

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	September 22, 2014
	Agenda Item No.	63
	Roll Call No.	<u>14-1521</u>
	Communication No.	<u>14-471</u>
	Submitted by:	Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Resolution approving First Amendment to the Amended and Restated Urban Renewal Development Agreement with River Point West LLC, a Parcel Development Agreement with Sherman Gray’s Landing Hotel Development, LLC for construction of a 102 room hotel and a Parcel Development Agreement with Gray’s Landing Office Development, LLC for construction of a 72,000-square-foot office building in the River Point West redevelopment area.

SYNOPSIS:

Council is requested to approve the First Amendment to the Amended and Restated Development Agreement with River Point West, LLC, a Parcel Development Agreement with Sherman Gray’s Landing Hotel Development, LLC, and a Parcel Development Agreement with Gray’s Landing Office Development, LLC (George Sherman, Sherman Associates, President/Owner, 233 Park Avenue South, Suite 201, Minneapolis, MN 55415, representing all entities). These documents provide for actions necessary for the City to convey land for private redevelopment to River Point West LLC as the Master Developer, and for River Point West, LLC to convey land to Sherman Gray’s Landing, LLC, who will initiate the construction of a 102 room Holiday Inn Express hotel project in the River Point West development area, and to Gray’s Landing Office Development, LLC, who will initiate construction of a 72,000-square-foot office building.

The \$12.5 million hotel project will be located south of Martin Luther King, Jr. Parkway (MLK Parkway) and east of SW 11th Street; the \$15 million office building project will be located in the same block, NE of the hotel and adjacent to SW 9th Street. The projects are required to begin construction within 120 days and to be completed by December 31, 2015.

FISCAL IMPACT:

Amount:

- City-owned land will be sold to the Master Developer for assembly into the sites for the hotel and office building at \$8.39 per square foot. Pursuant to the terms of the original 2007 Development Agreement, a Supplemental Economic Development Grant will be paid from the proceeds of each sale of property from the City to the Master Developer. The amount of the Supplemental Economic Development Grant for the land to be incorporated into the hotel site is \$400,878. The amount of the Supplemental Economic Development Grant for the land to be incorporated into the office building site will be finalized upon amendment to the Redevelopment Plan that provides the final square footage of that parcel, at \$8.39 per square foot.

- The 2007 Development Agreement provides for the City to receive half of the proceeds of land sales from the Master Developer to both Sherman Gray's Landing Hotel Development, LLC and Gray's Landing Office Development, LLC. Pursuant to the terms of the proposed First Amendment, these proceeds will be deferred by the City and repaid from net cash flow of the hotel and office building, with remaining balances to be paid in 22 years. Land sales from the Master Developer to the hotel and office LLCs will be at \$8.50 per square foot. The land sale proceeds amount for the hotel is \$687,500. The land sale proceeds amount for the office building will be finalized upon amendment to the Redevelopment Plan that provides the final square footage of that parcel, at \$8.50 per square foot.

Funding Source: See above

ADDITIONAL INFORMATION:

On October 8, 2007, by Roll Call No. 07-1991, City Council approved the Amended and Restated Agreement with River Point West, LLC for the redevelopment of what has been rebranded as Gray's Lake Office Park and Gray's Lake Landing, a development area consisting of approximately 125 acres located south of the Central Business District. The agreement is designed to facilitate the land assemblage, site preparation, and infrastructure installation necessary to prepare pad ready sites to construct a mixed-use urban development.

Through this 2007 agreement, the City recognized the significant opportunity to reclaim a former industrial brownfield area by creating a mixed-use urban neighborhood, adding infrastructure, housing, office and commercial uses, creating employment opportunities and substantially increasing the taxable valuation of the property.

In 2008, the collapse of the national real estate market occurred. Economic recession followed, and though the Des Moines area was less impacted than other parts of the country, many developments in the region were scaled back, delayed, or did not move forward at all. River Point West, LLC was impacted by this economic event in that it became much more difficult to attract office and retail projects in a climate where companies were not making decisions to site new locations, and businesses were not growing.

Along the same timeframe, the downtown Des Moines office market experienced an increased vacancy rate through several variables, among them the construction of new corporate office headquarters projects that left a glut of vacant lease space on the market. This caused a need to reexamine the original premise of the River Point West agreement, which was partially based on introducing a large amount of new office square footage into the market. It became apparent that the commercial and residential components of the development were much more practical to focus on, navigating through the softened markets for both products to secure commitments from retailers and investors.

In 2009, SW 11th Street was constructed, in accordance with the terms of the 2007 development agreement. The new road provided a physical improvement that allowed a better ability to demonstrate to potential retailers and investors that the area offered pad ready sites. River Point West, LLC began discussion with developers interested in locating hotel projects south of MLK Parkway and on the east side of new SW 11th, and west of SW 9th. The Urban Design Review Board approved plans for the construction of two (2) hotels on this site in October 2010.

The hotel developers experienced difficulty securing financing in the sluggish market climate, and this delayed the initiation of construction. By 2012, it was determined that only one (1) hotel would move forward, with River Point West LLC coming on board as a 50% financing partner in the project.

The Holiday Inn Express hotel project is now planned to be a sole venture of Sherman Gray's Landing Hotel Development, LLC, controlled by George Sherman. The market recovery and improved financing environment, plus the project being under the sole control of an experienced developer with several successful projects in the Des Moines market, has provided the confidence for staff to recommend approval of the land transfer required to initiate construction on the project.

The office building project under Gray's Landing Office Development, LLC is planned in response to tenant demand for professional office space, and is a recent proposal for the development area. The addition of this project bolsters confidence that there has been successful absorption of some vacant downtown office space in the last two (2) years. The office building and hotel projects conducting simultaneous activity is very positive, and will create momentum to spur additional projects.

The proceeds from the sale of the City-owned land for both projects to River Point West, LLC, the Master Developer, will be granted back to the LLC as installments on the Supplemental Economic Development Grant per the original terms of the Development Agreement.

The proceeds from the sale of any land by the Master Developer was to be paid at closing, and shared equally by the Master Developer and the City under the original terms of the Development Agreement. As amended by the proposed First Amendment to the Development Agreement, the payment of the purchase price for the land sold to the Hotel Developer and to the Office Developer will be deferred and paid through project cash flow from the hotel and office projects respectively. Any portion of the purchase price not repaid within 22 years will be due at that time. Half of all such land sale proceeds will be paid over to the City as collected by the Developer.

At the September 16, 2014 Urban Design Review Board meeting, the Board approved the final design for the hotel and the preliminary design for the office building, requesting that the office building be moved north to provide a better urban edge along MLK Parkway. Relocation of the office building may change the legal description, size and total purchase price of the parcel; therefore, the fiscal impact section of this Council Communication provides the \$8.50 cost per square foot amount that will be used to calculate the land sale price for the office building parcel once the legal description and size are finalized. This amount will be provided to City Council with the updated Redevelopment Plan for the office building site.

PREVIOUS COUNCIL ACTION(S):

Date: October 8, 2007

Roll Call Number: [07-1991](#)

Action: Amended and Restated Urban Renewal Development Agreement with River Point West LLC and a Loan Agreement with River Point West Investment Fund LLC for the River Point West Redevelopment Project. ([Council Communication No. 07-612](#)) Moved by Hensley to adopt. City Manager will provide periodic status reports to Council. Motion Carried 7-0.

Date: June 4, 2007

Roll Call Number: 07-1119

Action: [Setting](#) date of hearing on Proposal to enter into an Urban Renewal Development Agreement with River Point West, LLC for the River Point West Redevelopment Project including the sale of land and inviting competing proposals, (7-9-07). ([Council Communication No. 07-315](#)) Moved by Hensley to adopt. Motion Carried 7-0.

Date: August 7, 2006

Roll Call Number: 06-1617

Action: [Section](#) 108 Loan Guarantee Application and Amended Brownfield Economic Development Initiative (BEDI) Grant Application for Redevelopment of River Point West. ([Council Communication No. 06-484](#)) Moved by Hensley to adopt. Motion Carried 6-1.

Date: October 24, 2005

Roll Call Number: 05-2603

Action: Preliminary Agreement with River Point West LLC for redevelopment of River Point West Area. ([Council Communication No. 05-611](#)) Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: September 16, 2014

Resolution Number: N/A

Action: Final Design Review for Limited Service Hotel in the Gray's Lake Office Park Development Area (MLK and SW 11th Street) Motion to approve per staff recommendation by Clark. Seconded by Rypma. (Yes-9, No-0, Abstain-0 Absent-1).

Board: Urban Design Review Board

Date: September 16, 2014

Resolution Number: N/A

Action: Preliminary Design Review for Office Building in the Gray's Lake Office Park Development Area (MLK & SW 9th-11th Streets). Motion by Hielkema to approve the preliminary design with the following adjustments: move the office building closer to MLK and make the MLK entrances/exits more prominent and accessible to the pedestrian way. Seconded by Dietz-Kilen. (Yes-6, No-0, Abstain-1, Absent-3).

Board: Urban Design Review Board

Date: October 5, 2010

Resolution Number: N/A

Action: Motion to recommend final design as presented.

Board: Urban Design Review Board

Date: August 17, 2010

Resolution Number: N/A

Action: Review comments on preliminary design with no motion.

Board: Urban Design Review Board

Date: July 20, 2010

Resolution Number: N/A

Action: The board recommended that the project representatives reference other New Town planned areas for ways to present the Riverpoint West area, and integrate all desirable components. The design as presented should reflect the conceptual master plan, or a revised master plans should be submitted. The design guidelines need to be adhered to in presenting specific site uses.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Staff will bring forward additional items for Council consideration regarding the Master Development Agreement at a future meeting.

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