

Staff Report

CAMPUSTOWN REDEVELOPMENT PROJECT UPDATE

June 24, 2011

BACKGROUND

In response to the City Council's goal to rejuvenate Campustown, a national search was conducted to identify a developer who would partner with the City and University to redevelop this commercial area so that it will become a draw to all segments of our community. After reviewing the responses from our Request For Proposals (RFP), Lane4 from Kansas City, Missouri was selected as the Master Developer. This designation was made on May 25, 2010 for a period of six months. Then on November 23, 2010, this agreement was extended for an additional six months.

It was anticipated that the next step would involve the completion of a Memorandum of Understanding which would document on a conceptual level the commitments to be made by all parties. With these conceptual commitments in place, Lane4 would then proceed to complete the necessary architectural and engineering plans that would facilitate the finalization of a Developer Agreement.

While a significant amount of time and effort have been devoted to this project, we have reached a point where Master Developer status will again need to be extended by the City Council if you hope to continue the partnership with Lane4. Prior to making this determination, the City Council will benefit from the following update regarding the proposed project.

THE PROJECT

The project, as currently envisioned by the Developer, consists of two phases; one on the east side of Welch and the other west of Welch.

The phase on the east side of Welch along Lincoln Way includes:

- Project cost of \$19,402,176 (which includes \$10,976,765 of construction costs)
- City incentive of \$1,700,000 towards the overall project cost (requires 20 year TIF and assumes the taxable valuation of the new commercial properties remains at 100% and not reduced by the State Legislature as currently being contemplated)
- Square footage totaling 60,235 (15,235 sq. ft. for drug store on first floor and 45,000 sq. ft. for offices on second to fourth floors)
- The Developer is working to secure an extension to a purchase option for all land needed to complete this phase

- Assumes the University is willing to enter into a long-term office lease starting at \$16 per sq. ft. However, Lane 4 maintains that even with this lease rate, there remains a \$3,100,000 shortfall to make this a viable project.

The phase on the west side of Welch along Lincoln Way includes:

- Project cost of \$17,393,497 (which includes \$7,418,000 of construction costs)
- City Incentive of \$3,100,000 towards the overall project cost (requires 20 year TIF and assumes the taxable valuation of the new commercial properties remains at 100% and not reduced by the State Legislature as currently being contemplated)
- Square footage totaling 62,000 (14,000 sq. ft. for retail space on first floor and 48,000 sq. ft. for hotel on second to fourth floors)
- According to the Developer, property owners have been offered 110% of assessed valuation. To date, no purchase options have been secured for any properties in this phase.
- Because of the lack of control over the land, the Developer has indicated it is not possible at this time to guarantee that the second phase will be built. This position is in conflict with the University's original requirement that a commitment must be made by the Developer to construct both phases before a long-term office lease will be signed by ISU.
- The University has not yet determined if they will commit to cease operation of the Memorial Union Hotel. This was a condition required by the Developer in order for them to proceed with the construction of a hotel in this phase.

LANE4's COMMENTS

- Under the best of conditions, development of any innovative, mixed-use project is normally a lengthy process. In this economic climate, project planning is even more critical and must be considered within the context of market trends and budgetary influences.
- State-level budgeting restrictions have created challenges and delayed the project due to the inability of the University to commit to the office component at this time. The parties are working to decrease costs and find perhaps other users for the office component
- While this extends the redevelopment timeline, they feel this additional due diligence is vital to creating a project that will deliver the best value to the highest number of project stakeholders.

- The fundamentals of the project remain strong—a densely populated area with significant unmet commercial demand.
- High levels of enthusiasm and support have been received from the community and prospective customers, City and University officials, and hotel and retailers, indicating a strong commitment to move forward.
- Current plans for the mixed-use project remain and include approximately 45,000 square feet of new office space, a modern hotel, and 30,000 square feet of retail space, including a drug or grocery store.
- Innovative, state-of-the-art architecture and design approaches are planned for providing a pedestrian-oriented, environmentally friendly project that features the latest in sustainable technology.

OUTSTANDING ISSUES

In order to move ahead with the next step to develop a Memorandum of Understanding, the following issues must be resolved within the coming months:

- **How will the \$3,100,000 financing gap related to the east phase be filled?** The Developers would like more time to approach the ISU Foundation to explore a possible partnership arrangement in this project. More time is needed to accomplish this dialogue.
- **Are the University and the City, willing to allow the Developer to proceed with the east phase without any assurance that the west phase will ever be accomplished?** From the beginning of our conversations with the Developer it was the expectation of both the University and City staff that support would not be forthcoming without a commitment to both phases. The University does not want to relocate 45,000 sq. ft. of office space to the east phase as an incentive to the project, only to find out that significant improvements are not going to be made elsewhere in Campustown. The Developer has voiced a concern about committing to the west phase since the land in this area is not under their control and, therefore, the economic viability of this second phase cannot be assured at this time. The University would like more time to make a final decision regarding this issue.
- **Is the University willing to cease operation of the Memorial Union hotel as a condition for including a new hotel in the west phase?** The University needs more time to make a final decision regarding this issue. If the University agrees to this condition, the Developer would like more time to secure a hotel operator.
- **Is the City Council willing to exercise its power of eminent domain in order to assist the Developer in its effort to assemble land for this project?** At this time, it appears that this tool might be needed to accomplish the west phase development. The Developer has recently focused their attention to the east

phase. They would like more time to further pursue the purchase of land in the west phase.

- **What happens if after December 31st, despite our best efforts, neither phase can proceed because the economy has not improved to a point where tenants have been identified for either the east or west phases?** The Developer would like the City Council to consider an arrangement to provide some type of exclusivity. The City Council will need to analyze this proposal very closely. We don't want to be in a position where another developer is willing and able to proceed with a project and we are forced to reject a viable project as we wait for a year or two for Lane4 to be in a position to move forward with a project.
- **In addition to the TIF incentive for both phases and the contribution of the City parking lot on the east side to the development, there appears to be a need for the City to expend additional funds to deal with off-site improvements not contained in the Developer's plan.** It is possible that over \$1,000,000 of additional City costs related to street, storm water, water, and sewer off-site improvements might be needed to accommodate this new development. The need for additional financial support will be determined at a later date as the development plan specifics become known.

NEXT STEPS

Because of the issues raised by the Developer and the outstanding questions that need answers, the Developer is requesting an additional extension of the Master Developer Agreement through November 21, 2011. If the City Council hopes to continue the partnership with Lane4 to accomplish one of your top priorities, then it would be appropriate to approve a resolution to support this extension.



May 18, 2011

Hon. Mayor Ann Campbell
Member of the Ames, Iowa City Council
515 Clark Avenue
Ames, IA 50010

Mr. Steve Schainker
City Manager
515 Clark Avenue
Ames, IA 50010

Re: Campustown Redevelopment – Master Developer Agreement

Madame Mayor, Members of the Council & Mr. Schainker:

As you know, LANE4 Property Group, Inc. previously entered into a Master Developer Agreement, dated November 21, 2010, with the City of Ames and Iowa State University, which Agreement set forth certain preliminary rights and obligations of the parties with respect to the redevelopment of portions of Campustown. The Master Developer Agreement contemplated that the parties would execute a Memorandum of Understanding, more specifically setting forth each party's rights and obligations in connection with the Campustown redevelopment, on or before May 20, 2011, but allowing for the parties to negotiate extensions in the event they were unable to negotiate and execute the Memorandum of Understanding by that date. I am writing today to request an extension of the term of the Master Developer Agreement for an additional 180 days to November 21, 2011.

Pursuant to the memorandum that City Manager Steve Schainker has provided you, the national economy and difficulties on behalf of Iowa State University's funding have provided substantial hurdles on the Project.

We have been working diligently to move the project forward, however, we do ask for an additional 180 days so that we may continue to progress in obtaining real estate contracts for additional property, negotiating letters of intent with prospective tenants, meeting with City staff regarding required zoning and planning issues, and generally finalizing our plans for the redevelopment.

We remain extremely excited about the redevelopment of Campustown, look forward to continuing our work with the City of Ames in that pursuit, and appreciate your consideration of extending the Master Developer Agreement. If you have any questions or comments, please do not hesitate to contact me.

Sincerely,

Hunter Harris
LANE4 Property Group, Inc.

cc: Mr. Warren R. Madden