

# LAND DISPOSITION & ACQUISITION REPORT

## COMMON COUNCIL OF THE CITY OF MILWAUKEE

### DATE

March 27, 2012

### RESPONSIBLE STAFF

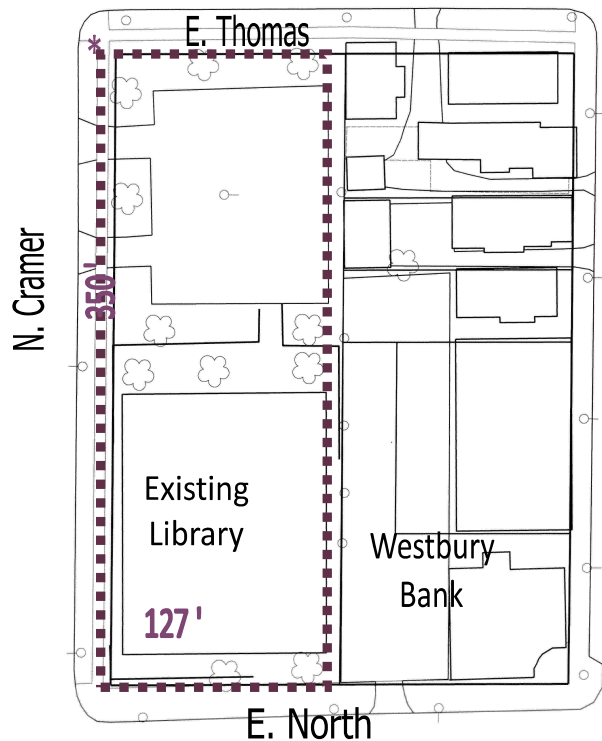
Paula Kiely, Library Director, and Elaine Miller, DCD Real Estate Manager

#### PROPERTY & BACKGROUND

1910 East North Avenue, MPL's East Library Branch: A 44,450 SF site improved with a 15,000 SF branch library constructed in 1967. If not redeveloped, the building would require a major upgrade of the HVAC system.

In line with MPL's strategic plan and the City's Northeast Area Plan, a Request for Proposal was issued in July 2011 for conceptual proposals for a private development partner that would in part:

- Acquire the property at minimal cost in exchange for a mixed-use development that includes a new East Library branch
- Meet MPL's requirements for a modern library with a highly visible, ground-floor location, easily accessible parking and a single public entry point.
- Create a two-unit condominium and convey the East Library shell to the City at no cost
- Provide a signature design that reflects 21st century architecture and public library service and that would conform to the new East Side Architectural Review Board guidelines.
- Provide a secondary use that would contribute to the East Side Business District and surrounding residential neighborhoods
- Compliance with City policies for payment of prevailing wages and SBE participation.
- Provide space for a temporary library at its cost at a ground-level location within one-half mile.



\* Five feet of excess right of way has been vacated

#### DEVELOPER & DESIGN SELECTION

Three conceptual proposals were received and presented to MPL and the public for review and comment: Stone House Development, Gorman & Company and HSI Properties.

An Advisory Panel consisting of representatives from MPL, DCD the East Side BID, UWM School of Architecture and the neighborhood conducted the preliminary review. The panel recommended that all three parties submit formal proposals for MPL's evaluation. MPL invited the three parties to refine their proposal and to make changes suggested by the Advisory Panel, the MPL Board of Trustees and the public.

Refined proposals were presented to the MPL Building & Development Committee at a public meeting in November. The committee recommended selection of the HSI proposal, a recommendation that was approved by the MPL Board of Trustees conditioned on some design modifications. The Board authorized negotiation of a Development Agreement for presentation to MPL and the Common Council.

The design was revised as requested by MPL. The design has been conditionally approved by the East Side Architectural Review Board. Additional approval is needed for material selection, landscaping, street improvements and signage.

### DEVELOPER

HSI Properties, LLC, was the developer selected by the MPL Board of Trustees to design and construct the project. The company has created HSI East Library Residential, LLC to purchase the property and develop the project.

HSI is a development company created in 2009 by Ryan Schultz and Brett Haney. Projects include the Derse facility in the Menomonee Valley Business Park, the Enclave Luxury Apartments in Wauwatosa and the Junior Achievement Kohl's Education Center. Another team member will be Blair Williams of WiRED Properties, who may be a member of the new LLC as well as a development consultant. Engberg Anderson is the project architect.

### PROPERTY REDEVELOPMENT

The project involves demolition of the existing structure and construction of "The Standard," a new, four-story building. The East Library and approximately 2,150 SF of commercial space will be located on the ground level. The upper floors will provide 92, market-rate rental apartments. Parking will be a mix of surface, enclosed and underground spaces. The preliminary design has been conditionally approved by East Side Architectural Review Board subject to approval of final materials, signage and public improvements.



The East Library will have a highly visible, prominent location at the corner of North Avenue and Cramer Street, as required by MPL. The branch will contain approximately 16,000 SF of the ground floor, which is slightly larger than the current library. MPL will also have areas for building mechanicals in the building and on the roof. Library parking will be provided by 30 surface spaces and nine enclosed spaces.

Construction will be according to MPL construction specifications. A single library entry will be provided on Cramer for easy access from North Avenue and the parking area. A central passage on the building ground floor will provide access to the parking area as well as outdoor open space for library use. A key design element is the incorporation of the stained glass windows in the current building that were commissioned as art for the East Library.

The major secondary use is a 92-unit apartment on the upper level. The apartments will be primarily one-bedroom with some two bedroom and studio units. The units will be market-rate rental units that will target the young professionals that are attracted to the East Side. The building lobby will face Cramer Street and a 113-car underground garage will serve the apartments with access shared with the library lot from either Cramer or Thomas, which minimizes curb cuts. Many units will have balconies or will be recessed in bays that will animate the street façade. Resident amenities include a green roof terrace above the library, a common room and an exercise room.



The ground floor will include approximately 2,150 SF of ground floor commercial space. This space fronts North Avenue and provides a business connection to the East Side Business Improvement District. Use will be restricted slightly to prohibit conflict with library patrons such as tavern use, adult entertainment or animal related uses.

Total development costs are estimated to be \$14.86 million. HSI intends to finance the project with a loan guarantee from the US Department of Housing and Urban Development (HUD) – the Section 221(d)(4) program. The mortgage will be facilitated by Grandbridge Real Estate Capital, LLC, which has participated with HSI on the Enclave Apartments. Because the library component constitutes a “public work,” HSI will pay prevailing wages on the library component of the project and possibly the full building. HSI will also make best efforts for the City’s Small Business Enterprise participation.

## **PURCHASE, SALE & DEVELOPMENT AGREEMENT**

A Purchase, Sale & Development Agreement has been negotiated with HSI by MPL, DCD and the City Attorney to outline the full project for initial conveyance to acquisition of a new library and completion of the full building. A key component of the agreement is to define the project as a "public work" because of the future acquisition of a public facility from a private developer. The document outlines prevailing wage, open record and audit requirements that are required of all municipal projects. The agreement details MPL's construction requirements for the new facility.

The "consideration" will be a nominal \$20,000 initial purchase price plus future conveyance of a Library Condominium in a "gray box" condition and provision of a temporary library during construction. The project is designed to be cost neutral to the City with the exception of future interior build out by MPL. The minimal price is expected to cover the City's sale and repurchase expenses.

The agreement provides a flexible period for closing with HSI to allow for the HUD loan guarantee application and review. HSI must submit the preliminary application to HUD on or before May 30, 2012, which period will allow HSI time to complete its due diligence activities as well as prepare the application. HUD is expected to issue an "invitation" for a formal application within 90 days. The Section 221(d)(4) application is quite detailed and will require submission of construction plans and specifications that are 90% complete. HSI must report periodically to the Library Director on the HUD application and review process. A closing would occur within 90 days of the HUD's guarantee approval, but no later than May 31, 2013. The Library Director may extend this period based on documented delays by HUD during the review process or due to delays with construction plan preparation.

In the event HUD rejects the loan guarantee application, HSI shall have the option to pursue alternate financing for six months. Upon receipt of a preliminary financing commitment, HSI shall have 90 additional days to close the transaction. This period may also be extended by the Library Director based on favorable progress to obtain needed financing.

Conveyance terms will be similar to other City transactions. The buyer cannot be in violation of the City's General Buyer Policies for tax delinquency, code violations, etc. and the property will be conveyed on an "as is, where is" basis. The deed will prohibit the buyer or successors from applying to the City for tax-exempt property status.

HSI shall provide a 5,000 SF minimum space for a temporary East Library within one-half mile of the current facility and subject to approval by the Library Director. The agreement provides a four-month period following closing for MPL to make minor improvements to the space and obtain computer and telecommunication services.

The Agreement anticipates a nine to 12-month period following conveyance of the property to complete the building shell. MPL will finish the library interior, which is expected to take approximately ten months. Full building completion should be done within 20 months following the initial closing. If HUD approvals are received in a timely manner, the new East Library should open in early 2015. If multiple financing methods need to be pursued, the library opening would be delayed until 2016.

## **LIBRARY REACQUISITION**

After completion of the building shell, a two unit condominium will be created: the City Library Unit and the HSI unit. MPL and the City Attorney will negotiate the condominium declaration with HSI and will present the document to the Council for approval.

The library condominium will be conveyed to the City at no cost to the City other than customary closing costs. Closing costs may be paid from any purchase price not needed for initial sale expenses and that will be held by DCD until the second closing. After acquisition, MPL will complete the interior finish of the library. MPL issued a Request for Qualifications for architectural services for the interior build-out and is in the review and selection process.

**FUTURE REDEVELOPMENT**

The Purchase and Development Agreement also addresses the situation that the Library condominium is no longer needed for municipal purposes. If the City sells the unit while HSI still owns its condominium, additional use restrictions will be placed on the sale to prevent conflicts with the residences such as taverns/night clubs, industrial uses, automotive uses, etc. Such use restrictions are common with Requests for Proposals for City property sales.