

ITEM #: 27
DATE: 11-12-24
DEPT: CMO

COUNCIL ACTION FORM

**SUBJECT: **REQUEST FOR TAX ABATEMENT INCENTIVE FOR FURNITURE STORE
CONSTRUCTION NORTH OF S.E. 5TH STREET BETWEEN
TARGET AND WALMART****

BACKGROUND:

At the October 22, 2024 meeting, the City Council directed that the letter from Troy Eichmann, Chief Operating Officer for Furniture Mart USA, requesting a five-year property tax abatement incentive be placed on a future agenda for consideration. Mr. Eichmann has indicated to City staff it is his company's desire to construct a new furniture store building located on the north side of S.E. 5th Street between Target and Walmart that would house two brands: Ashley HomeStore and Furniture Mart.

Mr. Eichmann has provided the following information about the two brands:

- **Ashley**
Furniture Mart USA is the sole licensee of Ashley HomeStore for the entire State of Iowa. This brand provides contemporary looks of good quality and high value to customers. The HomeStore offers exclusive products that can only be found in their stores and as a result provides customers with a special customer opportunity.
- **Furniture Mart**
Furniture Mart is a proprietary retail brand with brick-and-mortar locations in four Midwest states, including South Dakota, North Dakota, Minnesota, and Iowa. This brand offers custom special orders as well as other non-Ashley related products that are sourced throughout the world from a large list of manufacturers. This brand caters to the special order customer who wants a specific look for their home by way of furniture frame (i.e., look), fabric, or other special features.

As described to staff, the proposed 91,000 square foot building will consist of an Ashley Homestore, Furniture Mart (which includes La-Z-Boy, Flexsteel, Holland House, and Aspen House furniture), a shared bedding gallery, and warehouse. The estimated assessed value of the new development would be \$7,000,000 with estimated annual sales of \$9,000,000 to \$10,000,000.

It appears that Mr. Eichmann's company has performed its own market analysis and determined that Ames would be a prime site to locate one of their new stores. Evidence of their commitment to the Ames community is that they have purchased the property and, in addition, will be investing a substantial amount of funds this fall to fill the site to make it developable in the flood plain. However, Mr. Eichmann has indicated that the company is continuing to evaluate other growth opportunities throughout the country, and the granting of a partial tax abatement would serve to prioritize the Ames project over other opportunities so that construction of a new furniture store in Ames could begin as soon as spring 2025.

Currently, the City has granted this type of property tax abatement based on the areas within the city in which the Council would like to see development occur (Campustown, Downtown, S.E.

16th Street as well as specific Highway Oriented Commercial areas), and not based on specific uses or specific name brand companies.

The City's five-year schedule for tax abatement in Urban Revitalization Areas includes: a 100% tax abatement for the first year, a 80% tax abatement for the second year, a 60% abatement for the third year, a 40% abatement for the fourth year, and a 20% abatement for the fifth year.

Over the years, anecdotal observations and market studies have indicated that the lack of a major furniture store in Ames has resulted in our residents having to travel to Redeker's in Boone, to Homemakers in Urbandale, and to other such smaller stores throughout the region. Staff was provided a market analysis report from the company Claritas that describes potential sales demand and supply by a defined geography. The report identified that for Ames alone, there is approximately a \$5.7 million opportunity gap for furniture store sales, meaning potential demand that exceeds available supply within the Ames City boundaries. If the trade area is expanded to a 20-minute travel distance, including locations such as Nevada, Huxley, and Gilbert, the opportunity gap increases to \$13.1 million dollars. Because of the lack of a major furniture store in Ames, the Council could justify, in this one instance, to offer a partial property tax abatement incentive targeted to this specific use in an effort to mitigate the leakage of furniture sales.

Urban Revitalization Area (URA) Criteria

If Council believes the unique sales leakage issue justifies a short-term incentive program to try to encourage the construction of a furniture store as soon as possible, staff believes creating a short-duration URA that provides for a five-year partial property tax abatement would be appropriate. The abatement would apply to new improvements to the land, but it does not exempt the base land value. The URA would encompass the property on the north side of S.E. 5th Street consistent with state law requirements. Criteria for the abatement would include a minimum store size of 90,000 square feet, issuance of a building permit for construction of building in 2025, and completion of the building within 18 months of the issuance of the building permit. A minimum assessment agreement is also a requirement under state law for new commercial tax abatement incentives.

ALTERNATIVES:

1. Support the request by directing staff to create an Urban Revitalization Area (URA) encompassing the property purchased on the north side of S.E. 5th Street, which will include a five-year partial tax abatement incentive along with eligibility criteria such as a starting the date/completion dates for construction, minimum size of the building(s), minimum taxable value of the building, etc.

Once the URA is prepared, it will be brought back to the City Council at a later date for final approval.

2. Deny the request to support a tax abatement incentive with the understanding that this project might be delayed for some time.

This alternative will continue the inconvenience to our residents who travel outside of Ames to purchase furniture and postpone any potential increase in local sales tax revenue to the City that might be gained.

CITY MANAGER'S RECOMMENDED ACTION:

The approval of this request for a partial tax abatement incentive for this one new development project will expedite constructing of a store at a location already acquired by the applicant. Adding this use, with its substantial sales leakage, should increase the amount of local option sales tax receipts to the City at time when additional non-property tax revenue sources are very much needed.

The unique sales leakage issue justifies a short-term incentive program to try encouraging the use as soon as possible. Staff believes creating a short duration Urban Revitalization Area (URA) that provides for a 5-year partial property tax abatement would be appropriate. The abatement will apply to new improvements to the land, but it does not exempt the base land value. The URA would encompass the property on the north side of S.E. 5th Street. Therefore, it is the recommendation of the City Manager that the City Council approve Alternative #1.

The recommendation for tax abatement is subject to the following criteria being added to the URA: 1) a minimum store size of 90,000 square feet, 2) issuance of a building permit in 2025, and 3) completion of the building within 18 months of the issuance of the building permit. It should be noted that a minimum assessment agreement is also a requirement under state law for new commercial tax abatement incentives.

ATTACHMENT(S):

[24196_StorefrontRenderings_20241003.pdf](#)

[2024-08-19 building plan Plan1A7 \(1\).pdf](#)