

Downtown Billings Partnership

Request for Expanded North 27th Street Urban Renewal District

Tax Increment Funding for the Rockman Project, Downtown Billings



DEVELOPERS

Honaker Realty LLC
William D. Honaker, Principal

JWT Capital LLC
Don Cape, Jr., Principal

10 / 16 / 2023

October 12, 2023

Katy Easton, CEO
Mehmet Casey, Development Director
116 North 29th Street, Suite A
Billings, MT 59101

Re: The Rockman Project

Thank you for the opportunity to submit the Rockman Project for consideration of financial assistance from the Expanded North 27th Street Tax Increment District. As you know, it's been a long time coming, so it's gratifying to see the progress.

As you are aware, the project is being proposed by Honaker Realty LLC and JWT Capital LLC, and we had submitted a proposal for the RFP issued from the City of Billings for the purchase of certain assets, mainly land on North 27th Street at 2nd Avenue North (North and South Parking Lots), as well as the City Hall parcel, which would include Park 3, the administration offices and the historic City Hall/ Police Department. We were recently informed of the City's desire to move forward with our proposal and we are currently in the final phases of executing the Purchase and Sale Agreement, with Development Agreements to follow. Whereas all of the assets are part of a larger project, this particular request involves only the North and South Parking Lots of this purchase, along with the Rockman Building which we currently own at the corner of North 27th and 2nd Avenue North. The following is our TIF application, which includes a detailed description of our plans for the project. We are requesting tax increment funds for reimbursement of up to \$5,000,000 of qualified improvement expenditures, which are identified herein.

As local developers, we are keenly aware of the challenges facing downtown and we have invested considerable resources in development efforts to help reimagine Billings. There have been a number of large downtown projects proposed in the past, but they have lacked local market knowledge. As a result, many projects are designed with too many moving parts to get to the finish line. Our proposal is unique because we are the developer and the end user. Consequently, there is no delay in trying to market to tenants and, more importantly, trying to raise the equity. Subject to securing the properties and a commitment for TIF funds, we are prepared to move forward immediately to bring our project to fruition. We are pleased to present a proposal backed with our collective knowledge of the hospitality industry, real estate development, and construction management. We value and are fully committed to assisting the Downtown Billings Partnership in achieving its mission to promote economic growth, improve area employment opportunities, and expand its tax base.

Sincerely,
Honaker Realty & JWT Capital



WILLIAM D. HONAKER
Principal
Honaker Realty LLC
406.861.3201

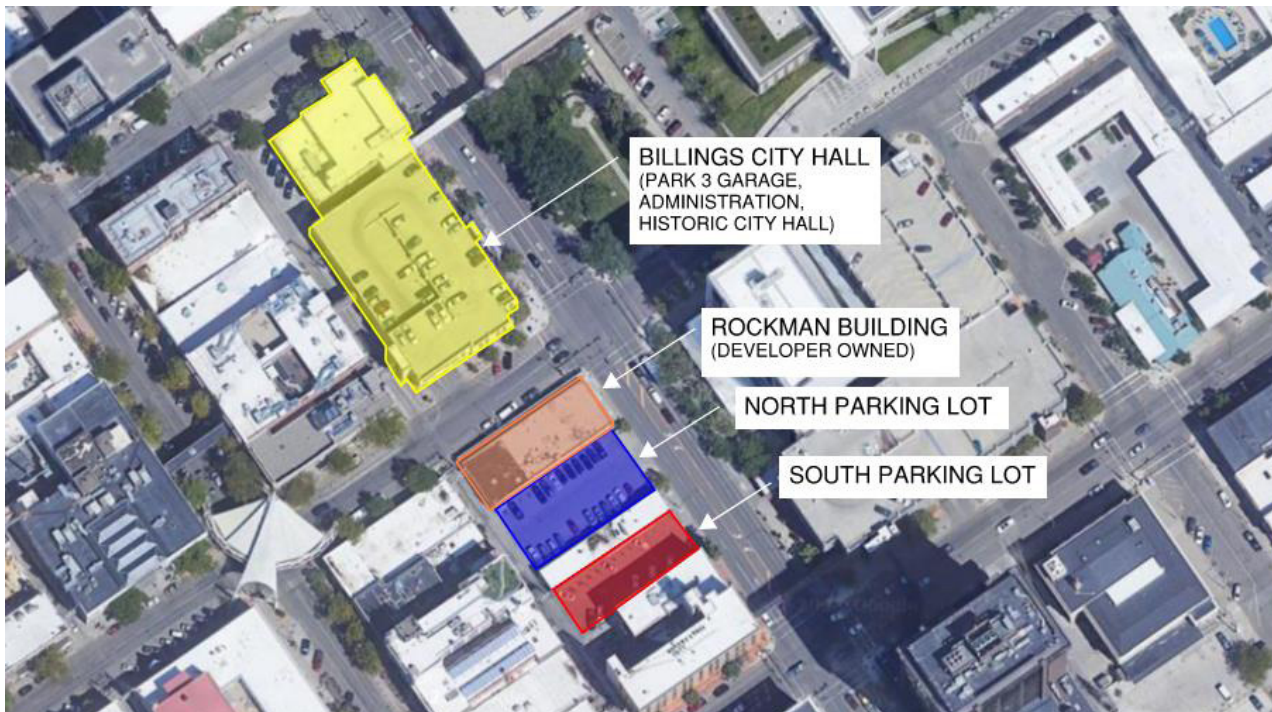


DON CAPE, JR.
Principal
JWT Capital LLC
406.579.2316

Project Description

The following is a detailed development proposal for the purchase, development, construction, and stabilization of a large urban site commonly known as the Rockman property in Billings, Montana, located at the intersection of Second Avenue North and North 27th Street. The Developer currently owns a portion of the project site, and the Billings City Council has recently authorized the City Administration to pursue the sale of "excess assets," most of which are included in this development proposal. The property currently has the appropriate urban zoning for its intended use, and the proposed site would involve purchasing the five City lots (North and South Parking Lots) that encompass 17,500 square feet of commercial land on either side of the Burger Dive property and Billings City Hall. This includes the Park 3 Garage, the City Administration offices on the ground floor of the Park 3 structure, and the current historic City Hall/Police building to the north.

The site is located within the downtown tax increment district and is bordered by major arterials, namely 2nd and 3rd Avenues North and North 27th Street. The Downtown Billings Framework Plan has identified this property as an "anchor" project for the central business district. Moreover, the property is situated in a federally recognized Opportunity Zone, which encourages investment in these blighted areas. The City of Billings reports that the traffic counts in the area amount to approximately 18,000 cars per day, and it is conveniently located near the Airport and Interstates 90 and 94, as well as both regional hospital facilities. Additionally, the site is in the downtown core, where the majority of corporate and government tenants are based.





PHASE 01

HOTEL AND PARKING GARAGE

Under this proposal, Phase One of the Project would involve acquiring the five City commercial lots (North and South Parking Lots) and combining the North Parking Lot with the adjacent Rockman Building (Developer-owned) at the corner of 2nd Avenue North and North 27th Street. The current structure would be demolished, and the Developers have been granted preliminary site approval from Marriott International Inc. for the construction of a 7-story, 140-room branded hotel. This approval is subject only to the successful acquisition of the North and South Parking Lots and a formal application process with the Marriott Development Committee (please refer to Marriott International Inc.'s confidential letter in the supporting information section of this proposal). Consequently, the Developers would proceed with closing on this portion of the land purchase immediately upon the execution of an acceptable Development Agreement with the City of Billings. They would then finalize the agreements with the hotel brand.

Moreover, both the hotel company and the financial institution will require that the hotel parking be secured prior to construction. Therefore, at the very least, an executed Purchase Agreement with the City for the parking garage portion of Park 3 would be necessary. The purchase of the North and South Parking Lots would specifically be contingent on this requirement. In this scenario, the Billings City Hall property would need to be "split" into individual units and renegotiated. However, our proposal currently contemplates purchasing the entire Billings City Hall property. In any case, once the land is purchased, the Developers could either wait for the City to vacate their premises before closing on the other properties or close on the properties and have the City lease back space for their immediate needs.



Initial cost projections for the hotel portion of the project exceed \$41,000,000 and, as such, there are significant expenses associated with the public infrastructure of the development. Therefore, the Developers are requesting assistance from the tax increment district to help offset the qualified public portions of the construction. It is estimated these will be in excess of \$5,000,000. Because these TIF funds would be crucial to the project, the purchase would be specifically contingent on acquiring TIF funds, which would be spelled out in the Development Agreement referenced above. On the other hand, since most of the project involves converting publicly-held assets to privately-held property (and therefore creating significant additional tax increment), initial projections seem reasonable to assist at this level, albeit a major investment. In fact, whereas the property tax revenue generated is currently \$12,000 per year (from the Developer-held property), it is estimated (using tax information from similar properties) that, once all of the subject properties are on the tax roll, total annual tax revenue should be between \$240,000 - \$275,000, meaning all but \$12,000 would represent tax increment and go to the district directly.

In addition, whereas the Downtown Billings Partnership has designated downtown living as a priority for the TIF funds, the hotel will create 200 additional “residents” downtown on a 24 hour/7 day a week basis and these guests will all be patronizing the restaurants, shops, museums, etc. This should have an immediate and significant effect on downtown and its businesses as a whole, and the Project would represent the first major hotel property built in over 45 years in downtown Billings. In addition, it is estimated that the hotel alone will add between 60-70 hospitality jobs, many of which are available to employees in the lower income brackets, as well as utilizing literally hundreds of construction and design employees. The South Parking Lot (south of the Burger Dive) would provide parking for the hotel employees on a 24 hour/7 day a week basis, as well as potentially being available for hotel expansion in the future.

The hotel itself is primarily an upscale business Marriott brand in the select service category, with an approachable rate and a trendy design mission defined as “European-inspired classic modernism.” The brand targets the next generation consumer who appreciates forward design and unique travel experiences. To that end, the socially-connected public spaces include a main floor bar/lounge, reading library, media boardrooms, modern kitchen with European-inspired cuisine, meeting rooms with breakout areas, and the crème de la crème – a rooftop bar and restaurant, complete with heated outdoor patio areas. The hotel environment is a next generation businessperson’s basecamp with the architectural and interior decor spirit of a designer hotel, the socially-connected and lounge-y emphasis of a lifestyle property, the European-inspired high-quality food and drink, a central location indicative of business hotels, and the price point of the select service segment.



Community Benefits

The community benefits from this project are many. As mentioned earlier, this would be the first new hotel project built in downtown Billings in over 45 years, and one of the only new vertical projects built in many years. The modern branded hotel design would give downtown Billings a huge "shot in the arm" and an additional reason to be proud of our community. Moreover, the project would infill one of the remaining blighted areas on North 27th Street, beautifying an obvious gateway into Billings. This initiative aligns with local land use goals of preventing sprawl by eliminating vacant urban "pockets" and utilizing the property efficiently.

In addition, based on our experience with other downtown projects, a project that generates pedestrian traffic contributes to the safety of the area, as there are always "eyes" on it. Undoubtedly, downtown Billings desperately needs this type of activity to help mitigate the perception of being unsafe and to create a new and vibrant vibe for our "hip" young professionals and the entire community.

If we look at Bozeman or Missoula, they have been incredibly successful in attracting new hotel development, which, in turn, has attracted numerous restaurants, breweries, and shops, all within reimagined downtown districts. The Marriott brand would also provide additional center city lodging options for our tourists, creating synergy for our downtown community and helping Billings attract additional professional conferences and conventions. According to travel statistics, the average tourist spends a total of \$268 per day, meaning this hotel alone would create over \$10 million in annual sales for our retail community. With a projected investment of over \$41 million, this substantial and direct investment transforms non-income producing, public properties into tax-paying private properties, thereby creating a much-needed tax base for public services. At the same time, it allows the City of Billings to continue developing their new city offices by providing capital from the sale of their excess assets and flexibility with their development schedule.

But perhaps the most important community benefit would be the creation of 60-70 new jobs, many of which are entry-level positions serving the lowest income brackets. Not to mention the hundreds of employees involved in the design and construction of the project.



WELLS FARGO

Development Team & Experience

The project is being co-developed and managed by Honaker Realty LLC (William D. Honaker, Principal) and JWT Capital LLC (Don Cape, Principal). The developers bring years of experience in commercial development to include restaurants, hotels, Class A office, medical campuses, retail, mixed use, and residential loft development. They are partners on the Home2 Suites by Hilton in Billings and are currently under construction for an additional Home2 Suites by Hilton in Bozeman. Their resumes and list of projects follows:

HONAKER REALTY LLC

William D. Honaker, Principal

A Billings native for over 63 years and part of a 5th generational Montana family, Mr. Honaker brings experience from each facet of the development process and focuses exclusively on the development of downtown commercial properties in Billings. Mr. Honaker is the Chairman of the Board of Western Security Bank, is a board member of the Montana Restaurant Association, is a former President and Chairman of the Board of the Downtown Billings Partnership, and has been involved with numerous local charities and non-profit organizations. His experience as a banker, real estate broker, construction manager, and developer should prove essential in producing a high-quality development project. In particular, while living in Philadelphia, Mr. Honaker worked for two very active commercial real estate developers, specializing in the acquisition, conceptual design, leasing, and construction of mixed-use projects. Between the two companies, they developed over two million square feet of shopping center and mixed-use spaces within a four-year period. Mr. Honaker's recent local projects would include:

The Securities Building; Billings, MT - 2004

The Securities Building was a complete historic renovation project of 36,000 square feet, completed in 2004 at a cost of \$4.7 million. The building was re-purposed for mixed uses and includes retail area on the main level, first-class office on the 2nd and 3rd floors, and residential lofts on the 4th and 5th floors. The building is also home to Walkers Grill, a fine dining restaurant where Mr. Honaker has enjoyed ownership since 1993.



U.S. Federal Courthouse; Billings, MT - 2011

As president of the Downtown Billings Partnership, Mr. Honaker was partially responsible for the acquisition, entitlement, and financing structure for what eventually became the U.S. Federal Courthouse. While not having any ownership interest, Mr. Honaker's pro-bono involvement along with two other key individuals ensured the permanent location of the federal building, thereby retaining the federal employee base downtown, as well as attracting a \$65 million investment from the U.S. Government in the downtown community.



Empire Parking Garage; Billings, MT - 2014

Mr. Honaker assembled and purchased the site where the City of Billings' Empire Garage is now located. This project involved acquiring the various properties for the site and, after negotiation with the City of Billings, contributing the land for an ownership interest in the garage. This project provided much-needed parking for the City of Billings, which represented a \$14 million investment into the downtown community.



Home2 Suites by Hilton; Billings, MT - 2016

Mr. Honaker assembled the site and assisted in the development of the Home2 Suites by Hilton in downtown Billings with JWT Capital LLC. The property consists of a Hilton-branded, 95-room, extended stay hotel in the downtown medical corridor. The Home2 concept was a perfect match for providing quality long-term lodging options to hospital patients and their families, medically-related companies, academic visits to MSU Billings, and other extended stay guests. The project injected \$14 million into the downtown hospital corridor.



The McDonald Building; Billings, MT - 2018

Completed in 2018, the mixed-use project includes the headquarters of A&E Design, a multi-state architectural firm, on the 1st and 2nd floors and luxury residential lofts on the 3rd and 4th floors. Originally the home of Wendy's of Montana, the 28,000 square foot building was a complete historic renovation, with an investment of \$5.5 million into downtown Billings.



JWT CAPITAL LLC

Don Cape, Jr., Principal

Mr. Cape is part of a 4th generation legacy real estate family from Bozeman, MT, which is partially responsible for the development of what's now known as the 19th Street Retail Corridor. He has been involved in real estate development and finance for over 30 years with direct experience in real estate investment banking, Real Estate Investment Trusts (REITs), real estate private equity, commercial and residential real estate development, hospitality, and restaurants. As the founding partner of JWT Capital, LLC, Don is involved in the acquisitions, development, and management of a variety of commercial and residential projects. Currently, the company is involved in several retail, mixed-used, and hospitality developments in Bozeman and Billings. Don is an active member of the Bozeman community with involvement on a variety of boards to include past Finance Chair for the Museum of the Rockies, Chairman of the Montana State University Foundation's ATI board, Montana State University Foundation Board of Governors, community advisory board for First Interstate Bank, and the Big Sky Chapter of Young Presidents Organization. A list of Mr. Cape's recent projects is included below:



Old Chicago Restaurant; Bozeman, MT - 2004 & Billings, MT - 2006

Mr. Cape developed, built, and oversaw the Old Chicago Restaurant Franchises in Bozeman and Billings, investing \$5.9 million into the Bozeman and Billings markets and creating over 120 jobs. Old Chicago focuses on showcasing local and regional beer with hand-crafted pizzas and is a leader in the traditional casual dining segment. The Cape's owned the restaurants until 2014, when the regional Johnson Restaurant Group purchased the franchises.



Hilton Garden Inn; Bozeman, MT - 2005 & Billings, MT - 2008

In conjunction with developing the Old Chicago Franchises, Mr. Cape also developed and built the 123-room Hilton Garden Inn, Bozeman and the 128-room Hilton Garden Inn, Billings. The award-winning Hilton Garden Inn brand provides business and leisure guests upscale, affordable accommodations and unexpected amenities through focused service. Not only did the development of these hotels provide a huge boost for the surrounding commercial neighborhoods, it also injected \$29.5 million dollars of investment capital in their respective markets.

Stoneridge Square Shopping Center; Bozeman, MT - 2005

Completed in 2005, Stoneridge Square is a large retail center in Bozeman, MT, and consists of 180,000 square feet of first-class retail space located on the 19th Street Retail Corridor. Mr. Cape developed, built, and leased the project which includes national tenants World Market, Sportsman's Warehouse, and REI as anchors. Total investment into the project was over \$20 million.



Home2 Suites by Hilton; Billings, MT - 2016

Working with Mr. Honaker to assemble the site, Mr. Cape was the lead developer in the development of the Home2 Suites by Hilton in downtown Billings. The property consists of a 95-room, extended stay hotel in the downtown medical corridor. The Home2 concept was a perfect match for providing quality long-term lodging options to hospital patients and their families, medically-related companies, academic visits to MSU Billings, and other extended stay guests. The project injected \$14 million into the downtown hospital corridor.



Blackmore Bend Mixed-Use Development; Bozeman, MT - 2017

Blackmore Bend was a project of various retail and office mixed-use spaces and included local favorite Heeb's Grocery (now Town & Country) as its anchor retail tenant, as well as the Printing for Less headquarters. The project was one of the first major developments on the east side of Bozeman and has transformed an otherwise blighted area. As a result of its \$17.5 million investment into the neighborhood, it continues to help spur additional development of the area.



Home2 Suite by Hilton; Bozeman, MT - 2023

Currently under construction, Mr. Cape is the lead developer in the development of the Home2 Suites by Hilton in Bozeman. The property consists of a Hilton-branded 103-room, extended stay hotel and is a perfectly-timed addition for the newly finished Billings Clinic Bozeman. The Home2 will provide quality long-term lodging options for the robust Bozeman tourist market as well as to hospital patients and their families, academic visits to Montana State University, and other extended stay guests. The project is injecting \$24 million into the 19th Street corridor.



DESIGN & CONSTRUCTION TEAM



A&E Design is an integrated design firm serving Montana and the Northwest with offices in **Billings**, Bozeman, Missoula, and Kalispell, Montana. As a collection of innovators, they are united for a single purpose: to create impactful experiences for our clients. Founded as A&E Architects, PC, in 1973, they have been dedicated to providing a fresh and innovative approach to architectural design for 50 years.

The firm offers architecture, interior design, historic preservation, and graphic design in one, comprehensive package. They are a team of over 80 diversely talented professionals with a strong commitment to client satisfaction, quality design, and improving the world around us. See their relevant experience in the supporting information section.



Jones Construction, Inc. is a 3rd generation general contracting business that has been operating in the Billings construction market since 1952. They have been the leader in commercial construction within the region and it is primarily due to the systematic approach they apply to all projects.

Their level of commitment to client satisfaction has been proven over the past 70 years with a consistent pattern of delivering quality projects completed ahead of schedule and under budget. Mr. Terpstra has assisted us from the beginning in developing the scope of work. See their relevant experience in the supporting information section.

FINANCIAL PARTNER



Western Security Bank, a division of Glacier Bancorp, is the lender selected for this project. Western Security has provided financing for both developers in past projects and, subject to finishing the underwriting, has expressed interest in providing financing for this project. A pre-qualification letter has been provided in the supporting information section below. Additional information can be provided by contacting the following bankers:

Mike Seppala
President
o: 406.371.8230
c: 406.647.3119

Jerry Simonson
Senior Credit Officer
o: 406.371.8321
c: 406.208.1543

Development Schedule

PHASE	DATES
Request For Proposal	April - July, 2023
Development Agreement/TIF Presentations	August - November, 2023
Council Approval	November, 2023 - January, 2024
Close on North & South Parking Lots	February - March, 2024
Hotel Franchise Agreement Complete	February - March, 2024
Construction Bidding & Design Complete	August - November, 2024
Permitting	November, 2024 - January, 2025
Financing Complete	January - February, 2025
Phase One: Hotel Construction	February, 2025 - July, 2026
City Vacates Phase Two Property	April - May, 2025
Close on Remaining Properties	July - August, 2025
Phase Two: Park 3 Offices & Garage Construction	July, 2025 - February, 2026
Phase Two Tenant Move-In	March - April, 2026
Hotel Grand Opening/Project Complete	June, 2026

Summary

Needless to say, we are excited about the potential of this site and the project as a whole. There are the obvious benefits – an incredible showcase hotel that creates real job growth for the downtown community, a massive investment into the area that not only repurposes stagnant City assets but also gives them much-needed capital to finish their new City Hall location, and a local developer and hotel group that understands the process and has a proven track record of quality development projects. But even more importantly, it is undoubtedly a statement that the entities involved in the project are committed to Billings and downtown. They're here to stay, which we believe holds significant value for our community and specifically for downtown.

Historically speaking, there have not been many major properties built in downtown Billings for many years. Most of the development has occurred in outlying areas, leaving downtown somewhat stagnant and challenging our identity. We believe that a successful project in this location will help facilitate the recent momentum in downtown and, very possibly, could springboard a number of large potential projects on the edge.

According to the Framework Plan developed by the Downtown Billings Partnership, a project should:

- Assist in the revitalization of the district.
- Attract a stable population within the district.
- Stimulate private investment within the district.
- Generate additional tax revenues.
- Redevelop sub-standard properties.

Simply stated, we feel that there is no project that better serves these requirements.



Supporting Information



SECURITY YOU CAN TRUST, FROM PEOPLE YOU KNOW.
P.O. Box 30657 • Billings, Montana 59107-0657

westernsecuritybank.com

May 9, 2023

City of Billings
210 North 27th Street
Billings, MT 59101

Ladies and Gentlemen:

This letter will introduce you to Honaker Realty, LLC and JWT Capital, LLC, two prominent members of a soon to be formed Ownership Group that is submitting an RFP to the City of Billings for the purchase and subsequent development of certain real property located in downtown Billings, Montana.

Western Security Bank, A Division of Glacier Bank, has had a long and successful relationship with both of these entities along with the individuals involved with each of these organizations. Western Security Bank has successfully financed projects ranging from hotel financing to historic renovation projects with the individuals and entities mentioned. Included in these financing packages have been complex structures and credit enhancements such as Tax Increment Financing and New Market Tax Credits.

We have preliminarily reviewed the total project as it is currently proposed. The total amount of this completed project is estimated to be around \$50 million of which approximately \$30-35 million would need to be financed. While this letter should in no way be construed as a commitment of financing, these amounts are within the scope of the proposed ownership group's ability. Western Security Bank is very interested in providing the funding on this project subject to our standard underwriting procedures including structure, appraisals, costs, terms, etc.

If you have any questions or need further information, please feel free to email me at mseppala@westernsecuritybank.com or call at 406.371.8230

Sincerely,

Michael Seppala
President

Thank You

DEVELOPERS

Honaker Realty LLC
William D. Honaker, Principal

JWT Capital LLC
Don Cape, Jr., Principal