



## **Request for City Council Committee Action from the Department of Community Planning and Economic Development**

**Date:** December 11, 2012

**To:** Council Member Lisa Goodman, Chair, Community Development Committee

**Subject:** Development rights for the Hollywood Theater property

**Recommendation:** 1) Grant Andrew Volna exclusive development rights to 2815 and 2819 Johnson Street NE, aka the Hollywood Theater property, for a period of 12 months with a possible extension of up to 6 months approvable by the CPED Director and 2) authorize staff to negotiate the terms of contract for redevelopment and direct sale of the property to Andrew Volna or an entity in which Andrew Volna is a principle partner, subject to subsequent Council review and authorization.

**Previous Directives:** August 27, 1993: Minneapolis Community Development Agency ("MCDA") Board directed staff to acquire and stabilize the Hollywood Theater. September 16, 1994: MCDA Board granted Exclusive Development Rights to Hollywood Theater Preservation, Inc. for a period of one year. September 29, 1995: MCDA Board extended Hollywood Theater Preservation, Inc.'s Exclusive Development Rights for one year subject to certain conditions. May 24, 1996: MCDA Board concurred with staff that Hollywood Theater Preservation had adequately addressed the September 1995 goals. September 13, 1996: MCDA Board extended Hollywood Theater Preservation Inc.'s Exclusive Development Rights for an additional two months. December 20, 1996: MCDA Board rescinded Hollywood Theater Preservation, Inc.'s Exclusive Development Rights. July 17, 1999: MCDA Board granted Exclusive Development Rights to Fun In A Half Productions for 120 days to see if the proposed developer could obtain bids to complete the proposed rehabilitation and begin operation of the theater for under \$1,000,000 pursuant to the revised Scope of Restoration Agreement. August 11, 2000: MCDA Board directed staff to work with Fun In A Half Productions to determine whether agreement could be reached on a feasible plan and terms to implement the proposed rehabilitation and reuse of the theater. September 29, 2000: MCDA Board approved \$141,000 in Community Economic Development Fund ("CEDF") funding for environmental remediation of the Hollywood Theater. August 9, 2002: the City of Minneapolis (the "City") accepted a \$160,000 Metropolitan Council environmental remediation grant concurrent with the MCDA Board redirecting \$141,000 in CEDF funds previously approved for environmental remediation and increasing that amount to \$249,000 to fund stabilization of the theater. July 26, 2003: MCDA granted Exclusive Development Rights to the Hollywood Theater property to the Awsumb Development team to December 31, 2003, granted preliminary concept approval to the uses and funding concepts under consideration, and directed staff to work with the Awsumb team to develop a feasible option(s) for the historic rehabilitation and reuse of the Hollywood Theater and the 2800 Johnson site. June 18, 2004: City approved project analysis authorization and fee, extension of exclusive development rights to Awsumb Development team to December 31, 2004, preparation of redevelopment plan, continued analysis of funding concepts, pursuit of

tax abatement with Hennepin County for proposal submitted by Awsumb and Associates. November 7, 2008: the City approved a Redevelopment Plan for the Hollywood Theater and related properties and authorized \$255,000 from the appropriated 2008 Community Development Block Grant for the Great Streets program to acquire and perform site preparation of 2819 Johnson St NE, adjacent to the theater site.

### Department Information

Prepared by: Miles Mercer, Business Development Lead, 612-673-5043
Approved by: Charles T. Lutz, Deputy CPED Director _____ Catherine A. Polasky, Director, Economic Development _____
Presenters in Committee: Miles Mercer, Business Development Lead, 612-673-5043

### Financial Impact

- No financial impact

### Community Impact

- Neighborhood Notification – Andrew Volna hosted an introductory meeting on August 27, 2012 for community stakeholders and discussed his ideas for the property at the September 10, 2012 meeting of the Audubon Neighborhood Association (ANA). The ANA Board has submitted a letter of support for granting these development rights.
- City Goals – Jobs & Economic Vitality
- Comprehensive Plan – The site is located in a Neighborhood Commercial Node and Community Corridor and guided for Mixed Use.
- Zoning Code – the property is zoned C-1, Neighborhood Commercial
- Other – The Hollywood Theater is a locally designated historic landmark and eligible for listing on the National Register of Historic Places.

### Property Background

The Hollywood Theater property includes two parcels in Minneapolis, 2815 and 2819 Johnson Street NE. The Hollywood Theater building is located at 2815 Johnson and has been a locally designated historic landmark since 1990. 2819 Johnson is a now-vacant lot on the northern side of the theater building. Both of these properties are zoned C-1, Neighborhood Commercial.

The Minneapolis Community Development Agency (MCDA) acquired 2815 Johnson in 1993. The property had been vacant since 1987 and was rapidly falling into disrepair. MCDA stepped in to prevent the certain loss of this historic structure, and MCDA and the City have invested significant resources to stabilize the property, including fixing the roof, remediating asbestos and lead, and heating the building to prevent freeze-thaw damage.

The City acquired 2819 Johnson in Fall 2008 to provide space for uses such as parking, site access, or complementary improvements that could facilitate redevelopment of the theater building, which is built to the lot lines and currently has no dedicated parking.

MCDA and the City issued several Requests for Proposals over the years, none of which resulted in a viable project. Since the most recent RFP in 2009, the property has been listed for-sale which has involved a listing on the regional online commercial property database, a for-sale sign mounted on the building, information posted on the CPED website, annual open houses, temporary uses that have brought attention to the building, and multiple press articles.

### Request for Development Rights

This year the City has been in conversations with Andrew Volna, a credible local developer, with a serious interest in rehabilitating the property. Andrew and his consultant, Meghan Elliot, have conducted preliminary assessments of the design, engineering, preservation, cost, financing, and community issues that would be involved in a renovation of the

building. These preliminary assessments have already involved the expenditure of their time and money.

To more fully determine whether they can formulate a feasible proposal, the development team would need to spend further time and money. To feel comfortable proceeding with that expenditure, they are requesting from the City a period of exclusive development rights for 12 months with a possible extension of up to 6 months approvable by the CPED Director.

During this time, the development team would identify a use for the building, refine the design and historic preservation plans, formulate a more precise project budget, secure debt and equity funding sources, and negotiate the terms of a Redevelopment Contact for the sale of the property. If, through that process, they are able to formulate a viable proposal, that proposal and its related Redevelopment Contract terms would be submitted to the neighborhood for review and to the City Council for review and approval.

One term that would be important to the development team is the sale price of the property. The development team has reviewed the appraisals that the City commissioned in 1993 upon purchase of the Hollywood Theater building and more recently in 2009. Based on those appraisals and the extraordinary conditions of the property (e.g. capping a well) not accounted for in the appraisals and given that the property has not attracted a viable redevelopment in over two decades, the development team believes that the fair reuse value of the property is negative and should have a purchase price of \$1 and may need a \$1 purchase price to make the project viable.

To determine a value, the City is in the process of commissioning an appraisal of the property. The valuation will take into consideration the property's physical condition, historic landmark status, and its extraordinary conditions. Sale price will be one of the terms presented to the City Council for approval in the future, if the development team is able to formulate a viable proposal.

The development team will consider a range of commercial uses for the property. The goal is to reactivate the building. The user/tenant must be financially viable and able to pay the rent. The development team's current direction is to find and renovate the building for a creative office/commercial space user similar to the tenants in Volna's other buildings. However, consistent with guidance from the Heritage Preservation Commission provided in March 2009, improvements to the building will be done in such a way that it could be used for a theater use in the future, if such a use became viable.

### **Development Team Background**

Andrew Volna has a track record of renovating multiple old buildings in Northeast and Southeast Minneapolis. Through his Apiary, LLC (<http://www.apiary.com>), Volna has renovated properties such as the former Rayvic gas station at 1501 East Hennepin Avenue into the headquarters for the digital marketing agency Clockwork Active Media Systems. He has also renovated the formerly-industrial Hawkinson Building at 1325 Winter Street NE into a multi-tenant office building. Volna serves as the property manager of his properties. Volna is also the founder and president of Noiseland Industries (<http://www.noiseland.com>), an audio media production company that offices in the Hawkinson Building. Volna is a lifelong resident of Northeast Minneapolis and has a long familiarity with the Hollywood Theater. He would be the owner and developer of the Hollywood Theater property.

Meghan Elliot is a professional structural engineer and the founder and head of Preservation Design Works (<http://www.pvnworks.com>), a Minneapolis-based real estate services firm focused on redeveloping historic buildings. Elliot is a former member of the Minneapolis Heritage Preservation Commission. Elliot is Volna's consultant.

### **Recommendation**

Staff recommends granting Andrew Volna exclusive development rights to 2815 and 2819 Johnson Street NE, aka the Hollywood Theater property, for a period of 12 months with a possible extension of up to 6 months approvable by the CPED Director and, if a viable

proposal emerges, negotiating the terms of a direct sale of the property. There are several reasons for this recommendation:

- Volna has a successful track record of renovating, tenanting, and managing old buildings in this part of the city. With Meghan Elliot as part of his team, they possess the expertise necessary to renovate and manage a historic structure like the Hollywood Theater building. Further, they both possess a passion for the building that drives them into this challenging project.
- Preliminary indications are that Volna has the potential to secure the funding necessary for the project based on his financial capacity and other real estate holdings. Securing a viable user will be critical to realizing this point and indeed the project.
- The development team's direction for a creative office/commercial use has the potential to result in a user with the financial capacity to pay the rent necessary to support the rehabilitation of the building. While a theater/entertainment use has not proven to be viable, the contemplated improvements to the building would allow for such a use in the future, if it became viable. In the meantime, the development team's approach, if shown to be viable, would be a way to stabilize the building, get it into private ownership, reactivate it with more consistent activity, and have it contribute to the commercial node on this block of Johnson Street.
- While the last RFP for the property was in 2009, the City has actively marketed it for-sale since then. This marketing has involved 1) listing the property for-sale on the MNCAR (Minnesota Commercial Association of Real Estate) and CoStar websites, 2) mounting a for-sale sign on the front of the building, 3) posting information on the CPED website, 4) holding four annual open houses of the property that in total have attracted thousands of visitors, 5) hosting temporary uses such as live theater performances and photo and video shoots that have brought exposure to the building, and 6) multiple press articles in media such as the *Star Tribune*, *Finance & Commerce*, *City Pages*, *The Journal*, and the *Northeaster*. With all that exposure, this development team is the only one that has maintained a serious interest in the property, conducted and paid for preliminary due diligence of the property, and requested exclusive development rights.