



**Council
Communication**
Office of the City Manager

Date June 19, 2006

Agenda Item No. 61C
Roll Call No. 06-
Communication No. 06-374
Submitted by: Richard A. Clark, City Manager

AGENDA HEADING:

Resolution Approving an Urban Renewal Development Agreement with LB Properties X, L.L.C. for Development of Davis Brown Tower.

SYNOPSIS:

LB Properties X, L.L.C. (Jon D. Garnaas, Managing Member, 6601 Westown Parkway, Suite 240, West Des Moines, IA 50266) has proposed a mixed-use project at the site of the current Hotel Fort Des Moines parking garage (SE corner of 10th and Walnut Streets). The new 13-story building will feature retail/restaurant use, structured parking and office space. The building is named for its anchor office tenant, Davis, Brown, Koehn, Shors & Roberts, P.C. (666 Walnut, Suite 2500, Des Moines, IA 50309).

On April 24, 2006, by Roll Call 06-852, City Council directed the City Manager to proceed with preparation of a final agreement based on the terms presented in the April 24, 2006 Council Communication.

FISCAL IMPACT:

Amount: An economic development grant is proposed in an annual amount equal to 100% of the new tax increment generated from the project in years 1 through 10, and 50% of the new tax increment generated from the project in years 11 through 15. (Example: If the project pays \$800,000 in new annual property taxes in year 1, \$800,000 will be granted back to the owner. This grant amount would be \$400,000 in year 11.) The actual annual assistance amount will vary based on the assessed value as determined by the Polk County Assessor. Initial estimates indicate the net present value of this assistance request is approximately \$6.66 million or 15.4% of the total project cost.

Funding Source: This assistance package will be funded entirely through new property taxes generated directly from the project. The Finance Department will establish a new URR code for this project.

ADDITIONAL INFORMATION:

The current 440-space Hotel Fort Des Moines parking garage was built in 1957. The garage's owner, Princiipant Hotel Company, L.C. (Jeff Hunter, 1000 Walnut, Des Moines, IA 50309) has taken preventive maintenance measures, however, the facility is nearing the end of its useful life.

A development team consisting of Jon Garnaas (Ladco Development, Inc, 6601 Westown Parkway, Suite 240, West Des Moines, IA 50266), Darrell Ball (Ball Construction Services, LLC, 6601 Westown Parkway, Suite 240, West Des Moines, IA 50266), Paul Rottenberg (Orchestrated Management, 912 Walnut Street, Des Moines, IA 50309), Davis Sanders (RDG Planning and Design, 301 Grand Avenue, Des Moines, IA 50309), and Jeff Hunter (Hotel Fort Des Moines, 1000 Walnut Street, Des Moines, IA 50309) propose to redevelop the parking garage site with a new 13-story mixed-use tower.

The building will consist of 3 uses: retail/restaurant, office space, and structured parking.

- Retail/Restaurant
 - Approximately 21,000 s.f on the ground level will be targeted toward retail and restaurant tenants.
 - Much of the 2nd floor will be utilized for automobile vertical circulation, though a retail/restaurant mezzanine level of about 4,000 s.f. will face Walnut.
- Office
 - Floors 10 - 13 will contain a total of at least 110,000 s.f. of Class A office space.
 - This marks the first significant amount of tenant-occupied Class A space built in downtown Des Moines since the construction of 801 Grand was completed in 1990.
- Structured parking
 - The building will include at least 680 parking spaces on floors 2 - 9.
 - The privately owned parking will be utilized by Hotel Fort Des Moines guests and conference attendees, office tenants within the building, and transient parkers that visit area businesses.

Although the site is not located directly adjacent to the Western Gateway Park, the project architect, RDG Planning & Design (301 Grand Avenue, Des Moines, IA 50309) specifically designed the project to comply with the recently adopted Western Gateway Area Redevelopment Goals and Guiding Principles. This project will achieve the following key points as outlined in the Goals and Guiding Principles:

- Taxable value of at least \$20 million per acre
- Street-level retail space
- Minimum density of 110,000 – 225,000 s.f. per acre
- Development of structured parking designed to incorporate street-level retail
- Assurance that Walnut Street does not turn into a 'backdoor space'

Of the project's \$43.2 million cost, approximately 10% is attributable to the retail space, 40% to parking, and 50% to office space. The project's financial gap is attributable primarily to the parking. The prevailing downtown parking rates are inadequate for a parking garage (public or private) to fully fund a garage's debt service, operations, and maintenance. The City's public parking system is able to fund this gap because some garages have fully amortized their debt and the net income from these facilities helps cover the costs of the newer ramps. A private owner, however, is not able to draw revenues from a larger system and therefore, must charge a monthly rate that the market cannot support. The developer will contractually agree not to lease spaces to the public at a rate less than the prevailing parking rate at the City-owned parking garages.

Sources and Uses:

<u>Sources</u>		<u>Uses</u>	
First Mortgage	\$29,550,000	Land	\$ 1,320,000
Mezzanine Loan	\$ 1,554,215	Construction Costs	
		Retail Space	\$ 3,468,130
Equity		Tower Parking	\$14,200,000
Developer Fee	\$ 1,620,785	Office	<u>\$17,498,265</u>
Cash	<u>\$10,475,000</u>	Total Hard Costs	\$35,166,395
Total Sources	\$43,200,000	Professional Fees	\$ 1,852,820
		Leasing Fees	\$ 100,000
		Financing Fees	\$ 3,140,000
		Developer Fee	<u>\$ 1,620,785</u>
		Total Uses	\$43,200,000

Without City financial assistance, this project generates negative cash flow in the first 5 years and produces marginal returns to the owner. With the City's annual financial assistance in place, the owner's projected 10-year cash on cash return on the project is estimated at 10%.

PREVIOUS COUNCIL ACTION(S):

Date: April 24, 2006

Roll Call Number: 06-852

Action: Regarding the City's economic development assistance to a proposed mixed-use project at the site of the current Hotel Fort Des Moines parking garage (SE corner of 10th and Walnut Streets). (Council Communication No. 06-235) Moved by Hensley to receive and file, and to direct the City Manager to proceed with negotiations toward a preliminary and final agreement for further consideration by the City Council after report and recommendation by the Urban Design Review Board. Motion Carried 7-0.

Date: December 19, 2005

Roll Call Number: 05-3053

Action: Western Gateway Area Goals and Guiding Principles. (Council Communication No. 05-713) Moved by Hensley to receive and file, and to refer to the City Manager for application in the review of redevelopment projects within the Western Gateway Area that require City assistance. Motion Carried 7-0.

Date: December 18, 2000

Roll Call Number: 00-4656

Action: Documents relating to a Des Moines Loan, to Principiant Hotel Company, L.C., (10th and Walnut, Jeff Hunter, Owner), \$400,000. (Council Communication No. 00-582). Moved by Brooks to approve. Motion Carried 7-0.

(Note: Terms of this loan will remain unchanged by the June 19, 2006 City Council action and the loan will be repaid per the original loan terms.)

Date: December 20, 1999

Roll Call Number: 99-3865

Action: Local contribution loan to Principiant Hotel Company, L.C., (Hotel Fort Des Moines and parking ramp renovation) \$400,000. (Council Communication No. 99-561). Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Date: June 6, 2006

Roll Call Number: N/A

Action: Urban Design Review Board recommended approval of the tax increment financing assistance for the Davis Brown Tower. Motion carried 6-0.

Date: June 1, 2006

Roll Call Number: N/A

Action: Plan and Zoning Commission approval of a request from Principiant Hotel Company, L.C. (owner) 912 Walnut Street represented by Jeffrey Hunter (officer), for vacation and conveyance of the north/south alley between 9th Street and 10th Street from Walnut Street to Mulberry Street subject to the following conditions:

1. Exclusion of the northern portion of the alley for the skywalk system.
2. Reservation of easements for all existing utilities.
3. Submission of a site plan in accordance with the City's Site Plan and Landscaping Policies.

Motion Carried 11-0

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Final Urban Design Review Board recommendation of Conceptual Development Plan
- Public hearing regarding alley vacation and conveyance

Site Map



Preliminary Conceptual Development Plan (subject to final review by the Urban Design Review Board)