



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

**Date:** December 11, 2007  
**To:** Council Member Lisa Goodman, Community Development Committee  
**Subject:** Land Sale Public Hearing  
Delisi Building redevelopment project

**Recommendation:** (1) Approve the sale of City-owned real property at 2119 West Broadway, 2310 Penn Avenue N and 2312 Penn Avenue North to Five Points, LLC for \$25,000; 2) Approve the attached term sheet as a basis for a redevelopment contract.

**Previous Directives:** 1) 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. 2) 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. 3) 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.

Prepared by:  
Kristin Guild, Principal Project Coordinator, CPED phone: 612-673-5168

Approved by:  
Charles T. Lutz, Deputy Director CPED \_\_\_\_\_

Presenter in Committee: Kristin Guild

### Financial Impact

- Other financial impact: Eliminate project management costs
- Action is within the Business Plan



is complete, whichever is later. This requirement will be included in the redevelopment contract.

## Supporting Information

<u>Parcel</u>	<u>Address</u>	<u>Combined Sale Price</u>
TF-546	2119 West Broadway Avenue	\$25,000
TF-142	2310 Penn Avenue North	
TF-547	2312 Penn Avenue North	

### Purchaser

Five Points, LLC  
3033 Excelsior Boulevard, Suite 10  
Minneapolis, MN 55416

### Site Description and Development Proposal

The redevelopment site is comprised of three tax forfeited parcels 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. 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 and across an alley from the building parcel. One is a paved parking lot and the second is a vacant parcel; both are zoned for residential use (R4).

The Purchaser proposes to rehabilitate the existing structure at 2119 West Broadway for a radio station and retail/restaurant uses. The Center for Communication and Development/KMOJ Radio, intends to occupy the second floor of the building with studio and office space. The ground floor will house an unknown restaurant/retail tenant. The Penn Avenue parcels, 2310 and 2312 Penn Avenue North, will be developed into a parking lot with 23 parking spaces.

### FINANCING:

The Purchaser proposes financing the redevelopment through the use of equity, debt, and tenant improvement contributions. The total development cost is expected to be \$2,133,029 plus tenant improvements; 70 percent of the financing (\$1,489,146) would be secured by a first mortgage on the property. The Purchaser plans to apply for a 2% loan from the City in the amount of \$75,000 (4 percent of total development cost). The remaining financing is developer equity (\$521,382 or 24 percent of total development cost). Development partner Center for Communications Development/KMOJ is expected to invest approximately \$300,000 in improvements in addition to total development cost. The Purchaser has offered \$25,000 for the project site, which would require a write down of \$40,800 from the established fair reuse value of \$65,800.

Purchaser Sources		Type	Amount	% of Sources
<b>DEBT</b>	Mortgage	Private	\$1,489,146	70%
<b>DEBT</b>	2 <sup>nd</sup> Mortgage	City 2% loan program*	\$75,000	4%
<b>EQUITY</b>	Developer Equity	Private	\$521,382	24%
<b>GRANT</b>	TBRA	Metropolitan Council	\$47,500	2%

**TOTAL DEVELOPMENT COST\*\* \$2,133,029 100%**

\* Subject to application and underwriting requirements.

\*\* Plus tenant improvements

**Uses**

<b>Hard Costs</b>	
Site Acquisition	\$25,000
Construction costs	1,781,627
Contingency	\$50,000
	<b>\$1,856,627</b>
<b>Total Hard Costs</b>	
<b>Soft Costs</b>	
Finance Fee (0.5%)	\$7,821
Development Fee (5%)	\$89,081
Leasing Commission (\$2/sf)	\$18,340
Closing Costs	\$10,553
Legal	\$10,000
Land Carrying Costs	\$5,000
Environmental Remediation	\$7,500
Construction Period Interest	\$31,107
Insurance	\$5,000
City Applications	\$5,000
Civil Engineer	\$7,000
Art	\$10,000
Architectural	\$70,000
	<b>\$276,402</b>
<b>Total Soft Costs</b>	
	<b>\$2,133,029</b>
<b>Total Uses</b>	

**LAND DISPOSITION POLICY:**

With the exception of the 2119 West Broadway building parcel, these properties are buildable lots as defined by City policy and are being sold for development. 2119 West Broadway will be improved by rehabilitation as defined by City policy and is being sold for development. The property was acquired through tax forfeiture from the State of Minnesota and Hennepin County as a "spot renewal" property pursuant to Minnesota Statutes (Section 469.012, subdivision 7, as amended). The City has the authority to sell the property for private development in accordance with Minnesota Statutes (Sections 469.001-469.047,

469.124-469.134 and 469.174-469.179, as amended) and the Minneapolis Code of Ordinances (Title 16, Chapter 415).

### **OFFERING PROCEDURE:**

The City initiated developer selection for this project area through a Request for Proposals (RFP) in February of 2007. *The Minneapolis Plan*, Hennepin County's 2005 Penn/West Broadway Transit Oriented Development plan and community meetings informed the redevelopment goals for the property articulated in the RFP. The redevelopment goals focus on reactivating the corner of Penn and West Broadway Avenues with commercial activity. Uses identified in public meetings convened to discuss the redevelopment offering included a restaurant, arts uses, youth-oriented retail or service uses and community-oriented cultural organizations.

The RFP was neutral on whether the building should be rehabilitated or demolished, though the fair reuse value established on December 14, 2006 for the purpose of the offering (\$109,400) was based on an assumption of demolition and new construction, which the consulting appraiser believed to be the highest and best use of the property given the extensive structural improvements required. The fair reuse value was updated on July 16, 2007 to \$65,800 to reflect the costs associated with rehabilitating the building and changes in the real estate market.

The RFP was posted online and the information distributed to a list of nearly 600 developers. Eleven people attended the developer walk-through on March 8, 2007, and City staff showed the property to a few other interested parties unable to attend the walk-through.

One proposal was submitted in response to the RFP. A team led by The Ackerberg Group proposed studios for the Center for Communication and Development/KMOJ Radio on the second floor of the building and active ground floor retail or restaurant space. The Purchaser has offered \$25,000 for the property, \$40,800 less than the established fair reuse value.

### **STAFF RECOMMENDATION:**

Staff recommends selling the property to the Purchaser at the offered price, subject to a number of agreed to terms and conditions described in Attachment 1. Staff recommends writing down the purchase price \$40,800 for the following reasons:

#### Public purpose

This building is on a prominent corner, targeted by the City for revitalization. The City acquired the property from Hennepin County's tax forfeiture rolls in 2000. It has been a vacant, blighting influence on the corner for seven years. Approximately 27,000 vehicles pass by the property daily on either Penn or West Broadway Avenues. These 27,000 plus passersby now see a derelict structure, a symbol of blight and decay at this highly-visible location. The Purchaser proposes to restore and revitalize this building with active retail uses and studios for a community radio station, a 24-hour positive use and a powerful image of transformation.

#### Necessary for the financial viability of the redevelopment project

The costs to rehabilitate the building are high. A 2002 structural survey conducted by Buildings Consulting Group, Inc. under contract with the City estimated \$360,000-\$560,000 in structural stabilization costs for the most basic of needed work. In the ensuing five years, not only have construction costs risen, there has been additional damage from water infiltration. The development costs are estimated at \$2.1 million, with \$1.8 million of that in hard costs, \$276,000 in soft costs and a \$50,000 contingency.

Even with this write down in the sale price and a very low developer fee of 5%, this development project is challenging financially. The projected cash-on-cash rate of return on the developer's equity investment is under 1% (0.96%). A typical expected rate of return on equity for the rehabilitation of a nearly 100-year-old derelict building in an area perceived as risky and low-rent is 15-20%. The high costs of rehabilitation and difficulties identifying tenants for this location able to pay rents necessary to cover these costs resulted in only one developer responding to the RFP.

**DELISI BUILDING PROJECT TERM SHEET**

**1. PROPERTY**

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

**2. PURCHASER**

Five Points, LLC  
3033 Excelsior Boulevard, Suite 10  
Minneapolis, Minnesota 55416  
**(the “Developer”)**

**3. PURCHASE PRICE**

\$25,000.00 in cash at closing (with considerations)

**4. PURCHASE CONSIDERATIONS**

The proposed rehabilitation of the building includes a primary access point to the building along the northwestern façade facing the Penn/West Broadway intersection. The building is constructed to the lot line and the adjacent property is owned by MetroTransit to construct a transit shelter. Prior to sale of the property, the City will require that the Developer obtain easements or an at least 25-year lease permitting access to the building from the MetroTransit property or a purchase agreement for fee simple ownership of all or a portion of the property.

A major element of the proposal is a plaza on the MetroTransit property. Prior to sale, the City will require that productive discussions are underway with MetroTransit toward a capital construction and maintenance agreement for the plaza.

**5. GOOD FAITH DEPOSIT**

\$6,580.00 (10% of Fair Reuse Value)

**6. CLOSING DATE**

On or before June 30, 2008 (the “Closing Date”). The Developer must demonstrate to the City’s reasonable satisfaction that as of the Closing Date, Developer has available all necessary equity and debt financing commitments to commence and complete the Project.

**7. TITLE**

The City shall provide Developer with a current title insurance commitment from Old Republic Title Insurance Company for the Property. Buyer shall make any objections to

title in writing to the City within twenty (20) days of receiving such commitment. If Developer makes timely written objections to title, then the City shall have until the Closing date to cure the title defects and establish insurable title to the Property. If the City chooses not to or fails to have the objections to title removed or satisfied to Developer's satisfaction by the Closing date, the Developer may elect, within twenty (20) days after notification from the City of such choice or failure, to (1) purchase the Property subject thereto or (2) declare the Development Agreement null and void and the Good Faith Deposit shall be returned to the Buyer.

**8. CONSTRUCTION START DATE**

Within 30 days of Closing Date (the "Start Date")

**9. CONSTRUCTION COMPLETION DATE**

Within 14 months of the Start Date.

**10. PROPOSED PROJECT**

The City issued a Request for Proposals (RFP) for redevelopment of a three-parcel project area at southeast corner of the intersection of West Broadway and Penn avenues in February 2007. In response to that Request, The Ackerberg Group along with the Center for Communication and Development/KMOJ, Welsh Companies and the Collaborative Design Group submitted a proposal depicting a commercial/retail redevelopment in a renovated structure at 2119 West Broadway. In the rear of the building on the remaining two parcels the purchaser will create a surface parking facility with approximately 23 stalls. The proposal would create at least 4,300 square feet of new retail and commercial service space and 4,700 square feet of new broadcasting and office space within a nearly 100 year old building at a prominent gateway intersection. The Center for Communication and Development/KMOJ Radio intends to occupy the second floor and have an ownership stake in the building.

**11. "AS IS" SALE AND INDEMNIFICATION**

Subject to Buyer's ability to conduct environmental due diligence prior to the Closing Date, the City shall deliver a Quitclaim Deed to Developer on the Closing Date conveying insurable fee simple title to the Property and execute the TBRA Grant agreement described below. The sale shall be "as is" and Developer shall release the City from and indemnify the City against any environmental contamination on the Property. Developer agrees to defend, indemnify and hold the City harmless from any and all claims or lawsuits that may arise from Developer's ownership, acts or omissions after Closing.

**12. CONDITIONS TO SITE PLAN**

The Developer agrees to make good faith efforts to incorporate green and sustainable design elements throughout the development.

**13. PUBLIC ASSISTANCE REQUEST**

The City shall pass through a Metropolitan Council awarded Tax Base Revitalization Account grant of \$47,500 for asbestos remediation through a standard City sub-recipient agreement (the "TBRA Grant").

**14. TAX INCREMENT FINANCING ASSISTANCE**

None.

**15. REDEVELOPMENT AGREEMENT**

As noted in the Request for Proposals (Section 15), the Redevelopment Agreement shall include, but not be limited to, the following general terms with which the Offeror shall be responsible for compliance:

1. Employment Requirements.  
The Project shall comply with prevailing wage and apprenticeship program requirements. Developer will use its best efforts to cause its Project tenants to enter into job linkage agreements with the City.
2. Payment and Performance Bond Requirements.  
The Developer shall furnish or cause to be furnished, to the City on or before the Closing Date a Payment Bond and a Performance Bond covering the faithful performance of this Agreement with respect to construction of the Minimum Improvements and the payment of all obligations arising thereunder. The Payment Bond and Performance Bond shall name the City as obligee or co-obligee, shall be in the amount of the contracts for the construction of the Development Improvements, shall be in such form and with such surety or sureties as the City may approve. This may be waived by the CPED Director.
3. State Business Subsidy Act and Living Wage Requirements.  
Developer will comply with job provision and/or reporting requirements of the Minnesota State Business Subsidy Act and Minneapolis Living Wage Ordinance in accordance with mandates, depending on the source and amount of public assistance provided.
4. Standard Contract Obligations  
General liability, hazard, builder's risk and worker's compensation insurance requirements;  
Indemnity and hold the City harmless provisions;  
Standard warranties and representations; and  
City reversionary rights and certificate of completion requirements.
5. Project pro forma for 25 years

**Authorizing sale of land Disposition Parcels No. TF-546, TF-142, & TF-547.**

Whereas, the City of Minneapolis, hereinafter known as the City, has received an offer to purchase and develop Disposition Parcels TF-546, TF-142, & TF-547 in the Willard-Hay Neighborhood, from Five Points, LLC, hereinafter known as the Redeveloper, the Parcels TF-546, TF-142, & TF-547, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

LEGAL DESCRIPTION

TF-546; 2119 West Broadway Avenue

Lot 13, and the Northwesterly 22 feet of Lot 12, Block 21, "Forest Heights" as measured along the Northeasterly line of said Lot 12: and that part of the Northeasterly half of the vacated alley in said Block 21, lying between the Southwesterly extension of the Southeasterly line of said Northwesterly 22 feet of Lot 12 and the Southerly extension of the West line of said Block 21.

Being registered Land as is evidenced by Certificate of Title No. 1142854.

TF-142; 2310 Penn Avenue North

Lot 16, Block 21, "Forest Heights".

Being registered land as is evidenced by Certificate No. 1142847.

TF-547; 2312 Penn Avenue North

That part of Lot 15, Block 21, "Forest Heights" lying Southerly of a line drawn parallel with the South line of said Lot 15 and passing through a point on the West line of said Lot 15 distant 11 feet Southerly from the most Northwesterly corner of said Lot 15.

Being registered land as is evidenced by Certificate of Title No. 1142848.

Whereas, the Redeveloper has offered to pay the sum of \$25,000, for Parcels TF-546, TF-142, & TF-547; the offer includes a development plan and commitment to improve by rehabilitating the existing structure at 2119 West Broadway Avenue and by developing the vacant parcels at 2310 Penn Avenue and 2312 Penn Avenue North. This offer is in accordance with the City's blight removal and redevelopment goals for the properties; 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, November 30, 2007, a public hearing on the proposed sale was duly held on December 11, 2007, 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 City's redevelopment goals for the properties, as amended, is hereby estimated to be the sum of \$65,800, for Parcels TF-546, TF-142, & TF-547; however, in accordance with public purpose considerations, including extraordinary rehabilitation expenses and very little anticipated return for the Redeveloper, the City is selling Parcels TF-546, TF-142, & TF-547 for the sum of \$25,000.

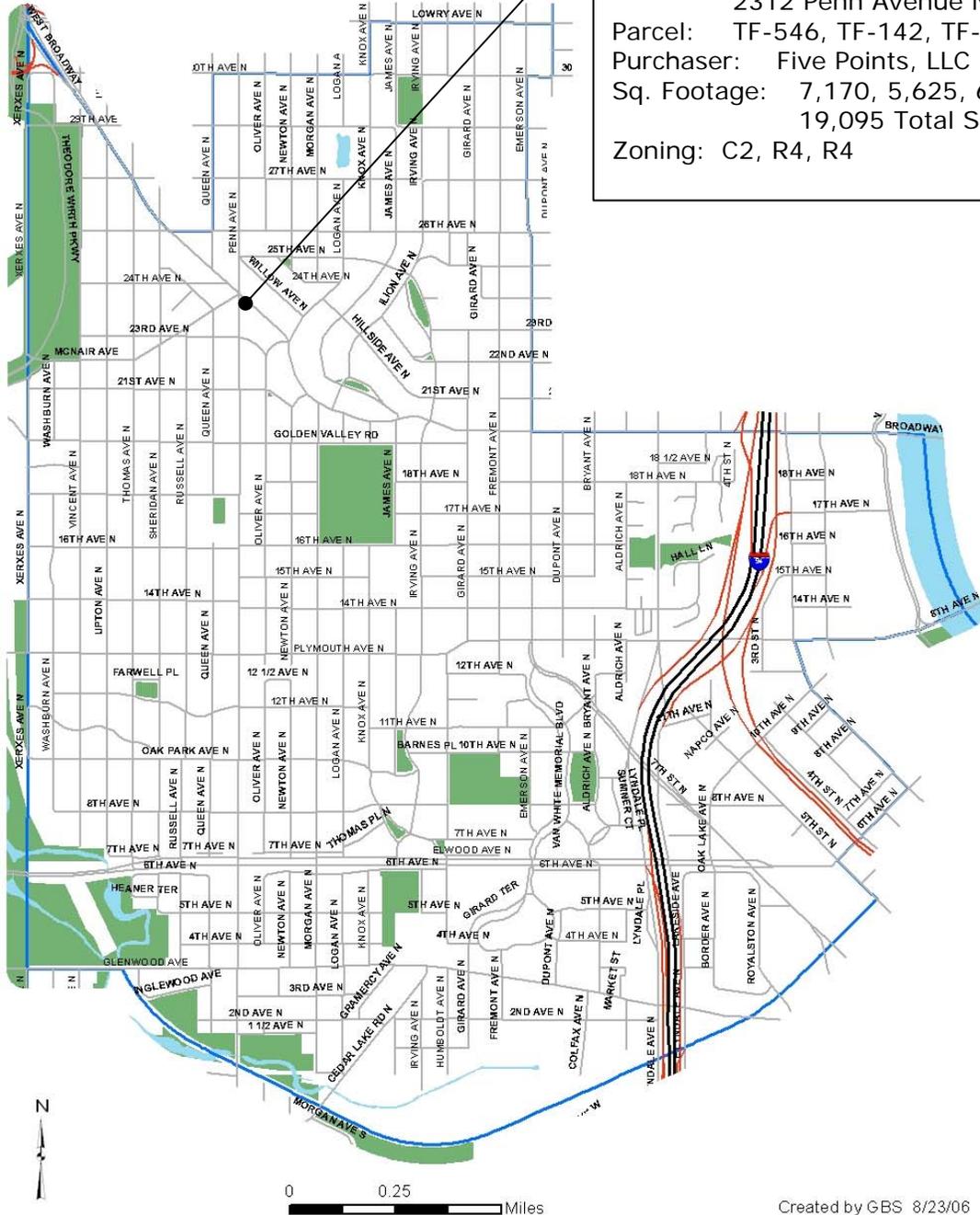
Be It Further Resolved that the acceptance of the offer and proposal is hereby determined to be in accordance with the City's approved disposition policy and it is further determined that the Redeveloper possesses the qualifications and financial resources necessary to acquire and develop the Parcel in accordance with the City's blight removal and redevelopment goals for the properties.

Be It Further Resolved that the proposal be and the same is hereby accepted, subject to the execution of a contract for the sale and redevelopment 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 5

Address: 2119 West Broadway Avenue  
 2310 Penn Avenue North  
 2312 Penn Avenue North  
 Parcel: TF-546, TF-142, TF-547  
 Purchaser: Five Points, LLC  
 Sq. Footage: 7,170, 5,625, 6,300  
 19,095 Total Square Feet  
 Zoning: C2, R4, R4



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

Date: December 11, 2007

Subject: Land Sale – Public Hearing  
Delisi Building redevelopment project

Address: 2119 West Broadway  
2310 Penn Avenue North  
2312 Penn Avenue North

Purchaser: Five Points, LLC

Disposition Parcel No. Acq Date	Address	Total CPED Costs	Less Sales Price	Write Off
TF-546; 02/25/00	2119 West Broadway Av	\$1	(-)\$25,000	(+) \$24,997
TF-142; 09/14/94	2310 Penn AV N	\$1		
TF-547; 2/25/00	2312 Penn Av N	\$1		

Re-Use Value Opinion	Less Sales Price	Write-Down
\$65,800	\$25,000	\$40,800

Write-Down

Reason: This development project is challenging financially. The projected cash-on-cash rate of return on the developer’s equity investment is under 1% (0.96%).

Developer History with CPED:

The Ackerberg Group is a primary principal in the newly-formed Purchasing company, Five Points, LLC. While the City does not have experience with Five Points, LLC, recent experience with The Ackerberg Group includes the redevelopment of 1101 West Broadway and development within the Cottage Park cluster of the Northside Home Fund cluster initiative.

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