

City Council – Action Request Form

Date: January 9, 2023

To: Mayor, Mayor Pro Tempore, and Members of City Council

From: Ben Rowe, Assistant City Manager
Ken Millett, Economic Development Director

Council Action Requested:

Resolution Authorizing an Economic Development Loan to Front Street Capital for Construction of a Speculative Industrial Building at Union Cross Industrial Center Pursuant to N.C.G.S. 158-7.1.

Strategic Focus Area: Economic Vitality and Diversity

Strategic Objective: Develop and Redevelop Commercial/Industrial Park Sites

Strategic Plan Action Item: No

Key Work Item: No



Summary of Information:

Front Street Capital (FSC) is a Winston-Salem based developer of commercial real estate, including industrial, office, healthcare, and mix-use properties throughout the Southeast. Local industrial projects include Union Cross Business Park and Park at 74.

FSC is requesting a loan of up to \$2,500,000 to assist in the construction of a 144,000 square foot speculative building on Lot #4 at Union Cross Industrial Center. The City's loan would supplement a capital stack that includes a ~\$8.5 million primary mortgage and ~\$4.7 million in equity. The facility would be marketed to companies outside the area seeking to relocate in Winston-Salem. The initial investment is expected to be approximately \$15.7 million, and construction would begin in the first quarter of 2023. The City loan would be repaid in full upon the occupation of the facility by a tenant and the subsequent selling or refinancing of the facility. The loan will be repaid in full no later than five years from the date of approval.

The City has previously partnered with FSC on two similar projects. In 2017 City Council approved the modification of a previously approved \$2.5 million loan to assist Winston-Salem

Committee Action:

Committee	<u>Finance 1/9/23</u>	Action	<u>Approval</u>
For	<u>Unanimous</u>	Against	<u></u>

Remarks:

Business, Inc. and FCS with the construction of a 200,000 square foot building in the Union Cross Industrial Center. Although the terms of the loan called for it to be repaid within up to five years, it was paid in full within 16 months.

In 2020 City Council approved a \$2.5 million loan to assist FSC with the construction of a 250,000 square foot speculative building on Wallburg Road at the Park at 74 industrial park. The building served as a newly relocated company's temporary home while FSC constructed a design-build 610,000 square foot facility to fit their needs. The speculative building is currently fully leased to a new tenant. As with the previous loan to FSC, terms allowed for up to five years for repayment; however, this loan is scheduled to be paid in full in mid-January 2023. The proceeds from this repayment would be used to provide the new \$2.5 million loan.

FSC proposes to:

- Repay the City's loan in full upon the occupation of the facility by a tenant and the subsequent selling or refinancing of the facility. Repayment in full will occur no later than five years from the date of loan closing.
- Complete construction of the new facility on the subject property within 24 months from receipt of loan approval
- Market primarily to companies seeking to relocate to Winston-Salem
- Contract with local MWBE contractors and subcontractors wherever possible
- Hire local residents including qualified ex-offenders and re-entry applicants, where possible
- Provide the City with a first lien position (or a second lien position if a construction loan from a third-party financial institution is required)
- Require any new tenant or purchaser of the facility to commit to: (i) making an additional capital investment of at least \$1 million in the facility over a five-year period commencing with the occupancy or purchase of the facility, (ii) locating and operating in Winston-Salem for at least five years commencing with the occupancy or purchase of the facility, and (iii) creating at least five new jobs within five years from the occupancy or purchase of the facility, with each job paying a minimum of \$15 per hour and provide health care benefits.

If approved by City Council, the attached Resolution authorizes staff to take the necessary steps to execute a loan closing with FSC for up to \$2.5 million from the City's Economic Development Loan Fund.