



Mayor's Office

Coleman A. Young Municipal Center
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Memorandum

To: Nick Khouri
From: Luke Polcyn
Date: August 24, 2020
Re: Fairgrounds Appraisals

You have asked me for a summary and documents related to the valuation of the State Fairgrounds leading up to the proposed Hillwood/Sterling Group transaction. There have been two appraisals done in the last three years: one by the State of Michigan in 2018 and one by the City of Detroit in April, 2020. The final report of the City of Detroit appraiser is due by the end of this month.

I've attached a full set of the two appraisals completed. The summary is as follows:

State of Michigan Appraisal, February 2018: Net \$5.3 million

In February 2018, the State of Michigan's land bank commissioned an appraisal of the former fairgrounds property. This appraisal initially valued the fairgrounds at approximately \$75,000 per acre based on comparable sales – as if the fairgrounds were vacant, developable land. In fact, the fairgrounds property requires both environmental remediation and demolition to bring it to that standard. To determine the as-is value, the appraisal then deducted the estimated costs of environmental remediation (\$1,510,000) and demolition (\$2,640,000), along with a \$2,400,000 termination fee for the Joe Dumars Fieldhouse lease (which the City did not intend to continue). From this \$5,300,000 as-is market value, the appraisal further applied a 35% discount to account for a 12-month marketing period to calculate the valuation.

Summary of State of Michigan 2018 Appraisal

Base Value (\$75,000 per acre)		\$11,810,250
Less Deductions:		
Costs of Environmental Remediation:	\$1,510,000	
Costs of Demolition:	2,640,000	
Fieldhouse termination fee	<u>2,400,000</u>	
Total Deductions:		<u>\$6,550,000</u>
Total Appraised Value		\$5,260,250



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The State of Michigan noted that the appraised value would be \$7.7 million if the immediate termination of the Fieldhouse lease were not necessary. The lease ran through September, 2024, with reduced termination fee payments required over time. The State took the position that it was the City of Detroit's decision as the buyer when to terminate the lease and the State should not have to pay that fee. The City and State ultimately reached a compromise, with the City agreeing to buy the property for \$3.5 million up front and another \$3.5 million contingent on a future sale by the City. The City closed on the purchase in 2019.

City of Detroit Appraisal, April 2020: Net \$8 million

In April 2020, the Detroit Economic Growth Corporation commissioned an appraisal of 135 acres of the former fairgrounds property. The Integra Realty Resources ("IRR") appraisal valued the property at \$11,070,000. This figure consists of 130 acres valued at \$85,000 per acre, a significant appreciation in value from the amount the City paid just last year.

Another 5 acres of possible retail land along 8 Mile was appraised at approximately \$305,000 per acre.

This valuation applied a deduction of \$1,500,000 for environmental remediation, based on the same 2012 estimate used in the 2018 appraisal. Because of the age of those estimates, the 2020 IRR appraisal noted the estimated costs actually "may be higher at present." In other words, they could merit a larger deduction.

Unlike the 2018 appraisal, the 2020 IRR appraisal did not take the additional step of applying deductions for demolition to determine an as-is value. Demolition costs and Fieldhouse termination fees would both have to be deducted from the appraised value to arrive at the purchase price.

In addition, the City is not selling the full acreage to the buyer. Under the negotiated purchase agreement, 3 acres for the transit center and approximately 7 acres for a public roadway to service the transit center are being retained by the City of Detroit.

From the appraised value, the "as is" sales price had to account for these deductions:



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Summary of City of Detroit 2020 Appraisal

Base Value (\$85,000 - 305,000 per acre),	
Less \$1.5 million Environmental Remediation	\$11,070,000
Less Other Deductions:	
Land Retained by City for Roads	
(7 acres x \$85,000 per acre)	\$ 595,000
Costs of Demolition:	\$2,640,000
Total Deductions:	<u>\$3,235,000</u>
"As Is" Value Before Fieldhouse Fee	\$7,835,000

The \$7.8 million figure still leaves the buyer responsible for the Fieldhouse termination fee. The lease runs through September, 2024 and, if exercised at closing, the termination fee would be \$1.8 million. Since the Fieldhouse was not in phase 1 of the development plan and did not need to be terminated immediately, the buyer assumed the liability of the Fieldhouse lease and potential termination fee without further reduction in purchase price.

Total Consideration Received by City for Sale of Land: \$16 million+

While the appraisal supports an "as-is" purchase price of \$8-9 million, total consideration paid by the buyer will actually run to over \$16 million.

The City and the fairgrounds developer agreed on a land purchase price of \$9 million. At closing, the purchaser will also pay the City \$7 million to fund the construction of a new transit center on approximately 3 acres of fairgrounds property being retained by the City. If the City selects a site for the transit center that requires the demolition of any structures, the purchaser will fund the cost of demolition. The City will not be required to fund it from the \$7 million received for construction. Based on the currently anticipated location of the transit center, demolition costs might be as high as \$1 million. That being so, the City would receive \$8 million in value for construction of the transit center.



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The purchaser will also construct new interior roads within the fairgrounds property, then dedicate the as-constructed roads as public right-of-way. The purchaser estimates construction of these roads will cost around \$2.2 million.

The overall compensation received by the City is the following:

Summary of Consideration Paid by Hillwood/Sterling

Cash for land	\$9 million
Cash to build city's transit center:	\$7 million
Cost to build city street	<u>\$2.2 million</u>
Total consideration:	\$18.2 million

The total consideration being received by the City of Detroit is more than double the appraised value of \$8 million.

Final City of Detroit Appraisal

The appraiser is finalizing its appraisal based upon terms of the purchase agreement. We expect the final appraisal to be delivered to City Council before the end of August.