



August 31, 2022

Bryan Myrkle  
City of Charlotte  
Community Development Director  
Charlotte City Hall  
111 E. Lawrence Avenue  
Charlotte, MI 48813

Re: Payment in Lieu of Taxes (“PILOT”) Proposal  
Butternut Creek – 100 Butternut Drive, Charlotte, MI (the “Property”)

Mr. Myrkle:

On behalf of Related Affordable, we are pleased to present for your review the following PILOT Proposal for an existing affordable property in Charlotte named Butternut Creek (the “Property”).

Butternut Creek is a 100-unit multifamily residential apartment complex located at 100 Butternut Drive. It operates as an income-restricted affordable housing property serving both families and seniors. Specifically, it operates under a project-based Housing Assistance Payments Contract (“HAP”) with the Department of Housing and Urban Development (“HUD”), which covers all 100 units at the Property and ensures that tenants pay no more than 30% of their household incomes on rent. The Property is also encumbered by an existing regulatory agreement which restricts all units to households earning 60% of AMI or less. However, the Property’s initial 15-year compliance period under that regulatory agreement expires in 2023 and the Property’s HAP contract expires in 2030, which means the long-term affordability of the property could be at risk in the near future if not preserved and extended.

Related Affordable, an affiliate of the current owner, is seeking to recapitalize the Property, preserve and extend its affordability, and complete extensive renovations in excess of \$5.5 million of hard costs (approximately \$45,500 per unit). The Property was constructed in 1979 and last rehabilitated nearly 15 years ago in 2008. Many of the site’s existing components are original and at risk of obsolescence if they are not repaired or replaced in the near future. We believe that this renovation will significantly improve the aesthetic and curb appeal of the property, extend the useful life of critical building systems, and improve the lives of residents.

We are planning to finance the proposed redevelopment with new tax-exempt bonds (issued by the Michigan State Housing Development Authority) and equity from the sale of 4% LIHTC. As a requirement of the federal LIHTC program, and in the spirit of Related Affordable’s mission to acquire and preserve the nation’s existing affordable housing stock, we would enter into brand new long-term regulatory agreements that would restrict 100% of the Property’s units at 60% of

AMI for the next 30 years. We would also extend the existing HAP contract for a period of 20 years from closing, the longest term allowed by HUD. ***By virtue of extending the HAP contract and entering into new Bond and LIHTC regulatory agreements, our proposed project will ensure that this at-risk housing resource remains affordable for at least the next 30 years while also receiving significant capital upgrades.***

As you may imagine, the current environment of rapidly increasing construction costs and rising interest rates poses significant challenges in financing the preservation of existing affordable housing. Entering into an agreement that provides for predictable future property tax payments would go a long way towards making this project financially feasible. Without such an agreement, we are unsure if we will be able to successfully finance, renovate, and stabilize the redevelopment. Therefore, we are proposing to enter into a new PILOT Agreement with the City of Charlotte with the following key attributes:

- A fixed annual Payment In Lieu of Taxes set at 8% of net annual shelter rent, with the initial payment estimated to be approximately \$104,000 (nearly \$10,000 greater than current taxes)
- A 30-year term

Additional details about the planned renovations, including a draft scope of work, is attached as *Exhibit A*.

Without a PILOT Agreement, the uncertainty around future taxes, particularly with the significant investment that will be put into the Property as part of the planned renovations, will limit the resources that we can bring to the redevelopment. By providing confidence in this area, we can obtain all of the financing required to accomplish our renovation goals and truly transform Butternut Creek while preserving and extending affordability for this critical housing resource. As long-term owners and preservers of affordable housing, we are hopeful that the City and Related Affordable can establish an agreement for the future benefit of the Property, its residents, and the surrounding community

We look forward to meeting with you and answering any questions you may have about the Property and our proposal. In the interim, we are happy to answer any questions and can be reached by email at [Zack.Simmons@Related.com](mailto:Zack.Simmons@Related.com) or by phone at 212-401-7658

Sincerely,

*Zack Simmons*  
Senior Vice President, Related Affordable

## **EXHIBIT A – RENOVATION DETAILS & DRAFT SCOPE OF WORK**

The preliminary rehab scope of work includes an investment of approximately \$45,500 per unit, or approximately \$5.6 million total, in construction contract and hard cost contingency costs. The preliminary proposed scope of work includes renovation to 100% of units to include vanities, cabinets, showers, toilets, counters, sinks, painting, flooring, doors, windows, air conditioning units, and lighting. The proposed scope of work also includes building and site improvements, such as common area and elevator upgrades, roofing, windows, landscaping, lighting, parking and sidewalk repairs, and sump pump installation. Finally, the renovation scope includes the installation of water- and energy-efficient fixtures and appliances. Related Affordable anticipates up to a 15% reduction in utility consumption for ongoing operations as a result of the renovation.

It is anticipated that the renovation work would take approximately 12 months to complete. The project is currently occupied and is planned to remain livable throughout the construction project. There will be no permanent displacement of residents. It is anticipated that residents will need to be out of their apartments temporarily while their apartment is under renovation. Management will work with residents to identify optimal accommodations for residents while their apartment is under renovation, such as a nearby hotel rooms or on-site hotel units if available, and the temporary relocation costs will be covered by the proposed owner.

**Butternut Creek****Proposed Scope/Budget**

<b>Item</b>	<b>Quantity</b>	<b>Unit Cost</b>	<b>Sub-Total</b>
<b>Bathrooms</b>			
Vanity	150	689.00	<b>103,350.00</b>
Medicine Cabinet	150	177.00	<b>26,550.00</b>
Showervalue, head and diverter	100	3,000.00	<b>300,000.00</b>
Toilet Replacement	150	631.00	<b>94,650.00</b>
New GFI Outlet	150	139.00	<b>20,850.00</b>
Lighting upgrade	150	112.00	<b>16,800.00</b>
<b>Kitchens</b>			
Cabinet Replacements	100	3,900.00	<b>390,000.00</b>
Counters	100	1,054.00	<b>105,400.00</b>
Refrigerators-EnergyStar	100	984.00	<b>98,400.00</b>
Stoves-EnergyStar	100	667.36	<b>66,736.00</b>
Range Hood	100	219.20	<b>21,920.00</b>
Lighting Replacement	100	197.00	<b>19,700.00</b>
New GFI Outlet	100	132.00	<b>13,200.00</b>
Sinks-stainless steel sink	100	354.00	<b>35,400.00</b>
Faucets-single lever	100	255.00	<b>25,500.00</b>
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<b>General Interior (BR/LR/DR)</b>			
ADA Work	5	35,000.00	<b>175,000.00</b>
Painting	100	2,000.00	<b>200,000.00</b>
Flooring - LVT	100	6,000.00	<b>600,000.00</b>
Door Hardware	100	395.00	<b>39,500.00</b>
Interior Doors	75	1,800.00	<b>135,000.00</b>
Common Lighting/Outlets/Switches	100	1,550.00	<b>155,000.00</b>
Furnaces/Magic Paks	50	5,500.00	<b>275,000.00</b>
Window Treatment	100	256.00	<b>25,600.00</b>
<b>Common Areas</b>			
Community Room, Gym, Office, Laundry Re-dec	1	100,000.00	<b>100,000.00</b>
Common Hallway - lighting, carpet, paint	3	75,000.00	<b>225,000.00</b>
Elevator	1	150,000.00	<b>150,000.00</b>
<b>Building Envelope</b>			
Roofing	42,913	5.00	<b>214,565.00</b>
Windows	230	885.94	<b>203,767.00</b>
Patio Doors	100	2,200.00	<b>220,000.00</b>
Siding Repairs	137	6.00	<b>820.80</b>
Soffits, Gutters, and Leaders	228	20.00	<b>4,560.00</b>
Brick Repairs	LS	50,000.00	<b>50,000.00</b>
<b>Site Improvements</b>			
Landscaping	Allow	75,000.00	<b>75,000.00</b>
Lighting	Allow	20,000.00	<b>20,000.00</b>
Storm Drain inlets	Allow	50,000.00	<b>50,000.00</b>
Parking Lot-Repair Fill Pot Holes - Top Coat	Allow	125,000.00	<b>125,000.00</b>

Concrete-repair damaged walks and curbs	Allow	75,000.00	<b>75,000.00</b>
Sump Pumps	6	15,000.00	<b>90,000.00</b>
<b>TOTAL</b>	<b>100</b>	<b>45,472.69</b>	<b>4,547,268.80</b>
<b>Cost Breakdown</b>			
		Per Unit (100)	
<b>Units</b>		29,435.56	<b>2,943,556.00</b>
<b>Common Areas</b>		4,750.00	<b>475,000.00</b>
<b>Site Improvements</b>		4,350.00	<b>435,000.00</b>
<b>Building Envelope</b>		6,937.13	<b>693,712.80</b>
<b>Full Rehabilitation Budget</b>			
<b>Hard Costs</b>			
General Conditions (5%)			<b>227,363.44</b>
Overhead (2%)			<b>95,492.64</b>
Profit (6%)			<b>272,836.13</b>
<b>GC Contract Total</b>			<b>5,142,961.01</b>