

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

Date: August 4, 2009

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

Subject: Great Streets Gap Financing Loan of \$450,000 to Catalyst Five Points, LLC

Recommendation: Authorize a \$450,000 Great Streets Gap Financing Loan to Catalyst Five Points LLC from the already appropriated CDBG allocation budgeted in 2007-2008, for redevelopment of the properties 2119 West Broadway, 2310 Penn Avenue N and 2312 Penn Avenue N (“Delisi Buildings) and authorize the appropriate City staff to execute the loan agreement and any related documents; Extend the closing date in the Redevelopment Contract from June 15, 2009 to December 15, 2009.

Previous Directives: 1) On February 20, 2009, the City Council approved the sale of City-owned real property at 2119 West Broadway, 2310 Penn Avenue N and 2312 Penn Avenue N to Catalyst Five Points, LLC for \$17,175. 2) On June 29, 2007, the City Council authorized staff to negotiate the sale of City-owned real property at 2119 West Broadway, 2310 Penn Avenue N and 2312 Penn Avenue North to a development team led by The Ackerberg Group. 3) On August 3, 2007, the City Council accepted and appropriated a grant of \$47,500 from the Metropolitan Council Livable Communities Act Tax Base Revitalization Account Grant Program for asbestos abatement within the building located at 2119 West Broadway Avenue and directed staff to execute grant and subrecipient agreements. 4) On July 1, 1994, the City Council authorized staff to acquire 2310 Penn Avenue N and on October 7, 1999, the City Council authorized staff to acquire the property at 2119 West Broadway and 2312 Penn Avenue (along with a number of other properties) from the Hennepin County tax forfeiture list.

Department Information

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Approved by: Catherine A. Polasky, Director of Econ. Dev. _____

Charles T. Lutz, Deputy Director _____

Presenter in Committee: Kelly Hoffman

Financial Impact

None - CDBG funds are allocated to the Great Streets Program for loans for catalytic commercial development projects.

Action is within the Business Plan.

Community Impact

- Neighborhood Notification: Catalyst Five Points, LLC along with developer The Ackerberg Group have met with West Broadway Business and Area Coalition about the project and Northside Residence Redevelopment Council (NRRC). The City's Request for Proposals and subsequent developer selection included participation from NRRC, Jordan Area Community Council (JACC), Hawthorne Area Community Council (HACC) and the West Broadway Business and Area Coalition (WBC). A public meeting for development goals was held on February 13, 2007. After receipt of development proposals, staff notified the neighborhoods on April 25, 2007. Staff held a public meeting to discuss the proposal on

May 16, 2007. Staff formed a project review team with representatives from all the above-noted organizations. The NRRC Residential Commercial Task Force and full board reviewed and recommended approval of the proposed development.

- City Goals: Connected communities and One Minneapolis
- Sustainability Targets: Approval of this loan helps support efficient growth by reuse of a vacant blighted building on West Broadway. The project includes storm water management through an infiltration pond.
- Comprehensive Plan: 4.4 Minneapolis will continue to provide a wide range of goods and services for city residents, to promote employment opportunities, to encourage the use and adaptive reuse of existing commercial buildings, and to maintain and improve compatibility with surrounding areas.
- Zoning Code: Project will comply with zoning.
- Living Wage, Business Subsidy, and Job Linkage apply.

Catalyst Five Points, LLC (Catalyst) has applied for a Great Streets Gap Financing Loan of \$450,000 (total project costs estimated at \$3,003,102) for redevelopment of the former Delisi Bar and Grill and two adjacent vacant parcels. This property will be redeveloped as retail and office space with radio station KMOJ as the primary second floor tenant. Sources of funding, other than the Great Streets gap financing, include private financing from Franklin Bank, a 2% loan from the City, Hennepin County Transit Oriented Development grant, Empowerment Zone grant (tenant improvements), Northside Arts Collective artistic façade grant, City of Minneapolis Art in Public Places grant, and developer equity.

Project Summary

- Applicant for City Financial Assistance: Catalyst Five Points, LLC
- Loan Request: \$450,000 Great Streets Gap Financing; Ten (10) year term, amortized over twenty-five (25) years, with two (2) years of interest-only payments with a balloon payment of principal in year 10; fixed interest rate of 3.25% (current Prime rate).
- Property Address and Seller: 2119 West Broadway, 2310 Penn Avenue N and 2312 Penn Avenue N Ward 5. The City of Minneapolis currently owns the properties.
- Non-public Lender: Franklin Bank
- Use of Funds: Redevelopment of a currently vacant and blighted property on West Broadway, renovated for office and retail use.

Project Summary

The redevelopment site is comprised of three tax forfeited parcels located on the southeast corner of Penn and West Broadway Avenues North. This prominent and highly visible corner is passed by approximately 27,000 cars per day. Located at 2119 West Broadway is a two-story, 16,030 square foot structure with a building footprint of 5,138 square feet. The total square footage includes a basement and an attached, one-story garage. Until 1999 when the property was taken through tax foreclosure by Hennepin County, the building housed the Delisi Bar and Grill. Since that time, the building has been vacant and boarded, a symbol of blight and decay. The parcel is zoned for commercial use (C2) with a Pedestrian-oriented overlay. The other two parcels, 2310 and 2312 Penn Avenue are adjacent to each other across an alley from the building parcel. One is a parking lot and the second is a vacant parcel; both are zoned for residential use (R4) with a parking overlay.

The redevelopment will reactivate and revitalize this important corner by rehabilitating the existing structure at 2119 West Broadway for a radio station and retail/restaurant uses. The Center for Communication and Development/KMOJ Radio has executed lease for 3,329 square feet of office space on the second floor. The remaining 1,969 square feet on the second floor will be office space. The Ackerberg Group and Catalyst are currently in the process of securing a sit-down restaurant and they are in lease discussions with a coffee shop to take 1,888 square foot commercial space on the corner of West Broadway and the plaza. The Penn Avenue parcels, 2310 and 2312 Penn Avenue North, will be developed into a parking lot with 23 parking spaces and a bio retention area that will treat rainwater runoff on site. An adjacent corner lot owned by Metro Transit will be developed as a transit plaza with restaurant outdoor seating and public art as part of the redevelopment of the site. Catalyst Community Partners has an access agreement with Metro Transit for this purpose.

Redevelopment of this block of West Broadway has the potential to be market changing and catalyze additional private investment. Plans are underway for other development such as the expansion of the Capri Theater and the development of office/retail use across the street. Additionally, the Purchaser has a strong track record and commitment to revitalizing North Minneapolis.

Using the Great Streets commercial district targeting system adopted by the City Council on March 27, 2009, this corridor was identified as "intervene". West Broadway has consistently lagged behind other commercial areas in the city and development projects are very challenging. As a catalytic development project, this project meets the goals of the City's Great Streets Gap Financing program, is supported by City commercial corridor policy, and fits the vision articulated in the West Broadway Alive plan.

Company/Borrower

Catalyst Five Points, LLC is a single asset entity with Catalyst Community Partners as the sole member. Catalyst Community Partners was developed from the innovative North Minneapolis community development work of Stuart Ackerberg, CEO and owner of The Ackerberg Group. Catalyst is a non-profit organization with a mission to revitalize distressed commercial corridors through real estate development and business development.

On this project, The Ackerberg Group is working on behalf of Catalyst as project developer and brings over 40 years of experience. They have developed, owned and/or renovated over 7 million square feet of retail, office, and industrial property. In 2007, The Ackerberg Group redeveloped a blighted and vacant building located at 1101 West Broadway, now home to Emerge Community Development, the City-County Federal Credit Union, and the Bean Scene Too coffee shop.

Catalyst Community Partners and The Ackerberg Group are currently redeveloping 1200 West Broadway, a formerly vacant and boarded building that includes a community commercial kitchen, event and meeting space, café, and office for Northway Community Trust, The Alden Group, Tri Construction, the Pohlad Family Foundation, Catalyst Community Partners, and Gray Plant Mooty's pro bono legal services center. The building is close to 100% leased and is on schedule to be occupied starting in October.

In addition to real estate development, Catalyst works with new and emerging businesses through an innovative model of partnership with corporate and well-established companies to provide the support needed in the critical first few years for new businesses.

Financing Overview

Sources of funding, other than the Great Streets gap financing, include private financing from Franklin Bank, a 2% loan from the City, a Hennepin County Transit Oriented

Development grant, an Empowerment Zone grant, a Northside Arts Collective artistic façade grant, a City of Minneapolis Art in Public Places grant, and developer equity.

Table 1: Sources and Uses

Sources		Uses	
<i>Debt:</i>		Acquisition	\$17,175
Franklin Bank	\$1,545,000	Construction	\$1,770,100
City – Great Streets	\$450,000	Tenant Improvements	\$648,320
City – 2%	\$75,000	Façade Art	\$20,000
		Plaza	\$133,000
<i>Grants:</i>		Environmental Rem.	\$47,500
Empowerment Zone	\$300,000	Finance Fees	\$18,750
Hennepin County TOD	\$133,000	Development Fee	\$130,946
Met Council TBRA	\$47,500	Leasing Commission	\$31,749
NAC artistic façade grant	\$15,000	Closing Costs	\$12,544
Art in Public Places	\$100,000	Legal	\$5,000
		Land Carry	\$5,000
Developer Equity	\$437,602	Environ. Reports	\$5,000
		Const. Loan Interest	\$46,042
		Insurance	\$7,500
		City applications	\$5,000
		Civil Engineers	\$7,000
		Art	\$5,000
		Architectural	\$70,000
		Plaza public art	\$100,000
		Soft Cost Contingency	\$17,477
Total Sources	\$3,103,102	Total Uses	\$3,103,102

- The proposed terms for the Great Streets Gap Financing of \$450,000 include interest-only payments for two (2) years and a ten (10) year term with the loan amortizing over twenty-five (25) years. The interest rate is fixed at 3.25% (current Prime rate).
- The Two Percent (2%) Loan of \$75,000 will have a ten (10) year term, will be amortized over fifteen (15) years and has a fixed 2.0% interest rate. Payments will be interest only first year.
- The Franklin Bank loan of \$1,545,000 has a 6.5% (fixed) interest rate, three (3) year term, and is amortized over twenty (20) years.

- The Empowerment Zone grant of \$300,000 is dedicated for the build out of KMOJ's office.
- The City of Minneapolis Art in Public Places grant of \$100,000 is for public art on the plaza.
- The Hennepin County TOD grant of \$133,000 is for development of the plaza at the Penn and West Broadway corner.
- The Metropolitan Council TBRA grant of \$47,500 is for asbestos abatement.
- The Northside Arts Collective grant of \$15,000 is for design and fabrication of artistic façade elements.
- The remaining \$437,602 will be equity or a combination of equity and an additional loan.

Loan Security

Franklin Bank and the City's 2% loan will be secured by a first mortgage. The Great Streets loan will be secured by a second mortgage. If Catalyst defaults on the Franklin Bank or 2% loan, repayment would be sought from the sales proceeds, after foreclosure action.

Risk Assessment

The greatest strength of this proposal is experience and track record of The Ackerberg Group. Through forty years of experience, The Ackerberg Group has developed a strong capacity for both residential and commercial real estate development. Gap financing loans to projects in challenged commercial districts are inherently risky. The current economic conditions and lack of available credit from financial institutions make the City's investment even more critical. The City's investment in this project helps to advance an overall revitalization strategy on West Broadway and achieve the vision articulated in the West Broadway Alive plan.

The challenging economy and the impact on commercial real estate and leasing combined make the leasing of the building the biggest risk. The Ackerberg Group has experience and proven track record, including the lease up of 1200 West Broadway, nearly 100% occupied before construction is complete.

This project is well suited for Community Development Block Grant funding. This federal grant to the City is intended to remove blight and create jobs in low income communities. This building is currently vacant, blighted, and underutilized. The redevelopment of this building creates jobs and much needed amenities for the community.

Public Benefits

In addition to removing blight, this project has several important public benefits including:

- Tax base enhancement: this project will increase the value of the building by over \$2,000,000.
- Support of local businesses: these employees will shop in the surrounding community supporting local businesses.
- Job creation: this project will create an estimated 20,000+ construction man hours and 57 permanent jobs.
- Increase investment and inspire market confidence: others will see progress on West Broadway and will be inspired to invest in their own properties; retailers and restaurants will see new opportunities and a stronger market.
- This renovation provides high quality and updated office space and renovated retail space, currently lacking on West Broadway

Starting with this loan, CPED is implementing a 1% loan origination fee (in this case \$4,500) for Great Streets Gap Financing loans. This fee will help cover the staff costs of application review, processing, and monitoring.

Attachments

20-Year Cash Flow Projection

Rendering