

**Cleveland Citywide Development Corporation
Board of Trustees
Executive Summary
May 15, 2019**

Project Name: nuCLEus
Borrower: Gateway Huron LLC and/or Designee (Stark Enterprises)
Councilperson/Ward: Councilman McCormack/Ward 3
City Assistance: \$12,000,000 Forgivable Loan
Non-School TIF
Presented by: David Ebersole/Richard Barga
Project Site: Gateway Lots (E. 4th & Prospect)



Project Description

The Gateway lots, located at the corner of E. 4th and Prospect, have long been an underutilized area for downtown Cleveland. As surface lots, these parcels created a gap in the urban fabric and broke up the vitality of the connection between the strong and growing assets at E. 4th Street & Euclid Avenue and the huge draws of Progressive Field & Quicken Loans Arena.

Gateway Huron, LLC, an affiliate of Stark Enterprises, has acquired these lots to launch Project NuCLEus, a truly transformative development that will change the

face of the Gateway District and leverage this key location. Their proposed mixed-use development will be an attraction for shoppers, workers, and residents in itself and a strong compliment to the existing assets in downtown. In addition to the large surface lots at E. 4th and Prospect, the development site also encompasses neighboring outdated parking garages to the east and a small building on Prospect Avenue adjacent to the site. The project includes a large amount of Class A office space which is critically needed in downtown Cleveland.

The initial development proposes to construct 277 residential rental units, approximately 400,000 sf of gross commercial office, 77,820 square feet of national credit tenant retail, approximately and 1,350 parking spaces, and pedestrian oriented infrastructure improvements. The project proposes to construct two towers on top of retail and parking, topping out at 24 stories, on the surface parking lot on the corner of E. 4th Street and Prospect that will straddle the East 6th walkway, creating two structures at ground level, that are connected above via the garage. Additionally, the development proposes substantial improvements to the E. 6th Street walkway, creating a “Laneway” modeled on successful retail developments in Melbourne, Australia. It is anticipated that as many as 1,000 individuals could be employed at the project site.

Estimated Sources and Uses

SOURCES		USES	
Private Debt (Inc. TIF*)	\$ 213,125,000	Construction	\$ 234,730,000
Equity	\$ 100,400,000	Soft Costs	\$ 92,425,000
City of Cleveland	\$ 12,000,000	Land Costs	\$ 26,730,000
City of Cleveland VPI	\$ 360,000		
Cuyahoga County	\$ 6,000,000		
State of Ohio	\$ 6,000,000		
Subordinate Loans	\$ 16,000,000		
TOTAL	\$ 353,885,000	TOTAL	\$ 353,885,000

Proposed City Assistance

Forgivable Loan Terms

- Amount: \$12M
- Interest Rate: 0%
- Term: All Principal & Interest terms will be deferred until the completion of the project.
 - Construction Period Term: The construction period will run for 36 months following closing.
 - Initial Lease-up Term: The initial lease-up term will run from the end of the Construction Period Term until December 31 of that year.
 - Occupancy Term: 246 months (20.5 years) – The Occupancy Term will begin on January 1 following the expiration of the Initial Lease-up Term and will .
- Collateral:

- Loan & Revenue Guaranty (per terms below)
- Guaranties:
 - Personal: Bob Stark
 - Guaranty will be structured as follows:
 - The revenue guaranty will begin on January 1 of the year following 36 months from closing (i.e. if closed in August 2019, the guaranty will begin for the calendar year 2023) and will run for a period of 20 years.
 - The City shall generate a combined income and parking taxes equivalent to 110% of its costs of funds for the project (i.e. \$13,200,000 to cover a \$12,000,000 outlay), inclusive of income tax related to construction.
 - The City shall generate a minimum of \$700,000 in annual revenues above the current revenues generated by the proposed project lead tenants (Benesch & Stark Enterprises) & parking revenues - \$1,797,500 for the guaranty period.
 - The Guarantor shall make up any revenue shortfalls on an annual basis.
- Forgiveness terms:
 - \$2,000,000 of the loan will be forgiven upon completion of the project.
 - \$500,000 of the loan will be forgiven in each year following the completion of the project, provided that the project meets the annual tax revenue requirement and/or the Guarantor meets the annual guaranty requirement.
 - Forgiveness shall occur by June 30 of each year, for the year ending the previous December 31.

Project Financing Status

- **Construction Loan:**
 - Currently in final underwriting with Key & Huntington as joint lenders
 - Intent is to syndicate the loan: interested syndicators include 5/3, First National, PNC, US Bank, CIBC, and Chemical.
- **Equity**
 - Primary equity contributions from Stark & J-DEK Investments (including \$15,000,000 already invested)
 - Three private investment groups who have committed up to \$20,000,000 each for the project
 - Additional equity will be raised from private capital and institutional markets
- **Cuyahoga County Grant:** Legislation being introduced by Cuyahoga County Council.
- **State/JobOhio Financing:** Final offer pending
- **Subordinate Loans:** Currently in underwriting with CDA (\$6,000,000) and OWDA (\$10,000,000)

NOTE: A Non-School TIF (estimated \$19,000,000 value) and two VPI Forgivable Loans (\$180,000 each) were authorized in 2014.

Financial Analysis

The project yields a thin margin for substantial real estate development. Projects of this scale are truly national in scope, making returns and marketability more challenging than in most scenarios. However, Bob Stark is viewing this as a legacy project and is drawing on his network of substantial equity and development partners to secure the necessary participation.

Director Ebersole has reviewed the project with the lead manager for both Huntington and Key Banks. They both indicated that the banks are comfortable with the debt and equity positions, as well as the development team's ability to execute on the project. Both banks indicated that they are prepared to complete their syndication and take the loans to market upon approval of the public financing.

Economic Impact

The statistics show that this building is necessary at this point in time. Class A office is in critical demand and office space throughout the CBD is below 16% vacancy, the lowest in 17 years (Newmark Knight Frank). Almost 6 million square feet of Class B and lower office space has been converted to residential and mixed-use space since 2013. In order to reach the goal of 30,000+ downtown Cleveland residents by 2030, new residential units will be required. The residential market remains tight with vacancy rates steady and lease-ups in new capacity still strong.

- Project will retain/create 1,000+ jobs in the City, in addition to new residential, retail, and much-needed parking
- Estimated \$3,300,000 annual income tax revenue from retained and new jobs.
- Estimated annual parking tax revenue of \$480,000.
- Development of a longstanding vacant parking lot in a critical location in the City
- Promotion of access to fresh, healthy and affordable food in a transit-oriented development

Fees

- Forgivable Loan Fee: \$120,000
- Non-School TIF Fee: \$95,000
- VPI Loan Fees: \$7,200

City Requirements

- Project is subject to Chapter 187: MBE/FBE/CSB requirements
- Project is subject to Chapter 188: Fannie Lewis Cleveland Resident Employment Law
- Project is subject to a Workforce Development Agreement
- Project is subject to Davis-Bacon prevailing wage requirements

CCDC Board of Trustees

Request approval of the City assistance outlined above, as presented.