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Viewpoint: South Bend should revisit tax incentives on new downtown office building

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An article in the April 7 Tribune mentioned a new office building to be constructed in downtown South Bend. While we're all glad to see new construction in the downtown, the article left me a bit perplexed.

The article states that in November 2017 the project's developer, Lewis Hansell, was granted a six-year, 100 percent tax abatement because the project was being built on speculation, meaning no tenants lined up. A very generous abatement considering the normal type of abatement is a phase-in. And because the developer is speculating and thereby taking on a higher degree of risk, the case can be made for the more generous abatement. In addition, the Buttigieg administration offered no TIF funds for this project, and it can only be assumed again, because of the generous tax abatement being given. So far, no problem.

But now it's a year-and-a-half later and the developer is ready to break ground on this "spec" building. And now we're learning that 80 percent of the building is already committed to being leased out and the building will bear the name of the largest tenant, Barnes & Thornburg. And we're also learning the administration is now offering up to \$350,000 in TIF funds because of higher than anticipated construction costs.

So the first question that comes to mind is, when 80 percent of the building is committed to lease before construction even begins, how is this considered a spec

building? And the higher than anticipated construction costs, is that a result of the fact that most of the building is already committed to being leased?

True spec buildings are generally built with minimal interior construction (i.e. no ceilings, no partition walls, no floor coverings, no nothing) because a developer doesn't know at the time of construction who will ultimately be leasing the space. When tenants are eventually lined up, floor plans are drawn up and the build-outs take place.

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So a true spec building can initially be built at a lower cost because most of the interior work is not completed at that time. In this case, where the majority of occupants are already known, the construction will include finished floor plans and that will add to the upfront cost of this project. If this was originally presented to the South Bend Common Council as a spec building, and now it's not, is that what's contributing to the higher than anticipated construction costs?

And then we should ask, how much new business is this project really bringing to the downtown? The major tenant, Barnes & Thornburg, is already in the downtown and will basically be moving two blocks from their present location in the 1st Source Bank Center to this new location. The building's owner will be occupying the top floor. So these two tenants will be occupying the majority of the office space. And for this the developer is receiving a 100 percent tax abatement for six years in addition to giving \$350,000 in TIF funding.

The only speculating appears to be who the new drive-thru coffee shop/restaurant will be on the ground floor and who the owners of the 1st Source Bank Center will get to lease out the entire sixth floor of their building once Barnes & Thornburg vacate. They will ultimately be the ones on the hook to lure new tenants into the downtown and without the luxury of a tax abatement.

Six years' worth of taxes on a building like this is probably in the neighborhood of \$2 million, not to mention the potential \$350,000 in TIF funding. That's a lot of

incentive. The amount of risk being undertaken at this point is minimal as well as the number of new tenants being added to the downtown.

In fairness to taxpayers and those competing in the downtown district, the mayor and the council should revisit all the incentives originally given to this developer based on the current set of circumstances. It seems much has changed from what was originally presented to them back in 2017. Any incentives given should reflect this new reality.