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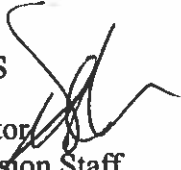
# City of Detroit

## CITY COUNCIL

LEGISLATIVE POLICY DIVISION  
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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director  
Legislative Policy Division Staff 

DATE: October 23, 2018

RE: Establishment of a Neighborhood Enterprise Zone as requested by  
AK Owner LLC (Albert Kahn Building NEZ) **PUBLIC HEARING**

The following is Legislative Policy Division's (LPD) review of the AK Owner LLC, application for a Neighborhood Enterprise Zone (NEZ) in the New Center District <sup>1</sup>

### Neighborhood Enterprise Zone Act (Public Act 147 of 1992)

The Neighborhood Enterprise Zone Act, PA 147 of 1992, as amended, provides for the development and rehabilitation of residential housing located within eligible distressed communities. New and rehabilitated facilities applications are filed, reviewed and approved by the local unit of government, but are also subject to review at the State level by the Property Services Division. The State Tax Commission (STC) is responsible for final approval and issuance of new and rehabilitated facility certificates. Exemptions for new and rehabilitated facilities are not effective until approved by the STC. NEZ applications are filed, reviewed and approved by the local unit of government.

By statute, every NEZ must contain not less than 10 platted parcels of land which are compact and contiguous. The statute allows for an exception if a NEZ is located in a *downtown revitalization district*. In a downtown revitalization district,<sup>2</sup> a NEZ may contain less than 10 platted parcels if the platted parcels together contain 10 or more facilities.

<sup>1</sup> Parcel # 02001104-14

<sup>2</sup> As defined in Section 2 (k) MCL 207.772

## Downtown Revitalization District

In 2008, the NEZ Act was modified by Public Acts 204 & PA 228 to allow a neighborhood enterprise zone located in a "qualified downtown revitalization district" to contain fewer than 10 platted parcels if the platted *parcels* together contain 10 or more *facilities*.<sup>3</sup> The Act as modified, defines "qualified downtown revitalization district" as an area located within the boundaries of one or more of the following:

- A downtown district, as defined in the Downtown Development Authority Act.<sup>4</sup>
- A principal shopping district or a business improvement district as defined in the principal shopping district Act (BID Act).<sup>5</sup>
- An area of the local unit zoned and primarily used for business, as determined by the local governmental unit.<sup>6</sup>

### Albert Kahn Building

The project developer, AK Owner LLC plan to convert the 10-story office building, located at 7430 Second Avenue in the New Center area, into 211 rental units with 75,652 sq. ft. of retail and office space on the first floor and lower level. The building at its inception, known as the New Center Building and now the Albert Kahn Building, was placed on the National Register of Historic Places in 1980.<sup>7</sup> According to the Detroit Free Press, "The rental apartments will likely be aimed at young professionals. No decision has been made on whether a portion of the apartments would be set aside as "affordable" units."<sup>8</sup> The for rent apartment component of this project are subject to the NEZ request. In May 2018, the Albert Kahn Associates architecture firm is moved from the Albert Kahn Building to the Fisher Building. Prior to moving to the Fischer Building in May, the Albert Kahn Building had been home to the firm since 1931.<sup>9</sup>

### 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 AMI<sup>10</sup> is \$39,700. However, there is *no mention of affordability* by AK Owner in its NEZ request letter or the September 10, 2018 letter from the Office of the Assessor.

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<sup>3</sup> In its letter of September 10, 2018, the Finance Department Assessors Division indicated that this proposed district located in the New Center District, is eligible for a NEZ designation, per the NEZ statute.

<sup>4</sup> PA 197 of 1975, MCL 125.1651 - 125.1681

<sup>5</sup> Principal shopping Districts and Business Improvements Districts Act 120 of 1961, MCL 125.981 - 125.990n

<sup>6</sup> Under the DDA Act, "downtown district" means that part of an area in a business district that is specifically designated by ordinance of the governing body of the municipality pursuant to the Act. A downtown district may include one or more separate and distinct geographic areas in a business district as determined by the municipality.

<sup>7</sup> <http://historicdetroit.org/building/albert-kahn-building/>

<sup>8</sup> <https://www.freep.com/story/money/2018/06/04/albert-kahn-building-new-center-sold-200-apartments/668600002/>

<sup>9</sup> <https://www.craigslist.com/article/20180328/news/656401/albert-kahn-associates-to-move-from-namesake-building-to-fisher>

<sup>10</sup> 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.

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.

According to the materials received from the developer, AK Owner LLC, in addition to their NEZ request, plans to seek further City assistance via a PA 255 Commercial redevelopment incentive. This further begs the question of the rationale used in approving two incentives for a residential rental project without an affordable housing component. In addition, Council may also want to ask the developer why a PA 255 abatement will be pursued without having at least 20% of the units available as affordable units and why is the developer planning on pursuing this particular abatement.

LPD inquired further with a representative of the developer and the DEGC. Both parties indicated that this project will have an affordable component. According to DEGC, the pro forma<sup>11</sup> for this project is based on 32 one bedrooms at 80% AMI and 8 two bedroom units at 80% AMI. Council may want to ask the developer to confirm these projections and to request that the terms that dictate the allocation of affordable housing in this development be memorialized in an affordable housing agreement, prior to the approval of this abatement request.

The total projected investment for this project is approximately **\$68.3 million**.

**DEGC Review**

**DEGC Project Evaluation Checklist**

**Albert Kahn Building**

Developer: AK Owner, LLC

Principal: Lutz Capital

Commercial Redevelopment Act, PA 255 of 1978 as amended – Restoration allocation; current taxes frozen at pre-rehab values, local taxes abated for up to 12 years	
Neighborhood Enterprise Zone, PA 147 of 1992 as amended – Rehabilitation allocation; current taxes frozen at pre-rehab values, local taxes abated for up to 15 years, final three years phase out	
<b>DEGC Recommendation</b>	<b>15 years NEZ, 12 years PA 255</b>
<b>Location</b>	
Address	7430 Second Ave
City Council District	District 5
Neighborhood	New Center
Located in HRD Targeted Area	Yes, Great Downtown
<b>Building Use</b>	
Total Rentable Square Foot	247,982
Commercial & Retail Square Foot	52,942
Residential Square Foot	195,040

<sup>11</sup> Pro forma is a Latin term that describes a method of calculating and presenting financial results to emphasize either current or projected figures. <https://www.investopedia.com/terms/p/proforma.asp#ixzz5UgKAkgZc>

Project Description	
<p>This project involves the significant restoration of the building, which was formerly commercial property. The physical building improvement activities include, but are not limited to: gutting, renovating, and modernizing the structure to create leasable retail, commercial, and residential space. The existing property has been determined to be obsolete, therefore qualifying it for Neighborhood Enterprise Zone Rehabilitation and Commercial Redevelopment Act Restoration eligibility. Upon completion the building will have approximately 35,000 square feet of leasable commercial space ground floor space. Floors 2 through 11 will be 211 rental apartment units between 1 bedroom, 2 bedroom, and 3 bedroom units.</p>	
Housing Breakdown	
Total Units	211 (avg. monthly rent \$1,860)
1 Bedroom	159 units, 678sf-882sf, \$1,132-\$2,073/mo rent
2 Bedroom	39 units, 965sf-1,232sf, \$1,417-\$2,772/mo rent
3 Bedroom	13 units, 1,274sf-1,408sf, \$2,867-\$3,683/mo rent
Underwriting	
Internal Rate of Return	11.9% with abatement (negative without abatement)
Debt Service Coverage Ratio	1.3x stabilized with abatement (0.81x without abatement)
Sources and Uses	
Total Investment	\$68.3MM
Sources	\$41MM Permanent Debt (60%), \$5.2MM CRP (7%), \$8.6MM HTC (13%), \$13.5MM Owner Equity Contribution (20%)
Uses	\$9.5MM Acquisition (13%), \$48.3MM Hard Construction (71%), \$10.4MM Soft Costs (16%)
Project Benefits	
Estimated Jobs	6 FTE, 140-160 construction
Estimated City benefits before tax abatement	\$15,235,885
Total estimated City value of PA 255 abatement	\$1,988,847
Total estimated City value of NEZ abatement	\$6,919,126
Less cost of services & utility deductions	\$1,544,022
Net Benefit to City	\$4,783,889

**Projected Fiscal Impact of the NEZ over 15 years: All Taxing Units**

	Additional Benefits Before Tax Abatements	Additional Costs	Real Property Tax Abatement	Business Personal Property Tax Abatement	Utility Users Tax & Corporation Income Tax Exemption	Net Benefits After Tax Abatements & Incentives
City of Detroit	\$11,979,753	(\$1,100,380)	(\$6,919,126)	\$0	\$0	\$3,960,246
Wayne County	\$2,103,856	\$0	(\$1,720,067)	\$0	\$0	\$383,789
Detroit Public Schools	\$8,115,315	\$0	(\$6,253,489)	\$0	\$0	\$1,861,826
State Education	\$1,570,706	\$0	(\$1,210,353)	\$0	\$0	\$360,353
Wayne RESA	\$1,084,286	\$0	(\$886,234)	\$0	\$0	\$208,062
Wayne County Comm. College	\$848,391	\$0	(\$653,752)	\$0	\$0	\$194,639
Wayne County Zoo	\$26,178	\$0	(\$20,173)	\$0	\$0	\$6,006
Detroit Institute of Arts	\$52,357	\$0	(\$40,345)	\$0	\$0	\$12,012
<b>Total</b>	<b>\$25,790,852</b>	<b>(\$1,100,380)</b>	<b>(\$17,703,539)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$6,986,933</b>

Chart courtesy of DEGC

## Projected Fiscal Impact Summary

PROJECT	PROJECT INVESTMENT	TAXING UNIT	GROSS BENEFIT	COST OF SERVICES	PA 147 NEZ VALUE	NET BENEFIT
Albert Kahn Building	\$68.3 Million	Detroit	\$11,979,753	(\$1,100,380)	(\$6,919,126)	\$3,960,247
		All Taxing Units*	\$25,790,852	(\$1,100,380)	(\$17,703,539)	\$6,986,933

\*Including Detroit

This project is estimated at a \$68.3 million investment and its projected positive cost benefit to the City of Detroit is \$3.96 million and over \$6.98 million to all of the impacted taxing units, in addition to the development of 211 new housing units.

### NEZ Acreage Status:<sup>12</sup>

NEZ allocations are limited by state statute: *"The total acreage of the neighborhood enterprise zones containing only new facilities or rehabilitated facilities or any combination of new facilities or rehabilitated facilities designated under this act shall not exceed 15% of the total acreage contained within the boundaries of the local governmental unit."*<sup>13</sup>

**Total acreage available (15% of Detroit acreage): 13,239.00**

**AK Owner LLC: 1.27 acres**  
**Total Acreage for the Entire City of Detroit: 88,260**<sup>14</sup>

**Total Acreage Remaining 7,844.57**  
**Total Acreage Designated: 5,394.43**

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

**Attachment:** September 10, 2018 Letter from Finance Assessors Re: NEZ-AK Owner

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  
 Stephanie Grimes Washington, Mayor's Office  
 Malinda Jensen, DEGC  
 Kenyetta Bridges, DEGC  
 Jennifer Kanalos, DEGC  
 Brian Vosburg, DEGC

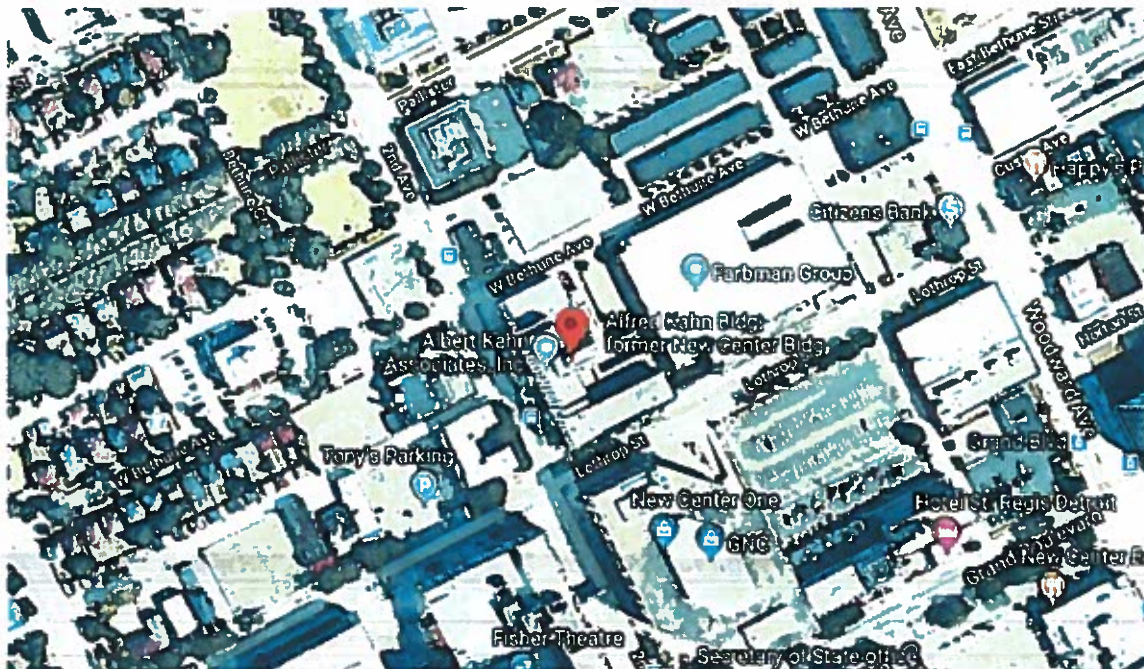
<sup>12</sup> This is a ballpark estimate by LPD, based on current available data.

<sup>13</sup> MCL 207.773 (2)

<sup>14</sup> 88,260 Acres = 137.90625 Square Miles



**Albert Kahn Building**



**Site of the Albert Kahn Building Project**



CITY OF DETROIT  
OFFICE OF THE CHIEF FINANCIAL OFFICER  
OFFICE OF THE ASSESSOR

COLEMAN A. YOUNG MUNICIPAL CENTER  
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September 10, 2018

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

RE: **Neighborhood Enterprise Zone – AK Owner LLC**  
**7430 Second Avenue**  
**Parcel Number: 02001104-14**

Mr. Cox:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the request from **AK Owner LLC** proposed **The AK Neighborhood Enterprise Zone**, generally located at 7430 Second Avenue in the **New Center** district in the City of Detroit. **AK Owner LLC's** proposed plan is to rehabilitate the **Albert Kahn** building to include retail and other commercial components with the balance of the building to be used for residential purposes.

The rationale for creating NEZ projects under PA 147 of 1992, as amended, must be based on the anticipation of market value added to the neighborhood upon completion of new construction and/or significant rehabilitation of existing housing stock.

The proposed area consists of the **Albert Kahn** 13-story office building with 326,113 square feet of above ground floor area built in 1953 on 1.268 acres of land. The developer plans to create approximately 211 rental apartment units and have 75,652 square feet of retail and other commercial space on the main floor, portion of the basement, the mezzanine and a portion of the second floor. The current True Cash Value of the proposed area (77%) is \$2,583,658 and contains 1.268 acres of land. The True Cash Value of this area would be expected to increase due to the rehabilitation and construction.

MCL 207.772 Sec 2(k) "Qualified downtown revitalization district" means an area located within 1 or more of the following: (i) The boundaries of a downtown district as defined in section 1 of 1975 PA 197, MCL 125.1651. (ii) The boundaries of a principal shopping district or a business improvement district as defined in section 1 of 1961 PA 120, MCL 125.981. (iii) The boundaries of the local governmental unit in an area that is zoned and primarily used for business as determined by the local governmental unit.

MCL 207.772 Sec 2 (m) "Rehabilitated facility" means an existing structure or a portion of an existing structure with a current true cash value of \$80,000.00 or less per unit that has or will have as its primary purpose residential housing, consisting of 1 to 8 units, the owner of which proposes improvements that if done by a licensed contractor would cost in excess of \$5,000.00 per owner-occupied unit or 50% of the true cash value, whichever is less, or \$7,500.00 per nonowner-occupied unit or 50% of the true cash value, whichever is less, or the owner proposes improvements that would be done by the owner and not a licensed contractor and the cost of the materials would be in excess of \$3,000.00 per owner-occupied unit or \$4,500.00 per nonowner-occupied unit and will bring the structure into conformance with minimum local building code standards for occupancy or improve the livability of the units while meeting minimum local building code standards. Rehabilitated facility also includes an individual condominium unit, in a structure with 1 or more condominium units that has as its primary purpose residential housing, the owner of which proposes the above described improvements. Rehabilitated facility also



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Neighborhood Enterprise Zone  
AK Owner LLC  
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includes existing or proposed condominium units in a qualified historic building with 1 or more existing or proposed condominium units. Rehabilitated facility does not include a facility rehabilitated with the proceeds of an insurance policy for property or casualty loss. A qualified historic building may contain multiple rehabilitated facilities.

Upon review, it has been determined that this proposed district located in the New Center district as a qualified historic building is eligible for designation as a Neighborhood Enterprise Zone per PA 147 of 1992, as amended.

Sincerely,

Charles Ericson, MMAO  
Assessor, Board of Assessors

mmp





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Parcel Number	Property Address	Owner Name	Current Use	2018 TCV	Taxable Value	Acres
02001104-14	7430 Second	AK Owner LLC	13 Story Office Building	\$3,355,400	1,285,057	1.268

