



Department of City Development


City Plan Commission
Historic Preservation Commission
Neighborhood Improvement
Development Corporation
Redevelopment Authority

Rocky Marcoux
Commissioner

Martha L. Brown
Deputy Commissioner

DATE: August 24, 2007

TO: Alderman Michael D'Amato, Chair
Zoning, Neighborhoods and Development Committee

FROM: Rocky Marcoux, Commissioner 

RE: File No. 060961 – Proposed Tax Increment District for
731-735 North Water Street Project

This file is held in Council and is scheduled for a vote on September 5, 2007.

At the last Common Council meeting, questions were raised regarding the proposal to assist the renovation of the 735 North Water Street office building, and whether the project conflicted with S. B. Friedman & Company's recent conclusions as to the downtown office market.

Attached is a memo from S. B. Friedman & Company which addresses this question. We urge you to read this brief memo as it puts in context the 735 Project and Friedman's recommendations on when the City should provide financial support to a downtown office project.

Attachment

c: Common Council members

Date: August 23, 2007
To: Redevelopment Authority of the City of Milwaukee
From: *S. B. Friedman & Company*
Subject: **Analysis of 735 N. Water Street Project versus June 2007 *SBFCo* Downtown Market Strategy Report**

This memo is intended to place Compass Properties' proposed renovation of the existing office complex at 731-5 N. Water Street, and the associated request for TID assistance, within the context of *SBFCo*'s office market conclusions and recommendations presented in the June 6 report entitled "Downtown Projects: Strategic Analysis."

Unlike the projects primarily contemplated in the June 6 report, the proposed 735 N. Water investment would not increase the overall square footage of office space in the Downtown sub-market, and thus not directly impact the existing market vacancy rate. To the extent that Downtown vacancy is partially affected by the presence of a less attractive/competitive space, the proposed improvements would increase the average quality of space overall, thus allowing it to compete more effectively for regional market share.

The proposed improvements to 735 North Water Street include installation of fire suppression systems, a connection to the Milwaukee Skywalk system, façade renovations, and the creation of a new restaurant space. The redevelopment program for 731 North Water Street includes asbestos removal and abatement, conversion of the building to an elevator-driven parking garage, construction of seven luxury condominiums in the existing building, and the creation of four boat slips along the Milwaukee River. These proposed improvements (including the condo component) represent about \$24.8 million of new investment, and that the proposed TID assistance package consists of:

- Approximately \$1.6 million in City bond proceeds for riverwalk upgrades
- \$1.5 million in TID-backed gap financing to be financed by the developer and repayable only through available incremental property taxes arising from the project

Based on our review, *SBFCo* believes that:

- The proposed City TID assistance to the 731-5 N. Water project is generally consistent with the criteria for such assistance suggested by *SBFCo* in the June 6 report; and

- The proposed financing structure is crafted to mitigate the risk to taxpayers and limit the likelihood that City assistance to this project would create an undesirable market precedent

Analysis Against June 6 Report Criteria

The June 6 report identified several criteria that could be used to justify City financial support of Downtown office project. The following three such criteria appear to apply to the 731-5 N. Water Street proposal:

1. “The proposed project is strategically located to reinforce the strength and attractiveness of the existing office core.”

The 735 N. Water building is an iconic structure in the heart of the Downtown office cluster. The current partially-leased state of the building detracts from the overall image and critical mass in this office core. Replacement of the existing structure with a new office building does not appear to be a desirable option, either from the standpoint of financial feasibility or historic preservation. Therefore, the best available strategy appears to be the encouragement of substantial reinvestment in the existing structure to increase the vitality in this strategic location.

2. “The proposed project would substantially contribute to the periodic upgrading of the Downtown Milwaukee office inventory to include the technology infrastructure, amenities, and floorplans needed to compete regionally and nationally.”

This criterion appears applicable primarily from a regional competitiveness standpoint. Compass Properties’ proposed Riverwalk improvements would expand public access and add ADA accessibility to an older section of Milwaukee’s Riverwalk—an important amenity that sets Downtown apart from its major suburban competitors. The proposed restaurant improvement would also increase the amenity level available to office tenants in both the 735 N Water building and adjacent structures. The presence of nearby amenities is typically a major driver of market rent levels and the leasing decisions of key tenants.

Further, the proposed retrofits to the building, particularly parking, appear likely to allow the property to compete more effectively on a regional scale for tenants.

3. “More dated buildings in the Downtown inventory...have adequate potential for re-use by a different class of tenant or conversion to a different use, such as residential.”

As an older building within the Downtown inventory, the 735 N. Water building will require reinvestment to remain a viable office property. This criterion is applicable not because of the impacts that the 735 N. Water improvements would likely have on other projects, but rather based on the fact that the contemplated TID assistance would help the building adapt to a changing market and remain adequately attractive to Class B tenants.