

MONARCH BUILDING

Covington, KY

KENTON COUNTY

2.28.2020



SUBJECT PROPERTY

103-107 and 111-113 East 4th Street

- Contains approximately 10,000 square feet “as is”
- Is an architecturally and historically significant building – on National Historic Register
- Is strategically located in vicinity of significant public and private investments in Roebling Point Area as well as sites yet to be developed

Madison Place

RiverCenter

1NKY

County Building

Bradford

The Yard

Boone Block Lofts

Liberty's & Stephen Gould





PROJECT HISTORY

An Underutilized Property Since 2000

- Originally built to house a telephone company then occupied by Monarch Tool Company
- Briefly part of Covington Square portfolio
- Acquired by Nick Stone in 2010 who developed residential uses in the building
- Stone sold part of building to Skyline LLC in 2017 who planned to develop the building into office space if a tenant could be secured and into apartments if a tenant could not be secured; Skyline was unsuccessful in securing an office user
- Monarch LLC (Applicant) purchased the building in 2019 with plan to convert building to an office building
- Applicant secured an LOI with Regis (Corporate co-working space company) but Regis did not follow through on their expansion plans

PROJECT OPPORTUNITY

Class A Corporate Office Headquarters for DBL Law

- Applicant's relationship with DBL caused DBL to consider moving from Crestview Hills to Covington
- Applicant's plan is to **triple square footage of building**, restore the historic façade, and develop a Class A office headquarters for DBL
- DBL will relocate 72 employees to Covington with a \$5,926,000 taxable payroll



PROJECT STATUS

- UDRB approvals completed
- 15-year Lease with DBL is executed
- Project financing in process but not committed
- City has approved 2 incentives for project:
 1. IRB financing
 2. Allocation of project TIF funds

PROJECT CHALLENGES

Office Market Rental Rents Do Not Support Costs of Quality Historic Building Restoration and New Construction Addition

- Tools and incentives outside of City TIF and IRB are not available
 - Plan that works for DBL's use will not qualify for Historic Tax Credits
 - Inter region move will not qualify for KY job creation incentives
- Renovation and construction costs are expensive
- Market rents for Class A office space in Covington range from \$15.50-\$18.00 Net

PROJECT CHALLENGES

DBL's Has Option to Stay in Current Location Where Occupancy Costs are Significantly Cheaper

- Payroll Tax in Crestview Hills is 1% v. 2.45% in Covington (both have the FICA cap)
- Free parking in CH v. \$50/month/space in Covington
- \$0 insurance premium tax in CH v. \$110,000/yr in Covington
- Real estate taxes in CH \$5.87/\$1,000 lower than in Covington
- Move to Covington was very difficult sell to DBL partners due to above plus:
 - Fact that majority of DBL partners live in suburbs
 - Safety concerns about employees working late hours
 - Proximity to major clients located in suburban areas

PROJECT CHALLENGES

Cost to DBL to Move to Covington (in addition to paying above market rent and higher real estate taxes)

COSTS TO DBL (15 YEARS)	TOTAL
Payroll Tax Difference	\$1,486,000
Payroll Tax Incentive	(450,000)
Insurance Premium Tax	1,902,000
Parking Cost	1,239,000
Total Cost to DBL over 15 yrs	\$4,177,000

PROJECT CHALLENGES

Project Not Feasible Nor Financeable Without Requested Support and Will Not Happen Without It

APPLICANT RETURN CALCUALTIONS	NO SUPPORT	WITH SUPPORT
Total Project Cost	\$11,323,000	\$11,323,000
less: Primary Loan	(6,572,000)	(8,333,000)
Secondary Loan	(750,000)	(900,000)
Cash Requirement	\$4,001,000	\$2,090,000
BT INTERNAL RATE OF RETURN (20 yrs)		
With No Terminal Sale	(3.8%)	2.5%
With Terminal Sale	4.8%	9.9%

REQUEST FOR SUPPORT

- Request - 20-year IRB with 20% PILOT payment to Kenton County
 - PILOT payments based on actual PVA assessment and tax rates in year of assessment through term of IRB
- Impact on Kenton County – Kenton County will not lose revenue as a result of this request. Even a very conservative PVA @ \$5,000,000 will provide PILOT revenue in excess of Kenton County's current tax revenue and County will be able to benefit from increases in the Building's PVA.

REQUEST FOR SUPPORT

		PVA 20-Year Benefit Valuation to Kenton County	
Conservative Case =	\$	5,000,000	\$ 4,829
	\$	5,500,000	\$ 8,692
	\$	6,000,000	\$ 12,556
	\$	6,500,000	\$ 16,419
	\$	7,000,000	\$ 20,282
	\$	7,500,000	\$ 24,146
	\$	8,000,000	\$ 28,009
	\$	8,500,000	\$ 31,872
	\$	9,000,000	\$ 35,735
	\$	9,500,000	\$ 39,599
	\$	10,000,000	\$ 43,462
	\$	10,500,000	\$ 47,325
	\$	11,000,000	\$ 51,188
	\$	11,500,000	\$ 55,052
	\$	12,000,000	\$ 58,915
	\$	12,500,000	\$ 62,778
	\$	13,000,000	\$ 66,642
	\$	13,500,000	\$ 70,505
	\$	14,000,000	\$ 74,368
	\$	14,500,000	\$ 78,231
	\$	15,000,000	\$ 82,095

COMMUNITY IMPACT

Monarch Project Has High Community Impact

- 35,000 sf of new **permanent office space**
- Restoration of a valued historic asset in a quality manner by a developer with proven track record of delivering quality product
- 72 new professional employees with high disposable income
- Project allows Tenant to grow and attract additional talent to Kenton County
- A new corporate presence in Covington to support community and philanthropic initiatives
- New and existing DBL employees will consider living in Covington
- Project enhances environment near Old County Building and makes that redevelopment project more valuable
- Builds a critical mass of professional employers which will attract similar employers to Kenton County
- MUCH ENHANCED ENVIRONMENT IN ROEBLING POINT WHICH WILL INCREASE PROPERTY VALUES AND ATTRACT ADDITIONAL JOBS

SUMMARY

- This high impact project is not possible without a true community partnership:
 - DBL is agreeing to pay an above market rent and incur significantly higher occupancy costs to move to Covington
 - Applicant is accepting a marginal (below market) return on this project
 - City is providing significant support in terms of PILOT agreement plus allocations of TIF funds
- Project is not feasible or financeable without requested support from the taxing entities. Lender term sheets are contingent on level of support requested.
- Project is critical to City's ability to deliver quality services to its residents given recent IRS job loss and Kentucky's current pension crisis.

THANK YOU!

