



Council Communication

Office of the City Manager

Date

August 20, 2007

Agenda Item No. 71

Roll Call No. 07-

Communication No. 07-517

Submitted by: Matthew A. Anderson, Economic
Development Administrator

AGENDA HEADING:

Approving preliminary terms of agreement with Joe's Square LLC for development of a mixed-use project to be located at Beaver Avenue and Fagan Drive.

SYNOPSIS:

Recommend approval to direct the City Manager to proceed with negotiations and final document preparation with Joe's Square LLC (Joe Giudicessi, President, 5967 Hickory Court Johnston, IA 50131) for the development of a mixed-use development on a 1.2-acre parcel at the NE corner of Beaver Avenue and Fagen Drive in the Beaverdale Neighborhood.

The project will feature 10,900 sq.ft. of retail space on the ground level and 10,900 sq.ft. of office space on the second level. Each floor consists of 5 bays that may be combined to suit the tenants' needs. The location was previously the site of a one-story retail building constructed in 1942. The improvements had seen decreasing assessed values since peaking in 1999. The building was demolished earlier this year.

The City Manager's Office has been working with the development team to identify a strategy to fill the project's financing gap. At Council's direction on November 6, 2006, staff has been working to draft an urban renewal plan for Beaverdale that would allow the use of tax increment financing. The plan is well underway and will be presented for Council consideration later this year. However, Joe's Square is nearly ready to break ground and any further delay in waiting for completion of the urban renewal plan will force the developer to delay construction until spring of 2008. In order to facilitate timely construction of this project, it is recommended that the economic development assistance presented below move forward with an alternative funding source: the Economic Development Enterprise Account. These funds will then be repaid through the project's tax increment should Council approve the urban renewal plan when it is presented at a later date. Should Council elect not to approve the urban renewal plan, the Economic Development Enterprise Account will not be repaid.

FISCAL IMPACT:

Amount: An economic development grant is proposed in 7 annual installments of \$50,000. Grant payments will begin after the project has paid its first fully assessed property tax installment (typically 18 months following construction completion).

Funding Source: Fiscal Year 2007-08 Operating Budget, City Manager's Office, Economic Development Enterprise Account, SP743 CMO980717 Account 528190, page 87. At an upcoming meeting, Council will be asked to act on the proposed Beaverdale Commercial Area Urban Renewal

Plan. Should this plan be approved, the Economic Development Enterprise Account will be repaid in 7 annual installments of \$50,000 through project-generated tax increment.

ADDITIONAL INFORMATION:

Joe’s Square represents the type of in-fill neighborhood commercial development the City Council set forth in its Goal Statements adopted October 23, 2006. The building will provide new opportunities for businesses wishing to establish themselves in Des Moines’s historic Beavertdale neighborhood. The smaller retail bays will offer amenities and flexibility that did not exist in the building that previously occupied the site. In addition to the retail opportunities, the office space will provide new employment opportunities to an area that currently has very few office options. The developer, Joe Giudicessi, also owns and operates Christopher’s Restaurant, located across the street from the Joe’s Square site.

The building will be constructed primarily of brick in keeping with the “Beavertdale Brick” theme. The 2-story steel frame building is pulled to both streets to continue the pedestrian corridor common to Beavertdale’s retail core. An arched entry off Beaver responds to this pedestrian nature of the neighborhood and directs visitors to the elevator lobby access to the second floor office. The retail bays are book-ended with masonry piers that are the full height of the building. Between these piers at the office level, the punched window openings reflect traditional architecture. Each retail tenant will have the opportunity to present a unique presence on the street through storefront design and the use of canopies. A drive thru on the north end is planned for a coffee shop at this location.

The project’s financial gap is primarily attributable to the high quality building materials and the cost of such construction versus the market rents in the neighborhood. Similar new office space in suburban projects achieves rental rates that are \$2 - \$4 per square foot higher than those projected at Joe’s Square.

The following Sources and Uses statement provides greater detail into the project’s financing.

<u>Sources</u>	<u>Uses</u>
\$ 678,946 Developer Equity	\$ 535,000 Land
\$ 2,120,000 Bank Loan	\$ 2,125,859 Hard Construction Costs
<u>\$ 350,000 City Assistance</u>	\$ 194,950 Tenant Improvement Allowance
	\$ 91,559 Architecture and Engineering
\$ 3,148,946 Total Sources	\$ 91,578 Brokerage fees
	\$ 90,000 Financing charges
	<u>\$ 20,000 Developer Overhead</u>
	\$ 3,148,946 Total Uses

This financing structure will allow the project to achieve a 1.2 debt coverage ratio required by the permanent lender.

It is anticipated that the new project will generate approximately \$90,000 per year in new property tax increment.

PREVIOUS COUNCIL ACTION(S):

Date: March 26, 2007

Roll Call Number: 07-579 thru 07-581

Action: On request from Joe's Square, LLC, to rezone property at 4049 Fagen Drive from "C-2" (General Retail and Highway Oriented Commercial) to "NPC" (Neighborhood Pedestrian Commercial) to allow for mixed-use pedestrian-oriented redevelopment. Moved by Vlassis to adopt and approve the rezoning, subject to final passage of the rezoning ordinance. Motion Carried 7-0.

(A) First consideration of ordinance above. Moved by Vlassis that this ordinance be considered and given first vote for passage. Motion Carried 7-0.

(B) Final consideration of ordinance above, (waiver requested by applicant), requires 6 votes. Moved by Vlassis that the rule requiring that an ordinance must be considered and voted on for passage at two Council meetings prior to the meeting at which it is to be finally passed be suspended, that the ordinance be placed upon its final passage and that the ordinance do now pass, #14,638. Motion Carried 7-0.

Date: March 12, 2007

Roll Call Number: 07-455

Action: On request from Joe's Square, LLC, to rezone property at 4049 Fagen Drive from "C-2" (General Retail and Highway Oriented Commercial) to "NPC" (Neighborhood Pedestrian Commercial) to allow for mixed-use pedestrian-oriented redevelopment, (3-26-07). Moved by Mahaffey to adopt. Motion Carried 6-1.

Date: November 6, 2006

Roll Call Number: 06-2248

Action: Communication from William J. Lillis requesting City Council to consider initiating a Tax Increment Financing (TIF) District in the Beavertdale area. SPONSORS: Coleman and Vlassis. Moved by Vlassis to refer to City Manager for review and recommendation. Motion Carried 6-0.

BOARD/COMMISSION ACTION(S):

Date: March 1, 2007

Roll Call Number: N/A

Action: Plan and Zoning Commission recommends approval of a request from Joes's Square, LLC to rezone property located at 4049 Fagen Drive from "C-2" General Retail and Highway-Oriented Commercial District to "NPC" Neighborhood Pedestrian Commercial District to allow for a mixed-use pedestrian-oriented redevelopment of the property. Motion Carried 10-0.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Urban Design Review Board review and recommendation on project design and financing
- City Council consideration of the Beavertdale Commercial Area Urban Renewal Plan
- City Council consideration of the final Joe's Square Development Agreement