

April 13, 2022

**To:** Mayor and Members of City Council

**From:** John P. Curp, Interim City Manager  202200613

**Subject:** EMERGENCY ORDINANCE – LEED CRA AGREEMENT WITH FOURTH AND PIKE APARTMENTS, LLC

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Attached is an Emergency Ordinance captioned:

**APPROVING AND AUTHORIZING** the City Manager to execute a *Community Reinvestment Area Tax Exemption Agreement (LEED or Living Building Challenge)* with Fourth and Pike Apartments, LLC, thereby authorizing a 15-year tax exemption for 100% of the value of improvements made to real property located at 516 E. 4th Street in the Central Business District of Cincinnati, in connection with the remodeling of an existing building into approximately 45,000 square feet of residential space, consisting of approximately 29 residential rental units, and approximately 1,700 square feet of commercial space, which remodeling shall be completed in compliance with Leadership in Energy and Environmental Design Silver, Gold or Platinum standards or Living Building Challenge standards, at a total remodeling cost of approximately \$18,000,000.

#### **BACKGROUND/CURRENT CONDITIONS**

Fourth and Pike Apartments, LLC (the “Developer”) currently owns the 50-year-old multi-family building located at 516 E. 4<sup>th</sup> Street (aka 550 E. 4<sup>th</sup> Street) in the Central Business District. The property is located within the Lytle Park Historic District. Given the age of the property, it requires substantial reinvestment to bring it to market standards. The property was previously occupied but has been vacated in advance of the planned renovation.

#### **DEVELOPER INFORMATION**

Fourth and Pike Apartments, LLC is affiliated with Eagle Realty Group. Eagle Realty Group is the real estate subsidiary of Western & Southern Financial Group (“W&SFG”). Eagle Realty Group has decades of experience developing properties in downtown Cincinnati. Previous projects include the 30-unit Sixth & Race Apartments and the 1 million square foot Queen City Square. Eagle Realty Group is also active in dozens of multi-family developments throughout the nation.

W&SFG has a 30+ year history of supporting affordable housing and similarly important City initiatives, from Over-the-Rhine’s high-quality, low-income Bracket Village housing project of the 1990s to today’s Affordable Housing Trust Fund. W&SFG is the largest

private contributor (tied with the Greater Cincinnati Foundation) to the Affordable Housing Trust Fund, with their recent contribution of \$5 million (nearly 10% of the Fund). Further, W&SFG has publicly announced its plans to significantly help create affordable/workforce housing in Cincinnati. They are actively working with local developers to try to advance such projects, including a Walnut Hills workforce housing project (60-80% AMI) in partnership with Urban Sites.

**PROJECT DESCRIPTION**

The Developer plans to remodel the 50-year-old building into approximately 45,000 square feet of residential space, consisting of approximately 29 residential rental units, and approximately 1,700 square feet of ground-floor commercial space. Floor plans range from one to four-bedroom units. The total project cost is expected to be approximately \$18,000,000. The project will be constructed in compliance with LEED Silver, Gold or Platinum standards or Living Building Challenge standards. The project will support the creation of 70 temporary construction jobs with \$5,000,000 in annual payroll.

The Developer has agreed to use its best efforts and take affirmative steps to achieve (i) the City’s goal of voluntarily meeting thirty percent (30%) SBE participation., and (ii) a sub-goal, being the Company’s Project-specific voluntary commitment, of meeting the City’s economic inclusion program goals to achieve a standard of no less than: (x) five percent (5%) MBE participation; and (y) seven percent (7%) WBE participation. Further, the Developer has agreed to adopt hiring practices to ensure that at least twenty-five percent (25%) of the new employees shall be residents of the City of Cincinnati.

Although it is difficult to determine the exact value of new income tax revenue created by a residential project, we can assume that those living at the project site will contribute 1.8% of their income to the City annually. To measure that value, the below estimation was done. The annual income is calculated on the assumption that each resident will spend 30% of their income on rent and utilities (utilities estimated at \$75 per month). This project is anticipated to generate approximately \$82,494 per year in City income tax, and \$371,223 over the term of the incentive.

Unit Type	Number of Units	Total Housing Cost Including Utilities	Income Assumption (Rent = 30% of income)	Payroll	City Income Tax Annually	City income Tax over 15 years
1BR	6	\$2,875	\$115,000	\$690,000	\$12,420	\$186,300
2BR	6	\$3,575	\$143,000	\$858,000	\$15,444	\$231,660
3BR	15	\$4,275	\$171,000	\$2,565,000	\$46,170	\$692,550
4BR	2	\$5,875	\$235,000	\$470,000	\$8,460	\$126,900
				\$4,583,000	\$82,494	\$1,237,410

**PROPOSED INCENTIVE**

DCED is recommending a 100% (net 52%), 15-year CRA tax exemption for this property.

The exemption applies only to the increase in value of the building attributable to the project improvements. Pursuant to the LEED Commercial CRA policy established by City Council, this project is located within the Streetcar VTICA Area and is therefore eligible for a 100% (net 52%), 15-year tax exemption.

Although the current policy does not require projects within the Streetcar VTICA Area to be underwritten, the Developer provided a proforma for which DCED completed an underwriting analysis. Based on the analysis, it was determined that there is a gap in the market rate of return that is expected for this type of project in the CBD. While the incentive does slightly increase the rate of return, the rate of return is still lower than similar projects within the market area.

<b>SUMMARY</b>	
<b>Forgone Public Benefit if Project Does not Proceed</b>	
CPS PILOT (Forgone New Revenue)	(\$1,528,056)
VTICA (Forgone New Revenue)	(\$694,571)
Income Tax (Forgone New Revenue)	(\$180,000)
<b>Total Public Benefit Lost</b>	<b>(\$2,402,628)</b>
<b>Incentive Value</b>	
Annual Net Incentive to Developer	\$160,523
<b>Total Term Incentive to Developer</b>	<b>\$2,407,847</b>
<b>City's Portion of Property Taxes Forgone</b>	<b>\$650,727</b>
<b>Public Benefit</b>	
CPS PILOT	
Annual CPS Pilot	\$101,870
Total Term CPS PILOT	<b>\$1,528,056</b>
VTICA	
Annual VTICA	\$46,305
Total Term VTICA	<b>\$694,571</b>
Income Tax (Max)**	<b>\$180,000</b>
<b>Total Public Benefit (CPS PILOT/VTICA /Income Tax)</b>	<b>\$2,402,628</b>
Total Public Benefit ROI*	\$1.00
City's ROI*	\$3.69

\*If the project were going to happen regardless of incentive, this is the return of real dollars for public benefits as potential future dollars are forgone

\*\*This is a jobs-based estimate and does not include potential income tax from City residents. The standard incentive review is based on new jobs alone while there is benefit from resident incomes that are not captured in the table above

**PROJECT TEAM & TIMELINE**

The project team (listed below) will make themselves available at the request of the Councilmember(s).

- Assistant City Manager: Billy Weber (Ext. 3318)
- DCED Director: Markiea Carter (Ext. 1953)
- Project Attorney: Kaitlyn Geiger (Ext. 4544)

The anticipated Council timeline is as follows:

- April 13, 2022: Introduction to City Council
- April 18, 2022: Budget and Finance (1)
- April 25, 2022: Budget and Finance (2)
- April 27, 2022: City Council for Final Approval

### **RECOMMENDATION**

The Administration recommends approval of this Emergency Ordinance.

The project will enable an increase in the number of residents in the building and in the Lytle Park Historic District, further adding to the neighborhood's vibrancy. After 50 years, this property requires substantial reinvestment to bring it to market standards, to achieve LEED Silver certification, and to enable it to contribute positively in the forthcoming decades.

Attachment: A. Property location and photograph

Copy: Markiea L. Carter, Director, Department of Community & Economic Development