Request for MCDA Board of Commissioners Action
From the Department of Community Planning & Economic Development

Date: April 6, 2004

To: MCDA Board of Commissioners

Prepared by Judy Cedar, Senior Project Coordinator, Phone 612-673-5025
Presenter in Committee: Judy Cedar, Senior Project Coordinator

Approved by Chuck Lutz, Deputy CPED Director ______________

Subject: Land Sale – Public Hearing
Grain Belt Complex-Warehouse & Bottling House Project

RECOMMENDATION: Enter into a Sale Agreement for the sale of 47-13th Avenue NE (partial) and 71-13th Avenue NE (partial) for $2,000,000 in conformance with terms as described herein.

Previous Directives: MCDA acquired 47-13th and 71-13th Avenue NE on February 17, 1989.

Financial Impact (Check those that apply)

___ No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
___ Action requires an appropriation increase to the Capital Budget
___ Action requires an appropriation increase to the Operating Budget
___ Action provides increased revenue for appropriation increase
___ Action requires use of contingency or reserves
X__ Other financial impact (Explain): Sale of this parcel will eliminate future property management expenses.
___Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact

Ward: 3
Neighborhood Notification: Sheridan Neighborhood Organization (SNO) has received periodic updates related to the Bottling House and Warehouse Project since 1999. SNO is supportive of the sale of the Bottling House and Warehouse to Artspace Projects, Inc.

Minneapolis Community Development Agency
Crown Roller Mill, 105 Fifth Ave. S.
Minneapolis, MN 55401

City Goals: Build communities where all people feel safe and trust the City's public safety professionals and systems; Maintain the physical infrastructure to ensure a healthy, vital and safe City; Deliver consistently high quality City services at a good value to our taxpayers; Create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets; and preserve and enhance our natural and historic environment and promote a clean, sustainable Minneapolis.

Comprehensive Plan Compliance: 2.9 Minneapolis will strengthen long-term confidence in the economy by building innovative public to private sector partnerships; and 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. The reuse of the historic Bottling House and Warehouse as art studio lease space and other commercial uses is consistent with the Minneapolis Plan and the Upper River Master Plan.

Zoning Code Compliance: It complies; zoned 1l

Living Wage/Job Linkage: The statutes do not require a Business Subsidy Agreement for a non-profit organization who has less than 100 FTE employees. Artspace has 15 FTE employees. Job linkage does not apply. This project is a community development project aimed at retaining lease spaces at affordable rates for artists.

Other: None

BACKGROUND/SUPPORTING INFORMATION:

PARCEL	ADDRESS	SALE PRICE
GB-1	47-13th Avenue NE (partial)	$2,000,000
GB-4	71-13th Avenue NE (partial)	

PURCHASER

Artspace Project, Inc.
250-3rd Avenue North, #500
Minneapolis, MN 55401

Executive Summary

A Sales Agreement will be prepared for execution upon approval of this Land Sale Report to transfer ownership of the Bottling House and Warehouse to Artspace. Warehouse Row 1947, 1957, and 1965 Additions, the Bottling House Addition, and existing parking lot adjacent to the Warehouse buildings will continue to be managed and operated by CPED Property & Construction Management. The attached maps identify the Sale Parcels. Utility Agreements, Site Review Approval (including a Traffic Demand Study) and a Replat must be successfully executed prior to closing.

The provisions of the land sale have evolved over several years of negotiations with participation from various city staff, Artspace, and the existing tenants of the Warehouse and Bottling House. The Sale Price of $2,000,000 reflects a land writedown of $1,500.000 from the Fair Market Value of $3,500,000 for the properties. The terms of sale require a CPED subordinated mortgage of $300,000 that will be paid using residual receipts.

The Sale Parcel is mostly limited to the footprints of the two buildings but includes a modest amount of land adjacent to the two buildings, perpetual easements to allow for access to the buildings' loading docks, ingress/egress to the Warehouse, and an access/maintenance easement for the boiler. In addition, we are making a commitment to provide limited replacement parking when the Housing Project purchases the existing parking lot (located adjacent to the Warehouse and Warehouse Row). The existing and any future parking spaces will be available to the building tenants for fee.

<u>Introduction</u>
The MCDA sold, in 2001, the Grain Belt Complex's flagship building, the Brew House, thus paving the way for the individual disposition of the remaining six historic structures included within this historic district; namely the Boiler House, the Wagon Shed, Shop, Office, Warehouse and Bottling House. The Boiler House was sold with the Brew House. The Wagon Shed and Shop buildings have been sold to the Minneapolis Public Library and are the home of the new Pierre Bottineau Library. The Office is to be offered for sale to developer of the new-construction housing project proposed by the Sheridan Development Company, LLC (the "Developer"). Pending approval of this land sale, the City will have disposition plans for all six of the historic Grain Belt structures and thereby reducing the City’s building inventory.

Disposition of the Warehouse and Bottling House is the focus of this report. The Warehouse has a gross building area of 74,475 square feet (two stories, each 24,825 square feet in area plus a basement of 24,825 square feet). The Bottling House has a gross building area of 51,260 square feet (a basement and ground level floor each with 25,630 square feet).

In addition to the legal there are common mailing addresses associated with the Warehouse and Bottling House; namely, 79 and 77 13th Avenue N.E.

Artspace Projects was established in 1979 to serve as an advocate for the space needs of artists who were being forced out of Minneapolis' historic Warehouse District by rising rents. In 1989, the organization expanded to development. Artspace is now a national nonprofit developer of affordable live/work spaces for artists through the adaptive reuse of old warehouses, schools, and commercial buildings. In the mid-1990s, Artspace broadened its mission to include non-residential projects, performing arts centers, arts districts, and a wide range of advisory services.

<u>Background</u>

The MCDA invested funds in the Warehouse and Bottling House to rehabilitate and stabilize the structures and to make them available for lease primarily to artists and creative businesses. The rehabilitation of these two buildings for arts and arts-related uses meets the *Development Objectives' Vision for Area* involving a "varied yet cohesive mix of land uses complementing and enhancing the historic character of the brewery complex. Such uses might include … arts and arts-related uses …" Currently, approximately 72% of the Warehouse's and 53% of the Bottling House's leasable space is leased to artists and arts-related users.

Capital improvements to the Warehouse approximate $729,000 and capital improvements to the Bottling House approximate $1,800,000. An additional $632,500 has been invested primarily by tenants in the Warehouse, to complete tenant improvements (consisting of such things as windows, sandblasting, ventilation, electric, plumbing, soundproofing, base molding, floor remodeling, and walls).

A portion of the MCDA -funded improvements to these two buildings used Leveraged Investment Funds; a loan of $527,000 in 1995 for the Warehouse rehabilitation and a loan of $970,000 in 1998-99 for the Bottling House rehabilitation. In addition, a new boiler system was installed in 1999 at a cost of $611,000.

The tenants of these two buildings organized themselves into a tenant association (soon after the developer was identified for the historic preservation of the Brew House) in an attempt to have some control over their spaces and to protect their lease-spaces from gentrification as new development activity began making significant advances in this neighborhood. The first meeting occurred February 25, 2000, and that meeting was attended by various organizations in the arts community. Artists in Northeast also have met to discuss issues related to gentrification's impact overall on art-tenant spaces in the area.

In early 2000, the tenants selected Artspace to represent their interests in sale negotiations with the MCDA. After several months of preparation, a purchase offer was submitted to the MCDA in January of 2001. This Offer to Purchase did not advance to the Board level for land-sale consideration because the MCDA received a ruling that this project did not qualify for the anticipated source of funding (exempt-IRB financing) and there was no apparent alternative source for financing. Additionally, many issues requiring interface with the housing developer needed resolution prior to a land sale, such as parking, outdoor artist-workspace, easements, survey, replat, and status of the 1949 addition to the Warehouse. The inability to resolve the above-mentioned issues led Artspace to conclude that it was prudent to withdraw their offer.

In early 2001, the tenant representatives decided to pursue a solution themselves that would ensure their continued use of the buildings as artist space. This core group of tenant-representatives meets regularly with MCDA staff. Although it is desirable to many of the tenants to form a cooperative (or other such ownership-entity), it has become evident that this option is not feasible. Also, several of the tenants are not confident about becoming involved directly with real estate ownership and management. Thus, the tenant-representatives invited Artspace back to the table to work again with the MCDA on their behalf and Artspace again submitted a proposal for MCDA's consideration: Artspace submitted to the MCDA on September 21, 2001, an Option-Lease Proposal to purchase 47 and 71 13th Avenue N.E. Revisions include a near-term sale of the two buildings to Artspace instead of an Option-Lease arrangement.

Negotiations have required numerous meetings to coordinate specific issues with Developer and to ensure that the two projects interface satisfactorily. Examples of discussion topics included replacement parking for the two art buildings, the long-term status of the artist's outdoor workspace, reparation of scars and openings created during the demolition of the Warehouse's 1949 Addition and the Bottling House Addition, design of loading dock ingress/egress, division and replat, and maintenance easements. A preliminary survey has been completed. A replat is also required prior to this sale.

Artspace will purchase the electric meters and the boilers as part of the sales transaction. The utilities also service Warehouse Row and the Bottling House Addition and these buildings will remain under the management of CPED Property and Construction Management Staff. Prior to sale, a consultant will need to prorate utility usage amongst all the buildings and users. Artspace is currently getting bids to perform this evaluation and Artspace requests that the City share in the cost of this evaluation. We will also review costs for separate metering for electric usage of Warehouse Row. Originally, these additions (Warehouse's 1949, 1957, and 1965 Additions plus the Bottling House's 1967 Addition) were scheduled for demolition in 2003 for the housing project, but the timing for their demolition has been postponed to coincide with the Housing Developer's revised schedule for housing development upon these sites. The gross building area of these buildings are as follows: Bottling House Addition - 72,576 square feet; 1949 Building - 27,390 square feet; 1957 Building - 26,580 square feet; and the 1964 Building - 16,000 square feet.

Current Status

The Warehouse and the Bottling House were rehabilitated with the intent of leasing the spaces primarily to artists and creative-business tenants. The buildings and current parking lot are under the ownership and management of CPED. Although both buildings have operated consistently with very low vacancy rates, the rates have fluctuated recently due to the uncertainties surrounding the future treatment of the two buildings. The current vacancy rate is 5% in the Bottling House. The Warehouse is completely occupied. As mentioned previously, all the tenant-representatives of the two buildings and most all tenants support the transfer of ownership to Artspace near term.

Proposed Terms of Agreement

The revised proposed agreement includes provisions for sale:

1. Some of the costs associated with the Warehouse and Bottling House will need to be prorated and charged back to the actual users. For example, all the electricity service for this building cluster is on one meter and heat for all the buildings come from a communal boiler. Warehouse Row tenants and the Boiler House Addition tenant will be billed for their portion of usage of these utilities.
2. Sale Parcel includes the footprint of the Bottling House, enclosure around boiler north of Bottling House, footprint of the Warehouse and a 15-foot perimeter of land buffer from adjacent land owner.
3. Proposed financing includes a private mortgage of $1,700,000 and a public, subordinated mortgage of $300,000. The subordinated mortgage will be issued by the City.
4. Easements on the adjacent property are required to allow for ingress/egress to the Warehouse and Bottling House loading docks as well as ingress/egress to the parking spaces that will be created alongside the buildings. Replat of the parcel will incorporate easements.
5. Parking Spaces on the lot adjacent to the Warehouse will become pay-for-fee spaces with charges made directly to the tenants of the buildings. Replacement Parking is required once the existing parking lot is demolished in preparation for housing development. This Replacement Parking is to be located on the Bottling House Addition site, even though that site is planned for future housing development. When the Bottling House Addition site does get developed as housing, another replacement parking site will be required. At this time, the ownership and operations of the Replacement Parking Spaces is the responsibility of CPED.
6. No parking spaces are included in the sale of the buildings to Artspace, but some parking spaces will be created using the 15 foot strip of land that buffers the Sale Parcel from the adjacent owner. Also, CPED will commit to providing replacement parking, to the extent parking fits on the Bottling House site, when the existing parking lot is taken for the housing development. The replacement parking lot will most likely be located on the Bottling House Addition site and will require a variance from zoning-requirements for parking. If the existing parking lot is not developed as part of the Housing Development Project, but subsequently developed by another developer, it would still require a replacement parking lot and variance approvals as a condition for obtaining building permits for the site. The City will need to commit to Replacement Parking as part of the replat review process.
7. Removal of the Bottling House Addition, removal of the 1947 Warehouse Addition, repair of building scars caused by demolitions, construction of a new north wall to the Warehouse, and creation of Replacement Parking Spaces are the responsibilities of CPED. Repair work (including wall construction) to the buildings must meet requirements and approvals of State Historic Preservation Office and the Historic Preservation Commission. Developer and/or CPED will also be required to repair any damaged asphalt or other damages to the Artspace Parcels caused by the Housing Developer and/or CPED. These activities and costs are included in the "Public Redevelopment Costs" associated with the Housing Project.
8. Re-platting of the parcels and obtaining necessary variances are requirements prior to sale. A survey has been prepared to this end that provides a Metes & Bounds legal description of the Sale Parcel.

9. Artspace will contractually agree not to apply for tax-exempt status for the subject properties for a minimum of 20 years through a Minimum Assessment Agreement or some other similar instrument.
10. A deed restriction or another instrument is recommended that will require profit sharing should Artspace sell the project anytime during the first 15 years and which can be subordinated to the 1st mortgage lender or any finance necessary to do capital finance to the buildings.

Financial Considerations

This land sale offer was negotiated. The sale price does not reflect fair market value but rather a land sale price that is based upon what the project can afford. The sale price reflects a land writedown of $1,500,000 from the Reuse Value of $3,500,000.

It is proposed that residual receipts (net cash flow from the project) will provide the financing to pay the $300,000 subordinated mortgage that will be held by the City. City Finance Department staff has determined that payments on mortgage approximate a term of 13 years and an annual, compounding interest rate of 5%. Payments made against the mortgage will first pay off any accrued interest owing and then principal and all interest and principal owing is to be paid in full in year 15.

A modest amount of LEVY funds, estimated not to exceed $14,000) will be required to cover costs of activities required for closing (such as utility consultant expense, replat preparation and application fees).

Comparison of the Revised Land Sale Report to the Original Land Sale Report

PROPOSED TERMS	**ORIGINAL REPORT**	**REVISED REPORT**
Lease Agreement with Option to Purchase	10 year lease	No lease
Sale Price	$1,100,000	$2,000,000
Cash at Closing	$1,100,000	$1,700,000
Second Mortgage	$2,400,000	$ 300,000
Terms of 2nd Mortgage	30 Y, 6% interest, base amount inflates 3% per year during term of option (10 years) until option is exercised	Payment due in year 15, including interest that compounds annually at 5%
Second Mortgage Forgivable Under Certain Conditions	Yes, after 30 years	No
Short term management of parking lot and buildings slated for demolition	Yes	No
Commitment to Outdoor Art Workspaces	Yes	No
Commitment to Replacement Parking	Yes	Yes
Oversight of Public Purpose (rental to	Yes, 30 years or 2nd	No

smaller art-related entities) by limiting lease-unit sizes in Warehouse not to exceed 7,620 sq. ft.	mortgage activates	
Oversight of Public Purpose (rental to Artists at affordable rates) by limiting annual inflator applied to base net rent amount to 2%	Yes, or 2^{nd} mortgage activates	No
Oversight of Public Purpose (rental to artists) by requiring a minimum of 38,104 sq. ft. of leasable space always be dedicated to artists. (Term artist defined)	Yes, or 2^{nd} mortgage activates	No
City Commitment for Replacement Parking and equal to spaces that can be provided on the Bottling House	Yes	Yes
Removal of Bottling House Addition, Removal of the 1947 Warehouse Addition, Repair of building scars caused by demolitions, Construction of a new north wall to the Warehouse, and Creation of Replacement Parking Lot responsibility of City of Minneapolis	Yes	Yes
Housing Developer and/or CPED required to repair any damaged asphalt or other damages to the Artspace Parcels caused by the Developer and/or CPED.	Yes	Yes
Replat and Variances Required prior to sale	Yes	Yes
Evaluation of Utility Usage	Yes	Yes
Recapture Provision	No	Yes-anytime in the 1^{st} 15 yrs

Pros and Cons

The sale to Artspace will minimize risks of gentrification since Artspace is a mission-driven nonprofit organization whose purpose is to develop affordable live/work spaces for artists through the adaptive reuse of old warehouses, schools, and commercial buildings. Artspace is also involved with non-residential projects, performing arts centers, arts districts, and a wide range of advisory services. The sale will also reduce the City's building inventory. Cash at closing will equate to the privately financed mortgage, or $1,700,000.

The City will receive a lower purchase price (a $1,500,000 present-value writedown) than it could expect to receive if the properties were marketed for sale at Fair Market Value. This is the cost for the benefit of keeping these two buildings artist buildings.

This sale, prior to the demolition of the non-historic additions, does require a cooperative agreement between Artspace and the City for the management and operation of Warehouse Row, Bottling House Addition and the parking lot by the City and the management and operation of the Bottling House and Warehouse by Artspace.

<u>Options</u>

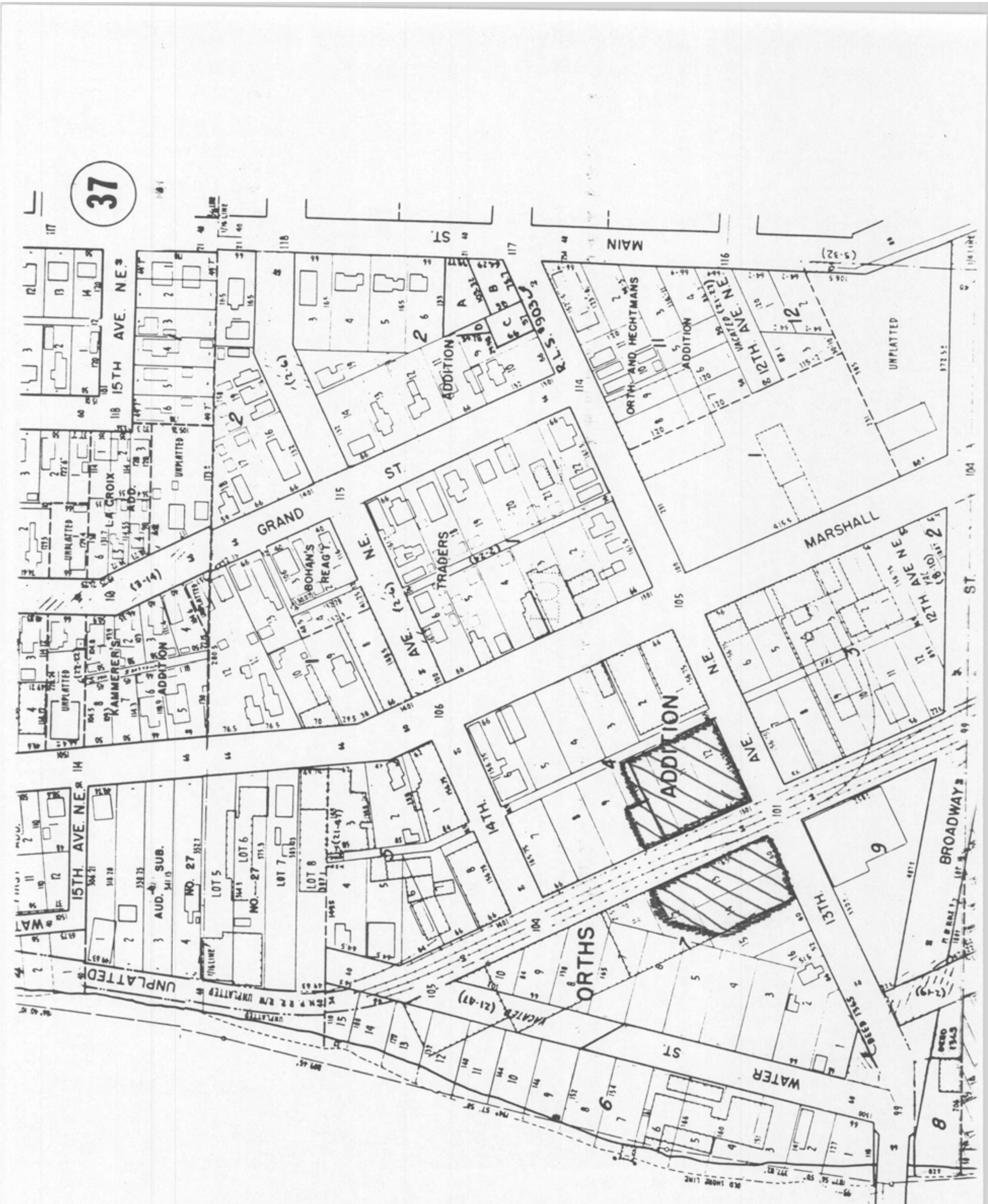
1. Recommended – Sell the sale parcels to Artspace for $2,000,000. This option discourages gentrification.
2. Status Quo - City continues to operate, manage, and own the historic Bottling House and Warehouse long-term and select rental rates that either promote or discourage gentrification.
3. Incorporate into Housing Project - Continue to operate, manage and own the historic Bottling House and Warehouse short-term and sell them to the Housing Project's Developer at fair market value sometime in the future. This option encourages gentrification.
4. Sell for Highest & Best Use - Solicit bids and sell these two properties to the highest bidder. This option encourages gentrification.

Attachments:
Amortization Schedule
Existing Tenant Roll
Parcel Map

Amortization Schedule for $300K Second Mortgage for Artspace

Rate	**5.000%**	**5.0000%**	**Annual Percentage Rate**
Term	**15**	**15**	
Starting Balance		**$300,000**	

Payment Number	Payment Year	Beginning Balance	Payment	Interest	Principal	Ending Balance
1	2004	$ 300,000.00	$ 426.00	$15,000.00	$ (14,574.00)	$ 314,574.00
2	2005	$ 314,574.00	$ 5,092.00	$15,728.70	$ (10,636.70)	$ 325,210.70
3	2006	$ 325,210.70	$ 9,878.00	$16,260.54	$ (6,382.54)	$ 331,593.24
4	2007	$ 331,593.24	$ 22,140.00	$16,579.66	$ 5,560.34	$ 326,032.90
5	2008	$ 326,032.90	$ 27,466.00	$16,301.64	$ 11,164.36	$ 314,868.54
6	2009	$ 314,868.54	$ 32,930.00	$15,743.43	$ 17,186.57	$ 297,681.97
7	2010	$ 297,681.97	$ 38,536.00	$14,884.10	$ 23,651.90	$ 274,030.07
8	2011	$ 274,030.07	$ 44,287.00	$13,701.50	$ 30,585.50	$ 243,444.57
9	2012	$ 243,444.57	$ 50,185.00	$12,172.23	$ 38,012.77	$ 205,431.80
10	2013	$ 205,431.80	$ 56,233.00	$10,271.59	$ 45,961.41	$ 159,470.39
11	2014	$ 159,470.39	$ 62,432.00	$7,973.52	$ 54,458.48	$ 105,011.91
12	2015	$ 105,011.91	$ 62,432.00	$5,250.60	$ 57,181.40	$ 47,830.50
13	2016	$ 47,830.50	$ 62,432.00	$2,391.53	$ 60,040.47	$ (12,209.97)
14	2017	$ -	$ -	$0.00	$ -	$ -
15	2018	$ -	$ -	$0.00	$ -	$ -



Land Sale Parcels
Artspace WHBH
Grain Belt

RESOLUTION

of the

MINNEAPOLIS COMMUNITY DEVELOPMENT AGENCY

By ____

Authorizing Sale of Land
Grain Belt Complex-Warehouse & Bottling House Project
Disposition Parcel No's GB 1 & 4

WHEREAS, the Minneapolis Community Development Agency, hereinafter known as the Agency, has received an offer to purchase and develop Disposition Parcels GB 1 & 4 in the Grain Belt Complex-Warehouse & Bottling House Project, from Artspace Project, Inc., hereinafter known as the Redeveloper, the Parcel(s) GB 1 & 4, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

<u>LEGAL DESCRIPTION</u>

(See Exhibit Attached hereto)

WHEREAS, the Redeveloper has offered to pay the sum of $2,000,000, for Parcels GB 1 & 4; 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 Agency a statement of financial responsibility and qualifications; and

WHEREAS, the Agency has had the re-use value reviewed by an appraisal expert, stating that the re-use value opinion is consistent with the accepted methods in aiding the Agency in determining a re-use value for the Parcels; and

WHEREAS, pursuant to due notice thereof published in *Finance and Commerce* on Friday, March 26, 2004, a public hearing on the proposed sale was duly held on April 6, 2004, 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.

WHEREAS, the Agency on November 24, 1993, by its Resolution No. 93-1077M, authorized the sale of Parcel GB 1 & 4; and

WHEREAS, *North Beach Twin Cities* has withdrawn their offer to purchase; and

NOW, THEREFORE, BE IT RESOLVED, that the action taken by the Agency in its Resolution No. 93-1077M, authorizing the sale of Parcel GB 1 & 4 to North Beach Twin Cities be rescinded; and

NOW, THEREFORE, BE IT FURTHER RESOLVED, that the re-use value, for uses in accordance with the Grain Belt Complex-Warehouse & Bottling House Project plan, as amended, is hereby estimated to be the sum of $2,000,000, for Parcels GB 1 & 4; and

BE IT FURTHER RESOLVED, that the acceptance of the offer and proposal is hereby determined to be in accordance with the Agency's approved disposition program 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; and

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 Executive Director or other appropriate official of the Agency be and 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 Executive Director or other appropriate official of the Agency; and

BE IT ALSO FURTHER RESOLVED, that the Chairman and Secretary, or any other two Commissioners of the Agency, are 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 Agency 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 Chairman and Secretary, or any other two Commissioners of the Agency.