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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: October 24, 2018

RE: Hotel St. Regis Holdings, LLC, Application for an Obsolete Property
Rehabilitation Certificate Public Act 146 of 2000 Abatement Request
PUBLIC HEARING

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.

Hotel St. Regis Holdings, LLC's PA 146 OPRA Abatement

Hotel St. Regis Holdings, LLC, the project developer, is a subsidiary of Detroit-based Invictus Equity Group, led by Tony Saunders and Christos Mosaides.¹ This project involves the renovation of the of 125-room Hotel St. Regis in the New Center area of Detroit, located at 3071 West Grand Blvd.

The project will occur in two phases, one this year and the second coming in 5-7 years. The hotel requires the replacement of the building's electrical, HVAC, and plumbing systems. In addition, the hotel's exterior and interior will be restored and the elevators modernized.

The DEGC recommends a **6 year OPRA with amendment that further investment could allow for 12 year abatement** for this project.

¹ Investment group buys Hotel St. Regis; Crain's Detroit Business, February 18, 2018, by Kirk Pinho
<https://www.crainsdetroit.com/article/20180218/news/653261/investment-group-buys-hotel-st-regis>

The total investment is estimated to be approximately **\$24.4 million**.

DEGC Project Evaluation Checklist

Hotel St. Regis

Developer: St. Regis Holdings, LLC

Principal: Tony Saunders and Christos Mosaides

Abatements Requested:

1. 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

DEGC Abatement Length Recommendation	6 year OPRA with amendment that further investment could allow for 12 year abatement
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Project Description

This project is the renovation of the St. Regis Hotel in the New Center neighborhood in Detroit. The total investment by St. Regis Holdings will be \$24.4 million. The investment will occur in two phases, one this year and the second coming in 5-7 years. Of that investment, 33% will come from equity, the rest will come from loans.

The developer is seeking incentive assistance in the form of an Obsolete Property Rehabilitation Act. This will allow the developer some remittance on the high millage rates in the City so that a stabilized cash flow can be established and maintained.

The St. Regis Hotel is currently a facility as determined by a Phase II environmental site assessment. The renovation is planned to replace the obsolete fixed building equipment, which includes electrical, HVAC, and plumbing. Additionally, obsolete boilers/domestic hot water systems and elevators will be modernized. The exterior and interior appearances will be restored to an economically efficient condition.

Without the OPRA, the developer cannot achieve a DSCR above 1.00 in the initial years of development.

However, if the developer does not do Phase II of investment, then starting in year 7 they have a DSCR of 1.30. If they do end up doing Phase II of investment, the DSCR drops to slightly above 1.00 again.

It is expected that this renovation will create 20 new full time equivalent jobs at the hotel in addition to the 62 jobs that will be retained.

Location

Address	3071 West Grand Blvd
City Council District	District 5
Neighborhood	New Center
Located in HRD Targeted Area	Yes, Greater Downtown

Building Use	
Total Square Foot	66,705
Retail Square Foot	16,205
Hotel sf	50,500
Project Overview – Mixed-Use/ Rehabilitation	
Total Hotel Rooms	120
Average Daily Rate / Room	\$107
Underwriting Component	
DSCR	1.34 with abatement (0.93 without abatement)
IRR	4.66% with abatement (2.13% without abatement)
Sources and Uses	
Total Investment	\$24.4 million
Financial Sources	\$7.4MM construction loan 1 (30%), \$4.2MM construction loan 2 (17%), \$4.8MM long term construction debt (20%), \$6.8MM owner's equity (28%), \$1.2MM secondary infusion of cash (5%)
Uses	\$11MM acquisition (45%), \$12.4MM hard construction (51%), \$1MM soft costs (4%)
Project Benefits	
Estimated Jobs	20 FTE, 260 construction, 62 Retained Employees
Estimated City benefits before tax abatement	\$3,531,082
Estimated value of City OPRA	\$654,276
Less cost of services & utility deductions	\$780,794
Net benefit to City	\$2,096,012
Estimated benefits before tax abatement (all jurisdictions including Detroit)	\$6,572,887
Estimated Total value of abatement	\$1,253,048
Less cost of services & utility deductions	\$992,047
Net benefit to all jurisdictions	\$4,327,792

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	Utility Users Tax & Corporation Income Tax Exemption	Net Benefits After Tax Abatements & Incentives
City of Detroit	\$3,531,082	(\$780,794)	(\$654,276)	\$0	\$0	\$2,096,012
Wayne County	\$519,667	(\$100,514)	(\$160,181)	\$0	\$0	\$358,973
Detroit Public Schools	\$1,778,797	(\$110,738)	(\$259,108)	\$0	\$0	\$1,408,951
State Education	\$324,555	\$0	\$0	\$0	\$0	\$324,555
Wayne RESA	\$227,255	\$0	(\$108,911)	\$0	\$0	\$118,344
Wayne County Comm. College	\$175,303	\$0	(\$64,594)	\$0	\$0	\$110,709
Wayne County Zoo	\$5,409	\$0	(\$1,993)	\$0	\$0	\$3,416
Detroit Institute of Arts	\$10,818	\$0	(\$3,986)	\$0	\$0	\$6,832
Total	\$6,572,887	(\$992,047)	(\$1,253,048)	\$0	\$0	\$4,327,792

Chart courtesy of DEGC

Project Fiscal Summary

PROJECT	PROJECT INVESTMENT	TAXING UNIT	GROSS BENEFIT	COST OF SERVICES	PA 146 VALUE	NET BENEFIT
Hotel St. Regis	\$24.4 Million	Detroit	\$3,531,082	(\$780,794)	(\$654,276)	\$2,096,012
		All Taxing Units*	\$6,572,887	(\$992,047)	(\$1,253,048)	\$4,327,792

*Including Detroit

This project will create 20 new full time equivalent jobs at the hotel in addition to 62 jobs that will be retained, as a direct result of the developer's \$24.4 million investment and its projected positive cost benefit to the City of Detroit of \$2 million and over \$4.3 million to all of the impacted taxing units.

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

Attachment: August 30, 2018 Letter from Finance Assessors Re: Hotel St. Regis OPRA



View of the Hotel St. Regis ²

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

² "The Hotel St. Regis has had a tumultuous 10 years since a 2007 renovation." Investment group buys Hotel St. Regis; Crain's Detroit Business, February 18, 2018, by Kirk Pinho

<https://www.craisdetroit.com/article/20180218/news/653261/investment-group-buys-hotel-st-regis>

Photo: Kurt Nagl/Crain's Detroit Business



August 30, 2018

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

RE: **Obsolete Property Rehabilitation Certificate – Hotel St. Regis Holdings LLC**
Property Address: 3071 West Grand Boulevard
Parcel Number: 02001102.

Dear Mr. Cox:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the proposed Obsolete Property Rehabilitation certificate application for the property located at **3071 West Grand Boulevard** in the **New Center** area in the City of Detroit.

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.

Hotel St. Regis Holdings LLC plans to rehabilitate the 6 story hotel that is in a state of significant disrepair built in 1966 on .769 acres of land. The rehabilitated building will continue to operate as a 120 room hotel and 6,300 square foot restaurant.

The 2018 values are as follows:

Parcel #	Address	Building Assessed Value (SEV)	Building Taxable Value	Land Assessed Value (SEV)	Land Taxable Value
02001102.	3071 W Grand Blvd 1	\$ 320,200	\$ 281,822	\$50,200	\$44,183

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 proposed redevelopment plan includes renovations to interior rooms, bathrooms, common spaces and restaurant space as well as update the HVAC, hot water systems, and elevator modernization. In the next 7 years, additional investment roll include the construction of a rooftop patio, a luxury spa, build-out of the basement, improvements to the banquet room, restaurant upgrades, exterior façade restoration and additional exterior improvements. The finished project will add commercial attractions to the neighborhood and create jobs in the New Center area.

A field investigation indicated that the property located at **3071 West Grand Boulevard** is eligible as it pertains to the Obsolete Property Rehabilitation Act under P.A. 146 of 2000, as amended.

Sincerely,

A handwritten signature in blue ink, appearing to read "Charles Ericson".

Charles Ericson, MMAO
Assessor, Board of Assessors

mmp



CITY OF DETROIT
FINANCE DEPARTMENT
BOARD OF ASSESSORS

Obsolete Property Rehabilitation Certificate
Hotel St. Regis Holdings LLC
Page 2

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Property Address: 3071 W Grand Blvd 1

Parcel Number: 02001102.

Property Owner: ST REGIS REAL ESTATE HOLDINGS, LLC

Legal Description: N GRAND BLVD W UNIT 1 WAYNE COUNTY CONDOMINIUM SUBDIVISION PLAN NO 783 "ST REGIS CONDOMINIUM" RECORDED L40613 P14-57 DEEDS, WCR 02/196

The legal description on the request for the district matches the assessment roll.

