

Local Development Finance Authority

Regular Meeting Minutes

Monday, October 14, 2013
4:00 p.m., Council Chambers
South Haven City Hall



1. Call to Order by Bolt at 4:00 p.m.

2. Roll Call

Present: Erdmann, Henry, Klavins, Valentine, Varney, Bolt
Absent: Herrera, Kerber, Rainey

3. Approval of Agenda

Motion by Valentine, second by Varney to approve the agenda as presented.

All in favor. Motion carried.

4. Approval of Minutes – September 9, 2013 Regular Meeting

Motion by Erdman, second by Klavins to approve the September 9, 2013 Regular Minutes as written.

All in favor. Motion carried.

5. Interested Citizens in the Audience Will be Heard on Items Not on the Agenda

None at this time.

6. Financial Report

VandenBosch gave an overview of the Financial Report.

Motion by Erdmann, second by Klavins to accept the Financial Report.

All in favor. Motion carried.

7. Broker Presentations

VandenBosch introduced the purpose of the broker presentations and gave an overview of what the city has been doing in the way of maintenance and upgrading at the former Bohn site. Temporary electrical system has been installed. About \$100,000.00 has been invested in the property since the sale, including an environmental report and a report on what it would take to bring the building back to a usable condition.

4:15 p.m. Thomas Elhart

Elhart directed the board to various pages in the printed material he distributed including mission statement and list of services. Stated that his firm, Signature Services, manages several thousand square feet of rental properties around Michigan. Noted their Cushman Wakefield alliance.

Noted that anything and everything in this presentation is negotiable. If the city comes to him with a purchaser, he will reduce his eight percent (8%) fee to six percent (6%).

Regarding price, Elhart noted that will be a difficult number to come by; the office building has a mold issue so the question is whether it is worth remediation or should it be struck. Noted that his firm has sold or leased a number of these properties throughout Michigan; it takes some outside the box thinking. Noted that one strategy is to have someone lease the property, upgrade and maintain, with an option to buy.

Gave some examples of creatively leased and improved buildings. Noted that the tour of the building led to the broker opinion of value. Pointed out some strengths and weaknesses of the property.

According to Elhart the highest and best use for the property is industrial. Indicated some sales comparables, pointing out that his firm does have some experience in South Haven, having sold the property at 200 Lovejoy, which was a fully functioning building.

Elhart's recommendation is to place the building on the market for \$650,000 to possibly achieve a sale price around \$600,000. If the office building has to be scraped, maybe around \$500,000.

Suggested a 12-month listing since it will take some time to get all the information together.

Henry asked Elhart's opinion regarding the economy and real estate sales.

Conversation turned to contractors being busy out there, but doing additions on buildings, not putting up new steel buildings. No one is doing spec buildings. Elhart thinks the value of buildings will go up due to lack of supply.

Henry asked about the condition of the electrical; what would cost be. Elhart stated that it depends on the use for the building; running presses or injection molding machines versus using it for warehousing would indicate a need for totally different services.

Erdmann asked for Elhart's take on prices a year from now. Elhart said he does not think prices will go up that much although the market is changing in that available buildings are becoming scarcer.

4:30 p.m. Dane Davis

Property has unique challenges and will take unique marketing to facilitate the sale or lease of this property. Davis introduced himself as a Senior Associate Broker with Bradley Company. Stressed the importance of understanding utilities, electric, ceiling height and environmental conditions beforehand so there are no surprises when we find a potential buyer or lessee. Hard to have a property that appreciates, not depreciate.

Works with a trustworthy team; you would not be working with just him, but a team. Explained that his partner is strong in areas he is not strong in. Noted that Cindy Compton is a business mentor for him; she connects quality people and focuses on what is best for a community and the success of Southwest Michigan.

Gave the background of the Bradley Company noting eleven transactions in South Haven that he has completed with his team.

Davis said while the property has significant challenges South Haven has a limited supply of larger spaces for manufacturing or warehousing. Positive marketing value for someone with a company in another state that vacations in South Haven. 16.8 acres of land with a warehouse or cold storage type use. Optimistic about our market; Davis calls it an uptick after a recession or slow time. Could market it at \$7 to \$11 per square foot.

Pointed out that the Authority needs to sit down and develop their goals; that will determine who you will sell or lease to. He would like to list it around \$12 per square foot, with some work on the building and hard work on this end. Explained that one cannot just put a sign on the property; need to develop a comprehensive marketing campaign and be accountable to it.

Marketing strategies: target users and send out a postcard, mailer or emails, and follow up with phone calls. His team will work the listing by cold calling targeted users.

Fees are market based at 8% but can discount to make the deal happen. Their goal is to add more value to a transaction than we take from it.

Bolt asked whether the office building is an asset or a detriment. Davis said he would want to go through the facility so he can understand all the issues up front, including environmental issues. Noted that finding a buyer is twenty-five percent (25%) of the transaction.

Varney asked what he would recommend asking for the property; Davis responded one million dollars (\$1M). Wants to push the upper end of the market. Noted that the strike price might be a little less than that.

Klavins asked how quickly a buyer could be found. Davis works with a group and has a developer/speculator that is buying and improving similar spaces.

Vacant land is important but concerned about the geo-thermal being put down; "Can it be developed?" VandenBosch said there were some environmental issues but it is not a highly contaminated site.

5:09 p.m. Ryan White

The most pressing issue is the location of the building. All utilities have been cut off, temporary electric has been installed; there are expenses that would have to go into the building. Noted that most of the buildings, even older ones, are still functional, so there are extensive costs to bring it up to a usable condition. "We looked at what this property might be worth if those things were complete, so we could compare to some of the more functional comparables."

Did not agree with many of the figures in the report, for example, allocations toward HVAC is listed at \$490,000. White believes that to be extremely off; thinks it would only be around \$100,000 to put in two systems. Thinks there is a lot of work that needs to be done up front before this property can be valued. Need to find subcontractors for each of these things and gather price estimates.

White noted that the city has a building missing essential components; any company is going to need these items, one way or another. They may buy the building without them, but they are going to consider those costs.

At the very least, if the services are not in place, we need to have answers to the questions. The main system of electric; noted that all the wires have been cut out of the service box. We should get bids to determine what the costs would be to put in a 600 amp service.

Sump pump needs repair or replacement due to issues with water coming into the building through the floor; need to remedy that.

Loading docks in very poor shape, holes in walls, roofs leaking, paint peeled. "Is that structure worth keeping or do we tear that down and create a new dock area elsewhere?"

With no electric, we do not know if the pumps are functional. Need to get bids for docks and pumps.

Section Three (3) of the printed material Davis distributed denotes what has sold in the area. Noted that his group sold 100 Veterans Boulevard for \$1,715,000. This building was in pretty good shape and sold for eleven dollars (\$11) per foot.

Putting a value on this property today is hard to do without knowing what these costs are to bring it up to par with what we are competing with. Companies are most likely looking for something close to turnkey. Need to get the utilities in place, at the very least.

Thinks that the report was questionable and feels there is a need to have the data to know more closely what it would cost to get it ready for the best use. Has some value for cold storage or boat storage without working accessible docks or additional utilities; could maybe realize two hundred thousand dollars (\$200,000).

If you are trying to find a user who will bring in jobs there will have to be more research and improvements made.

Bolt questioned whether one million dollars (\$1M) would bring the property up to usable condition and then what it would sell for. White guesstimated it would sell for one million dollars (\$1M). Bolt asked what industrial land could sell for without the building. Davis clarified that demolition of the existing building would be an expense. Without the building it might sell for ten thousand dollars (\$10,000) per acre.

Varney suggested that White is saying that the value is in finding someone who will bring in jobs and use the property for its highest and best use.

Henry asked what White forecasts going forward. White feels the economy is doing better locally, still some manufacturing, more warehousing. "We cannot predict the future. We are optimistic; every year has gotten better since the recession."

White stated that they have a big client, Welch Packaging, which supplies packaging to manufacturers. They are doing very well. White feels that is a good sign; his client thinks the economy is turning around because his clients are asking for more boxes.

Bolts questioned White on the office space; White said he thinks there may be black mold.

White concluded that the bones of the building are good; the property just needs a lot of expense to go into it to get it into usable condition.

8. Invoices for Approval - LDFA 1

Bohn Property

Linear Electric, 09/03/13, Pay Request 2, Temporary Lighting	\$14,786.00
Midwest Civil Engineers, 09/12/13, #05-9940, Building Report	\$ 3,800.00
Envirologic, 07/09/13, #29032, Environmental Site Assessment	\$38,962.96

Motion by Klavins, second by Henry to approve the LDFA 1 invoices as listed.

All in favor. Motion carried.

8a. Discussion regarding presentations

The board discussed the three presentations. Bolt wondered whether our engineering report is really that bad and pointed out the difficulty involved for the city to replace the utilities and then try to sell it to somebody and to find out that is not what they want. "There is a difference between remodel to suit and remodel to speculate."

Varney pointed out a buyer would want all the information the last presenter commented on. Bolt stated that most buyers would likely want to upgrade/replace the electrical to meet their needs and to be more efficient than the existing. "If we had a candidate for that building the Board of Public Utilities would be happy to give us the transformers."

Motion by Valentine to appoint a sub-committee consisting of Bolt, Klavins, VandenBosch and McCloughan, to evaluate the information we have received and report back to the committee with a summation at the next meeting. Second by Henry.

All in favor. Motion carried.

9. Economic Development Report

McCloughan gave an overview of economic development activities during the past month.

10. General Comments

There were none.

11. Adjourn

Motion by Klavins, second by Henry to adjourn at 5:34 p.m.

All in favor. Motion carried.

RESPECTFULLY SUBMITTED,

Marsha Ransom
Recording Secretary