

**CITY COUNCIL  
COMMUNICATION:**

**03-353**

**AGENDA:**

JULY 28, 2003

**SUBJECT:**

FIRST AMENDMENT  
TO AGREEMENT WITH  
WATER STREET  
BROWNSTONES, L.L.C.

**TYPE:**

**RESOLUTION**  
ORDINANCE  
RECEIVE/FILE

**SUBMITTED BY:**

RICHARD CLARK  
DEPUTY CITY  
MANAGER

**ITEM** \_\_\_\_\_

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

**SYNOPSIS —**

On the July 28, 2003 Council agenda is a roll call that authorizes the Mayor to execute the First Amendment to the Development Agreement with Water Street Brownstones, LLC for the Water Street Brownstones condominium project at Water Street (formerly 1<sup>st</sup> Street) and Vine Street. Water Street Brownstones is a joint partnership of Sherman Associates and the Lander Group. The office of Sherman Associates is 233 Park Avenue South, Suite 201, Minneapolis, MN.

The project consists of the construction of two buildings with a total of 34 condominium units. Another component of the project is Vine Street Lofts, a five-story, 109-unit apartment building adjacent to the condominium buildings.

Water Street Brownstones had been under construction and 50 percent complete when it was struck by fire on the morning of April 5, 2003. It was completely destroyed along with the Vine Street Lofts. The Amendment to the Development Agreement is necessary to facilitate the reconstruction of the condominiums.

**FISCAL IMPACT —**

On April 12, 2002, by Roll Call No. 02-953, the Council approved the Development Agreement with Water Street Brownstones, LLC and authorized a grant of \$1,027,799. This amendment does not adjust the grant amount but does address the distribution of these funds.

**RECOMMENDATION —**

**Approval.**

**BACKGROUND —**

When construction began in June 2002, the Vine Street Lofts and Water Street Brownstones project was the culmination of over three years of work by the public and private sectors to develop housing south of Court Avenue. The projects were 50 percent complete when a fire destroyed both developments on April 5, 2003.

Lander Sherman Urban Development has reaffirmed their commitment to this project and to the redevelopment of the Court Avenue area by pursuing the reconstruction of Water Street Brownstones. This amendment to the

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Development Agreement is essential to the reconstruction of Water Street Brownstones.

More specifically, this amendment:

1. Extends the deadline for the completion of the improvements to December 31, 2004.
2. Accelerates the City's payment of the Economic Development Grant. Upon satisfaction of several conditions (receipt of partial prepayment of insurance proceeds, receipt of funding adequate to complete the two condominium buildings, construction contract for improvements in place), the City will advance all or a portion of the City funds to an escrow agent for dispersal.

The fire loss has created a number of new challenges for the Water Street Brownstones project. Insurance proceeds are unlikely to cover the full cost of rebuilding due to the partial loss of one building and the substantial increase in project soft costs. In addition, the project has suffered a timing delay, which creates timing issues in regards to other project financing. Revising the Development Agreement to allow the release of the grant proceeds helps address both issues.

The Developer estimates that the project will have at least a \$500,000 shortfall of funds, additional funds that the Developer will have to contribute. The original construction loan (which will remain in place) was based on a certain percentage of pre-sold units and a lower construction cost. Based on the reduced and delayed return, the amendment will make the construction lender more comfortable with advancing their funds given the slowdown in sales as the condominiums are rebuilt.

Amendments to the Vine Street Lofts Development Agreement will be presented to Council at a later meeting.

