

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	October 8, 2012
	Agenda Item No.	33
	Roll Call No.	<u>12-1572</u>
	Communication No.	<u>12-539</u>
	Submitted by:	Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Approval of Terms for Release and Satisfaction of the Amended and Restated UDAG Loan Agreement and Urban Development Action Grant (UDAG) Mortgage on 555 and 699 Walnut Street (Kaleidoscope at the Hub).

SYNOPSIS:

Utilizing Federal funds procured through a 1984 Urban Development Action Grant (UDAG), the City holds a first mortgage on the property located at 555 and 699 Walnut Street (Kaleidoscope at the Hub) in the amount of \$2,181,766. Hubbell Realty has accepted a \$700,000 cash purchase offer from Employers Mutual Casualty Company (EMC) to purchase the property. EMC, owner of the HUB Tower, proposes to invest up to \$4 million in repairs, upgrades and renovations to the property that has seen a significant increase in vacancies, decline in rental revenues, and rise in deferred maintenance over the past several years due to the national recession. The Kaleidoscope is comprised of approximately 161,900 gross square feet of which 101,500 are leasable space that is 50% vacant and operating at a loss. City staff has negotiated with Hubbell Realty to receive 50% of the gross sales price in satisfaction and release of the UDAG Loan Agreement and UDAG Mortgage. Hubbell Realty will be responsible for payment of all tax escrows, real estate commissions, lawyer fees, and closing costs.

FISCAL IMPACT:

Amount: \$350,000 proceeds to the City.

Funding Source: Economic Development Enterprise Fund – SP743, FY13 Operating Budget, page 42.

ADDITIONAL INFORMATION:

The Kaleidoscope and HUB Tower were built together between 1984 and 1985 by Walnut Mall Limited Partnership with Hubbell Realty Company, as managing general partner. To assist the project, then known as the Walnut Mall Project, the City of Des Moines applied for and was granted in 1984, an Urban Development Action Grant (UDAG) by the US Department of Housing and Urban Development (HUD) in the amount of \$6,280,000. No City General Funds were used to assist the project. In August 1994, Walnut Mall Limited Partnership was dissolved and its assets distributed with Hubbell Realty Company becoming the sole owner and operator of the Kaleidoscope at the HUB. As part of the dissolution, the UDAG Loan and Mortgage with a balance of \$5.3 million were assigned as a debt and first mortgage lien on the Kaleidoscope. The UDAG Loan continued to be without

recourse to Hubbell Realty Company. Hubbell Realty Company has subsequently made payments on the UDAG Loan solely from revenues generated by lease income at the Kaleidoscope, reducing the UDAG Loan to its present balance of \$2,181,766.

The EMC purchase valuation is based on the level of current operating losses being incurred and anticipated to be incurred over the next few years, and the level of investment needed to stabilize and upgrade the existing exterior and interior of the mall including the public skywalk areas. EMC anticipates investing up to \$4 million in repairs to the exterior and interior of the building, and upgrades of electrical and mechanical systems. The investment estimates are based on an evaluation of the property by Brooks, Borgs & Skiles that states “...considerable amount of maintenance has been deferred by current owners, recommended improvements include replacement of the entire roof and significant repairs at skylight, masonry, storefront and exterior plaster. Interior finishes and lighting are near the end of their life cycle and major mechanical and electrical repairs and upgrades are recommended.... We find the buildings to be well designed but overdue for repairs. Once achieved, these recommended improvements should restore the quality of these buildings to a first class Office/Retail center.” EMC anticipates that additional investment over the initial repairs will be driven by the market as they move forward with re-tenanting the vacant space.

With the acquisition of the Kaleidoscope, EMC will expand its investment in downtown Des Moines to three blocks of Walnut Street. With this level of investment along Walnut Street, EMC has expressed a desire to see the upgrade and redevelopment of the Kaleidoscope for uses that will further the community’s developing vision for the repurposing of Walnut Street. EMC, through its on-going investments in its corporate headquarters comprised of 717 Mulberry, 700 and 712 Walnut, the recent acquisition and renovations to the HUB Tower, and now its proposed purchase and renovation of the Kaleidoscope, has shown itself as a community oriented and conscientious property owner and stalwart supporter of downtown Des Moines.

PREVIOUS COUNCIL ACTION(S):

Date: March 14, 2011

Roll Call Number: [11-0437](#)

Action: [Amended](#) and Restated Urban Development Action Grant: City/Developer Loan Agreement and Third Amendment to Open-End Second Mortgage and Security Agreement with Hubbell Realty Company for Kaleidoscope. ([Council Communication No. 11-144](#)). Moved by Hensley to adopt. Motion Carried 7-0.

Date: June 28, 2010

Roll Call Number: [10-1031](#)

Action: [Communication](#) from Office of Economic Development regarding preliminary terms of agreement with Hubbell Realty Company to amend the Urban Development Action Grant: City/Developer Loan Agreement for the Kaleidoscope. ([Council Communication No. 10-417](#)). 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 amendment to Loan Agreement with Hubbell Realty Company consistent with the terms set forth in the Council Communication. Motion Carried 7-0.

Date: August 20, 2001

Roll Call Number: 01-2579

Action: Resolution Approving Second Amendment of the UDAG Loan Agreement and Mortgage with Hubbell Realty Company for the Kaleidoscope.

Date: December 19, 1994

Roll Call Number: 94-4808

Action: Resolution Consenting to the Dissolution of the Walnut Mall Limited Partnership and amendments to the Urban Development Action Grant: City/ Developer Loan Agreement and Mortgage assigning same to Hubbell Realty Company.

Date: September 2, 1986

Roll Call Number: 4224

Action: Resolution Approving First Amendment to Urban Development Action Grant: City/Developer Loan Agreement

Date: January 17, 1984

Roll Call Number: 276

Action: Approval of Urban Development Action Grant: City/Developer Loan Agreement

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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.