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A TALE OF TWO PROJECTS

CREATIVE APPROACHES TO PROJECT FINANCING

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□ Ingredients for a good partnership:

- Real and perceived benefits (financial and public) from the project to the Developer and the community
- Project rooted in market reality
- A creative team of professionals representing both parties operating in sync

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- Ingredients for a good partnership:
 - Thorough understanding of the potential public financing tools available and procedures for implementation
 - Recognition that each party has different needs and each are valid
 - Willingness to compromise without hormonal / ego tantrums

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- Ingredients for a good partnership:
 - An implementation schedule and commitment to stick to it
 - A public relations / information program to provide **correct** information about the project
 - Elected officials committed to the project and not afraid of the media

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Two Case Studies

- **West County Center**
Des Peres, MO
Blight is in the Eye of Beholder
(and the courts)
- **Edison Brothers Warehouse**
St. Louis, MO
A Study in Creative Financial
Packaging
(and use of public financing tools)

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Project Background

West County Center

- ❑ 30-year old two-anchor enclosed mall comprising 586,000 Sq. Ft.
- ❑ Declining sales and assessed value
- ❑ Deteriorating site improvements
- ❑ Increasing vacancy in mall space
- ❑ Site constrained to 52 acres
- ❑ Primary source of tax revenue to City and School District

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Project Background

West County Center

- ❑ Located at the intersection of two of the metro area's busiest roadways
- ❑ Central to the region's highest income residential areas
- ❑ New ownership (Westfield) interested in redevelopment
- ❑ City willing to assist with Tax Increment Financing (TIF)

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Project Background

West County Center



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Project Background

West County Center

- Required that the mall site be declared a “blighted area” as defined in the MO TIF Statute

“an area which, by reason of the predominance of defective or inadequate street layout, insanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use;”

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Project Background

West County Center

- Deteriorating water line had been breaking an average of 6 times per year
- Entire roof system leaking; needed total replacement
- Decorative brick wall connecting anchor stores in danger of collapse

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Project Background

West County Center

- 35% of mall space was vacant
- Platting created oddly-shaped and land-locked parcels
- Property and sales taxes had been declining for 5 years
- Site size meant adding more mall space and anchor stores would require total demolition of existing mall

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Project Background

West County Center

- City declared the property to be blighted based on extensive qualifications analysis and vote of TIF Commission
- City adopted TIF Redevelopment Plan in 1998 providing \$29.5 million in TIF assistance based on overall project cost of \$286 million
- 25% of new (incremental) annual revenue passed on to taxing districts

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Project Background

West County Center

- Demolition and construction of new center begun in 2000 after 2 years of court proceedings
- New mall opened Sept 2002; Contains 5 anchors and total of 1.3 million Sq. Ft. of GLA (anchors and mall space)
- Developer required to pay sales and property taxes equal to pre-demolition levels during construction

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Project Background

West County Center



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Issues

West County Center

- ❑ Idea of “blight” in a toney suburb caught attention of media
- ❑ Nordstrom tenancy was purported to be paid for by TIF funds (two other centers competed for this tenant)
- ❑ Using Des Peres resident (attorney) as a “front” competing center owners filed suit challenging TIF

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Issues

West County Center

- ❑ One of the plaintiffs had received a \$17 million TIF for redevelopment of another mall (with similar factors)
- ❑ Deep pockets of developer and plaintiffs virtually ensured that the challenge to the TIF would go to the State supreme court
- ❑ Circuit Court Trial (bench) lasted nearly a week

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Outcome

West County Center

- ❑ TIF upheld at every court level
- ❑ Attention to statutory procedure, knowledge of statute and case law, and evidence supporting eligibility was key to legal outcome
- ❑ Expertise of City/Developer Project Team was also key to legal outcome

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Outcome

West County Center

- TIF opponents citing the West County Center case have made unsuccessful efforts in every session of the Missouri General Assembly since 2000 to limit the use of TIF to non-suburban, “affluent” communities.

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Project Background **Edison Brothers Warehouse**

- Thirteen-story historic warehouse building originally built by JC Penney
- Entire west and south façades embellished with tour de l'oeil (trick of the eye) mural
- Located in Downtown St. Louis next to Savvis Center, near Busch Stadium and adjacent to I-64

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Project Background

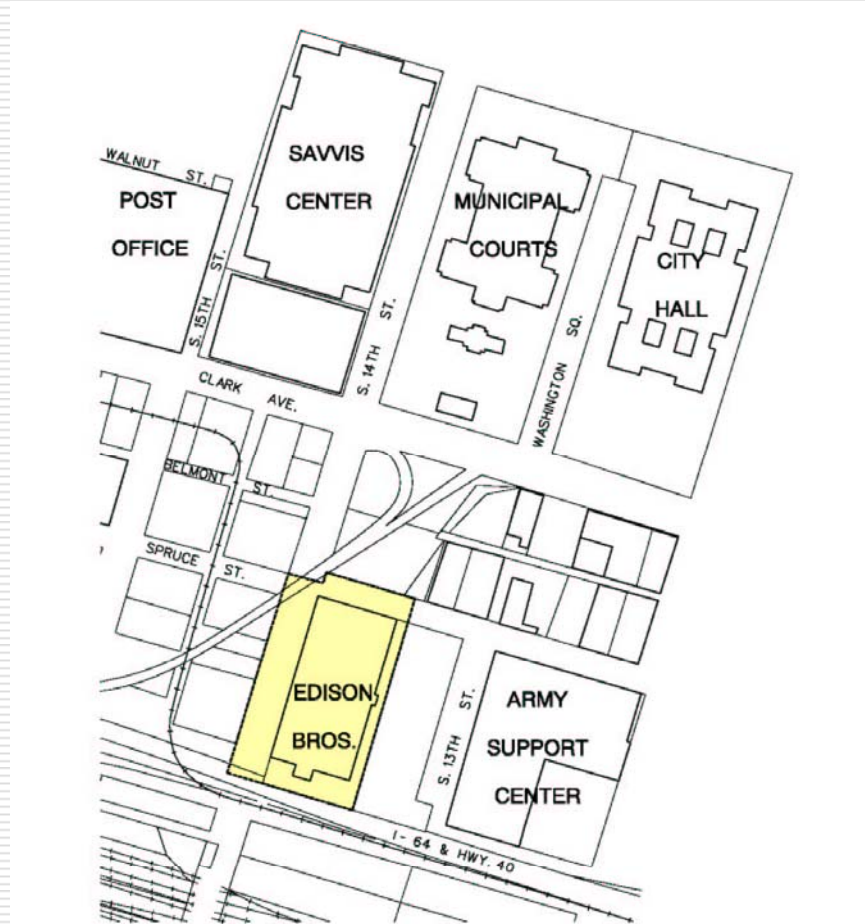
Edison Brothers Warehouse



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Project Background

Edison Brothers Warehouse



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Project Background **Edison Brothers Warehouse**

- ❑ Approximately 400,000 Sq. Ft. – each floor the size of a football field
- ❑ Vacant for 7 years
- ❑ Little on site parking
- ❑ Obsolete for modern warehousing
- ❑ Site barely larger than building footprint

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Project Background **Edison Brothers Warehouse**

- ❑ Existing stairwells, elevators, and plumbing inappropriately located for potential uses (apartments or condos, hotel)
- ❑ Massive interior columns and concrete floors more than 3 feet thick on some lower floors
- ❑ Asbestos & lead paint throughout building

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Issues

Edison Brothers Warehouse

- How to finance costs for converting to Sheraton Hotel, residential condos, and internal parking garage:
 - Construction of parking ramps and central atrium for hotel and condos required cutting through the thirteen concrete floors
 - Removal of asbestos & lead paint and other design issues had implications for historic designation of the building

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Issues

Edison Brothers Warehouse

- ❑ No one means of public financial assistance could cover cost gap (\$6 million of total \$32 million project)
- ❑ City and Developer project team attempted to identify all potential public financing mechanisms

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Outcome

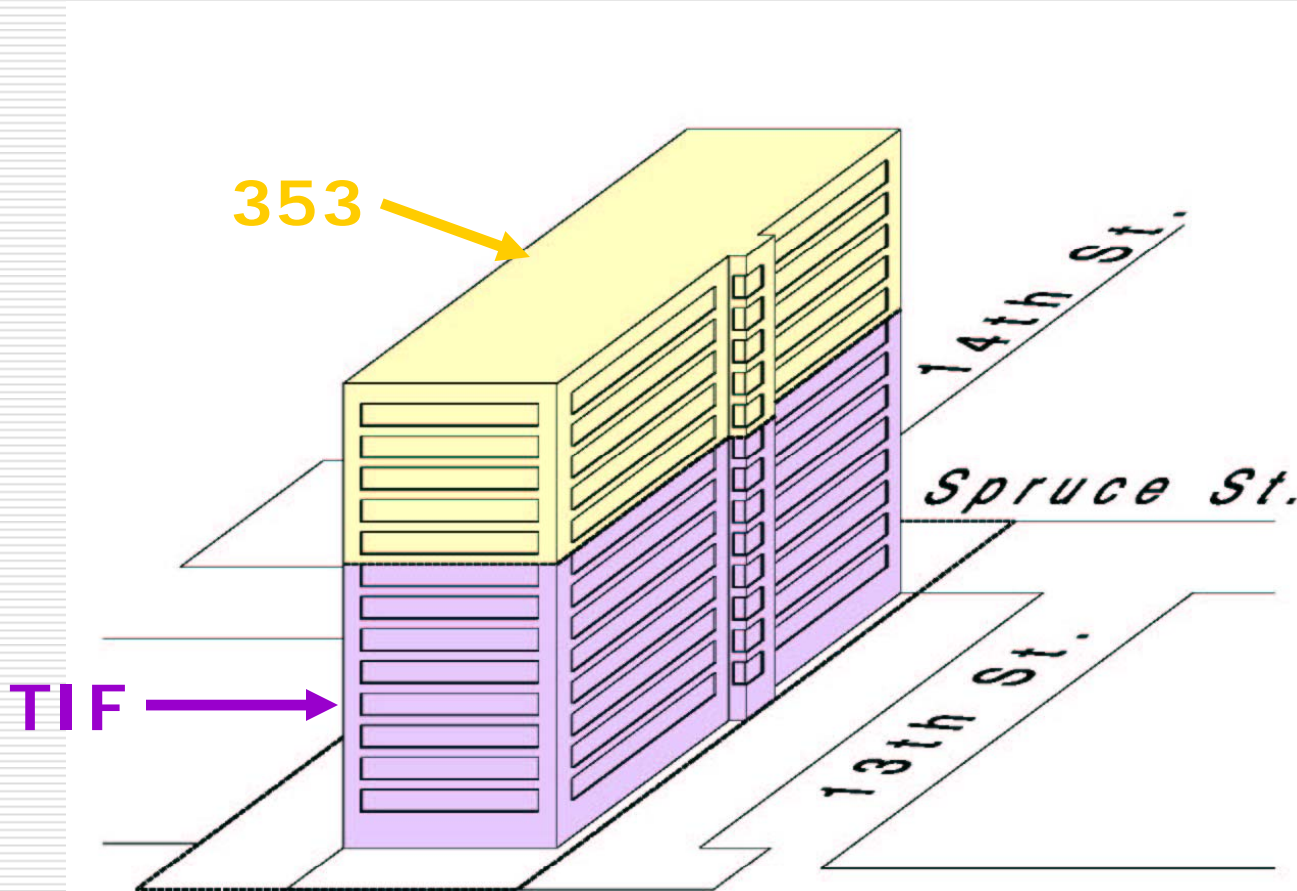
Edison Brothers Warehouse

- Mechanisms used:
 - Tax Increment Financing
 - State and Federal Historic Tax Credits
 - State Brownfield Tax Credits
 - Missouri Chapter 353 Real Estate Tax Abatement (for condos on floors 9 through 12)
- Complex financing took more than 12 months to complete

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Outcome

Edison Brothers Warehouse



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Outcome

Edison Brothers Warehouse

- ❑ Hotel and condos opened in 2002
- ❑ Hotel occupancy the highest in the City
- ❑ 50% of condos currently sold
- ❑ On-site restaurants and bars highly successful
- ❑ Combination of financial tools and strength of developer made the deal possible

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Outcome

Edison Brothers Warehouse

- Thinking “outside the box” created the “floating” 353 tax abatement district for the condos
- Creative design helped to retain the building’s local historic designation and garnered the Federal designation that made the tax credits possible

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