



**516/550 E. 4<sup>th</sup> Street  
Fourth and Pike Apartments, LLC**

Net 52%, 15-year LEED CRA

Markiea Carter

# 516/550 E. 4<sup>th</sup> Street – Fourth and Pike Apartments, LLC

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## Address

516 E. 4<sup>th</sup> Street (AKA 550 E. 4<sup>th</sup> Street)

## Developer

Fourth and Pike Apartments, LLC

- Affiliated with Eagle Realty Group, the real estate subsidiary of Western & Southern Financial Group

## Neighborhood

Central Business District, Lytle Park Historic District

## Existing Condition

Existing 50-year-old building located above Lytle Tunnel.

- Building contains 22 units, 11 of which were occupied.

## Planned Investment

\$18,000,000 to remodel the existing 50-year-old building.



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## Developer Information

Fourth and Pike Apartments, LLC

- Affiliated with Eagle Realty Group (“Eagle”), the real estate subsidiary of Western & Southern Financial Group (“W&SFG”).

Eagle has **decades of experience developing properties in downtown Cincinnati.**

- Previous projects include:
  - The 1 million SF Queen City Square building,
  - The 30-unit Sixth & Race Apartments, and
  - The 134-suite extended stay hotel, The Phelps (Residence Inn by Marriott).

W&SFG has a **30+ year history of supporting affordable housing** and similar important city initiatives.

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### W&SFG's Cincinnati Community Investments

Over the past 30+ years, W&SFG has consistently been a major supporter of City initiatives, including:

- Affordable Housing Trust Fund – **\$5 million** (nearly 10% of the fund)
  - Largest private contributor (tied with Greater Cincinnati Foundation).
  - Provided via the Cincinnati Development Fund; 1% interest rate.
- Cincinnati Equity Fund – **\$1.1 million contribution** (2018), \$1.25 million contribution (1996)
  - Very low return investment to support downtown-area projects.
- Cincinnati Development Fund – **\$4 million contribution** to a low-interest loan pool to support inner-city projects (2011).
- Cincinnati New Markets Tax Credit Fund – **\$7.3 million contribution** (2005)
  - Second largest contributor.
  - Low return investment to support downtown-area projects.

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## W&SFG's Cincinnati Affordable Housing Development

- **Plans to help create affordable/workforce housing in Cincinnati** by working with local developers to advance such projects.
  - Projects include a Walnut Hills workforce housing project (60-80% AMI) in partnership with Urban Sites.
- Brackett Village Low-Income Housing (100 units, Over-the-Rhine)
- The Carthaginian Affordable Senior Housing (37 units, Carthage)

## W&SFG's Nationwide Affordable/Workforce Housing Development

- **Active in lending on properties that have affordable housing components**, including:
  - A current \$60 million loan on a 500+ unit apartment project near Memphis, TN that has a HUD use agreement for 30% of its units designated as affordable and rented to families under 80% of AMI, and with rents capped at 30% of income.
- Supported low-income housing through participation in over \$200 million of low-income housing tax credits in the past five years and nearly \$600 million over the past 25 years.

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### Project Summary

The Developer plans to remodel the existing 50-year-old building into **29 residential units and 1,700 square feet of ground-floor commercial space** at an estimated total project cost of \$18 million.

- The project will be constructed in compliance with **LEED Silver** standards.
  - Associated cost of over \$2 million.
  - Developer also achieved LEED Gold for Queen City Square and LEED Silver for the Lytle Park Hotel.
- The project will support the creation of **70 temporary construction jobs with \$5M in annual payroll**.
  - Approximately \$180,000 in income tax over two years.
- The project **increases the number of residential units** from 22 to 29.
  - Note, only 11 of the units were occupied due to issues with the existing building.



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## Planned Improvements to Existing Building

The project brings significant and necessary updates to a 50-year-old building, including:

- Completely **replace the heating and cooling system** with a highly energy-efficient system.
- Greatly **improve access for disabled individuals**.
  - The existing building was designed prior to ADA.
- **Add sprinklers/fire suppression** throughout the building and replace the fire alarm system.
- **Update the apartment floorplans** that currently have very small kitchens, bathrooms, and closets.
- **Add washer and dryer hookups** to the apartment units.
- **Replace all of the old windows** with energy-efficient ones and add windows for more daylight.
- Replace the **hard-to-operate balcony doors**.
- Replace all dated lighting fixtures with **LED lighting**.
- Redesign the dated and unattractive hallways.
- **Bring the building to current building standards**.
  - For example: balcony railings changed to required height.



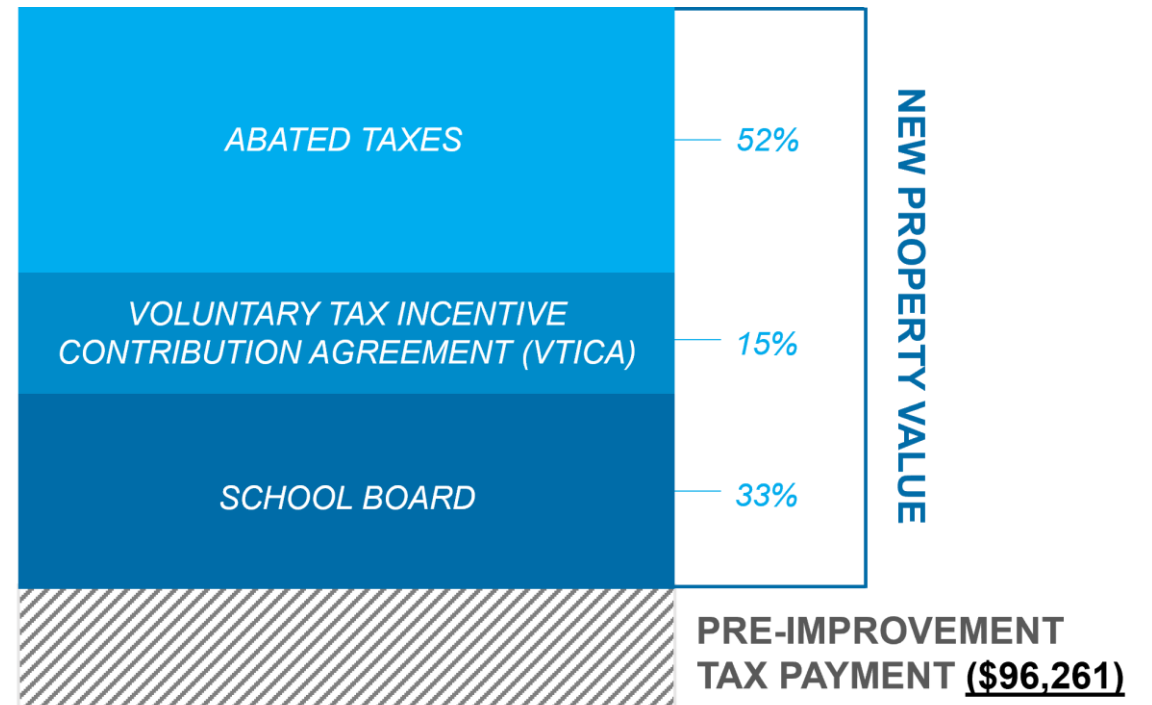
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### Recommended Incentive

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- 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 net 52%, 15-year tax exemption.
  - Please note this project is below the \$3 million threshold for the *Balanced Development Priorities* Rubric.
- With the renovation, the property will pay significantly more to local government, due to the large expected increase in property value.
- While the Administration has other incentive tools at its disposal, City Council's established policy encourages the Administration to consider tax abatements for LEED certified projects.





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## Underwriting/Gap Analysis

When considering whether to undergo development projects, **developers are seeking returns commensurate with the risks** they are taking. Throughout the lifespan of a project, developers are responsible for overruns, vacancies, increases to operating costs, stagnant rents, etc.

DCED's underwriting process includes the analysis of project specifics, as well as market factors **to determine whether a project as proposed would occur without incentive**. DCED considers the following (including, but not limited to), when underwriting a project:

- Rehabilitation and/or Construction Expenses
- Furniture, Fixtures, and Equipment Expenses
- Architectural and Engineering Fees
- Legal Fees
- Estimated Rental Income
- Vacancy Trends and Rates
- Operating Expenses
- Management Fees
- Real Estate Property Tax
- Insurance
- Advertising and Marketing Expenses

Please note that not all of the aforementioned items are applicable to all projects.

A project is determined to have financial need (aka a **“gap” exists**) when the **expected rate of return is less than the market rate of return** (based on similar projects within the market area).

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## Project Sources & Uses

USES OF FUNDS	
Renovation Costs	\$16,000,000
Permits	<i>Included above</i>
GCs/GRs/GC Fee	\$1,300,000
Renovation Cost Contingency	\$700,000
<b>Cost of Renovation Work</b>	<b>\$18,000,000</b>
Soft Costs	\$1,500,000
<b>Total Project Cost</b>	<b>\$19,500,000</b>

SOURCES OF FUNDS	
Owner Equity	\$19,500,000
Debt	None
Other	None
<b>Total Sources</b>	<b>\$19,500,000</b>

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## Project Need

Although current City Council Established 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, completed with assistance from a third-party consultant, 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.

## Project Proforma

PROFORMA WITHOUT ABATEMENT	
Revenue	\$1,451,040
Operating Expenses	\$633,400
Net Operating Income	\$817,640
Cash on Cash Return	4.2%

PROFORMA WITH ABATEMENT	
Revenue	\$1,451,040
Operating Expenses	\$472,877
Net Operating Income	\$978,163
Cash on Cash Return	5.0%

*Market Rate of Return: ~8%*

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### Income Tax Estimates

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).

#### POST-RENOVATION

Unit Type	# 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
<b>Total</b>	<b>29</b>			<b>\$4,583,000</b>	<b>\$82,494</b>	<b>\$1,237,410</b>

#### PRE-RENOVATION

	11	\$3,315	\$132,600	\$1,458,600	\$26,255	\$393,822
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*\* Please note that there were 22 units pre-renovation. However, only 11 were occupied.*

#### DIFFERENCE

	18			\$3,124,400	\$56,239	\$843,588
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## Benefits and Outcomes

<b>INCREMENTAL REVENUE</b>	<b>ANNUALLY</b>	<b>TERM OF ABATEMENT</b>
VTICA	\$46,305	\$694,571
Income Tax from Construction Jobs (est. 2 years)	\$90,000	\$180,000
Post-Renovation Residents Income*	\$56,239	\$843,588
<b>TOTAL</b>	<b>\$192,544</b>	<b>\$1,718,159</b>

*\*Assumes the newly created and occupied units will be occupied by residents that are new to the City. Revenue estimated based on assumption that each resident will spend 30% of their income on rent and utilities.*

<b>REVENUE REDUCTION DUE TO ABATEMENT</b>	<b>ANNUALLY</b>	<b>TERM OF ABATEMENT</b>
City Property Taxes Forgone*	\$43,382	\$650,727
<b>TOTAL</b>	<b>\$43,382</b>	<b>\$650,727</b>

*\*Based on estimated post-construction value of \$12,987,100.*

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## Inclusion

The Developer has agreed to use best efforts to achieve the City's goal of **30% SBE participation**, including:

- At least **7% MBE** participation (estimated \$1.26 million based on total project cost) and
- At least **7% WBE** participation (estimated \$1.26 million based on total project cost).

Absent an established City policy, recent projects have committed to the following inclusion goals:

- 2347 Reading – 30% SBE / 5% MBE / 7% WBE – \$8.4 million total project cost
- Macy's Corporate HQ Redevelopment – 30% SBE / 17% MBE / 10% WBE – \$72.8 million total project cost

The Developer has also agreed to adopt hiring practices to ensure that at least **25%** of the temporary construction jobs shall be **residents of the City**.

- This goal will be communicated to the General Contractor and subcontractors as they have hiring needs.
  - In the current hiring environment, all firms are looking for workers to fill positions.
  - The Developer has selected HGC as the General Contractor. HGC has a strong history with local hire.

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## Conclusion

- Project **result in a LEED Silver-certified building** that will add to the vibrancy and occupants to the neighborhood.
- Project **will create 7 more residential units in the City.**
  - An estimated increase of 18 more occupied units.
- Project **will result in significant public benefit**, including substantial contributions to the CPS PILOT, Streetcar VTICA, and City income tax.
- Project **will create significant opportunities for SBEs, MBEs, and WBEs.**
- Project has **demonstrated financial need** based on expected cash-on-cash return for projects in the CBD.



**Thank you!**

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