



Council Communication

Office of the City Manager

Date April 12, 2010

Agenda Item No. 59
Roll Call No. 10-
Communication No. 10-174
Submitted by: Matt Anderson
Economic Development Administrator

AGENDA HEADING:

Approving First Amendment to Urban Renewal Development Agreement with Liberty Building Development Group LLC for a \$15 million renovation of five floors of the Liberty Building for a 95 room Hyatt Place Hotel.

SYNOPSIS:

Recommend approval of the First Amendment to the Urban Renewal Development Agreement with Liberty Building Development Group LLC for a \$15 million renovation of five floors of the Liberty Building for a 95 room Hyatt Place Hotel.

The historic renovation process will include a new entrance on 6th Avenue for the hotel patrons into the 16 foot high lobby complete with hotel lounge and restaurant. The basement will include a pool, workout room (to supplement Gym/FX options) meeting rooms, and hotel operation offices. The guests will take elevators to guest rooms on floors 4, 5, 6, 7 and 8. The office floors on 2, 3 and 12 and condo floors on 9, 10 and 11 will remain and residents will enjoy overlapping services from the hotel including room service and housekeeping services. The building will be 98% occupied.

FISCAL IMPACT:

Amount: Annual grant installments of \$240,000 for 10 years

Funding Source: Metro Center Urban Renewal Area tax increment financing. SP370, FIN909105, FY2010-2011 Operating Budget, page 117.

ADDITIONAL INFORMATION:

On December 21, 2009, by roll call 09-2322, the City Council approved preliminary terms of agreement with Liberty Building Development Group LLC (Jake Christensen, Managing Member, 321 East Walnut Street, Des Moines, IA 50309) for a \$15.5 million renovation of five floors of the Liberty Building for a 95 room Hyatt Place hotel. The Hyatt Place will be downtown's first new nationally flagged hotel since 1992 and Iowa's only Hyatt.

On April 6, 2005, by roll call 05-814, the City Council approved a development agreement to assist with construction of a private parking ramp to facilitate redevelopment of the Liberty and Equitable Buildings. The parking garage was completed in 2006 and improvements made to the Liberty Building exceed the values required per the Minimum Assessment Agreement. However, due to weakness in the

condominium and office markets, many floors of the building remain vacant. The Liberty Building currently has 77,000 square feet of vacant office space.

The proposed hotel rooms will occupy floors 4 thru 8. This space was originally planned as condominiums but has most recently been marketed as office space. The hotel floors will generate nearly three times the property tax increment as was projected for the residential units. Repurposing these floors for a hotel will also help alleviate downtown's projected office vacancy of nearly 1.5 million square feet.

Despite a projected occupancy rate of 71%, the project's financial gap is too large for the developer to proceed without city assistance. The Office of Economic Development has negotiated an economic development package with a net present value of \$1.54 million to assist the project. The long term payback from the hotel will generate \$5.2 million in property tax and \$7.2 million in hotel motel tax versus the projected \$1.8 million of residential taxes from these floors over a 20 year period.

The original development agreement was a three party agreement that also included the owner of the Equitable Building, Equitable, L.P. Equitable L.P. has not followed through on development of that project and the building has been foreclosed on by its lender. No direct financial incentives were provided to Equitable, L.P. The First Amendment to the Urban Renewal Development Agreement with Liberty Building Development Group LLC Development incorporates the new hotel development and removes Equitable L.P. from the agreement.

PREVIOUS COUNCIL ACTION(S):

Date: December 21, 2009

Roll Call Number: 09-2322

Action: Preliminary Terms of Agreement with Liberty Building Development Group LLC for a \$15 million renovation of 5 floors of the Liberty Building for a 95 room Hyatt Place Hotel. (Council Communication No. 09-873) Moved by Hensley to receive, file and approve preliminary terms of agreement set forth in the Council Communication and to direct the City Manager to proceed with negotiations of formal agreements with Liberty Building Development Group LLC consistent with the terms set forth in the Council Communication. The City Manager will communicate with existing hotel operators in Des Moines to give information regarding any Economic Development assistance that is available. Motion Carried 4-3. Nays: Kiernan, Mahaffey and Vlassis.

Date: April 6, 2005

Roll Call Number: 05-814

Action: Approving Urban Renewal Development Agreement with K.C. Holding VI, L.L.C., (Mike Nelson, Managing Member, Urbandale, IA) and Equitable, L.P., (Bob Knapp, Managing Member, WDSM, IA) for redevelopment of Liberty and Equitable Buildings and construction of privately owned parking ramp. (Council Communication No. 05-178) Moved by Hensley to adopt. Motion Carried 4-1-2. Nays: Vlassis.

BOARD/COMMISSION ACTION(S):

Date: February 2, 2010

Roll Call Number: N/A

Action: Urban Design Review Board recommended approval of project design and financial assistance as presented.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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