

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

99-187

SYNOPSIS -

AGENDA:

APRIL 26, 1999

SUBJECT:

HOHBERGER
BUILDING - CAPITOL
GATEWAY EAST

On the April 26, 1999, Council agenda is a communication recommending the Terms of Agreement between the City and Teachout Properties, L.L.C. for the renovation of the Hohberger Building located at 504 East Locust Street/Capitol Gateway East. Kirk Blunck, through Teachout Properties, L.L.C. (hereinafter referred to as Developer), is proposing to purchase the Hohberger Building located on East Locust Street, next to the Teachout Building, for the purpose of renovating the property into a first class commercial office building.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

The Hohberger Building is a three-story structure containing 24,100 square feet of leasable space on three floors with an additional 7,660 square feet on the basement level to accommodate tenant storage. The total project cost for renovation of the building is estimated at about \$1.66 million. The Developer is proposing to finance the project as follows:

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

| | |
|---|--------------------|
| First mortgage loan: | \$ 960,000 |
| Equity: (equity will be in the form of cash and professional design, construction and project management fees) | \$ 250,000 |
| Requested Development Loan: (funded up to ½ by the City and ½ by the Des Moines Development Corporation) | \$ 400,000 |
| State of Iowa Historical Preservation Grant: | \$ 50,000 |
| Total Project Costs: | \$1,660,000 |

The actual amount of the development loan may be lower, if the Developer is able to secure a higher level of bank

financing than initially projected.

The City and DMDC previously participated in a similar financing arrangement with the Developer for the renovation of the Teachout Building, located next to this proposed project. The Teachout Building renovation has created significant interest from small businesses to lease space in the Eastern Gateway project area. The Developer has negotiated a preliminary commitment to lease space in the Hohberger Building from The Iowan Magazine, which is a subsidiary of the Cedar Rapids Gazette Co. The Developer also has interest, but no preliminary commitments, from other small businesses interested in leasing office space in the building. It is anticipated that the tenants of the building would employ between 20 and 35 individuals.

The renovation of the Hohberger Building is another significant undertaking as a catalyst for additional redevelopment of the eastern Gateway area. The project will assist in setting standards for other renovation projects in the area.

FISCAL IMPACT -

The City's one-half share of the Development Loan is proposed in an amount not to exceed \$200,000 and will be funded from the tax increment financing (TIF) Gateway Account. It may be necessary to initially fund this project out of the Economic Development Enterprise Account to be repaid from the Gateway Project Account as funds become available. The actual amount of the development loan may be lower, if the Developer is able to secure a higher level of bank financing than initially projected. The terms and conditions of the proposed Development Loan will be negotiated with the Developer and presented to Council for approval.

The Developer anticipates using the ten-year declining schedule urban revitalization tax abatement. The tax abatement will result in an estimated tax savings of \$218,000 for the project. The project will generate an estimated increase in net new property taxes (after tax abatement) of \$180,000 over ten years.

RECOMMENDATION -

Direct the City Manager to:

- 1. Prepare a development agreement with Teachout Properties, L.L.C. for the renovation of the Hohberger Building based on the general terms of agreement set forth in this communication.**
- 2. Refer this matter to the Urban Renewal Board and any other City Boards and Commissions as necessary for their review and comment at the appropriate times.**

BACKGROUND -

Terms of Agreement

Based upon discussions with the developer and DMDC, an understanding has been reached on the following general points which will comprise the key features of a proposed agreement as outlined below. These points will be defined in detail as part of a formal development agreement between the City and Teachout Properties, L.L.C.

1. The project will be eligible for tax abatement on the value added by the improvements in accordance with the ten-year declining exemption schedule.
2. The City and DMDC will provide an Economic Development Loan to Teachout Properties, L.L.C. in an amount not to exceed \$400,000. The actual amount of the development loan may be lower, if the Developer is able to secure a higher level of bank financing than initially projected. The terms and conditions of the development loan will be negotiated with the Developer and presented to Council for approval.
3. The City is planning to provide streetscape improvements along East Locust adjoining the Hohberger Building as part of the initiatives identified for the eastern Gateway. If a portion of these project costs are assessed, or if there are maintenance activities that would be the responsibility of the property owner, it is anticipated that the owner of the Hohberger Building would be a willing participant.

4. The developer will acquire construction and permanent mortgage financing in an amount of at least \$960,000. The developer will also provide a minimum of \$250,000 in equity, which will consist of cash and professional design, construction, and project management services.

5. The Developer will undertake the renovation of the Hohberger Building to provide general/professional office space. The total project cost for the renovation of the Hohberger Building will be at least \$1.66 million.

The proposed project has been evaluated in accordance with the City's adopted standards for the use of TIF funds. The project meets the following required policy standards:

- the project is in accordance with the approved district plan;
- it will result in a significant increase in the taxable value of property within the district;
- it will create and retain permanent job opportunities in the district; and
- the amount of the TIF assistance will be the least amount necessary for the project to proceed and produces an acceptable rate of return to the City.

At this point in time, it is not possible to ascertain the exact number of jobs that the project will create and retain or the wages that will be paid. However, the project is eligible under the TIF policy exceptions, as it will provide a positive impact on the district through:

- renovation of a blighted building that has been empty and deteriorating for a number of years; and
- impact as a positive catalyst in setting of standards for other renovation projects in the eastern Gateway area.