


David Whitaker, Esq.
Director
Irvin Corley, Jr.
Executive Policy Manager
Marcell R. Todd, Jr.
Senior City Planner
Janese Chapman
Deputy Director

City of Detroit
CITY COUNCIL
LEGISLATIVE POLICY DIVISION
208 Coleman A. Young Municipal Center
Detroit, Michigan 48226
Phone: (313) 224-4946 Fax: (313) 224-4336

Christopher Gulock, AICP
Derrick Headd
Marcel Hurt, Esq.
Kimani Jeffrey
Anne Marie Langan
Jamie Murphy
Kim Newby
Analine Powers, Ph.D.
Jennifer Reinhardt
Sabrina Shockley
Thomas Stephens, Esq.
David Teeter
Theresa Thomas
Kathryn Lynch Underwood

LaKisha Barclift, Esq.
M. Rory Bolger, Ph.D., AICP
Elizabeth Cabot, Esq.
Tasha Cowen
Richard Drumb

TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: October 24, 2018

RE: Temple Group 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.

Temple Group Holdings, LLC's PA 146 OPRA Abatement

Temple Group Holdings, LLC is the project developer. This project includes redevelopment of the 169,337-square foot commercial building currently located at 640 Temple Street, as well as the redevelopment of an adjacent vacant lot, for an 100-room boutique hotel¹ including banquet facility, restaurant and bar (floors 1 through 4), 70 apartment units (floors 5 through 7), and a rooftop pool. The addresses in the project cover 640, 650, 660, and 674 Temple Street.

The basement of the building will be converted into a lounge/night club with separate access. The adjacent vacant lot (currently paved with asphalt for parking) will be the location of an on-site underground storm water management system that will be covered with grass and landscaping, which will serve as an area for outdoor entertainment.

The total investment is estimated to be approximately **\$65 million**.

¹ "Boutique hotel" generally, these hotels are small and they pride themselves on their uniqueness.

Earlier this year in March 2018, the Detroit City Council also approved a Brownfield TIF² reimbursement in the amount of \$6,455,496,³ however only \$5,100,380 in TIF reimbursement is projected to be captured under the proposed plan.

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 AMI⁴ is \$39,700. However, there is *no mention of affordability* by Temple Group Holdings, LLC in its OPRA request materials or the August 30, 2018 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 citation of an affordability component. Council may want to ensure that a 20% affordable 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 **\$65 million**.

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

DEGC Project Evaluation Checklist

640 Temple

Developer: Temple Group Holdings, LLC

Principal: 400 Monroe Associate

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	12 Years OPRA
Location	

² Tax increment financing (TIF) is a public financing method that is used as a subsidy for redevelopment.

³ Current projections predict a capture of \$5,100,380 and that approx. \$1,355,116 of eligible activities will remain unreimbursed at the end of the term of the Plan; however, in the event that the actual tax increment revenue capture is greater than projected, the Developer will be reimbursed up to the maximum amount of eligible costs approved for eligible activities under this Plan.

⁴ 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.

Address	640, 650, 660, and 674 Temple Street
City Council District	District 6
Neighborhood	Midtown
Located in HRD Targeted Area	No
Building Use	
Total Square Foot	143,281
Retail Square Foot	20,579
Residential Square Foot	60,212
Hotel Square Foot	62,490
Project Overview – Mixed-Use/ Rehabilitation	
Total Hotel Rooms	101
Average Daily Rate / Room	\$160
Total Units	70 apartments
Studio	3 units, 435sf, \$544/mo
1 Bedroom	57 units, 451-1,017sf, \$564-\$2,288/mo
2 Bedroom	10 units, 1,541sf, \$3,467/mo
Affordable Housing	20% at 80% AMI (14 units)
But For Analysis	
Internal Rate of Return	8.29% with abatement (3.35% without abatement)
Debt Service Coverage Ratio	1.10 stabilized with abatement (0.78 without abatement)
Sources and Uses	
Total Investment	\$62.9 million
Financial Sources	\$30MM construction loan (48%), \$5.2MM PACE (8%), \$8.8MM CRP Loan (14%), \$7.5MM Historic Tax Credits (12%), \$11.5MM owner's equity (18%)
Uses	\$7MM acquisition (11%), \$42MM hard construction (67%), \$14MM soft costs (22%)
Project Benefits	
Estimated Jobs	80 FTE, 162 construction
Estimated benefits before tax abatement	\$9,398,526
Total estimated value of City OPRA	\$4,430,737
Less cost of services & utility deductions	\$750,033
Net benefit to City	\$4,217,756

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	\$9,398,526	(\$750,033)	(\$4,430,737)	\$0	\$0	\$4,217,756
Wayne County	\$1,851,367	(\$100,500)	(\$1,172,814)	\$0	\$0	\$578,054
Detroit Public Schools	\$6,327,253	(\$389,834)	(\$1,691,677)	\$0	\$0	\$4,245,741
State Education	\$1,151,156	\$0	\$0	\$0	\$0	\$1,151,156
Downtown Dev. Authority	\$189,691	\$0	(\$128,659)	\$0	\$0	\$61,033
Wayne RESA	\$842,890	\$0	(\$571,692)	\$0	\$0	\$271,198
Wayne County Comm. College	\$621,778	\$0	(\$421,722)	\$0	\$0	\$200,055
Wayne County Zoo	\$19,186	\$0	(\$13,013)	\$0	\$0	\$6,173
Detroit Institute of Arts	\$38,372	\$0	(\$26,026)	\$0	\$0	\$12,346
Total	\$20,440,218	(\$1,240,368)	(\$8,456,340)	\$0	\$0	\$10,743,511

Chart courtesy of DEGC

Project Fiscal Summary

PROJECT	PROJECT INVESTMENT	TAXING UNIT	GROSS BENEFIT	COST OF SERVICES	PA 146 VALUE	NET BENEFIT
640 Temple	\$65 Million	Detroit	\$9,398,526	(\$750,033)	(\$4,430,737)	\$4,217,756
		All Taxing Units*	\$20,440,218	(\$1,240,368)	(\$8,456,340)	\$10,743,510

*Including Detroit

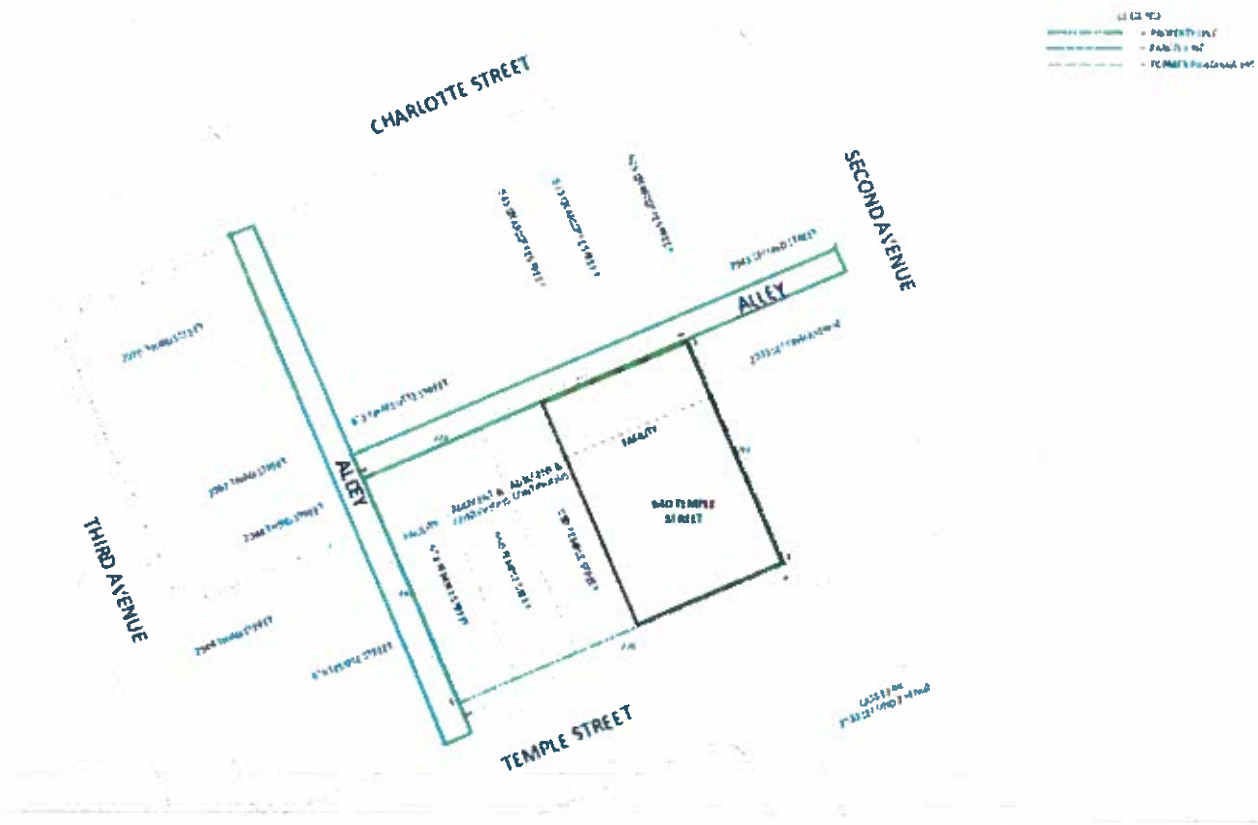
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This project includes the creation of 80 full-time equivalent (FTE) jobs and 158 temporary construction jobs, as a direct result of the developer's \$65 million investment and its projected positive cost benefit to the City of Detroit is \$4.2 million and over \$10.7 million to all of the impacted taxing units, in addition to an 100-room boutique hotel including a banquet facility, restaurant and bar, 70 apartment units and a rooftop pool.

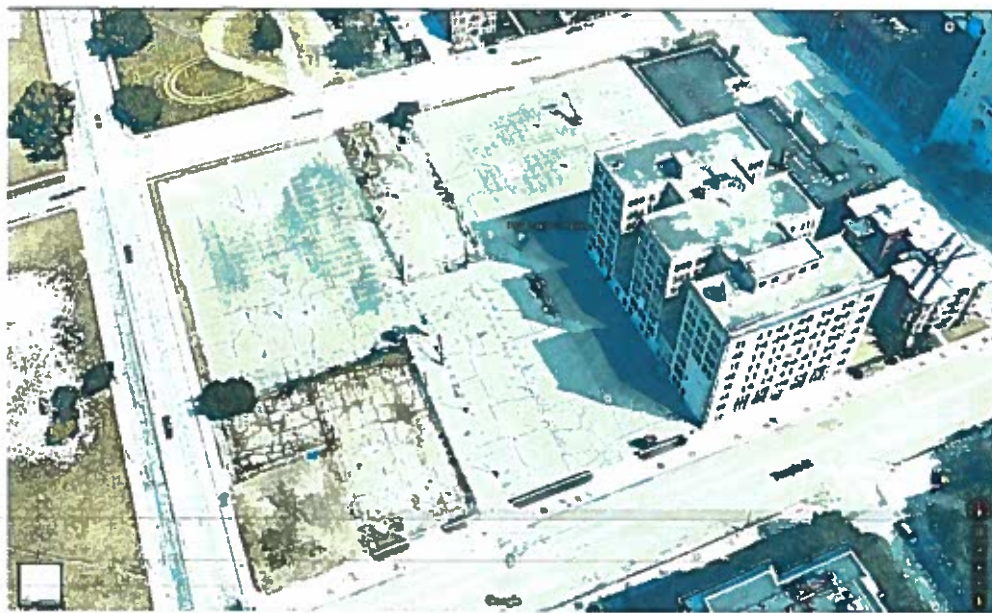
Please contact us if we can be of any further assistance.

Attachment: August 30, 2018 Letter from Finance Assessors Re: 640 Temple OPRA

⁵ Figures subject to rounding



Site Map ⁶



Aerial View of Site

⁶ Source: Detroit Brownfield Redevelopment Authority

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



COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVE., SUITE 824
DETROIT, MICHIGAN 48226
PHONE 313-224-6989 TTY:311
FAX 313-224-9400
WWW.DETROITMI.GOV

August 30, 2018

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

Re: **Obsolete Property Rehabilitation Certificate – Temple Group Holdings LLC**
Property Address: 640 Temple Street
Parcel Number: 04000575.

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 640 Temple Street 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.

Temple Group Holdings LLC plans to substantially redevelop the commercial building to include a 100-key boutique hotel with hotel auxiliary facilities, a restaurant and banquet facility, rooftop pool, 70 residential apartment units and night club in the building's basement. The property at 640 Temple Street is a vacant 169,337 square foot, eight-story office building built in 1921 on .545 acres of land.

The 2018 values are as follows:

Parcel #	Address	Building Assessed Value (SEV)	Building Taxable Value	Land Assessed Value (SEV)	Land Taxable Value
04000575.	640 Temple	\$ 4,037,000	\$ 4,037,000	\$ 132,900	\$ 132,900

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.

Rehabilitation includes replacing all windows, modernizing the elevators, adding additional elevators, replacing the flooring, constructing a rooftop pool and converting the large basement into a nightclub/lounge along with new HVAC, electrical and plumbing systems. The building's interior units, first floor lobby and basement, exterior facade, replacement of plumbing and electrical as well as new heating and air conditioning systems. Unique historic features of the building, including the facade, wood paneled lobby and the executive suites on the 3rd floor will be preserved and restored. The finished project will result in increased commercial activity, increased urban density, create employment opportunities and revitalize an urban in the Cass Park Historic District.



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

COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 824
DETROIT, MICHIGAN 48226
(313) 224-3011 • TTY:711
(313) 224-9400
WWW.DETROITMI.GOV

Obsolete Property Rehabilitation Certificate
Temple Group Holdings LLC
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A field investigation indicated that the property located 640 Temple Street with 40 Davenport LLC is eligible as it pertains to the Obsolete Property Rehabilitation Act under P.A. 146 of 2000, as amended.

Sincerely,

Charles Ericson, MMAO
Assessor, Board of Assessors

mmp



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER
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COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 824
DETROIT, MICHIGAN 48226
(313) 224-3011 • TTY:711
(313) 224-9400
WWW.DETROITMI.GOV

**Obsolete Property Rehabilitation Certificate
Temple Group Holdings LLC
Page 3**

**Parcel Number: 04000575.
Property Address: 640 Temple
Property Owner: Temple Group Holdings LLC
N TEMPLE 21-20 W 1/2 19 BLK 84 CASS FARM SUB L1 P131 PLATS, W C R 4/123 125 X 190**

