Solving the Blight Problem in Ohio Downtowns

Turning Building Owners into Developers

The key to downtown development is to interrupt the cycle of disinvestment and create economically viable buildings.

Columbus Savings and Trust Building

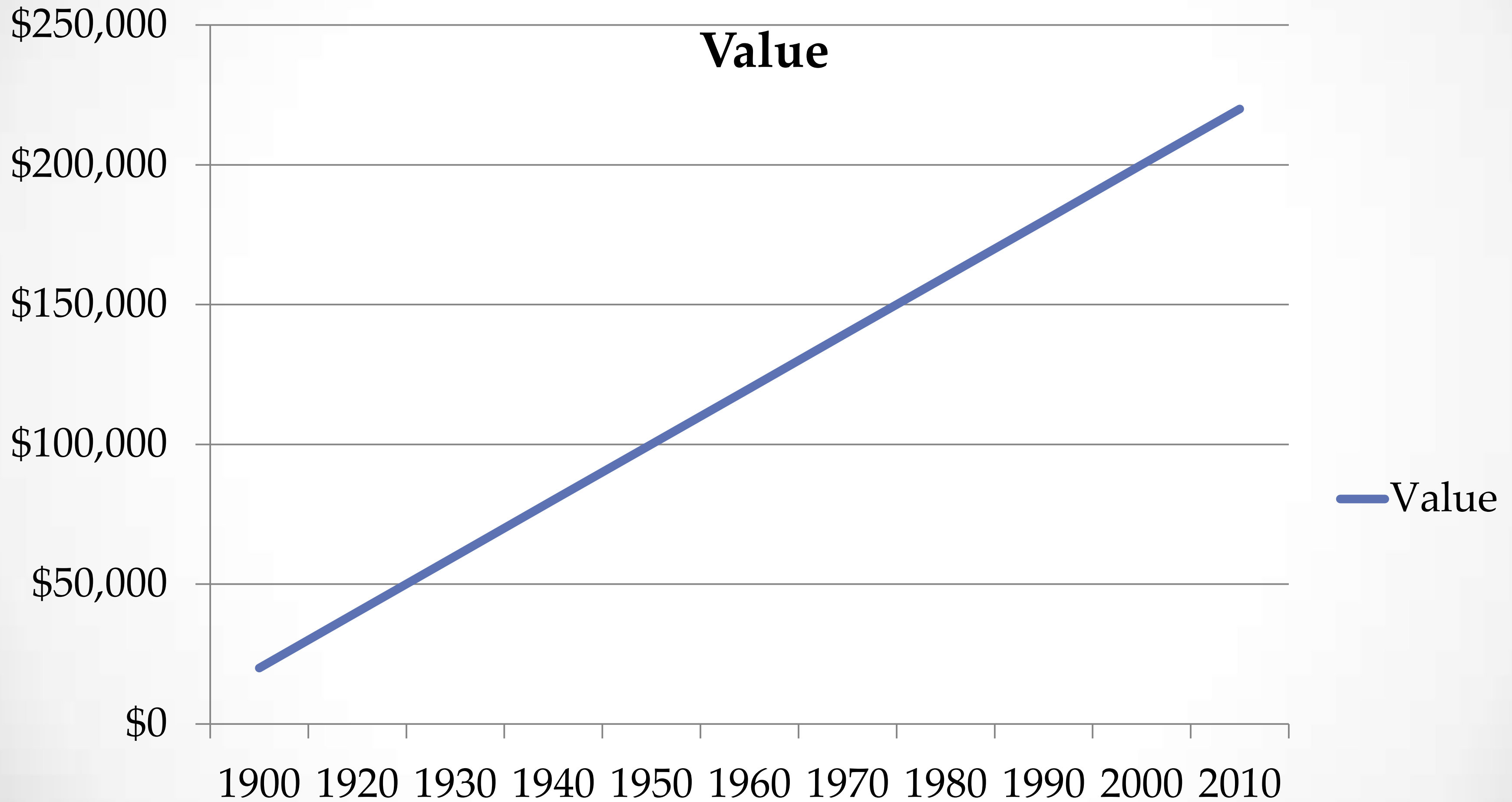
How did we get here?

- Many of Ohio's Downtowns developed in the late 1800s – early 1900s
- Buildings were developed and owned locally
- Buildings were built to specific standards which created design consistency
- In Ohio, most downtown buildings were multi-use with a mix of commercial, retail and residential
- In time, communities did not uphold design restrictions, resulting in inappropriate treatments of facades and interiors

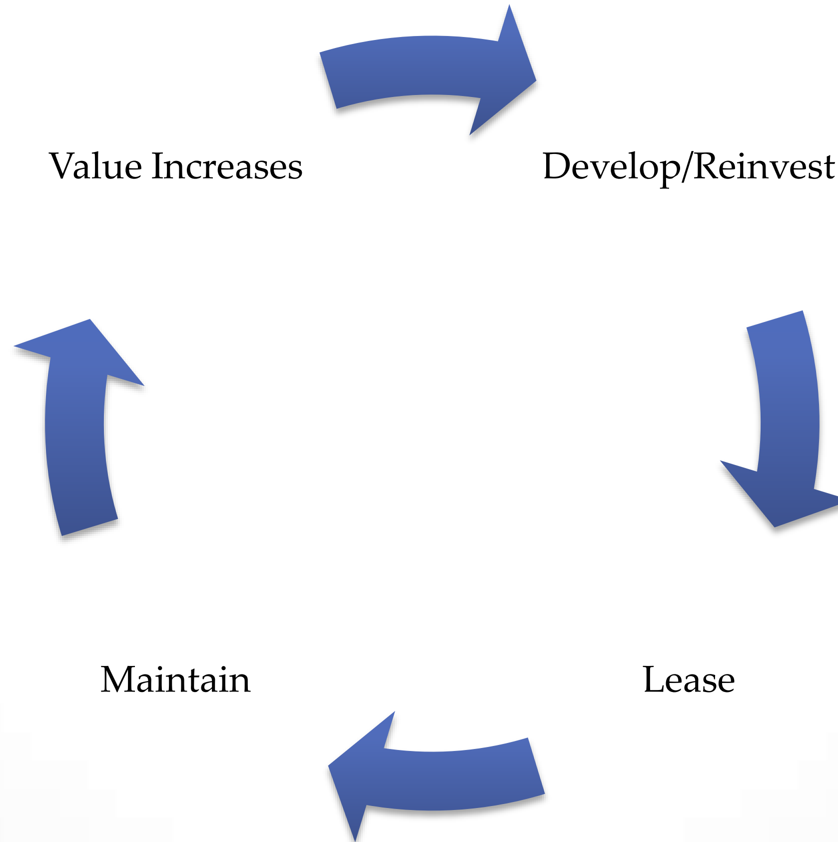
Unfortunate Policies

- Development trends that hurt downtown
  - "NEW" is better
  - Mall development and commercial strips
  - Green field development on the edge of town for certain types of uses
  - Highway system and suburban development
- Buildings inherited by multiple children, sold to owners out of town, seen as investment opportunities (and in some cases as a tax write off)
- These policies lead to the CYCLE OF DISINVESTMENT
- A Developer INTERRUPTS that cycle

Time Value Proposition



Real Estate Life Cycle



The Cycle is Broken

- When one property owner breaks the cycle, the district retains value and the cycle continues
- In many cities, a majority of the property owners stop investing and maintaining and the district breaks the real estate life cycle

The Cost of Vacancy

- Municipalities cant afford vacancy
- Vacancies reduce property values
- Vacancies don't generate income tax
- Vacancies don't generate sales tax
- Vacancies reduce civic pride
- Vacancies discourage additional business development
- Vacancies deter tourism

Developers Dilemma

Figure 1

Pro-Forma Summary :
Hypothetical Residential Subdivision

Project Revenues	
Number of Units	50
Average Sale Per Unit	$ 400,000
Gross Sales	$ 20,000,000
Less Commissions, Fees	- $ 800,000
Net Project Revenues	**$ 19,200,000**
Project Costs	
Land Acquisition	$ 2,575,000
Planning, Design & Approvals	$ 600,000
Sitework & Building Construction	$ 12,175,000
Amenities, Off-Site Costs	$ 100,000
Management & Overhead	$ 1,760,500
Total Project Costs	**$ 17,210,500**
Net Cash Flow Before Financing	**$ 1,989,500**
Financing Interest	**$ 1,102,400**
Net Cash Flow to Developer	**$ 887,100**
Cash Investment	$ 1,020,600
Total Cash-On-Cash Return	86.9 %
Annualized Cash-On-Cash Return	**19.9 %**
Internal Rate of Return	**22.4 %**

Developers Dilemma

- The cost to renovate is relatively fixed, but in a depressed downtown, the lease rates do not generate enough revenue to cover the debt
- Depending on the physical state of the building, even healthy lease rates may not cover the full investment of returning the building to an economically viable state

Pro Forma

Purchase Price
Improvement Costs
Acquisition Costs
Mortgage Rate
Mortgage Period
Down Payment
Annual Appreciation
Monthly Income
Occupancy Rate
Annual Income % Increase
Annual Operating Expenses
Annual Op. Exp. % Increase
Annual Rental % Increase
Property Tax Rate
Total Investment Cost
Monthly Mortgage Payment
Annual Mortgage Payment
Mortgage Principle
Loan Value Ratio
Tax Assessor Value
Annual Property Taxes
Debt Coverage Ratio
Gross Rent Multiplier
Percent Down
Internal Rate of Return
Net Op. Income (Year 10)
Cap Rate (Year 10)
Cash on Cash (Sale-Year 10)

Year	Year 1	Year 2	Year 3
Operating Income			
Operating Expenses			
Net Operating Income			
Mortgage Years Remaining			
Beginning Mortgage Balance			
Mortgage Interest			
Mortgage Payment			
Ending Mortgage Balance			
Equity			
Net Income			
Sum Net Income			
Sales Price			
Profit (Before Taxes)			
Data for IRR Calculation			

Know the Number

- What is the difference between the cost to renovate a building and the revenue the building will generate?
- What incentives/financing can be used to bridge the gap?
- The property owner must know the number
- City leaders must know the number

How to Bridge the Gap

- Tax abatements
- Tax credits
- Low interest loans
- Grants
- Neighborhood Assistance Program

Local Government's Role

- If the cost to renovate the building is not covered by the amount of income the renovation will produce, Local Government can step in with incentives and gap financing
- If the incentives available are not enough to bridge the gap, a more creative solution is needed
    - Attract additional local equity
    - Local Gov't can negotiate lower rates on utilities and services
    - Example: Over the Rhine in Cincinnati
- Remove risk, reduce cost

Return on Investment

- Municipalities are wise to invest in urban mixed use projects
- These projects generate greater sustainable return on investment than strip commercial development
- These projects impact the heart of the whole community
- Once the properties are returned to the cycle of investment, the city no longer has to intercede
- The tax base will grow and the city will recover the expense of investment

When Incentives Don’t Work

- Municipalities have to be willing to take the “stick approach” when property owners are not willing to maintain their buildings and incentives don’t work
- Make it fiscally painful for property owners to allow buildings to become blighted
- Vacant property registries should be considered
- Aggressive code enforcement
- Demolition by neglect/ minimum maintenance ordinances

The Results

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