

**REVISED**

Agenda Item:
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## **COUNCIL COMMUNICATION City Manager's Office**

### **GENERAL INFORMATION**

Agenda Date:	02/07/05	Communication
No.:	05-060	
Agenda Item Type:	Resolution	Roll Call
No.:		

Submitted by: Richard Clark, Deputy City Manager

### **SUBJECT—**

Resolution approving Urban Renewal Development Agreement with Lander-Sherman Urban Development LLC for the construction of at least 70 residential condominium units immediately north of Vine Street between 2nd and 3rd Streets.

### **SYNOPSIS—**

Council is asked to approve the Development Agreement with Lander-Sherman Urban Development, LLC (George Sherman, President and Owner, Sherman Associates, 233 Park Avenue South Suite 201, Minneapolis, MN). The Developer proposes to construct 70 to 80 units with underground parking north of Vine Street between 2<sup>nd</sup> and 3<sup>rd</sup> Streets. George Sherman has personally guaranteed payment of the Grant Repayment that may become due the City from the Available Net Profit, if any, generated upon the future sale of the condominium units.

### **FISCAL IMPACT—**

The City will provide \$1,500,000 in TIF funds to the Developer. The source of the TIF funds is TIF cash and bonds to be sold in FY 2005.

## **RECOMMENDATION—**

Approval

## **BACKGROUND—**

On August 11, 2003 by Roll Call 03-1913, the City Council directed the City Manager to proceed with negotiations with Lander-Sherman Urban Development for the property owned by the Neighborhood Improvement Corporation (NIC) north of Vine Street between 2nd and 3rd Streets. The Developer proposes to construct 70 to 80 condominiums with underground parking directly west of the Vine Street Lofts apartment development. The total construction cost is over \$20 million, including underground parking. The requested City subsidy is \$1,500,000, or less than \$21,500 per unit.

This second Lander-Sherman condominium project will provide housing units in the Court Avenue Neighborhood, an area that has been the focus of Council and community attention. Due to the constraints imposed by infill development and the area design standards, the costs of constructing this development are higher than costs would be for a similar development on a greenfield site. Current sale prices are not high enough to support these additional costs. In combination, the higher construction costs and lower income results in a funding gap. TIF funds will be used to fill this gap.

### City Responsibilities:

- ❑ City will make a grant in the amount of \$1,500,000 to the Developer. The funds will be distributed as follows:
  - 1st Installment of \$500,000 upon Closing on purchase of land
  - 2nd Installment of \$500,00 upon 80% completion of 1st Building, if construction of 2nd Building financed and commenced.
  - 3rd to 6th Installments of \$125,000 each upon completion of the 1st, 2nd, 3rd and 4th Buildings
- ❑ Concurrently with the approval of the Agreement, the Council has taken action to amend the City-wide Urban Revitalization Plan to extend the deadlines for commencement and completion of improvements by **three years**, and to extend the eligibility for tax abatement to Lots 5 and 6 of Block 30, Fort Des Moines.

### Developer Responsibilities:

- ❑ Developer will construct at least 70 condominium units in four (4) buildings with a total of 40,000 square feet within the units.
- ❑ The total construction cost shall be at least \$20,000,000.

- ❑ Construction will be commenced by February 7, 2006 and will be completed within 48 months of commencement.
- ❑ The Conceptual Design Plan shall be submitted by March 15, 2005.
- ❑ The Developer will apply for Enterprise Zone Tax Credits.
- ❑ The Developer shall repay a portion of the Economic Development Grant equal to 33.75% of the available net profit after payment of the Developer's fee and equity costs. George Sherman has personally guaranteed payment to the City of the Grant Repayment.
- ❑ In the event that the Developer does not construct the third and fourth buildings as required by the Development Agreement, liquidated damages in the amount of \$250,000 will be paid to the City.

The Projected Sources for the project are:

Sales Proceeds	\$18,114,750
Enterprise Zone Credits	\$650,000
Sales Tax Credits	\$150,000
<u>City of Des Moines</u>	<u>\$1,500,000</u>
Total Sources	\$20,414,750

The projected uses of the above financing are:

Land Acquisition	\$660,000
Construction	\$13,260,000
Professional Fees	\$720,000
Construction Loan Costs	\$1,070,000
Soft Costs	\$240,000
Developer Fee/Overhead	\$2,950,000
<u>Marketing</u>	<u>\$1,514,750</u>
Total Uses	\$20,414,750

Like the agreements for Water Street Brownstones and the Court Avenue Partners (Hubbell/Bookey) condominiums, this Development Agreement does not include a Minimum Assessment Agreement. Because this project has 10-year tax abatement and the City dollars are injected in the first three years, the value of a minimum assessment agreement is minimal.

The Urban Design Review Board reviewed the project at their February 1, 2005 meeting and recommended use of TIF funds for this project. The Conceptual Design Plan will be reviewed by the Urban Design Review Board in March or April and forwarded to Council for approval.