

**OFFICE OF THE CITY MANAGER
DES MOINES, IOWA**

**CITY COUNCIL COMMUNICATION 96-230
JUNE 3, 1996 AGENDA**

SUBJECT:	TYPE:	SUBMITTED BY:
APPROVAL OF LOAN FOR VARESYN LTD. FOR RENOVATION OF THE SADDLERY BUILDING	◆ RESOLUTION ORDINANCE RECEIVE/FILE	SCOTT A. STRICKER ECONOMIC DEVELOPMENT ADMINISTRATOR

SYNOPSIS —

VareSyn Ltd., owned by Randy Africano, recently purchased the Saddlery Building (307 Court Ave.). Mr. Africano is proposing a major renovation of the building for executive office suites and is requesting a \$200,000 City loan as part of the approximate \$1,750,000 project. In addition, a portion of the basement and the first floor will have a micro-brewery and upscale restaurant which is being financed separately at a cost of more than \$900,000.

FISCAL IMPACT —

The City's \$200,000 loan would be funded by TIF cash flow from the Capitol Center I Urban Renewal Area. The TIF cash flow would be included in the Operating Budget and available in FY1997-98. Until such time as TIF dollars are available, interim funding would be available from proceeds from the sale of the Younkers Warehouse.

RECOMMENDATION —

Approval of the roll call to give the project preliminary approval.

BACKGROUND —

In order to implement designated housing, VareSyn Ltd., a venture of Randy J. Africano, President/CEO of Madison Avenue Business Suites (MABS), Inc., will own the historic Saddlery Building located at 309 Court Avenue. VareSyn will also own and operate a business to be known as Madison Avenue Business Suites of Des Moines (MABS). MABS will operate executive suites to be located on the second, third and possible fourth floors of the Saddlery Building. The executive suite operation will provide office space with shared tenant services.

An executive suite is a collection of offices where tenants share common business facilities, manpower, technology, and equipment to reduce their operating overhead. In an executive suite, lease rates per net square foot may be higher than conventional office space, but capital outlay and overhead are virtually eliminated. Furthermore, tenants have access to enhanced technology that could not be otherwise cost-justified by their individual businesses. The day-to-day administrative duties are handled by the suite operator.

Building Renovation and Uses

The Saddlery Building was built in 1878 by Jacob Rubelman to house the Des Moines Saddlery Co. A building next door, attached to the Saddlery with an adjoining wall and a single front facade, was home for the Kaplan Hat Co. In 1986, after sitting idle for almost 60 years, the building underwent a \$3 million renovation and was placed on the National Historic Register. In 1991, the thrift that owned the

building was declared insolvent, and the property was absorbed by the Resolution Trust Corporation (RTC). In 1993, the building was extensively damaged by the flood. After the flood, the RTC spent over \$600,000 to repair the foundation and replace building systems located in the basement area. In October 1995, the building was acquired by Randy Africano at an RTC property auction.

The Saddlery Building is located in the heart of the Des Moines Court Avenue Business District, an area rich in history and architectural splendor, entertainment, the arts, and summer festivals. The building is a pivotal property of this area because of its location and architectural significance. It is the sole point of entrance to the area by the Des Moines Skywalk System.

Development Plans

The company's plans call for the development of the structure as a multi-use facility which includes retail food service, executive suite offices, and conventional office space. The building will be equipped with a host of amenities that will be available to all tenants.

The first floor and a portion of the basement has been leased to KC Hopps Ltd. of Kansas City, Missouri to house a micro-brewery and an upscale restaurant operation, the Court Avenue Brewing Company. VareSyn (Mr. Africano) with another investor have acquired controlling interest in this restaurant.

Plans call for a complete reworking of the interior from the skywalk entrance to the building lobby. To improve the accessibility to the Court Avenue Business District, part of the internal space will be demolished for a new two-story atrium and stairway facing Court Avenue. It will allow skywalk users direct access to the street level without having to use the elevators or the emergency fire stair.

Madison Avenue Business Suites of Des Moines will be a state-of-the-art executive office suite that will house between 60 and 100 offices. The upscale offices will be equipped with a local area computer network that provides direct access to a CD-ROM law library and the Internet. The suite will also have a multi-media conference/board room, a video deposition room for the legal professional, an on-site health facility, a multi-functional digital phone system, and a host of office automation systems including scanners, optical character recognition systems, computer work stations, high-speed document processing systems, laser facsimile and printing systems.

A highly-trained on-site staff office will provide *a la carte* services for the tenant as well as contract work for non-resident client. MABS personnel will offer clerical, secretarial, paralegal, administrative, bookkeeping, and software specific services on a fee-for-service basis. The facility will also offer service amenities from dry cleaning to courier services to increase the value-added benefit to the tenants.

The Madison Avenue Business Suites development will start initially on the second and third floors and expand to the fourth floor as demand warrants. It is also possible that some fourth floor space could be developed for conventional office space.

Development Financing

Mr. Africano's financing proposal includes \$200,000 in loan funds from the City, up to \$500,000 in equity capital, and \$1,050,000 in bank financing. It is possible that as much as \$250,000 of the prospective equity could be funded through additional bank debt.

The requested terms for the City's loan are \$200,000 at three percent interest with a 15-year amortization. Loan payments would be deferred for 12 months with a balloon payment at the end of year ten. The actual loan and collateral documents will be presented for City Council approval at a subsequent Council meeting. Within that time frame, City staff will negotiate with Mr. Africano to develop a cash flow standard by which a balloon payment may be triggered prior to year ten.