



Council Communication

Office of the City Manager

Date

September 8, 2008

Agenda Item No. 21
Roll Call No. 08-
Communication No. 08-546
Submitted by: **Matthew A. Anderson**
Office of Economic Development

AGENDA HEADING:

Approving preliminary terms of agreement with Terrus Real Estate Group, LLC for renovation of 555 17th Street (former Crescent Chevrolet) for their corporate headquarters and approving sponsorship of Terrus's application for State of Iowa assistance.

SYNOPSIS:

Terrus Real Estate Group, LLC (Randal Minear, President, 616 10th Street, Des Moines, IA) has purchased the former Crescent Chevrolet property at 555 17th Street. Terrus wishes to pursue a \$4.6 million renovation of the former automobile showroom for the corporate headquarters of its growing property management business. Terrus has approximately 150 employees. 60 employees are stationed at various properties Terrus manages, while 90 operate out of the corporate headquarters. The average salary is \$51,000 before benefits and bonus. The high cost of retrofitting the building to office space has presented Terrus with a financing gap of approximately \$1,117,000. Terrus is seeking \$270,000 from the State of Iowa Department of Economic Development. The complete funding source for the remaining gap, \$847,000, has yet to be fully identified.

The Office of Economic Development has negotiated an economic development package to assist with a portion of the financial gap. The completed project will carry an assessed value of approximately \$3.88 million versus the assessment before rehabilitation of approximately \$1.68 million. This increase will generate new annual taxes of approximately \$100,000. The proposed assistance package will grant 75% of the project's new tax increment back to the developer for a period of 6 years. The net present value of this assistance is approximately \$375,000. The developer is responsible for funding the remainder of the financing gap through private equity or debt. If Terrus cannot fill the financing gap, they will likely list the property for sale and continue their search for a building that meets their needs.

The improvements are not eligible for tax abatement.

FISCAL IMPACT:

Amount: An amount equal to 75% of the new incremental taxes generated by the project improvements for a term of 6 years. Approximately \$465,000 or a net present value of approximately \$375,000.

Funding Source: Project generated tax increment.

ADDITIONAL INFORMATION:

Terrus leases its current 30,000 sq.ft. corporate office from Principal Life Insurance Company. The building is located at 616 10th Street in the heart of Principal's downtown Des Moines corporate campus. During Principal's site selection process for its new child care center, Terrus' building was designated as a prime location. Terrus immediately began the search for acceptable relocation options. Eventually, Principal selected an alternate site to build its child care center. However, in the future Principal could again determine an alternate use for 616 10th Street and request Terrus to relocate quickly. Since the identification, acquisition, construction and eventual relocation to a different corporate office location has a long lead time, Terrus determined that it should continue its search.

Terrus identified the vacant Crescent Chevrolet building (555 17th Street, Des Moines) as the only acceptable, currently available site which would allow Terrus to service Principal appropriately and remain in downtown Des Moines. However, the building will require extensive redevelopment to change its use from a car dealership to an office building. In addition, there are outstanding environmental issues to be resolved. Terrus elected to not lose its chance to control the only acceptable and available downtown block and closed on the purchase of the property on July 24, 2008. If the redevelopment costs are acceptable and the financing is successful, Terrus hopes to begin construction in Fall 2008 with a targeted completion and occupancy date in Spring 2009.

The successful redevelopment project will allow Terrus to control its own headquarters and inject new life into a vacant property in danger of becoming an eyesore. It will also allow Principal to determine the future use of a leased building without delay, fear of delay and complication from a tenant relocation effort.

PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Urban Design Review Board review and recommendation regarding project design and financing assistance package.

- City Council action regarding final development agreement

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the second floor of City Hall, 400 Robert D Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to cityclerk@dmgov.org.