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CITY COUNCIL

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TO: COUNCIL MEMBERS 

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: October 23, 2018

RE: 1249 Griswold, LLC, Application for an Obsolete Property
Rehabilitation Certificate Public Act 146 of 2000 Abatement Request
PUBLIC HEARING (Recommend Approval)

Obsolete Property Rehabilitation Act Public Act 146 of 2000

The Obsolete Property Rehabilitation Act (OPRA), Public Act 146 of 2000, provides for a tax incentive to encourage the redevelopment of obsolete buildings. This tax incentive is designed to assist in the redevelopment of older buildings, which are contaminated, blighted or functionally obsolete. The primary purpose of this incentive is to rehabilitate and convert vacant, functionally obsolete older buildings into vibrant commercial uses and commercial housing projects and to return them to the tax rolls.

1249 Griswold, LLC's PA 146 OPRA Abatement

1249 Griswold, LLC is the project developer of a vacant obsolete building, located at the 8 story 109,136 square foot building located 1249 Griswold in the Capital Park Historic District. This project involves the rehab and planned development of 83 modern lofts units and 19,000 square feet of commercial space, according to the letter from the developer titled "AMENDMENT." The letter also indicates that the building has been vacant since 1984.

The letter from Finance Assessors dated *September 26, 2016*, indicates *82 modern loft units and 29,670 square feet of commercial space*, not the 83 units and 19,000 square feet that are indicated in the developer's letter. Also, the Finance Assessors letter, which also includes the taxable value of the site at the date of the letter, *is two years old*, dated at 2016. Council may wish to ask for a more *up-to-date letter from the Assessor*. However, the letter from the Assessor did indicate that the property was eligible for an OPRA certificate.¹

¹ The Finance Assessors letter dated September 26, 2016, is attached.

This project appears to have been delayed, given the dates indicated. Council may wish to inquire why it has taken so long to appear as a public hearing.

Affordability

The goal expressed by the Duggan Administration for housing development projects with a rental component that are incentivized with City tax abatements, is a 20% affordability allocation. This policy aligns with the Detroit City Council’s stated goal of maintaining affordable housing throughout the city of Detroit. Despite the fact that there is an abundance of affordable housing in certain areas of the city of Detroit, that same can’t be said of the Downtown, Midtown, New Center, and Corktown areas. The primary group of individuals that may benefit from this affordable arrangement, are those individuals at 80% of the Area Median Income (AMI), which according to HUD, 80% of AMI² is \$39,700. However, there is *no mention of affordability* by 1249 Griswold, LLC in its OPRA request letter or the September 26, 2016 letter from Finance Assessors.

The appearance of a lack of an affordability component, begs the question of why the Administration chose to move forward on this type of project. *Council may want to inquire with the developer on why an affordable housing component was not included in the materials for this tax incentivized residential project.* However, DEGC’s evaluation includes the mention of an affordability component. Council may want to ensure that a 20% affordably allocation for the units is secured in a written agreement, prior to voting for this project.

The total investment for this project is estimated at **\$17.1 million**.

The DEGC recommends an **abatement of 12 years** for this project.

**DEGC Project Evaluation
1249 Griswold
1249 Griswold Street, LLC
Principal: Richard Karp**

Obsolete Property Rehabilitation Act, PA 146 of 2000 as amended- Current taxes frozen at pre-rehab values / Improvements taxed at 24mills (school), local taxes abated for up to 12 years	
Location	
Address	1249 Griswold
City Council District	District 6
Neighborhood	Downtown
Located in HRD Targeted Area	No
Building Use	
Total Square Foot	87,657
Commercial & Retail Square Foot	29,670
Residential Square Foot	57,987

² Detroit-Warren-Livonia Michigan Average Median Income (AMI) is \$49,625 for 2018; 80% AMI = \$39,700, estimated at approximately \$992 per month at an 80% AMI affordable rent level.

Project Description	
<ul style="list-style-type: none"> This project is the rehabilitation of the historic Farwell building in Capital Park that was constructed in 1915. It will bring 82 residential rental units, together with ground floor retail and office. 20% of the units will be affordable for households at 80% AMI. The expected completion date is 1st quarter of 2019. 	
Residential Breakdown	
Studio	33 units, 489-618sf, \$809-\$1,447/mo
1-Bdr	45 units, 659-787sf, \$859-\$1,520/mo
2-Bdr	4 units, 988sf, \$1,861/mo
Underwriting	
Internal Rate of Return	12.60%% with abatement (6.62% without abatement)
Debt Service Coverage Ratio	1.52 stabilized with abatement (1.25 without abatement)
Sources and Uses	
Total Investment	\$39MM
Sources	\$13.2MM Permanent Debt (34%), \$8.8MM State Historic and Brownfield (23%), \$6.2MM Fed Tax Credit (16%), \$3.3MM NSP2 Acquisition (8%), \$5MM Deferred Developer Fees (13%), \$2.4MM Owner's Equity (6%)
Uses	\$3.3MM Acquisition (8%), \$26.6MM Hard Construction (68%), \$9.1MM Soft Costs (24%)
Project Benefits	
Estimated Jobs	post-construction, 25 construction
Estimated City benefits before tax abatement	\$5,239,504
Total estimated value of City PA 146 abatement	\$2,336,535
Less cost of services & utility deductions	\$898,509
Net Benefit to City	\$2,004,460
Estimated benefits all jurisdictions before tax abatement	\$9,486,254
Total estimated value of PA 146 abatement all jurisdictions	\$4,393,396
Less cost of services & utility deductions all jurisdictions	\$1,402,046
Net Benefit to All Jurisdictions	\$3,690,812

Project Cost/Benefit Analysis

All Taxing Units: Incentive Summary over the First 12 Years

	Additional Benefits Before Tax Abatements	Additional Costs	Real Property Tax Abatement	Business Personal Property Tax Abatement	Net Benefits After Tax Abatements & Incentives
City of Detroit*	\$5,239,504	(\$898,509)	(\$2,336,535)	50	\$2,004,460
Wayne County	\$732,495	(\$119,894)	(\$617,476)	50	(\$4,875)
Detroit Public Schools*	\$2,539,910	(\$383,643)	(\$891,716)	50	\$1,264,550
State Education	\$417,762	\$0	50	50	\$417,762
Downtown Dev. Authority	\$68,840	\$0	(\$67,738)	50	\$1,103
Wayne RESA*	\$141,209	\$0	(\$237,345)	50	\$3,863
Wayne County Comm. College*	\$125,647	\$0	(\$212,033)	50	\$3,614
Wayne County Zoo	\$6,963	\$0	(\$6,851)	50	\$112
Detroit Institute of Arts	\$13,925	\$0	(\$13,702)	50	\$223
Total	\$9,486,254	(\$1,402,046)	(\$4,393,396)	50	\$3,690,812

Chart courtesy of DEGC

Project Fiscal Summary

PROJECT	PROJECT INVESTMENT	TAXING UNIT	GROSS BENEFIT	COST OF SERVICES	PA 146 VALUE	NET BENEFIT
1249 Griswold	\$17.1 Million	Detroit	\$5,239,504	(\$898,509)	(\$2,336,535)	\$2,004,460
		All Taxing Units*	\$9,486,254	(\$1,402,046)	(\$4,393,396)	\$3,690,812

*Including Detroit

This project is estimated at a \$17.1 million investment and its projected positive cost benefit to the City of Detroit is \$2 million and over \$3.6 million to all of the impacted taxing units, in addition to the development of 80 plus new housing units.

Please contact us if we can be of any further assistance.

Attachment: September 26, 2016 Letter from Finance Assessors Re: 1249 Griswold OPRA



1249 Griswold-The Farwell Building³

cc: Auditor General's Office
Arthur Jemison, Chief of Services and Infrastructure
Maurice Cox, Planning and Development Department
Donald Rencher, HRD
Dinah Bolton, Planning and Development Department
John Saad, Planning and Development Department
Stephanie Grimes Washington, Mayor's Office
Malinda Jensen, DEGC
Kenyetta Bridges, DEGC
Jennifer Kanalos, DEGC
Brian Vosburg, DEGC

³ "The DEGC declared the Farwell to be "greatest opportunity" for redevelopment in Capital Park. The former office building is ideal for a residential conversion, while its lower floors are aimed at retail around a beautiful atrium." Curbed Detroit <https://detroit.curbed.com/maps/tracking-the-buildings-and-resurgence-of-capitol-park>



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June 16, 2016

Maurice Cox, Director
 Planning & Development
 2 Woodward Ave, Suite 808
 Detroit, MI 48226

RE: **Obsolete Property Rehabilitation Certificate**
 Address: 1249 Griswold
 Parcel # 02002006.

Dear Mr. Cox:

The Office of the Chief Financial Officer, Assessments Division, has reviewed the proposed Obsolete Property Rehabilitation certificate application for the property located at 1249 Griswold.

The rationale for granting Obsolete Property Rehabilitation certificates under PA 146 of 2000, as amended, is based on the anticipation of increased market value upon completion of new construction and /or significant rehabilitation of existing commercial property and commercial housing property. Normal repair and maintenance are not assessed and do not necessarily generate additional market value.

1249 Griswold St, LLC plans to establish 83 modern lofts plus 19,000 +/- square feet of commercial space. The property is an 8-story structure which formerly operated as office space, consisting of 109,136 square foot. It has experienced prolonged vacancy since 1984. The rehabilitation is not planned to add any additional square footage nor alter the existing height.

The 2016 values are as follows:

Parcel #	Address	Building Assessed Value (SEV)	Building Taxable Value	Land Assessed Value (SEV)	Land Taxable Value
02002006.	1249 Griswold	\$ 39,000	\$ 39,000	\$ 212,500	\$ 212,500

This property meets the criteria set forth under PA 146 of 2000, as amended. It applies to blighted, functionally obsolete and contaminated properties. "Rehabilitation," meaning that changes to qualified facilities that are required to restore or modify the property, together with all appurtenances, to an economically efficient condition.

The developer proposes to completely rehabilitate this functionally obsolete property by replacing and upgrading existing mechanical and plumbing systems, windows, floors, interior floor plans, exterior finishes and roof components. The finished project will result in the creation of viable modern lofts with a mix of commercial space, potentially adding to the economic development and investment in the Downtown area.

A field investigation indicated that the property located at 1249 Griswold is eligible as it pertains to the Obsolete Property Rehabilitation Act under P.A. 146 of 2000, as amended.

Sincerely,

Gary Evanko, MMAO
 Chief Assessor, Board of Assessors
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