

**TO:** Mayor Richard C. Irvin

**FROM:** David Dibo, Executive Director

**DATE:** 12/10/2019

**SUBJECT:**

A resolution authorizing COA to lend Bernie Laskowski/Craft Urban up to \$600,000 from existing lines of credit for the purpose of redeveloping 41 South Stolp and the adjacent lot as a Craft Urban restaurant with second story apartments, to reimburse certain expenses relating to the closing of the transaction and to make certain payments relating to the sale of the adjacent lot. Bernie Laskowski is a successful chef/restaurant owner and founder of the Craft Urban restaurant in Geneva IL who is planning a sister restaurant in Aurora.

**PURPOSE:**

The goal of this redevelopment agreement is to facilitate a transaction for a long vacant property and the adjacent land that resulted from the teardown of a building that proved uneconomical to rehabilitate and replace it with a stylish eating and cocktail locale to add to what is fast becoming the epicenter of the City's urban renaissance on Stolp.

In keeping with the City's goal to reduce the amount of incentives in the second wave of developments, this request involves mostly the use of the City's credit. This development is just outside TIF 9, but still in TIF 1, and as noted below will involve funding from TIF 1.

The request recognizes a need to balance both the high costs of renovation relative to current downtown property values and the commensurate challenge of obtaining traditional bank financing- with the desirability of attracting a renowned, disciplined, owner/occupant with a successful hospitality track record who is also willing to take on substantial risk. To accomplish this end, COA employed its risk/reward protocol wherein all parties involved in the transaction (COA, seller, buyer/tenant, bank) needed to find the workable solutions summarized here. As with all the recent downtown deals, the market (still) needs priming, although in this case it is more credit than cash that is required.

Craft Urban (CU) has negotiated a sale price with the seller of \$150,000, which CU will pay in cash. Despite this commitment, a willingness to expend an additional \$300,000 (total \$450,000) from his tight knit investors for tenant improvements and working capital for the restaurant, and an ability to amortize the loan within a reasonable timeframe, CU has been unable to secure conventional bank financing for redevelopment. This is due to a number of factors including the unimproved appraised value of the property, the lack of "as built comparables" that could support the needed valuation and the related issue of historically low rents in the downtown. COA and CU have been working on structuring a loan that would involve some risk sharing between the bank and COA (COA and Old Second have been working closely together to determine a viable loan structure) however time constraints (appraisal, loan committee, etc.) prevented this from occurring in the required year end time frame.

The agreement between CU and COA is that CU will invest this \$450,000 and COA will provide a loan of up to \$600,000 for the redevelopment of 41 S. Stolp (total \$1,050,000). In general, aside from the aforementioned \$1,050,000, COA will pay agreed upon fees and soft costs of \$30,000 at closing and make three annual payments of \$20,000 in 2020, 2021, and

2022 to go to the purchase of One W Downer Place (the vacant lot). It is our understanding that the seller is considering structuring the lot transaction so as to be able to avail himself for a donation tax credit. While Invest Aurora is a vehicle that could accept such a donation, these discussions have not yet occurred. In any event, COA can and will not be a party to this donation including the valuation and feasibility of such a donation. There were fines that were assessed on the vacant lot that COA will waive as part of the transaction conditioned on the hazardous conditions relating to the need to fill in what was the basement of the demolished building.

#### **BACKGROUND:**

The 41 South Stolp building is an eyesore; when the current owner purchased the property it was virtually uninhabitable. The same landlord purchased a building just to the south at One W Downer Place and was forced to demolish it because of its poor condition. Since then there has been a long line of possible buyers, some announced in the press with one thing in common: all required assistance from the COA to proceed. This included a diner, an Italian restaurant with an FHA loan, and wholesale/retail store among others.

The owner of CU, Bernie Laskowski is an Aurora resident and former marine who has combined a disciplined, striving for excellence approach with a love, work and study of the culinary arts. Bernie worked his way up through the notoriously challenging industry starting at Le Ciel Bleu in the Mayfair Regent hotel in Chicago, to Papagus Greek Taverna (Lettuce Entertain you), onto Marche in the west loop, the Chicago Four Seasons, Bin 36, and ultimately the Park Grill in Millennium Park before opening his own prepared meal company and ultimately his own well-received Craft Urban restaurant in Geneva (see attached for more complete biography).

#### **DISCUSSION:**

The following chart summarizes the cost to transform 41 S. Stolp to a Craft Urban restaurant on the first floor and construct four apartments on the second floor; total about 5600 square feet.

As shown on the chart below, the total capitalization of the turn key transaction is approximately \$1,140, 000. The sources of the funds are \$450,000 from Laskowski and his investors, \$600,000 from the COA loan and \$90,000 from the COA.

Item	Cost
Purchase 41 Stolp	\$150,000
Renovation	\$600,000
Restaurant Tenant Improvements	\$300,000
Closing Costs (City)	\$30,000
Deferred Payments (City) – 2020,21, and 22 from TIF 1	\$60,000 over three years
Total	\$1,140,000

The loan is approximately 53% of the “as built” cost-which should also, at minimum equate to value-although appraisers in Aurora may see it otherwise.

For our purposed here, assume this loan amortizes over 10 years at a 5% interest. The interest rate is consistent with other downtown development deals. The annual debt service would be

Loan Amount	\$600,000
Interest	5%
Monthly Payment	\$6,400
Annual Payment	\$75,800
Term	10 years
Primary Guarantor	Bernie Laskowski

The key to this transaction is that the purchaser is also the user and as such will generate enough “rent” to pay interest and principal. Assuming “rent” payments of approximately \$6,000/month for the restaurant (may phase in from opening to a 6 month stabilization period - which was also done for the Altiro restaurant) and that four apartments will rent for \$900 per month each (approximately \$1.30 PSF which is at/below market). Assume stabilized taxes at \$2.50 PSF, (\$12,500) insurance at \$1,000 per residential unit, and \$2,000 on the ground floor) and another \$600 in miscellaneous expenses or about \$26,000 annually. The expected costs available for debt service would be as follows

	Monthly	Annual
Revenue from Restaurant	\$6,000	\$72,000
Revenue from Apartments	\$3,600	\$43,200
Less Vacancy 10%	(\$360)	(\$4,320)
Net Revenue Apartments	\$3,240	\$38,880
Total Revenue	\$9,240	\$110,880
Expenses	\$2,166	\$26,000
CASH Available for Debt Service	\$7,074	\$84,888

Combining the anticipated cash available for debt service with the debt service estimates derived above provides a debt service coverage ratio of approximately 1.18. This indicates that the loan should comfortably be able to be carried by anticipated income from the project. Because the line of credit is intended for relatively short term borrowing (two years), the loan would likely need to be refinanced within a couple of years or else bonded by COA, which is the same plan for the grant portions of Terminal, Hobbs, 80 S. River, and Keystone projects.

	Monthly	Annual
CASH Available for Debt Service	\$7,074	\$84,888
Debt Service	\$6,400	\$76,800
Debt Service Coverage Ratio	1.12	1.12

Not included in this analysis is the financial impact to COA from both food and beverage and sale taxes (4.25%). Assuming a conservative revenue of \$750,000, these taxes would be about \$32,000 annually or about 33% of the annual debt service required on the loan, bringing coverage above 1.5. In addition, when completed the property will be valued at a multiple of it current value and its real estate taxes will increase proportionally. Current taxes for 41 S. Stolp are about \$5,000.

**IMPACT STATEMENT:**

Due to the lack of historical comparable sales at levels required by banks to underwrite the loan to Craft Urban, the buyer has been unable to secure third party financing without assistance. Each buyer or user who have attempted to structure a transaction at this site likewise indicate an inability to proceed without financial assistance for COA) But for the COA acting, the restaurant, or other uses consistent with the downtown master plan could not proceed. The building would either remain vacant or possibly be sold to a user that is not compatible with the entertainment/ dining dynamic that is beginning to define this section of Stolp

**RECOMMENDATIONS:**

That the resolution be approved

cc: Alderman Robert J. O'Connor, Chairperson  
Alderman Edward J. Bugg, Vice Chairperson  
Alderman Carl Franco  
Alderman Scheketa Hart-Burns  
Alderman Emmanuel Llamas



CITY OF AURORA, ILLINOIS

RESOLUTION NO. \_\_\_\_\_  
DATE OF PASSAGE \_\_\_\_\_

A Resolution requesting approval to negotiate an agreement between the City of Aurora and Bernie Laskowski, or a designated entity managed by Bernie Laskowski, for the purpose of redeveloping 41 S. Stolp Avenue and the adjacent lot as a restaurant with second story apartments.

WHEREAS, the City of Aurora has a population of more than 25,000 persons and is, therefore, a home rule unit under subsection (a) of Section 6 of Article VII of the Illinois Constitution of 1970; and

WHEREAS, subject to said Section, a home rule unit may exercise any power and perform any function pertaining to its government and affairs for the protection of the public health, safety, morals, and welfare; and

WHEREAS, the City of Aurora desires to increase the number of quality restaurant establishments in its downtown area; and

WHEREAS, Bernie Laskowski is a successful chef and restaurant owner and founder of the Craft Urban restaurant located in Geneva, Illinois and is planning a sister restaurant in the City of Aurora; and

WHEREAS, the City of Aurora desires to lend Bernie Laskowski, or a designated entity managed and operated by Bernie Laskowski, up to Six Hundred Thousand and No/100 U.S. Dollars (\$600,000.00) from existing lines of credit for the purpose of redeveloping 41 S. Stolp Avenue and the adjacent lot as a Craft Urban restaurant with second story apartments and/or reimburse certain expenses related to the closing of the contemplated transaction;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Aurora, Illinois, as follows: That the City Council hereby authorizes the negotiation of an agreement with Bernie Laskowski, or a designated entity managed and operated by Bernie Laskowski, whereby the City of Aurora will lend up to Six Hundred Thousand and No/100 U.S. Dollars (\$600,000.00) from existing lines of credit to Bernie Laskowski, or a designated entity managed and operated by Bernie Laskowski, for the purpose of redeveloping 41 S. Stolp Avenue and the adjacent lot as a Craft Urban restaurant with second story

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apartments and/or reimburse certain expenses related to the closing of the contemplated transaction.