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December 6, 2009

City Commission  
City Hall

**Re: Proposed purchase of 4950 Research Parkway**

Communities across the nation are overpaying for bioscience firms on the exaggerated estimates of their economic development value. When cities overpay, they lose the benefits; Lawrence should be smarter.

The building at 4950 Research Parkway is a worthwhile project for City participation. This building is on the market but will not sell. The City can gain from providing space that the private sector will not provide on its own. However, this does not mean that the City should purchase this space at any price nor that the City should obligate the taxpayers to pay for this project if it does not perform as projected.

### **Price**

The taxpayers are being asked to invest \$2.9 million made up of initial purchase of \$2.3 million plus \$600,000 in improvements.

The tax assessor values the building at \$1.5 million. At an 8% capitalization rate, this corresponds to 55% occupancy. Even if the renovated building can attain the 89% occupancy the LDCBA projects, the property's market value at an 8% capitalization rate, after improvements, is about \$2.35 million.

The taxpayers are being asked to overpay by at least \$550,000, even more if the occupancy does not reach the 89% level.

The staff responds to questions on the price arguing that the cost of construction exceeds the purchase price. However, replacement cost does not dictate market value; if it did, the market would have purchased the building at this high price. Capitalized income dictates market value.

The capitalized value of this property appears to be worth, at most, about \$1.75 million.

## **Form of Financing**

The building, not the taxpayers' future tax payments, should be the collateral for the loan.

With staff proposal the taxpayers must pay the full \$2.9 million dollars if the project does not lease up as projected, a prospect that history suggests is highly probable.

The staff argues that the building can be sold if the project does not perform. This is small comfort, as the market will only pay a price based on capitalized income, which if the project does not succeed this price will be less, probably much less, than the debt. The taxpayers will be obligated to cover the shortfall.

If the purchase is financed with revenue bonds, the investors in the bonds understand that the building alone is the collateral. This means that the interest rate will be higher than with general obligation bond financing. Given this higher interest, the project's income will, appropriately, only support a lower purchase price.

## **Recommendation**

The City should pay no more for the property than its income can support with the debt financed by revenue bonds, probably around \$1.75 million, and this purchase should be financed with revenue bonds.

Yours truly,

A handwritten signature in black ink, appearing to read 'Kirk McClure', with a horizontal line extending to the right.

Kirk McClure



Lawrence Board of REALTORS®  
3838 W. SIXTH STREET / LAWRENCE, KANSAS 66049

December 7, 2009

Lawrence City Commission  
City Hall  
P.O. Box 708  
Lawrence, KS 66044

Dear Commissioners –

On behalf of the Lawrence Board of REALTORS®, thank you for the opportunity to submit written comments in strong support of the Lawrence Douglas County Bioscience Authority's request for financial assistance with the acquisition and long-term lease of the West Lawrence Labs building. After fully reviewing the supporting documentation, we believe this proposal is in the best long-term interest of the community.

As real estate professionals who are involved on a daily basis in community development discussions, we believe that the City of Lawrence and Douglas County should exhibit strong leadership in promoting economic development in this community. Unless our community is willing to take concrete and substantial steps to promote economic development and create new jobs, then there will be many other communities who will benefit from new economic development opportunities at our expense.

The proposal on the table presents several tangible and intangible benefits to the community and should be strongly supported by the City of Lawrence and Douglas County. For the reasons expressed below, we would urge you to approve the LDCBA's request to acquire the West Lawrence Labs property.

First, the cost benefit analysis prepared by the city staff estimates that the adoption of this proposal could result in the creation of an additional 40 jobs in the community over the next few years at an average salary of \$57,000 per year (which is well in excess of area median income). At a time when Lawrence is dealing with some fairly substantial job reductions in the manufacturing and service sector, we believe it is very important to preserve and create a maximum number of quality jobs for the community.

Second, the adoption of this proposal would ensure that Critech (an emerging bioscience company) retains its operations in the City of Lawrence and does not transfer its employees and investments to another location such as Wichita (which has submitted an offer) or Johnson County. Coming on the heels of the city's near-loss of Deciphera to Johnson County, the community should be actively working to retain existing employers in emerging industries like bioscience (which pay significantly higher wages on average than manufacturing or service industry positions).

With the addition of the National Bio- and Agro-Defense Research Facility (NBAF) in Manhattan and the further growth of university research operations in Lawrence and Johnson County, Lawrence could see a huge increase in bioscience and medical research employment and investment if the community plays its cards correctly and continues to encourage that investment.

Finally, any decision by the city or county to reject this proposal would further reinforce the misguided perception that Lawrence is an anti-business community that is not willing to invest public resources in job creation and economic development activities. This could further erode the city's efforts to attract additional jobs to the community through a continued development in the bioscience and medical research industries.

If our community is not willing to invest public resources in new economic development opportunities, then we can anticipate that numerous other communities in Kansas and Missouri will be more than happy to take these opportunities away from our community. The current City Commission has taken some very concrete and positive steps to show the business community that our community is willing to go the extra mile for community development and approving this proposal would continue that great work.

Thank you for the opportunity to provide our comments on this issue. I would be more than happy to stand for any questions at the appropriate time.

Sincerely,

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