

# The Cap at Union Station, Ohio (The Rialto Bridge) - B

## 1 VALUE CAPTURE SUMMARY

This case focused on **air rights**, a form of joint development.

## 2 BACKGROUND TO THE PROJECT

The Cap at Union Station in Columbus, Ohio demonstrates how governments can partner with the private sector to create and share value in highway-related investments.

The origin of the Project began in 1995 when the City of Columbus (the City) was looking for a way to reconnect sections of downtown which had been bisected by the construction of interstate 670 (I-670), an inner-belt highway, some twenty years earlier. The construction of the expressway in the late 1970s became a barrier to the development of the area north of I-670, the Short North arts and entertainment district, and community groups opposed the proposed further widening of the expressway claiming it would further damage the urban landscape. For example, with a large convention center located downtown near the Interstate, “restaurateurs south of Interstate 670 said they enjoyed a steady stream of convention traffic, while those north of the highway largely reported no related business.”<sup>1</sup>

The location of the Project is shown in Figure 1 below. Before the construction of The Cap at Union Station Project, “what separated the haves from the have-nots was a 200-foot-long, chain-link-fence-bordered walkway spanning a busy highway below. It was a pedestrian no-man’s land.”

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<sup>1</sup> <https://www.bizjournals.com/columbus/stories/2004/08/30/story1.html>

**Figure 1: Location of the Project**

Source: Google Maps

To heal the scar created by the expressway, the obvious solution would be to build a hard cap over the expressway. While other cities such as Seattle and Kansas City have erected convention centers over urban highways, the objective of the I-670 Cap would be to create pedestrian and retail space, one of the first speculative real estate Projects of its kind.

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. It was determined that the development should evoke Union Station which was demolished in the '70s to make way for the nearby convention center. A depiction of the earlier Union Station is shown in Figure 2 and Figure 3.

**Figure 2: Union Station in 1970**

Source: Wikimedia Commons

**Figure 3: N High Street in 1900**

Source: Wikimedia Commons

By comparison, a depiction of the eventually-constructed Project is shown in Figure 4 and Figure 5.

**Figure 4: A Restaurant Facade at The Cap****Figure 5: The Cap from Above**



Source: Hyde Park Restaurants



Source: Wikimedia Commons

Under the terms of the Memorandum between Continental and the City:

- The City would pursue clear title to the air rights above the highway and obtained permission from ODOT and the Federal Highway Administration (FHWA) to construct the Cap platforms
- Once the above was achieved, Continental would enter 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 that was necessary 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, and one on either side for the retail structures. Construction of the Cap structures began in 2002, with Continental beginning work on the buildings in April 2003.

### 3 REGULATORY ISSUES

This section discusses some of the regulatory issues that arose in the development of the Project.

#### **Air Rights**

Gaining air rights over the development proved to be a hurdle. When the original 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. This process required two years to find the owners of the air rights and for the City to procure clear title to the Project site.

#### **Permits from FHWA**

FHWA places restrictions on use of highway easements for commercial use. It requires that for the easement to be used for a non-highway use, fair market rent must be charged to Continental for the use of the Cap platforms. This proved challenging for several reasons:

- Even without paying rent, Continental would need to charge above-market rates for retail lease to fund the construction cost
- Parking was severely limited, further reducing the attractiveness of the investment.

Ultimately, Continental was not willing to pay any rent, and the City was able to negotiate an alternative arrangement whereby the City would share in 10% of the ongoing profits of the development in lieu of paying rent (the platforms were leased to Continental for a nominal \$1 per year).

### **Design Restrictions**

The unique restrictions of a Project above a highway meant the City had to agree:

- 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 rear of the building was allowed (i.e. via catwalk), nor to the roof

## **4 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. In advance of securing financing, Continental secured tenants willing to pay rents that were approximately 20 to 30 percent higher than those in the surrounding area. At \$25 to \$35 per square foot (\$269 to \$367 per square meter).

The higher rents were enabled because tenants valued the cachet of the new location, and proximity to the convention center. Continental also took care to ensure 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 a few smaller specialty food stores.

## **5 COORDINATION AND PARTNERSHIP**

Several partnerships are required to make the Project successful.

### **City-Developer**

The relationship between the City and Developer was important from the outset of the Project. In addition to the areas of cooperation in the MoU described above, the City has to work with the

Developer on the difficult task of extending utilities to the Project across a bridge. This was ultimately resolved with a design innovation of an internal concrete bay.

### **FHWA-City**

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

### **ODOT-City**

Similarly, since ODOT would be operating the highway, all of the design elements of the Project required close coordination with and sign off from ODOT.

### **Other planning authorities**

Prior to constructing the Cap buildings, Continental had to get design approval from the Downtown Commission, the Italian Village Commission, and the Victorian Village Commission.

## **6 FUNDING PLAN**

The Project had many component costs, and associated funding needs.

### **Preliminary design**

The City spent \$115,000 on the preliminary design needed to secure the necessary regulatory approvals. Per the MoU, Continental reimbursed the City \$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 an 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.

To finance the construction, the company originally used:

- 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 for tenant improvements.

Continental also received a ten-year, 100% tax abatement on the property for the City, improving the Projects' economics.

## 7 TAKEWAYS

The Project shows an innovative partnership between a private developer, a City, a state DOT and FHWA to support urban development. Key takeaways include:

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

## SOURCES

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2. Kamin, Blair. Ohio Highway Cap at Forefront of Urban Design Trend. Chicago Tribune, 27 Oct. 2011, [www.chicagotribune.com/news/ct-xpm-2011-10-27-ct-met-kamin-highway-caps-20111027-story.html](http://www.chicagotribune.com/news/ct-xpm-2011-10-27-ct-met-kamin-highway-caps-20111027-story.html).
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4. Showalter, Kathy. "Merchants Set to Open in the Cap at Union Station, amid Concerns over Parking." Columbus Business First, 30 Aug. 2004, <https://www.bizjournals.com/columbus/stories/2004/08/30/story1.html>.