

June 21, 2021

To: Members of the Budget and Finance Committee

From: Paula Boggs Muething, City Manager *CB for PBM* 202102328

Subject: **PROPERTY SALE AND DEVELOPMENT FOR POSTE PHASE II**

Attached is an Emergency Ordinance captioned as follows:

AUTHORIZING the City Manager to execute a *Property Sale and Development Agreement* with 756 E McMillan, LLC, for the sale of City-owned property located at 750, 752, and 758 E. McMillan Street in the Walnut Hills neighborhood of Cincinnati, for a residential development project consisting of approximately 62 residential units, at an estimated project cost of \$10,508,310.

BACKGROUND/CURRENT CONDITIONS

Poste is a multi-million dollar mixed-use development in Walnut Hills being constructed by affiliates of Milhaus Development, LLC. The full Poste development is being constructed in two separate phases. Poste Phase I was completed and opened in 2020, consisting of approximately 124 apartment units and ground floor commercial space.

The current legislation is for the Poste Phase II development, which is being constructed by 756 E McMillan, LLC ("Developer") and has been in the planning stages for several years, having received City approval of a tax abatement in December 2019, and a zone change approval in early 2021. Poste Phase II will be built upon a mix of Developer-controlled properties and several City-owned properties at 750, 752, and 758 E. McMillan St, which were blighted properties acquired by the City in 2010 for redevelopment purposes.

DEVELOPER INFORMATION

The Developer is an affiliate of Milhaus Development, LLC, which is based in Indianapolis and specializes in urban infill, mixed-use, and multifamily residential buildings. Milhaus's local projects include Poste Phase I in Walnut Hills, the Gantry Apartments in Northside, and the Artistry development under construction near Yeatmen's Cove in the Central Business District.

PROJECT DESCRIPTION

The Developer proposes to construct two new multi-story apartment buildings with a total of 62 units and 60-70 parking spaces. These buildings will include frontage on the corner of E. McMillan St and Stanton Ave, as well as on Chatham St.

The apartments will consist of approximately 50% 1-bedroom units, 40% 2-bedroom units, and 10% studios. Initial rent projections show that all of the 1-bedroom and studio units would be affordable for households under 80% of area median income (AMI) while all of the 2-bedroom units would be affordable to households under 100% of AMI.

The total project cost will be approximately \$10.5 million, with a hard construction cost of approximately \$8 million. During construction, there will be approximately 55 workers employed on the job site representing \$2,200,000 in approximate payroll. The project will also result in the creation of approximately 3 permanent jobs representing \$150,000 in annual payroll.

The project is consistent with the Plan Cincinnati goal of “provid[ing] quality healthy housing for all income levels,” particularly the action step of “direct[ing] funding to develop more moderate and high-income rental and homeownership housing stock” (*Plan Cincinnati*, p. 165).

Cincinnati Planning Commission approved the sale of the Property at its meeting on June 4, 2021.

City Planning and the Developer conducted a public engagement meeting with Walnut Hills stakeholders following the City Manager’s Community Engagement Policy on June 1, 2021. A written summary of the engagement session can be found on City Planning’s website. The Developer has also conducted extensive engagement with the Walnut Hills Area Council, which has provided a letter of support.

PROPOSED INCENTIVE

The administration and the Developer have negotiated a Property Sale and Development Agreement (“PSDA”) which would allow the Phase II project to move forward. DCED is recommending the following two financial incentives as part of the PSDA terms, in addition to the previously approved commercial tax exemption:

Sale of Property Below Fair Market Value – The City would sell the .2-acre parcels of City property for \$1.00, which is a reduction from the fair market value of \$77,000 as determined by City appraisal. In recommending a sale to the Developer, the City would be waiving competition because, due to the City’s relatively small property holdings at the development site and due to the developer’s control of several

other adjacent properties, it would not be feasible for anyone but the Developer to successfully develop the City owned property.

Waiver of Phase I Incentive Recoupment Payment – The City would agree to waive a possible future payment obligation to the City, the amount of which would be based upon the proceeds from a sale of Poste Phase I. The amount of the waived payment is unknown because it would depend on the Phase I sale price, but could range from \$0 to approximately \$1.16 MM.

Commercial CRA Tax Exemption – City Council previously approved a 12-year, net 60% CRA tax abatement for the project, which also included a 15% Neighborhood VTICA.

The reason for the subsidy is to close a financing gap. DCED's underwriting shows that the Project is not economically feasible without these incentives, due in part to the need to perform environmental and geotechnical remediation to make the properties buildable, including the City-owned parcels, and also due to industry-wide increases in the cost of construction due to material costs and labor shortages.

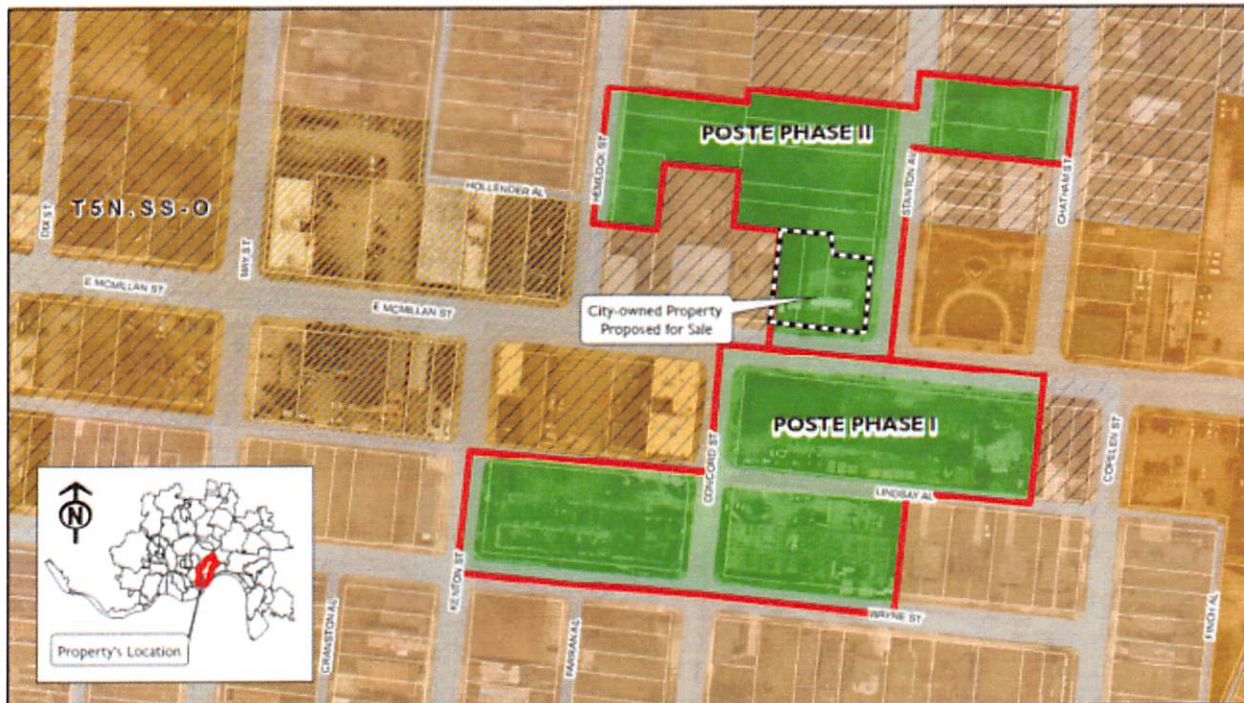
RECOMMENDATION

The Administration recommends approval of this Emergency Ordinance. The emergency clause is needed in order for the developer to meet pre-development requirements, including deadlines for exercising purchase options for privately owned properties.

Attachment: A. Property Location and Site Plan

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

Attachment A: Property Location and Site Plan



Property Location



Rendering: Poste Phase I (left) and Poste Phase II (right)