


COUNCIL COMMUNICATION

	Number:	24-220	Meeting:	May 20, 2024
	Agenda Item:	29	Roll Call:	24-0751
	Submitted by:	Cody Christensen, Development Services Director		

AGENDA HEADING:

Resolution approving the preliminary terms of an Urban Renewal Development Agreement with Ruan Redevelopment Partners, LLC for the conversion of an existing office building at 601 Locust Street to a 221-unit multi-family residential building, including commercial uses on the skywalk level.

SYNOPSIS:

Ruan Redevelopment Partners, LLC (represented by Tracey Ball, Chief Financial Officer, Ruan, Incorporated, 3200 Ruan Center, 666 Grand Avenue, Des Moines, IA 50309, and Aaron Mesmer, Executive Vice President and Chief Investment Officer, Block Real Estate Services, LLC, 4622 Pennsylvania Avenue, Suite 700, Kansas City, MO 64112) is proposing the conversion of the existing 14-story office building located at 601 Locust Street to a 221-unit multi-family residential building, with the commercial uses to remain on the skywalk level. The lower level of the building will be indoor parking, and the street level will include predominantly residential amenity spaces. The skywalk level will be a mix of the existing commercial uses, residential units, and amenity spaces. Levels 3-14 will contain residential units, and the penthouse space will be converted into a rooftop amenity area for the residential tenants.

The total project cost is estimated at \$81.2 million. Construction is anticipated to begin at the end of 2024, with completion anticipated in 2026.

The Office of Economic Development has negotiated preliminary terms of an urban renewal development agreement with Ruan Redevelopment Partners, LLC, which provides for tax increment financing (TIF) to serve as a means for responding to a financing gap, as presented by the development team. Additional details on the preliminary terms are provided in the fiscal impact section below.

FISCAL IMPACT:

Amount: The financial terms propose approximately \$5.57 million in project generated tax increment on a cash basis (\$2.77 million on a net-present-value {NPV} at a 4.5% discount rate) based on the following schedule: 95% in years nine (9) through 12, 90% in years 13 through 15, 80% in years 16 through 18, and 70% in years 19 and 20. The TIF is estimated to comprise of 3.4% of the total project cost.

The current assessed value of the existing property is \$6.7 million. Upon completion of the project, the total assessed value of the property including building and land is estimated at \$40.9 million.

Year	Estimated Taxes Received without Project*	Estimated Taxes Received with Project	Incentive Paid	Estimated Net Taxes Received
Sum 10 Years	\$ 2,911,095	\$ 2,456,846	\$ 332,538	\$ 2,124,308
Sum 20 Years	\$ 6,459,277	\$12,675,842	\$5,569,449	\$ 7,106,393
Sum 30 Years	\$10,783,972	\$25,178,515	\$5,569,449	\$19,609,066

*Taxes received without project estimates used the following assumptions: 2.5% growth in re-assessment years, 1.5% growth in non-re-assessment years.

*Building and land valuation assumptions at completion of construction:

\$39,591,250 building valuation

\$ 1,310,000 land valuation

Funding Source: Tax increment generated by the project in the Metro Center Urban Renewal Area.

ADDITIONAL INFORMATION:

- The building was constructed in 1981. The project team for this renovation and conversion of the Two Ruan building at 601 Locust will pursue State and Federal Historic Tax Credits, and all work will be undertaken following the Secretary of the Interior's Standards and Guidelines for Historic Rehabilitation. The project team will also be working with the State Historic Preservation Office (SHPO) on design requirements.
- The project will feature fitness centers, coworking space, bike wash and repair station, pet spa and rooftop pet park, covered indoor parking, and a rooftop lounge and gathering space.
- The Development Agreement will require participation in the MidAmerican Energy Company's Commercial New Construction Program, and the project team is considering the inclusion of electric vehicle charging stations, all-electric design for the residential units, and Des Moines Area Regional Transit Authority (DART) Unlimited Access Pass Program for its tenants. The project will incorporate the required Energy Efficiency & Sustainability Features to qualify for the tax abatement program.
- The project will incorporate affordability into the project by providing 10% of the residential units (23) at an affordable rent structure of 65% HOME Rent Limits, which corresponds to households earning 80% or less of the area median income (AMI) levels for a minimum of the 20-year life of the development agreement.
- Ruan Redevelopment Partners, LLC's proforma indicates a financial gap created by the continued rise in construction costs on a project of this scope and quality that makes debt coverage and return on investment a challenge without financial assistance.

PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Urban Design Review Board – Design Review
- City Council – Final Terms of an Urban Renewal Development Agreement; Approval of Certificate of Completion to commence economic development assistance.

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