



Item Number: {{item.number}}



CITY OF GRAND RAPIDS

AGENDA ACTION REQUEST

DATE: November 12, 2024

TO: Mark Washington, City Manager

COMMITTEE: City Commission Meeting

LIAISON: N/A

FROM: Sarah Rainero, Economic Development Director
Economic Development

SUBJECT: **Public hearing to consider a Transformational Brownfield Plan for the Fulton and Market Redevelopment Project at 3, 17, 21, 37, 41, 45, 47, 53, and 63 Market Avenue SW, and 216 Fulton Street W**

On Tuesday, November 12, at 2:00 p.m., the City Commission will hold a public hearing to consider a Transformational Brownfield Plan filed by Fulmar Property Holdings, LLC ("FPH") for a large-scale, mixed-used redevelopment project to be located on numerous existing parcels of property, including, 3, 17, 21, 37, 41, 45, 47, 53, and 63 Market Avenue SW, and 216 Fulton Street W. The included parcels are generally bounded by Fulton Street W to the North, Market Avenue SW to the East, US-131 to the South, and the Grand River to the East (collectively, the "F&M Site"). In total, the ten parcels included in the TBP are approximately 6.9 acres, and include the former Charley's Crab restaurant site, surface parking lots, and other vacant land. FPH has been working collaboratively with various entities, including the Grand Rapids Downtown Development Authority (DDA) and its advisory board, Downtown Grand Rapids, Inc. ("DGRI"), among others, on the overall development effort described below. The TBP was reviewed and recommended by the Grand Rapids Brownfield Redevelopment Authority (BRA) at its meeting on October 16, 2024.

The overall vision includes the construction of three high-rise towers on the site, an office tower, residential tower, and hotel-condominium tower (collectively, the "F&M Project"). The F&M project is expected to include 671 residential units, 2,510 parking spaces, 130 hotel rooms, and approximately 37,880 square feet of retail and commercial space. Additionally, the project will include approximately 68,200 square feet of promenade area, which will be privately owned and operated, but open to the public. FPH has also agreed to provide and dedicate public access easements along the Grand River waterfront to allow for public access and recreation, including the continued development of the

riverfront trail. FPH and the City will work collaboratively to finalize the terms of the easements as the designs of the riverfront trail and F&M Project progress.

Due to the size and complexity of this Project, a competitive Request for Qualifications (RFQ) followed by a Request for Proposal (RFP) process to identify a development partner that has experience and a portfolio of mixed-use projects of this scale. The RFP process is underway, and a final Developer will be selected prior to Michigan Strategic Fund consideration of the project.

Office Tower (Fall 2025 – Fall 2027)

The office tower will be constructed on the South end of the F&M Project, bound by the residential tower to the North, Market Avenue SW to the East, the Grand River to the West, and US-131 to the South. The office tower will replace an existing surface parking lot on the site of the former Charley’s Crab restaurant, which was demolished in 2024. As proposed, the office tower will be a 21-story building with a total gross square footage of approximately 916,400, which includes parking, which includes 1,297 parking spaces. The building will be constructed on top of the parking podium, which will be dedicated to eight (8) floors of parking. The remaining thirteen (13) floors will be mostly occupied by a single-tenant office user, who will use approximately 420,000 square feet of space, including 18,000 square feet of executive offices on the 21st floor. Approximately 21,000 square feet of retail is also contemplated on the first floor of the building, along with 10,900 square feet of common space.

The estimated investment in this portion of the project is approximately \$275 million with construction costs of \$210.5 million. It is anticipated to result in 1,725 permanent jobs located on site, which include office, retail, and property management jobs, with average hourly wages of \$41.27.

The table below provides a description of the TBP incentives applicable to this portion of the project. Approximately \$218.8 million of performance-based incentives could be available based on the current projections, including approximately \$55.6 million from local property taxes.

Office Tower Incentive	Time Period	Number of Years	Estimated Exemption or Reimbursement
<i>Transformational Brownfield Incentives</i>			
<i>Sales and Use Tax Exemption</i>	2025 - 2027	3	\$ 6,062,725
<i>Construction Period Income Tax</i>	2025 - 2027	3	4,652,299
<i>Income Tax Capture</i>	N/A	0	-
<i>Sales Tax Capture</i>	2027 - 2046	20	9,210,923
<i>Withholding Tax Capture</i>	2027 - 2046	20	90,189,752
<i>Traditional Brownfield Incentives</i>			
Local Property Tax Capture	2027 - 2056	30	55,617,398
State Property Tax Capture	2027 - 2056	30	53,015,468
Grand Total			\$ 218,748,565

Residential Tower (Spring 2026 – Summer 2029)

The residential tower will be the center development on the F&M Project, bounded by the hotel tower to the North, Market Avenue SW to the East, the Grand River to the West, and the office tower to the South. This tower will also be constructed on an existing surface parking lot and will be constructed on the same six (6) story parking podium shared with the hotel tower. The residential tower is planned to be 43 stories totaling approximately 668,320 gross square feet, including parking. The parking podium will have approximately 723 dedicated parking spaces to the residential tower.

It is anticipated that the building will include up to 595 residential units, which will include a mixture of studio (118), one-bedroom (350), two-bedroom (117), and three-bedroom (10) units. Based on current estimates, all of the units will be rented to households earning at or below 150% of the Area Median Income (AMI). According to the Housing Needs Assessment (HNA) completed by Bowen National Research in 2022, the need for rental housing in the price range of 121% and higher represents the highest rental housing gap across the City of Grand Rapids. The HNA estimates a total of 2,300 units in this price range will be needed by 2027 to keep up with demand.

At 2024 rental and AMI rates, the projection for each type of unit is shown below for the residential tower.

Residential Tower Housing Projections				
Unit Type	Avg Sq Ft	# of Units	Avg AMI Range	Avg Monthly Rent
Studio	450	118	150%	\$ 2,643
1 Bedroom	740	350	150%	2,833
2 Bedroom	1,250	117	150%	3,401
3 Bedroom	1,800	10	150%	3,928
Total		595		

The development will also include 35,698 square feet of common area, and 16,880 square feet of ground-level retail.

The estimated investment in this portion of the project is approximately \$329 million with construction costs of \$267 million. It is anticipated to result in the creation of 61 permanent jobs, which include retail and property management jobs, with average hourly wages of \$23.08.

The table below provides a description of the TBP incentives applicable to this portion of the project. A development partner is yet to be identified but could be eligible to assume the benefit of the incentives described. Approximately \$222 million of performance-based incentives could be available based on current projections, including approximately \$32 million from local property taxes.

<i>Residential Tower Incentive</i>	<i>Time Period</i>	<i>Number of Years</i>	<i>Estimated Exemption or Reimbursement</i>
<u><i>Transformational Brownfield Incentives</i></u>			
<i>Sales and Use Tax Exemption</i>	2027 - 2029	3	\$ 8,302,802
<i>Construction Period Income Tax</i>	2027 - 2029	3	5,891,839
<i>Income Tax Capture</i>	2029 - 2048	20	113,536,256
<i>Sales Tax Capture</i>	2029 - 2048	20	7,812,632
<i>Withholding Tax Capture</i>	2029 - 2048	20	1,551,626
<u><i>Traditional Brownfield Incentives</i></u>			
<i>Local Property Tax Capture</i>	2029 - 2058	30	32,079,199
<i>State Property Tax Capture</i>	2029 - 2058	30	36,356,677
<u><i>Local and State Tax Abatement</i></u>			
<i>Neighborhood Ent Zone - City Portion</i>	2029 - 2043	15	3,328,577
<i>Neighborhood Ent Zone - Non-City</i>	2029 - 2043	15	13,452,215
<i>Grand Total</i>			\$ 222,311,823

Hotel/Condominium Tower (Spring 2026 – Summer 2029)

The hotel tower will be developed on the north end of the F&M Project, bounded by Fulton Street W to the North, Market Avenue SW to the East, and the Grand River to the West. The building will replace an existing surface parking lot. The hotel tower is expected to be 27-stories with a total gross square footage of approximately 406,698, including parking. The hotel tower will include up to 130 hotel keys and 76 owner-occupied luxury condominiums, which will occupy the top floors of the building. The building will be constructed on a six (6) story parking podium to be shared with the residential tower and will have up to 490 dedicated parking spaces to the hotel tower.

The condos will be a mixture of two and three-bedroom units, and although sales prices are currently unknown, it is estimated these units will be sold to households earning at or above 121%+ of AMI. The HNA identifies this price point as the second highest gap for for-sale residential units, with an estimated need of 1,524 by 2027.

The estimated investment in this portion of the project is approximately \$194 million with construction costs of \$158 million. It is anticipated to result in the creation of 155 permanent jobs, which include hotel and residential property management jobs, with average hourly wages of \$28.14.

The table below provides a description of the TBP incentives applicable to this portion of the project. A development partner is yet to be identified but could be eligible to assume the benefit of the incentives described. Approximately \$146 million of performance-based incentives could be available based on current projections, including approximately \$42 million from local property taxes.

<i>Hotel/Condo Tower Incentive</i>	<i>Time Period</i>	<i>Number of Years</i>	<i>Estimated Exemption or Reimbursement</i>
<i><u>Transformational Brownfield Incentives</u></i>			
<i>Sales and Use Tax Exemption</i>	2027 - 2029	3	\$ 5,258,005
<i>Construction Period Income Tax</i>	2027 - 2029	3	3,496,101
<i>Income Tax Capture</i>	2029 - 2048	20	23,006,761
<i>Sales Tax Capture</i>	2029 - 2048	20	36,011,290
<i>Withholding Tax Capture</i>	2029 - 2048	20	4,907,457
<i><u>Traditional Brownfield Incentives</u></i>			
<i>Local Property Tax Capture</i>	2029 - 2058	30	42,114,177
<i>State Property Tax Capture</i>	2029 - 2058	30	26,495,232
<i><u>Local and State Tax Abatement</u></i>			
<i>Commercial Redevelopment - City Portion</i>	2029 - 2040	12	1,124,314
<i>Commercial Redevelopment - Non-City</i>	2029 - 2040	12	4,461,609
<i>Grand Total</i>			\$ 146,874,946

Transformational Brownfield Plan Program

The F&M Project meets the requirements of the TBP, which is an enhanced level of incentive available under the Brownfield Redevelopment Finance Act, Act 381 of 1996. In addition to meeting the qualifications for the traditional brownfield program, a TBP project in Grand Rapids must have a total investment of greater than \$100 million and be expected to have a “transformational impact on local economic development and community revitalization based on the extent of brownfield redevelopment, growth in population, commercial activity and employment that will result from the plan.” The project must also contain a mix of uses including some combination of retail, office, residential and/or hotel. The combination of projects will clearly have a transformational impact, converting property that is currently vacant or surface parking, to dense, multiuse redevelopments that will provide retail, office, housing, and hospitality space on nearly seven (7) acres of land in downtown Grand Rapids. Total investment in the projects will be just over \$797 million and result in the creation of up to 1,941 new jobs and 671 new housing units.

The enhanced incentive provided by the TBP designation is derived from incremental state income and sales taxes as well as state sales tax exemptions on construction material procured for the construction of the project and are detailed below.

Additional Tax Increment Revenues under a TBP

1. *Construction Period Income Tax Capture*
 - a. State Income Tax of employees building the project
2. *Construction Period Sales and Use Tax Exemption*
 - a. Avoided cost of State Sales Tax on construction materials
3. *Sales Tax Capture*
 - a. Sales tax generated from commercial uses at the project sites
4. *Income Tax Capture*
 - a. State Income Tax of residents living at the project
5. *Withholding Tax Capture*
 - a. State Income Tax of employees located at the project

Both the property tax increment revenues and the state income tax income revenues enumerated above may be used to reimburse the eligible costs related to the project, and under the TBP program, eligible activities include both traditional brownfield program eligible costs, such as demolition, environmental remediation, site preparation, and ramped parking, but also include construction, restoration, alteration and renovation or improvement of buildings.

The estimated TBP eligible activity costs associated with the projects that would be eligible for reimbursement far exceed the amount of TBP tax capture that would be available, and the recommended amount to be approved for reimbursement from future tax increment revenues generated by the projects will be subject to underwriting analysis and approval from the Michigan Strategic Fund. Considering all three project components described above, total eligible costs are estimated to be \$797 million, of which \$565.5 million is estimated to be reimbursed utilizing all TBP resources based on current projections.

The BRA and City of Grand Rapids have additional responsibility and obligations under the TBP program, including determining that the project meets the requirements of the TBP program, and approving and implementing an affordable housing agreement as defined below. The administration of the income tax increment revenues is done by the state, and staff will administer the property tax increment capture as with all other brownfield projects.

Affordable Housing Strategy

Staff have worked with FPH to leverage the state income and withholding tax capture to financially offset an affordable component for the project. Without a binding affordable housing agreement, a TBP may capture 50% of the Income and Withholding Income Tax Increment Revenues; however, if a binding agreement detailing how the project provides for below-market rate housing is entered into between the local unit of government and the developer, up to 100% of those revenues may be captured. Due to project costs and available financing, the capture of 100% of income and withholding tax is required for project financial feasibility.

Staff expect that affordable housing agreements will be signed that would be binding upon any future ownership or development entity that would participate in development of the housing components of the overall project. FPH has proposed a commitment of \$8.5 million in a contribution to the City's Affordable Housing Fund over a period of twenty (20) years. This proposed commitment is derived from taking 6.5% of the expected state income tax capture from the apartments in the residential tower and the condominiums in the hotel tower. The City will continue to evaluate this commitment against the need and desire for affordable housing as a development partner is selected and the project components are solidified. Staff expects this could have the benefit of providing investment in affordable homeownership instead of or in addition to investments in affordable rental units. This approach would provide the opportunity for the City to leverage the TBP program in collaboration with the future identified developers to support additional affordable and/or attainable housing in the City.

Approach to the Inclusion Plan

The F&M Project has an estimated total project cost of just over \$797 million, of which, just over \$635 million are construction costs. Additionally, the F&M Project is expected to have approximately \$117 million of professional services costs. Since a development partner and general contractor have not been selected, FPH has worked to submit an Inclusion Plan that sets high-level goals for M/W/MLBE sub-contractor participation in the project. The table below highlights these aspirational goals for construction and professional services costs. The aspirational goals for the F&M Project represent more than \$31 million of participation from M/W/MLBE firms.

	Construction		Professional Services	
Total Cost*	\$ 635,304,939	100%	\$ 117,051,571	100%
MBE Target	-	0.0%	-	0.0%
WBE Target	-	0.0%	-	0.0%
MLBE Target	-	0.0%	-	0.0%
Total Target	\$ 29,857,644	4.7%	\$ 1,170,516	1.0%

As subsequent components of the project are further refined and have a developer identified, additional Inclusion Plans will be submitted to document the specific goals for each unique project.

Additional Incentives

The residential tower meets the requirements for the Neighborhood Enterprise Zone (NEZ) exemption, which may be considered by the City as the project develops further. Based on projections, the NEZ could provide up to \$16.7 million of tax savings for the residential tower over a period of 15 years. Additionally, the hotel tower meets the requirements of the Commercial Redevelopment Act (CRA) with an estimated tax savings of \$5.5 million over a period of 12 years.

These tax exemptions are a critical component of the financial structure for the projects and are a balance between tax capture (i.e. reimbursement) and tax exemption.

Additionally, FPH has received approval from the DDA for a tax increment revenue (TIR) passthrough for 75% of the DDA's available TIR, which will now be capturable by the BRA and reimbursable to FPH. The DDA will retain the remaining 25% of its available TIR to continue projects supporting its goals and objectives.

Community Engagement Efforts and Timeline

FPH has started engagement efforts with several entities near and around the F&M Project and have scheduled engagement meetings with the following entities: Heartside Business Association, Heartside Neighborhood Association, Downtown Neighborhood Network, and Plaza Towers. The community engagement is expected to take place in the months of October and November and is anticipated to be completed prior to the City Commission public hearing. Additionally, FPH has conducted outreach to community stakeholders, including the Grand Rapids Chamber, Hispanic Chamber, Experience Grand Rapids, City of Grand Rapids Administration, Kent County Administration, Grand Action, The Rapid, the Convention and Arena Authority, DGRI, the Right Place and various elected officials.

Project Overview and Next Steps

The development team is targeting the start of construction on the office tower in the fall of 2025. The TBP is substantially complete, and staff expects to present the plan to the

City Commission for consideration of approval in December following the public hearing. All components of the project will still require site plan approval, which has not been obtained to date.

A summary of each revenue stream for the overall development is described in the table below, including a maximum total of eligible activities of \$565.5 million, of which \$129.8 is estimated for local property tax capture.

<i>Grand Total</i>	<i>Time Period</i>	<i>Number of Years</i>	<i>Estimated Exemption or Reimbursement</i>
<u>Transformational Brownfield Incentives</u>			
<i>Sales and Use Tax Exemption</i>	2026 - 2027	2	\$ 19,623,532
<i>Construction Period Income Tax</i>	2026 - 2027	2	14,040,239
<i>Income Tax Capture</i>	2028 - 2047	20	136,543,017
<i>Sales Tax Capture</i>	2028 - 2047	20	53,034,845
<i>Withholding Tax Capture</i>	2028 - 2047	20	96,648,835
TOTAL TRANSFORMATIONAL BROWNFIELD INCENTIVE			\$ 319,890,468
<u>Traditional Brownfield Incentives</u>			
<i>Local Property Tax Capture</i>	2029 - 2058	30	129,810,774
<i>State Property Tax Capture</i>	2029 - 2058	30	115,867,377
TOTAL TRADITIONAL BROWNFIELD INCENTIVE			\$ 245,678,151
Grand Total of Brownfield Incentives			\$ 565,568,619
<u>Local and State Tax Abatement</u>			
<i>Neighborhood Ent Zone - City Portion</i>	2029 - 2043	15	3,328,577
<i>Neighborhood Ent Zone - Non-City</i>	2029 - 2043	15	13,452,215
TOTAL NEZ TAXES ABATED VALUE			\$ 16,780,792
<u>Local and State Tax Abatement</u>			
<i>Commercial Redevelopment - City Portion</i>	2029 - 2040	12	1,124,314
<i>Commercial Redevelopment - Non-City</i>	2029 - 2040	12	4,461,609
TOTAL CRA TAXES ABATED VALUE			\$ 5,585,923
Grand Total of All Incentives			\$ 587,935,334

Attachment

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DEPARTMENT OF LAW