

Proposal for the Renovation of the 1913 Building

A Narrative of the Process

July 1st, 2020

Summary

More than two years ago, the Board of Stewards recognized that there were significant infrastructure needs at our church that we as a Board didn't have the capacity to address ourselves. We determined that the formation of a Property Development Committee should be formed to focus on some key challenges, working under the direction of the Board of Stewards.

Over the past two years, the Property Development Committee (PDC) has been working toward finding solutions to key building and property issues facing Central. This committee, comprised of Chairperson Jon Huffmaster, Terri Hansen, Tim Horn, Joel Lawrence, Becky Landon, Dan Leggett, Steve Nuessle, and Wayne Roberts, was given the task of resolving three intertwined property issues:

1. Parking
2. Accessibility
3. The deterioration of our 1913 building

One of these issues is being addressed currently: Wellington Management has built Central a parking lot on the lots to the south of the church, in exchange for our permission to split ownership of the alley behind the church with them so that they can build a new apartment structure on the Bremer Bank lot. This project is largely completed; the parking lot irrigation, landscaping, and signage for the Watershed Grant are yet to be installed. The top coat of the lot will be laid in Summer 2021 once the contractors have finished their work on The Pitch Apartments.

The other two issues, accessibility and the 1913 building, have been given a great deal of attention by the PDC, which has pursued a variety of options for how to address both of these significant challenges. As we have worked through various options, the PDC has brought a recommendation to the Board ; a plan that addresses the 1913 building through a refurbishment project that would turn our aging building into an asset both for the church and the Midway community. The PDC proposal, which the Board is recommending to the congregation for its consideration, is to redevelop the 1913 building into Class C commercial office space to be rented on the open market. This plan includes an elevator that would ideally serve both the office space and the church; the precise location will come through the design process and investigation of the existing conditions of the building. Rental income would flow to the general fund, which could then help offset the cost of modifications for ADA compliance throughout the rest of the church building.

Through much discussion and consideration, this has become clear: without intervention, the loss of the use of our 1913 building is not a matter of if, but when. The Fire Marshal's Office has

been lenient for some time, but has made clear that such leniency will not last forever. The money needed to correct the many violations would necessarily come from the General Fund. Additionally, if we do not act, the ongoing maintenance and operations costs for the building (heating, cooling, etc.) will continue to be a financial burden. It is imperative we begin to leverage our property assets for both the financial health of the church, and for the benefit of our neighborhood.

In this document, we want to inform the congregation of the thought process behind this recommendation.

The Work of the PDC

Over the past two years, the PDC has explored many different directions as possible solutions to the challenges faced by the deterioration of our 1913 building. In the early days of our property development process, we had exploratory conversations with Wellington about the potential of including the space of the 1913 building in Wellington's development. To pursue this course would mean tearing down the building in order to construct a new building in its place. This meant that the PDC had to explore the implications of tearing down the building and replacing it with a new building. As such, we had to establish two primary facts.

First, we had to establish the historic status of the 1913 building. To do this, we hired a firm to research the building and to give us their professional opinion of whether it might be eligible for the national historical registry. Were it to be so, this would open the possibility of tax credits to restore the building, but would also bring significant regulations from the Department of the Interior concerning the design and maintenance of the building. The experts we hired determined that the 1913 building would not be eligible for the national historical registry due to the 1948 addition, which bumps out from and wraps around the 1913 building. The finding was that this addition impacts the original integrity of the building, thus removing it from consideration for the national registry. Minnesota does not keep an official State registry, though St. Paul does maintain an historic landmark registry. However, the local registry provides no monetary incentives while still imposing significant restrictions.

The second fact that we had to establish was whether we would face local resistance to tearing down the building. Through our relationship with the Union Park District Council, we were able to speak with a group of people who are connected with the local historical scene. This conversation made clear to us that we should expect opposition to the demolition of the building. In a time of rapid development of the Midway, there is a heightened sensitivity to the loss of older buildings. We have been told that we should expect a lawsuit were we to move toward tearing down the building. As we discussed this, the PDC determined that, while it isn't a sure thing that a lawsuit would actually come, or that we would lose the lawsuit, we don't want to engage in a *costly pursuit* that also has also has the potential for both monetary consequences as

well as putting us at odds with our community. To do so would work against a primary value that we have as a church: to be a faithful presence that seeks to serve the Midway.

Coming to these determinations has directed us away from tearing down the building. This left two more options: selling the building or remodeling the building.

While selling the building holds the potential for a high-dollar, one-time infusion of funds, it also presents several complicated variables. First, the 1913 structure would need to be separated from the rest of the church. This separation would include physical separation with a new fire-rated wall, utility separations by installing new meters and splitting all utility lines, and legal separation by replatting the land. All of these costs would come out of the sale price of the building. The years after the sale provide additional variables, which Central could not control. Once the sale is complete, Central would have no control over future tenants and businesses housed within the building, nor would we have any possibility of access to the space. Additionally, giving up such a useful and valuable property seemed unwise. If Central is to remain in the Midway for another 100+ years, Lord willing, we ought to use all of our assets to their fullest potential. Accordingly, the PDC determined that sale of the building was not in the best interest of Central and our neighbors. This leaves only refurbishment to consider.

In exploring the possibility of a refurbishment, we needed to determine the structural soundness of the building. To do so, we brought in a structural engineer, who, through a visual examination of the building, determined that there are no obvious structural concerns that would prohibit a full remodel of the building's interior. The 1913 building was constructed to last a very long time, so the positive determination by the engineer comes as no surprise. However, the structural integrity of the building will be monitored during construction.

Having determined that the building is able to be refurbished, we then explored a variety of potentials for the restoration. One is the refurbishing of the building into a use much like its current use: a gym and some meeting areas for the church. The primary hurdle of this kind of project is the cost. To do a full remodel with a gym and meeting rooms would cost approximately \$2,000,000; an amount that would be borrowed from a bank to be repaid from the general fund. The reality is that, short of a miracle in the form of an unexpected and extremely significant gift to the church, we are simply unable to afford this kind of project.

A priority that the PDC has established is that the project of refurbishing our 1913 building needs to be a source of revenue for the church, beyond the generous gifts of Central members and attenders. As churches face new realities regarding the number and percentage of givers, many have pursued creative ways to use their buildings in order to create new sources of revenue. Central is in a position where we need to be innovative in our thinking about ways to fund our mission that look beyond the financial support of Central attenders. Our 1913 building, which is an aging building in need of refurbishment to give it new life and purpose, is an asset that we believe can be utilized for the sake of the Kingdom to meet the needs of both our neighborhood and the church's financial future and stability. This proposal has not been undertaken lightly and

is done with the understanding that the change would be essentially permanent. It is the intention of the PDC and the Board of Stewards that this project be a means of revenue so long as it remains viable. While the 10-year projection is very promising, it is our hope that this will remain a means of income for many years after.

The Proposal

In pursuit of this, last summer the PDC arranged tours for eight developers to look at the building and suggest possibilities for its future use. One of these developers, Suntide Commercial Realty, a property developer and manager based right here in the Midway neighborhood, expressed a deep interest in the project. Suntide believes that our 1913 building will be a valuable asset to the development of the Midway, and proposed that we convert the building into an approximately 17,000 square foot office complex. Suntide has a long history of successful development in the Midway area and showed much enthusiasm for our proposal. Their realty executives are widely regarded in the local industry and they have provided a comprehensive analysis of the potential for our property (see Appendix A). Per Suntide's proposal, Central would retain full ownership of the building, while Suntide would market and manage the building, finding tenants and managing those tenants on our behalf. Central would pay Suntide a monthly fee for these services.

According to our pro forma, the building would start making money for Central in year three (for context, most businesses hope to make a profit beginning in year five). To do this, Central would borrow up to \$1.5 million, funds that would be paid back through the income of the rental space, and structured in a way that would not require Central to rely on any giving from the congregation to service this debt. Since positive cash flow would not be achieved until year three, the losses from the first two years would be capitalized back into the loan (that is, added to the principal and repaid in subsequent years). 21st Century Bank, who holds our current line of credit, has indicated their willingness to renegotiate the use of funds for this project specifically. Rather than purchase homes adjacent to our property as first intended, the bank would allow Central to use the line of credit to the 1913 building plus extend additional funds as needed to finance the project. Additionally, with strong encouragement from the City of St. Paul's Planning & Economic Development (PED) department, the PDC has also applied for both a grant and a low interest loan through the Neighborhood STAR program. Any award would reduce the amount of our loan from 21st Century Bank for this project. At this time, we anticipate hearing from the City in late July or early August. Once we learn the decision results, the proposal would be brought to the congregation for a vote on whether to approve this STAR program loan. Be assured that having applied for the loan does not commit us to accepting it.

The CBC Board of Stewards is formally presenting this proposal to the congregation with our recommendation that it be approved. Much prayer and consideration, not to mention the years of time and work by the PDC on behalf of our congregation, have been poured into this proposal. We acknowledge that this is a significant step of faith we are asking the congregation to take, and we believe by faith the Lord is guiding us as we move forward.

We recommend that Central Baptist Church enter into a 10 year partnership with Suntide for the purpose of redeveloping our 1913 building, converting it to rentable office space, to be marketed and managed by Suntide.

Frequently Asked Questions (FAQ):

- 1. Why now? Doesn't Central have enough transition right now?**
 - a. The economic moment is ripe for investment and the Midway is at an inflection point of development and investment, putting Central in an exceptional position to invest and contribute early to that process. Interest rates are currently very low and over 500 units of housing are under construction nearby; loans will be easier to pay back and companies will be looking to invest in a location so close to new amenities. Such a time may not happen in our backyard again for many, many years. Additionally, the price of construction will only rise in the near future. With the Covid-19 Pandemic slashing many development budgets and plans, construction projects are growing more and more scarce. This will ideally bring a favorable price, due to increased competition. Finally, Central's financial shortfalls must be corrected sooner rather than later. Deferring this project will only increase the probability of more hardship, and higher costs.

- 2. Will businesses actually want to rent space given the Pandemic?**
 - a. Yes, we believe so, and professional consultations have recently confirmed this. First, the value of a physical space to facilitate in-person work (collaboration, meetings, impromptu conversations, etc.) can not be understated. Research indicates that some businesses are losing productivity through remote-work, though some are maintaining their productivity without a physical office. Secondly, some companies will look to move to a smaller space while moving towards a hybrid work system – working both remotely and in-office. The burgeoning Midway development is a good fit for that model. Finally, new businesses will arise to take the place of ones that closed due to The Pandemic. Most likely, they will need some amount of space to properly run their business.

- 3. Why not demolish the 1913 building and rebuild a new one?**
 - a. There are a few reasons why this strategy has proven challenging. First, the cost of demolition and new construction does not fit within the financial performance criteria – we can only get so much for rent in this area and it is not sufficient to support the cost of new construction. Additionally, reusing the existing building is more environmentally responsible than demolishing a sound building. Secondly, the 1913 building has been on this corner for 107 years and is both a feature of the neighborhood and desirable by tenants; adaptive reuse of older structures is a popular selling point in real estate. Finally, some local stakeholders have made it clear that a lawsuit would follow any proposed

demolition of the building. This is certainly not something we want to invite, regardless of our chances of winning the suit. Furthermore, it is our desire to avoid the costly legal expenses of defending such action.

4. Will the gym be available during and after construction?

a. No; the gym will be a necessary and significant cost of this project; the Board recognizes this is a loss to our congregation. The youth will be relocated to the Gray Room, which will also undergo a remodel. The Gray Room will have bathrooms and conference rooms constructed to facilitate youth activities for the long term. It is important to point out that a new gym is not a part of the remodeling plan. The project is not viable with less than 17,000 square feet of rentable space; a gym necessarily removes too much square footage.

5. Will construction affect our new parking lot?

a. Usually no. We anticipate contractors using the parking lot during business hours, but weekends should remain generally unaffected and the lot will be available for church staff and members. Special occasions may occur during the week, which will need to be accounted for and coordinated with the general contractor. The PDC and the church staff will work together to provide a smooth experience for those times.

6. How will the church pay for this?

a. A loan of up to \$1.5 million will be used to pay for construction and related expenses, which will then be capitalized back into the project over the course of 1-3 years. It is expected that by year three, the project will generate a yearly income for the church, making money rather than costing the church. Additionally, any award from the NSTAR program (which we have applied to) would reduce the net project cost by providing a grant and/or low interest loan. Refer to the attached finance table for more information (Appendix B).

7. How did the PDC arrive at a \$1.5M budget?

a. The final project cost (\$1.5M including all consultant fees, permits, etc.) is a result of the projected price per square foot and a rough construction budget (both provided by Suntide). Together, these factors resulted in a project budget of \$1.5M. See Appendix B for more information.

8. Why did the PDC apply for the Neighborhood STAR grant/loan program before a congregational vote on the redevelopment project?

a. Given the encouragement by the City and their application deadline, which occurred just as the Pandemic was impacting us, the PDC did not want to miss out on the potential to be awarded a grant and/or a below market interest rate which would reduce our overall cost for this project. Should we be favored with an

award & the congregation vote not to proceed, the award can be returned without penalty & regifted by the city to another organization.

9. What happens if things don't go as planned?

a. As is true of any investment, is that there is risk involved. The plan for this project involves several contingencies and conservative estimates, which will help to absorb some initial shocks to the plan, should that occur. For instance, initial income estimates assume 20% occupancy for the first year with rent prices forecasted at the lowest end of potential rents.

10. Who will manage the building?

a. Suntide Development will be contracted to provide building management and tenant marketing services. The PDC does not recommend that Central get into the business of property management; we do recommend that Central remain the owner of the building and property.

11. Who will manage the construction process?

a. The Property Development Committee will oversee the construction process, hand-in-hand with the architect and general contractor.

12. Will we be able to access the 1913 building after construction?

a. There is a scenario where the church still retains some access to the building for congregational use during the 10 year contract. Depending on the design and tenant mix, a conference room or gathering space may be available for reservation. While this arrangement is desirable, it is not certain. Access will at best be limited to preserve our tenants' privacy and security.