

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

**Date:** May 12, 2009

**To:** Council Member Lisa Goodman, Chair, Community Development Committee  
**Referred to:** Council Member Paul Ostrow, Chair, Ways and Means Committee

**Subject:** Great Streets Gap Financing Loan of \$450,000 to Catalyst Community Partners for redevelopment of an existing building at 1200 West Broadway; adoption of multi-jurisdictional funding resolution at the request of Hennepin County.

### **Recommendation:**

Authorize a \$450,000 Great Streets Gap Financing Loan to Catalyst Community Partners for redevelopment of the property at 1200 West Broadway and authorize the appropriate City staff to execute the loan agreement and any related documents;  
Recommend adoption of multi-jurisdictional funding resolution at the request of Hennepin County.

**Previous Directives:** April 27, 2007, the City Council created the Great Streets program, including gap financing for catalytic commercial real estate development offered on an ongoing basis through an online application form.

### **Department Information**

Prepared by: Kelly Hoffman, Senior Project Coordinator (612-673-5079)

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. Action is within the Business Plan.

### **Community Impact**

- Neighborhood Notification: Jordan Area Community Council was made aware of the project in 2008. Catalyst Community Partners along with developer The Ackerberg Group have met with West Broadway Business and Area Coalition about the project.
- 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.
- 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 Community Partners (Catalyst) has applied for a Great Streets Gap Financing Loan of \$450,000 (total project costs estimated at \$2,032,831) for a project on West Broadway. Catalyst purchased the three interconnected buildings located at 1200 West Broadway, currently vacant and blighted. This property will be redeveloped as retail and office space. Sources of funding, other than the Great Streets gap financing, include private financing from Bremer Bank, a 2% loan from the City, subordinated seller financing, and developer equity.

### **Project Summary**

- Applicant for City Financial Assistance: Catalyst Community Partners
- Loan Request: \$450,000 Great Streets Gap Financing; Ten (10) year term, amortized over twenty (20) 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: 1200 West Broadway, Ward 5. Catalyst Community Partners owns the building.
- Non-public Lender: Bremer Bank
- Use of Funds: Rehab of a currently vacant and blighted property on West Broadway. These three interconnected buildings will be renovated for office and retail use.

### **Project Summary**

The site includes two parcels. Parcel one is a two story vacant commercial structure located at 1200 West Broadway. The building is approximately 12,000 square feet with a footprint of approximately 106' x 80'. It was built in 1902, and the total property size is about 16,455 square feet. Parcel two is an approximately 12,100 square foot parking lot located behind the building.

This project includes the renovation of three interconnected commercial buildings. The largest of the three is a two story structure on the corner of Fremont and Broadway. It was originally constructed as a four-plex in 1902. The property was expanded to become a mortuary in 1926 and expanded numerous times over the years. Most recently, a day care operated in all three buildings. In 2006, the property became vacant and went through foreclosure proceedings. It was then purchased by Catalyst Community Partners.

The Ackerberg Group, working on behalf of owner Catalyst Community Partners, will renovate the building into office space and three commercial storefronts that may house retailers, a community meeting room, and a shared commercial kitchen. The renovation will include new ADA accessible bathrooms, the addition of a vertical lift, mold and asbestos remediation, an upgraded building lobby, significant façade improvements, and new tenant spaces and common areas. The 23 stall parking lot will have an infiltration pond that treats run-off on site.

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.

### **Tenants**

The developer assumes the building will be fully leased when construction is complete. Currently, approximately 28% of the commercial square footage leased and Catalyst is in

active discussions with several potential tenants. Catalyst has signed leases with:

- Northway Community Trust, a community based non-profit organization focused on improving the quality of life in North Minneapolis.
- The Alden Group, a grocery product marketing and distribution company.
- Tri Construction, a North Minneapolis based building contractor.
- The Pohlada Family Foundation.
- Law firm Gray Plant Mooty who will occupy of portion of the space and operate a pro-bono legal clinic for North Minneapolis.
- Catalyst Community Partners will also office in the building.

In partnership with the Pohlada Family Foundation, Catalyst Community Partners, will operate an "incubator" commercial kitchen utilizing approximately 1,600 square feet. This space would include several complete commercial kitchens which could be rented on an hourly basis to existing or future caterers, food product innovators, and others in need of quality commercial kitchen space. Next to the kitchen would be a meeting space that could be used for community meetings or special events such as wedding receptions.

### **Company/Borrower**

Catalyst Community Partners (Catalyst) 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. The Ackerberg Group brings over 40 years of experience and has 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. It is now home to Emerge Community Development, the City-County Federal Credit Union, and the Bean Scene Too coffee shop. The same team is redeveloping the Delisi building (corner of Penn and West Broadway). In February 2009, the City Council authorized the sale of this building and approved terms of a Redevelopment Contract. The Ackerberg Group/Catalyst team has completed a variety of residential and commercial projects.

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

### **Financing Overview**

The financial package for this project includes Bremer Bank financing, the Great Streets Gap Financing, 2% Loan from the City, and an equity contribution from Catalyst. The funding sources total \$2,033,831 with total City participation of \$525,000 or approximately 26%.

- 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 (20) years. The interest rate is fixed at 3.25% (current Prime rate).

The interest-only payments provide some cushion in the event that lease up takes longer than anticipated or there are unexpected additional costs. The interest only payments will be paid by excess cash flow from Catalyst Unity LLC (single asset entity), the owner of a fully leased property at 2507 Fremont Avenue North. The tenant is Minnesota Internship Center and their lease runs through 2012. Financial statements show strong positive cash flow.

- 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.

- The Bremer Bank loan of \$925,000 has a 4.33% (fixed) interest rate, ten (10) year term, and is amortized over twenty-five (25) years.
- Hennepin County grant (pending) of \$120,000 currently under consideration by County staff, likely to be considered by the Hennepin County Housing and Redevelopment Authority Board in early June. If this is not received, the Developer will seek additional equity investment.
- An equity contribution of \$277,356 from the Developer.

Catalyst also has a loan from the Nonprofits Assistance Fund (NAF), the previous owner of the building. Catalyst Unity (another Catalyst owned asset) pays the debt service on this loan. This loan has a current balance of \$355,475 has a five (5) year term with a twenty-five (25) year amortization schedule.

The Bremer Bank loan, 2% loan, and Gap Financing loan will all have a balloon payment and will be refinanced in year ten.

**Table 1: Sources and Uses**

Sources		%	Uses	
<i>Debt:</i>			Acquisition	\$355,475
Bremer Bank	\$925,000	45.5	Construction*	\$1,097,600
City of Minneapolis- 2%	\$75,000	3.69	Land Carry	\$81,496
City of Minneapolis - Gap	\$450,000	22.11	Asbestos	\$148,000
<i>Equity:</i>			Tenant Improvements	\$109,760
NAF Loan (seller note)	\$355,475	17.49	Architectural	\$51,185
Hennepin County Grant (pending)	\$120,000	5.9	Inspection	\$1,250
Additional Equity	\$107,356	5.3	RE taxes pd at close	\$533
Total	\$2,032,831	100	Bremer Finance Fee	\$6,250
			City 2% Finance Fee	\$250
			Development Fee	\$63,923
			Leasing Commission	\$32,928
			Mortgage Registration Tax	\$3,335
			Title Insurance	\$2,253
			Misc Closing Costs	\$7,942
			Legal	\$20,705
			Interest	\$34,311
			RE Taxes (1st half pd at close)	\$1,076
			Environmental Reports	\$12,241
			Financing Down Payment	-\$9,641

			Soft Cost Contingency	\$11,959
			Total Project Cost	\$2,032,831

\*For the purposes of this project, the NAF loan is considered equity. The payments on this loan are paid by cash flow from another project.

### **Loan Security**

Bremer Bank and the City's 2% loan will be secured by a first mortgage and the NAF loan is subordinate and secured by a second mortgage. The interest only payments (first two years) on the Great Streets loan will be paid by Catalyst Unity (a Catalyst owned asset with positive cash flow). Stuart Ackerberg will personally guarantee the principal of the Great Streets loan until the NAF loan is satisfied. If Catalyst defaults on their loan, the City is able to pursue repayment from Stuart Ackerberg. If Catalyst defaults on the Bremer Bank or 2% loan, repayment would be sought from the sales proceeds, after foreclosure action. Once the NAF loan is satisfied, the loan guarantee would be released and the Great Streets loan would be secured by a second mortgage on the property.

### **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.

### **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 \$1,000,000.
- Support of local businesses: these employees will shop in the surrounding community will help support local businesses.
- Job creation: this project will create an estimated 20,000+ construction man hours and 80 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, currently lacking on West Broadway

### **Multi-jurisdictional Funding Resolution**

Catalyst has also requested a grant from Hennepin County Department of Housing, Community Works, and Transit and County staff has recently identified funding that may be available to this North Minneapolis project. A County staff recommendation to approve \$120,000 to the project is expected to be presented to Hennepin County Housing and Redevelopment Authority Board in early June. Hennepin County has requested that the City of Minneapolis adopt a Multi-jurisdictional funding resolution for the project in order to enable the project to be eligible for Hennepin County funds. Approval of the resolution will also enable authorized City staff to execute a cooperation agreement for the 1200 West Broadway Project with Hennepin County if the County funding for the project is approved.

### **Attachments**

10-Year Cash Flow Projection  
1200 West Broadway Elevation