

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: October 25, 2010
	Agenda Item No. 60 Roll Call No. [_____] Communication No. <u>10-623</u> Submitted by: Matthew A. Anderson Economic Development Administrator

AGENDA HEADING:

Approving Preliminary Terms of Agreement with The Alexander Company for historic renovation of the vacant Younkens Building at 7th and Walnut Street.

SYNOPSIS:

The Alexander Company (Joe Alexander, President, 145 E. Badger Road, Suite 200, Madison, WI 53713) has proposed a \$45 million historic restoration of the Younkens Building, 713 Walnut Street. The redevelopment will include 69 market rate apartments and 73 apartments to be leased to households making up to 80% of the area median income. Retail space will be located on the street level of the entire building and skywalk level on the east half of the block. The former Younkens Tea Room will also be restored and utilized as banquet space or for other assembly functions.

On June 3, 2005, Saks Incorporated announced it would close the downtown Younkens department store. 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. The Younkens building was once the crown jewel of the entire state’s retail landscape. However, the building’s assessed value has fallen from \$6 million in 2002 to only \$30,000 today. Unfortunately, even surface parking lot improvements assess at about 3 times this rate.

Since 2002, the Office of Economic Development has worked with numerous developers interested in the building. The most serious of these developers, Chicago-based Joseph Freed and Associates, could not overcome a \$9 million financial gap to move their 2006 proposal forward.

Real estate finance, both debt and equity, is at its most difficult point in decades. The Alexander Company has drawn on its considerable experience to present a project we are confident can succeed. The City’s proposed financial participation is outlined below.

FISCAL IMPACT:

Amount: Initially the Developer asked for a contribution of \$790,000 escalating to \$865,000 annually for a period of 7 years. The city has negotiated a package wherein the annual assistance request will be reduced to \$675,000 annually over 10 years and will be offset by 85% of commercial rents collected during the preceding year. The NPV of this assistance is approximately \$4.5 million and represents the city’s maximum exposure. The actual amount committed could be offset, in whole or in part, as the developer secures commercial tenants. Payments will begin no sooner than July 1, 2012.

Funding Source: Metro Center Urban Renewal Area tax increment financing. SP370, FIN909105, FY2010-2011 Operating Budget, page 17.

ADDITIONAL INFORMATION:

The Alexander Company has undertaken the development, finance, design, restoration, and management of over 250 projects in the past 25 years. Their list of accomplishments includes Urban Land Institute's Best Reuse of an Existing Building Award and they are an 8-time winner of Downtown Madison Inc.'s Vitality of Downtown Award. Their most recent project, The National Park Seminary, located on the northern boundary of Washington D.C., received the top honor from the Washington Post for Best Community Impact and received two national awards, the Charles Edson Award for Best Affordable Housing Project and the National Housing & Rehabilitation Association's Timmy Award for Best Historic Project.

The Hansen Company Inc. (Johnston, IA) has been selected as the project's general contractor. Hansen estimates there will be approximately 200,000 labor hours needed for the building's renovation.

The project will be rehabilitated under Iowa's Green Streets Program and has scored 111 points, far exceeding the 75 point threshold for a "high level" green standard. To the greatest extent possible, existing building materials and finishes will be utilized minimizing the carbon footprint. Windows and mechanical systems will be replaced providing higher energy efficiency and air quality.

In addition to the financial package presented above, the developer will also file for tax abatement. The developer will be contractually prohibited from creating a residential cooperative or condominium regime for property tax purposes.

PREVIOUS COUNCIL ACTION(S):

Date: June, 28, 2010

Roll Call Number: 10-1096

Action: Submittal of Multi-Family New Construction Applications for Community Development Block Grant Disaster Recovery (CDBG-DR) funds to the Iowa Department of Economic Development (IDED) for the following: [\(Council Communication No. 10-391\)](#)

(B) [Redevelopment](#) of 140 rental units at 713 Walnut (Former Younkens Building), \$3,060,000. Moved by Griess to approve. Motion Carried 7-0.

Date: December 8, 2008

Roll Call Number: 08-2161

Action: [Communication](#) from the Office of Economic Development seeking authorization to negotiate with New Market Investors, LLC for possible redevelopment of the former Younkens Building, 713 Walnut Street. (Council Communication No. 08-728) Moved by Hensley to receive, file and authorize the City Manager to negotiate with New Market Investors, LLC as set forth in the accompanying Council

Communication and to direct the City Manager to engage the State of Iowa, Polk County, the local business community, and other stakeholders to gauge their interest in assisting with the redevelopment of the property. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Urban Design Review Board review of design and assistance package.
- Council consideration of an Enterprise Zone application.
- Formal contract preparation and Council approval.

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