



**Council  
Communication**  
Office of the City Manager

Date

March 20, 2006

Agenda Item No. **60**

Roll Call No. **06-**

Communication No. **06-136**

Submitted by: **Richard A. Clark, City Manager**

**AGENDA HEADING:**

Communication from the City Manager regarding the City's participation in the proposed redevelopment of the vacant Younkers Building at 7th and Walnut Street for mixed use, with retail bays on the ground and skywalk levels, residential units on the upper floors, and resident parking in the basement.

**SYNOPSIS:**

City Council is asked to direct the City Manager to proceed with negotiations toward a preliminary and final agreement with Joseph Freed and Associates (Larry Freed, President, 220 North Smith St., Suite 300, Palatine, IL 60067) for further consideration by the City Council. The City's TIF (Tax Increment Financing) participation is not to exceed \$2 million or 5% of the total project costs, whichever is less.

**FISCAL IMPACT:**

Amount: To be determined. No greater than \$2,000,000.

Funding Source: Adopted CIP FY2006 – FY2011 under Economic Development Improvements - URR099, page 5.

**ADDITIONAL INFORMATION:**

On June 3, 2005, Saks Incorporated announced it would close the downtown Younkers store located at 7<sup>th</sup> and Walnut Streets. The closure of this 141,000 sq.ft. retail space followed the October 2002 elimination of 270 corporate positions that occupied the building's upper floors.

Chicago-based developer Joseph Freed and Associates has proposed a \$40 million rehabilitation of the now-vacant Younkers building. Freed's project consists of retail bays ranging from 1,600 – 19,000 sq. ft. on the ground and skywalk levels, approximately 110 residential units on the upper floors and resident parking in the basement. Retail tenants have yet to be determined. Multiple bays could be combined to accommodate retailers' needs. The residential units are projected to sell for approximately \$245/sq. ft.

Joseph Freed and Associates is a third generation, family-owned real estate development company that started with a focus on retail development. Over the last two decades, they have become a full-service real estate business engaged in retail, residential, office, hospitality, mixed-use development, and urban infill. Their real estate history consists of a total of 11 million square feet of commercial properties and 5,500 residential units, completed or under development. While the commercial properties still form the bulk of their current portfolio, they have recently concentrated on mixed-use development featuring retail, residential, office and restaurant uses with project costs exceeding \$2 billion.

Joseph Freed has tenant relationships with Borders Books, Bed Bath & Beyond, Staples, Old Navy, Starbucks, and dozens of the nation's other top retailers. Freed's territory includes Illinois, Michigan, Wisconsin, Missouri, Pennsylvania, North Carolina, Colorado, and Nevada.

Freed will utilize historic tax credits and enterprise zone tax credits to help fund the project. The City has also asked Freed to pursue New Market Tax Credits. City staff has been working with Freed to determine appropriate funding sources to help fill an additional financial gap of approximately \$9 million. City, Polk County, and downtown business community cooperation is needed to make this project work. The City proposes to take the lead in funding this gap with up to \$2 million of assistance with the terms to be determined as the project is refined. Such assistance would be subject to Polk County and business community participation and Freed's ability to finance any remaining gap. In a letter to the City Manager dated February 28, 2006, Polk County has made a preliminary pledge of \$1 million. Should additional funding sources be identified, the City's commitment will be reduced accordingly. City assistance will also be contingent upon design review by the Urban Design Review Board and Freed's ability to obtain a commitment from at least one signature or destination retail tenant subject to the City Manager's approval.

A project of this magnitude will typically generate significant tax increment, which the City can utilize when filling a financial gap. However, the tax increment generated by this project will be minimal for a number of reasons:

- The building is currently commercially assessed at \$5.3 million. This is a relatively high base value for a rehabilitation project.
- The residential tax rollback of approximately 50% will lower the potential tax generation of the upper floors versus the current commercial assessment.
- The upper floors will also be eligible for 10-year, 100% tax abatement when converted to residential use.
- Much of the \$40 million cost includes items not generally recognized by the Assessor as increasing the assessed value of the property. Demolition, asbestos abatement and major HVAC modifications (steam heat is currently supplied by the Equitable Building) are legitimate and necessary project expenses, but do not necessarily translate to an increase in the tax increment.

The projected tax increment generated by the project equals approximately \$4.7 million over 20 years. However, because much of this is heavily weighted toward the final 10 years, the Net Present Value (NPV) of this increased tax revenue is only \$1.6 million.

Unlike recent projects that have clear revenue advantages for the City (e.g. Nationwide Insurance and Wells Fargo Financial), the justification for financial participation in this project must center on

something other than a pure financial analysis. The Younkers building is the largest single vacant building downtown. It sits at one of the busiest skywalk intersections at a rapidly growing end of downtown. Des Moines has experienced tremendous development momentum toward the west end of downtown. Wells Fargo Financial, Nationwide, Gateway Park, and the recent development along 10<sup>th</sup> Street are all impacted by the success or failure of the Younkers building. Rather than become an eyesore that detracts from these other projects, the Younkers building has the ability to further propel this westward development.

The value of preserving the tax base must be considered when weighing City participation in this project. The property's assessed value is likely to drop significantly if it remains vacant for an extended period. For example, the Liberty Building's improvements were assessed at \$5.3 million in 1995 but dropped to \$224,000 in 2003 when it was only 15% occupied.

With the City's possible participation capped at \$2 million (5% of total project costs), the staff proposes to work closely with Joseph Freed and Associates, Polk County and the downtown business community to bring this once-grand building back to life.

### **PREVIOUS COUNCIL ACTION(S):**

Date: October 25, 1993

Roll Call Number: 93-4047

Action: Urban Renewal Development Loan with Younkers, Inc.; \$250,000. (Council communication No. 93-428) Moved by Porter to approve. Motion Carried 5-2. Yeas: Dorrian, Brooks, Daniels, Porter and Vlassis. Nays: Flagg and McPherson.

(a) Offer to Purchase and Acceptance of General Warranty Deed for Younkers Warehouse property, 216 S.W. First Street. Moved by Porter to approve. Motion Carried 5-2. Yeas: Dorrian, Brooks, Daniels, Porter and Vlassis. Nays: Flagg and McPherson.

Note: All terms of this forgivable loan were met by Younkers.

### **BOARD/COMMISSION ACTION(S): NONE**

Date:

Roll Call Number:

Action:

### **ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

- Council consideration of detailed preliminary and final terms of agreement.
- Urban Design Review Board review of design and assistance package.
- Council consideration of Enterprise Zone application.

- Formal contract preparation and Council approval.