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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: November 14, 2018

RE: Request to approve two Commercial Facilities Exemption Certificates (PA 255) as requested by AK Owner LLC (Albert Kahn Building) **PUBLIC HEARING**

The following is Legislative Policy Division's (LPD) review of the AK Owner LLC, application for two Commercial Facilities Exemption Certificates, one for the Concourse Level and the other for the second floor ¹

Commercial Redevelopment Act (Public Act 255 of 1978)

The Commercial Redevelopment Act (known as the Commercial Facilities Exemption), PA 255 of 1978, as amended, provides a tax incentive to commercial business enterprises to enable the renovation and expansion of aging facilities and to assist in the building of new facilities. A Commercial Redevelopment District (CRD) must be created prior to initiating a project. A Commercial Facilities Exemption Certificate entitles the facility to exemption from ad valorem real property taxes for a term of 1-12 years as determined by the local governmental unit.

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 1980.² In May 2018, the Albert Kahn Associates architecture firm is moved

¹ Parcel # 02001104-14; it appears that once established, the current parcel will be separated into two new taxable parcels

² <http://historicdetroit.org/building/albert-kahn-building/>

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 1931.³

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	
DEGC Recommendation	15 years NEZ, 12 years PA 255
Location	
Address	7430 Second Ave
City Council District	District 5
Neighborhood	New Center
Located in HRD Targeted Area	Yes, Great Downtown
Building Use	
Total Rentable Square Foot	247,982
Commercial & Retail Square Foot	52,942
Residential Square Foot	195,040
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)

³ <https://www.crainsdetroit.com/article/20180328/news/656401/albert-kahn-associates-to-move-from-namesake-building-to-fisher>

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 PA 210 over 12 years: All Taxing Units

Table 19. Incentive Summary Over the First 15 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	\$3,256,132	(\$443,642)	(\$1,988,847)	\$0	\$0	\$823,643
Wayne County	\$636,699	(\$10,509)	(\$486,912)	\$0	\$0	\$139,278
Detroit Public Schools	\$2,452,679	(\$33,632)	(\$1,878,191)	\$0	\$0	\$540,855
State Education	\$468,720	\$0	(\$363,521)	\$0	\$0	\$105,199
Wayne RESA	\$327,623	\$0	(\$266,883)	\$0	\$0	\$60,740
Wayne County Comm. College	\$253,171	\$0	(\$196,350)	\$0	\$0	\$56,822
Wayne County Zoo	\$7,812	\$0	(\$6,059)	\$0	\$0	\$1,753
Detroit Institute of Arts	\$15,624	\$0	(\$12,117)	\$0	\$0	\$3,507
Total	\$7,418,461	(\$487,783)	(\$5,198,879)	\$0	\$0	\$1,731,798

Chart courtesy of DEGC

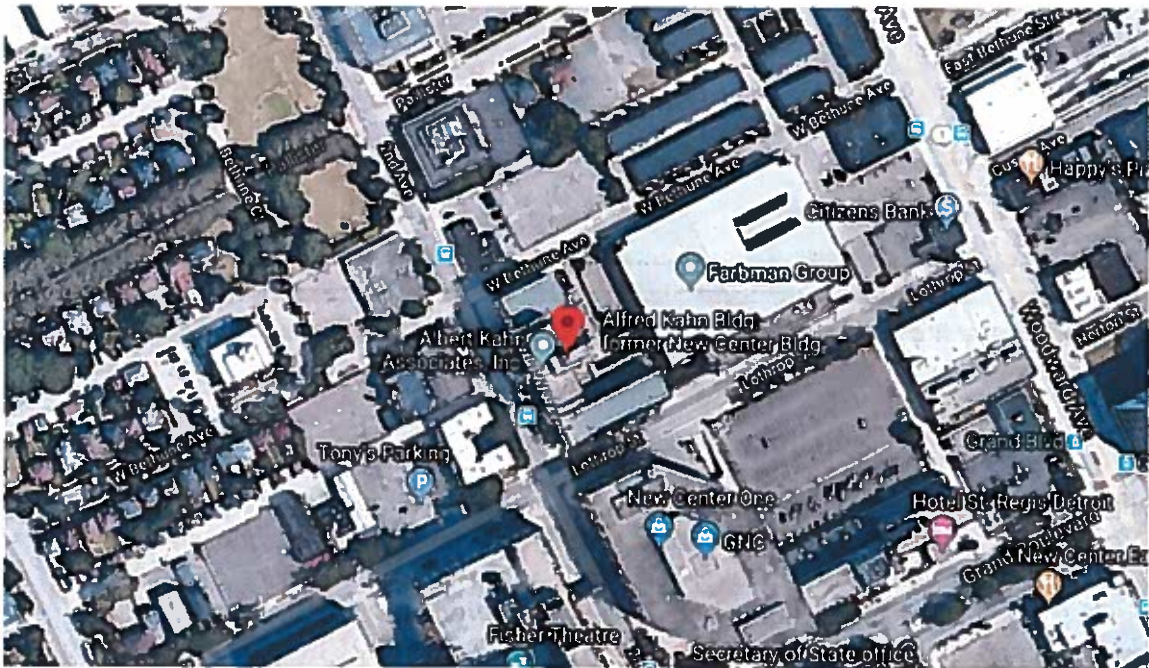
This project is estimated at a \$68.3 million investment and its projected positive cost benefit to the City of Detroit is \$823,643 and over \$1.73 million to all of the impacted taxing units, in addition to the development of 211 new housing units.

Attachments: Letter from Finance Assessors Re: PA 210 Certificate for -AK Owner (Main Floor)
Letter from Finance Assessors Re: PA 210 Certificate for -AK Owner (Second Floor)

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



Albert Kahn Building



Site of the Albert Kahn Building Project



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

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November 5, 2018

Maurice Cox, Director
 Planning & Development Department
 2 Woodward Ave, CAYMC
 Suite 810
 Detroit, MI 48226

RE: Commercial Facilities Tax Exemption Certificate
 AK Owner LLC – 7430 Second Avenue (main floor and concourse level only)
 Parcels Number: 02001104-14

Dear Mr. Cox:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the application for a Commercial Facilities Tax Exemption Certificate for the property located at 7430 Second Avenue in the New Center area.

The rationale for creating Commercial Redevelopment Districts under PA 255 of 1978, as amended, is based on the anticipation of increased market value upon completion of new construction and/or significant restoration of commercial and former industrial property where the primary purpose and use of which is the operation of a commercial business enterprise and shall include office, engineering, research and development, warehousing parts distribution, retail sales, hotel or motel development, and other commercial facilities. Commercial business enterprise also includes a business that owns or operates a transit-oriented development or a transit-oriented facility. Normal repair and maintenance are not assessed and do not necessarily generate additional market value.

The main floor and the concourse level of the facility to be rehabilitated by AK Owner LLC is part of the 13-story Albert Kahn office building with 326,113 square feet of above ground floor area built in 1932 on 1.268 acres of land which is impaired due to obsolescence with of HVAC, electrical, plumbing and communications, warranting substantial restoration. The proposed rehabilitation includes upgrading the facility to be an apartment building with retail and commercial space with separate applications for a Neighborhood Enterprise Zone for the 211 rental apartment portion and another Commercial Facilities Tax Exemption Application for the second floor only. The rehabilitation for the submitted application only includes the main floor and the concourse level for retail and commercial space will include the exterior and interior, including full redesign of public areas, new HVAC, new electrical, commercial flooring replacement, LED lighting and new drywall and drop ceilings. The rehabilitation of this facility will provide for 4 to 6 jobs created as well as jobs created by retail and other commercial building tenants.

The 2018 values for the main floor and concourse only are as follows:

Parcel #	Address	Building Assessed Value (SEV)	Building Taxable Value	Land Assessed Value (SEV)	Land Taxable Value
02001104-14	7430 Second	\$ 457,000	\$ 350,031	\$ 23,800	\$ 18,195

This area meets the criteria set forth under PA 255 of 1978, as amended. It applies to functionally obsolete properties requiring restoration meaning changes to obsolete commercial property other than replacement as may be required to restore the property, together with all appurtenances, to an economically efficient condition.



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Commercial Facilities Exemption Certificate Request
AK Owner LLC
Page 2

A field investigation indicated that the proposed Commercial Facilities Tax Exemption status be granted to the facility located at 7430 Second Avenue, if it qualifies for the proposed Commercial Redevelopment Act under PA 255 of 1978, as amended.

Sincerely,

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

Charles Ericson, MMAO
Assessor, Board of Assessors

mmp

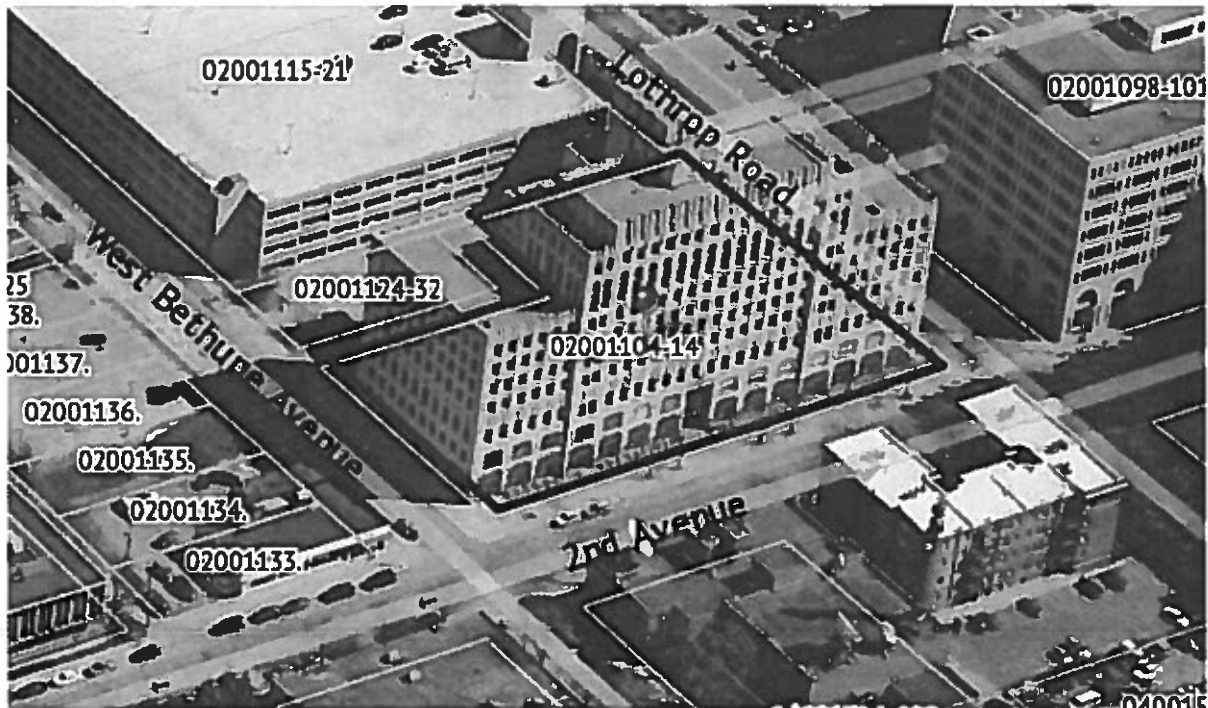


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Commercial Facilities Exemption Certificate Request
AK Owner LLC
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Parcel Number: 02001104-14
Property Address: 7430 Second Avenue
Property Owner: AK Owner LLC
Legal Description: N LOTHROP 109 THRU 106 W 34.43FT 105 86 THRU 88 W 5 FT 89 AND VAC ALLEY ADJ
LOTHROP & DUFFIELDS SUB L17 P22 PLATS, W C R 2/47 234.43 IRREG.





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November 5, 2018

Maurice Cox, Director
 Planning & Development Department
 2 Woodward Ave, CAYMC
 Suite 810
 Detroit, MI 48226

RE: Commercial Facilities Tax Exemption Certificate
 AK Owner LLC – 7430 Second Avenue (second floor only)
 Parcels Number: 02001104-14

Dear Mr. Cox:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the application for a Commercial Facilities Tax Exemption Certificate for the property located at 7430 Second Avenue in the New Center area.

The rationale for creating Commercial Redevelopment Districts under PA 255 of 1978, as amended, is based on the anticipation of increased market value upon completion of new construction and/or significant restoration of commercial and former industrial property where the primary purpose and use of which is the operation of a commercial business enterprise and shall include office, engineering, research and development, warehousing parts distribution, retail sales, hotel or motel development, and other commercial facilities. Commercial business enterprise also includes a business that owns or operates a transit-oriented development or a transit-oriented facility. Normal repair and maintenance are not assessed and do not necessarily generate additional market value.

The second floor level of the facility to be rehabilitated by AK Owner LLC is part of the 13-story Albert Kahn office building with 326,113 square feet of above ground floor area built in 1932 on 1.268 acres of land which is impaired due to obsolescence with of HVAC, electrical, plumbing and communications, warranting substantial restoration. The proposed rehabilitation includes upgrading the facility to be an apartment building with retail and commercial space with separate applications for a Neighborhood Enterprise Zone for the 211 rental apartment portion and another Commercial Facilities Tax Exemption Application for the main floor and concourse only. The rehabilitation for the submitted application only includes the main floor and the concourse level for retail and commercial space will include the exterior and interior, including full redesign of public areas, new HVAC, new electrical, commercial flooring replacement, LED lighting and new drywall and drop ceilings. The rehabilitation of this facility will provide for 4 to 6 jobs created as well as jobs created by retail and other commercial building tenants.

The 2018 values for the second floor only are as follows:

Parcel #	Address	Building Assessed Value (SEV)	Building Taxable Value	Land Assessed Value (SEV)	Land Taxable Value
02001104-14	7430 Second	\$ 228,500	\$ 175,016	\$ 11,900	\$ 9,098

This area meets the criteria set forth under PA 255 of 1978, as amended. It applies to functionally obsolete properties requiring restoration meaning changes to obsolete commercial property other than replacement as may be required to restore the property, together with all appurtenances, to an economically efficient condition.



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Charles Ericson, MMAO
Assessor, Board of Assessors

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