

**CITY COUNCIL COMMUNICATION 97-556
NOVEMBER 17, 1997 AGENDA**

SUBJECT:

**DEVELOPER-INITIATED PROPOSAL—
HOUGHTON PROPERTIES/ PARCEL 10A/
GUTHRIE AVENUE BUSINESS PARK
(1900 DIXON STREET)**

SUBMITTED BY:

**JAMES GRANT
COMMUNITY DEVELOPMENT DIRECTOR**

SYNOPSIS –

Houghton Properties has submitted a developer-initiated proposal to redevelop Disposition Parcel No. 10A/Guthrie Avenue Business Park (south of Thompson Avenue between vacated Dixon Court and Dixon Street - 1900 Dixon Street). The redeveloper is proposing to construct a 61,200 sq. ft. office, distribution, and light industrial flex space building on the approximate 3.3 acre parcel.

On the November 17, 1997, Council agenda are three roll calls that request Council to:

1. Accept the developer-initiated proposal from Houghton Properties to redevelop Disposition Parcel No. 10A;
2. Authorize advertisement for competing redevelopment proposals and authorize notice of intent to enter into an Agreement to Purchase Land for Private Redevelopment with Houghton Properties if no competing proposals are received; and
3. Authorize the City Manager or his designee to negotiate and execute a License Agreement with Houghton Properties to conduct demolition, removal, and backfill work on Disposition Parcel No. 10A and adjoining City-owned property.

FISCAL IMPACT –

Houghton Properties has offered a purchase price of \$143,300 for Disposition Parcel No. 10A. The land sale price will reflect a deduct of \$127,000 only if the City enters into an Agreement with Houghton Properties and the developer completes the demolition, removal, and backfill work in accordance with City standards identified in the City's bid contracts for such activities.

Sale proceeds will be allocated to the Guthrie Avenue Business Park Account. No real estate commission will be paid because no real estate broker has been retained by Houghton Properties to secure acceptance of the redevelopment proposal.

RECOMMENDATION –

- 1. Approve the Minimum Development Requirements and Competitive Criteria for Disposition Parcel No. 10A/Guthrie Avenue Business Park as described in Attachment “ C” to the roll call;**
- 2. Accept the redevelopment proposal submitted by Houghton Properties for Disposition Parcel No. 10A/Guthrie Avenue Business Park, subject to terms and conditions described in the staff report and contained in the Agreement;**
- 3. Authorize a competing offering period of approximately 30 days for others interested in developing Disposition Parcel No. 10A; and**
- 4. Authorize the City Manager or his designee to negotiate and execute a License Agreement with Houghton Properties to conduct demolition, removal, and backfill work on Disposition Parcel No. 10A and adjoining City-owned property.**

BACKGROUND –

Developer-Initiated Proposal

Houghton Properties is an Iowa partnership that was organized in December, 1995. Jonathan Houghton is the President of Houghton Properties. There are three owners of the company. Mr. Houghton’ s children, Hiram, Tiffany, and Jaclyn Houghton of 9922 Tanglewood Drive, Urbandale, Iowa, each own one-third of the business.

Houghton Properties is involved in the development of commercial and industrial flex space. In 1997, the developer completed two flex space buildings in the Guthrie Avenue Business Park. Houghton Properties built a 32,400 sq. ft. facility at 2101 Dixon Street and a 22,000 sq. ft. structure at 1771 Guthrie Avenue. Both flex space developments in the Guthrie Avenue Business Park are close to 80 percent occupied. In addition, the developer has completed two flex space development projects in Urbandale, Iowa. In 1992, Houghton Properties built a 40,000 sq. ft. facility at 2900 Justin Drive. In 1994, the developer constructed a 40,000 sq. ft. building at 3170 - 100th Street.

This proposed development will allow Houghton Properties to lease a larger amount of space to a single user than is readily available in the local real estate market, and provide additional flex space that is in short supply in East Des Moines. The developer’ s target markets are Des Moines businesses that would like to expand in Des Moines and/or businesses that intend to relocate to the area. This project will be Houghton Properties’ third flex space development in

the Guthrie Avenue Business Park and in Des Moines. It demonstrates continued investor confidence in the area.

The total estimated cost of building construction and site preparation is \$1.2 million (approximately \$20/sq. ft.), excluding tenant finish. Construction is proposed to start in March, 1998, and be completed by August, 1998.

An irrevocable letter of credit from Mercantile Bank of Western Iowa for \$35,825 was submitted as the good faith deposit for Disposition Parcel No. 10A, which represents 25 percent of the offered purchase price. The developer intends to finance 75 percent of the appraised value of the project through a loan from Mercantile Bank. In a letter dated November 5, 1997, the bank has provided a commitment to finance 75 percent of the land cost and building improvements to complete the project. On November 10, 1997, Houghton Properties submitted its written commitment to provide the balance of project costs in the form of cash equity. Based on review of the developer's personal financial statement and a statement of current debt and income dated July 10, 1997, there should be sufficient resources to provide the equity needed to complete the project.

License Agreement

Houghton Properties is proposing to negotiate a License Agreement with the City to demolish the existing Waste Transfer Station and remove a trailer from Disposition Parcel No. 10A, as well as to clear an adjacent metal building on the property just south of Disposition Parcel No. 10A during fall 1997 and early winter 1998. These structures are dilapidated. The developer is also requesting an approximate 50-foot wide easement on the lots directly south of Disposition Parcel No. 10A to accommodate shared driveway access. The easement will permit Houghton Properties to pave the north 15 feet of Lots 10 and 15 and a portion of the adjoining east half of vacated Dixon Court in Block 10 of T.E. Brown's Official Plat, and to install a 35-foot radius to facilitate truck access. As a result, the developer will be able to maximize the size of building on Disposition Parcel No. 10A.

The License Agreement will specify that (1) Houghton Properties must conduct the demolition, removal, and backfill work on Disposition Parcel No. 10A at its own risk and cost; and (2) the City is not obligated to accept Houghton Properties' redevelopment proposal for Disposition Parcel No. 10A or to convey this property to Houghton Properties. The City must allow for competing proposals. Houghton Properties understands these terms and is willing to take this risk because it will allow the developer to complete building construction more rapidly and consequently lease space more effectively in summer/fall, 1998. Otherwise, the building would not be completed until late fall/early winter, 1998. This is a difficult time of year to lease space. The developer could incur an opportunity cost of lost revenue due to building vacancy.

In the event the City enters into an urban renewal agreement with Houghton Properties to redevelop Disposition Parcel No. 10A, \$127,000 (based on a minimum of three bids obtained by the City Engineering Department) will be deducted from the purchase price of the property provided that the developer meets these requirements. Houghton Properties must complete the demolition, removal, and backfill work on Disposition Parcel No. 10A and on adjoining City-

owned property (Lots 8 thru 10, inclusive; Lots 15 thru 17, inclusive; and the east half of vacated Dixon Court adjoining said Lots, all in Block 10, T.E. Brown' s Official Plat) in accordance with City standards identified in the City' s bid contracts for such activities.

Urban Renewal Board Action

On November 12, 1997, at a special meeting, the Urban Renewal Board unanimously recommended approval of the redevelopment proposal, subject to the staff recommendation as noted in the staff report (Attachment " B"). Houghton Properties' development proposal will meet the Minimum Development Requirements (Attachment " C") at the time of final design plan review.