

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

Date: April 28, 2009

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

Subject: Land Sale Public Hearing
Grain Belt Historic Office Building
1215 Marshall Street N.E (Part) Parcel GB 2 & 3A

Recommendation: Approve the sale of a portion of 1215 Marshall Street NE to Kristina Oman or an affiliated limited liability company for the fair market value price of \$1.00, subject to the conditions stated within this report.

Previous Directives: The MCDA Board of Commissioners approved the acquisition of 1215 Marshall Street N.E. on December 17, 1989. 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 LLC (SDC) as the developer of the Grain Belt Housing Project and awarded it six-month development rights. In July 2001, the Board approved a one-year extension of the development rights, and approved additional extensions in July 2002 and in February 2003. On June 2003, the Board approved the finance plan and redevelopment contract terms for Phase I of the Grain Belt Housing Project. On September 26, 2003, the Council adopted the Grain Belt TIF Plan and related Plan modifications. On November 5, 2004, the Council approved an amendment to the redevelopment contract business terms for Phase I of the Grain Belt Housing Project. On December 23, 2005, the Council approved an amendment to the redevelopment contract to extend certain performance deadlines. The Office Building was severed from the Grain Belt Housing Project and an appropriation of \$65,000 was approved to cover certain costs related to issuing a Request for Proposals (RFP). On May 26, 2006, the Council approved the sale of the Phase I site to the developer and modified the development timetable in July 2006 but said project was never initiated. In August 2006, the CPED Director authorized the issuance of a Request for Proposals for the Grain Belt Office Building at 1215 Marshall. The selected developer withdrew the Offer to Purchase in May 2007 before a land sale report could be presented to the Council. A subsequent Invitation to Submit an Offer was issued with a deadline of December 2007 and the Purchaser was the only respondent

Prepared by: Judy Cedar, Senior Project Coordinator, Phone 612-673-5025	
Approved by: Charles T. Lutz, Deputy CPED Director	_____
Catherine A. Polasky, Director Economic Policy & Development	_____
Presenters in Committee: Judy Cedar, Senior Project Coordinator	

Reviews

Permanent Review Committee (PRC): Approval of Request for Proposals document occurred on August 17, 2006.

Financial Impact

Action is within the Business Plan

Other financial impact: Eliminate maintenance and property management costs.

Community Impact

Neighborhood Notification: Sheridan Neighborhood Organization received a presentation of this project on November 24, 2008 and an update on this project March 23, 2009. The neighborhood organization is supportive of this proposed property sale.

City Goals: Connected communities

Sustainability Targets: Approval of this sale helps support efficient growth by reuse of a vacant historic structure within the Minneapolis Brewing Company Historic District. In addition, this building will be treated to abate asbestos, stabilize lead-based paint, and rectify water intrusion that threatens the structural stability of a historic asset.

Comprehensive Plan: On May 22, 2006, the Planning Commission found the sale of this parcel, for the proposed use, as being consistent with the Comprehensive Plan.

Zoning Code: The parcel is mostly zoned Neighborhood Commercial District C1. The proposed reuse of the historic Office Building as commercial office space is permitted under the C1 zoning category. A small area of the parcel (the northeasterly portion) is zoned Residential R-5. A rezoning effort is underway to eliminate the split zoning and to classify the entire parcel as either C1 or C3A. The preferred zoning is C3A to allow for reception hall uses (e.g. wedding receptions) in the future pending resolution of the moratorium on reception halls.

Living Wage/Business Subsidy Agreement: The project is exempt from Business Subsidy Act. This is a market-value sale to meet the City's goal of preservation of a historic structure.

Job Linkage: Job creation/retention is not the primary development objective of this project but the City will seek a voluntary job linkage arrangement.

Other: The project is subject to Heritage Preservation Commission review. State Historic Preservation Office will also review the project if historic tax credits are sought.

Supporting Information

Parcel: GB 2 & 3A

Address: 1215 Marshall Street NE (part)

Sale Price: \$1.00

Purchaser

Kristina Oman or an affiliated limited liability company

100 West Franklin Avenue

Minneapolis, MN 55404

Site Details

The Grain Belt Office Building is located at 1215 Marshall Street in Northeast Minneapolis. It is a two-story building that was built in 1893. In 1910, a one and one-half story addition was constructed using identical materials as the original construction. The Minneapolis Community Development Agency purchased 14 acres of the Grain Belt complex, including the Office Building, in 1989 for \$4,850,000. The Council approved Development Objectives in 1996. The Objectives were amended by Council approval in 2000. The Office Building has remained vacant and unused for almost 10 years.

The Office Building is one of seven historic structures within the Minneapolis Brewing Company Historic District that was entered into the National Register of Historic Places in

1990. The six other structures (Brew House, Boiler House, Warehouse, Bottling House, Wagon Shed and Shops) plus the one historic feature (rail spur) are redeveloped and no longer under City of Minneapolis ownership.

The plat application will need approval prior to an actual land sale closing and title transfer. The sale parcel will be divided from Outlot A (see attached survey map). Outlot A is approximately 108,872 square feet in area or 2.5 acres. Outlot A includes all of the City-owned land reserved for the future Plaza and multi-family housing development. Outlot A is vacant land and it is hoped that a multi-family development project can be identified for this site sometime within the next three to five years when the condominium market has recovered from the economic recession.

The proposed legal description for the property to be sold is Lot 1, Block 1, Minneapolis Brewing Company Addition to Minneapolis. The proposed property area for the subject sale parcel is 241.37 x 96.37 feet, providing an area of 23,260.827 square feet or 0.53 acre. The gross building area is 18,507 square feet with rentable area of 10,397 square feet including 2,818 square feet of garden-level area. The redesign of interior spaces during rehabilitation of the structure may somewhat increase rentable area.

An easement is necessary for the proposed project. The easement proposed for this sale is located just north of the sale parcel and will provide ingress/egress to the property as well as provide for rainwater drainage. The dimensions for the easement are 22 X 241.37 feet and described as follows:

An easement for driveway purposes over and across that part of Outlot A, Minneapolis Brewing Company Addition, according to the recorded plat thereof, Hennepin County, Minnesota, being a 22.00 foot wide strip of land, the southeasterly line of which is described as follows:

Beginning at the most westerly corner of Lot 1, Block 1, said Minneapolis Brewing Company Addition; thence northeasterly along the northwesterly line of said Lot 1 to the most northerly corner of said Lot 1 and there terminating.

This easement is located on Outlot A that includes all of the City-owned land reserved for the future Plaza and multi-family housing development. The easement preserves the area for the planned promenade and retains the sightline view across Marshall to the Brew House property.

Proposed Development

The building will be reused as a commercial office building. Kristina Oman intends to rehabilitate the Office Building and reuse it as a commercial office building and reception hall. These uses are consistent with historic uses of the building but use as a reception hall will require approval from the City Planning Commission. The rehabilitation project is eligible for historic tax credits upon review and approval by the State Historic Preservation Office (SHPO). The project is also subject to reviews and approvals by the City's Heritage Preservation Commission. DJR Architecture, Inc. is preparing the design plans for the Purchaser. The property requires extensive investment to address water infiltration and major building systems. Estimated rehabilitation costs are \$2,250,094.45.

Planned improvements include:

- Tuck-pointing masonry
- Repair windows
- Replace roof
- Stabilize entry steps if determined necessary by masonry restoration company
- Upgrade HVAC system

- Clean up interior asbestos and lead based paint
- Construct a drainage system to eliminate water infiltration into the building
- Disconnect drains from the sanitary sewer except for the window well drain connection located on the south side of the building.
- Repair and restore the tile mosaic floor and office wainscoting
- Build out tenant office and reception spaces as required
- Modify retaining wall, south location
- Add retaining wall, east location
- Re-grade land, especially along the east and north lot lines
- Build out parking spaces alongside and behind building

The site provides for 34 parking spaces on site. Additional parking will be necessary, through a parking agreement, to allow for reception hall uses, such as wedding receptions within the building. The Purchaser is negotiating such a parking agreement with an adjacent property owner to allow for off-hours shared parking.

The existence of a retaining wall, a wing wall, and elevation differentials has caused (in part) water to repeatedly infiltrate into the basement of the building. Additional drainage issues have caused further water infiltration into the building. In addition, the southeast corner of the foundation sits below the water table. The property has been vacant for approximately seven years and it is in poor condition due to deferred maintenance, water damage, inadequate site drainage, asbestos, lead-based paint, and mold.

Land Disposition Policy

This property will be improved by rehabilitation as defined by City policy and is being sold for development.

Financing

The Purchaser will finance the entire project with private financing:

Sources of Funds	Amount	Uses of Funds	Amount
Equity and private financing	\$2,250,095	Environmental Abatement	\$310,549
		Remedy water infiltration, including installation of drainage system	638,932
		Major building systems	348,349
		Other construction	952,265
TOTAL SOURCES	\$2,250,095	TOTAL USES	\$2,250,095

Offering Procedure

The developer presented CPED with an Offer to Purchase in response to a Request for Proposals and subsequent Invitation to Submit an Offer to Purchase. The sales price of One Dollar (\$1.00) is fair market value as adjusted for influencing factors.

Development Experience of Purchaser

Kristina Oman has extensive background in rehabilitation projects. The most recent project completed is located at 100 West Franklin Avenue in Minneapolis named the Semple Mansion. The mansion's historic rehabilitation was completed within eight months of purchase and the lease spaces are 100% leased. The Semple Mansion provides wedding and reception space in the third floor Palladian Ballroom that received an award in 2007 from Minnesota Bride Magazine for the best reception venue. The reception space is booked through 2010. Additional experience with the rehabilitation of existing buildings includes the

Uptown Wellness Center (2920 Bryant South), Art Spot (2609 Aldrich South), Northwind Warehouse (2400 2nd Street NE), and Opening Night Building (2836 Lyndale Avenue South). The vacancy rate in these buildings is minimal to none.

Factors Influencing Fair Market Value

Appraisal work completed in 2009 for this property through a City contract with Nicollet Partners. The appraiser reviewed this property for sale "as is" and determined that it was encumbered by several factors:

- The estimate for abatement of the building (asbestos, lead based paint, tar and mold) is \$200,000.
- Drainage issues require a re-grading, including the re-grading of portions of City-owned land adjacent to this purchase site. Extraordinary drainage issues include groundwater seeping up through the basement; surface runoff from outside the site draining towards the building; undersized downstream piping system causing sewer backup and lack of storm sewer infrastructure in Marshall. Costs to treat drainage issues exceed \$400,000.
- Limited availability of on-site parking presents challenges in the marketing of the commercial lease property.

Information factored into the fair market value by the appraiser includes information gleaned from various reports:

- Loucks Associates prepared a drainage plan to address the water infiltration issues in 2008.
- Groundwater & Environmental Services, Inc. prepared, in 2006 Asbestos and Hazard Survey Report of 2006 as well as the cost estimates for abatement.
- R.J. Rykken Consulting provided a Summary of Environmental Investigations for the site in 2006.

Requirements of Sale Specific to Site

The City Planning Commission will need to approve the replat, land use and rezoning applications for this project before sale.

The Department of Public Works requires the sale be contingent upon a Rainleader Disconnect Plan that receives final Project Design Review approval. The roof drains would be disconnected before 2010 and discharge onto grade. The sanitary manhole located on the north side of the building will be fitted with a solid cover and set at the same elevation as the surrounding parking area. Window well drains that receive storm water will be allowed to remain connected to the sanitary sewer but the Purchaser is subject to a treatment charge (estimated at \$57 in 2009) and a permit fee of \$25 every three years. Drainage cannot flow over public sidewalk areas and a drainage and access easement must be provided to Purchaser by the City of Minneapolis (plat shows the easement area).

One issue with a sanitary sewer disconnection plan is that there is not a readily available storm sewer for connection. The closest storm water connection runs along 13th Avenue NE and is 189.05 feet away from the northernmost boundary of the sale parcel. In order to connect to the storm sewer in 13th Avenue NE, the developer would need to dig up the sidewalk or dig a trench across Outlot A and resolve elevation differences. The installation of storm sewer would unduly burden this development project. In recognition of this, Public Works is willing to allow for the Rainleader Disconnect Plan as outlined in the preceding paragraph so long as the plat delineates the drainage easement the City has agreed to provide to the Purchaser. Also Public Works requires that CPED agrees that Storm water Best Management Practices will be implemented and storm water issues be remedied when the anticipated housing development occurs on the adjacent vacant Grain Belt land.

The Purchaser will rehabilitate the historic Office Building for an estimated total development cost of \$2,250,094.45. Construction will commence within 30 days of closing for completion within a year's time. The rainleader disconnect will occur in 2009.

Property will not be sold until full project financing is in place.

Enclosures: Aerial Map pdf and Survey pdf

Authorizing sale of land Grain Belt Brewery Redevelopment Project Disposition Parcel No
GB 2 & 3A.

Whereas, the City of Minneapolis, hereinafter known as the City, has received an offer to purchase and develop Disposition Parcel GB 2 & 3A in the Grain Belt Brewery Redevelopment Project, from Kristina Oman or an affiliated limited liability company, hereinafter known as the Redeveloper, the Parcel(s) GB 2 & 3A, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

LEGAL DESCRIPTION

GB 2 & 3A: 1215 Marshall St NE (part)

Lot 1, Block 1, Minneapolis Brewing Company Addition.

An easement for driveway purposes over and across that part of Outlot A, Minneapolis Brewing Company Addition, according to the recorded plate thereof, Hennepin County, Minnesota, being a 22.00 foot wide strip of land, the southeasterly line of which is described as follows:

Beginning at the most westerly corner of Lot 1, Block 1, said Minneapolis Brewing Company Addition; thence northeasterly along the northwesterly line of said Lot 1 to the most northerly corner of said Lot 1 and there terminating.

Whereas, the Redeveloper has offered to pay the sum of \$1.00, for Parcel GB 2 & 3A; the offer includes a development plan and commitment to improve by rehabilitating the existing structure. This offer is in accordance with the 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 accepted methods of 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 Friday, April 17, 2009, a public hearing on the proposed sale was duly held on April 28, 2009, 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:

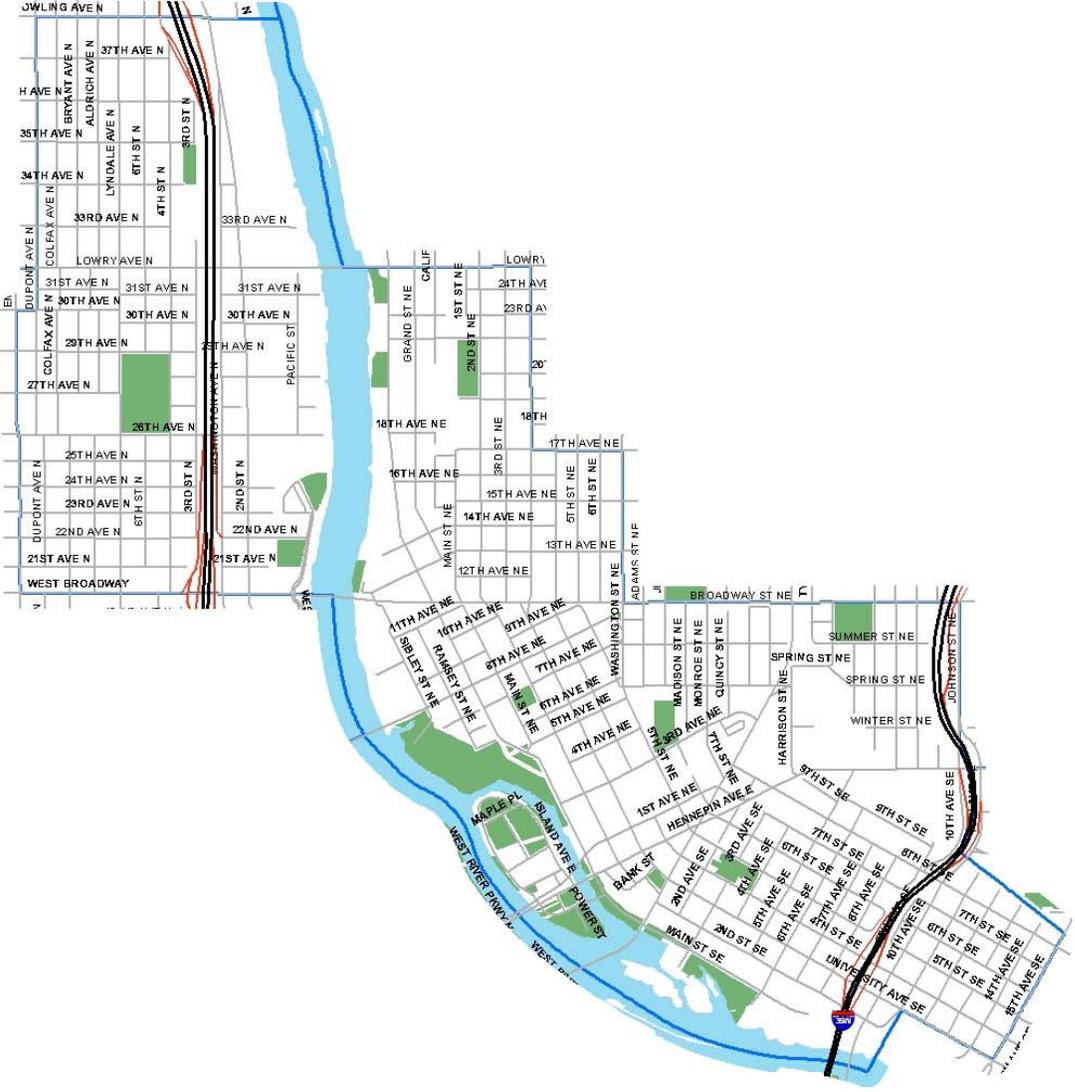
That the re-use value, for uses in accordance with the Grain Belt Brewery Redevelopment Project plan, as amended, is hereby estimated to be the sum of \$1.00, for Parcel GB 2 & 3A.

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 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 upon publication of this Resolution, 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 official of the City.

WARD 3



0 0.25 0.5 Miles

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TOTAL ACQUISITION COSTS INCURRED BY CPED ATTRIBUTABLE TO THE FOLLOWING PROPERTY:

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Disposition Parcel No. Acq Date	Address	Total CPED Costs	Less Sales Price	Write Off
GB 2 & 3A	1215 Marshall Street NE (part)	\$64,297*	(-) \$1.00	-\$64,296

* The \$64,297 is a prorated portion of the total acquisition price of \$4.8 million cost to purchase the 14 acre complex including the Brew House, Warehouse, Warehouse Additions, Bottling House, Bottling House Addition, Boiler House, Wagon Shed, Shops, Stockhouse, Caswell Building and land.

Re-Use Value Opinion	Less Sales Price	Write-Down
\$1.00	\$1.00	\$0

Write-Down
 Not applicable

Developer History with CPED:

Kristina Oman has no development history with CPED, but has extensive background in rehabilitation projects. DJR Architecture, Inc. is preparing the design plans for the project and, has many years of experience in the field and has successfully designed projects within the City.

Developer Information:

- Single Individual(s)
- Married Individual(s)
- Limited Liability Partnership of the State of Minnesota
- Limited Liability Company of the State of Minnesota
- Corporation of the State of Minnesota
- Nonprofit Corporation of the State of Minnesota
- Other