


COUNCIL COMMUNICATION

	Number:	21-304	Meeting:	June 28, 2021
	Agenda Item:	30	Roll Call:	21-0978
	Submitted by:	Erin Olson-Douglas, Development Services Department Director		

AGENDA HEADING:

Resolution approving preliminary terms of an Urban Renewal Development Agreement with SW9 215, LLC, for the construction of a 5-story, 66-unit multi-family housing project located on vacant, City-owned property at 215 SW 9th Street.

SYNOPSIS:

SW9 215, LLC (Kris Sadoris, Hubbell Realty Company, Officer, 6900 Westown Parkway, West Des Moines, IA 50266), proposes to construct a new 66-unit multi-family residential project located on a vacant .93-acre City-owned property at 215 SW 9th Street. The building will contain apartment units that are a mix of efficiencies, and 1 (one) and 2-bedroom dwelling units. Total project costs are estimated at \$12.96 million and the Developer is seeking Workforce Housing Tax Credits from the Iowa Economic Development Authority (IEDA) as a component of the financing stack. Should the project be awarded the tax credits in the fall of 2021, construction is anticipated to begin in the spring of 2022.

The Office of Economic Development has negotiated preliminary terms of an Urban Renewal Development Agreement with SW9 215, LLC, which provides for tax increment financing (TIF) to respond to a financing gap as presented by the Developer. Additional details on the preliminary terms are provided in the fiscal impact and additional information sections below.

FISCAL IMPACT:

Amount: The proposed terms provide for a declining-scale project-generated tax increment granted over a 8-year time frame in the following schedule: 100% TIF in years 9-13 (includes the last two {2} years of the graduated tax abatement schedule), 95% in year 14, 90% in years 15 and 16. The projected total amount of TIF assistance is estimated at \$2 million on a cash basis, which is projected to be capped at \$1.1 million on a net present value (NPV) basis (at a 4.5% discount rate). The assistance is estimated at 8.92% of total project costs. The apartment project would also be eligible for the 10-year declining tax abatement schedule (100% in year 1-8, 60% in year nine {9}, 40% in year 10).

The Developer will purchase a portion of the 40,434-square-foot City-owned property for fair market value based upon a recent appraisal for the price of \$16.07 per square foot. However, the City is proposing an economic development forgivable loan in the amount of \$170,000, which includes the value of the site that does not have an existing federal encumbrance on the land sale proceeds. Land sale proceeds of \$480,000 will be allocated to ST500 to reimburse the SE Connector Project.

Year	Estimated Taxes Received without Project*	Estimated Taxes Received with Project*	Incentive Paid	Estimated Net Taxes Received
Sum 10 Years	\$0	\$706,214	\$316,033	\$390,180
Sum 20 Years	\$0	\$4,554,580	\$2,014,435	\$2,540,145
Sum 30 Years	\$0	\$9,234,661	\$2,014,435	\$7,220,226

*Taxes include all property taxing authorities (not just City property tax dollars).

*Taxes received estimates used the following assumptions: 2.5% growth in re-assessment years, 1.5% growth in non-re-assessment years.

*Building and land valuation assumptions at completion of construction:

\$10,560,000 multi-residential building valuation

\$580,288 land assessment

Funding Source: Tax increment generated by the project in the Metro Center Urban Renewal Area.

ADDITIONAL INFORMATION:

- The \$12.86 million project will include a total of 66 dwelling units containing a mix of studio and one (1) through 3-bedroom units that each feature outdoor balconies. A fitness room and a first-floor covered parking area are also proposed. Construction of the apartment project is anticipated to begin in the spring of 2022 with completion anticipated in late 2023.
- The Agreement will include the acquisition of a .93-acre City-owned site and the Agreement will be subject to the reasonable competitive bidding procedures required by Iowa Code section 403.8(2). The site has been vacant since it was acquired by the City to make way for the Martin Luther King Jr. Parkway project in the early 2000's.
- The site has vehicular access constraints that would otherwise limit the commercial development ability on the property. With no ability for drive access provided from Martin Luther King Jr. Parkway, vehicle access is provided through a one-way alley segment that parallels the SW 8th and SW 9th Street viaducts. Access easements and secondary emergency egress has also been negotiated with private property owners east and west of the development site to allow access to SW 7th and SW 11th Streets.
- The Developer intends to utilize excess City-owned space underneath the SW 8th Street viaduct for surface parking to help serve the development. A lease arrangement for the parking will be finalized prior to construction.
- SW9 215, LLC has committed to an affordable housing component – 10% or seven (7) of the 66 apartment units will have an affordable rent structure. Three (3) units will target those earning approximately 60% of the area median income (AMI) and four (4) of the affordable units will be targeted at 80% AMI earners.
- The existing overhead utility wires on the parcel will be undergrounded with construction of the development project.
- Staff will continue to meet with the Developer and their architect to ensure that additional attention to design and use of high-quality durable building materials are utilized on this highly visible site on Martin Luther King Jr. Parkway. More details on the project design are anticipated to be known prior to approval of the final terms of the Economic Development agreement.

- The project will utilize Mid-American Energy's Commercial New Construction Energy Efficiency Program and the development agreement will require that the new multi-residential apartment building exceed applicable energy codes by a minimum of 20%.
- The Developer has agreed to add electric vehicle charging stations to the project, and the development will be an “all-electric” building, not utilizing any natural gas-fired appliances or HVAC/water heating equipment.
- The Developer’s proforma indicated a financial gap largely related to the need to provide an acceptable debt coverage service ratio for the project, the enhanced exterior building design and materials on visible portions of the building, and increased construction costs in the Des Moines market.
- The Developer will be seeking Workforce Housing Tax Credits from the IEDA to help close a financial gap on the project. The required local financial match to be program eligible would be provided via residential tax abatement. This tax credit program has recently changed from a first-come, first-served award process to a competitive allocation. IEDA’s program awards for the next round of funding are anticipated in September 2021, and it is unlikely that this project will move forward without receiving a tax credit award from the IEDA.
- A previously approved land sale of the property to a different development entity that proposed a multi-family housing project in 2018 did not proceed and has since been terminated.

Vicinity Map



PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Urban Design Review Board - Preliminary and final design recommendations, financial assistance recommendations
- Hearing on the land sale of City-owned property
- Acceptance of development proposal and final terms of the Urban Renewal Development Agreement

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