Request for City Council Committee Action from the Department of Community Planning & Economic Development – CPED

Date: January 17, 2011

To: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: Grain Belt Marshall Street Site RFP: Selection of developer for the Housing Parcel and the Office Building

Recommendations: It is recommended to: 1) approve the selection of Everwood Development as the developer of the Grain Belt Housing Parcel (1219 Marshall St. NE) and the Grain Belt Office Building (1215 Marshall St. NE) and grant 12-month development rights for both parcels, with a possible extension of up to 6 months approvable by administrative action; and 2) authorize staff to negotiate the terms for contracts for redevelopment and sale of land with Everwood Development or its affiliates.

Previous Directives:

- In August 2000, the MCDA Board and City Council approved an amendment to the Grain Belt Development Objectives, a modification to the Grain Belt Redevelopment Plan, and an authorization to issue a housing RFP.
- In February 2001, the MCDA Board selected the Sheridan Development Company (SDC) as the developer of the Grain Belt Housing Project and awarded it six-month development rights.
- In July 2001, July 2002, and February 2003, the MCDA Board approved extensions for SDC's development rights. In June 2003, the Board approved the finance plan and redevelopment contract terms with SDC.
- In September 2003, the Council adopted the Grain Belt TIF Plan and related Plan modifications. In November 2004, the Council approved an amendment to the redevelopment contract business terms for the Grain Belt Housing Project.
- In December 2005, the Council approved an amendment to SDC's contract to extend certain performance deadlines. The Office Building was separated from the housing project and authorization was given to issue a Request for Proposals (RFP).
- In 2006 and in 2009, RFP's were issued for the Office Building. However, none of the proposals submitted were approved by the City Council.

Department Information

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Financial Impact

Action is within the Business Plan.

Community Impact

- Neighborhood Notification: On September 26 and October 24, 2011, the Sheridan Neighborhood Organization (SNO) met to review the four proposals received in response to the RFP. Other neighborhood groups and organizations that participated in the neighborhood review process included: St. Anthony West Neighborhood Organization, Bottineau Neighborhood Association, the Concerned Citizens of Marshall Terrace organization, and the Above the Falls Citizens Advisory Committee (AFCAC).
- City Goals: A Safe Place to Call Home; Eco-Focused; Many People One Minneapolis; Jobs & Economic Vitality; Livable Communities Healthy Lives; and A City that Works.
- Comprehensive Plan: Section 4.1 Minneapolis will encourage reinvestment along major urban corridors as a way of promoting growth in all neighborhoods; Section 4.3 Minneapolis will support development in Commercial Corridors where it enhances the street's character, improves its ability to accommodate automobile traffic and foster pedestrian movement, and expands the range of goods and services offered; Section 4.9 Minneapolis will grow by increasing its supply of housing; Section 4.11 Minneapolis will improve the availability of housing options for its residents; 4.15 Minneapolis will carefully identify project sites where housing redevelopment and/or housing revitalization are the appropriate responses to neighborhood conditions and market demand.
- Zoning Code: The current zoning for most of the Housing Parcel is consistent with the recommended proposal. A portion of the Housing Parcel still has a commercial zoning which may need to be changed. The housing project will also require replatting and the approval of a conditional use permit. The proposed office use for the Grain Belt Office Building is consistent with the zoning.

Living Wage/Business Subsidy Agreement Yes _____ No __X____

Job Linkage Yes _____ No __X____

Other:

- The rehabilitation and reuse of the Grain Belt Office Building and the treatment of the archeological ruins on the Housing Parcel will be subject to review by the Heritage Preservation Commission (HPC) and the State Historic Preservation Office (SHPO). The HPC will also review the housing project, and SHPO may be involved as well if the housing developer seeks any federal assistance.

Supporting Information

In 1989, the City of Minneapolis acquired the 14-acre Grain Belt Brewery complex in Northeast Minneapolis. To date, the City has successfully sold all the historic structures except for the Grain Belt Office Building. The Brew House and Boiler House were sold to Ryan Companies in 2000 (both are now leased to RSP Architects for their corporate headquarters). The Wagon Shed and Shop buildings were sold to the Minneapolis Public Library in 2002 for reuse as the Pierre Bottineau Library. The Warehouse and Bottling House were sold to Artspace in 2005 as lease space for artists and creative businesses.

With the success of the Brew House redevelopment in the early 2000's, the City's efforts focused on finding a developer for housing infill within the Grain Belt Brewery complex. The Marshall Street Site was originally offered for sale and development under an RFP that was issued in September of 2000. Through this RFP, the Sheridan Development Company (SDC) was selected as the developer for the Marshall Street site (including the Office Building) and also the "riverfront housing site" along the Grain Belt riverfront. However, SDC was ultimately unable to proceed with the development of either of these sites and lost its development rights to both by the end of 2006.

In 2007, the City decided to hold off on the immediate issuance of a new RFP for the Housing Parcel due to the downturn that was beginning in the ownership housing market and the adverse economic conditions created later by the recession of 2008. At the same time, the City decided to separate the Housing Parcel from the Office Building Parcel to allow a stand-alone development and to proceed with the issuance of an RFP for the Office Building Parcel only. Two RFP's have been issued over the past 4 years for the Office Building but neither produced a proposal receiving the approval of the City Council.

Grain Belt Marshall Street Site RFP

The Grain Belt Marshall Street site consists of a vacant Housing Parcel (1219 Marshall) and the existing historic Grain Belt Office Building (1215 Marshall). The entire site is owned by the City of Minneapolis and is approximately 3 acres in area (132,133 sq. ft.), including the portion of the site occupied by the Office Building.

In the fall of 2010, it was evident that strong improvement in the rental housing market was occurring. CPED also began receiving inquiries from the development community about the availability of the Grain Belt Marshall Street site. In early 2011, it appeared that it was the right time to test the waters. Therefore CPED decided to repackage the Housing Parcel and the Office Building as the "Grain Belt Marshall Street site" and to issue a new Request for Proposals (RFP) for the development of both under a common timetable.

While the RFP would encompass both the Housing Parcel and the Office Building, a flexible approach was adopted that included the option of submitting proposals for just one of the parcels. In other words, a developer could submit a proposal for the Housing Parcel, or for the Office Building Parcel, or a unified proposal for both. This approach was chosen to allow a wide range of proposals and to not rule out anyone who was only interested in, or qualified for, the housing project or the Office Building. By the same token, there was an awareness that this approach could lead to an outcome where a developer could have a superior proposal for one element, either the housing or the Office Building, but lose out to a developer with stronger overall proposal.

As the RFP was being prepared this spring, CPED staff also continued to work on repairs to the Office Building with State Legacy grant funds totaling $175,000, supplemented by City Common Project dollars totaling approximately $73,000. These funds were used to install a drain tile system to address longstanding water infiltration issues and to make critical repairs to the roof. The value of these repairs was factored into the appraisal of the Office Building.

The RFP asking price for the Housing Parcel is its fair market value of $1.4 million, based on an appraisal received in March 2011. The asking price for the Grain Belt Office Building Parcel is its fair market value of $150,000, which is based on an appraisal received in May 2011 after the water infiltration and roof work were completed.

Review of the proposals was based on the following **evaluation criteria** that are included in the RFP:

1. Proposed purchase prices to the City for the respective parcels.
2. The experience and the financial and organizational capacity of the developer in successfully planning and completing development projects of similar historic preservation type and scale, on time and within budget.
3. The extent to which the proposed development is in compliance with the Minneapolis Zoning Code, comprehensive plan, redevelopment goals of this document, and other relevant planning documents for the area.

4. Market and financial feasibility of the project and ability to secure necessary public and private financing
5. Project readiness and feasibility of proposed project schedule.
6. Degree of integration and consistency between the development of the Housing Parcel and the Office Building Parcel that achieves a high quality, complementary overall project, either through a unified proposal for both parcels or a program of close coordination with the developer of the other parcel.
7. The public benefits that would be provided by the project, including the proposed land price and estimated increase in tax base.
8. Minimization of public subsidy, if any.
9. Overall quality of the submission and adherence to the proposal content requirements.
10. Review of related previous experience.
11. The extent to which the historic nature and value of the Grain Belt Office Building would be preserved and enhanced by redevelopment plans.
12. Degree of "green" building techniques and features and energy efficient construction incorporated.

In the addition to above criteria, the RFP identified the potential for approximately 150 housing units on the Housing Parcel, and also recommended that developers proposing a rental housing project design it to meet City code requirements for condo conversion to facilitate possible conversion in the future.

On May 2, 2011, the City issued the RFP for the Grain Belt Marshall Street site. The RFP was posted online on the CPED RFP webpage, and notice of the RFP was also sent by email to 600+ parties on CPED's Development Notices Distribution List. Proposals were due by August 1, 2011. Four proposals were submitted by this deadline. A matrix is attached to this report that summarizes and compares these four development proposals (see **Exhibit 1**).

During the past three months, a committee made up of City staff has reviewed these proposals and has heard presentations by the four developers. Two representatives of the Sheridan Neighborhood Organization (SNO) also attended these meetings. On September 26th, SNO also coordinated a neighborhood review meeting that included the Sheridan, Bottineau, St. Anthony West, and Marshall Terrace neighborhoods, and the Above the Falls Citizen Advisory Committee (AFCAC).

These are the four development proposals that were submitted:

1. **Everwood Development**: Everwood's development team includes David Dye, Elizabeth Flannery, and Marv Kotek, who is also the owner of Frerichs Construction. The project architect is Kaas Wilson Architects and the general contractor will be Frerichs Construction. Everwood's proposal includes the rehab of the Office Building and the development of a 150-unit market rate housing project on the Housing Parcel. Everwood's development plan also incorporates the two essential design elements specified in the RFP (i.e. Brewery Square Plaza on the corner of Marshall and 13th Avenue and the Pedestrian Promenade traversing the site from Marshall to Main Street). The housing units will be in two 4-story buildings. There will be 150 underground parking spaces and 30 surface spaces which will serve the Office Building and as guest parking for the housing. Everwood and Kass Wilson plan to locate their offices in the Office Building, moving from their current office locations in St. Paul.

   Everwood's financing plan is simple and straightforward. It does not involve any request for public assistance, which also has a beneficial effect on the development

timetable and project readiness. The housing will be market rate rental and privately financed, either with a conventional loan or a HUD-insured loan. From the start, Everwood's concept for the site has been for market rate housing since it maintains that this can be supported by the market and it understands the City's interest in minimizing public subsidy, as expressed in the RFP evaluation criteria. Because of neighborhood concerns about better balance between ownership and rental housing, SNO has also expressed a preference for a quality rental housing proposal that would be market rate and could be converted to ownership when the market improves.

Everwood will finance the acquisition and rehab of the Office Building primarily through a private loan, but will also be seeking federal and state historic tax credits. It is proposing $450,000 in improvements. No City subsidy will be required.

A copy of Everwood's development plan is attached as **Exhibit 2.**

2. **Diversified Equities Corporation**: Diversified Equities Corporation's (DEC) development team includes Jon Dickerson as the developer, Miller Hansen as lead architect, Miller Dunwiddie as historic architect, Damon Farber as landscape architect, and Loucks Associates as civil engineer. Diversified's proposal includes the rehab of the Office Building and the development of a 125-unit mixed income housing project. Its development plan also incorporates the Brewery Square Plaza and Promenade design elements. The housing units will be in three 3-4 story buildings that will be interconnected. There will be 125 underground spaces and approximately 82 surface spaces which will serve the Office Building and as guest parking for the housing.

   Diversified's housing proposal offers three options based on different financial scenarios. All three options include an affordable component, with the number of affordable units ranging from 25 to 95 units under the different scenarios. At the September 26th neighborhood meeting, Diversified's development team suggested that it also had an option for an all market rate housing project. However, this possibility was never included as an option in the proposal that Diversified submitted to the City and therefore could not have been considered under RFP rules.

   Diversified's proposal also involves extensive renovation of the Office Building to make it functional to house a restaurant/special events center. It is proposing $2,450,145 in improvements. The use of the Office Building as a special events center is a very appealing concept since it would open up this historic building more to the public than would an office use, and would also bring energy and activity to the area, including the adjacent Brewery Square. However, this level of development will require more resources and more elaborate financing, including the use of both TIF and New Markets Tax Credits. At this point, Diversified does not have a committed tenant for this use, although it has received some interest among potential restaurant/special events operators.

   A copy of Diversified's development plan is attached as **Exhibit 3.**

3. **Griffin Companies**: Griffin's development team is headed by Jeff LaFavre, the project manager. Griffin's team includes AWH Architects as the lead architect, Preservation Design Works and McDonald & Mack Architects as the historic architects, and Meyer Borgman Johnson as the structural/preservation engineer. In CPED meetings with this team, Mr. LaFavre indicated that Griffin's background as a company has been more in commercial development. However, he also stated that

this group had been assembled specifically for the Grain Belt RFP and was the first project that they had worked on together.

Griffin's proposal includes the rehab for the Office Building and the development of a 143-unit mixed income housing project. Its development plan also includes the Brewery Square Plaza and Pedestrian Promenade design elements. In terms of the housing, Griffin's team seems to be unsettled on the appropriate design for its development on the site. Initially it spoke about a more contemporary design with two, face-to-face stepped buildings with all above-ground parking, but later indicated that it preferred a more conventional development plan of 143 units in one building with 66 underground parking spaces and 121 surface spaces.

Like Diversified's team, Griffin is relatively strong in its proposed rehab of the Office Building. It is proposing $2,843,400 in improvements. The design group assembled by Griffin has considerable experience in historic building restoration and in commercial development.

A copy of Griffin's development plan is attached as **Exhibit 4**.

4. **Collaborative Design Group**: The Collaborative Design Group includes James O'Shea and Bill Hickey. Collaborative's proposal is for only the acquisition and rehab of Grain Belt Office Building, although it has indicated willingness to team up with the developer who is selected for the Housing Parcel. Collaborative has extensive experience as an architect on the restoration of historic buildings, including the Midtown Exchange (Sears Building), St. Paul Landmark Center, the Split Rock Lighthouse, and a number of U of M historic buildings. It is proposing $1,274,000 in improvements to the Office Building, which it would own and occupy. It will be seeking a private loan as its primary financing and utilizing federal and state historic tax credits, but will not need any City subsidy. Collaborative's plan is to move from its present location in downtown Minneapolis into the Grain Belt Office Building and rent out the balance of its space to associated businesses with whom it currently shares space.

   A copy of Collaborative's plan for the Office Building is attached as **Exhibit 5**.

General RFP Comments

The City was very pleased to have received these four quality development proposals for the Grain Belt Marshall Street site. All of these proposals have their good points and present the City with interesting possibilities and choices. The fact that the RFP was structured to offer both elements together (i.e. the Grain Belt Office Building and the Housing Parcel) did have some bearing on the way the proposals were developed and submitted. Some proposals appeared to be stronger on the Office Building and not as strong on the Housing Parcel, and vice versa, possibly due to a developer's stronger interest in and knowledge of that particular element.

The RFP adopted this flexible approach to allow for the submission of a proposal for just one element. This approach permitted the separate development of the Office Building and Housing Parcel. In the event that different developers were selected, then the City would be responsible for coordinating the two projects to the extent necessary to achieve the development objectives for the two properties and encouraging cooperation between the two development teams.

In staff's opinion, the primary contenders that emerged from the RFP process among the developers who proposed on both the Housing Parcel and the Office Building were the proposals from Diversified Equities and Everwood Development.

Neighborhood Review

The Sheridan Neighborhood Organization (SNO) seemed to agree that the proposals from Diversified and Everwood were the frontrunners. At its September 26th meeting, the Sheridan Neighborhood Organization (SNO), and the other Northeast neighborhoods and organizations that were present, heard presentations by the development teams and took a vote on the four proposals. The voting was complicated by a number of split votes where people chose one developer for the Housing Parcel but preferred a different developer for the Office Building. However, when SNO added together the regular and the split votes for the proposals, the totals were as follows: 15 for Diversified; 5 for Everwood; 0 for Griffin; and 7 for Collaborative (which only had an Office Building proposal).

There is a possibility that some of the neighborhood votes for Diversified may have been influenced by a suggestion from Diversified's spokesman at the September 26th SNO meeting that it could do a market rate housing project. However, a 100% market rate option was never part of the proposal that Diversified submitted to the City. Subsequent to this SNO meeting, CPED staff contacted Jon Dickerson of Diversified Equities to determine if he was considering a 100% market rate scenario. Mr. Dickerson responded that he did not have a 100% market rate scenario and that the three housing scenarios in Diversified's proposal all included an affordable component.

On October 24, 2011, SNO held second meeting for additional discussion of the Grain Belt RFP (see attached SNO letter, **Exhibit 6)**. The purpose of this meeting, as stated by SNO, was to correct some inaccurate information at the September 26th meeting and to establish the intent of the community and a list of priorities with respect to the development of the Grain Belt Marshall Street site. In terms of the Housing Parcel, SNO emphasized in its letter that its number one priority was a market rate rental development with premium finishes that have the potential for future conversion to ownership. SNO also indicated that it values a building design that has a less heavy presence on 13th Avenue, creates a wider view corridor toward the Brewhouse, and includes exterior materials that coordinate with other historic Grain Belt buildings. In terms of the Office Building, SNO expressed interest in a proposed restaurant/event center but had concerns about the viability of this use. Its consensus choice for the Office Building was Collaborative Design Group.

Housing Parcel Recommendation

Based on its analysis, neighborhood input, and the RFP evaluation criteria, CPED Housing Development staff is recommending the selection of Everwood Development as the developer of the Housing Parcel. Everwood would be granted exclusive development rights for a 12-month period, with a possible extension of up to 6 months approvable by administrative action. Everwood's proposal was responsive to the requirements of the RFP and its selection criteria. Its proposal for a 150-unit market rate housing project is appropriate for this site and fulfills its development potential and maximizes tax generation for the City. A market rate development also aligns with the neighborhood's desire for more market rate units in the area and a quality housing project that could be convertible to ownership in the future when the market allows.

The most compelling factor in the recommendation to select Everwood's housing proposal is that this would be a simple and straightforward market rate transaction. Everwood will pay full price to the City for the Housing Parcel ($1.4 million) and will not require any public

subsidy. Given the substantial public investment that has gone into the Grain Belt area over the years, this seems to be a very good outcome for the City. It also means that Everwood's proposal fares very well in terms of project readiness since it only needs to secure its private mortgage financing and will not be going through multiple application processes for a variety of funding sources that could slow the project down. A closing/construction start in late 2012 or early 2013 is therefore not unrealistic. Furthermore, it is essential that the housing project proceed as expeditiously as possible so that it can capitalize on the current strong rental demand and not miss the market as did the previous Grain Belt development proposal when the ownership market began its collapse in 2006.

In the opinion of CPED staff, there are some aspects of Everwood's preliminary development and site plan that must be improved upon if Everwood is selected and as it proceeds with its detailed planning and design and the submission of a land use application to the City. First of all, Everwood's plan for Brewery Square Plaza on the Housing Parcel is lacking and needs revision and improvement, particularly with respect to its consistency with the underground Orth Brewery archaeological ruins. Secondly, Planning staff would also like to see design changes to the residential structures including, but not limited to, transitioning the building bulk to the surrounding lower density neighborhood, improving the pedestrian promenade and view corridor (i.e. eliminating the canyon-like effect), and providing active functions and/or architectural elements on the parking level adjacent to the plaza. If Everwood is approved as the housing developer, these improvements and others will be recommended as part of the land use review process. Plans for the housing project will also be subject to historical review by the HPC, and possibly SHPO review if there is any federal assistance. The neighborhood will also have opportunities to provide its input into these processes.

Grain Belt Office Building Recommendation

In order to formulate its recommendation for the Office Building, when the recommendation for the Housing parcel became clear, staff asked each of the three developers who proposed on both the Housing Parcel and the Office Building (i.e. Diversified Equities, Everwood Development, and Griffin Companies) whether they would be interested in the Office Building alone if another developer was selected for the Housing Parcel. Diversified Equities responded that it would not be interested in the Office Building if it was not awarded development rights to the Housing Parcel, i.e. the two components were inseparable to Diversified. Everwood also indicated that it was not interested in just the Office Building, but that it was willing to develop the Housing Parcel solely if the City decided on another developer for the Office Building. Griffin Companies said that it would be interested in developing only the Office Building. Consequently, the choice on the Office Building came down to Everwood, Griffin, and Collaborative Design Group.

CPED staff initially arrived a consensus to support the selection of Collaborative Design Group (CDG) as the developer of the Grain Belt Office Building and was prepared to present this recommendation to the Community Development Committee at its December 13th meeting. From the beginning, CDG had indicated that it was interested solely in the Office Building and had submitted a strong proposal. CDG has a significant amount of experience and success with comparable projects involving the rehabilitation of important or historic properties. However, the day before the December 13th CD Committee meeting, CDG informed the City that it was no longer interested in the Grain Belt Office Building and that it had decided to renegotiate a 3-year lease at its current downtown location.

After Collaborative Design Group decided to withdraw, staff attention shifted to Everwood Development as a second choice on the Office Building, given that its proposal, like CDG's proposal, did not require any City subsidy. The proposal submitted by Everwood did have

significant staff support, primarily because of the perceived advantages of having the development of both sites (Housing Parcel and Office Building) under the control of a single developer. However, staff members were not prepared to recommend Everwood's proposal because it was relatively short on details and had a proposed rehabilitation budget of only $450,000, which suggested an unacceptably low level of planned improvements.

Due to the withdrawal of Collaborative's proposal and the postponement of the staff report at the December 13th CD meeting, CPED staff members sought more specific information from Everwood's development team during the last few weeks regarding their rehabilitation plans for the Office Building. As part of that process, Everwood submitted supplemental information that reflects a proposed rehabilitation budget of $2,251,606 (which includes more than $1.8 million in "hard" construction costs). Everwood representatives have explained that Everwood's original [lower] budget was based on the minimum projected "up front" costs needed to make the building habitable, with the understanding that other rehab costs (which were not included in the first budget) would be gradually incurred over time in order to maximize the building's value, aesthetics and utility. However, Everwood's revised budget now includes all planned rehab costs, based on a modified approach under which Everwood will complete the rehabilitation in a matter of months (six, approximately) rather than over a period of several years. This supplemental information adequately addresses the prior concerns of City staff. In addition, Everwood has reaffirmed that its Office Building proposal will not require any City subsidy and that it will also pay the City's full asking price for the property, which is its appraised value of $150,000. Everwood expects to finance the Office Building costs either through HUD loan to the entire project (Housing Parcel and Office Building rehab) or through a private bank loan. The Housing Parcel and the Office Building will be included in one development agreement, which will also provide for the development of both elements according to a common timetable.

The Sheridan Neighborhood Organization has been provided with Everwood's supplemental information and it is currently anticipated that SNO's comments will be available prior to the January 17 meeting of the Community Development Committee.

Project Timeline

January 27, 2011	Council consideration of developer selection and granting of 12-month development rights for the Housing Parcel and Office Building
April 2012	City Council consideration of proposed redevelopment contract terms and the proposed sale of the Housing Parcel and the Office Building
May 2012	Execution of Redevelopment and Land Sale Agreement for the Housing Parcel and Office Building
Winter 2012/ Spring 2013	Closing and start of construction on the Housing Parcel; closing and start of rehabilitation of Office Building

Exhibits:

1. Matrix of four development proposals
2. Everwood Development plan
3. Diversified Equities plan
4. Griffin Companies plan
5. Collaborative Design Group plan
6. Letter from Sheridan Neighborhood Group