



**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-156

SYNOPSIS -

AGENDA:

APRIL 5, 1999

Pursuant to Council direction received on July 27, 1998, staff has completed negotiation and preparation of a development agreement, mortgage, and promissory note ("Loan Agreement") for the Teachout Building Renovation Project, located at East 5th and Locust Streets.

SUBJECT:

TEACHOUT
BUILDING -
EASTERN
GATEWAY PROJECT

The Teachout Building was purchased by Kirk Blunck for the purpose of renovating the property into a first class commercial building. Blunck has formed Teachout Properties, L.L.C. as the entity to carry out development of the project.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

The Teachout Building is a six-story structure containing 12,895 square feet on floors one through six with an additional 2,700 square feet on the basement level. The total project cost for renovation of the building is estimated at \$1.2 million. The project will be financed with a first mortgage loan from Iowa State Bank in the amount of \$675,000, \$200,000 in personal equity, and an economic development second mortgage interest-free loan in the amount of \$300,000 from the City. Des Moines Development Corporation will fund \$150,000 of the loan amount. The developer is also attempting to secure an historic preservation grant through the State of Iowa in the amount of \$25,000.

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

The renovation of the Teachout Building is a significant undertaking, which should serve as a catalyst for additional redevelopment of the eastern Gateway area. The project should also set the standard for other renovation projects in the area.

FISCAL IMPACT -

The proposed Development Loan will be financed with Gateway Project funds, with the City and Des Moines Development Corporation (DMDC) each contributing \$150,000. The City's portion of the proposed Development

Loan will be funded with tax increment cash flow, eliminating the need to issue long-term debt. The City's \$150,000 participation is consistent with our tax increment financing (TIF) policy guidelines and allocation limits.

The Development Loan will be disbursed to the developer after the renovation is substantially complete, concurrent with the closing on the permanent mortgage financing. The proposed Development Loan will be at zero percent interest with a term of ten years. Repayment on the Development Loan will be deferred for three years with annual payments to the City in the amount of \$30,000 in years four through nine and a \$120,000 balloon payment in year ten.

The project will utilize the ten-year declining schedule urban revitalization tax abatement. The tax abatement will result in estimated tax savings of \$135,000 for the project. The project will generate approximately \$675,000 of new property taxes over 20 years taking into account the ten-year declining schedule tax abatement.

RECOMMENDATION -

Approval of the loan agreement and related documents with Teachout Properties, L.L.C. for the renovation of the Teachout Building.

BACKGROUND -

Renovation of the Teachout Building is approximately 75-80 percent complete. The balance of the work that remains involves the restoration of the marble and terrazzo surfaces of the six-story central stairway and reinstallation of the elevator that was removed in the mid 1970's. Work also remains at street level, including installation of wood windows and transoms, restoration of the masonry and terra cotta base elements, and recreation of the original metal entrance canopy.

The renovation has created significant interest from small businesses to lease space in the building. Since August of 1998, lease agreements have been secured with tenants for five of the six above grade levels. The first level, comprising 2,400 square feet, has been designed for lease to PROJECTS Contemporary Furniture (retail sale of contemporary furniture and accessories

and interior design services). The second and third levels, with 4,200 square feet, are leased by Iowa Interactive, Inc. which provides and designs computer services, including the Iowa Access Network for the State of Iowa. The remaining portion of the second level will be occupied by Leadership Data Services, a designer of computer software programs.

The fourth and fifth levels, comprising 4,400 square feet, are occupied under a ten-year lease by Brian Clark and Associates, a landscape architecture firm. The 2,400 square foot sixth level has received interest from prospective tenants representing a variety of uses. The developer is currently negotiating with three prospects for use of the top level as a residential living unit, a newly established architectural firm, and high-end retail space.

The proposed Development Loan between the City and Teachout Properties, L.L.C. includes the following key terms and conditions.:

1. The project will be eligible for tax abatement on the value added by the improvements in accordance with the ten-year declining exemption schedule.
2. The Economic Development Loan to Teachout Properties, L.L.C. will be in the amount of \$300,000. The Loan will be at zero percent interest with a term of ten years. Repayment on the Loan will be deferred for three years with annual payments to the City in the amount of \$30,000 in years four through nine and a \$120,000 balloon payment in year ten. The Loan will be disbursed to the developer at the time of closing on the permanent mortgage financing. DMDC will provide \$150,000 of the Loan amount.
3. The developer will acquire construction and permanent mortgage financing in an amount of at least \$675,000. The developer will also provide a minimum of \$200,000 of personal equity funding to the project.
4. The developer will undertake and complete the renovation of the Teachout Building to provide general/professional office space on the second through sixth floors, and office; retail, or restaurant uses on the first floor and lower level of the building. The total project cost for the renovation of the Teachout Building will be at least \$1.2 million.

Urban Renewal Board

The Urban Renewal Board reviewed the proposed Development Loan Agreement and related documents at its meeting of October 13, 1998 and recommended approval.

[[Council Members](#) | [Leave a Message](#) | [Meeting Agendas/Info](#) | [Recent Ordinances](#)]
[[Board/Commission List](#) | [Meeting Schedule](#) | [Request to Speak](#) | [Election/Voter Reg](#)]