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TO: Honorable City Council

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: October 4, 2021

RE: Inquiry About the Book Cadillac Hotel

On March 17, 2021, Council Member Andre Spivey inquired about news stories that reported that the Book Cadillac Hotel was facing foreclosure amid the lengthening pandemic. Council Member Spivey posed the following questions to the Law Department and the Legislative Policy Division (LPD): If this (foreclosure) occurs, how will this affect the Section 108 loans? Additionally, what impact will this have on the City's finances?

Regarding the first question *if this (foreclosure) occurs, how will this effect the Section 108 loans?* Fortunately, the Book Cadillac Hotel did not go into foreclosure and is in the process of being sold to Book Cadillac Detroit Propco LLC (Book Cadillac developer), an affiliate of Oxfore Capital Group LLC, from its current owner, the Ferchill Group. According to a Detroit News article¹, the Book Cadillac developer will assume \$77 million in debt from the Ferchill Group and spend \$16 million to renovate the 97-year building. The Book Cadillac developer also states "The lender was in process of foreclosing on the current owner before oxford capital made a deal with the lender to assume the loan and take over control of the property. The new development team is committing to spend about 25-30m in new equity to pay the interest and operating shortfalls through the rest of the downturn (which will avoid a future foreclosure and/or shutdown) and also execute the necessary renovations to allow the hotel to compete in the market place for the next several years. If the new group does not close on this transaction as planned, the lender will finalize the foreclosure process, the needed renovation will not be complete for several years (likely not until several years post covid recovery), and the hotel will

¹ "Detroit's Westin Book Cadillac to be sold to Chicago hotel developer", article by the Detroit News dated September 29, 2021, authored by Candice Williams.

be at high risk of closing, losing its marriott/westin flag, and/or losing significant market share/relevance.”

As Council knows, the Book Cadillac developer is in the process of seeking a 12-year 255 of 1978 Commercial Rehabilitation tax abatement certificate, which is before your Honorable Body for a vote tomorrow during Formal Session on October 5th. The Book Cadillac developer feels it needs the tax abatement to make the acquisition of the Book Cadillac property more economically feasible².

Regarding the Section 108 loans associated with the hotel project, Council should be reminded that your Honorable Body approved a HUD Section 108 loan settlement in 2016 that reduced the outstanding Book Cadillac Section 108 loan balance by \$10 million. In 2016, the Book Cadillac HUD Section 108 loan balance was approximately \$14.1 million. After the settlement, in 2017, the loan balance was approximately \$4.5 million (including interest).

It is important to note that the City of Detroit is required to guarantee the loans from HUD for all Section 108 loans. So, in all cases where the developer does not repay the Section 108 loan, the City’s Community Development Block Grant (CDBG) funds are required to be used to make the Section 108 loan payments. Consequently, this reduces the amount of CDBG funds in a given year the City can use for CDBG projects. Therefore, after the Book Cadillac Section 108 loan settlement starting in 2017, the City of Detroit is responsible for paying off the remaining Book Cadillac HUD Section 108 loan balance using CDBG funds to make the debt service (principal and interest) payments on the loan. As of June 30, 2021, the remaining balance on the Book Cadillac HUD Section loan, including interest, is \$3.9 million.

Regarding the second question *what impact will this have on the City’s finances?* Again, fortunately the Book Cadillac Hotel did not go into foreclosure and is in the process of being acquired, as explained previously. However, the COVID-19 pandemic did cause the Book Cadillac Hotel project to become financially distressed. For example, in 2020 the Book Cadillac Hotel generated just \$9 million in revenue, compared to \$38.7 million in 2019; and net operating income fell from \$9.8 million in 2019 to \$2.3 million in 2020³.

Regarding income/payroll taxes generated by the Book Cadillac Hotel in 2019 and 2020, the City’s Treasury Office is unable to share a taxpayer’s income tax information. The Book Cadillac developer did indicate to LPD that the hotel’s payroll was about \$7.5 million in 2019 and dropped to about \$3 million in 2020 during the pandemic. That means the city income taxes generated on this payroll to be between 1.2% (non-resident City of Detroit income tax rate) and 2.4% (resident income tax rate) of this amount (\$90,000 to \$180,000 in 2019 and \$36,000 to \$72,000 in 2020) but the exact amounts withheld or remitted are unknown to the Book Cadillac developer.

² Please refer to LPD’s report entitled “Book Cadillac Detroit Propco, LLD PA 255 Certificate Request REVISED REPORT, dated September 28, 2021 for more details on the tax abatement request. In addition, the tax abatement request was discussed at length during the Planning and Economic Development Committee on Thursday, September 30, 2021.

³ “Westin Book Cadillac being sold to Godfrey Hotel developer”, article by the Crain’s Detroit Business dated September 29, 2021, authored by Kirk Pinho.

The Book Cadillac developer also estimates there are currently 70 to 80 employees at the Westin Book Cadillac hotel. Pre-Pandemic there were around 200 employees and Oxford Capital has made a commitment to restore those jobs over the next few years as the economy recovers. The developer will also create approximately 100 temporary construction jobs over the first two years while the hotel is under construction.

According to the Book Cadillac developer's PA 255 tax abatement application, the developer and hotel manager Marriott plan to work with Detroit at Work to hire Detroiters and achieve a hotel workforce of at least 35% Detroit residents going forward. In addition, the developer has indicated the hotel jobs are union jobs.

Regarding property taxes generated by the Book Cadillac Hotel in 2019 and 2020, the City's Treasury Office indicates that the City collected \$989,256 in property taxes in 2019 and \$883,669 in 2020. According to the Detroit Economic Growth Corporation (DEGC), the City's Downtown Development Authority (DDA) captures about 96% of the property taxes generated by the Book Cadillac Hotel in the form of tax increment property taxes since the hotel is located in the downtown area. As a result, the DDA captured about \$949,686 and \$848,322 in tax increment property taxes in 2019 and 2020, respectively.

Additionally, LPD asked the DEGC/Book Cadillac developer questions regarding the status of the Book Cadillac Hotel. For Council's information, the questions and responses are as follows:

- 1. What are the Book Cadillac Hotel's occupancy levels now as compared to during the pandemic?*

Year to date occupancy at the hotel is about 30% which compares to about 80% in 2019 pre-pandemic. Same with the hotels competitive set which includes the marriott, hgi, shinola, foundation, element, courtyard, athenium suites, indigo, crowne plaza, aloft, and doubletree – which is mostly the entire 3-4+ star set of hotels downtown.

- 2. Please provide any data/reports on the pandemic's impact on Detroit's hospitality industry over the past almost two years.*

As has been widely publicized, covid has resulted in major short and medium term challenges to the hospitality industry globally. However, with vaccine rollouts, removal of covid restrictions, and increased travel, the new development team state that they have seen hotel demand start to rebound in 2021 and expect it to continue to further rebound in 2022 and beyond. Overall hotel market experts like jll, hvs, etc are expecting overall hotel demand to get back to 2019 levels by around 2024. The book cadillac was hurt particularly hard given its reliance on business travel, group business, and large banquet events which have been slower to recover given most of the demand recovery thus far has been from leisure travelers. Overall, the downtown detroit hotel market demand was down by about 60% from 2019 in 2020 (actually somewhat better than the rest of the top 25 markets) and is up about 20% ytd so far. However, while it will certainly take a few years to get back to pre pandemic demand levels, the development team is optimistic and excited about the growth happening in detroit with all the various corporate expansions/relocations, new residential developments, and other activity around downtown.

- 3. The purchase of the Book Cadillac from the current owner Ferchill Group is currently pending. Please explain why the Book Cadillac Detroit Propco, LLC is seeking a PA 255 tax abatement now when the purchase of the Book Cadillac is pending.*

Given the important economic impact of this tax abatement we can not close on the transaction without the tax abatement. We are scheduled to close shortly after the City Council hearing if approved. The returns without the abatement are almost 0% as not receiving the abatement would decrease our stabilized NOI by about \$1.5m.

- 4. How soon will the purchase transaction be consummated?*

Oxford Capital is in final negotiations with the lender/special servicer, but will be able to invest a hard money deposit on the transaction and post a significant amount of nonrefundable money within a few days after receiving approval for the tax abatement. It will likely take 30 to 45 days after the potential approval by City Council to finalize all the various legal contracts before Oxford Capital can close (likely sometime in late October or early November).

- 5. Please provide the current occupancy rate on the Book Cadillac condos.*

The Book Cadillac condos are not part of this transaction; however, they have all been sold.

- 6. Have the NEZs received by the residents in the condos expired?*

Oxford Capital has not researched the status of the condo NEZ situation because the condos are not part of the transaction.

- 7. Does the Book Cadillac property also include a parking structure?*

No. The hotel leases 200 spaces from the adjacent Downtown Development Authority parking garage.

- 8. What is the current market value of the Book Cadillac project?*

Assuming Oxford Capital receives the proposed tax abatement, Oxford Capital could still not justify currently paying anything above the outstanding debt balance (\$77m) for the hotel portion of the property. The hotel portion of the property was valued much higher pre-Covid but hotel values have been materially reduced given the disruption in hotel demand caused by the pandemic.

- 9. The developer looks to spend up to \$107 M on the Book Cadillac project: \$77 M for debt acquisition and \$25 to \$30 M on paying interest and operating shortfalls. Please explain Oxford Capital Group's financial ability to make these investments on this very important project to the City of Detroit.*

Oxford Capital has completed over \$3.5B of development over its ~25 year history with a dozen or so similarly sized projects that we have capitalized. Oxford Capital and its investors

are capitalized to move quickly should the tax abatement be approved and the deal can move forward.

cc: Donald Rencher, Chief of Services and Infrastructure
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