

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: Nov 6, 2018
RE: PILOT Application: 27 W. Carolina

The enclosed PILOT application has been submitted for consideration at the Nov 13, 2018, CCRFC Board Meeting.

Project: 27 W. Carolina

Applicant/Owner: Mr. Dustin Hamilton
Hamilton & Holliman
10 S. Main Street, Suite 100
Memphis, Tennessee 38103

Applicant's Request: 15-year PILOT lease for a mixed-use development.

Project Description: This application is a revised version of a project that was previously approved by the CCRFC in May of 2018. The originally proposed development consisted of a six-story mixed-use building to be constructed on currently vacant land near the intersection of Carolina and Florida. A vacant 3-story warehouse on an adjacent parcel was not included in the original project, but it was planned to be renovated in a future second phase. The applicant now plans to complete the renovation of the warehouse concurrently with the new-construction portion of the project, increasing the number of apartment units from 57 to 79. The table below shows more details on how the revised project differs from the original proposal:

	Approved Project	Revised Project
Built Area	79,560 sq. ft.	106,860 sq.ft.
Apartment Units	57	79
Retail Space	8,000 sq. ft.	5,000 sq. ft.
Parking Spaces	69	108

The following parcels are included in the proposed project (parcels in bold have been added in the revision):

- 012051 00002
- 012051 00003
- 012051 00004
- **012051 00011**
- **012051 00012**

Project Budget:

The total development cost of the project is approximately \$10,441,227. 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:

Bank loan	\$8,248,569	(79%)
Equity	\$2,192,658	(21%)
Total Sources	\$10,441,227	(100%)

Uses:

Land	\$500,000	(4.8%)
Hard costs	\$9,109,000	(87.2%)
Professional fees	\$510,004	(4.9%)
Permits & Testing	\$20,000	(.2%)
Legal, Insurance & Marketing	\$150,000	(1.4%)
PILOT fee	\$152,123	(1.5%)
Total Uses	\$10,441,227	(100%)

Project Grading:

Per the PILOT scoring system, the project has a grade of 15 years.

Primary Qualification:

Residential (51+ units) 6 Years

Secondary Qualification:

Retail (5,000-9,000 sf) 1 Year

Total Project Development Costs:

\$5 - 10 Million 2 Years

Priorities & Initiatives

Located within CBID 3 Years
Fronting the Main to Main route 3 Years

Total Grade: 15 Years

Applicant's Request: The applicant is requesting approval of a 15-year PILOT. According to the applicant, approval of a PILOT is necessary for the project to be economically viable and attract financing. Without a PILOT tax incentive, the project proforma shows a negative cash flow, deficient debt coverage ratio, and low returns on both equity and investment.

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 25% 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.**

The following project costs are subject to the EBO program:

Hard costs \$9,109,000
Professional fees \$510,004

According to the above estimates, a 25% level of W/MBE inclusion for the combined hard and soft costs will be approximately **\$2,404,751**.

Design Review Board: The applicant will submit revised plans to the DRB in the coming months.

Estimated Payments: The current annual city and county taxes on the property total **\$14,373**. A PILOT would allow for a new building to be constructed on a vacant lot, and for a vacant building to be extensively renovated. During the 15-year PILOT term, the annual payment in lieu of taxes would equal **\$61,440**. This represents a **327%** increase from the amount of taxes currently generated by the property. Over the course of the 15-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$705,998**.

Staff Evaluation:

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

In May, our staff gave two primary reasons for supporting the original 27 W. Carolina proposal: it would help build residential population and density downtown, and add commercial space to the South End neighborhood. The revised project still accomplishes these two goals, while further increasing residential population, and putting a vacant building back in use.

For these reasons, staff strongly supports the approval of this revised application.

Recommendation:

Staff recommends approval of an up to 15-year PILOT subject to the applicant achieving the proposed grading enhancements and meeting all standard closing requirements and conditions.