

# City of Minneapolis

## Request for Committee Action

**To:** Community Development & Regulatory Services  
**Date:** 8/15/2016  
**Referral:** N/A  
**From:** Community Planning & Economic Development  
**Lead Staff:** CPED, Finance and City Attorney staff  
**Presented by:** Emily Stern  
**File Type:** Action  
**Subcategory:** Staff Direction

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**Subject:**

Award exclusive negotiating rights for 205 Park Ave. S.

**Description:**

1. Awarding exclusive negotiating rights to Sherman Associates for the purchase and development of the City-owned property at 205 Park Ave. S. for a period of six months, as described herein.
2. If the exclusive negotiating rights period with Sherman Associates expires without a City Council approved term sheet, then potentially awarding exclusive negotiating rights to Grand Real Estate Advisors for purchase and development of the 205 Park Ave. S. property for a period of six months, as described herein; and
3. Authorizing City staff to negotiate redevelopment contract terms and, upon successful negotiations, return for further City Council review and approvals.

**Previous Actions:**

- September 24, 2015, the City Council authorized staff to enter into an interim parking rental agreement with Sherman Associates for parking vehicles on the 205 Park Ave. S. lot on weekday evenings and weekends during the construction of a development project at 233 Park Ave. S.
- April 3, 2015, the City Council authorized staff to enter into an interim parking rental agreement with Ecumen Mill City, LLC for parking vehicles on the 205 Park Ave. S. lot during daytime, weekday hours during the construction of a development project at 322 and 428 2<sup>nd</sup> St. S.
- August 22, 2008, the City Council: a) accepted a bid from Veit and Company in the amount of \$209,671 to furnish and deliver all labor, materials, equipment and incidentals necessary to construct the 205 Park Demonstration Project, and b) authorized and directed proper officials to execute a contract for this project in accordance with specifications prepared by Elness Swenson Graham Architects and Oslund and Associates.
- February 23, 2007, City Council: a) authorized Amended and Restated Redevelopment Contract between the City and Sherman Associates for 205 Park Ave. S.; b) approved sale of perpetual easement across City-owned land at 711 2<sup>nd</sup> St. S. to Sherman Associates; and c) approved recommendation that easement sale proceeds be used to pay or reimburse Public Works for ramp enhancements and associated expenses of selling the property. (Note: the

assignment and amendment between the City and Sherman Associates was never consummated.)

- November 17, 2006, City Council consented to the assignment and assumption of the Redevelopment Contract between the City of Minneapolis and Brighton Park East LLC to Sherman Associates for the redevelopment of the Park Avenue East site at 205 Park Ave. S. Authorized staff to negotiate amendments to the Redevelopment Contract with Sherman Associates for the Park Avenue East site for a new development project.
- July 7, 2005, City Council approved an Amended and Restated Redevelopment Contract for Parcel D East (Park Avenue East Lofts) to allow development of the property.
- August 25, 2004, City Council approved the sale of the Park Avenue East Lofts site (205 Park Ave. S.) to Brighton Development Corporation for \$1,230,000.
- April 30, 2004, City Council granted exclusive development rights to Brighton Development Corporation for Parcel D.
- July 7, 2001, City Council approved a land sale of Milwaukee Depot Parcel D to Brighton Development Corporation for a multiple-phase development that included residential development on the 205 Park site.
- June 29, 1992, the MCDA acquired Parcel D (which included 205 Park parcel) as a part of the Milwaukee Depot acquisition.

**Ward/Address:**

Ward 3  
205 Park Ave. S.

**Background/Analysis:**

Since 1992, the City of Minneapolis has owned the 205 Park Ave. S. (“205 Park”) parcel that originally was part of the larger Milwaukee Railroad depot property. This 36,000 sq. ft. property has been operated as a surface parking lot since the City’s purchase until it could be sold for development. There were two earlier proposals for this site (a housing development and then commercial development) that were not able to be completed due to a softened real estate market. All previous redevelopment contracts have been terminated and interests released as of September 2008.

On April 15, 2016, the City issued a Request for Proposals (“RFP”) for the 205 Park parcel. The City received proposals from Sherman Associates and Grand Real Estate Advisors (“GRE”). CPED staff gave each proposer an opportunity to provide clarifications and modifications to their proposals. Following are summaries of each proposal:

**Sherman Associates Proposal**

**Housing**

- 6-story mixed-use building
- 115 mixed-income apartment rental units (levels 2-6), with stated commitments for 20% (23 units) affordable to households earning 60% of Area Median Income (“AMI”). The average rents for the affordable units would be \$950/month. The remainder of the units (92) would be market rate rentals.
- 4 two-level, for-sale townhomes fronting Park Ave.
- 130 underground parking stalls (two levels) for residents.
- Sustainable, energy efficient design, integrating components of LEED.

#### Retail

- Approximately 4,800 sq. ft. ground floor restaurant at the corner of Park Ave. and Washington Ave. with outdoor patio.
- Approximately 1,500 sq. ft. bakery/coffee shop at the corner of Park Ave. and 2<sup>nd</sup> St. S., with loading dock patio space.
- Letters of Intent from Kim Bartmann for both the restaurant and bakery spaces.
- Bank of America ATM (Letter of Intent) on Washington Ave.
- Police substation (500 sq. ft.) on 2<sup>nd</sup> St. (MPD commitment unconfirmed)

#### Public amenities

- Pet relief area (open to the public) lining the adjacent municipal parking ramp (discussions with nonprofit Dog Grounds about co-managing the dog park.
- Landscaping, bike parking, outdoor restaurant seating, proposed exterior screening of adjacent parking ramp in collaboration with the City.

Purchase Price: \$3,246,840 (\$90 per sq. ft.)

Total Development Cost: \$35,932,762

### **Grand Real Estate Advisors Proposal\***

#### Housing

- 5- or 6-story mixed-use building (stated preference for 6-story building)
- 42-52 for-sale units
- Preliminary discussions with City of Lakes Community Land Trust about partnering on 4 land trust units (no stated commitments or letter of intent from CLCLT).
- 85 below-grade parking stalls.

#### Retail

- Approximately 2,900 sq. ft. ground floor retail along Washington Ave. (in preliminary discussions with owner of Yum restaurant – no letter of intent or commitment).

#### Public Amenities

- Dog relief area (open to the public) lining the adjacent municipal parking ramp.
- Landscaping, bicycle parking, outdoor seating area for retail space, GREA is looking to the City to provide exterior screening for neighboring parking ramp.

#### Purchase Price

- 5-story building: \$1,554,000 (~\$43 per sq. ft.)
- 6-story building: \$1,924,000 (~\$53 per sq. ft.)

#### Total Development Cost

- 5-story building: \$26,645,150
- 6-story building: \$31,989,898

\*Note: Since the time of its original proposal submission, GREA has added Schafer Richardson as a development partner.

## **Proposal Comparisons**

A staff team reviewed, analyzed and met to evaluate the proposals. Staff discussion focused on the following topics:

### *Affordable Housing*

The City's development goals for the site as described in the RFP include a preference for residential use that includes long-term affordability. This is important to achieving our citywide affordable housing goals, and in particular incorporating more affordable housing and diversifying housing stock in a higher priced area of the city that has relatively fewer affordable housing options.

In the case of rental housing, the RFP criteria specify a mixed-income project with at least 20% of the units affordable to households at or below 50-60% of Area Median Income ("AMI"). For ownership housing, the City suggested in the RFP a land trust model to achieve affordable homeownership.

### Sherman

Sherman's project meets the RFP's affordable rental housing criteria by committing to the inclusion, without public subsidy, of 20% of the units affordable to households with income at or below 60% AMI (~23 affordable units) for a period of 15 years.

### GREA

While GREA indicated that it is "exploring" with the City of Lakes Community Land Trust ("CLCLT") the possible inclusion of four units of affordable ownership in its project, its proposal explicitly states that GREA "cannot commit to it at this stage." Also, the unit pricing sheet that GREA submitted indicates that the sale price for the land trust units would be around \$295,000, but they did not provide detail on the target income of homebuyers or the amount of expected affordability gap and/or development gap assistance required versus amount of homebuyers' first mortgage, so the feasibility of the affordable housing component could not be evaluated by staff.

### Staff Analysis

The review team favors Sherman's project because it would achieve more measurable outcomes both in terms of the total number of affordable units and the level of affordability, as compared to GREA's project.

### *Retail/Restaurant*

The City's development goals for the site as described in the RFP call for maximizing ground floor retail, and at a minimum including retail at both corners of Park & Washington and Park & 2<sup>nd</sup> St. In a recent neighborhood survey about this development site, respondents indicated that a restaurant was particularly desirable at this location. There is already a proven market in the Mill District for small-scale restaurants.

### Sherman

Sherman's proposal accomplishes this objective with approximately 6,300 sq. ft. of retail space – both a restaurant and a bakery/coffee shop – split between the two corners. The restaurant would serve breakfast, which would fill a retail niche that is currently lacking in the immediate neighborhood. Established Minneapolis restaurateur Kim Bartmann has provided Letters of Intent to Sherman to lease and operate both the restaurant and bakery. The proposed restaurant would also incorporate an art gallery in partnership with Soo Visual Arts Center. Sherman estimates that its project would create approximately 32 full-time and 66 part-time restaurant related jobs.

### GREA

GREA's proposal includes 2,900 sq. ft. of retail space fronting Washington Ave; however it does not include retail at the corner of Park and 2<sup>nd</sup> St. There is no mention of an interested or committed retail tenant in GREA's proposal, though more recently GREA reported that it is in discussions with the owner of Yum restaurant, who has expressed an interest in the project but has not provided a letter of intent.

### Staff Analysis

The review team favors the retail/restaurant component of Sherman's project, given that Sherman's proposal includes substantially more retail space, and at both street corners, and that they have a firmer commitment from an established restaurateur to occupy and operate both retail spaces.

### *Building Design*

#### Sherman

Sherman's building would feature four walk-up townhomes on Park Ave, exterior balconies, and a private, rooftop deck atop the 6<sup>th</sup> floor. Exterior materials would consist of brick, metal panel, composite siding and glass. Sherman's design encompasses a C-shaped courtyard on the east side of the building that would include a private green space for residents and a public walkway/alleyway which would help create an buffer between the east-facing units and the adjacent parking ramp.

#### GREA

GREA's building design generally mirrors Park Avenue Lofts (west side of Park Ave) in its massing and brick exterior. It has a smaller building footprint than Sherman's building allowing for small yards/gardens for the walk-up units, and proposes a private, rooftop deck for the 6-story scenario.

### Staff Analysis

Both projects employ high caliber design by accomplished architects, with unique features and amenities, and high quality exterior materials and finishes. The review team sees the design merits of both proposals. Several review committee members were particularly drawn to Sherman's creative design solution for the east side of the building facing the parking ramp. The proximity of the parking ramp has been a perennial challenge for the marketability of a housing development on this site with units facing the ramp. Sherman's courtyard and walkway/alleyway would create an inviting space for building residents and the general public and serve as a physical buffer to the parking ramp.

## *Streetscape Activation*

### Sherman and GREA

Both Sherman's and GREA's proposals include restaurants on the Washington Ave. S. frontage with outdoor patio seating. Both proposals also include walk-up units and landscaping on the Park Ave. frontage. GREA's proposal includes small gardens/yards for their walk-up units on Park. Only Sherman's proposal includes retail uses on the 2<sup>nd</sup> St. S. frontage in the form of an approximately 1,500 sq. ft. bakery/coffee shop (with outdoor seating) and space for a proposed 500 sq. ft. police substation.

### Staff Analysis

While both proposals find ways to activate the streetscapes along Washington and Park Avenues, the review team favors Sherman's proposal largely because of its addition of active retail/restaurant uses and outdoor seating along 2<sup>nd</sup> St. S., contributing to the overall vibrancy of street life in the Mill District.

## *Parking*

### Staff Analysis

Both projects provide parking for their residents on site and below grade. Sherman's project provides approximately 1:1 parking stalls per unit. GREA's project would supply between 1.6 and 2 parking stalls per unit. Condominium/ownership projects typically need more parking per unit than rental projects in order to be marketable. Staff finds that both proposals adequately address the parking needs of each project's residents.

## *Purchase Price*

### Sherman

Sherman has offered to purchase the site for \$3,246,840 (\$90 per sq. ft.).

### GREA

GREA assumes a land purchase price of \$1,554,000 (\$43 per sq. ft.) for a 5-story development or \$1,924,000 (\$53 per sq. ft.) for a 6-story development.

### Staff Analysis

Staff favors the Sherman purchase price since its offer price is approximately double what GREA has offered for its 5-story scenario and 1.7 times more than GREA's offer price for the 6-story scenario. Also, Sherman's price more accurately reflects the fair market value for this property as indicated by an appraisal. The RFP states that the City will not sell the parcel for less than the fair market value.

## *Public Amenities*

### Staff Analysis

Both projects include landscaping, outdoor restaurant seating, and bicycle parking, and a pet relief area lining the adjacent parking ramp. All of these items were ranked as priorities in a recent neighborhood survey.

Both proposers are looking to work with the City to provide some type of screening of the west façade of the parking ramp, but neither has committed to contribute funding to make

improvements. Any façade screening proposals for the ramp would need to be approved by the City; however the City will not pay for the improvements, so it will ultimately be incumbent on the developer to absorb those costs.

While both projects would have outdoor restaurant seating on Washington Ave., Sherman’s proposal would provide even more outdoor seating space, bicycle parking and active retail use along 2<sup>nd</sup> St. S.

In addition, Sherman is in discussions with the local organization Dog Grounds about partnering to co-manage the pet relief area. Sherman would fund the estimated \$80,000 in capital costs to build the area.

Staff favors the public amenities from Sherman’s project.

*Projected Property and Sales Taxes*

Both proposals provided some estimates of annual property taxes from the residential and retail portions of their projects along with sales taxes from the retail portions. However, in order to assure that consistent assumptions and methodologies were used in developing these figures, City Finance Department staff generated the following projections:

|                            | <u>Sherman</u> | <u>GRE A (5-story)</u> |
|----------------------------|----------------|------------------------|
| Annual City Property Taxes | \$176,455      | \$215,175              |
| Annual Local Sales Taxes*  | <u>113,766</u> | <u>68,044</u>          |
| TOTAL                      | \$290,221      | \$283,219              |

|                            | <u>Sherman</u> | <u>GRE A (6-story)</u> |
|----------------------------|----------------|------------------------|
| Annual City Property Taxes | \$176,455      | \$270,157              |
| Annual Local Sales Taxes*  | <u>113,766</u> | <u>68,044</u>          |
| TOTAL                      | \$290,221      | \$338,201              |

\*As noted above and as indicated in their proposals, Sherman’s project is assumed to have ~6,300 sq. ft. of retail and GRE A’s project is assumed to have ~2,900 sq. ft. of retail. The sales tax estimates are based on average sales to rent percentages.

In comparing estimates of the City’s share of property taxes and local sales taxes between Sherman’s project and GRE A’s 5-story building scenario, Sherman’s project would generate about \$7,000 more local tax revenues on an annual basis. In comparing the two projects using GRE A’s 6-story scenario, GRE A’s project would generate approximately \$48,000 more in local tax revenues. The relative tax benefits to the City are ultimately dependent on the different potential development scenarios, so staff is not able to offer a definitive opinion in this area.

## *Construction Timeframe*

### Sherman

Sherman anticipates obtaining financing commitments during the first half of 2017 and closing with the City on the land purchase and starting construction by September 2017. Sherman expects to complete construction by December 2018.

### GREA

As an ownership project, GREA would require 50% pre-sales by August 1, 2017 in order to start construction that fall; the construction start may be pushed out to spring of 2018 if additional pre-sales are needed in order to meet that threshold. GREA would want to reserve the right to terminate the development agreement if after 18 months pre-sales had not been sufficient or other site due diligence created an obstacle to development.

### Staff Analysis

The pre-sales requirement and contingencies to the redevelopment agreement requested by GREA add a significant level of uncertainty about the viability of its project. Staff favors the higher degree of certainty around Sherman's project.

### *Neighborhood Position*

The Ward 3 Council Member and City staff have participated in several public meetings with the Downtown Minneapolis Neighborhood Association ("DMNA") about 205 Park development objectives, RFP criteria, and proposals. The DMNA published results of a survey about neighborhood development priorities for this site that City staff used to inform the development criteria contained in the RFP. However, in addition to neighborhood preferences, the City put forward some broader development goals and public purpose objectives around affordable housing, economic development, purchase price, and the public realm that also shaped the RFP criteria for this site.

Ultimately the DMNA Board has chosen to endorse the GREA proposal for the reasons articulated in the attached letter. The City review team has taken a different stance on several of the issues raised by the DMNA for the reasons described in this report.

## **Recommendation**

For the numerous reasons described above, the review team recommends that Sherman Associates be granted exclusive negotiating rights to the 205 Park Ave. S. property for a period not to exceed six months. City staff and representatives from Sherman Associates would negotiate the terms and conditions of the sale and development of the property, and City staff would return with a term sheet for City Council consideration within this six-month period, unless the City Council approves an extension of the exclusive negotiating rights period.

If the exclusive negotiating rights period with Sherman Associates expires without a City Council approved term sheet, then staff is directed to meet with representatives of Grand Real Estate Advisors to discuss its interest in the property at that time. If GREA is still interested, and its proposed project has not changed significantly (as determined by the CPED Director), then GREA may be granted exclusive negotiating rights to the property for a period not to exceed six months. City staff would return with a term sheet for City Council consideration within this six

month period, unless the City Council approves an extension of the exclusive negotiating rights period.

**Next Steps**

Subject to the City Council's award of exclusive negotiating rights to Sherman Associates for the purchase and development of 205 Park Ave. S., staff will promptly begin negotiations with Sherman. Once an agreement between staff and Sherman is reached, staff will return to the City Council for approval of a term sheet and authorization to enter into a redevelopment contract with Sherman.

**Financial Review:**

**Select financial statement.**

**No budget impact anticipated.**

**Approved by the Permanent Review Committee. – Not Applicable**

**Meets Small and Underutilized Business Program goals. – Not Applicable**

**Attachments:**

1. DMNA's recommendation letter re: 205 Park Avenue South