



# THE CAP AT UNION STATION— JOINT DEVELOPMENT

The Cap at Union Station case study describes how governments and private developers can utilize above-grade joint development both to fund an infrastructure investment and to reconnect divided neighborhoods and improve the condition of distressed areas.

## PROJECT OVERVIEW

The Cap at Union Station in Columbus, OH, demonstrates how governments can partner with the private sector to create and share value in highway-related investments. The project began in 1995 when the city of Columbus was looking for a way to reconnect sections of downtown that had been bisected by the construction of I-670, an inner-belt highway, about 20 years earlier. The construction of the expressway became a barrier to the development of the area north of I-670, the Short North arts and entertainment district. Community groups opposed the proposed widening of the expressway, claiming it would further damage the urban landscape. The large convention center located downtown near I-670 was illustrative of this chasm, as restaurant owners south of I-670 received regular convention traffic, whereas those north of the highway received very little convention-related business.<sup>1</sup>

The location of the project is shown in Figure 1. Before the construction of the Cap at Union Station, the more prosperous southern neighborhood was separated from the less prosperous northern one by a pedestrian-unfriendly chain-link fence walkway. To heal the scar created by the expressway, the city sought to build a hard “cap” over it. Although other cities, such as Seattle and Kansas City, have erected convention centers and/or parks over urban highways, the objective of the I-670 cap would be to create a pedestrian and retail space, one of the first speculative real-estate projects of its kind.



Figure 1. Location of the Cap at Union Station Project

<sup>1</sup> Kathy Showalter, “Merchants Set to Open in The Cap at Union Station, Amid Concerns Over Parking,” Columbus Business First, August 30, 2004, <https://www.bizjournals.com/columbus/stories/2004/08/30/story1.html>.

A local developer, Continental Real Estate Companies, approached the city and expressed interest in investing in the project. The company signed a memorandum of understanding with the city in 1999 to jointly develop a cap. The city determined that the development should evoke Columbus's former Union Station, which was demolished in the 1970s to make way for the nearby convention center. A depiction of the old Union Station building is shown in Figure 2.



Source: Wikimedia Commons



Source: Wikimedia Commons

**Figure 2.** Union Station in 1970 (left) and North High Street in 1900 (right)

The memorandum of understanding (MoU) between Continental and the city of Columbus included the following:

- The city would pursue clear title to the air rights above the highway and obtain permission from the Ohio Department of Transportation (ODOT) and the Federal Highway Administration (FHWA) to construct the cap platforms.
- Once clear title was achieved and permits were obtained, Continental would enter into a ground lease for the platforms and construct the buildings.
- Continental would reimburse the city for up to \$75,000 in architectural fees for work completed prior to construction of the buildings on the cap.

The project was ultimately composed of three separate bridges: one for through-traffic across the highway, one for pedestrian bridges, and one for retail structures. Construction of the cap structures began in 2002, and Continental began work on the buildings in April 2003. Figure 3 depicts the final project.



Source: The Hyde Park Restaurant Group



Source: Copyright 2019 Google Earth

**Figure 3.** Restaurant Facade at The Cap (left) and an Aerial View of The Cap (right)

## REGULATORY CONSIDERATIONS

This section discusses the regulatory issues that arose during the project's development.

### Air Rights

Obtaining air rights over the development proved to be a hurdle. When I-670 was constructed, the State acquired only ground rights. The city attorney's office undertook a title search on the land parcels under the proposed cap. The process of finding the owners of the air rights and procuring clear title to the project site took 2 years.

### Permits from FHWA

FHWA places restrictions on use of highway easements for commercial use. Specific to this project and similar efforts involving private developers, it required that for the easement to be used for a non-highway project, fair market rent had to be charged to Continental for the use of the cap platforms. This proved challenging, because even without paying rent, Continental would need to charge above-market rates for retail leases to fund the project's construction cost. In addition, parking was severely limited, further reducing the investment's attractiveness.

Ultimately, Continental was not willing to pay any rent but instead negotiated an alternative arrangement whereby it would give the city 10 percent of the development's annual profits in lieu of paying rent, beyond a nominal \$1 annual lease for the platforms.

### Design Restrictions

The unique restrictions of a project above a highway meant that the city had to agree to the following:

- ODOT retained the right to evacuate the project in case of emergencies.
- No windows or signage were permitted on the back of the building.
- No access to the building's rear was allowed, such as via catwalk or the roof.

## MARKET CONSIDERATIONS

Key to the economic viability of the project was Continental's ability to secure long-term, above-market leases for the new buildings. Before Continental was able to secure financing, it secured tenants willing to pay rents that, at \$25–\$35 per square foot, were approximately 20- to 30-percent higher than those in the surrounding area.

Tenants were willing to pay higher rents because they valued the cachet of the location and proximity to the convention center. Continental also ensured a mix of day and night tenants to keep the space as active as possible. The space currently features a wine bar, a clothing store, an apparel and gift shop, and smaller specialty food stores.

## FUNDING PLAN

The funding plan consisted of a number of elements, as discussed in the following sections.

### Preliminary Design

The city spent \$115,000 on the preliminary design needed to secure the regulatory approvals. Per the MoU, Continental reimbursed the city for \$75,000 of this cost.

### Construction of the Cap and Bridges

ODOT agreed to pay \$1.3 million for the construction of the three bridges. The city paid the additional \$325,000 required to extend utilities to the platform via the concrete bay.

### Construction of the Retail Building

Continental assumed the entire cost of the improvements on top of the cap.

The company originally used the following to finance the construction:

- A \$4.2-million conventional loan.
- \$1.3 million in mezzanine debt.
- An equity contribution of \$500,000.

Later, after securing more tenants, Continental refinanced to a \$7-million conventional loan on more favorable terms. The additional financing was used to fund the higher-than-expected costs of tenant improvements.

The city also provided Continental a 10-year, 100-percent property tax abatement, improving the project's economics.

## COORDINATION AND PARTNERSHIP

Several partnerships were required to make the project successful, as discussed in the following sections.

### City–Developer

The relationship between the city and developer was important from the outset. In addition to the areas of cooperation in the MoU described previously, the city had to work with the developer on the difficult task of extending utilities across a bridge to the project. This was ultimately resolved with the design innovation of an internal concrete bay.

### Federal Highway Administration–City

Because FHWA funded the original construction of the expressway, the alternative use of the highway easement required FHWA approval and buy-in.

### Ohio Department of Transportation–City

Similarly, because ODOT would be operating the highway, all the design elements of the project required close coordination with and approval from ODOT.

### Other Planning Authorities

Prior to construction, Continental had to obtain design approval from the Downtown Commission, the Italian Village Commission, and the Victorian Village Commission.

## PROJECT TAKEAWAYS

This project highlights an innovative partnership among a private developer, a city, a State DOT and FHWA to support urban development. Key takeaways include the following:

- The project demonstrates how interstate-widening projects can contribute to urban renewal with limited incremental cost to government.
- Community groups originally opposed the I-670 widening but were appeased with the cap that increased urban walkability and provided accessibility to the Short North area. The widening was eventually built.
- Retailers are willing to pay a premium for locations with high accessibility and cachet.

