

December 6, 2021

To: Members of the Budget and Finance Committee 202103231
From: Paula Boggs Muething, City Manager
Subject: **Emergency Ordinance – Authorizing First Amendment to Property Sale and Development Agreement with Uptown SEQ Holdings, LLC**

Attached is an Emergency Ordinance captioned:

AUTHORIZING the City Manager to execute an amendment to the *Property Sale and Development Agreement* between the City of Cincinnati and Uptown SEQ Holdings, LLC, an affiliate of Terrex LLC, in order to extend the period of time during which the developer can exercise its option to purchase certain City-controlled property located at the southeast quadrant of the intersection of Martin Luther King Drive and Reading Road in the Avondale neighborhood of Cincinnati, as part of the developer’s commercial redevelopment project.

BACKGROUND/CURRENT CONDITIONS

The subject ordinance would authorize a First Amendment to a 2019 Property Sale and Development Agreement (“PSDA”) with Uptown SEQ Holdings, LLC (“Developer”) related to the approximately \$250 million Digital Futures development. Digital Futures, formerly known as Uptown Gateway, is located in Avondale on the south side of MLK Jr. Drive, between Reading Road and Interstate 71. The PSDA contemplates the City selling various properties to the Developer to facilitate the Developer’s construction of a phased mixed-use urban office complex. Many of the parcels have been sold to the Developer, but not all. The proposed First Amendment would address timeframes for completion of various development milestones and the future property sale.

Phase IA of Digital Futures includes an approximately 1,500 space parking garage, two office buildings of approximately 180,000 square feet each, and a hotel. Despite the pandemic, the Developer was able to successfully secure financing and commence construction on all but the hotel. This represents over \$150 million in improvements that are currently being constructed, making it one of the largest active construction projects in the entire region. The garage and the two office buildings are now well under construction, with the office buildings going vertical, and largely on schedule.

However, due to the pandemic, several significant concerns remain about Phase IA. The hotel has not yet been able to proceed as originally planned due to the pandemic’s devastating impact on hospitality and accommodations. While the Uptown area is considered underserved by hotels and the location is optimal, the industry is still recovering and developers are only gradually re-starting paused projects due to market conditions, related financing challenges, and high construction costs. The timing for a hotel is unknown.

Another challenge with Phase IA has been that while Office Building 1 has a signed lease from the University of Cincinnati for its Digital Futures project, Office Building 2 is

speculative in nature and has not yet secured office tenant(s). Due to the quality of the Class A office space being built and the prime location along I-71 within the Uptown Innovation Corridor, there has been serious interest in the space from several prospective tenants, however the ongoing uncertainty of the pandemic has made it hard for those companies to make long-term office space commitments, delaying the Developer's ability to secure paying tenants, and also making it very difficult to advance the next phase of office construction under Phase IB.

While it is likely that these challenges will eventually be overcome as the economy continues to recover, the completion of Phase IA will take longer than anticipated and may not occur on the original timeframe required in the PSDA. As mentioned, the pandemic impact is also likely to significantly delay the Developer's ability to finance and construct future Phases 1B and 2, which involve additional office and commercial space, and additional public parking garage(s).

DEVELOPER INFORMATION

The Developer is an affiliate of Terrex, LLC, which also does business as Terrex Development and Construction. The Developer has partnered with Messer Construction and/or its affiliates on the project.

DESCRIPTION OF AMENDMENT

There is no new incentive to the Developer proposed within the First Amendment. The First Amendment would adjust for the impacts of the pandemic on the Digital Futures development by providing several changes to key milestone deadlines. These changes are designed to provide more flexibility to the Developer to facilitate the final buildout of all phases of the development, and they are as follows:

- Phase IA garage completion date moved back 20 months to December 2023.
- Phase IA overall completion date moved back 24 months to February 2026.
- Phase 1B public improvements commencement date moved back 24 months to August 2027.
- Phase IB overall completion date moved back 24 months to August 2030.
- Phase II purchase option expiration date moved back 24 months to April 2026.
- Phase II purchase option expiration date, if Developer extends 2nd extension option, moved back 24 months to April 2028.

RECOMMENDATION

The Administration recommends approval of this Emergency Ordinance. The reason for the emergency is the immediate need to enable the parties to execute an amendment to the PSDA so that the Developer can meet certain project-imposed deadlines, thereby creating a significant economic benefit and enhancement to the City at the earliest possible time.

Attachment: A. Property location and photographs

Copy: Markiea L. Carter, Director, Department of Community & Economic Development
MLC

Attachment A: Property Location and Photographs

