



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

**Date:** August 22, 2006

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

**Subject:** Land Sale Public Hearing  
Penn-Lowry Project Area

**Recommendation:** (1) Approve the sale of 3120 and 3108 Penn Avenue North, 2125 Lowry Avenue North, and 3119, 3115, and 3027 Oliver Avenue North to Penn-Lowry Crossing LLC for \$239,691; (2) Approve the attached term sheet as a basis for a redevelopment contact.

**Previous Directives:** On February 10, 2006, the City Council authorized appropriate staff to negotiate and complete, within six months, the terms of a redevelopment agreement and a land sale for City-owned real property at the Penn-Lowry Site with Wellington Management, Inc., a Minnesota corporation, and directed staff to pursue the conditions defined in the report and incorporate agreed to conditions into the redevelopment terms. On September 30, 2003, the MCDA Board approved the sale of the property to Oppidan Incorporated for \$283,150. The closing never occurred and Oppidan's rights expired. On January 22, 2002, the MCDA Board authorized staff to initiate the project analysis process for the VOA Senior Housing Project; grant Volunteers of America of Minnesota exclusive development rights for the VOA Senior Housing Project for six months; negotiate terms and conditions of a redevelopment contract with Volunteers of America of Minnesota; and to prepare a redevelopment plan/modification and tax increment financing plan/modification for the Common Project for the VOA Senior Housing Project. The VOA project was financially infeasible, and the exclusive rights expired. In July of 2001, the MCDA Board authorized the issuance of an RFP for a mixed-use project at Penn and Lowry. On February 25, 2000 the MCDA purchased 3027 Oliver Avenue North for \$1. On October 4, 1999, the MCDA Board directed staff to enter a contract with Veit and Company, Inc. for \$125,285 for demolition. In 1999, the MCDA Board authorized the purchased of the Cohen properties (3120 and 3108 Penn Avenue North, 2125 Lowry Avenue North and 3119 and 3115 Oliver Avenue North) for \$260,861. On April 10, 2000, the MCDA authorized the application to the Minnesota Department of Trade and Economic Development

(MNDTED) and to the Metropolitan Council for contamination clean-up grants. On October 2, 2000, the City Council amended the 2000 appropriation to fund SMN (state grants and loans) by \$299,331 (MNDTED and Metropolitan Council contamination clean up grant award). On May 11, 1998, the City Council approved Modification No. 58 to the Common Plan and Tax Increment Financing Plan and approved \$450,000 in Fund CBG (CEDF) for acquisition and related costs for Penn and Lowry redevelopment activities.

**Prepared or Submitted by:** Erik Hansen, Senior Project Coordinator (673-5022)  
Steve Peterson, Intern (673-5071)

**Approved by:** Chuck Lutz, Deputy CPED Director \_\_\_\_\_  
Mike Christenson, Director, Economic \_\_\_\_\_  
Policy & Development

**Permanent Review Committee (PRC)** Approval \_\_\_\_\_ Not Applicable  X

**Policy Review Group (PRG)** Approval \_\_\_ Date of Approval \_\_\_ Not Applicable  X

**Presenter in Committee:** Erik Hansen

**Financial Impact (Check those that apply)**

- No financial impact (If checked, go directly to Background/Supporting Information).
- Action requires an appropriation increase to the \_\_\_\_\_ Capital Budget or \_\_\_\_\_ Operating Budget.
- Action provides increased revenue for appropriation increase.
- Action requires use of contingency or reserves.
- Business Plan: \_\_\_ Action is within the plan. \_\_\_ Action requires a change to plan.
- Other financial impact (Explain): Eliminate property management costs.
- Request provided to department's finance contact when provided to the Committee Coordinator.

**Community Impact (use any categories that apply)**

**Ward:** 4

**Neighborhood Notification:** Staff worked with Jordan Area Community Council (JACC), Folwell Neighborhood Association (FNA), and the Cleveland Neighborhood Association (CNA) and local business owners on preparation of the Request for Proposals and held a public meeting for development goals on May 4 and 24, 2005. After receipt of development proposals, staff notified the neighborhoods on October 4, 2005. Staff held a public presentation on October 25, 2005. Staff formed a Project Review Team (PRT) with representatives of the aforementioned neighborhoods and business members. Staff worked with JACC for additional recommendation and

comments.

**City Goals:** Consistent with the goal Connected Communities that create “a connected collection of sustainable urban villages where residents will live within walking distance of what they need or of public transit...streets will be destinations; a mix of unique small businesses will be thriving...” Further, one of the strategic directions under this City goal is to revitalize Lowry.

**Comprehensive Plan:** Development is consistent with the desired land-uses at this location. The plan designates both Penn Avenue North and Lowry Avenue North at the project site to be part of community corridors. A neighborhood commercial node is oriented to pedestrian traffic and provides retail or service uses to residents in the surrounding neighborhoods.

**Zoning Code:** C1/R2B

### **Background/Supporting Information Attached**

<b><u>PARCELS</u></b>	<b><u>ADDRESS</u></b>	<b><u>SALE PRICE</u></b>
Penn-Lowry 1	3120 Penn Avenue North	\$239,691 (all parcels)
Penn-Lowry 2	3108 Penn Avenue North	
Penn-Lowry 3	2125 Lowry Avenue North	
Penn-Lowry 4	3119 Oliver Avenue North	
Penn-Lowry 5	3115 Oliver Avenue North	
TF-511	3027 Oliver Avenue North	

### **PURCHASER**

Penn-Lowry Crossing LLC (an entity controlled by Wellington Mgmt, Inc.)  
1625 Energy Park Drive  
St. Paul, MN 55101

### **PROPOSED DEVELOPMENT:**

The Purchaser proposes a redevelopment (see attached site plan) of the Penn-Lowry Redevelopment Site for commercial and retail uses. The proposal includes commitments from ALDI Inc. to be the lead tenant occupying a 15,400 square foot building near the corner of Penn Avenue North and Lowry Avenue North. The developer purchased 3010 Penn Avenue North, with the existing tenant, Family Dollar Store, serving as the southern boundary of the project area. The remaining space is for unknown retail tenants. In addition to new retail fronting the Penn-Lowry intersection, the Purchaser will pursue a full-service financial institution to occupy a new structure near the corner of Lowry Avenue North and Oliver Avenue North. Further, parking is proposed to the side and rear of the main structures. The remaining property will include

space for a drive-through teller (if development includes a financial institution), shared parking, and landscaping.

### **Addressing Conditions to Negotiations**

The authority to negotiate a land sale price and redevelopment terms with the Purchaser included staff direction to pursue five conditions. Through these negotiations, staff is satisfied that the site plan concept presented in this report maximizes the conditions presented. Specifically, the proposed development concept addresses the conditions as follows:

1. That the placement of proposed ALDI grocery be moved on the site plan towards either Penn or Lowry avenues.

Response: The Purchaser has moved the ALDI grocery towards Penn Avenue with an entrance that is no more than 8 feet from the property line (as required in land use regulations).

2. The developer should increase the height of the development at the corner of Penn and Lowry and along the street face of both avenues if possible. This height should not be less than a two-story look.

Response: The Purchaser will add an active second floor to the structure located at the corner of Penn and Lowry avenues.

3. A housing component should be added to the development, at least along the Oliver Avenue street face and, if possible, vertically integrated into the development. Housing should maximize market-rate ownership opportunities.

Response: The Purchaser will not add a housing component to the development concept. Through thorough analysis of the site limitations and market conditions, the addition of housing is cost prohibitive without City financial assistance and additional land assembly.

4. Buildings that address Penn and Lowry avenues should have real windows and entrances.

Response: All proposed structures in the development concept address either Penn or Lowry Avenues. These buildings, as required in land use regulations, will have appropriate window and entrance coverage.

5. If possible and not to the detriment of the moving the development forward, the developer should work with the owner of Union Liquor to move it from its current location into the new development to improve the likelihood of a development on the northwest corner of the intersection.

Response: The Purchaser will not include Union Liquor as a potential retail tenant. Among other restrictions and barriers to move an off-sale licensed beverage facility, the presence of two churches adjacent to the site eliminates any potential location for store placement (an entrance may not be less than 350 feet from a church).

### **Land Use Approvals Needed**

Community Planning & Economic Development (“CPED”) Economic Development staff engaged and collaborated closely with CPED Planning staff during negotiations. Planning staff has reviewed the site plan concept, but application of the site plan review chapter of the zoning code has not occurred. This approval will be handled during the regular land use approval process.

### **Additional Property Assembly**

The Purchaser assumes responsibility to acquire additional parcels required to build the redevelopment concept. These parcels include: 3010 Penn; 3023, 3101, 3107, and 3111 Oliver avenues North. Evidence of purchase is required prior to sale of City-owned property.

### **FINANCING:**

The Purchaser proposes financing the redevelopment through the use of equity, debt, and tenant improvement contributions. The total development cost (TDC) is expected to be \$6,930,000. Of this cost, the developer will finance more than 80 percent of the cost (\$5,580,000) through debt and equity. The remaining 20 percent will come from a contribution from Aldi, Inc (\$700,000) and proceeds from the sale of the proposed bank pad (\$650,000). Penn-Lowry Crossing LLC proposes purchasing the project site for the set fair reuse value of \$239,691.

<b>SOURCES</b>	
FIRST MORTGAGE FINANCING	4,464,000
DEVELOPER EQUITY	1,116,000
TOTAL DEVELOPER FINANCING	5,580,000
ALDI CONTRIBUTION TO CONSTRUCTION	700,000
SALE OF BANK PAD	650,000
TOTAL SOURCES	6,930,000
<b>USES</b>	
<b>ACQUISITION</b>	
PRIMARY CITY PARCEL	239,691
EXISTING COMMERCIAL BLDG.	1,100,000
3101, 3111, 3107 OLIVER AVE N	830,000
TOTAL ACQUISITION	2,169,691
<b>DEMO, ENVIR., SITE WORK</b>	
DEMOLITION AND SITE PREPARATION	75,000
UTILITIES AND STORM WATER	125,000
ENVIRONMENTAL *	50,000
LANDSCAPING, PLAZAS, SITE AMENITIES	75,000
TOTAL DEMO, ENVIR., SITE WORK	325,000
<b>CONSTRUCTION</b>	

CONSTRUCTION OF RETAIL BLDG. #1	2,925,000
ALDI plus 8,000 s.f. of second story office plus 2,600 s.f. of Lowry St. retail	
<b>BANK BUILDING</b>	
(PROPOSED 5,000 S.F. BLDG.)	625,000
REMODEL OF FAMILY DOLLAR BUILDING	325,000
<b>TENANT IMPROVEMENTS</b>	
OFFICE	200,000
FAMILY DOLLAR BLDG.	225,000
CONTINGENCY	75,000
TOTAL CONSTRUCTION	3,750,000
<b>SOFT COSTS</b>	
LEGAL	40,000
ARCHITECTURAL AND ENGINEERING	115,000
FINANCE FEES	35,000
DEVELOPER FEES	150,000
BROKERAGE FEES	150,000
PROJECT MANAGEMENT	130,000
TITLE AND CLOSING	15,000
SURVEY	8,000
ENVIRONMENTAL	6,000
APPRAISAL	9,000
INSURANCE	7,000
CONTINGENCY	20,000
TOTAL SOFT COSTS	685,000
<b>TOTAL PROJECT COSTS</b>	<b>6,929,691</b>

\*Request for remediation grant not expected

**LAND DISPOSITION POLICY:**

These properties are buildable lots as defined by City policy and are being sold for development.

**OFFERING PROCEDURE:**

The City initiated developer selection for this project area through a Request for Redevelopment Proposals (RFP) in May 2005. The *Minneapolis Plan*, the *Lowry Avenue Corridor Project Plan*, and community input informed the creation of the RFP's redevelopment goals. The redevelopment goals focus on offering a mix of uses centered around commercial/retail uses, increasing density and services at this key intersection, creating a 'sense of place,' and fostering an active sidewalk environment.

Proposers were to consider traditional urban form as the basis to the redevelopment concept including the placement of the structures and parking.

The sales price of these properties reflects the fair re-use value. The Purchaser will buy 3120 and 3108 Penn Avenue, 2125 Lowry Avenue, and 3119 and 3115 Oliver Avenue for approximately \$5 per-square-foot. The Purchaser will buy 3027 Oliver Avenue for \$1. In return the Purchaser will convey a right-of-way easement to the City for a residential alleyway.

**COMMENTS:**

The Purchaser has agreed to a number of terms and conditions to sale. These are attached as Attachment 1.

## **Authorizing sale of land Penn-Lowry Project Area**

### **Disposition Parcel No TF-511 & Penn-Lowry 1, 2, 3, 4 and 5.**

Whereas, the City of Minneapolis, hereinafter known as the City, has received an offer to purchase and develop Disposition Parcel TF-511 & Penn-Lowry 1-1, 2, 3, 4 and 5, in the Jordan neighborhood, from Penn-Lowry Crossing LLC, hereinafter known as the Redeveloper, the Parcel TF-511 & Penn-Lowry 1-1, 2, 3, 4 and 5, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

#### LEGAL DESCRIPTION

See Exhibit A attached hereto and made a part hereof by reference.

Whereas, the Redeveloper has offered to pay the sum of \$239,691, for Parcel TF-511 & Penn-Lowry 1, 2, 3, 4 and 5 to the City for the land, and the Redeveloper's proposal is in accordance with the applicable Redevelopment Plan and/or Program; and

Whereas, the Redeveloper has submitted to the City a statement of financial responsibility and qualifications; and

Whereas, the City has had the re-use value reviewed by an appraisal expert, stating that the re-use value opinion is consistent with the accepted methods in aiding the City in determining a re-use value for the Parcel; and

Whereas, pursuant to due notice thereof published in *Finance and Commerce* on August 11, 2006, a public hearing on the proposed sale was duly held on August 22, 2006, at the regularly scheduled Community Development Committee meeting of the City Council, at the Minneapolis City Hall, 350 South 5th Street, Room 317, at 1:30 p.m., in the City of Minneapolis, County of Hennepin, State of Minnesota;

Now, Therefore, Be It Resolved by the City Council of the City of Minneapolis:

That the re-use value for uses in accordance with the Penn-Lowry Project Area plan, as amended, is hereby estimated to be the sum of \$239,691 for Parcel TF-511 & Penn-Lowry 1, 2, 3, 4 and 5 .

Be It Further Resolved that the acceptance of the offer and proposal is hereby determined to be in accordance with the City's approved disposition policy and it is further determined that the Redeveloper possesses the qualifications and financial resources necessary to acquire and develop the parcel in accordance with the Redevelopment Plan and/or Program.

Be It Further Resolved that the proposal be and the same is hereby accepted, subject to the execution of a contract for the sale of land. Furthermore, that the Finance Officer or other appropriate official of the City be and the same is hereby authorized to execute and deliver the contract to the Redeveloper; provided, however, that this Resolution does not constitute such a contract and no such contract shall be created until executed by the Finance Officer or other appropriate official of the City.

Be It Further Resolved that the Finance Officer or other appropriate official of the City is hereby authorized to execute and deliver a conveyance of the land to the Redeveloper in accordance with the provisions of the executed contract and upon payment to the City for the purchase price thereof; provided, however, that this Resolution does not constitute such a conveyance and no such conveyance shall be created until executed by the Finance Officer or other appropriate City official of the City.

**EXHIBIT A**

**LEGAL DESCRIPTION**

**PENN-LOWRY 1 & 2 (3120 and 3108 Lowry Ave N)**

Lots 23 to 28 inclusive and that part of Lot 22 lying North of the South 6 feet thereof, Block 2, Hamisch's Second Addition to Minneapolis.

**PENN-LOWRY 3 (2125 Lowry Ave N)**

Lots 1 and 2, in Block 2, of Hamisch's Second Addition to Minneapolis.

**PENN-LOWRY 4 (3119 Oliver Ave N)**

Lot 3, Block 2, Hamish's Second Addition to Minneapolis.

**PENN-LOWRY 5 (3115 Oliver Ave N)**

Lot 4, Block 2, Hamisch's Second Addition to Minneapolis.

**TF-511 (3027 Oliver Ave N)**

Lot 8, Block 2, Hamisch's Second Addition to Minneapolis.

Being registered property as is evidenced by Certificate of Title No. 1142829.

**PENN-LOWRY PROJECT TERM SHEET**

**1. PROPERTY Required for Penn-Lowry Crossings, LLC (PLC, LLC) Proposed Development**

**City Provided Property:**

Address	Property Identification Number	Zoning	Ownership
3120 Penn Avenue North	09-029-24-32-0214	C1	City
3108 Penn Avenue North	09-029-24-32-0213	C1	City
2125 Lowry Avenue North	09-029-24-32-0110	C1	City
3027 Oliver Avenue North	09-029-24-32-0116	R2B	City
3119 Oliver Avenue North	09-029-24-32-0111	R2B	City
3115 Oliver Avenue North	09-029-24-32-0112	R2B	City

**PLC, LLC Provided Property:**

Address	Property Identification Number	Zoning	Ownership
3010 Penn Avenue	09-029-24-32-0123	C1	PLC, LLC Owned
3111 Oliver Avenue North	09-029-24-32-0113	R2B	PLC, LLC (under contract)
3107 Oliver Avenue North	09-029-24-32-0114	R2B	PLC, LLC (under contract)
3101 Oliver Avenue North	09-029-24-32-0115	R2B	PLC, LLC (under contract)
3023 Oliver Avenue North	09-029-24-32-0117	R2B	PLC, LLC (negotiating)

**2. PURCHASER/DEVELOPER**

Penn-Lowry Crossings LLC

1625 Energy Park Drive, Suite 100  
Saint Paul, Minnesota 55108

### **3. PURCHASE PRICE**

Total Purchase Price: Developer agrees to pay \$239,691 for fee simple title to the City-owned property identified in No. 1 above upon the condition that PLC, LLC/Penn Lowry LLC grants an easement within the PLC, LLC Proposed Development for a public alley servicing the adjacent residential properties. Total Purchase Price includes good faith deposit.

### **4. GOOD FAITH DEPOSIT**

Good Faith Deposit: Developer agrees to pay the City \$23,970.00 (10% of Purchase Price) upon City Council Approval of the Sale of all City properties listed in No. 1 above required for the PLC, LLC Proposed Development

### **5. CLOSING DATE**

Estimated closing date is on or about October 1, 2006.

### **6. CONSTRUCTION START DATE**

On or about November, 2006

### **7. CONSTRUCTION COMPLETION DATE**

Fall, 2007

### **8. PROPOSED PROJECT**

The City of Minneapolis issued a Request for Redevelopment Proposals (RFP) for development of an approximately 47,930 square foot (SF) project area at southeast corner of the intersection of Penn and Lowry avenues in May 2005. In response to that Request, PLC, LLC submitted a proposal depicting a retail/commercial redevelopment with two new structures and the renovation of an existing structure. The PLC, LLC proposal adds approximately 32,000 s.f. of new retail/commercial space. One structure will contain an Aldi Grocery store serving as the center's anchor with additional retail on the first floor and office space on the second floor. A second structure containing commercial space will be located to the east along Lowry. PLC, LLC will renovate an additional 14,000 SF at an existing retail building (the existing Family Dollar Building) adjacent to the City-owned property. The new structures will be designed consistent with the guidelines outlined in the RFP.

The PLC, LLC Proposed Development includes certain properties identified in No. 1 above in addition to those owned by the City. PLC, LLC has already purchased 3010

Penn Avenue (the existing Family Dollar Building) and proposes to renovate the retail structure. PLC, LLC has entered into purchase agreements for 3107, 3111, and 3101 Oliver Avenue North. PLC, LLC also expects to successfully conclude a purchase agreement for 3023 Oliver Avenue North in the next few weeks. The surface parking lot which will be constructed to serve the new retail and office development will include pedestrian amenities, landscaping and treatments to enhance a strong connection to the transit-related improvements on Penn and Lowry avenues.

## **9. MINIMUM IMPROVEMENTS**

New construction of an approximately 32,000 square feet of retail/commercial, and renovation of 14,000 square feet of existing retail and related improvements on the Property in accordance with the approved construction plans.

## **10. CONDITIONS TO SITE PLAN**

Through the public review process, the Jordan Area Community Council provided comments and reviewed the proposed development plan multiple times along with other neighborhood groups. In response to comments, PLC, LLC relocated the proposed ALDI grocery store on the site and designed the buildings facing Penn and Lowry avenues to strengthen their connection with the street and to emphasize a strong urban character to the entire development. PLC, LLC also deleted any further consideration of a housing component due to current levels of available housing in the area and stakeholder comments and worked closely with all interested local businesses in the area.

### **Developer obligations:**

Prior to the City's action to sell the property, PLC, LLC shall provide an updated site plan, and operating and capital proforma depicting the Site Plan.

### **City obligations:**

Prior to City action to sell the property to PLC, LLC, City shall continue to help coordinate the final review of the Site Plan. Prior to and in anticipation of closing, City will continue to assist PLC, LLC with rezoning all currently zoned R2B properties currently owned by the City and proposed to be acquired by PLC, LLC.

## **11. PUBLIC ASSISTANCE REQUEST**

NONE

## **12. TAX INCREMENT FINANCING ASSISTANCE**

NONE

## **13. SITE CONTROL**

Developer will deliver evidence of site control for all developer-owned proposed properties identified in No. 1 above by closing. Such properties are required for the PLC, LLC Proposed Development and closing is conditioned upon successful acquisition of these properties and successful re-zoning of the needed project properties from R2B zoning to C-1 or C-2 zoning.

**14. REDEVELOPMENT AGREEMENT (To be finalized and agreed to by the parties prior to closing)** The Redevelopment Agreement shall include the following general terms with which PLC, LLC shall be responsible for compliance

A. Developer Obligations:

- i. Construct minimum improvements
- ii. Provide easement to the benefit of the City for alleyway right-of-way across Property defined in No. 1.
- iii. Payment and Performance bond requirements or acceptable alternative;
- iv. Prevailing wage requirements;
- v. General liability, hazard, builder's risk and worker's compensation insurance requirements;
- vi. Indemnify and hold the City harmless provisions;
- vii. Standard warranties and representations; and
- viii. City reversionary rights and certificate of completion requirements.
- ix. The Developer shall pay the Good Faith Deposit and the Purchase Price and the following:
  - a. Title Insurance, closing costs and recording fees;
  - b. Prorated taxes, special assessments and utilities;
  - c. Insurance and bond fees;
  - d. Developer survey and site investigation costs;
  - e. Developer legal costs and professional service fees; and
  - f. Developer design and architects fees and construction costs.

The Developer's obligations shall also include obtaining and/or provision of:

- Construction estimates
  - Development site plan
  - Design plan
  - Construction plans and specifications as approved by City
  - Zoning/code compliance/vacation/subdivisions
  - Building permits
  - Utilities availability (connection charges)
  - After value appraisal
  - Insurance certificates
  - Proof of construction financing in place
- x. City Obligations:
- Deliver site (remediation complete for "as is" sale)
  - Provide "No Further Action" letter (or equivalent)
  - Coordinate, at no cost to the City, the rezoning and site plan approvals