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Gateway Quarter

Cincinnati, Ohio

Project Type: **Mixed Use—Two Uses**

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PROJECT TYPE

The Gateway Quarter, located in Cincinnati, Ohio, is the product of a public/private partnership between a nonprofit development corporation and four private developers. The multiphase project, encompassing a 25-square-block area of a formerly distressed neighborhood, has created 224 for-sale and rental residences with 55,000 square feet (5,110 sq m) of ground-floor commercial space in a variety of buildings—both newly constructed as well as renovated—immediately north of the central business district. By completion, planned in 2010, the project will feature 400 residential units and more than 72,000 square feet (6,689 sq m) of commercial space.

LOCATION

Inner City

SITE SIZE

1.04 acres/0.42 hectare

LAND USES

Residential—Retail Development, Multifamily For-Sale Housing, Affordable Housing, Condominiums, Retail

KEYWORDS/SPECIAL FEATURES

- Public/Private Partnership
- Redevelopment
- Historic Preservation
- Urban Regeneration

WEB SITE

www.gatewayquarter.com

PROJECT ADDRESS

Gateway Quarter Sales Office
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Cincinnati, Ohio



DEVELOPERS

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513-559-0048
www.themodelgroup.net

Northpointe Group
Cincinnati, Ohio
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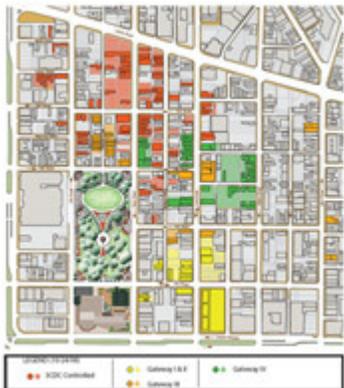
B2B Equities and Urban Sites
Cincinnati, Ohio
www.b2bequities.com



Over-the-Rhine Community Housing
Cincinnati, Ohio
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PLANNER/LENDER

Cincinnati Center City Development Corporation (3CDC)
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513-612-4400
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ARCHITECT

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GENERAL DESCRIPTION

The Gateway Quarter is an approximately 25-square-block area within Cincinnati's Over-the-Rhine district, a historic neighborhood that is being redeveloped. The first three phases of development in the Gateway Quarter include 192 for-sale residential units, 32 rental units, and nearly 55,000 square feet (5,110 sq m) of ground-floor commercial space. Total development planned for the area will include 400 residential units and over 72,000 square feet (6,689 sq m) of commercial space—primarily in renovated historic buildings—as well as the renovation of Washington Park. Also in the Gateway Quarter is the new School for the Creative and Performing Arts.

The project is a complex partnership among the Cincinnati Center City Development Corporation (3CDC); Over-the-Rhine Community Housing, a nonprofit developer; and three for-profit local developers: the Model Group, the

Northpointe Group, and B2B Equities and Urban Sites.

Formed in 1978, the Model Group, responsible for the four featured projects in this Development Case Study, develops, manages, and sells residential real estate in the southwest Ohio and northern Kentucky areas in and around greater Cincinnati. The company has developed close to \$200 million in urban historic properties and new infill construction using a wide variety of financing tools. Created in 2003, 3CDC is a private nonprofit corporation intended to increase the effectiveness and efficiency of development activities in the city of Cincinnati.

DEVELOPMENT BACKGROUND AND AREA HISTORY

The Gateway Quarter is part of the aforementioned Over-the-Rhine neighborhood, located immediately north of Cincinnati's central business district (CBD). It was originally developed during the 1850s by predominantly German immigrants and lies north of Central Parkway, which used to be a canal. When German immigrants began developing the area to the north of the canal, they called it Over-the-Rhine, a nod to the Rhine River in their homeland.

As with much urban development in that era, most of the buildings were three- and four-story rowhouses with ground-floor commercial space. Over the decades, as Cincinnati spread outward, Over-the-Rhine accommodated new households and eventually became home to a large concentration of the city's public housing. By 2000, poverty and crime in Over-the-Rhine had increased to such a degree—for example, one intersection in the neighborhood had over 500 police calls in a single year—that there were only four homeowners in the entire 25-square-block Gateway Quarter neighborhood. The city, seeking a solution, engaged the corporate sector, which funded the creation of the Cincinnati Center City Development Corporation, or 3CDC, in 2003.

Despite its problems and poor reputation, Over-the-Rhine had several positive traits prior to development of the Gateway Quarter, the most notable being that it is home to one of the largest collections of 19th-century Italianate architecture in the country. It lies immediately adjacent to the CBD, with its major employers such as Hamilton County, Procter & Gamble, and Fifth Third Bancorp—each with over 3,000 employees—and several others, including the Kroger Company with more than 1,000 workers. Over-the-Rhine is home to the Music Hall, a handsome edifice built in 1878 and home of the Cincinnati Opera and Symphony, and Findlay Market, a popular public market dating to the 19th century. There are also a number of arts associations based in the area.

3CDC quietly began buying buildings in Over-the-Rhine, mostly in a 25-square-block area bounded by Central Parkway on the south, Walnut Street on the east, Liberty Street on the north, and Elm Street on the west. Many of these structures were vacant but were often used for drugs or prostitution, or as shelter by the homeless. 3CDC purchased over 230 vacant properties and buildings and secured them against illegal use. The nonprofit also bought up several liquor licenses in the area, as numerous bars and carryout liquor establishments had become concentrations for crime.

3CDC decided to concentrate initial development in a four-square-block area along Vine Street immediately north of Central Parkway. This area was strategically chosen for its location closest to the CBD, and would encourage pedestrian movement and cross-pollination between the two areas; and thus it was seen as the best place for an early success. In fact, the corporate headquarters of Kroger, the grocer mentioned previously, is located along Vine on the block south of Central Parkway, and is a large employer and stable neighbor of the Gateway Quarter.

A private nonprofit organization, 3CDC provides planning, acquisition, and financing for the Gateway Quarter. Thus, it is not a public entity and works closely with, but technically is separate from, the city. 3CDC also is working to reinvigorate the core of the CBD, located five blocks south of Central Parkway. There, the nonprofit recently renovated Fountain Square, an outdoor public event and gathering space. 3CDC considers the Fountain Square area and Over-the-Rhine as two ends of a dumbbell—linked by Vine Street and critical to the future health of the city.

Having previously developed affordable rental housing in Over-the-Rhine, the Model Group began discussing possible development strategies in the area with 3CDC in 2004. 3CDC liked the work the Model Group did, and favored a strategy that included the development of for-sale housing as a means of adding stakeholders to the neighborhood.

The Model Group and two other developers, Northpointe Group/B2B Equities and Urban Sites—all of which had experience with infill development in Cincinnati—began discussing the daunting challenge of developing for-sale

housing in the challenging market in Over-the-Rhine. An agreement was reached that working together on marketing efforts would mutually benefit all parties.

DESIGN, DEVELOPMENT, AND CONSTRUCTION

In 2006, the Over-the-Rhine district was ranked one of the 11 most endangered places in the United States by the National Trust for Historic Places. Because the area has the largest collection of Italianate architecture in the country, preservation and high-quality renovation of existing buildings was foremost in the minds of the developers and 3CDC. Furthermore, new construction had to tastefully fit in with its surroundings.

Across all three developers' projects in the Gateway Quarter, units range in size from 520 to 2,176 square feet (47 to 202 sq m) and are priced from \$85,000 to \$348,160. The 59 units developed by the Model Group include four separate buildings, including Centennial Row, Bremen Lofts, Trinity Flats, and 14th and Vine at Trinity Flats:

- **Bremen Lofts:** A renovation of three four-story buildings near the corner of 12th and Republic streets with 17 units and 950 square feet (88 sq m) of ground-floor commercial space. The units range from 636 to 1,427 square feet (59 to 133 sq m) and sold for \$90,000 to \$250,000. A residential real estate brokerage is located in the commercial space.
- **Centennial Row:** Located on the 1100 block of Race Street and comprising eight units in two side-by-side three-story buildings. Units range from 719-square-foot (67-sq-m) one-story units to 1,082- to 1,277-square-foot (101- to 119-sq-m) two-story residences. They range in price from \$125,016 to \$249,015.
- **Trinity Flats:** Part new construction and part renovation at the corner of Vine and Mercer streets. It will open in late 2009 and contain 25 units and 6,372 square feet (592 sq m) of ground-floor retail. Pricing ranges from \$149,000 to \$220,000.
- **14th and Vine at Trinity Flats:** Consists of nine units in a new-construction building at the corner of 14th and Vine streets. Opened in the spring of 2009, units range in size from 1,190 to 1,320 square feet (111 to 123 sq m) and are priced from \$185,000 to \$249,000. The structure also includes 1,200 square feet (111 sq m) of ground-floor retail space.

Project cost overruns are a common risk with rehabilitating old and historic buildings. The Model Group had plenty of experience working in this environment coming into the Gateway Quarter project, and a few issues arose to date, but none that has significantly set the firm's projects back. The developer includes a 10 percent contingency in its pro formas, which have covered issues such as soil settling at the 14th and Vine at Trinity Flats, for example.

Parking is generally located in secure surface parking lots. However, in the 14th and Vine at Trinity Flats development, parking is located on the interior of a portion of the ground level.

FUTURE PHASES

Phases I and II of the Gateway Quarter were completed in 2007 and include 98 units (86 for-sale units and 12 rental units master leased to the Art Academy of Cincinnati) and over 32,000 square feet (2,973 sq m) of ground-floor commercial space. Those phases were concentrated in the four-square-block area centered on 12th and Vine streets.

Phase III will be complete by late 2009, and saw development move north along Vine Street to 14th and east to Main Street with 106 units and nearly 23,000 square feet (2,137 sq m) of ground-floor retail space. That phase also saw the addition of another developer—Over-the-Rhine Community Housing, a nonprofit housing provider that developed 22 homes on the block north of 14th Street and west of Race Street.

Phase IV will add a fifth developer—St. Louis-based McCormack Baron Salazar—to build up to 180 mixed-income housing units, the first new rental unit development in the Gateway Quarter. The fourth phase also includes the renovation of Washington Park, which calls for the creation of up to 700 underground parking spaces for the park and the adjacent Music Hall. Additional commercial uses and housing are planned in Phase IV, as well as streetscape improvements to Vine Street between Central Parkway and 14th Street. Total development in phases I through IV includes 400 housing units and over 70,000 square feet (6,503 sq m) of commercial space.

Future plans for the area call for a proposed streetcar line through the Gateway Quarter and Over-the-Rhine.

Financing is nearly in place for an anticipated 2010 construction start date. The streetcar would connect the downtown area to the south with the Uptown and University of Cincinnati areas to the north, further opening up the Gateway Quarter to development opportunities.

FINANCING

Financing for the Gateway Quarter is somewhat unusual. The lender for the project is 3CDC, which is in turn financed by two primary sources, the Cincinnati Equity Fund (CEF) and Cincinnati New Markets Fund (CNMF). The CEF provides gap financing for market-rate development projects and the CNMF is part of the New Markets Tax Credit (NMTC) Program, created by Congress in 2000, and leverages funds from 13 local corporations to be used for investments in the downtown and Over-the-Rhine neighborhoods.

Overall, 3CDC has invested \$70 million to date in redevelopment activities in Over-the-Rhine, and provided financing for projects by all three private developers of the Gateway Quarter. Proceeds from unit sales are "recycled" by 3CDC for financing additional projects. Because the NMTC program has a seven-year cycle, funds can be recycled three or four times to finance development. Furthermore, the Model Group and the other developers are not required to provide equity for their projects.

The CNMF was awarded an additional \$35 million in NMTCs in October 2008 to finance additional revitalization efforts in Over-the-Rhine, including projects farther north in the Gateway Quarter and the renovation of Washington Park.

MARKETING

Several factors are considered crucial to the success of the Gateway Quarter, the primary one being the branding of the district itself in order to create a marketable project. Other factors include setting prices with no comparable projects in the marketplace, and all three developers working together with a single brand, rather than competing for sales.

Since the name Over-the-Rhine had such a bad connotation in the community, an entirely separate brand was created: Gateway Quarter. Three slogans used with the Gateway Quarter name are "Arts, Living, and Architecture," "From Here You Can See the Future," and "Where Downtown Meets Over-the-Rhine." All draw on the neighborhood's good location and proximity to nearby amenities and activity, and convey a sense of something new and exciting with long-term reward.

In an unusual arrangement, the Model Group and the other two developers—Northpointe Group, and B2B Equities and Urban Sites—agreed to work together to market all units in their respective projects using the Gateway Quarter brand name. They share a sales office, broker, retail leasing agent, and common Web site for marketing all units. This is a common approach in a suburban master-planned community, where a common sales office handles marketing for a variety of builders, but is unusual in core city redevelopment projects.

A visitor to the Gateway Quarter Web site or sales office can choose from any of the numerous units in a variety of buildings done by all three developers. The Model Group and its partners chose to do this in order to create unity and a sense of strength in numbers in the Gateway Quarter, particularly since there was no previous knowledge in the marketplace about the area and they felt it would maximize their marketing efforts. It also creates economies of scale for the developers, because the projects are scattered across numerous buildings and range in size from five to 25 units. In other projects, this would be considered competing against each other, but in this case a unit sale for one developer is a victory for all three, as it generates momentum for the area.

Marketing for-sale units in the Gateway Quarter was risky because ownership was so rare in Over-the-Rhine. Pricing ranges from \$85,000 to nearly \$350,000, although most units are in the \$125,000-to-\$250,000 range. Across all units, prices are predominantly less than \$200 per square foot (\$2,152 per sq m) and are targeted to younger buyers, both singles and couples.

The financing structure with 3CDC allows the Model Group and other developers to market units near or upon completion, rather than requiring a percentage of presales before construction can occur. This significantly helps the sales process, particularly in a transitioning area such as Over-the-Rhine, as prospective buyers have something

tangible, rather than plans and drawings, upon which to weigh their decision.

Web site and marketing materials evoke a vibrant urban district, with an emphasis on proximity to nearby employment in the downtown, and amenities such as the Music Hall, Findlay Market, and the new shops and restaurants in the Gateway Quarter itself. Because the area was previously unknown in the marketplace, maps are relied upon to provide bearings and reinforce its proximity to destinations and amenities. The sales center opened in March 2007 in the heart of the district, at the corner of 12th and Vine streets.

EXPERIENCE GAINED

Since the sales office opened in March 2007, 83 units have sold in the Gateway Quarter, and sales continued to be strong in early 2009. Among 59 units in the Model Group's four projects, 24 have sold as of October 2009. Bremen Lofts has sold out its 17 units, Centennial Row has sold four of eight, and 14th and Vine at Trinity Flats has five purchase agreements. Trinity Flats is under construction and will begin selling in fall 2009.

The Model Group reports that at least three-fourths of all buyers are between the ages of 24 and 32, indicating the attraction of the area to younger buyers. This is also a reflection of the entry-level pricing of most units. As well, units have predominantly sold at original asking prices so far.

The success of sales in the Gateway Quarter is more pronounced because they began at the time when the housing market in Cincinnati and nationwide had begun to falter. Reasons for success include a combination of competitive price points and the fact that so many buyers were young and did not need to sell an existing home.

In addition to the sales success of residential units, ten retail stores have opened in the past couple years in the Gateway Quarter, including a restaurant and wine bar, two home-furnishings stores, an environmentally conscious general store, and an urban garden center, among others.

The major challenge was selling condominiums in a neighborhood with no existing for-sale market or positive development momentum. As a result, marketing and branding were key for the Model Group, particularly in partnership with the other two developers and 3CDC.

Directly as a result of increased policing and development in the Gateway Quarter, there has been a major drop in crime and drug dealing. Police consider a 2 to 3 percent annual reduction in crime to be successful. Over-the-Rhine has had several double-digit annual reductions in a row. In fact, from January 2006 to January 2007, crime dropped 65 percent overall. The corner of 12th and Vine, which had over 500 police calls one year a few years ago, had just seven the following year, and zero the next.

There are still challenges, however. For example, a bar with a liquor license remains at 12th and Race streets, which continues to attract loitering, crime, and police calls. This has suppressed sales at Centennial Row, located next door.

A number of social service providers remain operating in the area, creating tension among homebuyers and businesses, as well as some affordable housing activists. The Model Group and 3CDC acknowledge that minimal displacement has occurred, but maintain that the condition of Over-the-Rhine prior to the development of the Gateway Quarter was not tolerable, and continued development is necessary to maintain positive momentum.

Additional lessons learned by the developers include the following:

- Focus is critical. 3CDC's focus on specific blocks and the development team's focus on building critical mass one block at a time was important for the success to-date. The Model Group believes in the new urbanist theory that holds that generally three connected walkable blocks are critical to making a neighborhood, and that is something that will be achieved by the end of 2009 as Phase III is completed.
- The development team understands that while the condominiums are the "body and organs" of the development, the retail storefronts are the "face and character." Beyond attracting buyers to live, the storefronts are creating a walkable sense of place for all visitors.
- The redevelopment success of the Gateway Quarter is occurring exponentially as development continues from the original four-square-block area.

PROJECT DATA (for the Model Group projects)			
LAND USE INFORMATION			
Site area (acres/hectares): 1.04/0.42			
Percentage complete (as of October 2009): 50			
Gross density (units per acre/hectare): 62/153			
Number of off-street parking spaces: 59			
LAND USE PLAN			
Use	Area (Acres/Hectares)	Percentage of Site	
Buildings	0.72/0.29	80	
Landscaping/open space	0.32/0.13	20	
Total	1.04/0.42	100	
RESIDENTIAL INFORMATION			
Unit Type	Floor Area (Square Feet/Square Meters)	Number Sold/Leased	Range of Initial Sales Prices
One-bedroom/one-bathroom	636-1,100/59-102	4	\$88,000-\$139,000
Two-bedroom/two-bathroom	877-1,412/81-131	18	\$130,000-\$249,015
Number of residential units: 59			
RETAIL INFORMATION			
Tenant Classification	Number of Stores	Total GLA (Square Feet/Square Meters)	
General merchandise	5	6,000/557	
Food service	1	1,067/99	
Other	1	968/90	
Total	7	8,035/746	
Percentage of GLA occupied (as of October 2009): 14			
Annual rents (per square foot/square meter): approximately \$8-\$15/\$86-\$161			
Average annual sales (per square foot/square meter): \$150/\$1,614			
Average length of lease: 3-5 years			
DEVELOPMENT COST INFORMATION			
Site acquisition cost:	\$1,660,415		
Site improvement costs:	\$903,847		
Construction costs:	\$9,587,856		
Soft costs:	\$2,229,084		
Total development cost:	\$14,381,203		
DEVELOPMENT SCHEDULE (Month/Year)			
Planning started: September 2005			
Site purchased: February 2006			
Construction started: September 2006			
Sales/leasing started: January 2007			

Phase I completed: July 2007
Project completed: March 2010 (projected)

DRIVING DIRECTIONS

From Cincinnati International Airport: Head east on Terminal Drive and continue on KY-212. Merge onto I-275 East via the ramp to Lexington/I-71 East/Cincinnati/Louisville/I-75 East. Take exit 84 to merge onto I-71 North/I-75 North. Continue to follow I-75 North. Take exit 1C for Fifth Street. Merge onto West 5th Street/US-127/US-42/US-52. Continue to follow West 5th Street. Turn left at Elm Street/US-42. Turn right at West Central Parkway/US-42. Turn left at Vine Street. Turn left at East 12th Street. Destination will be on the right.

Driving time: 20 minutes in nonpeak traffic.

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This Development Case Study is intended to serve as a resource for subscribers in improving the quality of future projects. Data contained herein were made available by the project's development team and constitute a report on, not an endorsement of, the project by ULI—the Urban Land Institute.

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