

 <p style="text-align: center;"><b>Council</b> <b>Communication</b> Office of the City Manager</p>	<b>Date:</b>	September 13, 2010
	<b>Agenda Item No.</b>	<b>37</b>
	<b>Roll Call No.</b>	[ _____ ]
	<b>Communication No.</b>	<b><u>14-011</u></b>
	<b>Submitted by:</b>	<b>Matthew A. Anderson, Assistant City Manager</b>

**AGENDA HEADING:**

Resolution Approving Subordination Agreement between 420 East Locust, LTD, Iowa State Bank and the City of Des Moines to facilitate new renovations to 420 East Locust, Des Moines.

**SYNOPSIS:**

Steve Logsdon, President, of 420 East Locust, LTD, (hereinafter referred to as Developer) is requesting that the City enter into a subordination agreement with Iowa State Bank that will facilitate \$200,000 in new bank financing for proposed renovations to the vacant second level of the commercial building at 420 East Locust. The second level of 420 East Locust was originally envisioned for residential use, but has remained undeveloped and vacant since the initial building renovations occurred in 2005. The proposed \$200,000 in renovations will convert the second level to commercial uses and assist the tenant, Lucca, in providing a waiting area for main level patrons, and provide space for larger groups up to 50 patrons, that it cannot accommodate within its existing space. City staff recommends approval of the subordination agreement.

**FISCAL IMPACT:**

The building will experience an increase in assessed taxable value as a result of the improvements to the vacant and unused second level. The subordination agreement does not alter the repayment terms or other conditions of the City loan.

**ADDITIONAL INFORMATION:**

By Roll Call No. 04-2705, dated December 20, 2004, City Council approved a City loan in the amount of \$200,000 to 420 East Locust, LTD, Steve Logsdon, President. The loan is being repaid with three (3) percent interest on a 20 year amortization schedule. The City loan was part of a \$645,000 project to assist in the reconstruction of the then blighted building located at 420 East Locust. Iowa State Bank provided financing in the amount of \$432,000, secured by a first mortgage on the property. The City loan is secured by a second mortgage on the building.

An appraisal dated October 15, 2013 for Iowa State Bank places a fair market value on the existing building “as is” of \$690,000 and places a fair market value on the building once the second level is completed as proposed of \$900,000. The subordination agreement with Iowa State Bank, subordinates the City’s existing collateral mortgage securing the City loan, with an outstanding balance of \$173,000, to the Bank’s new mortgage of \$611,000 (\$411,000 existing loan plus \$200,000 in new funds). Once the improvements are completed the City’s resulting collateral value securing its loan remains comparable to its current collateral position.

The Subordination Agreement is to be held by the City's Office of Economic Development (OED) until such time as the City's Permit and Development Center has approved the proposed building plans for the project. Once the building plans are approved, OED will release the agreement to Iowa State Bank for filing.

**PREVIOUS COUNCIL ACTION(S):**

Date: June 6, 2005

Roll Call Number: 05-1396

Action: Increased Financing to 420 East Locust, LTD for renovation to 420 East Locust Street. ([Council Communication No. 05-329](#)) Moved by Hensley to approve. Motion Carried 7-0.

Date: December 20, 2004

Roll Call Number: 04-2705

Action: Neighborhood Commercial Revitalization Program Loan, \$200,000, to Steve and Tami Logsdon for renovation of 420 E. Locust Street. ([Council Communication No. 04-627](#)) Moved by Hensley to approve. Motion Carried 7-0.

Date: October 11, 2004

Roll Call Number: 04-2152

Action: Preliminary approval for a NCR (Neighborhood Commercial Revitalization) loan, \$200,000, for renovations to 420 E. Locust Street. ([Council Communication No. 04-498](#)) Moved by Hensley to approve. Motion Carried 7-0.

Date: February 23, 2004

Roll Call Number: 04-390

Action: Predevelopment loan in the amount of \$6,528 for proposed renovations to 420 East Locust Street ([Council Communication No. 04-098](#)) Moved by Hensley to approve. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**

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