those informed by each Proposal's inputs provided in Bid Form 2;

f) All baseline assumptions that underlie the look-up schedules and the applied capitalization rates will be drawn from industry-accepted data sources;

g) The City reserves the right to modify the Bid Form 2 template as required in order to satisfy the evaluation requirements and will notify all Proponents by addendum of any changes.

1.2 Discount Rate

Upon further consideration, the City has opted to create two classes of Discount Rates. As such, RFP Evaluation Process subsection 3.3(1)(e) shall be deleted and replaced with the following text:

“(e) Apply a discount rate of Eight Percent (8.00%) to all Minimum Purchase Price payments to normalize the anticipated stream of such future fixed revenues in to a present value amount;

(f) Apply a discount rate of Twelve Percent (12.00%) to the FMV Share and Value Add Share payment estimates to normalize the anticipated stream of such future variable revenues to a present value amount;

(g) The Upfront Payment shall not be discounted as it is payable on the Commencement Date, which is also the first day of the analysis. For evaluation purposes, the Commencement Date will be January 1, 2019;

(h) The amounts resulting from executing (e), (f) and (g) for all Blocks, shall be summed to determine a single present value of all anticipated payments resulting from the Proposal.”

1.3 FMV Overages

RFP Evaluation Process subsection 2.2.4.1(3) shall be amended to include the following sentence:

“In the event that the FMV less the MPP already paid for a respective Block results in a negative difference, no portion of such difference shall be reimbursed to the Successful Proponent.”

2.0 QUESTIONS AND RESPONSES

| Question #133 | Does the Greenway area need/have to be used for storm water management? There appears to be an inconsistency between the storm water management report posted in the data room on February |

C11-66-17 Addendum 11  Page 4 of 5
Request for Proposals Pier 8 Development Opportunity
2 (which suggests the Greenway be eliminated as storm water management and that it is only to be considered as public realm/landscaping connection (see an excerpt of page 9 below)) and other RFP materials (i.e. Question/response #109, the definition of Greenway in the Draft Development Agreement).

<table>
<thead>
<tr>
<th>City Response #133</th>
<th>The Greenway blocks were originally planned as conventional SWM blocks and as a public right of way, but recommendations out of the SWM strategy indicated that the greenway would not be suitable to provide the necessary Level 1 Treatment required for this area. The SWM strategy did recommend that the corridor be used for conveying clean rooftop water (presumably surface run-off from landscaped areas as well) to the harbour via a municipal storm sewer with private drain connections from each of the blocks that abut it. Servicing for the Pier has been designed for this purpose (i.e. suitable outlets will be constructed at each end of the Greenway). Beyond that, the servicing plan is being left flexible enough such that if the Successful Proponent has other plans that could make functional use of the Greenway (e.g., re-use of site generated water) then it would be able to implement such a plan, subject to approval at site plan application. It is the City’s intent to retain the Greenway as a public pedestrian corridor and will not entertain proposals to purchase the related lands.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question #134</td>
<td>With the extension of the Public Presentation Materials to April 4th in Addendum 5, please confirm that the user stories are still required. They are excluded in Item 3(a) but not mentioned in Item 3(b).</td>
</tr>
<tr>
<td>City Response #134</td>
<td>Yes, User Stories are still required as part of the Public Presentation Materials, which are all due on April 4, 2018.</td>
</tr>
</tbody>
</table>

**END OF ADDENDUM 11**

Proponents providing a signed Form of Proposal have made any necessary inquiries with respect to addenda issued by the City and have provided for all addenda in their Proposal submission.

All addenda will be posted on the City’s bid portal at: hamilton.bidsandtenders.ca and at www.hamilton.ca/westharbour

Procurement Section, City of Hamilton, Ontario