CITY OF IOWA CITY
MEMORANDUM

Date: April 10, 2025

To: Mayor and City Council

From: Geoff Fruin, City Manager

Re: 21 S. Linn Street Redevelopment Update

Background

On January 30, 2025 the City Council received a memo providing background on the 21 S. Linn Street project, summarizing the three proposals received from the Request For Proposals (RFP) solicitation that was issued in September of 2024, and providing a staff recommendation on next steps. A copy of that memo is attached for your reference and is also available along with other project related resources at www.icgov.org/21slinn.

At the February 4, 2025 work session, the City Council requested that all three proposing teams present their project vision publicly. That opportunity was provided at the March 11, 2025 City Council work session. On the day of the presentations, staff formally received notice that two of the three proposing teams had merged (Salida and Iceberg). That merged team presented along with the other remaining team (Grand Rail). After the presentations, the City Council requested that staff update our analysis based on the emerging details of the merged team.

A formal updated written proposal from the merged team was received on March 19, 2025. Since that time, staff has been reviewing and seeking clarifications to deepen our understanding of the project details. A copy of the written submission from the merged team is available on the project website and is attached to this memo.

This memo aims to focus the City Council on the unique aspects of the two remaining proposals. The Grand Rail proposal is summarized below and is largely unchanged from the initial January 30, 2025 staff memo, although a few clarifications have been made based on the March 11, 2025 public presentation. The Grand Rail team has also submitted additional correspondence that is included as an attachment to this memo along with their original written proposal. The Iceberg Development and Salida Partners merged proposal summary in this memo is based on their written submission, along with clarifications that staff sought post-receipt of the updated submittal.

Grand Rail Development, Urban Acres & OPN Architects

The Grand Rail Development team proposes a mid-rise (6-story) building of Type II (steel framing) construction designed to LEED Silver standards with rooftop solar, full-building electrification, and possible rainwater harvesting. During the March 11, 2025 presentation the team indicated the ability to grow the project to 8-stories should additional commercial and/or residential space be desired. The building features a flexible first floor layout initially proposed for a 6,300 square foot entertainment use. However, the development team also indicates a willingness to divide the first floor to accommodate

additional or alternative uses such as restaurant or retail. In their public presentation they showed multiple combinations of uses to help achieve 18-hour street level activity including an event venue café with the Englert Theatre, micro-retail bays, and accommodations for the Stories Project. The proposal includes letters of interest from the Englert Theatre and Stories Project for the lease or purchase of commercial and/or office space.

Upper levels on the 6-story configuration include three floors of market-rate office space and two floors of residential use. The team indicates a willingness to work with the City should office space be desired at this location for municipal operations. Additionally, the proposal includes letters of interest for office space from OPN Architects and ACT. The upper two levels of the building include twenty residential units with a rooftop amenity space. The residential portion of the project includes sixteen market-rate units and four units of affordable housing. The Housing Fellowship submitted a letter of interest pertaining to the affordable units. The proposal also indicates a willingness to consider a short-term rental arrangement in partnership with the University of Iowa International Writing Program, which also submitted a letter of interest. The team expresses flexibility to both expand the building to 8-stories or otherwise shift the balance of commercial office and residential uses to meet the interests of the City or market conditions.

A key differentiator of the Grand Rail proposal is the mid-rise design which aims to maximize flexibility across the street level commercial and upper floor office plans. The development team indicates a willingness and desire to modify the first floor and office level floor plans in order to meet top priorities of the City. A second differentiator of the Grand Rail response is that the proposal is financially viable as presented. The response proposes a $3 million land purchase price from the City and does not include a request for any gap financing, including Tax Increment Financing (TIF). However, the development team has indicated that if certain tenants in need of financial assistance are a priority, such as the Englert Theatre or Stories Project, it is anticipated those individual tenants may request TIF assistance. If there are additional public benefits desired by the City, the team is open to a development agreement which includes TIF or a reduced land purchase price to help the City facilitate those priority objectives.

Based on the information in the proposal, staff estimates a total project valuation of approximately $21.5 million with a split of $12.85 million in commercial and $8.65 million in residential uses. These are based on the 6-story proposal and would increase should the project be expanded to include 8-stories of uses. Staff views this project as financially viable and one that meets the stated goals of the RFP. As previously noted, should the City Council wish to include non-profit entertainment uses or expand the number of affordable housing units, it should expect that a reduced purchase price and/or use of TIF will be necessary to support such priorities.

Iceberg Development, Salida Partners, Shive-Hattery & Slingshot

The merged team is led by Iceberg Development and includes all the project partners from the previous Iceberg and Salida teams, with the exception that Hodge Construction, IMEG and McClure have been removed as listed project partners. The City has received a formal withdrawal letter from Salida Partners related to their initial submission.

The updated Iceberg Development response proposes a 12-story building that is anchored by a 2-story 15,000 square foot Englert Theatre venue space / eating establishment on the ground level and level 2, and a 2-story immersive projection room for the Stories Project that spans approximately 15,000 square

feet over levels 2 and 3. The ground floor also includes four 500 square foot micro-retail bays on Linn Street. The 4th floor of commercial space includes 10,805 square feet of office space. As with the Grand Rail proposal, there is a letter of interest from ACT related to the office space. The team has also indicated a willingness to work with the City should office space for municipal operations be needed.

A total of ninety-one residential units are included across the eight remaining stories of the building. Included among the ninety-one total units are:

- Sixteen market-rate studio lofts aimed at the short-term rental market
- Ten units of market rate 55+ senior housing
- Twenty units for market rate rental
- Forty-five permanently affordable housing units utilizing the 4% Low-Income Housing Tax Credit (LIHTC) program and accommodating a tenant income average of 60% area median income. Thirty-three affordable units are proposed to be aged restricted to 55+ while 12 will be without age restriction. *(Note: The co-locating of age-restricted and non-age restricted housing is complex and will require HUD approval. Iceberg has experience with co-location in one other development but acknowledged achieving HUD approval may be difficult and time-consuming. As such, the City Council should consider the possibility that the project may need to pivot to an all or none age-restricted concept.)*

Key differentiators of the proposal are the strong anchoring of the non-profit cultural uses, the use of mass timber in the construction plans, and inclusion of forty-five affordable housing units. The design and layout of the first three floors is purpose-built to elevate the visibility of the Englert Theatre and Stories Project. The use of mass timber construction is another unique aspect of this proposal and would introduce a new sustainable construction technology that Iowa City has not yet seen in local development projects. The inclusion of forty-five units of LIHTC affordable housing is also a key differentiator as the percentage mix of affordable units, 45 of 91, or 49.5%, would far exceed the fifteen percent requirement in our Tax Increment Financing (TIF) policy. As previously detailed in the January 30, 2025 memo, the reliance on LIHTC does introduce possible project delays as funding and award decisions are not local.

The project financials in the updated Iceberg response include a $2 million purchase price for the land. The operating pro forma anticipates $9 million in TIF subsidy, which they estimate would take fifteen years to pay off utilizing 60% of the increment. Importantly, the $9 million TIF request does not include any subsidized rent considerations for tenants such as the Englert Theatre, Stories Project, or micro-retail tenants, nor does it include construction buildout costs for those showcased end users. The $9 million TIF request and fifteen-year rebate period assumes that there is no tax-exempt space in the building.

Based on the information in the proposal, staff estimates a total project valuation of approximately $32.3 million with a split of $15 million in commercial (including LIHTC units) and $17.3 million in residential uses. This estimate is slightly lower than what the development team is projecting at $37 million in valuation, which also may place upward pressure on the TIF request.

If one views this project as presented financially, with a $2 million land purchase and $9 million TIF gap financing request, then it appears to be viable. However, if you consider how the project is presented and anchored with 30,000 square feet of non-profit operations across three stories that are not subsidized by the development team, then staff believes the project viability as marketed quickly dissipates.

Incorporating tenant buildout costs and rent subsidies on top of the Iceberg team's financial gap of $9 million jeopardizes the viability of the presented vision. Beyond the buildout costs and rental subsidies needed by the Englert Theatre and Stories Project, there also remains a long-term consideration for what is likely to be in staff's opinion an ongoing operational support dependency beyond the life of the TIF.

With that in mind, staff encourages the Council to view this project as financially presented. That is, as a project with market rate commercial rents. That leaves the door open to a number of possible commercial uses, including non-profit uses, but is also more transparent with the public about the reality that the Englert Theatre and/or Stories Project may not have the independent financial standing or fundraising capacity to be able to anchor market rate commercial space.

Stories Project & The Englert Theatre

The January 30, 2025 memo provided some additional detail about both the Englert Theatre's aim for expansion and the launch of the Stories Project as those organizations were noted in multiple initial proposals. As a reminder, the City's RFP did not require or specifically encourage the inclusion of a non-profit cultural use.

Each of the two remaining proposals have expressed a willingness to include either or both the Englert Theatre and Stories Project. That said, neither proposal includes any level of subsidy for physical space buildout or ongoing rent subsidy. In previous conversations with both non-profit organizations, significant local government subsidy is expected to successfully facilitate their inclusion in this building. Because the RFP did not specifically require or encourage their inclusion, staff has not pursued further analysis to determine what buildout costs and rent subsidies may be needed.

The Englert Theatre and Stories Project can make compelling cases for incorporation into this project. However, both will require significant upfront and ongoing subsidy that is not included in either proposal. While both organizations hope to eventually be operationally self-sustaining, staff anticipates an ongoing subsidy request is very likely to be needed to sustain non-profit operations. These factors do not preclude one of these uses from being included in a final land purchase agreement and/or development agreement down the road. Should this become an explicit desire of the City Council then it should be expected that the City's recoupment of the initial land purchase investment may decrease and that the proposed TIF of $9 million (Iceberg) or $0 (Grand Rail) will likely increase.

Quick Reference Comparison Table

Staff encourages the City Council to comprehensively review each of the two individual proposals. The following summary table provides a quick reference comparison (original Iceberg and Salida proposals are in red strikethrough for reference):

Development Team	~~**Iceberg Original**~~	~~**Salida Original**~~	**Updated Iceberg / Salida**	**Grand Rail**
Height	~~13 stories~~	~~10 stories~~	12 stories	6 to 8 stories*
Construction Type	~~Concrete/Steel (Type I)~~	~~Mass Timber (Type IV)~~	Mass Timber (Type IV)	Steel Framing (Type II)
Ground Floor Use(s)	~~2000 sf micro-retail and 3800 sf restaurant, retail, or entertainment~~	~~6900 sf flex entertainment, kitchen, 1500 sf micro-retail, art alley~~	7500 sf Englert Theatre venue / eating establishment and 2000 sf micro retail	6300 sf flex entertainment or combination of restaurant, retail and other uses
Upper Story Commercial	~~5 floors~~	~~4 floors~~	3 floors	3 floors*
Upper Story Residential	~~7 floors~~	~~5 floors~~	8 floors	2 floors*
Market Rate Units	~~0~~	~~40~~	46	16*
Affordable Units	~~76 (LIHTC)~~	~~6~~	45	4*
Total Valuation	~~$24m~~	~~$37m~~	$32.3m	$21.5m*
Taxable Valuation	~~$21.6m~~	~~$24.1m~~	$21.5m	$15.6m*
Proposed Land Purchase	~~$2m~~	~~$1.00~~	$2m	$3m
Initial Estimated TIF Subsidy	~~$7m-$9.6m (i.e. full increment for 8-12 yrs)~~	~~$12m-16m full (i.e. full increment for 15-20 yrs)~~	$9m (estimated 60% increment for 15 years)	None

* The Grand Rail team has indicated an ability to increase from 6-stories to 8-stories to increase residential and/or commercial uses. The summary data only accounts for the 6-story concept.

Proposal Discussion

Iowa City is fortunate to have two strong teams that are eager to partner on a project that will strengthen our downtown and larger community and benefit generations of Iowa Citians to come. Staff is grateful for all the time, effort and expense that each team has committed to the selection process to-date.

From a use standpoint, both proposals lean into entertainment space and retail on the ground level and include a mix of upper floor commercial and residential. The Iceberg proposal presents purpose-built space for the Englert Theatre and Stories Project, but their financial modeling does not include the resources to realistically accommodate their inclusion. Thus, staff urges the City Council to view the

proposals as expressing a similar vision for ground floor uses, which includes active and engaging space used throughout the day and evening. Both teams can meet the demand for micro-retail spaces and will ultimately seek tenants at market-rate rents. Should there be an opportunity to include the Englert Theatre and/or Stories Project as a result of private fundraising or government support, then either team appears willing and capable of meeting that objective. Regardless of which team is ultimately selected, staff would work in subsequent phases to ensure the active and engaging ground level goal articulated in the RFP and by the Iowa City Downtown District is met to the best of our ability.

Both teams aim to provide upper story commercial uses, ranging from entertainment to office. These upper floors provide opportunities for visitors and office users to multiply their economic impact on the downtown through connections with existing retail, restaurant and entertainment offerings nearby. The multi-story commercial uses are beneficial to the health of the entire downtown area and should continue to be prioritized with the eventual selected team.

Both projects incorporate residential uses that meet the goal of providing non-student centric design. These units would help attract a more diverse residential population to the downtown and further support a wide range of local businesses, existing arts and culture programs, and venues. Affordability goals are also met with both proposals, albeit at different numbers of units and resulting cost to the City in terms of recouping our land investment and commitment of future property taxes through TIF rebates.

Both submittals articulate efforts to utilize enhanced construction methods and offer a contextual design that honors adjacent properties while bringing added vibrancy to the larger district. The scale of the two buildings ranges from six to eight-stories (Grand Rail) to twelve-stories (Iceberg). The larger Iceberg building can accommodate more uses, including residential units, and offer stronger long-term economic performance as measured by taxable valuation to support municipal services over the full life of the building. However, the Iceberg project will be more difficult to finance and will require a high level of public subsidy that will reduce tax revenue received by local governments over at least the first 15 years post-construction.

Both teams are responding well to our stated goals for this project. With either option, the City's investment in this property is projected to produce a stronger long-term outcome on this property then what we expected would occur by simply leaving it to the private market. Nevertheless, there are some key differences that the Council needs to clearly weigh.

- The scale of the buildings varies with Grand Rail maxing out at a potential of 8-stories while Iceberg is presented at 12-stories. Both teams can make strong arguments for contextuality, but this is a key difference with a noted history of public interest for the City Council to weigh.
- The use of mass timber as the primary construction type is a differentiator from more conventional construction methods. With that comes the exciting possibility to further establish Iowa City as a leader in innovative climate action commitments, but it can also carry more project risk and uncertainty.
- The affordable housing approach differs as well with Iceberg proposing nearly 50% of the units to be affordable through the LIHTC program (45 total affordable housing units out of 91 total). The Grand Rail team aims to make 20% of the units permanently affordable, which could be between 4 to 8 units depending on the final building height and mix of upper floor uses.
- Finally, the project financials are vastly different:

- The Grand Rail land purchase proposal of $3 million would result in $1 million more to the City upfront compared to the Iceberg proposal of $2 million.
- The Iceberg team proposal outlines a need for $9 million in TIF rebates over an estimated fifteen years. The Grand Rail team is not requesting any TIF or other gap financing from the City.

In summary, both proposals provide our community with an exciting vision for this infill parcel. Given very different financial proposals, the City Council needs to carefully weigh if the differences presented in the Iceberg proposal (building scale, construction type, number of affordable units, etc.) are worth the $1 million difference in the upfront payment for the land as well as an additional projected commitment of $9 million in future tax revenues over 15 years. For that significant of a difference in financial terms, the City Council should feel strongly about the value embedded in the distinguishing features of the Iceberg proposal.

Next Steps

The City Council should keep in the mind that the City invested $4.5 million in this land purchase to ensure the best outcome for the long-term health and economic wellbeing of Iowa City. If at any point in this process the Council does not believe this goal can be achieved, then a decision to end further consideration can be made. Such a delay, while not recommended at this time, would allow the City to reissue an RFP after market conditions have changed and there is a reasonable expectation for substantive changes in the number and/or terms of new proposals.

If the Council is ready to proceed with further evaluation of the two remaining proposals, then deliberations should commence with a goal of selecting a preferred development team and concept. If both concepts are of interest to the City Council, then an alternate should also be designated in case the negotiations with the selected preferred development team do not come together.

The Council should carefully review and consider the differences that are contained in the two proposals and summarized in this memo. Staff is happy to work through clarifications that may be needed to make your decision, but we feel both teams have provided the level of detail that should be expected at this stage in the process. Staff recommends that Council target May 20th for your selection of the preferred development team and concept. If this timeline sounds reasonable, then we would suggest that on May 1st you ask both teams to confirm or modify their financial expectations in terms of land acquisition and any ongoing TIF gap financing. This would give each team an opportunity to modify their offer in a manner that maximizes the appeal and private equity commitment. This would be a beneficial step prior to commencing the next stage of development, which is drafting purchase and/or development agreements.

Once a singular team is selected, staff may engage a third-party financial consultant to assist with determination of the land acquisition terms and any ongoing gap financing. This would likely only be done if an ongoing TIF commitment is requested. Collaboration between the development team and City will lead to a purchase agreement for the property and potentially a development agreement outlining performance standards and any ongoing public financing.

The staff would like to again thank both the development teams for the time and financial resources expended to review the public input, engage in the development of a responsive proposal, and offer clarity through the staff review process. Iowa City is indeed fortunate to have two talented and

experienced teams vying to work collaboratively with the City to construct a property that will anchor our downtown for many decades ahead.

Attachments: Grand Rail Development, Urban Acres & OPN Architects original proposal and additional correspondence

Iceberg Development, Salida Partners, Shive-Hattery and Slingshot updated proposal

Copy of the January 30, 2025 staff memo