

**CITY COUNCIL
COMMUNICATION:**

REVISED

ITEM _____

99-525

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

AGENDA:

SYNOPSIS -

DECEMBER 6, 1999

On the December 6, 1999 Council agenda is a communication recommending the Terms of Agreement between the City and HMG Realty Advisors, Inc. for a City development loan to assist in structural repairs, renovations, and improvements to the Locust Street Mall located at 700 Locust Street. HMG Realty Advisors, Inc. of Omaha, NE (hereinafter referred to as Developer) has taken control of the Locust Street Mall under a master lease with the ability to take ownership.

SUBJECT:

LOCUST STREET
MALL
RENOVATIONS

TYPE:

The Locust Street Mall is a six-story structure containing three levels of retail, office, and storage space totaling 56,088 square feet and five levels of parking providing 736 parking stalls. Over the past few years the building has fallen into disrepair and has experienced increasing vacancies with approximately 72 percent of its retail and office space currently vacant. The assessed valuation of the building (not land) has declined by 50 percent over the last ten years, resulting in a loss of \$2 million in taxable value.

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

The Developer has requested City assistance in stabilizing the building's decline and restore it to higher market standards. It is estimated that the building will require up to \$2.3 million in building structural repairs, renovations to common areas, including the skywalk and food court areas, and improvements to vacant retail and office space to bring the space up to market standards and enable it to obtain a higher occupancy.

Terry Vorbrich with the City's Office Economic Development is the City's staff contact.

FISCAL IMPACT -

The proposed City assistance is not to exceed \$500,000, and

would be disbursed over a term of five years in amounts not to exceed \$100,000 per year. The City assistance will be funded from a combination of tax savings resulting from tax abatement on value-added improvements and payments from tax increment financing (TIF) revenues. The proposed City assistance will be in the form on a development loan, at 0 percent interest with payment deferred until maturity in 2010. Portions of the City assistance will be repaid or forgiven based on the property's average assessment valuation for the years 2001 through 2010. If the project is successful and the average assessment meets or exceeds the \$6.4 million average assessment that would trigger a 100 percent forgivable loan, it is anticipated that the project would provide net new taxes (new tax increment less total City assistance) of \$350,000 over the term of the development agreement.

RECOMMENDATION -

Direct the City Manager to:

- 1. Prepare a development agreement with HMG Realty Advisors, Inc. for the renovation of the Locust Street Mall based on the terms of agreement set forth in this communication.**
- 2. Refer this matter to the Urban Renewal Board and any other City Boards and Commissions as necessary for their review and comment at the appropriate times.**
- 3. Initiate an amendment to the City-wide Urban Revitalization Plan to permit the improvements to the building to qualify for tax abatement.**

BACKGROUND -

Terms of Agreement

The Developer is HMG Realty Advisors, Inc. (Thomas G. Holtz, President) and maintains its corporate office at One Pacific Place, Suite 450, 1125 South 103rd Street, Omaha, NE 68124. The company acquires management control of real estate, which is over-leveraged and/or under-managed. The company is associated with McCarthy Group, Inc., which is a broker/dealer and investment bank that provides advisory services to clients, and assists clients in the development and

implementation of capital plans. In short, McCarthy Group is a capital fund that buys, sells finances and values company's for its own portfolio and its client's portfolios.

Based on extensive discussions with the Developer agreement has been reached on the following general points which comprise the key features of the proposed agreement as outlined below. These points will be defined in detail as part of a formal development agreement between the City and HMG Realty Advisors, Inc.

1. The Developer will undertake the repair, renovation, and improvement of the Locust Street Mall Building and provide its best effort to lease the vacant retail and professional office space at or above prevailing market rents. The project costs for the repair and renovation and improvements to the common areas of the Locust Street Mall Building will be at least \$1.0 million with additional improvements to the vacant rentable space of at least \$1.0 million as tenants are secured.

2. The Developer will restrict any application for tax abatement on the project's value-added improvements to the three year 100 percent Urban Revitalization Tax Exemption schedule.

3. The City will provide an Economic Development Loan to HMG Realty Advisors, Inc. in an amount not to exceed \$500,000. The Loan will be disbursed to the developer in annual installments not to exceed \$100,000 per year. The annual installment will be funded by a combination of the value of the tax savings from tax abatement on the value-added improvements and tax increment financing revenues.

4. The Loan will be at 0 percent interest and require no payments until maturity in 2010. If the Developer is successful in stabilizing the building as reflected by increased building assessment valuations, then a portion of the loan would be forgivable. The portions of the loan that will be repayment and forgivable will be based on the average assessment for the years 2001 through 2010. The following proposed repayment schedule has been agreed to in principle:

Current 1999 Assessment: \$4,403,000

Average Assessment	Loan Repayment	Forgivable Loan
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Less than \$5.6 million	\$500,000	\$0
\$5.6 million to \$5.8 million	\$400,000	\$100,000
\$5.8 million to \$6.1 million	\$275,000	\$225,000
\$6.1 million to \$6.4 million	\$150,000	\$350,000
\$6.4 million and over	\$0	\$500,000

The proposed project has been evaluated in accordance with the City's adopted standards for the use of TIF funds. The project meets the following required policy standards:

- the project is in accordance with the approved district plan;
- it will result in a significant increase in the taxable value of property within the district;
- it will create and retain permanent job opportunities in the district; and
- the amount of the TIF assistance will be the least amount necessary for the project to proceed and produces an acceptable rate of return to the City.