



Legislation Text

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Resolution to Endorse the Use of a Broker for the Sale and Development of the Kline's Lot

The City of Ann Arbor has a long history of attempting to develop the Kline's Lot site, spanning over many decades. Beginning in the late 1980s, shortly before the permanent closure of Kline's Department Store, attempts to redevelop the site have been discussed that are diverse in vision, use, and scope, but all have ultimately been unsuccessful. Notable past plans for the site have included:

- In 1988 the DDA identified the Kline's Lot as a site that suitable for a larger multi-use development including residential units and street level retail;
- From 1988-1991, the City attempted to build a municipal parking garage on the site, however after activism from the community to prevent this proposal it was ultimately scrapped by the Council in a 6-5 vote;
- In 2005 the City intended to issue an RFP for the development of the Kline's Lot site, along with two other downtown parking lots, however after various objections about the future of the site and its potential as a green space the Kline's Lot was never successfully redeveloped;
- In 2010 an unsolicited proposal for the Ashley Promenade was made that would have included retail, residential, a conference space, and a hotel, however the development never progressed past the proposal phase due to its lukewarm reception from some stakeholders;
- In 2013, the Connecting William Street Plan suggested the development of a City owned parking structure on the site, in addition to office, residential, ground floor retail, and a performing arts space, however the proposal never made it past the planning phase;
- In 2019, the City Council directed that the site be used to build affordable housing, however no specific plans have been proposed for this use on the site thus far based in part on the Ann Arbor Housing Commission's belief that this site is less suitable for affordable housing than others in the downtown;
- Most recently, in 2023 and 2024, a proposal for the development of the site as a Sports Illustrated hotel failed to gain enough support from the Council.

This history of failed developments highlights an important fact: The City does not have a successful track record of developing its own properties. However, there are other ways to develop properties that may have a better chance of success.

In the private sector, a common approach to property development for a property owner who is not themselves a developer is to draft a general scope of their vision for the property (not a full site plan, but a general vision for the property) and to hire a commercial property broker or seller's agent who runs a competitive process to identify a developer who is most able to deliver on the desired vision and provide the greatest value for the owner. The City may be in a good position to run a similar competitive process through a commercial broker.

A brokered real estate transaction is a competitive process open to multiple developers. This process would be nearly identical to the competitive bidding the City undertakes when engaging in the “phone-quote” process for professional services contracts, for the competitive purchasing process the City undertakes for goods and services, or the process we use every year to acquire health insurance for our employees. In each of these cases, the actual bidding of work is either contracted out or done internally as a directed negotiation rather than a formal, blind, and time delineated process. In the latter case, we draft a statement of what coverages we are interested in, and a third-party insurance broker deals directly with insurance companies to negotiate the best possible deal for the City and its employees. Once the third-party broker identifies the best deal, they bring it forward to staff who evaluate it to ensure it meets our criteria. Then the proposals are provided to Council for their approval.

With a commercial property broker, the City would retain a highly experienced real estate professional with a keen understanding of what attributes of a development might make it more or less marketable, what plans are likely to be economically feasible, and an understanding of which development firms might be most interested in the City’s proposal. They would advise on the drafting of the scope or vision for a development that best reflects the community’s values without overburdening the scope to the point where it is infeasible for development. They would then work to cultivate interested development companies and work directly with them to sharpen their proposals so they best meet the City’s needs. Once a firm is identified as the best fit, they would bring the proposal forward to staff for evaluation and then eventually to Council for consideration and hopefully approval.

This process could resemble or even be married to an RFP as well. The only difference between this and a formal RFP is that an RFP is time-limited in that bids must be received by a certain date, opened concurrently, and scored against each other. In some instances that may be the best approach. However, land developments are extremely complicated agreements that can take years of work to develop and can change unexpectedly as site conditions require (i.e., soil contamination is discovered, feedback from City planners or engineers necessitates changes, or economic conditions require changes to ensure the project is still financeable). A process to support land development must have a flexible approach in terms of timing to allow a broker and prospective developers to work on putting the best proposal together, and that can take some time to do. An RFP could be incorporated if it did not have a date certain for developers to submit a final proposal, if it was clear that the broker was receiving contact from interested developers, and if it was clear that the broker would be working with interested developers to sharpen proposals and determine an ultimate recommendation or recommendations for the City to consider. This arrangement would be permissible under City policies.

To ensure the widest audience of developers for a commercial broker to market to, the scope or vision would have to be more general than the City has written in the past. However, with the passage of Resolution R-24-108, the City Council endorsed a four-part priority for the City’s approach to land development as follows:

- Supporting housing development at all income levels to support housing affordability;
- Supporting sustainability in the built environment;
- The pursuit of placemaking initiatives;
- The improvement of the tax base, or of revenue to the City.

Following this direction, the City might consider a scope that broadly requires a proposal to substantially meet these goals perhaps with *some* limited specific guidance, but otherwise leave the question of exactly how these goals would be met up to the proposer. The commercial broker would then bring forward a proposal or proposals to the City that best meet these goals.

This competitive process could result in a development that is much more likely to succeed and result in a development that both comports with the City's policy goals related to land development and would provide the greatest financial benefit to the City.

Prepared by: John Fournier, Deputy City Administrator

Reviewed by: Milton Dohoney Jr., City Administrator

Approved by: Milton Dohoney Jr., City Administrator

Whereas, The City of Ann Arbor has a desire to develop the Kline's Lot to improve the quality of the urban environment in our downtown, increase sustainability, provide for urgently needed housing, and increase property tax revenues to the City;

Whereas, Past attempts to develop this property through the issuance of RFPs, the evaluation of unsolicited proposals, or other government led planning process have failed for various reasons;

Whereas, A new approach to the development of this parcel may be appropriate so as to improve the City's chances of successfully completing a redevelopment;

Whereas, Empowering a commercial broker to provide advice on the City led creation of a vision for the Kline's Lot aligned with City Council Resolution R-24-108, to lead a competitive process whereby the broker works to identify potential interested parties, solicit and receive proposals, and assist the City in evaluating which proposal best fits the City's vision, may have a high likelihood of success; and

Whereas, The City Administrator's expertise and experience on this topic is important to the Council as it considers this path;

RESOLVED, That the Council of the City of Ann Arbor will support, if the City Administrator so recommends, a strategy of employing an experienced commercial broker to advise and contribute to the selection of a developer that would meet the City's vision for the future of the Kline's Lot.

Sponsored by: Councilmembers Disch, Cornell and Eyer