

David Whitaker, Esq.
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Marcell R. Todd, Jr.
Senior City Planner
Janese Chapman
Deputy Director


John Alexander
LaKisha Barclift, Esq.
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Elizabeth Cabot, Esq.
Tasha Cowen
Richard Drumb
George Etheridge
Deborah Goldstein

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

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Derrick Headd
Marcel Hurt, Esq.
Kimani Jeffrey
Anne Marie Langan
Jamie Murphy
Carolyn Nelson
Kim Newby
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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 Mitten Capital, 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.

6432 Woodward

The project developer Mitten Capital, LLC., plans to convert the existing 2-story building and former hardware store at 6432 Woodward into a restaurant, with two dining rooms, one on each floor. The building requires all new electrical, plumbing, HVAC systems, and a partial new roof. The planned renovations also include the instillation of new flooring on the first floor and for foundational repairs in the basement. The building served as the location of the Detroit Hardware Company,¹ from the 1930's until its closing in 2018, when the former owners sold the building. Mitten Capital was formed in order to invest and develop within the city of Detroit. The

¹ The hardware company was leasing until the early 1990s, when it bought the Woodward building for around \$94,000. In 2018, the wners sold building on Woodward Avenue for \$1,050,000. **Detroit Hardware sells building, to close after 94 years** by ANNALISE FRANK, May 9, 2018 Crain's Detroit Business <https://www.crainsdetroit.com/article/20180509/news/660296/detroit-hardware-sells-building-to-close-after-94-years>

developer also acquired the lot adjacent to the building in order to provide parking. According to the DEGC, even with market rate rents, an abatement is necessary in order to support the debt payments for the project's construction and acquisition costs.

DEGC Project Evaluation Checklist

6432 Woodward

Developer: Mitten Capital, LLC

Principal: Jeffrey Tripoli

Obsolete Property Rehabilitation Act, PA 146 of 2000 as amended – current taxes frozen at pre-rehab values, local taxes abated for up to 12 years	
Request Type	District
DEGC Recommendation	12 Years
Location	
Address	6432 Woodward Avenue
City Council District	District 5
Neighborhood	New Center
Located in HRD Targeted Area	Yes, Greater Downtown
Building Use	
Total Rentable Square Foot	5,600 square feet of commercial space
Property Use	Single-tenant restaurant user
Project Description	
<p>This development is the rehabilitation of the existing 2-story building at 6432 Woodward to be converted into a restaurant, with two dining rooms, one on each floor. The building requires all new electrical, plumbing, HVAC, and a partial new roof. There will also be new flooring installed on the first floor and foundational repairs in the basement. Since 1924, the building housed the Detroit Hardware Company. The building has been vacant since 2018 when the owners sold the facility. The developer created Mitten Capital to invest and develop within Detroit. The adjacent lot has also been purchased to provide parking to guests. Even with market rents, an abatement is needed to support the debt payments for the project's construction and acquisition costs.</p>	
Underwriting	
Internal Rate of Return	1.0% with abatement (-2.5% without abatement)
Debt Service Coverage Ratio	1.1x stabilized with abatement (0.9x without abatement)
Cash on Cash Return	3.3% with abatement (-1.0% without abatement)
Sources and Uses	
Total Investment	\$1.7MM
Uses	\$1.1MM Acquisition (62%), \$600k Hard Construction (36%), \$40k Soft Costs (2%)
Project Benefits	
Estimated Jobs	25 FTE \$40,000 salary, 15 Construction Employees
Estimated City benefits before tax abatement	\$870,683
Total estimated City value of OPRA abatement	\$92,431

Less cost of services & utility deductions	\$346,611
Net Benefit to City	\$431,611

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

	Amount
Real Property Taxes, before abatement	\$146,314
Personal Property Taxes, before abatement	\$0
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$188,306
Municipal Income Taxes - Indirect Workers	\$39,706
Municipal Income Taxes - Corporate Income	\$79,830
Municipal Income Taxes - Construction Period	\$5,750
Utility Revenue	\$105,580
Utility Users' Excise Taxes	\$16,445
State Revenue Sharing - Sales Tax	\$117,544
Building Permits and Fees	\$12,750
Miscellaneous Taxes & User Fees	\$158,458
Subtotal Benefits	\$870,683
Cost of Providing Municipal Services	(\$241,031)
Cost of Providing Utility Services	(\$105,580)
Subtotal Costs	(\$346,611)
Net Benefits	\$524,072

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	\$870,683	(\$346,611)	(\$92,461)	\$0	\$0	\$431,611
Wayne County	\$68,175	(\$37,243)	(\$23,523)	\$0	\$0	\$7,409
Detroit Public Schools	\$256,285	(\$124,581)	(\$38,059)	\$0	\$0	\$93,646
State Education	\$27,409	\$0	\$0	\$0	\$0	\$27,409
Wayne RESA	\$17,595	\$0	(\$11,912)	\$0	\$0	\$5,683
Wayne County Comm. College	\$14,804	\$0	(\$9,488)	\$0	\$0	\$5,317
Wayne County Zoo	\$457	\$0	(\$293)	\$0	\$0	\$164
Detroit Institute of Arts	\$914	\$0	(\$586)	\$0	\$0	\$328
Total	\$1,256,321	(\$508,435)	(\$176,321)	\$0	\$0	\$571,566

Charts courtesy of the DEGC

Conclusion

The estimated total capital investment from the developer for this project is approximately \$1.7 million. It is also estimated that completed project will create 25 full-time jobs and 15 temporary construction jobs. The total value of the 12 year OPRA tax abatement is estimated at \$176,321.

Based on the investment and jobs, this project is estimated to provide the City of Detroit a net benefit of \$431,611 and all of the impacted taxing units, a net benefit of \$571,566 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



Detroit Hardware via Facebook

Detroit Hardware, which has been at 6432 Woodward Ave. in Detroit's New Center since the 1930s, (with plans to close June 16, 2018 at time of photo).²

² Photo via: <https://www.crainsdetroit.com/article/20180509/news/660296/detroit-hardware-sells-building-to-close-after-94-years>

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
DETROIT, MICHIGAN 48226
(313) 224-3011 • TTY 711
(313) 224-9400
WWW.DETROITMI.GOV

June 5, 2019

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

Re: **Obsolete Property Rehabilitation District – Mitten Capital LLC**
Property Address: 6432 Woodward Avenue (aka 6430 Woodward Avenue)
Parcel Numbers: 01004281

Dear Mr. Cox:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the proposed Obsolete Property Rehabilitation District located at 6432 Woodward Avenue (aka 6430 Woodward Avenue) in the New Center district in the City of Detroit.

The rationale for creating Obsolete Property Rehabilitation Districts 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.

Mitten Capital LLC is proposing to renovate the 2-story retail building with 5,574 square feet of total floor area, built in 1909, on .065 acres of land into a fine dining restaurant featuring modern décor and exposed brick walls. Extensive repairs are needed to bring the building up to electrical code and rehabilitation will include new electrical and plumbing, a partial new roof, new flooring on the first floor, façade repairs and foundation repairs in the basement. An ADA lift and fire suppression/alarm system may be included if deemed required.

The properties meet 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 also includes deficient or excessive height, new or improved fixed building equipment, including heating, ventilation, and lighting, reducing multistory facilities to 1 or 2 stories, adding additional stories to a facility or adding additional space on the same floor level not to exceed 100% of the existing floor space on that floor level, improved structural support including foundations, improved roof structure and cover, floor replacement, improved wall placement, improved exterior and interior appearance of buildings, and other physical changes required to restore or change the obsolete property to an economically efficient condition.

A field investigation indicated that the proposed Obsolete Property Rehabilitation District located at 6432 Woodward Avenue (aka 6430 Woodward Avenue) 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



Obsolete Property Rehabilitation District
Mitten Capital LLC
Page 2

Property Address: 6430 WOODWARD AVENUE (aka 6432 Woodward)

Parcel Number: 01004281

Property Owner: MITTEN CAPITAL LLC

Legal Description: E WOODWARD N 30 50 FT OF W 100 FT 8 EXC S 0 50 FT OF E 46 FT S 6 37 FT ON W LINE BG S 6 24 FT ON
E LINE OF W 100 FT 9PATRICK MC GINNIS L4 P93 PLATS, W C R 1/97 36 87 IRREG

The legal description matches the OPRA district request.

