

Miami of Ohio

Student Questions with Answers:

1. Walk us through the capital stack on Germantown Mill Lofts versus Starks. What changed in the market between them? **John Hunzicker will provide in a separate attachment.**
2. How do you underwrite a historic rehab when the scope is genuinely unknown until you open the walls?

When figuring construction prices, we use recent price-per-square-foot costs, market comps, and bidding competition. In figuring out the total development, we start at the end. What is the most a project can conservatively produce in net operating income? What total cost will it support (with investors and lenders)? How much money is needed in soft and hard costs to build or renovate the project. The difference is what we can pay for land or the building.

3. What federal and state historic tax credits require you to preserve, and where does that cost you money?

It depends on the specific building, its history, and its condition. If a building is in deteriorated condition, preservation approvals may be more flexible. If the building has been greatly altered from its original historic layout, there may be more flexibility. If a building has been home to many uses over the years, more flexibility. If it is simpler in design and architectural finishes, more flexibility. An example of limited flexibility is a church, where there is difficulty in making many of the historic elements adaptable to contemporary uses.

4. Opportunity Zone equity is now central to Starks. How does that change your investor profile and your hold period?

Opportunity Zone is not central to Starks; it is a bonus incentive for doing the deal. Essentially, investors with capital gains can reinvest those profits and defer taxes and experience a step-up in their taxable basis. If they remain in the deal for ten years or longer, they are not taxed on their new capital gains. Example: An Investor who puts in \$1 million of capital gains owes no taxes until after 7 years. So put all capital gains to work. If after 10 years their \$1 million investment is worth \$2 million, they will owe no taxes on the \$1 million gain. In Kentucky, they save 70% federal and 5% state taxes (\$250,000), which adds another 2.5% to their average annual return.

5. Do you manage everything you build? If so, why not third-party it and redeploy the capital?

We want to self-manage (property management) as much as we can. It gives us control over maintenance, accounting, and quality control. It also generates operating income for the company between development deals.

6. Colonial Gardens took years, and Urban Government Center didn't close. How do you decide when to keep pushing a public-private deal and when to walk?

There is no one answer. Colonial Gardens took years because we were working with city government, and they don't act quickly. We stayed engaged because they did not have other suitors, which allowed us to negotiate better terms over time.

The urban government center is a situation where we twice lost the publicized Request for Proposal (RFP). Unfortunately, politics were heavily involved, and a well-concealed proposal received the deal. The historic buildings were demolished, and 10 years later, no project was launched on this site. If I could replay this one, we would not have spent the time and money.

7. What does it cost to carry a vacant 14-story building, and how do you fund that during entitlement?

It costs too much to carry a vacant 14-story building (The Starks). We did it for about 18 months, and expenses were between \$40-\$80,000 per month (depending on the time of year). Due to COVID and other factors, the resale of the older high-rise buildings in urban markets has dropped considerably. A bank currently owns the Starks, and they have allowed us an option due to the large investment we have made in pushing the deal forward.

8. Myers was underwritten to a specific tenant base. When has that kind of targeting failed?

At Myers, targeting the market for medical and dental student housing failed because construction delays meant units would not be ready for summer leasing. Out of necessity, we switched to an Airbnb strategy and then achieved even greater rents.

9. As a Miami alum: what should someone in this program be doing now to end up doing what you do? How do they start small and go from a 4-plex to 440,000 sq ft?

As a Miami Alum (1982)

I look back on how I went from a 4-plex to a 440,000 sqft high rise:

The answers are numerous, with many forks in the road. My strongest influences were my parents. They moved to Louisville from Chicago when I was one. My dad had a corporate job running the Alcoa regional office during the 1960's (ironically located in the Starks building). With 4 young children, my parents got very involved in the community, church, schools, etc. They grew roots and didn't want to be relocated by a big company. At the same time, corporate America and manufacturers were experiencing

many setbacks with layoffs. My dad seized an opportunity to partner in the rehabilitation of a vacant historic downtown hotel into apartments. Within a couple of years, our home and neighborhood were devastated by a tornado. That led to a new opportunity to rebuild our home and several others on our street. My parents were always hands-on (out of necessity), self-building room additions, adding a historic log cabin in our backyard, and renovating a lake cottage. I absorbed what I saw and worked as a kid on these projects. In 1980, I went to the Miami Luxemburg Program for a semester. I had so much fun while learning that I stayed for a whole year. During that time, through travel, I saw firsthand how much European communities valued their historic buildings and preserved them to maintain a high quality of life, accessibility, and culture. When I graduated from Miami, as the youngest in my family, I was my parents' last resort to bring a child into the business to help them gradually unwind from their work.

In the beginning, I was a live-in resident manager, with a small paycheck and a pickup truck. I learned about the business at many levels (good and bad) as it was a very small operation. Eventually, I wanted to grow and put my own mark on things. I started working on small projects (4-plexes, etc.) and grew from there. Ten years later, my brother (Miami Graduate and former CPA) joined me in the business. Over time, we added other family members and grew the size of our developments.

I also tried to learn as many associated trades as possible. (leasing, property management, insurance agent, construction management) through professional organizations and through on-the-job training.

In a small company, it is important to be humble and wear many titles, to have expanded contacts, and to have multiple influences in shaping deals.