

An architectural rendering of a modern, multi-story hotel building. The building features a dark, textured facade with large glass windows and balconies. A prominent vertical mural with colorful, abstract geometric shapes is displayed on the left side of the building. The scene includes a street with cars, pedestrians, and a landscaped area with trees and a small plaza. The text is overlaid in the center of the image.

**Hotel at Water Square MSF Renaissance Zone
(PA 376) & PA 210 Certificate Request**

LEGISLATIVE POLICY DIVISION - APRIL 11, 2024

HOTEL AT WATER SQUARE

2

The project involves the development of a newly constructed **\$396.5-million** four star convention hotel¹ with 600 hotel rooms, 50,000 square feet of meeting space, and three new restaurant/lounges. The Hotel Water Square is planned as Detroit's first convention center hotel sharing a connection to Huntington Place.² The total value of the Hotel at Water Square Project incentive structure is **\$142.2 million**.³

Jurisdiction	PA 376 Ren Zone	PA 210 CRA	Total
City of Detroit	\$15.0M	-	\$15.0M
Wayne County	\$4.3M	-	\$4.3M
Detroit Public Schools	\$32.5M	-	\$32.5M
State Education	\$11.9M	-	\$11.9M
Downtown Dev. Authority	\$59.5M	\$10.6M	\$70.0M
Wayne RESA	\$6.8M	\$1.0M	\$7.8M
Wayne County Comm. College	-	-	-
Wayne County Zoo	\$197.2K	-	\$197.2K
Wayne County DIA	\$394.7K	-	\$394.7K
TOTAL	\$130.6M	\$11.6M	\$142.2M

¹ Four-star hotels usually have upscale furnishings, luxury bedding and other amenities, including hair dryers, high-end bath products, flat-screen televisions, state-of-the-art electronic devices and high-quality towels. The size of the room may vary based on location (i.e., a four-star hotel room in Omaha, Nebraska, will probably be larger than one in New York City). Inside the room, there may be a minibar within a four star hotel depending on the price and style of the room, along with complimentary toiletries. Every four star hotel should have concierge services, free internet access and free Wi-Fi along with it. (Once constructed, this will be the only 4-star hotel in the metro Detroit area.)

[Hotels: 4 Star Hotel Requirements | All Getaways](#)

² Huntington Place is the 16th largest convention center in the United States. Built by the City of Detroit, it was originally opened in 1960 and named Cobo Hall [Huntington Place | Huntington Place \(huntingtonplacedetroit.com\)](#)

³ Other Jurisdictions include, Wayne County, DPS, State Education, DDA and DIA

The plan includes the creation of 356 direct FTE's, 70 indirect FTE's and 624 temporary construction jobs.

Michigan Renaissance Zone Act (PA 376 of 1996)⁴

The largest and most extensive of the two incentives that the developer is seeking under the Michigan Renaissance Zone Act, is a **Michigan Strategic Fund Designated Renaissance Zone**, which provides a property tax abatement on most real and personal property located within the zone. The zone can be in place for up to 30 years with a 25%, 50%, 75% phase out of the abatement in the final three years. All mills except for City Debt, DPS capital Debt, and the Wayne RESA Intermediate School District (ISD) Enhancement millage are abated. **Requested tax savings for the Ren Zone: \$130.6M**

Commercial Rehabilitation Act (PA 210 of 2005)

The second and the lesser of the two incentives the developer is seeking is a **Commercial Rehabilitation Act (PA 210 of 2005)** tax abatement, This tax incentive was designed to assist in the rehabilitation of commercial property for the primary purpose and use of a commercial business or a multi-family residential facility. The property must be located within an established Commercial Rehabilitation District. Exemptions are approved for a term of 1-10 years, as determined by the local unit of government. The property taxes are based upon the prior year's taxable value. **Requested tax savings for the PA 210: \$11.6M**

Hotel at Water Square

The developer of the planned new construction of the Water Square Hotel on the property located at 600 Civic Center Drive, is **Atwater and Second Associates, LLC**, a subsidiary of the **Sterling Group**.⁵ According to published reports, “Sterling Group acquired the arena's 5-acre riverfront site from one of Detroit's 2013-14 bankruptcy creditors through a complex \$14.1 million deal with the city that happened in late 2019.”⁶ The JLA, the former home of the Detroit Red Wings, closed in 2017 and was demolished in 2020.

The newly planned hotel is proposed as a 25-story, approximately 600 room hotel with five podium floors,⁷ which includes a ground floor restaurant, a lobby bar, two ballrooms, meeting rooms, swimming pools, spa and fitness area. The back of the house areas include offices, staff support spaces, and a large kitchen. A pedestrian bridge will span over the future 2nd Avenue and provide a direct connection to the Huntington Place Convention Center. The Sterling Group is also the developer of the Residences at Water Square (also on the former JLA site), which opened in February 2024, the city's first new riverfront residential high rise since Riverfront Towers opened 40 years ago.⁸ The apartments were developed with *no incentives*, and all of the 496 luxury apartments in this 25-story tower are market rate units.

We asked the question, why did the hotel require incentives and the apartments did not? The response: *The Residences at Water Square was developed based upon 2021 construction pricing. From 2021 to 2024 construction pricing has increased by over 40%. Further, interest rates and the cost of capital have increased dramatically from 2021-2024. For example, since the beginning of the construction at the Residences of Water Square, the Secured Overnight Financing Rate (SOFR) was .05%. Today, SOFR is at 5.0%.*⁹

The developers of the Hotel at Water Square are seeking two tax abatements, a Michigan **Strategic Fund Designated Renaissance Zone (Public Act 376)** which provides a property tax abatement on most real and personal property located within the zone. The zone can be in place for up to 30 years with a 25%, 50%, 75% phase out of the abatement in the final three years. All mills except for City Debt, DPS capital Debt, and the Wayne RESA Intermediate School District (ISD) Enhancement millage are abated. Per State statute, the State shall reimburse all local school district, intermediate school districts, and libraries for tax revenues lost as a result of the Renaissance Zone (Ren Zone).

The second tax abatement is under the **Commercial Rehabilitation Act (PA 210)** which provides an abatement on the future value of improvements for a period of up to 10 years after construction. All existing property taxes will continue to be paid. 356 Direct Full-Time Equivalent Jobs 70 Estimated Indirect Full-Time Equivalent Jobs 624 Construction Jobs Estimated \$25.4M *Gross* Fiscal Benefit to the City of Detroit. However, the project is located in a Detroit Downtown Development Authority¹⁰ (DDA) TIF¹¹ district.¹² Taking in account DDA's \$9.9 million capture, the City of Detroit will realize a net benefit of \$15.5 million over the 30-year life of the incentives (30-years for the Ren Zone and 10-years for the PA 210 abatement). Estimated \$2.6B in New Visitor Spending over 30 Years (Source: HVS Convention Center Hotel Market Study)

Renaissance Zone Reimbursement Provisions

At the request of Pro-Tem Tate, in March of this year, the Legislative Policy Division (LPD) provided the Council a report on the reimbursement provisions the Renaissance Zone Act (PA 376). We were able to note that pursuant to the Act, “(6), this state shall reimburse a community college district and a **public library** each year for all tax revenue lost as a result of the exemption of property under this act, based on the property's taxable value in that year, from taxes levied or collected under the general property tax act. (the section additionally states)... this state shall reimburse the school aid fund for all revenues lost as

the result of the establishment of renaissance zones.”¹³ Therefore, as the provisions of the Renaissance Zone Act (PA 376) now stand, for the 30-years period of the Ren Zone tax abatement, any loss of future tax revenue abated via the Act for the Detroit Public Library and the School Aid Fund for the Detroit Public Schools, will be reimbursed by the State of Michigan.¹⁴

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List of Ren Zone Reimbursements by Taxing Jurisdiction:

City of Detroit (Detroit Public Library)	\$9,203,748
Detroit Public Schools	\$32,489,495
State Education	\$11,925,300
Wayne RESA*	<u>\$6,836,973</u>
Total State Ren Zone Reimbursement	\$60,455,516

* Wayne RESA is a regional educational service agency that offers a wide range of services and support to the 33 school districts and 97 public school academies in Wayne County.

INFRASTRUCTURE IMPROVEMENTS

The City has a number of infrastructure improvements that have recently been completed or will be completed within the project influence area of the Hotel Water Square in the upcoming months. These improvements include:

- The realignment of the Rosa Parks – Jefferson intersection with the aim of reducing speed along the corridor making West Jefferson more pedestrian-friendly
- Resurfacing of West Jefferson between Rosa Parks and the Lodge Freeway, including road diet.
- Concrete repairs of the City-owned Lodge freeway to West Jefferson Ramps – April 2024
- Installation of a 2-way cycle track along West Jefferson and Rosa Parks
- Installation of raised cross-walk at several intersections within the corridor.
- Tree planting along the corridor
- Sidewalk work

Cost – \$4M to \$5M (some work is still under design with final costs not yet finalized)

Sources of funding – A combination of Grants and Street Funds.

DPW will evaluate the condition of other streets in the area upon project completion and address any defective infrastructure.

DEGC City of Detroit Benefit Analysis

CURRENT CITY BENEFIT		30-YEAR CITY BENEFIT	
*CITY PROPERTY TAX:	\$0	*CITY PROPERTY TAX:	\$9.9M
CITY INCOME TAX:	\$0	CITY INCOME TAX:	\$16.5M
UTILITY USER'S TAX:	\$0	UTILITY USER'S TAX:	\$472K
MISC. TAXES & FEES:	NOMINAL	MISC. TAXES & FEES:	\$11.6M
COST OF CITY SERVICES:	NOMINAL	COST OF CITY SERVICES:	(\$13.1M)
TOTAL:	\$0	TOTAL:	\$25.4M
CURRENT ANNUAL FISCAL BENEFIT		AVERAGE ANNUAL FISCAL BENEFIT	
\$0/YEAR		\$847K/YEAR	
NEW ANNUAL VISITOR SPENDING GENERATED WITHIN LOCAL DETROIT ECONOMY			
\$108.1 MILLION/YEAR			

Fiscal Impact of the Project: City of Detroit Only over 30 years

	Amount
Real Property Taxes, before abatement	\$9,312,926
Personal Property Taxes, before abatement	\$544,929
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$10,929,427
Municipal Income Taxes - Indirect Workers	\$2,836,444
Municipal Income Taxes - Corporate Income	\$2,298,932
Municipal Income Taxes - Construction Period	\$2,639,390
Municipal Income Taxes - New Residents	\$0
Utility Revenue	\$25,498,032
Utility Users' Excise Taxes	\$4,116,120
State Revenue Sharing - Sales Tax	\$65,241
Building Permits and Fees	\$595,250
Miscellaneous Taxes & User Fees	\$10,973,799
<u>Subtotal Benefits</u>	<u>\$69,810,490</u>
Cost of Providing Municipal Services	(\$13,115,322)
Cost of Providing Utility Services	(\$25,498,032)
<u>Subtotal Costs</u>	<u>(\$38,613,353)</u>
Net Benefits	\$31,197,137

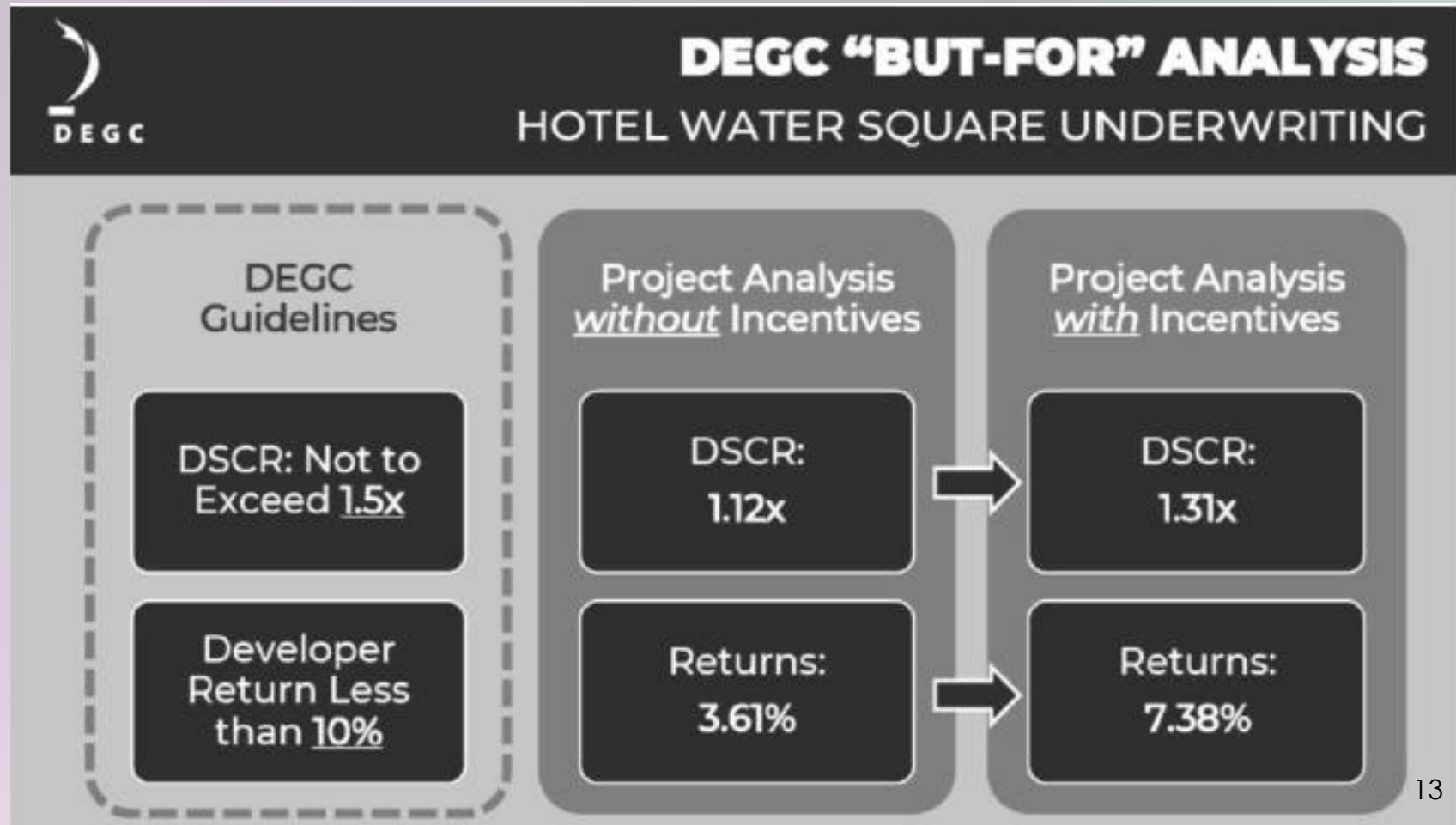
INCENTIVE SUMMARY: ALL TAXING UNITS OVER 30 YEARS

	Additional Benefits Before Tax Incentives	Additional Costs	*PA 210 Real Property Tax Abatement	*Ren Zone Real & Personal Property Tax Abatement	*Ren Zone Corporate Income & Utility User's Exemption	**Ren Zone Reimbursement From State Aid Fund	Total Net Benefits
City of Det.	\$69,810,490	(\$38,613,353)	\$0	(\$9,203,748)	(\$5,793,577)	\$9,203,748	\$25,403,560
Wayne Co.	\$6,873,941	(\$1,882,122)	\$0	(\$4,298,872)	\$0	\$0	\$692,947
DPS	\$43,897,767	(\$8,634,194)	\$0	(\$32,489,495)	\$0	\$32,489,495	\$35,263,574
SET	\$12,772,827	\$0	\$0	(\$11,925,300)	\$0	\$11,925,300	\$12,772,827
DDA	\$108,393,615	\$0	(\$10,613,853)	(\$59,462,727)	\$0	\$0	\$38,317,035
Wayne RESA	\$11,554,086	\$0	(\$1,004,576)	(\$6,836,973)	\$0	\$6,836,973	\$10,549,510
WC Comm Coll.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
WC Zoo	\$211,177	\$0	\$0	(\$197,165)	\$0	\$0	\$14,012
WC DIA	\$422,781	\$0	\$0	(\$394,727)	\$0	\$0	\$28,053
Total	\$253,936,684	(\$49,129,669)	(\$11,618,429)	(\$124,809,008)	(\$5,793,577)	\$60,455,517	\$123,041,519

*City Operating & Debt mills are captured by DDA and not considered City benefit. Only Library mills are factored into City property tax benefit

** The State Aid Fund reimburses the Library, DPS, the ISD, and the School aid Fund for any loss in tax revenue caused by the Renaissance Zone

RATIONALE FOR INCENTIVIZING THE PROJECT



VISIT DETROIT'S RATIONALE FOR NEW CONVENTION HOTEL

Visit Detroit's at the first Community Benefits Meeting (CBO) presented its case for advocating for a new convention hotel to be linked to Detroit's Huntington Place Convention Center. In its presentation,²² Visit Detroit presented that currently Huntington Place is the nation's 16th largest convention center and has the capacity to host 20-25 citywide conventions annually. However, Huntington only hosts 10-12 a year. Visit Detroit submitted bids on 160 events that preferred a "connected" hotel for their event. Visit Detroit did not bid on an additional 37 conventions, because they required a convention center with a physical connection to a hotel. Given the fact that Detroit does not have a hotel that is connected to its convention center, it is their estimate that Detroit has missed out on:

- Over 1 Million visitors
- 650,000 room nights
- \$524 million in spending
- 10 additional events a year

Visit Detroit has concluded that a connected convention hotel will lead to an additional \$100 Million a year in visitor spending for Detroit.²³

CONCLUSION

If approved by Council, the Renaissance Zone Tax abatement over 30-years, will provide the developer a tax savings of **\$130,602,585**, coupled with a PA 210 tax abatement over 10-years with a tax savings of **\$11,618,429**, overall would allow the developer to realize a tax savings of **\$142,221,014**. Despite these abatements, the completed construction of the new **\$396.5-million** four-star Water Square Convention Hotel with 600 hotel rooms, 50,000 square feet of meeting space, and three new restaurant/lounges, is projected to provide a positive cost benefit to the City of Detroit of **\$25,403,560** and **\$123,041,519** to all of the impacted taxing units, in addition to the creation of 356 direct FTE's, 70 indirect FTE's and 624 temporary construction jobs. In addition, due to the projected increase in convention activity the new hotel will facilitate, there is also a projection of \$108 million per year in new spending in the city of Detroit and \$130 million per year in new spending in the state of Michigan, ultimately resulting in \$238 million per year in total new spending.



HOTEL WATER SQUARE

DETROIT

25 Stories

600 Rooms

50,000 SF
Meeting Space

2 Restaurants

Lobby Bar

Market

Fitness Center

Skybridge to
Huntington Place

624 Const. Jobs

426 New Direct
and Indirect Jobs

The connected skywalk between Huntington Place and the planned new Water Square Hotel depicted in this rendering is considered a major factor in attracting more visitors to Detroit. Source: Visit Detroit

Thank you
Questions?

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