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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division Staff 

DATE: May 13, 2020

RE: **Establishment of a Neighborhood Enterprise Zone as requested by Queen Lillian II, LLC at 3439-3455 Woodward and 13 Stimson**

Neighborhood Enterprise Zone Act (Public Act 147 of 1992)

The Neighborhood Enterprise Zone Act (NEZ), PA 147 of 1992, as amended, provides for the development and rehabilitation of residential housing located within eligible distressed communities. New and rehabilitated facilities applications are filed, reviewed and approved by the local unit of government, but are also subject to review at the State level by the Property Services Division. The State Tax Commission (STC) is responsible for final approval and issuance of new and rehabilitated facility certificates. Exemptions for new and rehabilitated facilities are not effective until approved by the STC. NEZ applications are filed, reviewed and approved by the local unit of government.

By statute, every NEZ must contain not less than 10 platted parcels of land which are compact and contiguous. The statute allows for an exception if a NEZ is located in a *downtown revitalization district*. In a downtown revitalization district,¹ a NEZ may contain less than 10 platted parcels if the platted parcels together contain 10 or more facilities.

¹ As defined in Section 2 (k) MCL 207.772

In 2008, the NEZ Act was modified by Public Acts 204 & PA 228 to allow a neighborhood enterprise zone located in a "qualified downtown revitalization district" to contain fewer than 10 platted parcels if the platted *parcels* together contain 10 or more *facilities*. The Act as modified, defines "qualified downtown revitalization district" as an area located within the boundaries of one or more of the following:

- A downtown district, as defined in the Downtown Development Authority Act.²
- A principal shopping district or a business improvement district as defined in the principal shopping district Act (BID Act).³
- An area of the local unit zoned and primarily used for business, as determined by the local governmental unit.⁴

Queen Lillian II, LLC

Queen Lillian II, LLC, the project developer plans to develop 3439-3455 Woodward and 13 Stimson. The NEZ request is associated specifically with the development of a 1.85-acre parcel in Midtown, Detroit, located at the intersection of Woodward Avenue and Stimson Street near the Woodward Avenue and Martin Luther King (Mack) intersection. Queen Lillian II, LLC, is owned by Jim Jenkins and Chris Jackson, who are planning the development of 204 apartments, of which 40 are planned as affordable units.⁵

The Woodward @ Midtown project, which was originally announced in April 2013, as a planned development to convert a former medical office building into a building with 134 apartments, 15,000 square feet of retail space and a 150-space parking deck.⁶ Due to funding challenges and cost overruns, the original project was suspended in October 2018.

Subsequently however, in April 2019, the development team restructured the project and secured Sachse Construction, a developer with over 30 years of experience constructing buildings of the scale of the envisioned project. Hamilton Anderson Associates, a Detroit based minority owned architecture firm, working for the developer, provided drawings of the current plan, a redesigned, five-story, \$59 million mixed-use development, which includes 204 apartment units, approximately 24,000 square feet of ground-floor retail, and 80+ on-site surface parking spaces. The current requested NEZ involves the residential component of the project. The developer will also seek the approval of a separate Commercial Rehabilitation Certificate (PA 210) for the project's commercial element.

Housing Breakdown

Total Residential Units	204 units (40 affordable)
Studio	114 units, 405-485sf, \$970-\$1,348/mo
One Bedroom	74 units, 695-728sf, \$1,035-\$2,150/mo
Two Bedroom	16 units, 1,021-1,286sf, \$2,450-\$2,991/mo

² PA 197 of 1975, MCL 125.1651 - 125.1681

³ Principal shopping Districts and Business Improvements Districts Act 120 of 1961, MCL 125.981 - 125.990n

⁴ Under the DDA Act, "downtown district" means that part of an area in a business district that is specifically designated by ordinance of the governing body of the municipality pursuant to the Act. A downtown district may include one or more separate and distinct geographic areas in a business district as determined by the municipality.

⁵ 19.6%, which rounds up to 20% as affordable units.

⁶ **Detroit works to kick-start stalled development projects**, Crain's Detroit Business, by Kirk Pinho, January 13, 2019 <https://www.craindetroit.com/real-estate/detroit-works-kick-start-stalled-development-projects>

DEGC Project Evaluation Checklist
Queen Lillian II
Developer: Queen Lillian II LLC
Principle: The Platform

Commercial Rehabilitation Act, **PA 210 of 2005 as amended** – Current taxes frozen at pre-rehab construction values, local taxes abated for up to 10 years

Neighborhood Enterprise Zone, **PA 147 of 1992 as amended** – Residential improvements taxed at discounted tax rate, local taxes abated for 15 years with a 3 year phase out period included

	PA 210	NEZ
DEGC Recommendation	10 Years	15 Years
Request Type	District	District - New
Location		
Address	3439 Woodward & 13 Stimson	
City Council District	District 6	
Neighborhood	Midtown	
Building Use		
Total Rentable Square Footage	186,522	
Retail Square Footage	26,254	
Residential Square Footage	123,487	
Other Square Footage	36,781	
Project Description		
<p>The Woodward at Midtown (“The Woodward”) is the development of a 1.85-acre parcel in Midtown, Detroit, located at the intersection of Woodward Avenue and Stimson Street near the highly visible Woodward Avenue and Martin Luther King (Mack) intersection. Queen Lillian LLC, owned by Jim Jenkins and Chris Jackson, introduced the project to The Platform in early 2018. Queen Lillian LLC and The Platform (the “Development Team”) proposed a five-story, 134-unit building with over 13,000 square feet of ground-floor retail and a two-story parking deck. At the time, this version of the project had previous funding commitments from CIBC Bank and MEDC’s MCRP. Unfortunately, the Development Team suspended the project in October 2018 due to a 30% hard cost overrun of \$10 million dollars.</p> <p>Since the original project’s suspension, the Development Team sought to explore the feasibility of a restructured project. In April 2019, the Development Team asked Sachse Construction (Sachse) to join the team. Sachse is a Detroit-based contractor with over 30 years of experience constructing buildings comparable to the one imagined for The Woodward. Hamilton Anderson Associates (HAA), a minority-owned, Detroit-based architecture firm, redesigned the building and provided Sachse with drawings to provide a construction estimate. The redesigned, five-story, \$59 million mixed-use development includes 204 apartment units, approximately 24,000 square feet of ground-floor retail, and 80+ on-site surface parking spaces.</p>		
Rental Breakdown		
Total Residential Units	204 units (40 affordable)	
Studio	114 units, 405-485sf, \$970-\$1,348/mo	
One Bedroom	74 units, 695-728sf, \$1,035-\$2,150/mo	
Two Bedroom	16 units, 1,021-1,286sf, \$2,450-\$2,991/mo	
Retail	\$25.80psf	

Project Costs	
Total Investment	\$59M
Uses	\$300k Acquisition (1%), \$46.5M Hard Construction (79%), \$12.3M Soft Costs (20%)
Project Benefits (12 years)	
Estimated jobs	2 FTE, 150 construction jobs
Estimated city benefits before tax abatement	\$6,916,553
Total nominal value of PA 210	\$357,860
Total nominal value of NEZ	\$1,903,951
Less cost of services & utility deductions	\$506,354
Net benefit to city	\$4,148,388

City of Detroit Gross Benefits Summary over the First 15 Years (Prior to Abatement)

	Amount
Real Property Taxes, before abatement	\$3,355,811
Personal Property Taxes, before abatement	\$0
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$0
Municipal Income Taxes - Indirect Workers	\$0
Municipal Income Taxes - Corporate Income	\$0
Municipal Income Taxes - Construction Period	\$252,952
Municipal Income Taxes - New Res. Inhabitants	\$1,727,490
Utility Revenue	\$399,478
Utility Users' Excise Taxes	\$51,775
State Revenue Sharing - Sales Tax	\$0
Building Permits and Fees	\$214,500
Miscellaneous Taxes & User Fees	\$0
Subtotal Benefits	\$6,002,006
Cost of Providing Municipal Services	\$0
Cost of Providing Utility Services	(\$399,478)
Subtotal Costs	(\$399,478)
Net Benefits	\$5,602,528

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	\$6,002,006	(\$399,478)	(\$1,903,951)	\$0	\$0	\$3,698,577
Wayne County	\$853,618	\$0	(\$508,070)	\$0	\$0	\$345,548
Detroit Public Schools	\$3,293,896	\$0	(\$1,888,772)	\$0	\$0	\$1,405,124
State Education	\$637,528	\$0	(\$304,021)	\$0	\$0	\$333,507
Wayne RESA	\$417,594	\$0	(\$206,135)	\$0	\$0	\$211,459
Wayne County Comm. College	\$344,350	\$0	(\$164,263)	\$0	\$0	\$180,087
Wayne County Zoo	\$10,625	\$0	(\$5,057)	\$0	\$0	\$5,569
Detroit Institute of Arts	\$21,251	\$0	(\$10,114)	\$0	\$0	\$11,137
Total	\$11,580,870	(\$399,478)	(\$4,990,383)	\$0	\$0	\$6,191,009

Charts courtesy of DEGC

Conclusion

The investment in this project is estimated at \$59 million. The proposed tax abatement is projected to be worth a tax savings of \$4,990,383 to the developer. The estimated investment and new residents are projected to produce a positive cost benefit to the City of Detroit is **\$3,698,577**, and over **\$6,191,009** to all of the impacted taxing units, in addition to 2 FTE and 150 temporary construction jobs & 204 housing units.

NEZ Acreage Status:⁷

NEZ allocations are limited by state statute: *“The total acreage of the neighborhood enterprise zones containing **only new facilities or rehabilitated facilities** or any combination of new facilities or rehabilitated facilities designated under this act shall not exceed 15% of the total acreage contained within the boundaries of the local governmental unit.”*⁸

Total acreage available (15% of Detroit acreage): 13,239.00

Queen Lillian II NEZ:	1.853 acres
<u>Total Acreage for the Entire City of Detroit:</u>	<u>88,260</u> ⁹

Total Acreage Remaining	7,605.20
Total Acreage Designated:	5,633.80

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

Attachment: February 18, 2020 Letter from Finance Assessors

cc: Auditor General’s Office
Arthur Jemison, Chief of Services and Infrastructure
Katy Trudeau, Planning and Development Department
Donald Rencher, HRD
Veronica Farley, HRD
Stephanie Grimes Washington, Mayor’s Office
Avery Peeples, Mayor’s Office
Malinda Jensen, DEGC
Kenyetta Bridges, DEGC
Jennifer Kanalos, DEGC
Brian Vosburg, DEGC

⁷ This is a ballpark estimate by LPD, based on current available data.

⁸ MCL 207.773 (2)

⁹ 88,260 Acres = 137.90625 Square Miles



Site of The Woodward @ Midtown project ¹⁰

¹⁰ Photo: Larry Peplin for Crain's Detroit Business <https://www.craindetroit.com/real-estate/detroit-works-kick-start-stalled-development-projects>



February 18, 2020

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

RE: **Neighborhood Enterprise Zone – Queen Lillian II LLC**
Property Address: **3439-3455 Woodward and 13 Stimson**
Parcel ID: **02001818-9 and 02000717-8**

Dear Ms. Trudeau:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the proposed request from **Queen Lillian II LLC** located at **3439-3455 Woodward and 13 Stimson** for the **Neighborhood Enterprise Zone** in the **Midtown** area of Detroit.

The rationale for creating NEZ projects under PA 147 of 1992, as amended, must be based on the anticipation of market value added to the neighborhood upon completion of new construction and/or significant rehabilitation of existing housing stock.

The proposed area consists of vacant land located in a qualified downtown revitalization district. The developer proposes new construction of a mixed-use building with 201 apartments and ground floor retail/commercial on the ground floor, including 20% of the apartments being offered at rent rates considered affordable to those individual with certain income levels. The 2020 True Cash Value of the proposed area is \$0 and contains approximately 3.853 acres of land. The True Cash Value of this area would be expected to increase due to the new construction of this project.

Per MCL 207.772 Sec 2 (g) "New facility" means 1 or both of the following: (i) A new structure or a portion of a new structure that has as its primary purpose residential housing consisting of 1 or 2 units, 1 of which is or will be occupied by an owner as his or her principal residence. New facility includes a model home or a model condominium unit. New facility includes a new individual condominium unit, in a structure with 1 or more condominium units, that has as its primary purpose residential housing and that is or will be occupied by an owner as his or her principal residence. Except as provided in subparagraph (ii), new facility does not include apartments. (ii) A new structure or a portion of a new structure that meets all of the following:

- (A) Is rented or leased or is available for rent or lease.
- (B) Is a mixed use building or located in a mixed use building that contains retail business space on the street level floor.
- (C) Is located in a qualified downtown revitalization district.

Per MCL 207.773 Sec. 3. (1) The governing body of a local governmental unit by resolution may designate 1 or more neighborhood enterprise zones within that local governmental unit. Except as otherwise provided in this subsection, a neighborhood enterprise zone shall contain not less than 10 platted parcels of land. A neighborhood enterprise zone located in a qualified downtown revitalization district may contain less than 10 platted parcels if



Neighborhood Enterprise Zone
Queen Lillian II LLC
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the platted parcels together contain 10 or more facilities. All the land within a neighborhood enterprise zone shall also be compact and contiguous. Contiguity is not broken by a road, right-of-way, or property purchased or taken under condemnation if the purchased or condemned property was a single parcel prior to the sale or condemnation.

Upon review, it has been determined that this proposed **Queen Lillian II Neighborhood Enterprise Zone** district located at **3439-3455 Woodward and 13 Stinson** in the **Midtown** area is eligible for designation as a Neighborhood Enterprise Zone per PA 147 of 1992, as amended.

Sincerely,

Charles Ericson, MMAO
Assessor, Board of Assessors

mmp



Neighborhood Enterprise Zone
Queen Lillian II LLC
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Parcel Number	Property Address	Owner Name	TCV	Acres
02001818-9	3439 Woodward Avenue	City of Detroit - P&DD	\$0	1.649
02000717-8	13 Stimson	City of Detroit - P&DD	\$0	0.204

LEGAL DESCRIPTION: W WOODWARD E 395.67 FT ON N LINE 86 E 384.25 FT ON S LINE OF PARK LOT 69 LYG W OF WOODWARD EXC S 10 FT OF W 213.60 FT PLAT OF PK LOTS L34 P542 DEEDS, W C R 2/78 N 3.03 FT 4 SCOTTS RESUB L1 P282 PLATS, W C R 2/102 191.37 IRREG

LEGAL DESCRIPTION: S STIMSON W 50 FT OF E 445.67 FT OF PARK LOT 69 LYG S OF & ADJ STIMSON AVE W OF W LINE OF WOODWARD AVE PLAT OF PARK LOTS L34 P542 DEEDS, W C R 2/78 50 X 178.16

THE LEGAL DESCRIPTION MATCHES THE LEGAL DESCRIPTION LISTED ON THE PETITION

