



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

Date: April 22, 2008

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

Subject: Locus Architecture Ltd. Development of 1401 Central Avenue NE:
Amendment of Building Size and Related Development Timeline Extension

Recommendation: Authorize modifications to the redevelopment contract to reduce the minimum improvements to 5,000 square feet and extend the project timelines to start construction by July 15, 2008 and complete construction by May 1, 2009 contingent on the conditions described in this report. Authorize the preparation and execution of the necessary contract amendment.

Previous Directives: On October 7, 2005, the City Council adopted Modification No. 5 to the Central Avenue Redevelopment Plan changing the acquisition and land use plans to accommodate this development. On March 10, 2006, the City Council approved the land sale and development terms and authorized contract execution. On September 21, 2007, the City Council approved an extension of the construction start to occur by May 1, 2008 with completion by December 31, 2008.

Prepared by: Sharrin Miller-Bassi, Senior Project Coordinator, 673-5019
Approved by: Catherine A. Polasky, Economic Policy and Development Director

Approved by: Charles T. Lutz, Deputy Director CPED _____
Presenter in Committee: Sharrin Miller-Bassi

Financial Impact

No financial impact

Community Impact

Neighborhood Notification: The Northeast Park Neighborhood Association has been notified of the change.

City Goals: Enriched Environment and a Premier Destination and Connected Communities

Sustainability Targets: The developer plans to use sustainable technologies to include solar power, heat recovery, radiant heating, and storm water management.

Comprehensive Plan: The land sale was determined consistent with the Comprehensive Plan by the Planning Commission on July 20, 2005. The developer is continuing to work through the site plan and land use application process with Planning on a parallel path.

Living Wage/Business Subsidy Agreement: Yes _____ No

Job Linkage: Yes _____ No

Supporting Information

On May 31, 2006, CPED closed on the pass-through sale of 1401 Central Avenue NE to Locus Architecture Ltd. (Locus) for the Fair Market Value of \$107,000 plus an administrative fee of \$10,700 and a good faith deposit of \$12,228.23. Locus purchased the site to develop Red Square a four story signature sustainable commercial building to serve as the company's headquarters and provide space for additional commercial tenants. The site had been in the Hennepin County tax forfeit land inventory since 1993. CPED's role was to facilitate the pass-through land sale from Hennepin County. The sale was closed without project financing in place in order to lock in the purchase price.

Locus' contractual obligation as set forth in the redevelopment contract is to develop minimum improvements of 20,000 square feet, with construction to begin by May 31, 2008 and to be completed by December 31, 2008. They planned to do more. The original Red Square concept was to construct over 40,000 square feet with architectural and sustainable features aligned with the City's goal to promote a sustainable Minneapolis and the Northeast Arts District. Although Locus has marketed the space independently since mid 2006 and with the assistance of Welsh Company since early 2007 they have been unable to sell or lease 50% of the facility as needed to secure construction financing for the project. Factors contributing to the difficulty in marketing the project include the slow real estate market, the lack of a finished product to market from and the price for a quality sustainable product with the proposed aesthetic features at this time in this location.

Locus remains committed to developing Red Square as a high quality office building with architectural and sustainable design features including super insulation, solar power on the roof, heat recovery ventilation and radiant heating equal to the original concept. They are also seeking approval of a new concept, operable thermal doors as part of a passive heating and cooling system. In order to move ahead with the project Locus is requesting reduction of the minimum improvements requirement of the redevelopment contract to 5,000 square feet. If a contract amendment were authorized, Locus would develop a one-story-with-mezzanine commercial building at the NE corner of Central Avenue NE and 14th Street NE. The development plan includes nine parking spaces for vehicles, twelve parking spaces for bicycles and landscaping. In the storm water management plan Locus is considering site water retention strategies for passive irrigation and best management practices. Given favorable market conditions in the future, Locus plans to expand on the site with more office space and retail. They are keeping both vertical and horizontal future expansion options in mind by including the necessary foundations and structural supports now with the initial development. A preliminary site plan pending approval is attached.

Locus has indicated that the reduced size would facilitate their efforts by allowing them to obtain construction financing and move ahead with the project without a pre-sale or pre-lease requirement. Locus would occupy approximately 1,700 square feet and the remaining 3,300 square feet would be leased to other office or retail tenants. The construction cost is estimated at \$583,000 and Total Project Cost at \$700,000. At the reduced size, Locus is able to satisfy the equity requirement with the \$200,000 current land value alone. People's Bank in Edina has indicated their intent to provide

construction financing of up to \$600,000 as well as permanent financing for the project. The bank's loan proposal does not include the pre-lease requirement which had been a major barrier to funding the original, larger project. City Finance Department staff has indicated that Locus has sufficient financial strength to complete the project as currently proposed.

Locus has also requested an extension of the project timeline to require a construction start by July 15, 2008, and completion by May 1, 2009 to allow time to obtain necessary approvals and permits for the revised project.

Staff recommends that the contract amendments include an incentive to Locus to complete an additional 15,000 sq. feet by May 2012 by requiring Locus to forego their original good faith deposit of \$12,228.23 plus an additional payment into escrow of \$12,761.77 for a total of \$25,000 if the additional construction is not complete by that time. Provision for future expansion is to be included in both the site plan and the building design.

Staff recommends that the City Council authorize preparation and execution of a modification to the redevelopment contract to reduce the minimum improvements from 20,000 square feet to 5,000 square feet and extend the construction start deadline from May 1, 2008 to July 15, 2008 and the construction completion deadline from December 1, 2008 to May 1, 2009 pursuant to the conditions described in this report pending Locus' additional escrow payment.

Attachments