
Development Plan
For The
HOTEL NULU PROJECT

Louisville/Jefferson County Metro Government

April 2014

Development Plan
Hotel NULU Development Area

1. Introduction.

1.1. Purpose. The Louisville/Jefferson County Metro Government (“Louisville”) intends to establish the **Hotel NULU Development Area** (the “Development Area”) pursuant to the provisions of KRS 65.7041 to 65.7083, and KRS 154.30-010 to 154.30-090, as the same may be amended (collectively, the “Act”), to encourage the development of a new mixed-use project consisting of hospitality, retail, restaurant and office uses, being undertaken by 725 Partnership, LLC, a Kentucky limited liability company (the “Developer”), to be located at and adjacent to 725 E. Market Street, Louisville, Kentucky. The Developer proposes to construct a new 150± room Hotel with 10,000 SF of Retail Tenant Space and a Conference Center, a new 250± space Parking Structure along with the Rehabilitation of two contributing historic structures to provide approximately 10,000 SF of additional retail tenant space on the property located at 725 E. Market Street (the “Project). Louisville proposes to support the Project and provide redevelopment assistance through a pledge of a portion of the incremental increase in occupational and real property taxes generated within the Development Area as a result of the Project, and by requesting a pledge of State incremental tax revenues under the Commonwealth Participation Program for Mixed-Use Redevelopment in Blighted Urban Areas (the “Mixed-Use Program”), as provided in the Act.

This Project will provide unique and unavailable attractions and support to the east Downtown Neighborhood more commonly known as NULU. The new Boutique

Hotel (the “Hotel”) planned as part of the Project will be one of the first in the United States under the new “AC Hotels by Marriott” Brand roll-out from Marriott International. It will bring a new, professional, educated and inquisitive young traveler to Louisville, in search of the quintessential Louisville experience. This Hotel will support the burgeoning “Urban Bourbon” Trail rapidly becoming established in the east downtown area of Louisville, and which is an economic development priority for Louisville and the State. It will be the hospitality destination of choice for the out-of-state tourism focused on the Bourbon centered experience. This Development will stimulate the development of other distillery and culinary related tourism to this vital east downtown area. This Hotel will create a “center of gravity” for the NULU Neighborhood and anchor the Traditional Marketplace Corridor of NULU.

This Hotel will form partnerships with local post-secondary educational institutions in the community to provide internships for Culinary, Hospitality and Business Management students in those schools. It will provide professional training and job experience for students from a broad range of backgrounds to strengthen their educational experience and showcase this hotel, and this community, as a regional destination with a national or even international staff. The goal is to create an environment that is more than a hotel, but is a travel experience that puts the traveler in touch with the cultural identity of Louisville in every way.

The Hotel will include a new state-of-the-art Rooftop Conference Center Venue that will provide facilities for professionals, businesses and universities, as well as the nearby Medical Center, for conferencing and the exchange of ideas and publications on important subjects. This facility will stimulate out-of-state tourism

focused on professional development, local cultural resources and provide opportunities to the medical, educational and business communities for exchange with the public, their staff and employees from out-of-state locations.

1.2 Size and Location. The Development Area is an approximate 1.4 acre area in Louisville's downtown identified more specifically on the map attached as Exhibit "A". This location, unlike any other in the district, is perfectly situated to create this NULU Center and become the anchor and development catalyst for continued growth and development in NULU.

2. The Development Area

2.1. Assurances Regarding the Size and Taxable Assessed Value of the Development Area and Other Matters. Louisville finds in accordance with the Act that:

(a) The Development Area is a contiguous area consisting of approximately 1.4 acres, which is less than three square miles in area;

(b) The establishment of the Development Area will not cause the assessed taxable value of real property within the Development Area and within all "development areas" and "local development areas" established by Louisville (as those terms are defined in the Act) to exceed twenty percent (20%) of the total assessed taxable value of real property within Louisville. To date Louisville has

established several other development areas with a combined taxable real property assessment of \$1.47 billion. The taxable real property within the Development Area for calendar year 2013 is \$2,324,070, and that combined with the other development areas that have been established by Louisville totals approximately \$1.472 billion in taxable real property assessment. The total assessed value of taxable real property within Louisville for the calendar year 2013 exceeds \$51 billion, 20% of which is \$12 billion. Therefore, the assessed value of taxable real property within all development areas is significantly less than twenty percent (20%) of the assessed value of taxable real property within Louisville; and

(c) That the Development Area constitutes previously developed land as required by KRS 65.7043.

2.2. Statement of Conditions and Findings Regarding the

Development Area. Pursuant to KRS 65.7049(3), a development area shall exhibit at least two of the following conditions to qualify for designation as a “development area” under the Act and to qualify for a pledge of State incremental revenues pursuant to KRS 154-30.010 to 154.30-090 (three factors for projects under the Mixed-Use Program.

(a) Substantial loss of residential, commercial, or industrial activity or use;

(b) Forty percent (40%) or more of the households are low-income households;

- (c) More than fifty percent (50%) of residential, commercial, or industrial structures are deteriorating or deteriorated;
- (d) Substantial abandonment of residential, commercial, or industrial structures;
- (e) Substantial presence of environmentally contaminated land;
- (f) Inadequate public improvements or substantial deterioration in public infrastructure; or
- (g) Any combination of factors that substantially impairs or arrests the growth and economic development of the city or county; impedes the provision of adequate housing; impedes the development of commercial or industrial property; or adversely affects public health, safety, or general welfare due to the development area's present condition and use.

Louisville has reviewed and analyzed the conditions within the Development Area and finds that the Development Area exhibits at least four of the qualifying characteristics as follows:

(1) A substantial loss of residential, commercial, and industrial activity or use has occurred within the Development Area: The Development Area includes the abandoned site of a former industrial service yard for a storage tank manufacturer. As conditions on this site evolved, the industrial activity diminished and the service yard was abandoned. Prior to becoming the service yard for

the tank manufacturer, the site was a series of abandoned and deteriorating commercial and residential structures that were demolished by the tank manufacturer. These trends have continued within this census tract for a generation.

(2) More than fifty percent (50%) of the residential, commercial, or industrial structures are deteriorating or deteriorated. The census data for the site including and surrounding this Development Area demonstrate a trend of deteriorating and abandoned properties, diminishing home ownership and a reduction in commercial development over the last several decades. Within this Development Area the former structures were demolished as a result of deteriorating conditions. The remaining two structures, constituting more than 50% of the structures within the Development Area, have deteriorated and will require substantial rehabilitation. The buildings were sold when business faltered and many structures are deteriorating.

(3) There are inadequate improvements or substantial deterioration of public infrastructure to support the proposed new development within the Development Area. In order to develop the proposed Project, a parking structure is required to support the anticipated increased demand. Additional power, sewer and water infrastructure is required to facilitate the Project, and these improvements will facilitate further development within this area. These infrastructure improvements cannot be reasonably funded with private investment alone.

(4) A combination of factors substantially impairs or arrests the growth and economic development of the city or county and impedes the development of commercial or industrial property due to the Development Area's

present condition and use. Development of the Project site without assistance as provided by the Act is not feasible due to the extreme cost of providing adequate parking and related utility infrastructure to facilitate the proposed development. Potential revenue alone cannot underwrite the costs of the proposed infrastructure improvements. Without additional parking the continued development of NULU will become impeded; the Hotel/Conference Center is not feasible, nor is the balance of proposed retail and commercial space provided by this project and anticipated future growth of NULU. There is no adequate funding mechanism to afford the utility infrastructure improvements absent the incentives provided under the Act. These improvements cannot be facilitated with private investment alone. Development of the abandoned lot into the proposed Hotel, Conference Center and Parking Structure will have a secondary positive effect on the city and surrounding context.

2.3. Assurances the Development Area Is Not Reasonably

Expected to Develop Without Public Assistance. Louisville finds that the Development Area is not reasonably expected to develop without public assistance including, but not limited to, assistance available under the Act. The high cost of public infrastructure and site development expenses, estimated to be \$10,920,000 or 32% of the total Project's cost, needed for the Project, when compared with low potential revenue generated by these improvements make public incentives critical to the financing of the Project.

2.4. Assurances the Public Benefits of Redeveloping the

Development Area as Proposed Justify the Public Costs Proposed. Louisville finds that the public benefits of redeveloping the Development Area justify the public costs

involved. The investment in the Development Area will result in significant returns through increased property valuations for the surrounding context, facilitating secondary and tertiary re-development within the context by the enhancements to parking and utilities, and bringing additional visitors/tourism economic benefits to Louisville. The Development Area has a current taxable assessment of \$2,324,070 and generates \$11,436.75 in real estate taxes and \$6,565 in employee withholding taxes to Louisville. The Project will increase capital investment by approximately \$34 million, which will provide significant new taxes to Louisville and the other taxing districts. Based on a financial report dated March 20, 2014 prepared by Meench & Shanker, LLC, attached hereto as Exhibit "B", the direct impact of the Project will increase employment within the Development Area by 211 new jobs, and generate new Louisville and State taxes over the twenty (20) year life of the Development Area, by \$11,977, 516. When considering direct and indirect impacts of the Project, the total financial impact of the Project to Louisville and the State is estimated to be \$38,542,400. Therefore, even when considering the requested incentives for the Project from Louisville and the State, the Project will be very positive to Louisville and the State financially. The Project will also be a catalyst for additional development in the area surrounding the Development Area.

In addition to the direct tax impact of the Project, and as was noted above, the Project will provide unique and unavailable attractions and support to the east Downtown Neighborhood more commonly known as NULU. The Hotel will support the burgeoning "Urban Bourbon" Trail rapidly becoming established in the east downtown area of Louisville, and which is an economic development priority for Louisville. It will be

the hospitality destination of choice for the out-of-state tourism focused on the Bourbon centered experience. It will stimulate the development of other distillery and culinary related tourism to this area. This Hotel will create a center to the NULU Neighborhood and anchor the Traditional Marketplace Corridor of NULU.

2.5. Assurances Regarding the Area Immediately Surrounding the Development Area. Pursuant to the Act, the establishment of a development area requires a finding that the area immediately surrounding the Development Area has not been subject to growth and development through investment by private enterprise or, if the area immediately surrounding the Development Area has been subject to growth and development through investment by private enterprise, that there are certain special circumstances within the Development Area that would prevent its development without public assistance. These special circumstances include the restricted economic feasibility for development of structured parking and utility infrastructure within the Development Area. The proposed improvements within the Development Area will have a positive effect on the surrounding area which faces stagnation in development without them. Additional parking and utility services will result, not only in the feasible development within the Development Area, but in additional feasible development of the surrounding area.

The area surrounding the Development Area is at a turning point. For the first time in a generation, there is the introduction of neighborhood businesses, however there remains a distinct lack of parking and utility infrastructure to support continued development. In the surrounding area, antiquated manufacturing facilities, circa 1940's, are being abandoned and they now offer potential for re-development. The vast public

housing development, formerly known as Clarksdale, has been replaced with less dense and scattered site contextually responsive housing. There is the potential for new single family owner occupied housing within the surrounding area for the first time in a generation. The surrounding area was once densely populated with non-profit homeless shelters, however in recent years, many have been re-located to other areas of the downtown thereby diminishing the presence of panhandling, petty crime and other problems. This Project, at this time, is a *catalyst project* that can create the momentum needed to completely transform this area over the coming years, however it cannot happen without the proposed public infrastructure improvements.

The context within which this Development Area lies constitutes a portion of the Phoenix Hill National Historic District. The District was created in the 1980's in an effort to underwrite and further multi-family housing through the use of Low Income Housing Tax Credits combined with Historic Tax Credits. The Historic District designation has encouraged the adaptive re-use of many contributing historic structures, and is important to the sustainable rehabilitation of the two contributing historic structures within this Development Area.

NULU as a neighborhood resource has developed somewhat spontaneously, as an outflow from public investments within the east downtown context; and is a significant part of the Phoenix Hill National Historic District. Only within the past few years has NULU begun to have the kind of critical mass that can sustain further development. It is a result of combined investment first by the public and then the private sectors. NULU, considered as "New Louisville", blends the old and the new into a harmonious, eclectic blend of neighborhood resources for east downtown

Louisville. Without the significant investment by many public institutions, it would not have been possible.

Jefferson County Public Schools (“JCPS”) has made significant investment into Lincoln Elementary School, to become a magnet school for performing arts in the JCPS System. This move insured that the neighborhood school would adapt and grow with the changes otherwise taking place within the neighborhood, which sees a shifting demographic. For the first time in a generation, new young families are considering this area as a potential valuable resource for those that seek an urban living experience in Louisville.

The Housing Authority of Louisville (“HAL”) is perhaps the singular most significant positive influence for the development of NULU. HAL has invested well in excess of \$80M to totally re-development of the former Clarksdale Housing Project. Since the 1960’s Clarksdale was a military barracks style public housing complex that placed an extremely high concentration of indigent residents directly in the center of the National Historic District. HAL, through the HOPE 6 program, has completely decentralized their approach, and completely redeveloped Clarksdale into the New Liberty Green Neighborhood of today. It provides for a mixed use, mixed income neighborhood with context sensitive design parameters and a wide variety of housing types, and opportunities for neighborhood businesses. This positive development cannot be sustained and furthered without the proposed infrastructure improvements proposed through this Development Area.

Funded by the Bridges Project, Metro Louisville is undertaking a considerable investment of \$14M in new public streetscape improvements through the center of NULU. These improvements will enhance the pedestrian experience within the immediate surrounding area, but stop short of the utility infrastructure and parking improvements proposed by this Project. The Development Area proposed in this Plan will dovetail into those public improvements and further coordinate the development of the District.

Growth and expansion of the University of Louisville Medical Center, immediately to the south of NULU, as well as the University of Louisville Nucleus Center to the west, can directly benefit from the investments in public infrastructure and structured parking provided under this project.

These investments, and others, by public institutions in the surrounding area will be positively affected by the investment in this Development Area.

2.6. Development Area Description. The Development Area includes the real property within the boundaries described on the site plan and legal description attached hereto as Exhibit “A.”

2.7. Existing Uses and Conditions. The Development Area consists of approximately 1.4 acres on the corner of Shelby Street and Market Street in the east downtown area of Metro Louisville. The existing site includes a vacant and abandoned lot, formerly used for industrial storage areas, and two contributing historic structures. A former funeral home and related carriage house/garage on site were out of business and sold to the current owners. These two buildings are considered contributing

elements to the Phoenix Hill National Historic District. The site includes several lots that have been consolidated into a single tract.

2.8. Changes in the Zoning Ordinance, Zoning Map, Comprehensive Plan or Other Codes or Plans Necessary to Implement the Development Plan. There has not been significant private investment in the area surrounding the Development Area. In addition, the site is currently being down-zoned from Manufacturing (M2) to Commercial (C2). The down-zoning process is underway and enjoys support from the neighborhood, the business association and Metro Council Officials.

2.9. Certification of Compliance with the Comprehensive Land-Use Plan. Down-zoning of the parcel will bring the tract into compliance with Louisville's Comprehensive Land-Use Plan, so the Project complies with the Comprehensive Land-Use Plan for Louisville.

3. The Development Program.

This Development will be one of the first new Hotel Brand roll outs in North America for Marriott International. The *AC Hotels by Marriott* is a new brand that is already well established in Europe, and is coming to the US. It is defined by a sophisticated, urban vibe that centers the traveler on cultural experience and local flavor. It is well suited to the NULU site and coordinates perfectly with the other elements of the Development Program discussed.

The Project Program includes the following constituent components

for development:

- ✓ 85,000± SF (150± room) Boutique Hotel with an international brand.
- ✓ 8,000± SF Rooftop Conference Center with Catering Kitchen and Lounge, as part of Hotel.
- ✓ 10,000± SF Ground Level Class “A” Retail Shell Space, as Part of Hotel
- ✓ 250± Space Parking Structure.
- ✓ 6,000± SF Tenant Space in Historic Funeral Home.
- ✓ 4,000± SF Tenant Space in Historic Carriage House.
- ✓ Various Site and Utility Infrastructure Improvements.

The Proposed Project Construction Costs breakdown as follows,

with those to be supported by Incremental Revenues as noted:

Boutique Hotel:	\$19,920,000±-PRIVATE FUNDING
Tenant/Retail Space:	\$3,180,000±-PRIVATE FUNDING
Parking Structure:	\$7,700,000±-TO BE SUPPORTED BY INCREMENTAL FINANCING
Site Infrastructure:	\$3,200,000±-TO BE SUPPORTED BY INCREMENTAL FINANCING

These costs reflect a pledge to construct the project utilizing Prevailing Wage Rates for construction on site. Compliance with Metro Louisville ordinances and regulations, with particular attention to living wages, is a fundamental commitment for this Development.

4. Redevelopment Assistance and Finance Plan.

Louisville proposes to provide redevelopment assistance and pay for Project costs through a pledge of a portion of the incremental increases in tax revenues

from real property taxes and occupational withholding taxes from the Development Area. Louisville proposes to pledge eighty percent (80 %) of its incremental tax revenues from real property taxes and occupational withholding taxes from the Project for a 20 year period. In addition, Louisville will work to obtain a pledge of state incremental revenues under the Mixed-Use Program to support the Project.

Louisville will establish a special fund for the deposit of pledged incremental revenues. Pledged incremental revenues deposited into this special fund will be used solely to reimburse the Developer for redevelopment assistance or pay for project costs in compliance with this Development Plan, the Act, and all agreements and documents entered into in connection therewith. Louisville will enact an ordinance establishing the Development Area and adopting this Development Plan. The development area ordinance will designate the Metro Development Authority, Inc. (the "Agency"), organized by Louisville, to oversee, administer and implement the development ordinance.

5. Conclusions.

In conclusion, the Project is an important catalyst to the development of the NULU area, will generate significant new tax revenues to Metro Louisville and will encourage out of state tourism to the area that otherwise would be lost to competing communities. The incentives proposed to be provided under the Act are reasonable and critical to the overall financing for the Project.

List of Exhibits

- Exhibit A - Map and Description of Development Area
- Exhibit B – Financial Report from Meench & Shanker, LLC