

The Kales Building Rehabilitation Project

The Building

The Kales Building was built in 1914 as the original headquarters of the Kresge Company, the forerunner of the Troy-based Kmart Corporation. The building, located at Adams and Park in downtown Detroit, was designed by renowned Detroit architect Albert Kahn. The 18-story structure housed the Kresge offices for sixteen years, and later medical offices, before being completely abandoned in 1986. As with many vacant buildings in the city of Detroit, most companies in the Kales Building moved their operations to new facilities outside the city, contributing to a pattern of urban sprawl in Southeast Michigan. The city of Detroit alone lost approximately 17.5% of its population while its immediate suburbs grew by 4.1% (130,000 people) between 1980 and 1994. In addition, the Kales Building was eventually left tax delinquent and subsequently its taxes reverted to the City of Detroit. A common situation in Detroit, many abandoned properties fall into disrepair, become tax delinquent and evolve into a blighted state that can have devaluing effects on the delinquent properties and the properties that are proximate to them.



The Project

Ferlito Construction, along with 10 area partners, will begin a \$12.5-million renovation of the 114,000 square foot building in early 2004. **Greater Downtown Partnership**, a non-profit planning group in Detroit, oversaw the \$100,000 sale of the building to Ferlito, which was further approved by the Detroit City Council. **Mansur Real Estate Services, Inc.** of Indianapolis will oversee the leasing of the planned 85 residential lofts. The expected market for the 85 residential lofts includes educated, young urbanites and empty nesters seeking an alternative to suburban life. There may also be a lease-to-buy program available in which the renter/owner would agree to rent the apartment for five years and then purchase the apartment as a condominium after the five-year term. In addition, service retailers will be placed on the first floor of the structure and approximately 7000 square feet of office space will be offered for lease. Along with the residential and retail space, roughly 150 jobs in fields such as construction, retail, property management, maintenance, and security are expected to be created through this redevelopment, and are expected to increase the income tax base for the City of Detroit

The local architecture firm **BVH Architecture, Inc.** will carry out the design work for the renovation and **AKT Peerless Environmental Services**, another Detroit area firm, will provide Brownfield Management Services and oversee environmental compliance and assessment activities during the renovation. Other partners in the project include **Chevron TCI, Inc.**; the **Detroit Investment Fund**, which was created by the business leadership group Detroit Renaissance to encourage growth; **Detroit's Downtown Development Authority**, which is part of the Detroit Economic Growth Corporation; the **Lower Woodward Housing Investment Fund**, a private initiative created to stimulate investment in the lower Woodward Avenue district; and **Munimae Midland Construction Finance, LLC**.

Incentive Programs

AKT Peerless Environmental Services was selected to support the project team and identify Brownfield and other incentive programs necessary to offset the massive costs to renovate and redevelop the property. The program incentives selected for this project have been provided under the Brownfield Redevelopment Financing Act (PA 145 of 2000), and are as follows:

- Brownfield Redevelopment Single Business Tax Credit - equal to 10% of the cost to rehabilitate the building up to a maximum of **\$1 million dollars** for this project. This incentive is available under the Single Business Tax Act (PA 143 of 2000).
- Obsolete Property Rehabilitation District - will allow the Kales building to be taxed at its pre rehabilitation taxable value for up to 12 years. The estimated value of the abatement over the full 12 years that the taxable value will be frozen is between **\$2-\$3 million dollars**. This incentive is available under the Obsolete Property Rehabilitation Act (PA 146 of 2000).

In total, Brownfield financial incentives secured for this project could be as high as **\$4 million dollars or nearly 25% of the overall project costs**.

Community Benefits

The Kales building is currently vacant, blighted and considered a public nuisance.

Benefits of this rehabilitation project include:

- Rehabilitation of a vacant blighted building in the City of Detroit.
- Promotion of continued investment in the City of Detroit.
- Correlation with the City of Detroit's community development plan.
- Rehabilitation of a historic structure in the Grand Circus Park Historic District.
- Creation a new income tax base for the city through the creation of jobs in retail, property management, maintenance, and building security.
- Increased taxable value of the property being redeveloped.
- Meets the increasingly high demand for residential housing in downtown Detroit

In addition to providing community benefits, this project also meets the goals of the Southeast Michigan Sustainable Business Forum (SMSBF) Land Use Work Group in encouraging the redevelopment and reuse of urban land in Southeast Michigan. This project promotes the awareness of smart growth practices while serving as an example for future redevelopment projects.

