

City of Minneapolis
Request for Committee Action

To: Community Development & Regulatory Services
Date: 1/5/2016
Referral: N/A
From: Community Planning & Economic Development
Prepared by: Casey Dzieweczynski
Presented by: Casey Dzieweczynski
File type: Resolution
Subcategory: Land Sale

Subject:

Nicollet Hotel Block redevelopment

Description:

Approving resolution authorizing land sale and redevelopment contract terms with United Properties or an affiliate (the Developer) for construction of a mixed-use tower at 30 3rd Street South (the Property), which is commonly referred to as the Nicollet Hotel Block; authorizing appropriate City staff to execute a redevelopment contract with the Developer based on the terms described herein.

Previous Actions:

On April 3, 2015 the City Council awarded exclusive negotiating rights to United Properties for the redevelopment of the Property for a period of 12 months.

Ward/Address:

Ward 3
30 3rd Street South

Background/Analysis:

The Nicollet Hotel Block, a 1.7 acre City-owned parcel, was once a gateway to downtown Minneapolis occupied by an 18-story hotel from which the block got its name. The hotel was demolished in 1991 and the site has since been a surface parking lot. The City purchased the site in 1993 with federal transit funds and intended to use it as a transit terminal. Between 2002 and 2005, the City issued three different requests for proposals (RFPs) hoping to integrate the transit terminal with additional development. However, given the constraints imposed by federal funding and transit operations, no proposals were received. In 2014, the City was able to remove the federal interest and acquired fee title to the Property.

In October 2014 the City issued an RFP for the Property and in April 2015 the City awarded exclusive negotiating rights to the Developer based on its proposal and the City's redevelopment goals for the Property. The Developer's proposal included construction of a 36-story, mixed-use residential, hotel and commercial tower with a large public plaza and underground parking structure. The Developer had originally planned to partner with Stuart Co. and Aimbridge Hospitality for the housing and hotel components of the project. Since then, the Developer has retained a new partner, Greystar, headquartered in Charleston, SC to lead the housing and hotel components of the project. Greystar is one of the nation's largest multifamily housing owners, developers and operators. The firm currently owns approximately 400,000 multifamily units.

The Developer expects to execute a contract with Greystar soon after receiving City Council approval of the term sheet. Below is a summary of the key terms that will be incorporated in the redevelopment contract between the City and the Developer.

Minimum Improvements

- A mixed-use tower of at least 30 stories; the tower will include a mix of residential, hotel and commercial space
- Active street-level retail space
- All parking will be located below-grade
- Public plaza space, including public art
- Design to accommodate a skyway crossing 3rd Street South to connect the tower to the Hennepin County Central Library
- Incorporation of sustainable design features (e.g. LEED certification or equivalent for building shell and core)

While the Developer’s original proposal called for a 36-story tower, the Developer has requested that there be some flexibility in the tower height in order to meet market demand as the designs are finalized in the coming months; hence the Minimum Improvements require no less than a 30-story tower. The final height could be greater than 30 stories. As the Developer refines its designs and works to secure financing, any proposed modifications to the Minimum Improvements must be approved by the CPED Director as substantially meeting the development goals of the City. All proposed modifications will include a tower of at least 30 stories, underground parking, an outdoor public plaza and ground floor retail.

Purchase Price and Good Faith Deposit

The purchase price for the Property is \$10.4 million and will be due on the closing date. The City confirmed through an August 2015 appraisal that the Developer’s offer is at or above the fair market value. At the time the redevelopment contract is executed the Developer will provide a good faith deposit of \$1,040,000 (10% of the purchase price). The Good Faith Deposit is returned to the Developer when the project is completed. If, after closing, the Developer defaults on the redevelopment contract the City will retain 100% of the Good Faith Deposit.

Due Diligence Period

As per the attached term sheet, the Developer will make best efforts to close on the property within 18 months of City Council approval of the term sheet, but in any event the Developer will close no later than 24 months following City Council approval (the Due Diligence Period). Furthermore, if closing has not occurred within the first 18 months of the Due Diligence Period the Developer will make a \$400,000 Additional Deposit. If no closing occurs during the full 24 month Due Diligence Period, the City will retain \$400,000 of the Good Faith Deposit plus the \$400,000 Additional Deposit.

To ensure progress is being made by the Developer during the Due Diligence Period, it will be required to submit the necessary land use applications within the first 12 months of the Due Diligence Period. If the required land use applications are not submitted by that date and City staff determines that sufficient progress is not being made by the Developer then the City will have the option to cancel the redevelopment contract. Under this scenario the City would retain \$400,000 of the Good Faith Deposit. Below is a table illustrating the closing timeline:

City Council Approval and start of Due Diligence Period	Jan 2016
Deadline to submit complete land use applications	Jan 2017
Anticipated closing	Jul 2017
Alternate closing (if needed; requires Additional Deposit)	Jan 2018

If the Developer submits complete land use applications by the required date that are consistent with the Minimum Improvements but the City does not approve said applications or imposes unreasonable conditions for approval of the project the Developer may cancel the contract and the City will return the Good Faith Deposit to the Developer.

City staff feels the proposed Due Diligence Period is reasonable and necessary given the complex nature of this project, including the desire for an iconic design, the anticipated mix of uses, building height, need for anticipated streetcar integration, etc. During the Due Diligence Period, the Developer will be finalizing the project design, submitting land use applications for City entitlements, securing project financing, obtaining title commitment, etc. Construction will begin no more than three months after closing and the Developer will have up to 30 months to complete construction.

The proposed design, closing and construction timeline for this Property is consistent with other downtown residential projects of similar density and scope that have been recently completed, are under construction or are in the planning stages (e.g. The Nic on Fifth, Opus Group's Ritz Block project proposed at 315 Nicollet Mall and Alatus' project proposed at 200 Central Ave S.E.).

Skyway Connection and Good Faith Deposit at Risk

The Developer intends to construct a skyway across 3rd Street South to connect its project with the Hennepin County Central Library. Representatives of Hennepin County have indicated that they believe there is County support for a skyway connection across Nicollet Mall, connecting the Library to the Opus Group's planned project at 315 Nicollet Mall. Representatives from the Opus Group have also indicated their willingness to "accept" a skyway into their project, which is being designed to accommodate such a connection. The Developer asserts that adding these two connections is critical for the marketability and success of the project as it will connect the mixed-use tower to the rest of the skyway system.

The Developer is currently working with officials at Hennepin County and the Opus Group to secure "skyway connection agreements" that would be executed prior to closing on the Property with the City. Due to the importance of the skyway connections, if the Developer is unable to secure these skyway agreements within the first six months of the Due Diligence Period the Developer will have the option to terminate the redevelopment contract with the City and the City will return the Good Faith Deposit to the Developer. If the Developer does not terminate the contract within this six month period then this contingency is waived and the Developer will be held to the aforementioned project milestones and timeline.

Streetcar-integrated design

The Developer has been working closely with City staff to ensure the elements of this project will accommodate integration of a future streetcar line across the Property. As per the attached term sheet exhibit the City will retain a permanent easement running diagonally through the Property as well as an area either at ground level or in the underground parking structure to accommodate a traction power substation. The Developer will be responsible for the incremental design, engineering and construction costs necessary to accommodate future construction of the streetcar line across the Property. These costs include designing the underground parking structure such that it will support the weight of the streetcars running above the structure and any accommodations for future installation, operation and maintenance of the traction power substation. Additional improvements such as tracks, overhead catenary, station platforms, etc. will be required once the streetcar construction is underway. It is anticipated that the cost of these additional improvements will be part of the streetcar project budget and will not be the Developer's responsibility.

Labor Peace Requirements

Because the City will not retain a proprietary interest in this project, the Developer and their hotel partner are not required to comply with the City's Labor Peace ordinance (Sec. 422.190). However, the City will strongly encourage the hotel operator to negotiate a labor peace agreement with the applicable labor organization(s) in the spirit of the ordinance.

Financial Review:

Additional appropriation required.

Proceeds from the land sale will be applied to fund 06210-9010923-348501 (Sales Lands & Buildings)

Future budget impact anticipated.

Approved by the Permanent Review Committee.

Meets Small and Underutilized Business Program goals.

As the project moves forward the Civil Rights Department will work with the Developer to set appropriate construction workforce and SUBP goals for the project.

Attachments:

1. Term sheet
2. Draft site plan
3. Resolution
4. Ward map