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|  <p style="text-align: center;">Council Communication Office of the City Manager</p> | Date: | July 11, 2011 |
| | Agenda Item No. | 57 |
| | Roll Call No. | <u>11-1251</u> |
| | Communication No. | <u>11-467</u> |
| | Submitted by: | Terrance N. Vorbrich, Acting Economic Development Administrator |

AGENDA HEADING:

Designation of preferred developer for the purchase and redevelopment of the Des Moines Building property at 405 6th Avenue and 513 Locust Street.

SYNOPSIS:

This roll call designates Nelson Foutch Joint Ventures as the “Preferred Developer” for the purchase and redevelopment of the Des Moines Building property and directs the City Manager to negotiate the final development agreement, consistent with the terms and conditions in the Preferred Developer’s redevelopment proposal submitted on June 15, 2011 to the City, for the Council’s consideration within the next 60 days.

The roll call also authorizes the Preferred Developer to apply for state historic preservation tax credits and federal historic tax credits for the property with submission of the required Part 1 and Part 2 Application to the State Historic Preservation Officer (SHPO) on or by August 4, 2011.

FISCAL IMPACT:

Amount: \$150,000 sales price to be deposited into Account CMO980717 (Economic Development Enterprise)

The Preferred Developer has requested 10 year/100% tax abatement or the equivalent amount provided by another source for this residential project. The value of the tax abatement, based on an estimated assessed value of about \$9 million, is about \$400,000 annually for each of the ten years following the assessment of the completed improvements which is anticipated be in late 2012/early 2013.

Funding Source: Staff recommends the creation of a new category of tax abatement for the downtown area. The Downtown Housing Rehab category would provide 10 year/100% tax abatement for projects that convert vacant and/or non residential buildings to residential use. It would reduce the surplus commercial office space inventory by providing a significant incentive to create additional downtown housing. The re-use of already existing buildings will decrease demolition and retain historical buildings that contribute to the overall ‘look and feel’ of the downtown.

In addition, the Preferred Developer has requested State of Iowa funding assistance which will require the City's support and approval:

- Enterprise Zone benefits (estimated to be about \$ 1 million with rebate of sales tax and income tax credits)
- Greyfield grant award of up to 25% of actual cost of hazardous material remediation, not to exceed \$250,000)
- State of Iowa Historical Tax credits (up to \$5 million for initial award)

ADDITIONAL INFORMATION:

Background

The Des Moines Building, a 14 story, 150,000+ square foot structure constructed in 1930/31, requires extensive investment to be commercially viable and meet today's building code and fire safety requirements. Basic items include replacement of utilities (heating ventilation, plumbing, electrical and elevator systems), construction of a secondary fire egress, installation of new windows and hazardous material abatement (asbestos and lead-based paint). The estimated costs of these improvements are over \$10 million and do not include items that are typically required by tenants and to meet state/federal historical tax credit requirements.

In the past decade, the Des Moines Building's significant deferred maintenance and lack of updating has led to lower occupancy levels and diminishing rental receipts. Since 2008, the mortgage foreclosure and subsequent bank failure further complicated the building marketability.

By 2010, the building was vacated by all tenants and the new mortgage holder, PNC Bank, indicated it was abandoning the building after being unable to sell the property due in large part to its unwillingness to reduce the sales price and provide clear title.

On December 9, 2010, the City obtained an emergency court order to enter the building to start the boiler system in order to keep the life safety systems, including the sprinkler system, working. The Des Moines Building property is a key location for the skywalk system with its east-west and north-south skywalk corridors; a fire could have significant consequences on the adjacent skywalk-connected buildings.

In January 2011, the Council authorized staff to obtain title to the Des Moines Building property and when title was awarded, to offer the property for purchase. On May 26, 2011, the Polk County District Court awarded clean title to the City, and on May 27th, a request for development proposals was issued.

The requirements for proposals as well as relevant background information – such as federal and state historical tax credits – were placed on the City's web site with a front page headline and picture. The City's interest in seeking proposals for the redevelopment of the building was discussed at several City Council meetings and reported in the Des Moines Register.

Staff contacted all parties who had indicated an interest in the building about the offering and the web site information at <http://www.dmgov.org/Departments/CityManager/Pages/DSMBuilding.aspx>

Redevelopment Proposals

June 15, 2011 was set as the first date that redevelopment proposals would be received; this date would allow the selected developer to submit the application for the \$5 million in state historic tax credits. Two very strong proposals were received from:

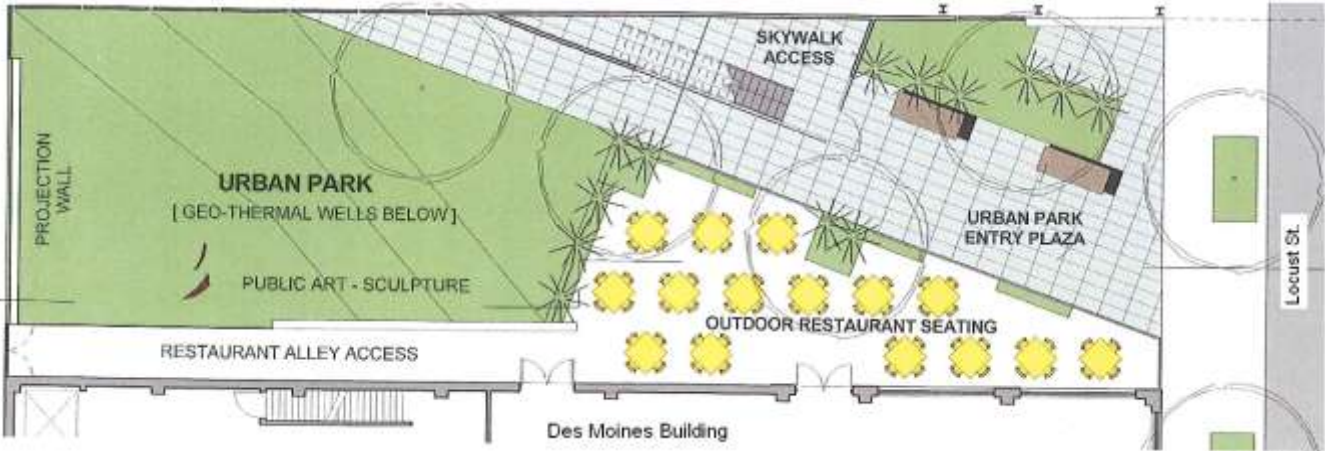
- Sherman and Associates: George Sherman, Minneapolis, MN.
- Nelson – Foutch Joint Venture: Mike Nelson, Nelson Construction/West Des Moines and Steve Foutch, Foutch Brothers LLC/ Weatherby Lake, MO.

Both developers have undertaken a number of similar redevelopment projects with successful conversions of former office buildings into mixed-use, market-rate development. Both offers contain similar terms and contingencies:

- Both are contingent on receipt of federal and state historic tax credits. Both developers are prepared to submit an amended Part 2 Application for State of Iowa historic preservation tax credits by the August 5th deadline if selected as the ‘preferred developer’ by the City Council. Award of the state credits is anticipated by November 4, 2011.
- Both offered payment of about \$135,000-\$150,000 for the purchase and a portion of the City’s maintenance/carrying costs for the building from the time of designation as the Preferred Developer to the closing date.
- Closing is shown by both parties by the end of 2011.
- Both parties requested 10 year/100% tax abatement or its financial equivalent.

The recommended developer, Nelson Foutch Joint Venture, proposed a mixed-use development for the Des Moines Building (entrance on 6th Ave.) and demolition of the 3 story annex building (which opens onto Locust Street to be replaced with an urban space/ restaurant seating and skywalk entrance.

The conceptual site design for the annex area is shown here with east wall of the Des Moines Building shown at the bottom of this drawing:



Drawing showing the former annex area redeveloped with the restaurant outdoor area and skywalk entrance at ground level from Locust Street.

Nelson-Foutch Joint Venture proposed commercial use of the first two floors, potentially as conference and meeting room space in conjunction with the Hyatt Place hotel. The upper levels of the Des Moines Building are to be redeveloped with 145 market-rate apartments (62 studios 450 ft², 60 1-bedroom units of about 580 ft², 24 2-bedrooms of about 780 ft² and 3 2-bedroom/corner balcony). The layout is flexible with the ability to combine apartments if the market demand for studio apartment decreases in the future. Estimated costs are about \$22-25 million with work beginning in late 2011 and completion in mid-2013.

This proposal has strong potential to 'reinvent' the Des Moines Building property with a new appearance on the Locust St. side, creates a new easy access to and from the skywalk system and provides a synergy with much needed meeting and event space for the nearby Hyatt Hotel. The demolition of the annex building reduces the surplus of vacant commercial space while creating an attractive new semi-public amenity that is privately funded.

The Sherman and Associates proposal is for renovation of the 14 story building at 405 6th Ave. and the 3 story annex at 513 Locust St. for a mixed-use development. The first and second floors of the main building will be used for commercial space and residential common area amenities. Floors 3-14 will be renovated for 92 units of market-rate housing; 56 1-bedroom units (about 780 ft²) and 36 2-bedroom units (ranging in size from 931-1,100 ft²). The annex will be used for commercial retail and office space. Estimated total cost is about \$19 million with work beginning in early 2012 and completion in mid-2013.

PREVIOUS COUNCIL ACTION(S):

Date: May 9, 2011

Roll Call Number: 11-0841

Action: [Agreements](#) with PNC Bank, N.A., for assignment of its claims and mortgage to the Des Moines Building at 405 6th Avenue and 513 Locust Street. ([Council Communication No. 11-283](#))
Moved by Hensley to adopt. Motion Carried 7-0.

Date: February 28, 2011

Roll Call Number: 11-0370

Action: [Regarding](#) procedures and process to solicit proposals for the private redevelopment of The Des Moines Building at 405 6th Avenue and 513 Locust Street. ([Council Communication No. 11-110](#))
Moved by Hensley to adopt. Motion Carried 7-0.

Date: January 10, 2011

Roll Call Number: 11-0040

Action: [Declaring](#) the Des Moines Building at 405 6th Avenue and 513 Locust Street to be a public nuisance, authorizing the Legal department to pursue a court order to abate the nuisance and declare the building abandoned and award title to the City. ([Council Communication No. 11-005](#)) **Moved by Mahaffey to adopt. Motion Carried 7-0.**

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Several actions will be undertaken after selection of the Preferred Developer:

- Preferred Developer will submit Part 2 Application to the State of Iowa Historical Office for state historic tax credits awards with letter from City indicating the intent of the City to convey the property to the developer;
- If applicable, prepare application to State of Iowa for Brownfields/Grayfield Remediation program for abatement of hazardous materials including asbestos and lead-based paint;
- City Manager to negotiate final development agreement;
- Preferred Developer's site plan to be reviewed and recommendation on the proposed change in use by the Plan and Zoning Commission; and
- Open/close public hearing on the sale of the Des Moines Building property and convey title.

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.