

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: February 24, 2014
	Agenda Item No. 53 Roll Call No. <u>14-0330</u> Communication No. <u>14-076</u> Submitted by: Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Approving The Opus Group (Opus) as the preferred developer of the 7th Street and Grand Avenue parking garage site.

SYNOPSIS:

On October 21, 2013, by Roll Call No. 13-1684, the City Council directed staff to issue a Request for Proposals (RFP) for the redevelopment of the 7th Street and Grand Avenue parking garage to the following three (3) firms:

- Hubbell Realty Company, The Weitz Company, BNIM
Steve Niebuhr, Senior Vice President, 6900 Westown Parkway, West Des Moines, IA 50266
- The Opus Group
Jeff Smith, Director, 1200 35th Street, Suite 206-11, West Des Moines, IA 50266
- Ryan Companies, OPN Architects, The Excelsior Group
Brad Schoenfelder, Vice President Development, 14001 University Avenue, Suite 300, Clive IA 50325

Proposals were received from Hubbell Realty Company and The Opus Group. Ryan Companies did not respond to the RFP.

Staff recommends the City Council select The Opus Group as the preferred developer of the site. Their project, consisting of 104 market-rate apartments, 12,150 square feet of skywalk and street level commercial space, an optional extended-stay hotel with 125 rooms, and 794 total parking spaces, was unanimously selected by the staff selection team and best fits the vision for this important site. Staff will work with the Opus team to finalize project design, present the project to applicable boards and commissions, finalize project financing, and prepare a formal development agreement. The project and development team are described in greater detail below.

FISCAL IMPACT:

Amount: There is no direct fiscal impact with the selection of the preferred developer. Staff will work with the development team to determine the final financial parameters that best benefit the City and appropriate funding sources. As presented in the RFP proposal, the project consists of the following preliminary fiscal considerations:

- The public parking garage replacement requested in the RFP is estimated at \$23 million.

- The housing component has a preliminary financial gap of approximately \$1 million. Actions under consideration by the State of Iowa on Enterprise Zone credits could negatively impact this gap, and will be known prior to final development agreement approval.
- The optional hotel currently has a financial gap in excess of \$7 million. As presented, the hotel is not financially feasible. Opus and the City will explore methods for reducing this gap to determine if this component will be a part of the final project.

Funding Source: To be determined prior to final development agreement consideration.

ADDITIONAL INFORMATION:

The purpose and process for the 7th & Grand redevelopment was presented to the City Council at a Council Workshop on May 20, 2013. Engineering has estimated the garage to be at the end of its useful life in 2019. At the request of Principal Financial Group, the City Council has agreed to explore accelerating the replacement of this garage to better coordinate with Principal's \$238 million campus redevelopment project.

Due to the strategic nature of this site, a Request for Qualifications (RFQ) and subsequent RFP were issued to solicit interest and qualifications for the development of a mixed use project on the site, which also includes the adjacent City-owned site of the former YWCA. The development proposals were envisioned to include replacement public parking, street and skywalk retail or restaurant uses, and housing or commercial uses.

The RFQ was distributed to approximately 75 developers, contractors, real estate brokers, attorneys, and architects. The RFQ was designed to identify developers with a strong track record of developing and financing complicated, infill, mixed-use projects.

The RFP built upon the RFQ and asked the developers to further detail their development plans. The responses included a detailed presentation of the proposed uses, site plans, floor plans, building elevations and skywalk integration. Developers were asked to present complete financial proposals including proposed property tax generation and financial gap analysis. The RFP requested that approximately 600 public parking spaces be built on the site, although that exact number is expected to be refined in the coming months.

A staff team consisting of representatives from the City Manager's Office, Office of Economic Development, Legal, Engineering, Community Development, and Finance reviewed the proposals and conducted developer interviews. That team unanimously recommends the City Council select The Opus Group as the preferred developer. While the Hubbell team delivered a well-designed mixed use project, the two (2) teams' approaches to the housing component diverged greatly. Hubbell conducted a market study and presented a project targeting the average rental rate of the market. While potentially resulting in less risk, the market average approach will not set the project apart and leads to a very large \$6.5 million financial gap for the Hubbell housing component. The City does not have the ability to fund this gap.

The Opus Group presented a market study focusing on the high end of the downtown rental market and determined that delivering the right combination of location, design, amenities, and service can achieve a higher than average rental rate (\$1.70/square feet versus \$1.30/square feet) and reduced the financial gap to approximately \$1 million. While potentially presenting the developer with increased market

absorption risk, staff agreed with this approach of delivering the best possible project and recommends the Opus team below.

The Opus team consists of the following parties:

- The Opus Group – Master Developer and Design-Build Contractor;
- Sherman Associates – Developer/Owner/Manager for the residential and optional hotel component;
- ESG – Design Architect;
- Confluence – Landscape Architect; and
- NAI Optimum – Retail Broker.

The Opus proposal consists of the following project elements:

- 104 market rate units;
- 12,150 square feet commercial space;
- 794 total parking spaces (86 spaces below the apartments);
- 125 room extended stay hotel (this is an optional component and is discussed in greater detail below); and
- \$71 million total cost.

Hotel

Opus has proposed an optional Starwood branded extended stay hotel to be located above the parking garage. Staff recommends exploring this option to determine if it should be included in the final project. The hotel currently has a large financial gap, but Opus feels there may be adequate downtown corporate support to close a portion of that gap. City staff will require the developer to commission a third-party market study to determine the feasibility of an extended stay hotel in this location.

Parking Garage

Staff will explore the parking ownership and financing options and make a final recommendation to Council. The garage will likely be built and acquired through a Lease-Purchase Agreement, similar to the 9th and Mulberry garage. The garage's approximate \$23 million cost has been reviewed and determined by City Engineering staff to be a reasonable estimate subject to actual bids.

Timeline

- February 2014: Recommendation to City Council and selection of preferred developer
- 2014: Project design, board and commission review, development agreement with selected developer
- 2014: Competitive land disposition per urban renewal requirements
- Early 2015: Transfer site ownership (including existing parking structure for demolition)
- 2015 - 2017: Project construction
- 2017: Project completion

PREVIOUS COUNCIL ACTION(S):

Date: October 21, 2013

Roll Call Number: [13-1684](#)

Action: [Issuance](#) of a Request for Proposals (RFP) for redevelopment of the current 7th & Grand Parking Garage Site and the former YWCA site. ([Council Communication No. 13-520](#)) Moved by Hensley to adopt; refer to the City Manager to develop a comprehensive communication strategy for the project. Motion Carried 7-0.

Date: July 29, 2013

Roll Call Number: [13-1235](#)

Action: [Presenting](#) the City Manager's recommended development teams for the 7th & Grand Parking Garage Redevelopment project and authorizing the City Manager to proceed to the next stage of the process with the selected Developers. ([Council Communication No. 13-391](#)) Moved by Hensley to receive and file, and to authorize and direct the City Manager to proceed to the next stage of the process with selected developers and to prepare a Request for Proposals for future consideration by the City Council. Motion Carried 7-0.

Date: February 11, 2013

Roll Call Number: [13-0255](#)

Action: [Communication](#) presenting a Conceptual Assistance package with Principal Financial Group for campus-wide renovations and approving submittal of an Iowa Economic Development Authority Business Financial Assistance Application on behalf of Principal Financial Group. ([Council Communication No. 13-070](#)) Moved by Hensley to receive and file the accompanying Council Communication; to direct the City Manager and staff to proceed with negotiation of preliminary terms of agreement consistent with the proposed conceptual assistance package; and to authorize the Mayor to sign Principal's Business Financial Assistance Application on behalf of the City as the sponsoring entity. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Appropriate board and commission review and recommendation.
- Actions pursuant to State Urban Renewal land disposition.
- Development Agreement review and approval.

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