

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-138

SYNOPSIS -

AGENDA:

APRIL 5, 1999

SUBJECT:

DEVELOPER-INITIATED PROPOSAL SUBMITTED BY LADCO DEVELOPMENT, INC. FOR DISPOSITION PARCEL NO. 4A/GUTHRIE AVENUE BUSINESS PARK (1800 DIXON STREET)

LADCO Development, Inc. has submitted a developer-initiated proposal to redevelop Disposition Parcel No. 4A/Guthrie Avenue Business Park (south of Mattern Avenue west of Dixon Street - 1800 Dixon Street). The redeveloper is proposing to construct a 72,963 sq. ft. office/distribution and light assembly facility on the approximate 6.6-acre parcel. The total project cost is estimated at \$2.8 million. Battery Patrol will lease the entire building. The company will retain 80 employees and anticipates that it will create 30 jobs each year over the next three years. It pays its employees, excluding supervisory personnel, on average a wage of at least \$12/hour plus benefits.

On the April 5, 1999 Council agenda are two roll calls that request Council to:

TYPE:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

1. Accept the developer-initiated proposal from LADCO Development, Inc. to redevelop Disposition Parcel No. 4A; and
2. Authorize advertisement for competing redevelopment proposals and authorize notice of intent to enter into an Agreement to Purchase Land for Private Redevelopment with LADCO Development, Inc. if no competing proposals are received.

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

Ellen Walkowiak with the City's Office of Economic Development is coordinating the City activities relative to this project.

FISCAL IMPACT -

LADCO Development, Inc. has offered a purchase price of \$356,700 for Disposition Parcel No. 4A. The City will deed the property to the redeveloper in its current condition.

There is a house, single-car garage, fencing, trees, abandoned vehicles, tires, and miscellaneous debris on the property. The redeveloper will be responsible for demolition and site clearance activities. The City will also abandon a 15-inch storm sewer line located in Dixon Court and participate in rerouting a portion of it east to Dixon Street.

As part of this transaction, the City will deduct approximately \$57,055 from the purchase price at closing only if the City enters into an Agreement with LADCO Development, Inc. and the redeveloper completes the demolition, removal, and backfill work in accordance with City standards identified in the City's bid contracts for such activities. The costs to be deducted are based on the most cost-effective bid for demolition work and historical costs for abandoning and relocating storm sewer lines. This arrangement meets the developer's aggressive time frame, is cost-effective, and eliminates the need and expense of contract administration.

The redeveloper has also agreed to enter into a Minimum Assessment Agreement with the City at the time Disposition Parcel No. 4A is conveyed which fixes the Minimum Actual Value of the improvements at \$33/sq. ft. It is estimated that the value of the consolidated taxes paid by the redeveloper over ten years will be nearly \$600,000 after tax abatement. This is significant because almost the entire site is currently vacant.

Sale proceeds will be allocated to the Guthrie Avenue Business Park Account. No real estate commission will be paid because no real estate broker has been retained by LADCO Development, Inc. to secure acceptance of the redevelopment proposal.

RECOMMENDATION -

- 1. Approve the Minimum Development Requirements and Competitive Criteria for Disposition Parcel No. 4A/Guthrie Avenue Business Park as described in Attachment "C" to the roll call;**
- 2. Accept the redevelopment proposal submitted by LADCO Development, Inc. for Disposition Parcel No. 4A/Guthrie Avenue Business Park, subject to terms and**

conditions described in the staff report and contained in the Agreement; and

3. Authorize a competing offering period of approximately 30 days for others interested in developing Disposition Parcel No. 4A.

BACKGROUND -

Developer-Initiated Proposal

LADCO Development, Inc. ("LADCO") has submitted a developer-initiated proposal to purchase Disposition Parcel No. 4A for development of a 72,963 sq. ft. office/distribution and light assembly facility on approximately 6.6 acres located south of Mattern Avenue west of Dixon Street (1800 Dixon Street). LADCO is proposing to acquire Disposition Parcel No. 4A for \$356,700.

LADCO is an Iowa Subchapter "S" corporation that was organized on June 30, 1998. Jon D. Garnaas is the President/Treasurer of LADCO. Mr. Garnaas and his wife, Faith A. Garnaas, both of 2951 - 86th Street, Urbandale, Iowa, each own 50 percent of the company.

Jon Garnaas has a commercial lending background and has completed extensive commercial and industrial projects over the past 12 years. LADCO is involved in the development and management of commercial and industrial properties for single-user credit tenants. The company obtains long-term pre-lease commitments for the entire building prior to its construction. Upon project completion, the property is generally transferred to an affiliated, single-asset limited liability corporation with LADCO as the managing member.

To date, the redeveloper has built 11 of its 12 most recently constructed retail, office, and warehouse buildings in Des Moines' western suburbs. These include:

- 10,414 sq. ft. of retail space for Sun Drug Pharmacy at 6107 Merle Hay Road (Johnston);
- 352,500 sq. ft. office/warehouse facility for Lennox Industries at 4301 - 121st Street in the Crossroads Business

Park (Urbandale); and

· 24,540 sq. ft. medical office building for the Iowa Health System at 2901 - 86th Street (Urbandale).

Only one development was built in Des Moines. It is the 5,894 sq. ft. Northwest Medical Clinic at 5700 Hickman Road.

The proposed development will allow LADCO to facilitate a significant expansion of Battery Patrol on the east side of Des Moines, which will lease the entire facility. Battery Patrol, headquartered at 1901 East University Avenue in Des Moines, has been in operation for 18 years. It assembles approximately 1,700 different kinds of batteries and distributes a total of about 5,000 types of batteries nationwide. The company has 30,000 commercial accounts throughout the U.S., 34 franchise stores in the Midwest and five regional retail stores. Its clientele include both businesses and consumers. The City of Des Moines, the Des Moines School District, Polk County and the State of Iowa are some of its customers. The proposed development will more than double Battery Patrol's current lease space and will allow for the company's continued expansion because the site is able to accommodate construction of an additional 37,500 sq. ft. Mercantile Bank has indicated that Battery Patrol appears to be a viable credit tenant and a good growth company.

This project represents LADCO's first development in the Guthrie Avenue Business Park, first redevelopment in a previous heavy industrial area and one of the few that the developer has conducted in Des Moines. It is hoped that this project will provide an example that will encourage suburban developers to conduct redevelopment projects in the City.

The total estimated cost of building construction and site preparation is \$2.5 million (approximately \$34/sq. ft.). The land price is \$356,700. Construction is proposed to start in May 1999 and be completed by December 1999.

An irrevocable letter of credit from Mercantile Bank of Western Iowa for \$89,200 was submitted as the good faith deposit for Disposition Parcel No. 4A, which represents

slightly more than 25 percent of the offered purchase price. LADCO intends to finance 75 percent of the appraised value of the project through a loan from Mercantile Bank. The redeveloper has provided a letter of preliminary interest in financing the project from Mercantile Bank dated March 17, 1999. Based on review of the redeveloper's personal financial statement and balance sheet, both dated November 30, 1998, and Mercantile Bank's indication that Battery Patrol is a viable source of repayment, LADCO should have no difficulty in financing the redevelopment project.

The City is in the process of obtaining title to Disposition Parcel No. 4A. A majority of the land is anticipated to be acquired by May 1999. It is estimated that most of the property will be conveyed to the redeveloper in May 1999 upon City Council's final approval of the project. Two lots located in the southeast portion of the redevelopment parcel are anticipated to be conveyed as soon as the homeowners have been relocated. This is estimated to occur in Fall 1999.

The City also intends to secure a driveway easement from DECO Tool, which has recently constructed a 7,150 sq. ft. office/distribution facility west of the redevelopment parcel. This easement, to be located across DECO's southern driveway, will be assigned to the developer to facilitate the flow of truck traffic between Dixon and East 17th Streets.

Urban Renewal Board Action

On March 30, 1999, the Urban Renewal Board recommended approval of the redevelopment proposal by consensus vote, subject to the staff recommendation noted in the staff report (Attachment "B"). It is anticipated that LADCO's development proposal will meet the Minimum Development Requirements (Attachment "C") at the time of final design plan review.