

## **Executive Summary for 3821-3851 Steele Street**

### **Background**

In the late 1990s, the Denver OED provided a series of loans to Inner-city Community Development Corporation (ICDC) to encourage and support the redevelopment of the former supply warehouse property located at the southwest corner of 38<sup>th</sup> and York, in Denver's Clayton neighborhood. As part of the project's redevelopment, the developer entered into a Redevelopment Plan with DURA that provided TIF to assist with the redevelopment of the Property. Currently, the City receives the annual TIF payments from DURA under the terms of the Redevelopment Agreement entered into in 1997.

In 2007, following a default by ICDC on its OED obligations, the City entered into a Settlement Agreement with ICDC and assumed all obligations as tenant under the Land Lease Agreement with North Denver Industrial LLC, for a portion of the fully planned redevelopment area (otherwise known as 38<sup>th</sup> and York). The City now has an opportunity to acquire the fee interest (own the property outright) from North Denver Industrial LLC which would allow for the sale of the property by the City, along with the existing buildings on the property, to a private developer to stem negative cash flow from property operations.

In addition to being obligated to make monthly rent payments, the City has an outstanding obligation of approximately \$2.3MM that is related to a HUD 108 loan. As a key component of the sale, the right to the TIF payments will be assigned to the purchaser pending approval by DURA. As a condition of sale, DURA will impose certain requirements on the purchaser.

The City has several subleases in place for approximately 60,000 square feet of space leaving approximately 70,000 square feet of space available for lease. Two units at the complex were destroyed by fire a number of years ago and now are concrete pads. The City has marketed the vacant commercial space, while seeking a buyer for the property as its primary exit strategy. The City recently entered into a lease with Liquid Enterprises for approximately 12,298 square feet that just worked its way through the City Council process. Notwithstanding the current leases in place, the City incurs significant negative cash flow each month, due to property operating expenses, monthly lease payments to North Industrial LLC, and payments on the HUD 108 loan.

### **Proposed Purchase of Fee Interest and Sale of Property**

Under the Master Lease, the City has an option to purchase the fee interest from North Industrial LLC at a price tied to a base amount set forth the Lease Agreement which is annually adjusted by a CPI related formula. Should the City exercise its purchase option for the leasehold interest, the estimated purchase price is approximately \$1,200,000.

Recently, the City entered into a Purchase and Sale Agreement for \$ 2,150,000 with a property investor who wishes to own the property outright. The purchaser, Ken Wolf, is acting through a recently formed entity known as East 38<sup>th</sup> Avenue Properties.

The proposed transaction is for the City to exercise its option to purchase the fee interest in the property and immediately convey the asset in its entirety to East 38<sup>th</sup> Avenue Properties. This would be achieved by a simultaneous closing. If feasible under the City and HUD's accounting controls, the City would use a portion of the purchaser's cash to buy the property at closing, thereby eliminating the need for a cash advance. This aspect of the transaction is being fully determined. As part of the current proposed transaction, the City will assign its rights to receive the TIF to the Purchaser of the property contingent upon approval by DURA.