



Agenda Item:

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COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

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Roll Call

No.:

Submitted by: Richard A. Clark

SUBJECT—

Communication from the City Manager regarding the preliminary terms of agreement with Nelson Development (Mike Nelson, Co-Manager; Jake Christensen, Co-Manager, 4183 NW Urbandale Drive, Urbandale, IA 50322) for construction of a privately owned parking ramp to facilitate redevelopment of the Liberty and Equitable Buildings.

SYNOPSIS—

Approval of the preliminary terms of agreement with Nelson Development (Mike Nelson, Co-Manager; Jake Christensen, Co-Manager, 4183 NW Urbandale Drive, Urbandale, IA 50322) and to authorize the City Manager to negotiate final terms of the agreement and draft all related documents.

Developers Bob Knapp and Nelson Development are proceeding with the modernization and re-tenanting of the commercial space as well as the residential condominium conversions of portions of the Equitable Building (604 Locust Street) and Liberty Building (418 6th Avenue) respectively. These two developments have specific parking requirements that cannot be adequately addressed in existing local or private parking garages. Nelson Development proposes to construct a new privately owned garage at the SE corner of 6th Avenue and Grand Avenue to meet the parking needs of both buildings. The condominium buyers will have the opportunity to buy parking spaces in the garage, while the commercial space users will have the opportunity to buy or lease parking in the garage.

Both the Equitable Building (which is on the National Historic Register) and the Liberty Building have experienced relatively high vacancy rates and declining assessed values. For example, in 1993 the Equitable Building was assessed at \$10,625,000; today the assessed value of the building is \$7,771,000. The Liberty Building had a value of \$6,242,000 in 1995, and today is assessed at \$1,084,000. The modernization and adaptive re-use of older office buildings in the downtown is very desirable and will help the City maintain and increase property values, preserve architecturally significant buildings, and add viability to the downtown.

Total development costs of the Equitable Building, Liberty Building and new parking garage are estimated to exceed \$50 million.

FISCAL IMPACT—

The developers have identified a financial gap in their developments of approximately \$1.8 million. The relatively high cost of land acquisition, asbestos abatement and demolition, have contributed to a development cost that will prohibit the projects from moving forward. In lieu of the parking garage and office improvements receiving tax abatement, it is proposed that the City provide financial assistance by utilizing the new property generated by the projects. The City proposes to reimburse the developer an amount equal to the 75% to 70% of the parking garage and office space property tax increment for a period of 10 years. The developers will enter into a minimum assessment agreement to ensure the availability of the tax increment. The assistance schedule is as follows:

Year	Estimated New Taxes Generated by the Garage and Office Improvements	% of Taxes Returned to Developer	One-Time Assistance to Assist with Land Holding Costs	Annual Financial Assistance
2006	\$0	0%		\$0
2007	\$0	0%	\$126,000	\$126,000
2008	\$381,428	75%		\$286,071
2009	\$381,428	75%		\$286,071
2010	\$381,428	75%		\$286,071
2011	\$381,428	75%		\$286,071
2012	\$381,428	70%		\$267,000
2013	\$381,428	70%		\$267,000
2014	\$381,428	70%		\$267,000
2015	\$381,428	70%		\$267,000
2016	\$381,428	70%		\$267,000
2017	\$381,428	70%		\$267,000

NPV @ 7% Discount Rate \$1,804,432

This analysis assumes the new commercial space improvements will begin paying added property taxes in fiscal year 2008. It is assumed the residential improvements will be eligible for 100%, 10-year tax abatement; therefore this analysis only includes taxes generated from the garage and office improvements.

The total value of the three projects is estimated to exceed \$50 million. Thus, the net present value of the City's assistance package represents less than 4% of the total development costs.

RECOMMENDATION—

Approval

BACKGROUND—

On August 5, 2002, by Roll Call No. 02-1969, Council established a goal of achieving, through new construction, rehabilitation or adaptive re-use of 6,000 additional housing units in the downtown by the year 2010.

The City Manager's Office was approached separately by the two developers, who were seeking assistance with identifying parking solutions for their upcoming projects. City staff examined the available alternatives and recommended the developers collaborate for the most efficient solution.

What were once two independent projects have now become five interrelated projects:

1. **Liberty Building Condominium Conversion &**
2. **Liberty Building Commercial Space Modernization and Re-Tenancing**
 - a. The Liberty Building is a 130,000 square foot office build built in 1923.
 - b. The building has experienced significant vacancy and ownership turnover during the last few years. Despite an aggressive full-service lease rate of \$8.50/sq.ft., the building remains 85% vacant.
 - c. The property's assessed value has decreased from a high of \$6,242,000 in 1995, to only \$1,084,000 today.
 - d. The high vacancy and low lease rate of this property are placing downward rate pressure on the already-weak downtown Class C office market.
 - e. The current owner, KC Holdings VIII LLC, of which the principals of Nelson Development are a member, proposes converting 6 floors of the office building to approximately 30 residential condominium units ranging in size from 1700 to 2500 square feet. Anticipated sales price of the units is \$200,000 to \$500,000.
 - f. 60,000 square feet on the lower floors will remain office space and the owner proposed investing approximately \$3 million in improving this space.
 - g. The Liberty Building residents will purchase parking spaces in the new ramp in conjunction with their condominiums.

3. Equitable Building Condominium Conversion &

4. Equitable Building Commercial Space Modernization and Re-Tenancing

- a. The Equitable Building is a 246,000 square foot office build built in 1923.
- b. The building has experienced increasing vacancy during the last few years. The previous owner defaulted on the mortgage and the lender took control of the building earlier this year. The building is currently approximately 35% vacant. Vacancy will increase dramatically when Wells Fargo Financial completes construction of its new downtown building and moves out of space it currently leases in the Equitable Building.
- c. The property's assessed value has decreased from a high of \$10,625,000 in 1993, to only \$7,771,000 today.
- d. Bob Knapp, whose most recent downtown project has been the Suites of 800 Locust, has negotiated to purchase the Equitable Building. The property is currently under contract and Mr. Knapp will close on the purchase of the building by December 31, 2004. Mr. Knapp proposes converting the top 9 floors of the office building to approximately 22 residential condominium units ranging in size from 2,200 to 7,500 square feet. Average sales price of the units is expected to exceed \$1 million.
- e. The lower floors of the building will remain office space, and Mr. Knapp proposes investing approximately \$4 million in improving this space.
- f. The Equitable Building residents will purchase parking spaces in the new ramp in conjunction with their condominiums.

5. New Privately Owned Parking Garage

- a. Nelson Development proposes to construct a new parking garage at the SE corner of 6th and Grand. This quarter-block site previously housed Babe's restaurant and has been vacant for approximately 10 years.
- b. The buildings on this quarter-block are currently assessed at only \$1,000 each.
- c. The new parking garage would be 8 stories tall and contain approximately 326 parking stalls. The developer's architect will attempt to accommodate street-level commercial space.
- d. Once developed, the parking stalls will be sold to the residents of the two buildings. Tenants of the buildings' lower floors will utilize parking not used by condominium residents.
- e. The site already has skywalk access in all four directions, so new corridors and bridges will not be necessary.

Reference Map:

