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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: October 2, 2018

RE: Lafayette 1626, LLC, Application for an Obsolete Property
Rehabilitation Certificate Public Act 146 of 2000 Abatement Request
10:35 A.M - PUBLIC HEARING (Recommend Approval)

The following is the Legislative Policy Division's (LPD) review of the Public Act 146 abatement request of Lafayette 1626, LLC.

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 and commercial housing projects and to return them to the tax rolls.

Lafayette 1626, LLC's PA 146 OPRA Abatement

Lafayette 1626, LLC¹ is the project developer of a vacant obsolete building, located at 1627 Lafayette in Corktown. This project involves the rehab and planned development of 93 apartments, which will include several mixed income apartments with 10% of the units priced affordable at 80% AMI, 5% of the units priced affordable at 60% AMI, and 5% of the units priced affordable at 50% AMI.²

¹ The principle also developed the Corktown Ash, LLC project, approved September 2017 by Council.

² Detroit-Warren-Livonia Michigan Average Median Income (AMI) is \$49,625 for 2018; 80% AMI = \$39,700, \$992 at 80% affordable rent. 60% AMI= \$29,775 (\$744 rent); 50% AMI= \$24,813 (\$620 rent), *estimated*.

<https://www.huduser.gov/portal/datasets/il/il2018/2018summary.odn>

Currently, the building is in an extreme state of disrepair and it will require a full rehabilitation. The rehabilitation will include, but will not be limited to new plumbing, new mechanical, new electrical, and new HVAC (heating, ventilation, and air conditioning) systems. The total investment for this project is estimated at **\$11.2 million**.

The DEGC recommends an **abatement of 12 years** for this project.

Finance Assessors Declaration Eligibility of the OPRA District

In a letter dated September 10, 2018, the City’s Finance Department Assessor’s Division, declared that 1627-1629 Lafayette, was eligible for an OPRA district designation.

DEGC Project Evaluation Checklist

Lafayette Lofts

Developer: Lafayette 1626, LLC

Principal: Elliot Blumenkehl

Abatements Requested:	
1. Obsolete Property Rehabilitation Act, PA 146 of 2000 as amended- Current taxes frozen at pre-rehab values / Improvements taxed at 24mills (school), local taxes abated	
DEGC Abatement Length Recommendation	12 Years
Location	
Address	1627 W Lafayette Street
City Council District	District 6
Neighborhood	Corktown
Located in HRD Targeted Area	Yes
Building Use	
Total Square Foot	48,315
Residential Square Foot	48,315
Project Overview – Mixed-Use/ Rehabilitation	
Total Units	93 Apartments ³
Studio	85 units, 401-571sf, \$802-\$1,142/mo rent
1 Bedroom	7 units, 740sf, \$1,480/mo rent
2 Bedroom	1 unit, 980sf, \$1,960/mo rent
Affordable Housing	10% of the units will be priced to be affordable at 80% AMI, 5% of the units will be priced to be affordable at 60% AMI, 5% of the units will be priced to be affordable at 50% AMI
But For Analysis	
Internal Rate of Return	7.25% with abatement (5.03% without abatement)
Debt Service Coverage Ratio	1.46 stabilized with abatement (1.17 without abatement)
Cash on Cash Return	5.39% with abatement (3.02% without abatement)
Sources and Uses	
Total Investment	\$11.2MM

³ LPD requested a copy of the affordable agreement and was informed that it wasn't signed and it would be presented at the hearing. The affordable agreement codifies the allocation of the affordable units.

Financial Sources	\$6.6MM Wolverine Bank Construction Loan (59%), \$4.6MM Cash Equity Owner (41%)
Uses	\$1.7MM Acquisition (16%), \$7.6MM Hard Construction Costs (68%), \$1.9MM Soft Costs (16%)
Project Benefits	
Estimated Jobs	70 construction
Estimated benefits before tax abatement	\$1,584,987
Total estimated value of OPRA abatement	\$684,788
Less cost of services & utility deductions	\$194,851
Net Benefit to City	\$705,348

Project Cost/Benefit Analysis

Gross Benefits City of Detroit (Only) over 12-Years Prior to the Abatement

	Amount
Real Property Taxes, before abatement	\$692,115
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	\$82,025
Municipal Income Taxes - New Res. Inhabitants	\$596,253
Utility Revenue	\$194,851
Utility Users' Excise Taxes	\$7,742
State Revenue Sharing - Sales Tax	\$0
Building Permits and Fees	\$12,000
Miscellaneous Taxes & User Fees	\$0
Subtotal Benefits	\$1,584,987
Cost of Providing Municipal Services	\$0
Cost of Providing Utility Services	(\$194,851)
Subtotal Costs	(\$194,851)
Net Benefits	\$1,390,136

Chart courtesy of DEGC

City of Detroit: Incentive Summary over the First 12 Years

	Additional Benefits Before Tax Abatements	Additional Costs	Real Property Tax Abatement	Business Personal Property Tax Abatement	Enter Incentive Description*	Net Benefits After Tax Abatements & Incentives
Year 1	\$159,661	(\$14,528)	(\$49,920)	\$0	\$0	\$95,213
Year 2	\$113,690	(\$14,819)	(\$51,118)	\$0	\$0	\$47,753
Year 3	\$116,621	(\$15,115)	(\$52,344)	\$0	\$0	\$49,162
Year 4	\$119,630	(\$15,417)	(\$53,601)	\$0	\$0	\$50,612
Year 5	\$122,719	(\$15,726)	(\$54,887)	\$0	\$0	\$52,106
Year 6	\$125,889	(\$16,040)	(\$56,204)	\$0	\$0	\$53,645
Year 7	\$129,144	(\$16,361)	(\$57,553)	\$0	\$0	\$55,229
Year 8	\$132,484	(\$16,688)	(\$58,935)	\$0	\$0	\$56,861
Year 9	\$135,913	(\$17,022)	(\$60,349)	\$0	\$0	\$58,542
Year 10	\$139,433	(\$17,362)	(\$61,797)	\$0	\$0	\$60,274
Year 11	\$143,047	(\$17,710)	(\$63,281)	\$0	\$0	\$62,057
Year 12	\$146,756	(\$18,064)	(\$64,799)	\$0	\$0	\$63,893
Year 13	\$0	\$0	\$0	\$0	\$0	\$0
Year 14	\$0	\$0	\$0	\$0	\$0	\$0
Year 15	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$1,584,987	(\$194,851)	(\$684,788)	\$0	\$0	\$705,348

All 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	\$1,584,987	(\$194,851)	(\$684,788)	\$0	\$0	\$705,348
Wayne County	\$169,445	\$0	(\$167,651)	\$0	\$0	\$1,794
Detroit Public Schools	\$653,607	\$0	(\$271,192)	\$0	\$0	\$382,416
State Education	\$126,505	\$0	\$0	\$0	\$0	\$126,505
Wayne RESA	\$92,421	\$0	(\$91,648)	\$0	\$0	\$773
Wayne County Comm. College	\$68,329	\$0	(\$67,606)	\$0	\$0	\$723
Wayne County Zoo	\$2,108	\$0	(\$2,086)	\$0	\$0	\$22
Detroit Institute of Arts	\$4,217	\$0	(\$4,172)	\$0	\$0	\$45
Total	\$2,701,619	(\$194,851)	(\$1,289,143)	\$0	\$0	\$1,217,625

Charts courtesy of DEGC

Project Fiscal Summary

PROJECT	PROJECT INVESTMENT	TAXING UNIT	GROSS BENEFIT	COST OF SERVICES	PA 146 VALUE	NET BENEFIT
1627-1629 Lafayette	\$11.2 Million	Detroit	\$1,584,987	(\$194,851)	(\$684,788)	\$705,348
		All Taxing Units*	\$2,701,619	(\$194,851)	(\$1,289,143)	\$1,217,625

*Including Detroit

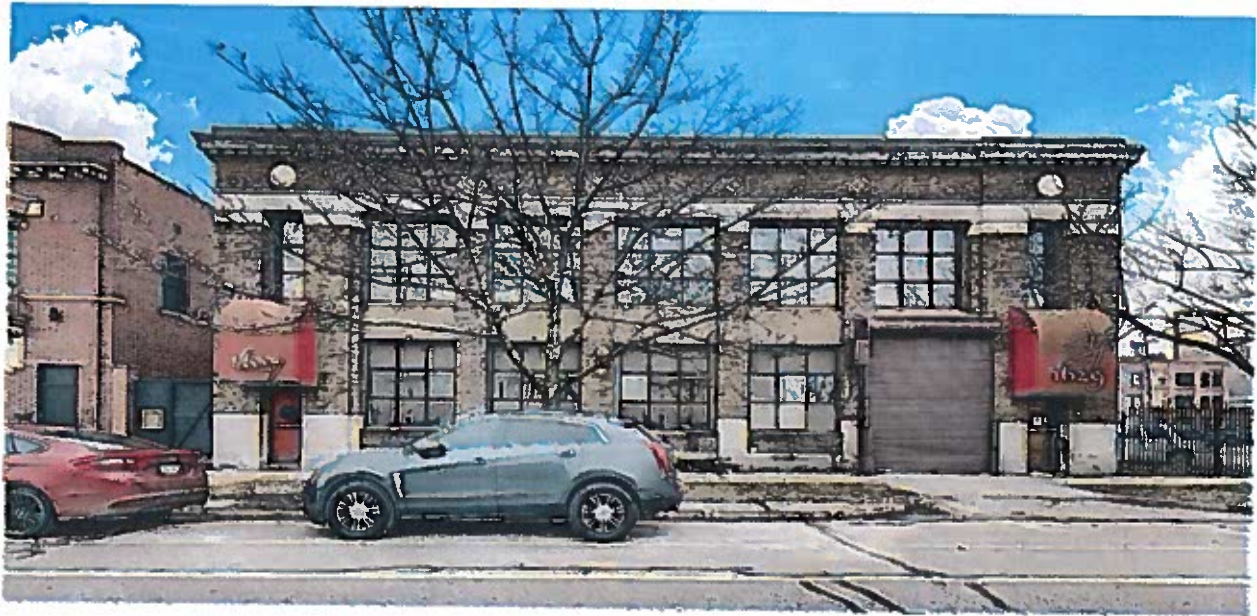
Recommendation

Given the \$11.2 million investment, its projected positive cost benefit to the City of Detroit and the impacted taxing units of \$1,217,625, which includes a net benefit of \$705,348 for the City of Detroit alone, in addition to the creation of 30 temporary construction jobs, **LPD recommends approval** of the OPRA certificate request of Lafayette 1626, LLC.

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

The 2018 values are

Parcel #	Address	Building Assessed Value (BEV)	Building Taxable Value	Land Assessed Value (BEV)	Land Taxable Value
08000062	1627 W Lafayette	\$ 71,000	\$ 71,000	\$ 7,400	\$ 7,400



1627-1629 Lafayette ⁵

cc: Auditor General's Office
 Arthur Jemison, Chief of Services and Infrastructure
 Maurice Cox, Planning and Development Department
 Donald Rencher, HRD
 Dinah Bolton, Planning and Development Department
 John Saad, Planning and Development Department
 Stephanie Grimes Washington, Mayor's Office
 Malinda Jensen, DEGC
 Kenyetta Bridges, DEGC
 Jennifer Kanalos, DEGC
 Brian Vosburg, DEGC

⁴ Source: September 10, 2018 Letter from Finance Department Board of Assessors

⁵ Source: <http://www.loopnet.com/Listing/20288677/1627-1629-W-Lafayette-Bldg-Detroit-MI/>