

# Fillmore Lawns

*Role of Illium Group: Round 1*

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## General Information

### The Project

Fillmore Lawns is proposed to be a 60-acre site running alongside the Morda River in the city of Newpoint. The site itself—located between two major avenues, 23<sup>rd</sup> Avenue and Oxford Avenue—is a blighted plot long since abandoned by a large manufacturing company that went out of business. Still, the plot straddles two of the city's wealthiest neighborhoods. The developer of the site is Stellar Cove, one of Newpoint's most successful developers. Stellar Cove is well-regarded nationwide and has an established track record of driving major investment into distressed areas. That said, their projects have sparked controversy in some quarters, with some detractors accusing the developers of turning neighborhoods into inaccessible playgrounds for the wealthy, a particularly sore point in a city with a long history of socioeconomic and racial inequality.

Fillmore Lawns is by far the most ambitious development project attempted in many decades, and as tends to be the case with developments of this magnitude, it has sparked a wide range of commentary. Some of the less flattering news coverage of the development has accused Stellar Cove of building a “city within a city”. The project is estimated to cost \$6 billion dollars and take eight to twelve years to finish developing.

The development's plan is to build several different zones, each reflecting a different aspect of Newpoint's history or of the site itself. The zones are:

1. The East Luther Corridor: Primarily office buildings which overlook the Morda River, including a tree-lined river walk with cafes and high-end retail and other green spaces.
2. The West Luther Corridor: Smaller office, mixed-use, and residential buildings bordering a bridge across the river, with the two tallest towers set back from the street.
3. The Ashton Gateway: Retail with some residential connecting the development to key transit locations. It is also being considered a potential site for a new entertainment complex with a range of potential venues, including museums, live entertainment, and sporting events.
4. The Ludford Corridor: Primarily residential area with a center containing restaurants and some retail.
5. The Riverfront District: A walking-friendly area fronting onto the river with spaces for retail, festivals, and public shows as well as a potential location for a public park.

### The Parties

Stellar Cove is eager to build Fillmore Lawns; the development will be a true landmark that will secure their standing for decades to come, and if successful, their most profitable project to date. Of course, that all depends on costs, and the type of deal they can get approval for. Not only will the Fillmore Lawns development generate substantial profits for Stellar Cove if it proceeds according to their plans, Stellar Cove also believes that this development will breathe new life—and critically, jobs and tax revenue for the city—into an abandoned plot that could be so much more. The city has recently been plagued by budget shortfalls, a situation made worse as residents continue to depart for the suburbs or other large cities. Indeed, much of the public infrastructure surrounding the Fillmore Lawns area is crumbling, and the city has been unable to find the funds to invest in restoring and updating it. Despite the potential benefits to both the city's coffers and Stellar Cove's balance sheet, there are many

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stakeholders whose divergent interests the city—and, therefore, Stellar Cove—need to take into account. Stellar Cove needs to make sure that they can secure the approval of enough of the key players necessary in order to see the development proceed, and proceed profitably.

In total, there are six parties (including Stellar Cove):

1. **Green Living Collective**. The Green Living Collective is a grassroots organization that is becoming increasingly influential in city politics. Their communications emphasize their view that a healthy city requires both a vibrant system of public parks and green spaces as well as a diverse populace with people from many walks of life. The group has historically focused on securing commitments from important decision-makers to maintain or even grow the amount of green space in the city dedicated to public use, and to increase the amount of low-income housing available for city residents.
2. **The Illium Group**. The Illium Group is another developer in the city concerned about the loss of business they will experience should Fillmore Lawns be built as per the current proposal. With Fillmore Lawns occupying a huge swathe of what would become prime real estate along a revived Morda River bank, they would likely have their pick of the residents, big retail outlets, and large companies. The Illium Group worry that this would harm their ability to attract the key constituents they need to make their own development plans viable. At the same time, the Illium Group recognizes that there would be some meaningful advantages to getting Fillmore Lawns approved. If the city approved a project of this scale, it would set a precedent that would pave the way for easier approvals for their own grandiose plans.
3. **Mayor Gabriel**. Mayor Gabriel has been a mayor for three terms. Mayor Gabriel has a reputation as pro-business, and sees Fillmore Lawns as an amazing opportunity to return the city to its previously economically vibrant state. Still, it is an election year, and given his years of experience in politics, he is aware that he must balance the interests of the various parties, and of the people of Newpoint overall, if he is to have any chance of re-election.
4. **Newpoint Planning Commission (NPC)**. The Newpoint Planning Commission is officially charged with ensuring that the city remains culturally vibrant and enjoys economic growth, low levels of unemployment, and positive media attention. When it comes to considering developments, this often means balancing the sometimes differing interests of a variety of different parties. The NPC is generally pleased with the prospects of this new development, and particularly the potential for increased tax dollars to help the city. At the same time, it has reservations about the impact the project might have on gentrification and inequality in the city (and the negative media coverage that would bring) should it be carried out carelessly or without consideration for the needs of all the city's residents.
5. **Our Backyards**. Our Backyards is a group formed by concerned residents whose homes border the Fillmore Lawns planned development. While the prospect of increased property values is appealing to them, they have serious concerns about dealing with the additional traffic the development might cause and with the prospect of a large number of very high-rise towers changing the character of their neighborhood (primarily comprised of single family homes and mid-rise townhouses). They are also interested in the possibility of broader infrastructure improvements in the area that Stellar Cove will need to accomplish in order to make the project viable. That said, they (along with others constituents in the city) are concerned about the amount of money rumored to have been promised to Stellar Cove by the Mayor in Infrastructure Improvement Financing (IIF) Funds (estimates range widely from \$250 million to \$1 billion), especially because this amount will be funded by diverting their property taxes<sup>1</sup>.

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<sup>1</sup>IIF Funds are a mechanism for the city to reimburse property developers for infrastructure improvements (e.g., building new roads) they make as part of developments in blighted areas, provided the developer can prove that their project would not be financially viable “but for” this reimbursement. Developers front these costs but then receive tax breaks up to the amount they invested in infrastructure improvements once their project begins generating taxable revenue. These tax breaks are funded by the city diverting property taxes of residents in the neighborhoods where the infrastructure is improved. Although in principle this does not directly affect the tax rate of neighborhood residents, the diversion of property taxes to the developer means that these funds are not invested in other neighborhood initiatives, stoking fears that property taxes will, in the longer term, need to be raised to meet neighborhood budgetary requirements. Moreover, whereas developers argue that IIF funds are a positive for residents because they are paid on tax revenue that would otherwise not be generated (and which developers will continue to pay after the tax breaks expire), some claim that IIF funds are simply a subsidy for rich developers who stretch the truth when making the “but for” case in order to line their pockets on the public’s backs.

## The Approval Process

Over a number of years, Stellar Cove carefully and quietly bought up all of the land needed to execute their bold Fillmore Lawns plans. Initially, early conversations with the city about Stellar Cove's development plans were going relatively smoothly. But then, news of these early plans leaked, and what had previously been a reasonably streamlined process became much more chaotic, as multiple parties came onto the scene, each with their own vested interests and strong opinions they were quite happy to go public with.

The State Governor, Governor Stark, is not a party to the negotiation, but still has an influential role to play. As the Governor of the State of Midlands (within which the city of Newpoint lies) — Stark will have final approval over the project. According to Midlands's law, the Governor has final approval when any project includes public tax subsidies above \$200 million dollars, and even the most conservative estimates project that Stellar Cove will be given more than that sum in IIF Funds. Stark is known to disfavor projects that generate large controversy in the state, and has not been shy to sink deals in the past on this basis. Given the amount of attention the development is garnering, Governor Stark has made it clear that approval is unlikely to be forthcoming for the use of IIF funds for the development unless there is evidence of wide support for the project. Despite the project's potential profitability for Stellar Cove, all financial estimates make it clear that the project will not be viable without any IIF funding. Stellar Cove would love a unanimous vote of approval from all interested parties, as this would increase positive media attention throughout the city and state. Still, Stellar Cove will receive the funds and be able to proceed with the development so long as it has the support of at least four of the other five parties. If less than four of the other parties approve the project, there is no way Governor Stark will allow it to proceed.

## Negotiation Issues

Based on several conversations between the various parties above, there seem to be five major issues that will need to be resolved before approval can be gained.

Issue 1: Property mix. The plans for the site show a mix of property types, and one decision is the split between residential versus commercial (e.g., office and retail) property types. The various interest groups have different priorities for the use of the land and what needs to be negotiated is the percentage that will be used for residential versus commercial spaces. Three outcomes have been discussed when talking to the various constituents:

1. Majority Commercial (30-70). 30% of the property types built would be residential and 70% would be commercial
2. Equal Split (50-50). The split would be 50-50
3. Majority Residential (70-30). 70% of the property types built would be residential and 30% would be commercial

Issue 2: Low-income residential housing. The city is experiencing a housing shortage, particularly for people with low income, and the issue has been a central part of public conversation in the city for years. As with all new development projects in the city, a minimum of 6% of Fillmore Lawns' units will need, by law, to be dedicated to low-income residential housing provided by the developer at a subsidized rate. The big question is what that percentage will be. The potential outcomes are the following:

1. 6% of the residential housing built will be dedicated as low-income residential
2. 9% of the residential housing built will be dedicated as low-income residential
3. 12% of the residential housing built will be dedicated as low-income residential
4. 15% of the residential housing built will be dedicated as low-income residential

Issue 3: Green space. Newpoint prides itself on its beauty and the amount of green space it has. In reference to the city's unique placement along the Morda River, it years ago adopted the motto "flos in litore," Latin for flower on the shore. The city's leaders have taken that phrase to heart. There are over 7,000 acres of parks, nature preserves, and trails the residents of Newpoint can explore. Fillmore Lawns' plans already call for several acres of greenspace, including parks, riverwalk and other open spaces, but the more acreage is dedicated to open and green space, the less left over for Stellar Cove to build profitably on. Thus, the number of acres of green space there will be in Fillmore Lawns is up for negotiation. The potential outcomes are the following:

1. 14 acres of greenspace
2. 16 acres of greenspace

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- 3. 18 acres of greenspace
  - 4. 20 acres of greenspace

Issue 4: Maximum building height. A point of debate among observers is how high the tallest parts of the Fillmore Lawns will reach. On one hand, higher buildings allow for more residents and commercial space. However, very high buildings would meaningfully contrast with the character of the surrounding neighborhoods, and more people also means more crowding. Everyone knows that restricting building height below 400 feet would make the project unviable, and that allowing more than 800 feet is unrealistic. Thus, the range currently being negotiated is 400 to 800 feet towers. Therefore, the potential outcomes are the following:

- 1. 400 feet
- 2. 500 feet
- 3. 600 feet
- 4. 700 feet
- 5. 800 feet

Issue 5: Entertainment complex. While Newpoint's entertainment scene is already a vibrant one – there are many great music venues, comedy clubs, restaurants and bars – Stellar Cove has proposed something on an even grander scale. They intend to include an entire inter-connected entertainment complex in the Fillmore Lawns development. Proposals include an outdoor concert venue, a stadium, areas in which community events could be held, and a museum that celebrates some of the biggest stars in the Newpoint's history. The grandest proposals call for four large inter-connected venue-spaces within this complex. The size, and even existence, of this entertainment complex has been a big issue of contention. Whereas some considering the complex to be an exciting proposition that would build on Newpoint's existing strengths in entertainment, others see it as gaudy and commercialized and worry that it will undermine the viability of longstanding independent venues in the surrounding neighborhoods.

Therefore, the potential outcomes are the following:

- 1. 0 venues
  - 2. 1 venue
  - 3. 2 venues
  - 4. 3 venues
  - 5. 4 venues
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### **Confidential Information**

The Illium Group is a property developer in Newpoint of which you are a part. You've taken a keen interest in the Fillmore Lawns proposed development, one of the biggest in Newpoint's history. One of your big competitors, Stellar Cove, is attempting to pull off the deal of the century. To be honest, you're kicking yourself that you didn't think of what they're planning first. They've been quietly buying up distressed industrial land along the River Morda, and it didn't occur to you that anyone would think of putting together such an ambitious plan to redevelop this part of town. Your envy quickly gave way to more pressing concerns. You are worried about the loss of business you will experience should Fillmore Lawns be built. With Fillmore Lawns occupying a huge swathe of what would become prime real estate along a revived river bank, they would likely have their pick of the residents, big retail outlets, and large companies. You are worried that, if the project gets too big, there will not be enough tenants to make your own development plans in Newpoint viable. After all, there are only so many anchor tenants available, and the competition to secure their leasing commitments is stiff.

At the same time, the Illium Group recognizes that it wouldn't be exclusively bad news if Fillmore Lawns is approved, especially if it can be scaled back significantly to leave enough business to go around. The city typically baulks at developments much smaller than Fillmore Lawns, and you've often been frustrated by costly concessions you've had to make to get your own projects passed. If the city approved a project like Fillmore Lawns, it would set a precedent that would pave the way for easier approvals for your own big (if less grandiose) plans. That said, the fact that the city is even seriously considering Fillmore Lawns may be enough to help smooth your developments' future path, and you'd certainly prefer to sink the approval of Fillmore Lawns if you can make it happen. It won't be easy, though, especially with the city hurting for money and many people excited by the potential of turning a blighted part of town into a shining jewel that would turn heads across the country.

## Scoring Sheet

In these documents, you are provided a scoring sheet on the last page of this document to help understand your priorities and interests for each issue.

***Your preferred outcome in this negotiation is no agreement at all. If you are able to sink the Fillmore Lawns approval, you will receive 300 points.*** That said, Stellar Cove does not need your support to get the deal done. If Stellar Cove can secure four other parties to approve this deal, the construction of Fillmore Lawns will proceed whether you vote to support it or not. Perhaps you might be able to convince one of the other parties that a deal isn't in their interest either, although you know it might be an uphill battle. You also worry about appearing too eager to block Fillmore Lawns, which risks others dismissing your perspective as merely self-interested and/or leaving your concerns out of any deal.

Indeed, although you'd prefer no deal, if an agreement seems imminent, you still have an incentive to make that deal as beneficial as possible (or rather, limit its damage!). You can score up to 100 points by negotiating certain aspects of the Fillmore Lawns development.

While the maximum you can earn is 100 points, you know that you will not give the project your vote of approval if you cannot secure an agreement that is worth at least 55 points. If the deal on the table is worth less than 55 points, the Ilium Group has determined that you would be better off registering your strong disapproval publicly and accusing the city of inappropriate preferential treatment, in the hopes that the pressure will push the city to make concessions to compensate you down the line. That said, this is a risky strategy. If a deal is to happen, you would certainly like to get significantly more than 55 points and are targeting 75 points.

### Issues

**Property mix.** Both residential and commercial tenants are valuable to real estate developers, but large commercial anchor tenants are important to the sustainability of many developments, and commercial real estate in Newpoint tends to provide somewhat larger profit margins than residential developments. Thus, you would prefer to minimize the amount of space Stellar Cove can develop commercially.

1. Majority Commercial (30-70): 0 points
2. Equal Split (50-50): 5 points
3. Majority Residential (70-30): 10 points

**Low-income residential housing.** You prefer a greater percentage of low-income housing in Fillmore Lawns. The more low-income housing Stellar Cove commits to, the less profitable their project will be, and, all else equal, you prefer not to give your competitor's balance sheet a further boost. In addition, if Stellar Cove has to provide a big block of low-income housing in building Fillmore Lawns, that will relieve some of the low-income housing shortage in Newpoint. The smaller the housing shortage, the less pressure on the issue of low-income housing you expect to face from city officials for your own upcoming developments.

1. 6% low-income residential: 0 points
2. 9% low-income residential: 5 points
3. 12% low-income residential: 10 points
4. 15% low-income residential: 15 points

**Green space.** You prefer that Stellar Cove commits to more green space in Fillmore Lawns than called for in current proposals. On one hand, the more costly green space Stellar Cove commits to, the more you might be asked to commit to in the future. However, your projects tend to include more green space (per square foot) than Stellar Cove is proposing here anyway, and so you see the dent in Fillmore Lawns' profitability as the more significant issue.

1. 14 acres of green space: 0 points
2. 16 acres of green space: 4 points
3. 18 acres of green space: 10 points
4. 20 acres of green space: 15 points

**Maximum building height.** The taller the buildings, the more profitable the project will be, and the more room there is for Stellar Cove to house the various companies whose business you are concerned about losing out on. There is

not even a major precedent-setting upside to you of seeing taller towers approved, since the height restrictions really only apply outside the downtown core where your investments are almost exclusively focused. You therefore seek to keep the buildings as short as possible, and see this as a fairly important issue. The range currently being negotiated is 400 to 800 foot towers. You'd love to keep it as low as 400 feet. You've heard rumors that nearby neighborhood residents are concerned with tall towers changing the character of their neighborhoods, and you figure that could provide an in for you to stoke opposition to Stellar Cove's plans.

1. 400 feet: 25 points
2. 500 feet: 15 points
3. 600 feet: 10 points
4. 700 feet: 5 points
5. 800 feet: 0 points

Entertainment complex. The most important issue for you is nixing the entertainment complex that Stellar Cove is proposing. You specialize in the building out real estate for the entertainment industry. Unbeknownst to Stellar Cove or any of the other parties, you have made a significant investment in purchasing land and initiating plans to develop a large sports arena supported by a concert hall and complex of bars and restaurants. You know that Newpoint cannot sustain two new large entertainment complexes of this scope, and if they are allowed to proceed with their plans, Fillmore Lawns will get there first, leaving you empty-handed.

1. 0 venues: 35 points
2. 1 venue: 20 points
3. 2 venues: 20 points
4. 3 venues: 0 points
5. 4 venues: 0 points

## SCORE SHEET FOR THE ILLIUM GROUP

DO NOT SHOW THIS SHEET TO OTHER NEGOTIATORS. While 55 is the minimum number of points needed to agree, you are targeting to get 75. **If there is no agreement, you will get 300 points.** However, if you vote against a proposal worth 55 points or more and it passes, you will receive that number of points minus 20 points (to account for the fact that you are not part of the agreement and you will not be involved in the development process).

Three rounds of private voting will occur. The instructor will provide more details about this voting procedure. Turn in your materials to the instructor when you have finished negotiating.

ISSUE	OPTIONS	Round 1 Option Choice (Points)	Round 2 Option Choice (Points)	Round 3 Option Choice (Points)
<b>1: Property mix (10)</b>	1) Majority Commercial (30-70)	0		
	2) Equal Split (50-50)	5		
	3) Majority Residential (70-30)	10		
<b>2: Low-income residential (15)</b>	1) 6%	0		
	2) 9%	5		
	3) 12%	10		
	4) 15%	15		
<b>3: Green space (15)</b>	1) 14 acres	0		
	2) 16 acres	4		
	3) 18 acres	10		
	4) 20 acres	15		
<b>4: Max building height (25)</b>	1) 400 ft.	25		
	2) 500 ft.	15		
	3) 600 ft.	10		
	4) 700 ft.	5		
	5) 800 ft.	0		
<b>5: Entertainment complex (35)</b>	1) 0 venues	35		
	2) 1 venue	20		
	3) 2 venues	20		
	4) 3 venues	0		
	5) 4 venues	0		
<b>For each Round, sum points you chose for Options 1 through 5</b> (If you voted no on a proposal worth 55 points or more and it passed, report the number of points minus 20).				
<b>VOTE PER ROUND</b>		<b>1<sup>st</sup> Vote (Yes/No)</b>	<b>2<sup>nd</sup> Vote (Yes/No)</b>	<b>3<sup>rd</sup> Vote (Yes/No)</b>