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City of Detroit

CITY COUNCIL


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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: September 24, 2019

RE: Application for an **Obsolete Property Rehabilitation Certificate by 4450P, LLC Public Act 146 of 2000 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.

1401 Vermont

The Developer and owner of the property is 4450P, LLC. This project is located in Corktown at 1401 Vermont, which is the former Ponyride building. Built in 1935, 1401 Vermont was designed by Smith, Hinchman and Grylls, was built for Lettergraphics as a printing facility, which primarily serviced the auto industry.¹ At that time, 90% of the windows were covered and the cement floors were covered with linoleum and carpet.

Currently, the developer plans to redevelop the building and increase the efficiency of its floor plans to achieve maximum occupancy. The building will require a complete internal rehab to construct new and more efficiently configured office spaces, a showroom, classrooms, and to replace the building's non functioning elevator. If approved by Council, the completed project will result in 28,000 SF of commercial space. The Developer intends to provide office and

¹ <https://www.ponvride.org/what-we-do>

*maker space*² for co-working, non-profit entrepreneurs, a coding school and several small spaces for the small business owner.



Two views of the current condition of the building at 1401 Vermont

If approved by Council, the OPRA will reduce the annual expenses for the property and support more affordable leases for future businesses. Giffels Webster is currently working on plans to incorporate the alleys surrounding the property into the proposed Joe Louis and May Creek Greenways. Detroit based Beanstalk will manage the property.

² A makerspace is a physical location where people gather to share resources and knowledge, work on projects, network, and build. 7 Things You Should Know About Makerspaces
<https://library.educause.edu/~media/files/library/2013/4/eli7095-pdf.pdf>

DEGC Project Evaluation Checklist

1401 Vermont

Developer: 4450P, LLC.

Principal: Marc Nassif

Obsolete Property Rehabilitation Act, PA 146 - incentive for redevelopment and rehabilitation for commercial or commercial mixed use buildings that are contaminated, blighted, or functionally obsolete.		
DEGC Recommendation		12 years
Location		
Address	1401 Vermont	
City Council District	District 6	
Neighborhood	Corktown	
Located in HRD Targeted Area	Greater Corktown	
Building Use		
Total Rentable Square Foot	28,402	
Retail Square Foot	0	
Residential Square Foot	0	
Public Parking Spaces	50	
Project Description		
<p>This development is in Corktown and is the former Ponyride building. The developer plans to redevelopment the building and increase the efficiency of floor plans to achieve maximum occupancy. The building will require a complete internal rehab to construct new and better formatted office spaces, a showroom, classrooms, and replace the no longer functioning elevator. The project will result in 28,000 SF of commercial space. The Developer intends to provide office and maker space for co-working, non-profit entrepreneurs, a coding school and several small spaces for the small business owner.</p> <p>The OPRA will reduce the annual expenses for the property and support more affordable leases for future businesses. Giffels Webster is currently working on plans to incorporate the alleys surrounding the property into the proposed Joe Louis and May Creek Greenways. Detroit based Beanstalk will manage the property.</p> <p>It is the recommendation of the DEGC that the OPRA abatement be granted for the full 12 year period.</p>		
Housing Breakdown		
Total Units	NA	
Underwriting		
	No Abatement	OPRA
Internal Rate of Return	15.4%	16.8%
Debt Service Coverage Ratio	1.23	1.29
Cash on Cash Return	8.5%	11.9%
Sources and Uses		
Total Investment	\$4.66MM	
Uses	\$3.3MM Building (70.75%), \$1.32MM Hard Construction (28.28%), \$45K Soft Costs (0.97%)	
Project Benefits		
Estimated Jobs	2 FTE	
Estimated City benefits before tax abatement	\$679,007	
Total estimated City value of OPRA abatement	\$142,860	
Less cost of services & utility deductions	\$181,476	
Net Benefit to City with OPRA abatement	\$354,670	

City of Detroit: Benefits, Costs, and Net Benefits over the Next 12 Years

	Amount
Real Property Taxes, before abatement	\$343,876
Personal Property Taxes, before abatement	\$0
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$48,959
Municipal Income Taxes - Indirect Workers	\$12,619
Municipal Income Taxes - Corporate Income	\$6,386
Municipal Income Taxes - Construction Period	\$12,438
Utility Revenue	\$161,455
Utility Users' Excise Taxes	\$59,147
State Revenue Sharing - Sales Tax	\$9,764
Building Permits and Fees	\$11,200
Miscellaneous Taxes & User Fees	\$13,163
Subtotal Benefits	\$679,007
Cost of Providing Municipal Services	(\$20,022)
Cost of Providing Utility Services	(\$161,455)
Subtotal Costs	(\$181,476)
Net Benefits	\$497,531

Impacted 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	\$679,007	(\$181,476)	(\$142,860)	\$0	\$0	\$354,670
Wayne County	\$88,260	(\$3,199)	(\$36,345)	\$0	\$0	\$48,717
Detroit Public Schools	\$342,798	(\$13,842)	(\$58,804)	\$0	\$0	\$270,151
State Education	\$63,882	\$0	\$0	\$0	\$0	\$63,882
Wayne RESA	\$39,619	\$0	(\$18,405)	\$0	\$0	\$21,214
Wayne County Comm. College	\$34,505	\$0	(\$14,659)	\$0	\$0	\$19,845
Wayne County Zoo	\$1,065	\$0	(\$452)	\$0	\$0	\$612
Detroit Institute of Arts	\$2,129	\$0	(\$905)	\$0	\$0	\$1,225
Total	\$1,251,264	(\$198,517)	(\$272,430)	\$0	\$0	\$780,317

Charts courtesy of the DEGC

Conclusion

The estimated total capital investment from the developer for this project is approximately \$4.66 million. It is also estimated that completed project will create 2 full-time jobs. The total value of the 12 year OPRA tax abatement is estimated at \$272,430.

Based on the investment and jobs, this project is estimated to provide the City of Detroit a net benefit of **\$354,670** and all of the impacted taxing units, a net benefit of **\$780,317** over the 12 years of the OPRA abatement.

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

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

Assessor's letter stating the eligibility of the OPRA certificate:



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

COLEMAN A. YOUNG MUNICIPAL CENTER
 2 WOODWARD AVENUE, SUITE 824
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 WWW.DETROITMI.GOV

September 3, 2019

Katy Trudeau, Deputy Director
 Planning & Development Department
 Coleman A. Young Municipal Center
 2 Woodward Ave, Suite 808
 Detroit, MI 48226

RE: **Obsolete Property Rehabilitation Certificate – 4405P LLC**
 Property Address: 1401 Vermont
 Parcel Numbers: 08008679-83

Dear Ms. Trudeau:

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 1401 Vermont in the West Side Industrial 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.

4405P LLC plans to rehabilitate the building for use as mainly office and showroom space. The two-story building at 1401 Vermont is currently vacant, has 28,363 square foot office building area, built 1928 with additional building area added in 1955, and situated on .489 acres of land. Rehabilitation will include a full demolition of the interior, reconfiguring and new construction of all interior partitions, renovation or replacement of the existing elevator, partial roof replacement, new windows on the ground floor and exterior work including repairing the parking lot.

The 2019 values are:

Parcel #	Address	Building Assessed Value (SEV)	Building Taxable Value	Land Assessed Value (SEV)	Land Taxable Value
08008679-83	1401 Vermont	\$ 309,000	\$ 64,574	\$ 201,300	\$ 42,067

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 project is expected to increase commercial activity, create employment opportunities, and revitalize an urban area.

Rehabilitation will include improvement of buildings to conform to Michigan Building Code required to meeting minimum floor loads and other standards; new heating, ventilation, plumbing, lighting and fire suppression systems; improved structural support for new roof mounted equipment, building penetrations and building signage; new roof structure; new interior wall placement; and installation of modern facilities to restore the obsolete property to new standards suitable for restaurant, retail and residential apartments. The project is expect to increase commercial activity, create employment, revitalize an urban area and increase the number of residents in the community.



Obsolete Property Rehabilitation Certificate
4405P LLC
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A field investigation indicated that the property located at 1401 Vermont is eligible as it pertains to the Obsolete Property Rehabilitation Act under P.A. 146 of 2000, as amended.

Sincerely,

A handwritten signature in cursive script, appearing to read "C. Ericson".

Charles Ericson, MMAO
Assessor, Board of Assessors

mmp