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City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: October 11, 2022

RE: Application for an **Obsolete Property Rehabilitation Certificate** by
Method River, LLC 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, and to return them to the tax rolls.

Method River, LLC

The project developer of the property located at 206 E. Grand River, is Method River, LLC. The project as proposed, consists of an 8-story office building, with approximately 53,000 square feet of building space. The developer plans to rehabilitate the structure and convert it into a one hundred and thirty-five (135) room hotel, with a ground floor lobby, food and beverage space, event space, and a rooftop bar.

“Designed by Otto Misch in 1922, the Merchants Building, the eight-story, terra cotta wrapped, steel and reinforced-concrete building topped with a flat roof and a single terra cotta parapet wall,¹ is significant as a well-designed and developed terra cotta clad, Classical Revival building. The building was one of three that John J. Barlum had constructed in the 1920s to stimulate growth in the Cadillac Square area.”²

¹ A parapet is a low wall constructed above the roofline that usually spans around the perimeter of a building. Parapets may be purely aesthetic or primarily functional, such as hiding mechanical equipment or performing as a firewall. The top of a parapet wall is vulnerable to moisture penetration problems.

² City of Detroit Planning and Development Department [Wayback Machine \(archive.org\)](#)

If approved by Council, the building will undergo major renovations including a major layout reconfiguration, all major mechanical, plumbing and electrical systems replacements, new elevators, floor reconfigurations, new life safety equipment, and a major façade improvement.³

The DEGC is recommending a full 12-year term for the OPRA tax abatement.

DEGC Property Tax Abatement Evaluation

Property Address: 206 E Grand River
Developer: Method Development
Development Team Principal(s): Rocky Lala and Amelia Zamir
Prepared By: Catherine Frazier

Description of Incentive: PA 146 OPRA Certificate	
DEGC Abatement Term Recommendation	12 years
Location	
Address	206 E Grand River
City Council District	5
Neighborhood	Downtown
Located in HRD/SNF Targeted Area	NA
Building Use	
Total Commercial Square Footage	33,000
Total Retail Square Footage	5,900
Project Description	
<p>206 E Grand River Ave is a prominent and highly visible historic building on the SE corner of Broadway and E Grand River. The building has been mostly vacant and in severe disrepair for the last ~20 years. The developer intends to fully redevelop the property as a hotel with approximately 130-135 keys and several food and beverage spaces. The project is in need of a tax abatement due to the high magnitude of renovation required. Since the building has been neglected for so many years, it is now in need of a complete renovation including significant facade restoration, all new building systems, roof, windows, etc. There is very little to be salvaged within the building to its poor condition.</p>	
Sources and Uses of Capital Summary	
Total Investment	\$44M
Sources	Equity: \$16.7M, Debt: \$27.3M
Uses	Hard Costs: \$21.5M, Soft Costs: \$16.6M, Acquisition: \$5.9M
Project Economic Benefits Summary	
Estimated Jobs (FTE/Construction)	50 FTE / 90 Construction
Estimated City benefits before tax abatement	\$4,453,975

³ Throughout its history, the building has been home to many business: at least three furriers, Midwest Woolen Co., Kroger Grocery & Bakery, NY Life Insurance Co., a jeweler and shoe repair shop. ³ City of Detroit Planning and Development Department [Wayback Machine \(archive.org\)](#)

Total estimated City value of abatement	\$1,133,492
Less cost of services & utility deductions	\$1,838,490
Net Benefit to City with abatement	\$1,481,993

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

	Amount
Real Property Taxes, before abatement	\$1,133,492
Personal Property Taxes, before abatement	\$0
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$418,352
Municipal Income Taxes - Indirect Workers	\$99,615
Municipal Income Taxes - Corporate Income	\$484,203
Municipal Income Taxes - Construction Period	\$90,019
Utility Revenue	\$1,336,666
Utility Users' Excise Taxes	\$133,760
State Revenue Sharing - Sales Tax	\$264,832
Building Permits and Fees	\$175,000
Miscellaneous Taxes & User Fees	\$318,035
<u>Subtotal Benefits</u>	<u>\$4,453,975</u>
Cost of Providing Municipal Services	(\$501,823)
Cost of Providing Utility Services	(\$1,336,666)
<u>Subtotal Costs</u>	<u>(\$1,838,490)</u>
Net Benefits	\$2,615,485

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	\$4,453,975	(\$1,838,490)	(\$1,133,492)	\$0	\$0	\$1,481,993
Wayne County	\$332,541	(\$62,117)	(\$270,423)	\$0	\$0	\$0
Detroit Public Schools	\$1,287,292	(\$279,046)	(\$438,779)	\$0	\$0	\$569,467
State Education	\$202,514	\$0	\$0	\$0	\$0	\$202,514
Downtown Dev. Authority	\$31,339	\$0	(\$31,339)	\$0	\$0	\$0
Wayne RESA	\$184,017	\$0	(\$184,017)	\$0	\$0	\$0
Wayne County Comm. College	\$109,283	\$0	(\$109,283)	\$0	\$0	\$0
Wayne County Zoo	\$3,365	\$0	(\$3,365)	\$0	\$0	\$0
Detroit Institute of Arts	\$6,734	\$0	(\$6,734)	\$0	\$0	\$0
Total	\$6,611,059	(\$2,179,653)	(\$2,177,432)	\$0	\$0	\$2,253,974

⁴ Charts courtesy of the DEGC

DEGC Chart of Taxes Before, During & After the Incentive⁵

	Existing Taxes	New Taxes AFTER Incentive(s)	New Taxes Without Incentive
City of Detroit	\$4,705	\$4,705	\$79,039
Library	\$753	\$753	\$12,642
Wayne County	\$1,302	\$1,302	\$21,873
Detroit Public Schools	\$4,852	\$48,135	\$81,512
State Education	\$975	\$16,380	\$16,380
Wayne RESA	\$886	\$886	\$14,884
Wayne County Comm. College	\$526	\$526	\$8,839
Wayne County Zoo	\$16	\$16	\$272
Detroit Institute of Arts	\$32	\$32	\$545
Total	\$14,047	\$72,735	\$235,986

Conclusion

The estimated total capital investment for this project is **\$44 million**. It is also estimated that the completed project will create 50 FTE's and 90 temporary construction jobs. The total value of the 12-year OPRA tax savings is estimated at **\$2,177,432**.

Based on the investment and jobs, this project is estimated to provide the City of Detroit a net benefit of **\$1,481,993**, and all of the impacted taxing units, a net benefit of **\$2,253,974**, over the 12 years of the OPRA tax abatement.

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

Attachment: Assessor's Letter, dated August 24, 2022

cc: Auditor General's Office
Donald Rencher, Chief of Services and Infrastructure
Antoine Bryant, Planning and Development Department
Julie Schneider, HRD
Veronica Farley, HRD
Stephanie Grimes Washington, Mayor's Office
Gail Fulton, Mayor's Office
Malinda Jensen, DEGC
Kenyetta Bridges, DEGC
Jennifer Kanalos, DEGC
Brian Vosburg, DEGC

⁵ Existing Annual Taxes: \$14,047 - New Annual Taxes DURING the Incentive: \$72,735 & Taxes after the Incentive EXPIRES: \$235,986



206 E. Grand River (Merchants Building)⁶

⁶ Photo: [Merchants Building sells for \\$5.9 million to entity connected to Method Development | Crain's Detroit Business \(craindetroit.com\)](https://www.craindetroit.com/business/merchants-building-sells-for-5.9-million-to-entity-connected-to-method-development)



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 24, 2022

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 River LLC**
 Addresses: 206 E Grand River
 Parcel Number: 01004010.

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 **206 E Grand River** located in the **Paradise Valley** 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 2022 values are as follows:

Parcel #	Address	Building Assessed Value (SEV)	Building Taxable Value	Land Assessed Value (SEV)	Land Taxable Value
01004010.	206 E Grand River	\$ 2,584,500	\$ 141,792	\$ 377,500	\$ 20,711

The project as proposed by the **Method River LLC** consists of an eight-story office building with first floor retail, with of 53,861 square feet and built in 1921. The building will be converted to a hotel with 135 guest rooms, ground floor lobby and food and beverages spaces, meeting and event space, and a rooftop bar. The property will undergo major renovations including layout reconfigurations, HVAC, plumbing and electrical systems replacement, new windows and roof, elevator replacement, fire and safety systems, and significant façade improvements.



CITY OF DETROIT
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Obsolete Property Rehabilitation Certificate
Method River LLC
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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 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 review of the project plan and related statutes indicated that the proposed Obsolete Property Rehabilitation Certificate for the property located at **206 E Grand River** 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



Obsolete Property Rehabilitation Certificate
Method River LLC
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Property Address: 206 E GRAND RIVER
Parcel Number: 01004010.
Property Owner: METHOD RIVER LLC
Legal Description: NE BROADWAY 10 AND VAC 10 FT OF LAND IN FRONT PLAT OF SEC 9 GOVERNOR & JUDGES PLAN L34 P552 DEEDS, W C R 1/56 65.65 X 110

