



Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: April 3, 2007
To: Council Member Lisa Goodman, Community Development Committee
Referral To: Council Member Paul Ostrow, Way & Means/Budget Committee
Subject: Master Development Commercial Corridors Acquisition Loan

Recommendation: Authorize \$350,000 Commercial Corridors Revitalization Loan to Master Development to acquire 201 West Broadway. Amend the 2007 General Appropriation Resolution by increasing the Community Planning and Economic Development agency Fund CAZ0 – Common Projects (CAZ0-890-8933) appropriation by \$350,000 from the available fund balance.

Previous Directives: None.

Prepared by: Erik Hansen, 612-673-5022
Approved by: Mike Christenson, Economic Development Director _____
Chuck Lutz, Deputy CPED Director _____
Presenter in Committee: Erik Hansen

Financial Impact

Action requires an appropriation increase to the Operating Budget
Action is within the Business Plan

Community Impact

Neighborhood Notification – Staff notified Northside Residents Redevelopment Council of this action.
City Goals - Complies with Connected Communities Goal.
Sustainability Targets - N/A.
Comprehensive Plan - Business is consistent with the creation of retail choices on this commercial corridor.
Zoning Code - Use complies with zoning.
Living Wage/Business Subsidy Agreement Yes No _____
Job Linkage Yes No _____

Supporting Information

Master Development requests a \$350,000 loan for acquisition of 201 West Broadway. This property is the site of the former Irv’s bar. Master Development plans to renovate the former bar into office space and move its headquarters from its current location at 125 West Broadway. The proposed source for this loan is Common Project Tax-Increment Financing funds in the Commercial Corridor Revitalization Program

("CCRP"). The use of the funds is eligible under tax-increment laws and CCRP guidelines.

The 201 West Broadway Avenue property is a pivotal site for North Minneapolis and the CPED Northside Economic Development Program. Currently, the site is occupied by the former Irv's Bar which has a history of livability issues perpetrated by bar patrons, including more than 30 police incidents in 2006 and more than 130 police incidents in the last four years. Master Development will redevelop the building consistent with goals that are now coming out of the West Broadway Alive! planning process. When Master moves into this building later in 2007, Way to Grow, a local non-profit will move its headquarters into 125 West Broadway.

Master is proposing the redevelopment of the site into approximately 6,700 sf of office space. The redevelopment presents some challenges as the structure was built prior to 1930 and has had minimal maintenance over its history. The existing structure would be modified to incorporate more windows and a more contemporary exterior finish suitable for an office building. The interior will be redesigned to bring in more natural light, provide a higher level of finish, and improve space planning to accommodate the needs of today's businesses.

Master expects to pursue LEED certification for this redevelopment. This project will undergo a thorough development analysis for LEED feasibility upon closing on the property. The goal is to achieve LEED certification.

Compliance with Northside Economic Development Program

Staff did not specifically identify this project in the Northside Economic Development Program (Report to City Council August 22, 2006). However this investment complies with the four principles used as guides for City investment decisions. These are:

1. Target developers with proven track records of success in challenged areas.
Master has a track record of completing similar renovations of similar buildings at challenging urban infill sites. Other building sites include the Arts Alley Building at 125 West Broadway located across the street, the Keg House Arts Building located at 34 13th Avenue NE, the Waterbury Building located at 1121 Jackson Street NE, and 2112 Broadway Street East.
2. Maximize social and financial capital leverage with diverse partners.
The proposed investment will leverage \$723,400 in private sources.
3. Invest near recent public improvements and other investments.
This project is next to the North Washington Jobs Park, in the West Broadway Alive! and Above the Falls study areas, and in the proximity of the new Coloplast headquarters project.
4. Place priority on projects with the most transformative potential.
This project removes a use that generated more than 130 police incidents in the past four years. The proposed use will bring in additional jobs to the area (through backfilling adjacent building), improve exposure of the building tenants

to the street increasing natural surveillance, and provide investment in an area that is strategic but not within primary areas for City-led redevelopments.

Loan Terms

Master Development requests \$350,000 to finance acquisition of 201 West Broadway. The total development cost for 201 West Broadway is \$1,073,000. The remaining funding will come from equity and conventional bank financing. The proposed loan has a ten-year repayment schedule based on a twenty-year amortization with a balloon payment at the end of the ten-year term. To stabilize the cash flow of the development, the repayment of principal will begin four years from the disbursement of the funds. In years one through four Master Development will pay interest only.

Loan Amount	\$350,000.00
Interest Rate	4.00%
Term (years)	10 (+4 years Interest Only)
Amortization Period (years)	20
Monthly Payment (120)	\$2,120
Annual Debt Service	\$25,451 (\$14,000 I-only)
Balloon Payment (1)	\$209,484
Repayment Start Date	06/01/2007 (Interest Only)
Repayment Start Date	06/01/2011 (P+I)
Balloon Payment Date	06/01/2018
Collateral	Junior position on real estate at 201 West Broadway

Sources and Uses

Sources	
Equity	\$144,680
Conventional Lender	\$578,720
City Loan	\$350,000
TOTAL	\$1,073,400

Uses	
CONSTRUCTION COSTS	
Net Hard Construction Costs	\$445,900
Builder's Overhead	\$15,000
TOTAL CONSTRUCTION	\$430,900
FEES	
Architect's Design Fee	\$15,000
Developer's Counsel	\$4,000
Permanent Loan	\$1,000
Construction Loan	\$1,000
Underwriter's Fees	\$6,000
City Fees	\$10,000
Title Insurance Fees	\$2,500
Consultant's Fees	\$10,000
Other	\$10,000
TOTAL FEES	\$59,500
OTHER	
Construction Period Interest	\$70,000
Real Estate Taxes During Construction	\$4,000
SAC/WAC Charges	\$10,000
Survey	\$5,000
Construction Contingency	\$30,000
Developer Overhead	\$46,000
Other Broker Commission	\$30,000
TOTAL OTHER	\$193,000
LAND	
Land Cost	\$360,000
TOTAL LAND	\$360,000
TOTAL DEVELOPMENT COST OF PROJECT	\$1,073,400

Stabilized Pro forma

Year	1	2	3	4	5	6	7	8	9	10
Revenue										
Base Rental Revenue	\$75,999	\$78,279	\$80,627	\$83,046	\$85,538	\$88,104	\$90,747	\$93,469	\$96,273	\$99,161
CAM Revenue	\$53,000	\$54,590	\$56,228	\$57,915	\$59,652	\$61,442	\$63,285	\$65,183	\$67,139	\$69,153
Billboard Revenue	\$4,100	\$4,100	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Effective Gross Revenue	\$133,099	\$136,969	\$136,855	\$140,961	\$145,190	\$149,545	\$154,032	\$158,653	\$163,412	\$168,314
Expenses										
Total Operating Expenses	\$53,000	\$54,590	\$56,228	\$57,915	\$59,652	\$61,442	\$63,285	\$65,183	\$67,139	\$69,153
Net Operating Income	\$80,099	\$82,379	\$80,627	\$83,046	\$85,538	\$88,104	\$90,747	\$93,469	\$96,273	\$99,161
Net Income Before Debt Service										
Service	\$77,599	\$79,804	\$77,975	\$80,314	\$82,724	\$85,206	\$87,762	\$90,395	\$93,106	\$95,900
Debt Service	(\$72,088)	(\$72,088)	(\$72,088)	(\$72,088)	(\$83,539)	(\$83,539)	(\$83,539)	(\$83,539)	(\$83,539)	(\$83,539)
Cash Proceeds Before Tax	\$5,511	\$7,716	\$5,887	\$8,227	(\$815)	\$1,667	\$4,223	\$6,856	\$9,567	\$12,361
Debt Service Coverage Ratio	1.08	1.11	1.08	1.11	0.99	1.02	1.05	1.08	1.11	1.15
Year										
	11	12	13	14	15	16	17	18	19	20
Revenue										
Base Rental Revenue	\$102,136	\$105,200	\$108,356	\$111,607	\$114,955	\$118,404	\$121,956	\$125,615	\$129,383	\$133,265
CAM Revenue	\$71,228	\$73,364	\$75,565	\$77,832	\$80,167	\$82,572	\$85,049	\$87,601	\$90,229	\$92,936
Billboard Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Effective Gross Revenue	\$173,364	\$178,565	\$183,922	\$189,439	\$195,123	\$200,976	\$207,006	\$213,216	\$219,612	\$226,201
Expenses										
Total Operating Expenses	\$71,228	\$73,364	\$75,565	\$77,832	\$80,167	\$82,572	\$85,049	\$87,601	\$90,229	\$92,936
Net Operating Income	\$102,136	\$105,200	\$108,356	\$111,607	\$114,955	\$118,404	\$121,956	\$125,615	\$129,383	\$133,265
Net Income Before Debt Service										
Service	\$98,777	\$101,740	\$104,792	\$107,936	\$111,174	\$114,509	\$117,944	\$121,483	\$125,127	\$128,881
Debt Service	(\$83,539)	(\$83,539)	(\$83,539)	(\$267,572)	(\$58,088)	(\$58,088)	(\$58,088)	(\$58,088)	(\$58,088)	(\$58,088)
Cash Proceeds Before Tax	\$15,238	\$18,201	\$21,253	(\$159,636)	\$53,086	\$56,421	\$59,857	\$63,395	\$67,039	\$70,793
Debt Service Coverage Ratio	1.18	1.22	1.25	0.40	1.91	1.97	2.03	2.09	2.15	2.22

Risk Assessment

- Strengths

Master Development has a track record of redeveloping challenging urban buildings. With Master as the tenant there is reduced risk with regards to revenue projections. The development removes a blighting influence and a site for criminal activity. City funds leverage both private equity and conventional financing. This facility complements the development in North Minneapolis such as 1101 West Broadway, the Delisi's redevelopment, West Broadway Alive!, Coloplast, North Washington Jobs Park, and Penn-Lowry site.

- Weaknesses

To provide cash flow to repay debt service, Master will need to pay interest only for four years. The Debt Service Coverage Ratio is weak until year nine of the repayment schedule. Master will need to save reserves to cover debt service in five (DSCR = 0.99).

- Risks

Master reports that there is a contingent offer on the property. If Master is unable to close, this contingent offer will reopen the property as a bar. If this bar generates a similar level of criminal activity as Irv's did, it could impact other West Broadway development and the new Coloplast headquarters.

State Business Subsidy Requirements

The amount of principal and the legal status of the borrowing entity require a State Business Subsidy agreement. Staff will request proof that this project will bring into the area at least 14 new jobs (either in 125 or 201 West Broadway) paying a living wage of at least \$12.91/hour. Staff will also require job linkage agreements and participation in the Step-up program. Staff will negotiate and have this agreement in place prior to the execution of loan documents.

Map of Area

