


COUNCIL COMMUNICATION

	Number:	23-161	Meeting:	March 27, 2023
	Agenda Item:	36	Roll Call:	23-404
	Submitted by:	Matthew A. Anderson, Deputy City Manager		

AGENDA HEADING:

Resolution approving the preliminary terms of an Urban Renewal Development Agreement with HOA Development, LLC for the construction of a 186-unit mixed-use apartment building located at 603 East 6th Street.

SYNOPSIS:

HOA Development, LLC (Chuck Ullrich, Vice President and Chief Financial Officer, Heart of America Group, 515 East Locust Street, Suite 100, Des Moines, IA 50309), is proposing the construction of a 7-story and 8-story, 186-unit mixed use apartment building at 603 East 6th Street, located on a 1.226-acre infill site within the Historic East Village Neighborhood. The first floor will contain at least 4,000 square feet of commercial space. Total project cost is estimated at \$44 million. Construction, beginning with the demolition of the existing structure, is anticipated to begin in the fall of 2023 with completion anticipated in 2025.

The Office of Economic Development has negotiated preliminary terms of an urban renewal development agreement with HOA Development, LLC, which provides for tax increment financing (TIF) to serve as a means for responding to a financing gap, as presented by the development team. Additional details on the preliminary terms are provided in the fiscal impact section below.

FISCAL IMPACT:

Amount: The financial terms propose a capped TIF maximum value of \$4.5 million in project-generated tax increment on a net-present-value (NPV) basis (at a 4.5% discount rate) based on the following schedule: \$50,000 in year eight (8), 95% in years nine (9) through 15, 90% in years 16-20. The Developer intends to file for 10-year declining residential tax abatement on the project. The TIF is estimated to comprise 10% of the total project financing.

The current assessed value of the existing property is \$464,000. Upon completion of the project, the total assessed value of the property including building and land is estimated at \$32,514,150.

Year	Estimated Taxes Received without Project*	Estimated Taxes Received with Project*	Incentive Paid	Estimated Net Taxes Received
Sum 10 Years	\$207,927	\$1,684,279	\$882,873	\$801,406
Sum 20 Years	\$461,358	\$12,492,121	\$8,858,385	\$3,633,736
Sum 30 Years	\$770,251	\$25,665,236	\$8,858,385	\$16,806,851

*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:

\$31,980,000 building valuation

\$534,150 land assessment

Funding Source: Tax increment generated by the project in the Upper East Village Urban Renewal Area.

ADDITIONAL INFORMATION:

- The proposed \$44 million project is located on the northeast corner of the Des Moines and East 6th Street intersection and will include a total of 186 dwelling units containing a mix of studio, 1-bedroom, and 2-bedroom apartment units. The first floor will also contain at least 4,000 square feet of commercial space, primarily along East 6th Street.
- The project will entirely utilize durable steel and concrete construction materials and will not be wood framed. The existing structure on the property, which is currently vacant, will be demolished prior to construction. The project will include 150 on-site parking stalls, housed in the sub-grade and first level.
 - Materiality and design will closely align with Heart of America's Tempo project currently under construction at 317 East 6th Street.
- The building height is proposed to exceed the maximum 75-feet in some areas. The Developer intends to seek a Type II waiver from the Capitol Dominance Overlay District requirements. City staff will be evaluating the proposal's height and how it may impact the Capitol Viewshed by utilizing 3-D GIS mapping software.
- Proposed exterior materials include a mix of brick, architectural metal panel, simulated wood siding panel, and large spans of window glazing.
- The project will feature a fitness center, resident gathering and commons spaces, dog park, covered indoor parking, and an outdoor kitchen. Sidewalks and property surrounding the building will be brought into conformance with required City landscaping standards.
- The Developer has committed to providing 10% of the residential units (19 units) at an affordable rent structure of 65% HOME Rent Limits and available to households earning 80% or less of the area median income (AMI) levels for a minimum of the 20-year life of the development agreement.
- The Developer will provide a minimum of two (2) electric vehicle (EV) charging stations providing service to a total of four (4) parking spots, with electrical conduit installed to additional stalls to allow additional EV charging stations to be installed as future demand warrants.
- The Developer will also participate in MidAmerican Energy's Commercial New Construction energy efficiency program. Program requirements and the development agreement will necessitate that the new multi-residential apartment building exceed applicable energy codes by a minimum of 10%.
- HOA Development, LLC's proforma indicates a financial gap created by the continued rise in construction costs on a project of this quality that makes debt coverage and return on investment a challenge without financial assistance.

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 review, review of appropriateness of financial terms.
- City Council – Hold Hearing, Upper East Village Urban Renewal Plan; Final Terms of an Urban Renewal Development Agreement; Approval of Certificate of Completion to commence economic development assistance.

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