



CITY OF DETROIT
LAW DEPARTMENT

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To: Hon. City Council
Fr: C. Raimi, deputy corporation counsel *CNR*
Cc: Arthur Jemison, Pam Parrish, David Massaron
Re: Fort Shelby – 550 W. Fort St
Dt: September 27, 2019

The purpose of this memorandum is to provide City Council with the reasons for the administration's recommendation to allow demolition to proceed at 550 W. Fort. Supporting documents are attached.

BACKGROUND

In 2007, the City made an \$18mm HUD 108 loan to assist the developer (MCP) in financing renovations for the Fort Shelby Hotel. The City is in 2d position behind a roughly \$18 mm loan by GRS for the hotel. The entire principle balance on both the City and GRS hotel loans (plus interest on the City loan) remain due and owing. The GRS loan, which has been extended several times, comes due in November 2019. GRS provided a separate loan for the residential (condominium) units that are part of the Fort Shelby project. Sales of those units, and payment of the GRS loan, have been impeded by the parking issue discussed below.

THE 550 W. FORT ISSUE

MCP has for many years owned an adjoining property at 550 W. Fort. At all times since MCP first presented the project to the City in 2006, MCP has planned to demolish the building on the property and use it for parking for the condominiums. The City was fully aware of the developer's intentions. 550 W. Fort is adjacent to but is not now and never has been an historic district.

MCP has advised that demolishing the building is critical to the project to create parking for condominium owners. This would not be a public lot – it would be enclosed and landscaped for use by the owners.

MCP applied for and was granted a permit in December 2018 to demolish the building. MCP had arranged to pick up the permit after the holiday break. At the

City's request, MCP voluntarily held up on demolition pending discussions with the City's planning department. The administration was concerned about another parking lot in the City.

Ultimately, after many months, Planning suggested that the front 1/3 of the building could be saved with the rear portion used for condo parking. The author of this memo, who had not previously been involved with the 550 West Fort issue (rather, only the HUD 108 issue) was asked to analyze and provide a recommendation for the proposal.

There were fatal problems with the proposal. It would still leave a number of condos with no on-site parking. Further, attempting to save 1/3 of the building would result in significant additional costs estimated to be in excess of \$3 million.

Assuming it was possible to save 1/3 of the building that would leave, under the most optimistic scenario, about 9,000 rentable square feet. MCP, in consultation with CBRE, Colliers, and Cushman & Wakefield's downtown office leasing brokers, put together a financial analysis of the remaining property. The analysis concludes the remaining building would not be financially viable.

It has been assumed that the \$3+ million in additional costs would be paid by the City, which would then obtain title to the remaining one-third of the building. But there is no apparent source for such funding and, as mentioned, it appears the building would not be financially viable.

More recently, Planning suggested yet another approach which would cost roughly \$1.7 million but would not allow MCP to provide parking to many condo owners, including many who already have purchased their unit with an easement for on-site parking. That is not a feasible or realistic proposal.

The stalemate over 550 W. Fort has now stalled progress for almost a year on GRS obtaining payment of both the condo and hotel loans, and the City's to work out the HUD 108 loan. MCP has been adversely affected. It has not been able to provide on-site parking for many owners who purchased their units with on-site parking. Lawsuits have been threatened. MCP has been paying thousands of dollars every month for valet service.

Finally, MCP has considered the possibility, if financing were available, of erecting a structure on the 550 W. Fort site with retail on the ground floor and

parking above. Attempting to save all or some part of the building would foreclose that possibility.

It was for the foregoing reasons that Law recommended, and the administration agreed, to allow MCP to proceed with demolition of 550 W. Fort.

550 Fort Street

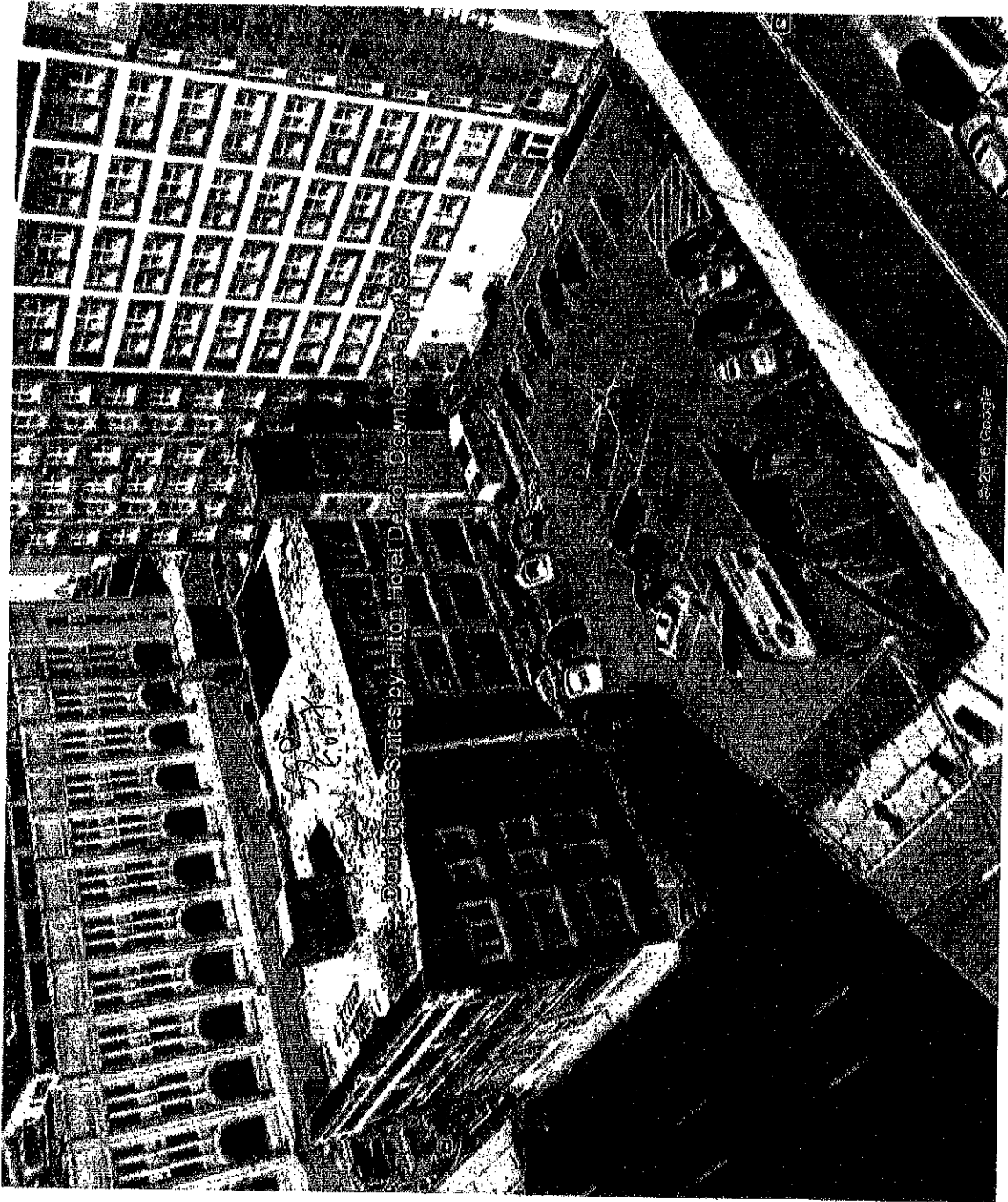
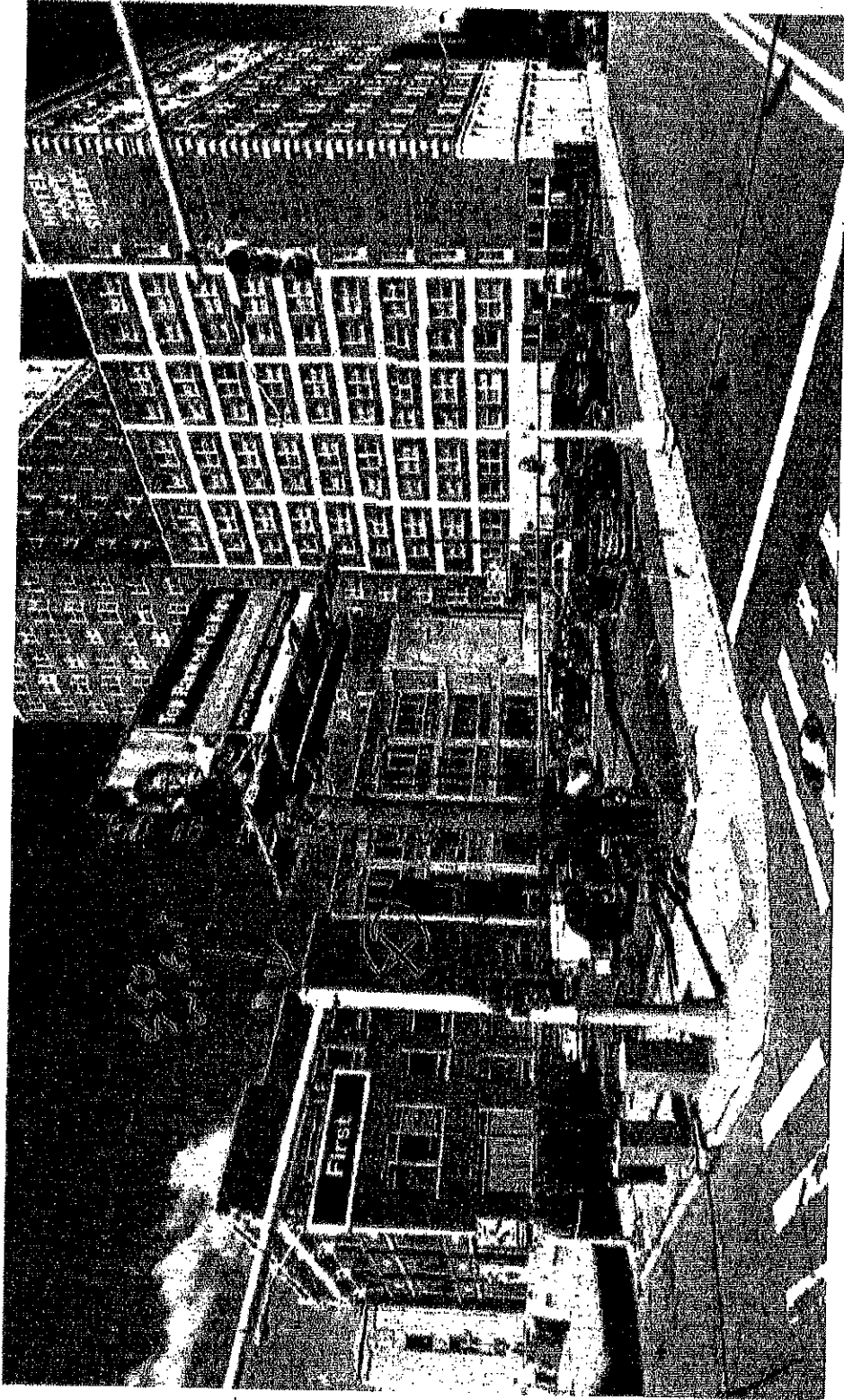


EXHIBIT
Σx.1

550 Fort Street



550 Fort Street



SEPTEMBER 6, 2019 MEMO
FROM FT. SHELBY DEVELOPER RE HISTORY OF THE PROJECT

I am providing a summary of the history of the original 2006 plan to remove the 550 Fort Street Building and provide a private, landscaped, secured parking area providing only 56 parking spaces for the 56 condominium owners of the Fort Shelby residences which are on the upper floors of the 550 Lafayette Blvd. Hotel/Condominium building. This is not a surface parking lot for public parking and is restricted to only Condominium owners. Each space (1 for each owner) is in essence Deeded to each condominium purchaser via a perpetual easement. This was our original presentation to the City and the GRS to obtain approval for the entire project which in turn the sales of the condominiums result in the payoff of the GRS first Mortgage Loan.

We originally designed a parking garage that we anticipate building on the surface parking area at some future point in time that will further enhance the entire residential, hotel properties, and neighborhood. Without the removal of the 550 building this future development will not be feasible.

I have attached the ADAMO and Ram Construction services proposals and the Adamo includes several aerials of the parking lot and building that show the demo and remaining portion of the building. Also attached are the photos of the building and current parking lot which show the issue of lack of parking for condominiums.



550 FORT STREET ANALYSIS

MCP is in the process of converting the Fort Shelby Residences to luxury condominiums that require one parking space per unit. The 550 Fort Street building was contemplated to be demolished at the time of the \$95 million redevelopment of the Fort Shelby Hotel and Residences, restoring the historically significant structure in an elegant hotel and conference facility. MCP, following through with their original plans to provide the required parking for the Fort Shelby Residence, submitted for a demolition permit to demolish the 550 Fort Street building and provide the parking required for these buyers. The Historic District Commission, in an advisory capacity, recommended against the demolition, even though the building does not appear on any historic register, and it was always intended to be replaced with parking.

MCP maintains that it is not economically feasible and is detrimental to the sale of the condos to not fully demolish this building, which proceeds are being used to retire the General Retirement System ("GRS") debt, and the refusal of the permit is and will cause severe hardship to the project, the GRS and the City.

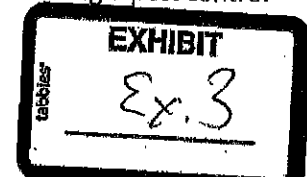
The City has asked MCP to provide an economic analysis of the cost impact to retain 1/3 of 550 Fort Street in lieu of its full demolition. The following is a summary of the cost that is required for the condominium sales and expenses to bring the 550 West Fort building to a safe condition. **The total cost of \$3,037,000 is required as a cash payment prior to commencement of demolition.** Please also note that any reduction in the condominium sales pricing will require GRS approval.

SUMMARY ESTIMATE

Fort Shelby Parking Requirement	56 spaces
Total Parking Spaces Provided	44 spaces
<i>lose - keep 1/3 of bldg -> have 44 spaces</i>	
The loss of 12 parking spaces will negatively impact 12 condidium units requiring a reduction in their purchase price. We are also bound by the terms of our loan documents that include a minimum sales price of the condos that we are obligated to meet. These obligations, as well as the negative impact on the sale of these units, would result in a required cash reimbursement of \$80,000/unit	\$960,000
Partial demolition of 550 Fort - premium cost increase for partial demo	\$200,000
Reconstruction of the back wall and restoration of the front façade	\$432,000
Bring 550 Fort to life safety standards in AS-IS condition (i.e. bring utilities back to building, sprinkler system, heat to prevent freezing sprinkler lines, emergency lighting, windows and roofing to ensure watertight.	\$320,000
Convert to Office Space	\$1,125,000
Restricts future development opportunities	TBD
Total Incremental Cash Required	\$3,037,000

See attached

The intention would be to turn the building over to the City, who would then be responsible for maintaining the exterior, heating system to prevent the sprinkler lines from freezing, and establishing a pest control program.





RAM[®]

CONSTRUCTION SERVICES

March 20, 2019

Gateway Investment Partners
160 North Franklin Street
Suite 160
Chicago, Illinois 60606

Attention: Ms. Pamela L. Opyd
popyd@gatewayadvisorsllc.com

Re: 550 West Fort Street
Three (3) Story Office Building
Exterior Façade Restoration and
New Masonry Back Wall

Dear Ms. Opyd:

In answer to your request, after the demolition of the rear section (*approximately two thirds 2/3*) has been completed; we will complete the following work to the remaining one third (*1/3*) of the building.

Below is our proposed scope of work:

- Dispatch manlifts and a suspended scaffold.
- On the south, east and west elevations we shall complete the following necessary required repairs:
 - Necessary Tuckpointing
 - Necessary Concrete Repairs
 - Necessary Brick Repair
 - Underside Soffit Repair
 - Necessary Terracotta Repair
 - Patching and Epoxy Coating
 - Exterior Cleaning
- On the rear (*north wall*) we will construct a masonry block back-up wall covered with a face brick closely matching the existing. Masonry block will be reinforced and grouted. Face brick will be anchored to the masonry block.

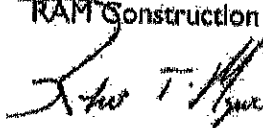
- Clean-up and removal of all equipment.

A budget number for all of the above discussed work is\$431,560.00

If you have any questions, please feel free to contact me.

Very truly yours,

RAM Construction Services of Michigan, Inc.



Robert T. Mazur
President
RTM/19-025

550 FORT STREET Renovation Analysis

Renovation Budget			
Acquisition Price			
Partial Demolition		200,000	
Reconstruction of Back Wall		432,000	
Life Safety, Util, Roof, Etc.		320,000	
Renovation Costs		1,125,000	
Tenant Imp. Allowance		360,000	
Leasing Commissions		74,250	
Total Renovation Costs		2,311,250	
	<i>Cost Per Square Foot</i>		<i>279</i>

Property Cash Flow			
Gross Rent	3,000 GSF	\$22.00 /GSF	198,000
Less: Vacancy & Other Losses		5.0%	(9,900)
Less: Insurance & Other Expenses			(22,500)
Less: Real Estate Taxes			(45,000)
Net Operating Income - Stabilized			120,600
Less: Capital Reserves			(9,000)
Cash Flow			111,600
	<i>Return on Investment/Cost</i>		<i>4.4%</i>

Valuation			
Net Operating Income - Stabilized			120,600
Cap Rate		8.0%	
Gross Stabilized Value			1,507,500
Less: Cost of Sale		2.0%	(30,150)
Net Value Created/Realized			1,477,350
	<i>Value Per Square Foot</i>		<i>164</i>

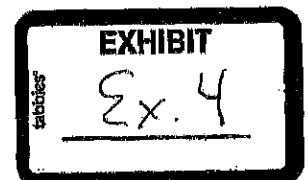
► **Low Annual Return** - Redevelopment of the 550 Fort Street building is not economically feasible. The cost is approximately \$2.5 million with a stabilized NOI of \$130k. This results in a 4.4% return on investment in an environment where the expectation is 8% to 11% for Detroit CBD office properties.

► **Cost Greater Than Value** - The stabilized value created is approximately \$1.5 million resulting in more than a \$1.0 million loss for the City. This presumes an 8.0% cap rate and a successful lease up which is not guaranteed given the current competition in this neighborhood and given the small floors and lack of dedicated parking space for the office space.

► **Lost Opportunity** - If we don't follow the original Fort Shelby redevelopment plan for the private parking area for the condominium residents, we will not be able to redevelop the parking area into a parking garage which could include street activation with retail and potentially a multifamily or commercial building above the parking garage given the small remaining footprint.

► **Lost Value in Condominiums** - If 550 Fort Street were only partially demolished, the condominiums would be 12 parking spaces short. The condominiums without dedicated parking would be greatly diminished in value and would sell very slowly. These sales proceeds are needed in order to pay back the General Retirement System of Detroit.

MCP DEVELOPMENT LLC FORT SHELBY LLC





550 FORT STREET Renovation Analysis - 10 Year Hold

Property Description	Renovation Budget	Operating Assumptions
Current GSF	30,000	
Clearcut GSF	21,000	
Peak Renovation GSF	9,000	
Net Rentable SF	9,000	
100% efficient		
0		
5 year term	2,511,250	
3279 /GSF		
280,000		
482,000		
320,000		
1,125,000		
360,000		
74,250		
30.0%		
12 months		
25.00 /GSF		
25.00 /GSF		
55.00 /GSF		
50.0%		

	EOY 1	EOY 2	EOY 3	EOY 4	EOY 5	EOY 6	EOY 7	EOY 8	EOY 9	EOY 10
REVENUE										
Base Rent - Tenant 1	56,000	67,320	68,666	70,040	71,441	72,866	74,315	75,788	77,285	78,806
Base Rent - Tenant 2	33,000	66,660	67,993	69,358	70,740	72,139	73,555	74,988	76,437	77,901
Base Rent - Tenant 3										
Vacancy & Other Losses	(4,950)	(10,965)	(10,266)	(10,472)	(10,681)	(10,891)	(11,101)	(11,311)	(11,521)	(11,731)
Total Net Revenue	84,050	122,915	126,393	129,918	133,490	137,114	140,789	144,515	148,292	152,115
Occupancy	50%	100%	100%	100%	100%	67%	85%	100%	100%	100%
OPERATING EXPENSES										
Insurance & Other Expenses*	22,500	22,950	23,409	23,877	24,355	24,842	25,339	25,845	26,362	26,890
Rental Estate Taxes	45,000	46,125	47,278	48,460	49,672	50,913	52,184	53,491	54,828	56,199
Total Operating Expenses	67,500	69,075	70,687	72,337	74,027	75,755	77,523	79,336	81,190	83,089
Net Operating Income	16,550	53,840	55,706	57,581	59,463	60,362	63,266	65,179	67,102	69,026
CAPITAL EXPENSES										
Leasing Commissions						27,326	55,745			
Tenant Improvements						16,561	33,785			
Capital Reserve	9,000	9,180	9,364	9,551	9,742	9,937	10,135	10,338	10,545	10,756
Total Capital Expenses	9,000	9,180	9,364	9,551	9,742	9,937	10,135	10,338	10,545	10,756
Cash Flow Before Debt Service	17,550	112,980	115,009	117,073	119,172	9,390	3,528	131,014	133,367	135,760
Debt Service										
Cash Flow After Debt Service	17,550	112,980	115,009	117,073	119,172	9,390	3,528	131,014	133,367	135,760
Cash on Cash	0.7%	4.3%	4.6%	4.7%	4.7%	0.6%	0.1%	5.2%	5.6%	5.6%
Rolling Average CoC	0.7%	2.6%	3.3%	3.6%	3.8%	3.3%	2.8%	3.1%	3.4%	3.6%

Initial Investment	(2,511,250)
Cash Flow	1,890,717
Salvage Proceeds	1,966,478
IRR	1.0%

* Includes CAM & CA electric