

# Main Street Revitalization

City Council Meeting – Public Hearing

14 March 2017



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# Overview

- John Day is an Affiliate Member of the Oregon Main Street Network
- City is eligible to apply for **Main Street Revitalization Grant**
- Awards up to \$100,000 for purchase, construction or rehabilitation
- Grant funds dispersed on a reimbursable basis
- Application **due on March 17**
- Notification on May 5
- Fund must be expended by 2020



# Establishing priorities

## **Timeline:**

- Notified by merchants interested in applying in late February
- Initial meeting held Thursday, March 2<sup>nd</sup>
- Second meeting held Monday, March 6<sup>th</sup>
- Third meeting held Monday, March 13<sup>th</sup>

## **Options discussed:**

- Improved parking (not in scope, but we'll do it separately)
- Façade improvements
- Structural improvements
- Building renovation



# Renovation of building @ 131 W Main Street

- Built 1895
- 4 Commercial Leased Spaces
- 1 Occupied apartment
- 11,294 square feet
  - Main floor = 5,627
  - Second floor = 5,667
- Lot size = 12,632 square feet
- List price \$299,000
- Days on market = 840



# Business case analysis

## Real Market Value (RMV) today

Land = \$58,530 (tax lots 2401 and 2600)

Improvements = \$187,220

**Current RMV = \$247,750 = \$22/SF**

## Restored RMV

4 Apartments @ 1,250 sq. ft. (2 bdr, 2 bath) = \$118,600 each

4 Commercial Spaces @ 1,250 sq. ft. = \$75,000 each

**Future RMV = \$774,200 = \$69/SF**

## Initial capital outlay by City

Purchase price \$247,750

Less Revitalization Grant \$100,000

**Net purchase price = \$147,750**

## Working capital

Future RMV \$774,200

Less Acquisition Cost \$147,750

**Restoration budget = \$626,450**

**Additional funding needed = \$2.08M**



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Cost to fully restore: \$240 sq. ft.  
Cost to build new: \$300-350 sq. ft.

# Full-scale restoration (non-prioritized improvements)

- Structural integrity assessment
- Code compliance
- Architectural design / structural engineering services
- Foundation, framing, floor and roof replacement / repair as needed
- Infill and separating walls between tenants
- Façade improvements
- Improve business signage
- Redesign interior apartments
- Build-to-suit commercial space
- Improved rear parking / expansion
- Redesign building access
- Relocate utility meters/sub-metering
- HVAC / Electric / Water improvements
- Relocate current tenants during renovation
- Legal fees and associated costs of redevelopment





# Interior photos (1 of 4)



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# Interior photos (2 of 4)





# Interior photos (3 of 4)



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# Interior photos (4 of 4)

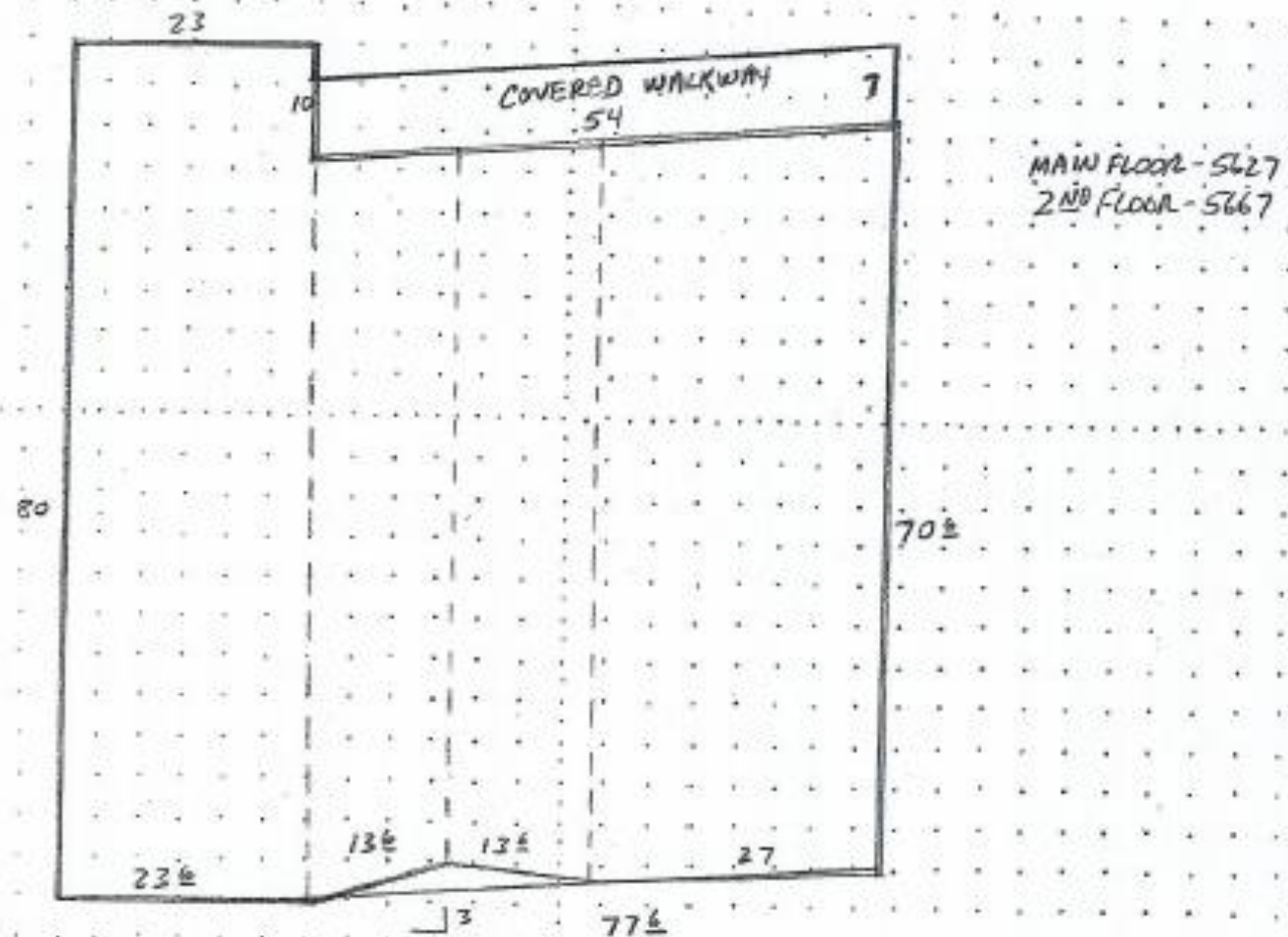


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# BUILDING DIAGRAM

Account No. 13316667-6401 " 1161



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# Proposed design features

## Main floor

- 4x Commercial spaces apx. 1,200 square feet each
- Improved storage / restrooms / utility rooms
- Improve windows / energy efficiency / lighting
- Standard dimensions
- Relocate 2<sup>nd</sup> floor access to rear
- Straighten storefronts
- New look (mountain chic)

## Second floor

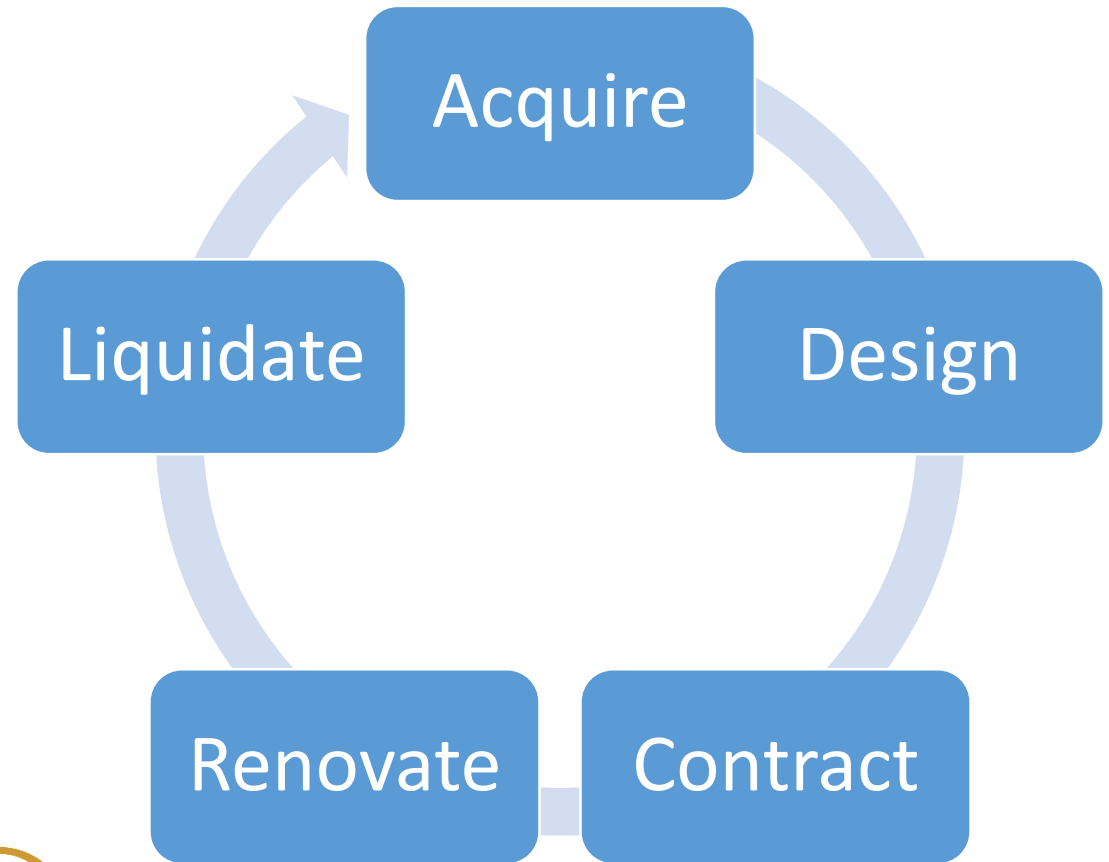
- Condos built for families / roommates (2 to 2.5 bath)
- Open floor plans
- Central hallway for all tenants
- Improved lighting
- Energy efficient appliances / windows
- Stylish design
- Affordable price point for renters and landlords





# Perpetual reinvestment business model

- City arranges for financing using multiple funding sources (Federal, State and Local) and acquires property
- Architect and Engineer plan and design the renovation
- Solicits construction services under Public Contracting Code – buying local when possible
- Relocates commercial tenants with 2-year lease agreement; option to buy
- Sells residential properties at market rates; commercial within 2-years of completion



# Future acquisitions / other community development options

- Expansion and Renovation of other Downtown Merchants
- 741 W Main (8,000 sq. ft. Mixed Use)
- 250 E Main (5363 sq. ft. Motel)
- 521 West Main (3600 sq. ft. Mixed Use)
- Residential housing / land development (off main street)



# Internal Rate of Return

$$NPV = \sum_{t=1}^T \frac{C_t}{(1+r)^t} - C_0$$

- IRR is a metric used in capital budgeting measuring the profitability of potential investments
- IRR is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero
- Assuming a 5-year net cash flow at current rental rates (\$500/mo./commercial tenant and \$750/mo./residential) and a cost of capital of 5%)

$C_t$  = net cash inflow during the period  $t$

$C_0$  = total initial investment costs

$r$  = discount rate, and

$t$  = number of time periods

**5-year revenue  
projected = \$260,000  
IRR = -46% = run away!**

**30-year breakeven =  
10% annual rent increase  
for all tenants = \$8K/\$12K mo.**



# Why should the City consider this?

## Reasons to invest

- City has access to **outside capital**
- **Profitability gap** makes private sector investment unlikely (high risk in declining market)
- City benefits from **property tax** and **population increase**
- **Stimulates investment** in Main Street businesses
- **Boosts economy** through local contracts, materials

## Reasons to run away

- There are **no risk free investments**
- **Structural repairs** may exceed project budget
- **Lack of support** from the community and business owners would be counter-productive
- **City becomes landlord** if units don't sell
- Resources become **overextended**
- **Lack of political will** to undertake large scale re-development





# Next steps

- Consensus from local business owners to proceed (March 13th)
- Present to City Council (March 14th)
- Submit application (March 17th)
- Conduct feasibility assessment (April)
- Notice of award (May 5)
- Decision to accept award
- Establish project timeline for relocating current tenants
- Begin design (Fall 2017)
- Construction (2018)

