


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

John Alexander  
LaKisha Barclift, Esq.  
Nur Barre  
M. Rory Bolger, Ph.D., FAICP  
Elizabeth Cabot, Esq.  
Tasha Cowan  
George Etheridge

# 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

Christopher Gulock, AICP  
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TO: COUNCIL MEMBERS  
FROM: David Whitaker, Director   
Legislative Policy Division Staff  
DATE: September 30, 2020  
RE: Application for an **Obsolete Property Rehabilitation Certificate by Method MJ, 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, commercial housing projects and to return them to the tax rolls.

### Method MJ, LLC

The project developer and owner of the property is Method MJ, LLC. The project is located at **2857 E. Grand Blvd**, a 1-story office building built in 1925, with 5,606 square feet of building area, on 0.320 acres of land, in Council District 5. In addition, the project includes the adjacent building at **2863 E. Grand Blvd**, a 3-story former automobile showroom, with 24,750 square feet of building area. The proposed project consists of rehabilitating the vacant structure with ground floor retails and **18 residential rental units**:<sup>1</sup>

#### **Total units: 18 @ \$1.90/sf**

<b>Studio</b>	2 units, 422sf, \$802/mo.
<b>1 Bedroom</b>	14 units, 680sf, \$1,147 -\$1,360/mo.
<b>2 Bedroom</b>	2 units, 890sf, \$1,780/mo.

<sup>1</sup> 20% of the units will be affordable for households at with 80% AMI.

If approved by Council, the building will undergo major renovations, which would include the installation of a new elevator system, window replacements, floor replacements, roof replacement, in addition to major mechanical, plumbing and electrical systems replacements.

The DEGC has recommended a full term 12-year OPRA certificate.

**DEGC Project Evaluation Checklist**

**2857 & 2863 E Grand Blvd**

Developer: Method Development

Principal: Rocky Lala

<b>Obsolete Property Rehabilitation Act, PA 146 of 2000</b> - Provides tax incentives for the rehabilitation of obsolete property for the primary purpose and use of commercial activity for up to 12 years	
<b>Request Type</b>	<b>Certificate</b>
<b>DEGC Recommendation</b>	<b>12 years</b>
<b>Location</b>	
Address	2857 & 2863 E Grand
City Council District	District 5
Neighborhood	Milwaukee Junction
<b>Building Use</b>	
Total Rentable Square Foot	23,775
Commercial Square Foot	11,631
Residential Square Foot	12,144
<b>Project Description</b>	
<p>2857 and 2863 East Grand Blvd is mixed-use adaptive re-use project. 2857 East Grand is 5,700 Sq. Ft. single story building with an intended retail/restaurant use. 2863 East Grand is a 24,000 Sq. Ft. three-story building. Intended use is 8,000 Sq. Ft of retail and 16,000 Sq. ft. made up of 18 residential rental units on the 2nd and 3rd floors. 20% of the units will be affordable for households at with 80% AMI.</p> <p>The project is a gut rehab of the structure with new roof, windows, and all new mechanical equipment. 2857 and 2863 East Grand are completely obsolete and rapidly deteriorating. There are no functional equipment or systems in the buildings. The building will require all new mechanical, plumbing, and electrical systems, new roofs, windows, elevator system, and framing.</p> <p>The short term effect of this development is activating vacant space in the Milwaukee Junction neighborhood. The neighborhood has a rich history of innovation, collaboration, and creative uses. This development will help bring back commercial viability and bring new residents to the area. This redevelopment sits in the middle of the neighborhood and has the opportunity to increase density and bring economic support to other local businesses causing a positive ripple effect. Redeveloping the site will also create construction jobs.</p>	
<b>Unit Breakout</b>	<b>Total units: 18 @ \$1.90/sf</b>
Studio	2 units, 422sf, \$802/mo.
1 Bedroom	14 units, 680sf, \$1,147 -\$1,360/mo.
2 Bedroom	2 units, 890sf, \$1,780/mo.
<p>*The Developer is heavily invested in this project with higher than normal owner equity. The Developer is utilizing patient capital with lower return requirements to make the project viable. Although this results in a higher DSCR (available cash for debt payment), the returns are below market rates. DEGC reviewed the project under 2 scenarios: 1) as structured by the Developer and 2) as</p>	

though the Developer had utilized a standard proportion of debt to equity. The project did not produce enough cash flow to support the deal without the abatement under either scenario. Thus DEGC recommends the approval of an abatement.

**5/5/2020 COVID Update:** The project is funded primarily through Opportunity Zone Financing which is still in place. Construction will resume at a slower pace once order is lifted. The anticipated restaurant tenant had to be pause in signing the LOI because their financing was withdrawn. Developer intends to finish residential units first and then shift focus to retail.

<b>Sources and Uses</b>	
Total Investment	\$6.6M
Uses	\$1.5M Acquisition (24%), \$4.6M Hard Construction (69%), \$0.5M Soft Costs (7%)
<b>Project Benefits</b>	
Estimated Jobs	1 FTE, 80 Construction Employees
Estimated City benefits before tax abatement	<b>\$494,747</b>
Total estimated City value of OPRA	\$182,029
Less cost of services & utility deductions	\$25,445
Net Benefit to City with abatements	<b>\$287,273</b>

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

	Amount
Real Property Taxes, before abatement	\$233,856
Personal Property Taxes, before abatement	\$0
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$10,456
Municipal Income Taxes - Indirect Workers	\$2,878
Municipal Income Taxes - Corporate Income	\$2,793
Municipal Income Taxes - Construction Period	\$33,676
Municipal Income Taxes - New Res. Inhabitants	\$130,233
Utility Revenue	\$17,721
Utility Users' Excise Taxes	\$1,184
State Revenue Sharing - Sales Tax	\$4,554
Building Permits and Fees	\$51,000
Miscellaneous Taxes & User Fees	\$6,396
<u>Subtotal Benefits</u>	<u>\$494,747</u>
Cost of Providing Municipal Services	(\$7,724)
Cost of Providing Utility Services	(\$17,721)
<u>Subtotal Costs</u>	<u>(\$25,445)</u>
Net Benefits	\$469,302

## 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	\$494,747	(\$25,445)	(\$182,029)	\$0	\$0	\$287,273
Wayne County	\$58,105	(\$1,484)	(\$43,545)	\$0	\$0	\$13,075
Detroit Public Schools	\$230,198	(\$10,821)	(\$70,464)	\$0	\$0	\$148,912
State Education	\$42,339	\$0	\$0	\$0	\$0	\$42,339
Wayne RESA	\$27,823	\$0	(\$22,109)	\$0	\$0	\$5,714
Wayne County Comm. College	\$22,869	\$0	(\$17,566)	\$0	\$0	\$5,303
Wayne County Zoo	\$706	\$0	(\$542)	\$0	\$0	\$164
Detroit Institute of Arts	\$1,411	\$0	(\$1,084)	\$0	\$0	\$327
<b>Total</b>	<b>\$878,198</b>	<b>(\$37,751)</b>	<b>(\$337,340)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$503,107</b>

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### Conclusion

The estimated total capital investment for this project is **\$6.6 million**. It is also estimated that completed project will create 1 FTEs and 80 temporary construction jobs. The total value of the 12 year OPRA tax abatement is estimated at **\$337,340**.<sup>3</sup>

Based on the investment and jobs, this project is also estimated to provide the City of Detroit a net benefit of **\$287,273** and all of the impacted taxing units, a net benefit of **\$503,107** over the 12 years of the OPRA tax abatement.

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



2857 & 2863 E Grand Blvd <sup>4</sup>

**Attachment: Assessor's Letter, dated August 19, 2020**

<sup>2</sup> Charts courtesy of the DEGC

<sup>3</sup> Existing Annual Taxes: \$15,194 - New Annual Taxes AFTER Incentive: \$25,197

<sup>4</sup> Photo courtesy of the DEGC

cc: Auditor General's Office  
Arthur Jemison, Chief of Services and Infrastructure  
Katy Trudeau, Planning and Development Department  
Donald Rencher, HRD  
Veronica M. 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



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

COLEMAN A. YOUNG MUNICIPAL CENTER  
 2 WOODWARD AVE., SUITE 824  
 DETROIT, MI 48226  
 PHONE: 313•224•3011  
 FAX: 313•224•9400

August 19, 2020

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 – Method MJ LLC*  
 Addresses: 2857 E Grand Blvd  
 Parcel Number: 03001789-90

Dear Ms. Trudeau:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the proposed Obsolete Property Rehabilitation Certificate for the property located at 2857 E Grand Blvd located in Milwaukee Junction area of the City of Detroit.

The rationale for 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.

The 2020 values are as follows:

Parcel #	Address	Building Assessed Value (SEV)	Building Taxable Value	Land Assessed Value (SEV)	Land Taxable Value
03001789-90	2857 E Grand Blvd	\$ 95,400	\$ 95,400	\$ 83,700	\$ 83,700

The project as proposed by the Method MJ LLC consists of a 3-story former car showroom with 24,750 square feet of building area and a 1-story office building with 5,606 square feet of building area, built in 1925, on 0.320 acres of land. The proposed project consists of rehabilitating the vacant structure with ground floor retails and 18 residential rental units. The building will undergo major renovations including window replacement, floor replacement, roof replacement, all major mechanical, plumbing and electrical systems replacement, and installation of a new elevator system.

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. Rehabilitation also includes major renovation and modification including, but not necessarily limited to, the improvement of floor loads, correction of 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



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Obsolete Property Rehabilitation Certificate  
Method MJ LLC – 2857 E Grand Blvd  
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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 Certificate for the property located at 2857 E Grand Blvd 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