



Agenda Item:

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COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date:	04/06/05	Communication
No.:	05-178	
Agenda Item Type:	Resolution	Roll Call
No.:		

Submitted by: Andrea Hauer, Office of Economic Development Acting Director

SUBJECT—

Approving the urban renewal development agreement for the redevelopment of the Liberty Building (604 Locust St.) and Equitable Building (418 6th Ave.) and construction of a privately owned parking ramp to facilitate the redevelopment with K.C. Holdings VI, L.L.C. (Mike Nelson, Managing Member, 4183 NW Urbandale Dr., Urbandale, IA 50322) and Equitable, L.P. (Bob Knapp, Managing Member of general partner Equitable GP, L.L.C., 3535 Westown Parkway, Suite 300, West Des Moines, IA 50266)

SYNOPSIS—

On November 22, 2004, by Roll Call 04-2568, Council approved the preliminary terms of agreement for the redevelopment of the Liberty and Equitable Buildings and construction of a privately-owned parking ramp to facilitate the redevelopment. Council directed the City Manager to proceed with negotiations for formal development agreement.

On the April 6, 2005 City Council agenda is a roll call to accept and approve the final terms of the urban renewal development agreement with K.C. Holdings VI, L.L.C. and Equitable, L.P.

FISCAL IMPACT—

Total development costs of the Equitable Building, Liberty Building and new parking garage are estimated to exceed \$50 million. The developers have identified a financial gap in their developments of approximately \$2.34 million. The relatively high cost of land acquisition,

asbestos abatement and demolition have contributed to a development cost that will prohibit the projects from moving forward.

In lieu of the parking garage and office improvements receiving tax abatement, it is recommended the City provide financial assistance by utilizing the new property taxes generated by the projects. The City proposes to reimburse the developer an amount equal to the 85% of the parking garage and office space property tax increment for a period of 14 years. The developers will enter into a minimum assessment agreement to ensure the availability of the tax increment.

This analysis assumes the new commercial space improvements will begin paying added property taxes in fiscal year 2008. It is assumed the residential improvements will be eligible for 100%, 10-year tax abatement; therefore this analysis only includes taxes generated from the garage and office improvements. The assistance schedule is as follows:

Year	Estimated New Taxes Generated by the Garage and Office Improvements	% of Taxes Returned to Developer	Installments to Assist with Land Holding Costs	Annual Financial Assistance	Total Tax Generation Including Housing	Net New Taxes Received
2006	\$0	0%		\$0	\$0	\$0
2007	\$0	0%	\$226,000	\$226,000	\$0	(\$226,000)
2008	\$255,143	85%		\$216,872	\$255,143	\$38,271
2009	\$255,143	85%		\$216,872	\$255,143	\$38,271
2010	\$255,143	85%		\$216,872	\$255,143	\$38,271
2011	\$255,143	85%		\$216,872	\$255,143	\$38,271
2012	\$255,143	85%		\$216,872	\$255,143	\$38,271
2013	\$255,143	85%	\$300,000	\$516,872	\$255,143	(\$261,729)
2014	\$255,143	85%	\$300,000	\$516,872	\$255,143	(\$261,729)
2015	\$255,143	85%	\$300,000	\$516,872	\$255,143	(\$261,729)
2016	\$255,143	85%		\$216,872	\$370,833	\$153,961
2017	\$255,143	85%		\$216,872	\$486,523	\$269,651
2018	\$255,143	85%		\$216,872	\$602,213	\$385,342
2019	\$255,143	85%		\$216,872	\$602,213	\$385,342
2020	\$255,143	85%		\$216,872	\$602,213	\$385,342
2021	\$255,143	85%		\$216,872	\$602,213	\$385,342
2022	\$255,143	0%		\$0	\$602,213	\$602,213
2023	\$255,143	0%		\$0	\$602,213	\$602,213
2024	\$255,143	0%		\$0	\$602,213	\$602,213
2025	\$255,143	0%		\$0	\$602,213	\$602,213
2026	\$255,143	0%		\$0	\$602,213	\$602,213
2027	\$255,143	0%		\$0	\$602,213	\$602,213

NPV @ 7% Discount Rate \$2,344,287 \$1,256,664

The three installments of \$300,000 are timed to correspond with the land purchase. The developer will be leasing the land up until that time. The total value of the three projects is estimated to exceed \$50 million. Thus, the net present value of the City's assistance package represents less than 5% of the total development costs.

RECOMMENDATION—

Approval

BACKGROUND—

On August 5, 2002, by Roll Call 02-1969, Council established a goal of achieving through new construction, rehabilitation or adaptive re-use 6,000 additional housing units in the downtown by the year 2010.

The City Manager's office was approached separately by the two developers, Bob Knapp and Nelson Development, who sought assistance to identify parking solutions for their upcoming projects. City staff examined the available alternatives and recommended the developers collaborate for the most efficient solution.

The developers are proceeding with the modernization and re-tenanting of the commercial space as well as the residential condominium conversions of portions of the Equitable and Liberty Buildings. These two developments have specific parking requirements that cannot be adequately addressed in existing public or private parking garages. Nelson Development proposes to construct a new privately owned garage at the SE corner of 6th Avenue and Grand Avenue to meet the parking needs of both buildings. The condominium buyers will have the opportunity to buy parking spaces in the garage, while the commercial space users will have the opportunity to buy or lease parking in the garage.

The Equitable Building (which is on the National Historic Register) and the Liberty Building have experienced relatively high vacancy rates and declining assessed values. For example, in 1993 the Equitable Building was assessed at \$10,625,000; its assessed value in 2004 is \$7,771,000. The Liberty Building had a value of \$6,242,000 in 1995 and today is assessed at \$1,084,000. The modernization and adaptive re-use of older office buildings in the downtown is very desirable and will help the City maintain and increase property values, preserve architecturally significant buildings, and add viability to the downtown.

Urban Design Review Board Action

On March 15, 2005, the Urban Design Review Board unanimously approved the level of financial assistance and the design review. The Board also added to their motion that the incremental level of assistance compared to the original \$1.8 million estimate is justified based on the due diligence conducted and the design of the ramp.

Project Components

Liberty Building Condominium Conversion & Commercial Space Modernization and Re-Tenanting

- a. The Liberty Building is a 130,000 square foot office build built in 1923.
- b. The building has experienced significant vacancy and ownership turnover in the last few years. Despite an aggressive full-service lease rate of \$8.50/sq. ft., the building remains 85% vacant.
- c. The property's assessed value has decreased by almost \$5 million in the past decade.
- d. The high vacancy and low lease rate of this property are placing downward rate pressure on the already-weak downtown Class C office market.
- e. The current owner, KC Holdings VI LLC, in which Nelson Development is a principal, will convert floors 6 - 11 of the office building to approximately 30 residential condos ranging in size from 1,100 to 3,300 square feet. Anticipated sales price of the units is \$200,000 - \$500,000.
- f. The owner has proposed investing about \$3 million in improving 60,000 square feet on the lower floors that will remain office space.
- g. Residents will purchase parking spaces in the new ramp in conjunction with their condominiums.

Equitable Building Condominium Conversion & Commercial Space Modernization and Re-Tenancing

- h. The Equitable Building is a 246,000 square foot office build built in 1923.
- i. The building has experienced increasing vacancy in the last few years; the building is currently 35% vacant. The previous owner defaulted on the mortgage and the lender took control of the building earlier this year. Vacancy will increase dramatically when Wells Fargo Financial completes construction of its new downtown building and vacates the space it currently leases in the Equitable Building.
- j. The property's assessed value has decreased by almost \$3 million in the past 12 years.
- k. Bob Knapp, whose most recent downtown project has been the Suites of 800 Locust, purchased the Equitable Building in January. Knapp proposes converting the top 9 floors of the office building to about 22 residential condominium units ranging in size from 2,200 - 7,500 square feet. The average sales price of the units is expected to exceed \$1 million.
- l. The lower floors of the building will remain office space. The developer proposes investing approximately \$1 million in improving this space.
- m. Residents will purchase parking spaces in the new ramp in conjunction with their condominiums.

New Privately Owned Parking Garage at 6th & Grand Aves.

- n. Nelson Development proposes to construct a new parking garage at the SE corner of 6th and Grand. This quarter-block site previously housed Babe's Restaurant and has been vacant for approximately 10 years.
- o. The buildings on this quarter-block are currently assessed at only \$1,000 each.

- p. The new parking garage will be 5 – 8 stories tall and contain 225 – 380 parking stalls. The developer's architect will attempt to accommodate street-level commercial space.
- q. Once developed, the parking stalls will be sold to the residents of the two buildings. Tenants of the buildings' lower floors will utilize parking not used by condominium residents.
- r. The site already has skywalk access in all four directions so new corridors and bridges will not be necessary.

Changes from the preliminary agreement terms

The net present value of the assistance package approved on November 22, 2004 by Roll Call 04-2568 was \$1,804,432. The proposed assistance package is \$2,344,287, an increase of \$539,855. During the four months since the preliminary terms were approved, the developer has completed the following due diligence tasks that have led to more precise cost estimates.

1. Soil borings have been conducted to determine the steps necessary to prevent damage to the foundations of the adjacent Des Moines Building and skywalk footings.
2. Asbestos abatement has been more thoroughly researched.
3. The parking garage conceptual design has been completed. In consultation with the City Manager's Office, it was decided that this prominent location deserved structure with more aesthetic consideration than typical parking garages. The City Manger's Office instructed the developer not to cut costs by removing aesthetic elements from the building's façade. The conceptual design is attached.

Parking Garage – NW Perspective



Reference Map

