

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: April 11, 2017
RE: PILOT Application – 158 Vance Avenue

The enclosed PILOT application has been submitted for consideration at the April 11, 2017, CCRFC Board Meeting.

Project: 158 Vance Avenue – Capital Pictures Building

Applicant: 158 Ventures LLC
c/o Todd Strickland
119 S. Main St. #300
Memphis, TN 38103

Applicant's Request: 8-year PILOT lease for adaptive reuse project to include office space and on-site parking

Project Description: The subject property consists of two adjoining parcels located on the north side of Vance Avenue, in the block between Second Street and B.B. King Boulevard. The applicant will renovate the primary building on site for office use as the headquarters of a creative and marketing firm with over thirty employees. The property is under contract by the applicant, with closing pending PILOT approval.

This area, once known as film row, was home to several film distribution and storage facilities. The primary building on site is the vacant 1-story historic Capital Pictures building (Parcel ID 002130 00009C). This structure will be renovated for office use. An adjoining warehouse to the east (Parcel ID 002130 00011C) will be adapted into an employee parking garage with colorful murals and public art on the exterior walls. The total project includes 17,250 leasable square-feet and 32 parking spaces. An existing loading dock will be reimagined as a landscaped courtyard facing Vance Avenue.

Subject to approval of an 8-year PILOT, the applicant intends to begin construction this fall. Project completion is possible by the second quarter of 2018.

It should be noted that the warehouse parcel received a 10-year PILOT from the CCRFC in 1993. That PILOT is

currently in the extension period and set to expire in 2018. The existing PILOT would be terminated in the event that the applicant receives CCRFC approval for this new project.

Project Budget:

The total development cost of the project is approximately \$3,096,607.

To be eligible for a PILOT, the value of the proposed building renovations, site improvements, or new construction must be equal to, or greater than, at least 60% of the total project cost. Based on the preliminary budget, the project meets this requirement.

The following describes the sources and uses of funding:

Sources:

Owner's Equity	\$154,830	(5%)
Financing	\$2,941,777	(95%)
Total Sources	\$3,096,607	(100%)

Uses:

Property Cost	\$500,000	(16%)
Hard Costs	\$2,149,875	(69%)
Misc. (art, lighting, signage)	\$48,400	(2%)
Soft Costs	\$398,332	(13%)
Total Uses	\$3,096,607	(100%)

Project Grading:

Per the PILOT scoring system, the project can achieve a maximum grade of 8 years with approved public art and enhanced architectural lighting.

Primary Qualification:

Office (15,000 - 50,000 sf) 2 Years

Total Project Development Costs:

\$1-5 Million 1 Year

Community-Based Initiative

South City Impact Area 3 Years

Design & Energy

Public Art 1 Year

Enhanced Architectural Lighting 1 Year

Total Grade: 8 Years

Applicant's Request: The applicant is requesting approval of an 8-year PILOT. According to the applicant, approval of a PILOT is necessary for the project to be financially viable and attract financing. Without a PILOT tax incentive, the project proforma shows a deficient debt coverage ratio and negative return on equity.

Design Review Board: The applicant intends to submit design plans to the DRB in the coming months.

EBO Program: Any project that is awarded financial incentives from the Downtown Memphis Commission (DMC), or any of its affiliate boards, shall include a best faith effort to attain no less than 20% participation by women and/or minority-owned businesses (W/MBEs) in the project's development costs (design soft costs and construction hard costs). Compliance with this Equal Business Opportunity (EBO) Program is a closing requirement. If the requirements of the EBO Program are not met, the CCRFC reserves the right to cancel the incentive.

According to the above estimates, a 20% level of W/MBE inclusion for the combined hard and soft costs would be approximately **\$519,321**.

Estimated Payments: The current annual city and county taxes on the property total \$20,715. A PILOT would allow for the buildings to be renovated and brought back into productive use. During the 8-year PILOT term, the annual payment in lieu of taxes would equal \$30,738. This represents a 45% increase from the amount of taxes currently generated by the property. Over the course of the 8-year PILOT term, the cumulative increase in taxes generated by these two parcels would be approximately \$80,182.

Staff Evaluation: Based on the submitted application and the accompanying 8-year pro forma, staff agrees with the applicant that a PILOT is needed for the project to be viable and attract financing.

The DMC's Strategic Plan encourages facilitating and accelerating real estate development, incentivizing Downtown development when necessary to increase investment and economic development, and fighting blight to improve the visual appearance of the built environment.

DMC staff is highly supportive of this project for several reasons. First, the renovation and adaptive reuse of existing buildings is an important goal of the CCRFC and the Downtown Memphis Commission (DMC). Putting this

vacant historic building back into productive use will be a noticeable improvement to a property located only two blocks south of FedEx Forum. Additionally, the building is prominently seen from B.B. King Boulevard, a major gateway into Downtown from the south.

Second, the project is situated between the South Main and South City neighborhoods. Adding new businesses, employees, and points of interest in this section of Downtown will benefit both neighborhoods and further strengthen the growing momentum of South City as commercial activity and investment begins to move east.

Finally, approving a PILOT for this project actively supports a local company in their efforts to invest in permanent office space in Downtown Memphis. Recruiting and retaining Downtown office users, especially creative firms, is a top goal for the DMC and its affiliate Boards.

Recommendation:

Staff recommends approval of an 8-year PILOT, subject to all standard closing requirements and conditions.

PILOT Request	
Requested PILOT Term (years)	8.0
Project Type	Rehabilitation
Located in the CBID?	Yes
Current Amounts	
Base Appraisal	\$666,500
Base Assessment	\$266,600
Annual City Tax on Base Assessment	\$9,064
Annual County Tax on Base Assessment	\$11,650
Annual RE Taxes on Base Assessment	\$20,715
Project Costs	
Acquisition Cost	\$500,000
Hard Costs	\$2,149,875
Soft Costs	\$416,073
Total Project Costs w/o PILOT fee	\$3,065,948
Hard Costs Investment Check - 70.1%	YES
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$3,065,948
PILOT fee	\$30,659
Total Project Costs w/ PILOT fee	\$3,096,607
Valuation & CBID Assessment	
Base Appraisal	\$666,500
Percentage of Hard Costs	\$1,289,925
Estimated Appraisal after Improvements	\$1,956,425
Estimated Assessment after Improvements	\$782,570
Estimated Annual CBID Assessment after Improvements	\$5,022
Annual RE Taxes	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$26,607
Estimated Hypothetical Annual County Tax without PILOT*	\$34,198
Estimated Hypothetical Total Annual Taxes without PILOT*	\$60,806
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$13,450
Estimated Annual County Tax with PILOT	\$17,287
Estimated Total Annual Taxes with PILOT	\$30,738
Estimated Annual Benefit	\$30,068
Cumulative RE Taxes	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$212,859
Estimated Hypothetical Cumulative County Tax without PILOT*	\$273,586
Estimated Hypothetical Total Cumulative Taxes without PILOT*	\$486,446
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Tax with PILOT	\$107,601
Estimated Cumulative County Tax with PILOT	\$138,299
Estimated Total Cumulative Taxes with PILOT	\$245,900
Estimated Cumulative Benefit over 8-Year PILOT	\$240,545
Estimated Cumulative Increase in Taxes due to PILOT	\$80,182

45%

*Staff has concluded that this project would not go forward without a PILOT. Hence, the "Estimated Hypothetical" amounts are fictional/moot numbers used to calculate the benefit of the PILOT to the project. The benefit figure does not represent lost tax revenue to the City or County. Without the PILOT, the property would remain unimproved and the tax assessment would continue to be based upon the unimproved value. With the PILOT, the amount listed above as "Estimated Cumulative Increase in Taxes due to PILOT" would be the approximate benefit over the PILOT term to the City and County from newly generated property tax revenue. That amount does not include any new sales taxes that will be generated by the construction and operation of the project. Furthermore, after the PILOT term has finished, it is expected that the annual taxes will be approximate to the amount listed as "Estimated Hypothetical Total Annual Taxes without PILOT".

Parcel ID	Appraisal
002130 00009C	\$ 174,500.00
002130 00011C	\$ 492,000.00

Total Appraisal: \$ 666,500.00