



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

Date: June 19, 2007
To: Council Member Lisa Goodman, Community Development Comm.
Subject: Authority to negotiate redevelopment agreement for City owned real property at the 2119 West Broadway Avenue Project Site with the development team of The Ackerberg Group, the Center for Communication and Development/KMOJ Radio, Collaborative Design Group and Welsh Companies.

Recommendation: (1) Authorize appropriate staff to negotiate the terms of a redevelopment agreement and a land sale for City owned real property at the 2119 West Broadway Avenue Project Site (as defined in the report) with development team of The Ackerberg Group, the Center for Communication and Development/KMOJ Radio, Collaborative Design Group and Welsh Companies, all Minnesota corporations. (2) Direct staff to establish productive negotiations and completed terms within six months of final approval of this action.

Previous Directives: 1) On October 1, 1999, the City Council authorized staff to acquire the property at 2119 West Broadway and 2312 Penn Avenues (along with a number of other properties) from the Hennepin County tax forfeiture list. 2) On April 27, 2007, the City Council authorized staff to apply to the Metropolitan Council Livable Communities Act Tax Base Revitalization Account Grant Program for asbestos abatement within the building located at 2119 West Broadway Avenue.

Prepared by:
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Approved by:
Charles T. Lutz, Deputy Director CPED _____
Mike Christenson, Dir. Economic Policy & Development _____

Presenter in Committee: Kristin Guild

Financial Impact

No financial impact
 Action is within the Business Plan

Community Impact

Neighborhood Notification – Staff worked with the Northside Residents Redevelopment Council (NRRC), Jordan Area Community Council (JACC), Hawthorne Area Community Council (HACC) and the West Broadway Business and Area Coalition (WBBAC) on preparation of the Request for Proposals and held a public meeting for development goals 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 have both reviewed the proposal.

City Goals – A safe place to call home, One Minneapolis, Connected communities, Enriched Environment, Premier destination.

Sustainability Targets – Economically vibrant neighborhood commercial districts create attractive urban neighborhoods for infill development, support efficient growth, and reduce the need for car travel to obtain necessary goods and services; The Ackerberg Group proposes incorporating a number of sustainability measures into the redevelopment: reusing the existing building, incorporating on-site stormwater management techniques including rain gardens and permeable pavers and utilizing water efficient fixtures, high efficient HVAC equipment, low- and no-VOC paints, and regional and recycled content whenever possible. Daylighting will be accomplished through multiple strategies including the renovation of the existing skylights and new openings along the west facing façade of the building.

Comprehensive Plan - 4.1 Minneapolis will encourage reinvestment along major urban corridors as a way of promoting growth in all neighborhoods, and 4.3 Minneapolis will support development in Commercial Corridors where it enhances the street’s character, improves its ability to accommodate automobile traffic and foster pedestrian movement, and expands the range of goods and services offered.

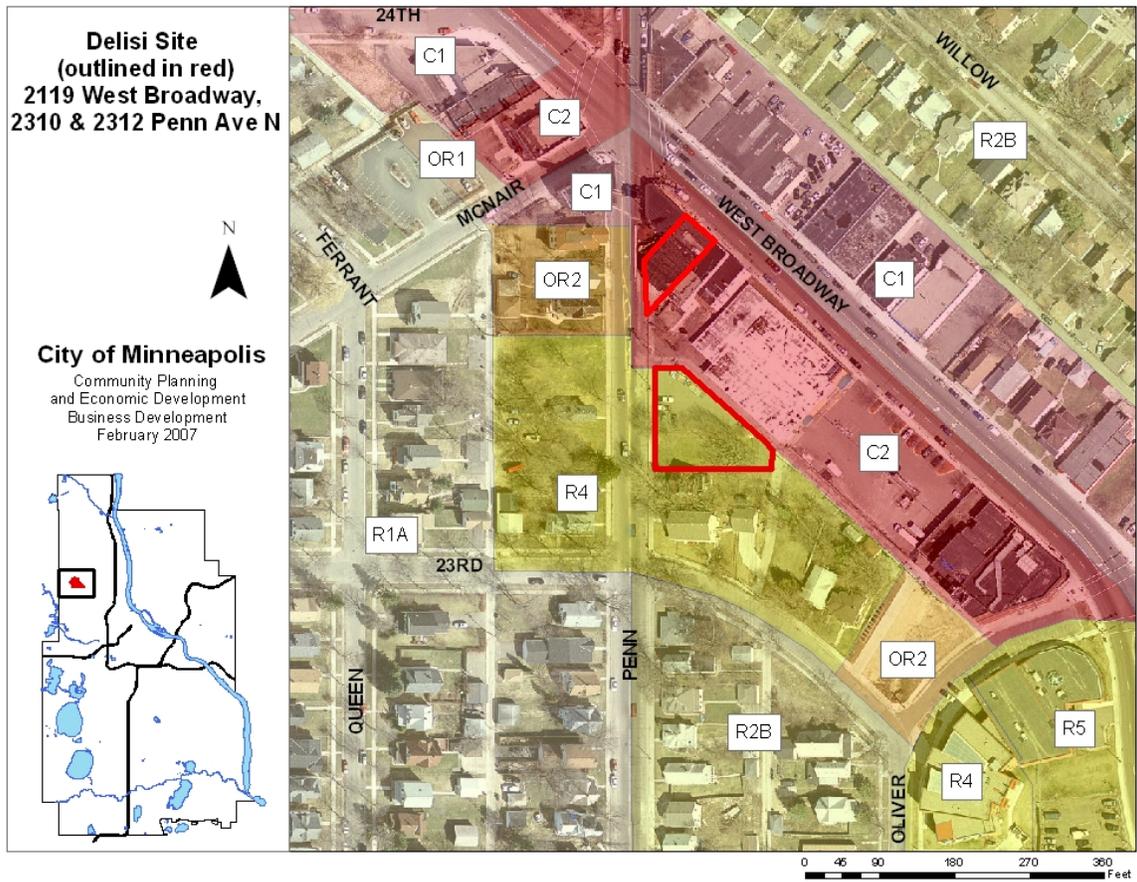
Zoning Code – The three-parcel site is zoned C2/Pedestrian Overlay and R4. A rezoning will be required of the two parcels zoned R4.

Living Wage/Business Subsidy Agreement	Yes _____	No <u> X </u>
Job Linkage	Yes _____	No <u> X </u>

Supporting Information

The redevelopment site is comprised of three tax parcels (see map p. 3) located on the southeast corner of Penn and West Broadway avenues North. Located at 2119 West Broadway is a two-story, 16,030 square foot structure with a building footprint of 5,138 square feet (see photos p. 4). 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. 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).



Street Address	Property Identification Number	Size (sq.ft.)	Zoning
2119 West Broadway	16-029-24-22-0181	7,438	C2/Pedestrian-oriented overlay
2310 Penn Ave N	16-029-24-22-0186	5,391	R4
2312 Penn Ave N	16-029-24-22-0185	6,467	R4



The City issued a [Request for Proposals](#) (RFP) for disposition for redevelopment on February 16, 2007. The RFP drew heavily upon public comments at a meeting on development goals for the site, as well as on recent planning documents for the area and ongoing discussions about development that are part of the West Broadway Alive! planning process. These recent planning documents include the 2005 Corridor Housing Initiative effort at Penn and West Broadway and the 2006 Hennepin County Penn-West Broadway Transit Oriented Development Study. Planning staff reviewed the RFP before it was issued.

The primary development goal for the properties articulated in the RFP is the reactivation of the southeast corner of Penn and West Broadway with neighborhood-oriented, pedestrian-scale mixed commercial, retail and office uses. The RFP was receptive to proposals for renovation of the existing structure as well as for demolition and redevelopment, with weight given to projects that demonstrate financial feasibility and project readiness. Community desires for the site, articulated during the public meeting and incorporated into a section of the RFP, included community-serving and –based uses, arts uses, a full-service restaurant, a youth-serving business, for-profit businesses and a home for KMOJ radio.

CPED staff notified all neighborhood and community organizations in North Minneapolis about the RFP issuance, as well as a list serve of 579 developers, broadcast and print media and commercial real estate brokers. The proposal deadline and City staff contact information were publicized in a sign mounted on the side of the building. Staff held a developer walk-through of the building on March 8, 2007 and a pre-proposal conference on March 13, 2007. Proposals were due April 17, 2007.

The City received one responsive proposal to the RFP from a team comprised of The Ackerberg Group, the Center for Communication and Development/KMOJ Radio, Collaborative Design Group and Welsh Companies. The [proposal](#) is consistent with the goal of reactivating the property and bringing a prominent, community-oriented cultural use to the intersection. A staff team with representatives of the divisions of CPED, Development Finance, Public Works, the City Council, the Empowerment Zone, MetroTransit and Hennepin County Community Works evaluated the proposal for responsiveness to the RFP.

The Ackerberg Group proposes rehabilitating the existing building for radio station, office and retail/restaurant uses in partnership with the Center for Communication and Development/KMOJ Radio which would be an equity partner in the redevelopment and occupy the entire second floor. The remaining space on the ground floor and basement is for unknown retail, restaurant or arts uses. The lots fronting on Penn Avenue would be redeveloped for surface parking with landscaping. The proposal illustrates a possible shared transit/pedestrian/café plaza on an adjacent MetroTransit-owned parcel.

In addition to fully restoring and reactivating the building, The Ackerberg Group proposes incorporating a number of sustainability measures into the redevelopment. These measures include incorporating on-site stormwater management techniques including rain gardens and permeable pavers in the parking lot. The group proposes utilizing water-efficient fixtures, efficient HVAC equipment, low and no- VOC paints, and regionally-sourced and recycled building materials. Daylighting would be accomplished

through multiple strategies including the renovation of the existing skylights and new openings along the west facing façade of the building.

The Ackerberg Group proposes financing the redevelopment through the use of equity and debt (including possible City loans). The total development cost is expected to be \$2,352,443. Seventy-two percent of the financing (\$1,689,333) would be in the form of a first mortgage. The remainder, as proposed, would be from developer equity (25%, \$588,111) and The Ackerberg Group would apply for a City matching loan through the 2% Commercial Corridor/Node Loan Program (3%, \$75,000).

As the cash on cash rate of return to that proposed equity investment would be 0.97% (typically, developers seek a cash on cash return of 15-20%), The Ackerberg Group submitted an alternate financing scenario with a \$300,000 investment from an unnamed outside funding source, which would reduce the developer equity investment to \$288,110 and increase the cash on cash rate of return to 1.98%. This \$300,000 could be KMOJ's equity investment, possibly through grant funds, which that organization is exploring. It could be partially fulfilled through tax credits for historic building restoration. The building is not eligible for listing on the National Register and therefore not eligible for a 20% historic preservation tax credit, but it should be eligible for a 10% tax credit for renovations of buildings constructed before 1936, yielding a tax benefit of approximately \$220,000. There is also a possibility that the private market rate loan could be supplemented with a loan with favorable terms from the City or other entities, reducing the debt service and increasing the margins to a more comfortable level. The Ackerberg Group proposes purchasing the building for \$25,000, less than the established Fair Market Value of \$109,400; the Fair Market Value assumes redevelopment of the property rather than rehabilitation.

Sources	Type	Amount	% of Sources	
DEBT	1 st Mortgage	Private	\$1,689,333	72%
	2 nd Mortgage	City	\$75,000	3%
EQUITY	Developer Equity	Private	\$588,110	25%
DEVELOPMENT				
TOTAL COST			\$2,352,443	100%

Uses

Hard Costs	
Site Acquisition	\$25,000
Building Shell	\$1,884,300
Tenant Improvements	\$93,200
Total Hard Costs	\$2,002,500
Soft Costs	
Finance Fee (1%)	\$17,643
Development Fee (5%)	\$98,875
Leasing Commission (\$2)	\$17,130
Closing Costs	\$11,263
Legal	\$10,000

Land Carrying Costs	\$5,000
Environmental	\$7,500
Construction Period Interest	\$35,532
Insurance	\$5,000
City Applications	\$5,000
Civil Engineering	\$7,000
Art	\$10,000
Architectural	\$70,000
Contingency	\$50,000
Total Soft Costs	\$349,943
Total Uses	\$2,352,443

Evaluation of the proposal was based upon the criteria given on page 14 of the [RFP](#) and the redevelopment goals listed starting on page 9.

Staff completed the evaluation and review of the proposal in a four-step process: staff team review, public review, community review (including representatives from adjacent neighborhoods and the business community), and official neighborhood review.

An internal staff team with representatives from the housing, planning and economic development divisions of CPED, Development Finance, Public Works, the City Council, the Empowerment Zone, MetroTransit and Hennepin County Community Works evaluated the proposal for completeness.

Staff released the proposal for public review via the [project website](#) on April 30, 2007. On April 25, 2007, staff alerted the neighborhoods (NRRC, JACC and HACC) and the business association (WBBAC) that the proposal would shortly be available for review and announced a public meeting to discuss the proposal held on May 16, 2007.

Following the public meeting, staff convened a neighborhood review team, comprised of representatives from each of the surrounding neighborhoods (Willard-Hay, Near North, Jordan and Hawthorne) and the West Broadway Business and Area Coalition.

Finally, staff reviewed the proposal with NRRC's Residential Commercial Task Force and full board.

At all phases of review, the proposal received an enthusiastic and unanimous endorsement.

The Ackerberg Group (TAG) and its identified partners meet the criteria for selection:

1. Experience and the financial and organizational capacity of the developer in successfully planning and completing development projects of similar type and scale, on time and within budget
2. Extent to which the proposed development is in compliance with the Minneapolis Zoning Code, comprehensive plan, redevelopment goals of this document and other relevant planning documents for the area
3. Extent to which the project can move forward on a timetable that coordinates with other development in the area
4. Market and financial feasibility of the project
5. Anticipated ability of the project to secure necessary public and private funds

6. Public benefits provided by the project, including the proposed land price and return of the building to property tax rolls
7. Overall quality of the submission
8. Review of related previous experience

The Ackerberg Group team has extensive experience with redeveloping other similar buildings including the award-winning 1101 West Broadway Building (TAG and Welsh), the Rainbow Building (TAG), the Romy Building (TAG) and the Lyn-Lake Building (TAG) all in Uptown, the Midtown Exchange building (Collaborative Design Group – CDG) and Plaza Verde (CDG) on Lake Street and the Blair House (CDG) in St. Paul. The Ackerberg Group has a history of successfully securing traditional private partners, managing buildings for long-term vitality, and attracting tenants to urban buildings.

KMOJ Radio is an institution with over thirty years of roots in North Minneapolis as a voice of the Black community. On-air programming is just one piece of KMOJ. Its parent organization, the Center for Communication and Development, has a mission of providing training in broadcast media. The new location at Penn and West Broadway would allow an expansion of the Center's education and outreach programs. The proposed shared ownership agreement would allow the Center for Communication and Development/KMOJ to achieve a major organizational goal of building equity and ensuring greater stability than lease arrangements.

The proposal meets a number of the both general and specific development goals articulated in the RFP including:

- Increase diversity of products and services in North Minneapolis
- Create a strong relationship to streets – West Broadway, Penn, and intersection
- Incorporate BRT transit station into designs for Penn intersection façade
- Respect and enhance the character of West Broadway
- Improve this gateway to the city
- Create a destination

With KMOJ's presence as a destination-making occupant/owner, The Ackerberg Group team has 50% of the building effectively pre-leased and a powerful draw for ground-floor tenants on this prominent corner.

While the proposal has narrow margins as shown in the pro-forma, staff believes that additional methods to attracting equity investments and favorable term sources can be pursued in the negotiation phase. Staff recommends that negotiations should take no longer than six months to establish terms.