



# City of San Antonio

## Agenda Memorandum

**File Number:** 19-6068

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**Agenda Item Number:** 33.

**Agenda Date:** 10/3/2019

**In Control:** City Council A Session

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**DEPARTMENT:** Neighborhood and Housing Services Department

**DEPARTMENT HEAD:** Verónica R. Soto

**COUNCIL DISTRICTS IMPACTED:** Council District 2

### **SUBJECT:**

Sunset Station and St. Paul Square Inner City TIRZ #11 Funded Public Improvements and CDBG Property Sale

### **SUMMARY:**

The following items are associated with revitalization activities at Sunset Station and St. Paul Square:

A. An ordinance authorizing the execution of a Development Agreement with East Commerce Realty, LLC or affiliated entity in an amount not to exceed \$1,325,000 from the Inner City Tax Increment Reinvestment Zone #11 Fund for public improvements at Sunset Station and St. Paul's Square.

B. Ordinance approving the sale and conveyance of five real properties owned by the City of San Antonio in the amount of \$1,758,080 to East Commerce Realty, LLC or affiliated entity, commonly known as 123 Heiman St., 121 Heiman St., 1154 E. Commerce St., 1164 E. Commerce St., and 1172 E. Commerce St., described as Lots 30, 32, 33, 34, and 35, Block 1, New City Block 679, St. Paul's Square, C.D.B.G. No. 2035 Subdivision, Unit 1, City of San Antonio, Bexar County, Texas as shown by Plat in Attachment A, within the St. Paul Square Historic District.

### **BACKGROUND INFORMATION:**

St. Paul Square is a National Register Historic District also known as the Southern Pacific Depot Historic District. Within the Historic District are five city-owned real properties that were acquired by the City of San Antonio (Ordinance 69052 dated March 16, 1989), at the direction of the U.S. Department of Housing and Urban Development (HUD), as a result of defaulted HUD Section 312 and CDBG loans. The properties were previously owned by the San Antonio Local Development Corporation (SALDC), a non-profit Certified

Development Corporation principally financed by the City's Community Development Block Grant to help revitalize St. Paul's Square through economic development loans. All the buildings received some form of financial assistance for the rehabilitation of the structures which totaled just under \$1,490,176 million in loans sourced from HUD funds.

The name is derived from the Old St. Paul Methodist Episcopal Church, which was constructed between 1870 and 1880 in the Gothic Revival style. Sparsely developed in the early 19th century, the area grew significantly with the arrival of the railroad in 1877 and the "Cemetery Line" of the street car system during the 1890s down East Commerce St., the commercial corridor's main artery. In 1902, the *Southern Pacific* Passenger Depot was built. The opening of the depot was a catalyst for commercial development, and its Mission Revival style strongly influenced architecture in the area.

Although racially mixed from its earliest days, the area became a flourishing African-American community of restaurants, hotels, retail stores, boarding houses, and professional offices by the mid-20th century. However, the rise of automobile traffic and the construction of IH-37 brought about a decline beginning in the 1960s.

## ISSUE:

**A. Public Improvements** - More recently, the near Eastside has experienced a pipeline of redevelopments including the opening of the Baldwin, a 271 unit multifamily residence adjacent to the St. Paul's Square in 2018, construction commencement of Velocity TX, an Innovation Super-Hub at the Merchants Ice property in 2019, and a new 350 unit multifamily project starting construction at the Friedrich complex in early 2020.

As a result East Commerce Realty, LLC (Reata Real Estate Services) along with the St. Paul Square Association seeks to address the change in the stagnant commercial and retail district. They have developed a Master Plan to revitalize St. Paul Square and Sunset Station which embraces the reemergence of the urban district stimulated by a rebirth of an outdoor concert venue, strong culinary and beverage infusion, and private partnership development.

To date, East Commerce Realty, LLC has expended close to \$4.0M on the Sunset Station and St. Paul Square portfolio of properties in recent years to meet a growing demand for restaurants, retail, and new office opportunities. In accordance with the Master Plan, they are interested in making an additional \$3.2M strategic investment into the district that meets a demand to create an inviting place for new and established residents to live, work, and entertain. East Commerce Realty, LLC proposes public improvements to Sunset Station, the Courtyard, and the Spire property.

To support the multi-million dollar investment, East Commerce Realty, LLC seeks an Inner City TIRZ #11 funding in an amount not to exceed \$1,325,000 for public improvements such as improved way finding/signage; courtyard doorways, landscaping & irrigation; district crosswalks, awnings, facades, hardscapes; and Sunset Station fountains, pavilion seating, landscaping, and other exterior improvements. On August 21, 2019, the Inner City TIRZ #11 Board approved funding for such improvements.

**B. Property Sale** - Within St. Paul Square are five City-owned real properties that were acquired by the City of San Antonio through a foreclosure from 1984 to 1993. The properties were previously owned by the San Antonio Local Development Corporation (SALDC), a non-profit Certified Development Corporation, principally financed by the City's Community Development Block Grant to help revitalize St. Paul Square through loans for economic development. All the buildings received some form of financial assistance for the rehabilitation of the structures which totaled \$1,490,176 in loans sourced from HUD funds.

After the foreclosures, the City sought to find a suitable economic use to revitalize the historic commercial area that had not seen the peak of success since the early 1960's. In May 1996, the City entered into a 45 year lease in addition to three consecutive 10 year optional renewals with the Sunset Station Group, LLC. On April 8, 2004, Sunset Station Group, LLC assigned its lease rights to East Commerce Realty, LLC.

In 2017, the interest in East Commerce Realty, LLC was sold a subsidiary of Reata Real Estate Services, a San Antonio based full service commercial real estate company providing expertise in retail, office, medical, industrial, investment sales, land sales, property management and development. Since purchasing the 11 St. Paul's Square properties, Reata has increased occupancy in their buildings from 60% to 85%.

East Commerce Realty, LLC approached the City of San Antonio regarding the purchase of five properties from the City of San Antonio, commonly described as 123 Heiman St., 121 Heiman St., 1154 E. Commerce St., and 1164/1172 E. Commerce St, as further described by Plat in Attachment A as part of a larger master plan to reinvigorate the area.

Currently, East Commerce Realty, LLC is in year 25 of a 45 year lease. The City is considering a direct sale of real property to East Commerce Realty in lieu of continuing through to the end of the lease term. The properties were appraised for \$1,560,000 by an independent appraiser. The City has negotiated a sales price of \$1,758,080, in addition to a clause that allows the City to retain all or a portion of future profits from any future sale of the property over the next seven years. While East Commerce Realty, LLC is committed to the long term reinvestment in St. Paul's Square, if any future sales proceeds are generated in the next seven years, in accordance with the agreed upon revenue sharing schedule, those funds will also go back to the City's CDBG Program.

East Commerce Realty, LLC plans on significantly investing in the renovation of the buildings while continuing to lease the space with retail concepts and office uses in line with the proposed revitalization efforts at St. Paul's Square.

#### **ALTERNATIVES:**

The City could opt not to sell the property to East Commerce Realty and collect annual lease revenues for the remainder of the lease. However, East Commerce Realty would be challenged in financing the needed improvements at the site if they do not have fee simple ownership.

#### **FISCAL IMPACT:**

A. The return on investment from forecasted tax revenues is projected to have a significant and positive community return in both 10 and 20 year projections. Over a 10 year period, the City would realize an incremental benefit of \$9.2 million in increased sales tax revenues and \$600,000 in City Ad Valorem Taxes contributed back into the Inner City TIRZ #11 (if the TIRZ is extended) for a total benefit of \$9.8 million.

Over a 20 year period the City is projected to realize an incremental benefit of \$24.7 million in increased sales tax revenues and \$1.43 million in City Ad Valorem Taxes to contribute back into the Inner City TIRZ #11 (if the TIRZ is extended) for a total benefit of \$26.13 million.

This development agreement will be funded through the Inner City TIRZ and paid solely from the tax increment generated.

**B.** Proceeds from the sale of property will be utilized as program income identified as part of the FY 2020 Community Development Block Grant Action Plan and Budget. Any future proceeds collected as a result of the revenue sharing condition within the next seven years will be utilized as program income as part of that year CDBG Action Plan and Budget process. Currently, the CDBG program receives \$100,000 per year in annual rent on the five properties. Capitalizing the initial sales proceeds into the CDBG program will allow the City to complete additional housing and community development activities.

**RECOMMENDATION:**

Neighborhood Housing Services Department in coordination with Center City Development and Operations staff, recommends approving following items associated with revitalization activities at St. Paul's Square:

**A.** Ordinance approving a Development Agreement with East Commerce Realty, LLC or affiliated entity in an amount not to exceed \$1,325,000 from the Inner City Tax Increment Reinvestment Zone #11 Fund for public improvements at Sunset Station and St. Paul's Square.

**B.** Ordinance approving the sale and conveyance of five real properties owned by the City of San Antonio in the amount of \$1,758,080 to East Commerce Realty, LLC or affiliated entity, described as Lots 30, 32, 33, 34, and 35, Block 1, New City Block 679, St. Paul's Square, C.D.B.G. No. 2035 Subdivision, Unit 1, City of San Antonio, Bexar County, Texas as shown by plat in Attachment A, within the St. Paul Square Historic District.