

December 7, 2022

To: Mayor and Members of City Council

From: Sheryl M.M. Long, City Manager *SML* 202202153

Subject: **Emergency Ordinance – Approving and Authorizing CRA Tax Exemption Agreement with Lester and Montgomery Apartments, LLC**

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 Lester and Montgomery Apartments, LLC, an affiliate of Towne Properties, Inc., thereby authorizing a 15-year tax exemption for 100% of the value of improvements made to real property located at 5984-5988 Lester Road and 6006-6026 Montgomery Road in the Pleasant Ridge neighborhood of Cincinnati, in connection with the construction of approximately 64,145 square feet of residential space, consisting of 82 dwelling units, and approximately 6,013 square feet of commercial space, which construction 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 construction cost of approximately \$23,000,000.

BACKGROUND/CURRENT CONDITIONS

Lester and Montgomery Apartments, LLC, an affiliate of Towne Properties, Inc., plans to develop the property located at 5984-5988 Lester Road and 6006-6026 Montgomery Road in the Pleasant Ridge neighborhood of Cincinnati. Prior to the proposed development, the City provided a \$950,000 grant to the Pleasant Ridge Development Corporation (PRDC) in 2019 for the ability to purchase and remediate site conditions associated with the parcels in order to create a dense mixed-use development that compliments the character of the neighborhood. The project currently replaces long vacant and blighted properties and continues work needed to remediate existing site conditions related to underground storage tanks and auto repair garages.

DEVELOPER INFORMATION

Founded in 1961, Towne Properties, Inc. (Towne) is a family-owned development and management company headquartered in Cincinnati. Over the last 60 years, Towne has developed over 8,000 apartments, over 2,500 for-sale condominiums, and 3,200,000 square feet of commercial space. Recent projects completed by the Developer include the 92-unit, market-rate DeSales Flats Apartments in the Evanston neighborhood of

Cincinnati. PRDC selected Towne at the front end of the project, based on their long track record of development in Cincinnati neighborhoods, as well as the Towne’s practice of holding properties after development, rather than selling the development after completion. Towne partnered with Levental Lester Montgomery, LLC as an investor on the project, based on their extensive portfolio of multi-family/mixed-use projects, and desire for continued investment in the community.

PROJECT DESCRIPTION

The construction of this \$23,000,000 LEED-silver development will bring 82 new apartment units to Pleasant Ridge. The project consists of (3) studio units that rent at \$1,447, (62) one-bedroom units with rents that range from \$1,563-1,718, and (17) two-bedroom units with rents that range from \$2,171-2,427. There is also 6,013 square feet of commercial space available for retail and restaurant users and 96 parking spaces (73 surface and 23 garage) available to residents and patrons. Additional amenities include a fitness center, club room, and rooftop deck. The Developer agrees to use its best efforts to create 17 full-time permanent jobs at an annual payroll of \$1,220,000 and 135 full-time construction jobs at an annual payroll of \$5,400,000.

The proposed project is consistent with Plan Cincinnati within the Live Initiative Area’s Goals to “create a more livable community” (p. 156) and “provide a full spectrum of housing options and improve housing quality and affordability” (p. 164). Furthermore, the project aligns with the 2016 Pleasant Ridge Community Council Market Study & Vision Plan, which recommends redevelopment of second-tier commercial properties for mixed-use alternatives (p. 18). Approval of the Planned Development (PD) Final Development Plan was passed by Planning Commission on August 19, 2022 and granted by City Council September 14, 2022. The Developer has also conducted extensive engagement with the Pleasant Ridge Community Council, which along with the Pleasant Ridge Development Corporation and Pleasant Ridge Business Association have provided letters of support for the project.

| Rent | Affordable to Salary | City Jobs (Min Salary exceeds affordable salary) |
|------------|----------------------|---|
| \$1,447.00 | \$57,080.00 | Turf Manager, Electronics Technician 2, Supervising Traffic Aids Worker, Fire Captain Paramedic 2, Sanitarian-in-Training |
| \$2,427.00 | \$97,080.00 | Director, Assistant Director, Deputy Director |

| AMI | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|-----|----------|----------|----------|----------|----------|----------|----------|-----------|
| 30% | \$20,100 | \$22,950 | \$25,800 | \$28,650 | \$32,470 | \$37,190 | \$49,910 | \$46,360 |
| 50% | \$33,450 | \$38,200 | \$43,000 | \$47,750 | \$51,600 | \$55,400 | \$49,250 | \$63,050 |
| 60% | \$40,140 | \$45,840 | \$51,600 | \$57,300 | \$61,920 | \$66,480 | \$59,100 | \$75,660 |
| 80% | \$53,520 | \$61,120 | \$68,800 | \$76,400 | \$82,560 | \$88,640 | \$78,800 | \$100,880 |

PROPOSED INCENTIVE

DCED is recommending a 15-year, net 59.5% (33% CPS PILOT, 7.5% VTICA Contribution) CRA tax exemption. The 7.5% VTICA contribution is to be for City-wide affordable housing initiatives. The exemption only applies to the increase in improvement value attributed to the construction. This recommendation is based on the following factors:

- The projects plan to replace long vacant and blighted parcels with a mixed-use, high-quality development within the neighborhood business district.
- Over 90% of the residential unit's rents are affordable to those earning between 100-120% area median income.
- In addition to the voluntary 30% SBE goal, the Developer's project-specific voluntary commitment of meeting the City's economic inclusion program goals of 17% MBE and 10% WBE participation.
- The Developers commitment that jobs created by the project will comply with the Living Wage Policy as reflected in CMC Chapter 317.

Pursuant to the Commercial CRA policy established by City Council, this project scored 5 points as indicated below which would merit a 6-year net 45% CRA Tax Abatement:

| | |
|---|----------|
| "But For" Analysis (0-3 points) * | 3 |
| LEED (0-6 points) | 2 |
| Neighborhood VTICA (1 point for contributions over 1% but less than 15% and 8 points for contributions of 15% or more) | 1 |
| TOTAL | 5 |

* *"But For" Analysis Explanation:* 3 points were awarded for the following reasons:

- Without the abatement, the projected return on equity is below 6% for the first 15 years following construction, which is not a reasonable investment for this project.
- DCED has determined that this project falls under the 'Undercapitalized Projects' category of the Policy as the project would not attract the equity needed to complete the project with a shorter term and percentage. Furthermore, significant investment is made in community enhancement and blight elimination.

| SUMMARY | |
|--|--------------------|
| Incentive Value | |
| Annual Net Abatement (Savings to Developer) | \$234,696 |
| Total Term Net Abatement (Savings to Developer) | \$3,520,447 |
| City's Portion of Property Taxes Forgone | \$831,484 |
| Public Benefit | |
| CPS PILOT | |
| Annual CPS Pilot | \$130,168 |
| Total Term CPS PILOT | \$1,952,517 |
| VTICA | |
| Annual VTICA | \$29,584 |
| Total Term VTICA PILOT | \$443,754 |
| Income Tax (Max) | \$475,200 |
| New Permanent Jobs | 17 |
| Total Public Benefit (CPS PILOT/VTICA PILOT/Income Tax) | \$2,871,470 |
| Total Public Benefit ROI | \$0.82 |
| City's ROI | \$3.45 |

| PROFORMA WITHOUT ABATEMENT (YEARS 1-15) | |
|--|--------------|
| Revenue | \$ 3,024,106 |
| Operating Expenses and Reserves | \$ 1,335,154 |
| Net Operating Income | \$ 1,688,952 |
| Debt Service | \$ 1,279,245 |
| Cash Flow After Debt Service | \$ 409,708 |
| Cash on Cash Return | 5.92% |

| PROFORMA WITH ABATEMENT (YEARS 1-15) | |
|---|--------------|
| Revenue | \$ 3,024,106 |
| Operating Expenses and Reserves | \$ 980,155 |
| Net Operating Income | \$ 2,043,951 |
| Debt Service | \$1,279,245 |
| Cash Flow After Debt Service | \$ 764,706 |
| Cash on Cash Return | 7.84% |

PROJECT TEAM & TIMELINE

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

- Assistant City Manager: William Weber
- DCED Director: Markiea Carter
- Project Attorney: Tim Lynch

The anticipated council timeline, which includes two Budget and Finance meetings if necessary is as follows:

- December 7, 2022: Introduction to City Council
- December 12, 2022: Budget and Finance (1)
- December 19, 2022: Budget and Finance (2)
- December 21, 2022: City Council for Final Approval

RECOMMENDATION

The Administration recommends approval of this Emergency Ordinance. This is an Emergency Ordinance so construction pricing can hold stable.

Attachment: A. Property location and photographs

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

Attachment A: Location and Photographs



Property Location



5984-5988 Lester Road and 6006-6026 Montgomery Road