

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: February 14, 2017
RE: PILOT Application – 477 S. Main St. & 484 S. Front St.

The enclosed PILOT application has been submitted for consideration at the February 14, 2017, CCRFC Board Meeting. The following report describes the project.

Project: **477 S. Main St. & 484 S. Front St.**

Applicant: 477 Memphis Hotel, LLC
c/o Wessman Development
555 Sunrise Way, Suite 200
Palm Springs, CA 92264

Applicant's Request: 15-year PILOT lease for adaptive reuse project for a new hotel development with ancillary commercial space

Project Description: The proposed development involves the adaptive reuse and renovation of two separate but adjacent historic buildings in the heart of the South Main district. The 5-story building at 477 S. Main Street (Parcel ID# 002107 00002) was originally built in 1913 as a storage warehouse at the southwest corner of South Main Street and Butler Avenue. Most recently used as the Memphis College of Art (MCA) Graduate School, the building will be fully renovated and converted into a 62-key boutique hotel. Property amenities will include two restaurant/bar concepts (8,082 sq. ft.), over 1,000 sq. ft. meeting space, and a gym.

The second building included in the development is located immediately to the west, at 484 S. Front Street (Parcel ID# 002107 00001). This 1-story historic warehouse building is situated at the southeast corner of Butler Avenue and South Front Street. Renovation of the circa 1947 structure will yield approximately 5,500 sq. ft. of retail/commercial space and 90 parking spaces to support the hotel development. 62 of these parking spaces will be located within the 484 S. Front

building and the remaining spaces will be on-site surface parking.

The applicant also proposes to make pedestrian-friendly improvements along Butler Avenue. The goal of these enhancements is to better connect the two adjacent parcels through sidewalk repair, landscaping, and public art. To that end, the developer looks to work with the railroad to add additional pedestrian-focused lighting and a public art mural beneath the railroad trestle along Butler Avenue between Main Street and Front Street.

Subject to approval of a PILOT, the applicant intends to begin construction in April, 2017, with completion possible by the second quarter 2018.

Project Budget:

The total development cost of the project is approximately \$14,206,000.

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 sixty percent (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	\$3,800,000
Internal Loan from Partner	\$10,406,000
Total Sources	\$14,206,000

Uses:

Hard Costs

Restaurant construction	\$675,000
Hotel construction	\$7,150,000
Utility/Tech infrastructure	\$278,000
Construction contingency	\$500,000

Soft Costs

Design & entitlements	\$225,000
Interior Design	\$75,000
Arrive tech. services fee	\$150,000

FF&E	\$1,803,000
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Land & Acquisition \$3,350,000

Total Uses: \$14,206,000

Project Grading:

Per the PILOT scoring system, the project has a base grade of 15.5 years and could even achieve a maximum grade of 17.5 years with approved public art and enhanced architectural lighting. However, current program policy caps the PILOT term at 15 years.

Primary Qualification:

Hotel (51-100 Rooms) 4 Years

Secondary Qualification:

Retail (10,000 – 14,999 sf) 1.5 Years

Total Project Development Costs:

\$10-15 Million 3 Years

CCRFC Priorities

Renovation – Contributing NR 4 Years

Fronting Main-to-Main 3 Years

Other Possible Credits:

Approved Public Art 1 Year

Enhanced Architectural Lighting 1 Year

Total Grade: 17.5 Years

Requested PILOT Term 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 financially viable and attract equity partners. Without a PILOT tax incentive, the project proforma shows both an insufficient cash flow and below standard return on equity based on the perceived level of project risk.

Design Review Board:

The applicant intends to submit design plans to the DRB in the coming months.

Smart Hotel Strategy:

Over the last two years, Downtown has seen numerous hotel projects enter the development pipeline. In late 2015, the CCRFC determined that Downtown PILOTs should typically be reserved

for full-service hotels that will support the Convention Center and help grow the overall convention market in Memphis. However, while this project does not fall into the category of full-service hotel, it strongly aligns with the DMC's strategic objectives of bringing vacant historic buildings back into productive use and increasing vibrancy and animation along targeted commercial corridors.

First and foremost, the project involves the adaptive reuse of two separate historic buildings. The renovation and reuse of vacant historic buildings has long-been a high priority of the DMC. Secondly, the Arrive Hotel brand will be a high-quality boutique hotel situated on a key corner in the commercial heart of the South Main Historic District. Having this 5-story building fall out of active use would be a significant blow to the hard-fought vibrancy that the DMC, its affiliate boards, and neighborhood stakeholders have spent decades building. Finally, in addition to the primary hotel use, the development involves adding two restaurants and retail space to the neighborhood that will enhance the diverse retail and commercial offerings in the area. These unique aspects separate this project from most other select-service or limited-service hotel projects, and make it a strong candidate for a PILOT.

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.

The following project costs are subject to the EBO Program:

Restaurant construction	\$675,000
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Hotel construction	\$7,150,000
Design & entitlements	\$225,000
Interior Design	\$75,000
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Total:	\$8,125,000

According to the above estimates, a 20% level of W/MBE inclusion for the costs related to design and construction would be approximately **\$1,625,000.**

Estimated Payments:

The current annual city and county taxes on the property total \$121,650. A PILOT would allow for the buildings to be renovated and brought back into productive use. During the 15-year PILOT term, the annual payment in lieu of taxes would equal \$161,757. This represents a 33% increase from the amount of taxes currently generated by the property. Over the course of the 15-year PILOT term, this cumulative increase in taxes generated by these two parcel is approximately \$601,608.

Staff Evaluation:

Based on the submitted application and the accompanying 15-year proforma, staff agrees with the applicant that a PILOT is needed for the project to be viable and attract equity investment.

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 Downtown.

The subject property sits at a key location in the heart of the South Main District. The addition of a high-quality boutique hotel will further enhance the neighborhood by providing around-the-clock animation, and drawing in new customers for the restaurants and retail in the area. Moreover, the development of these two vacant historic buildings will effectively revitalize an entire block stretching from South Main Street to South Front Street. The ancillary lighting and sidewalk improvements planned along Butler Avenue will be consistent with the DMC's neighborhood

priorities of increasing walkability and safety while adding public art and new points of interest to the district.

Staff is highly supportive of this project and believes that the proposed development will only strengthen the momentum created by the over \$100 Million in investment that is currently planned or underway in the South Main District.

Recommendation:

Staff recommends approval of a 15-year PILOT, subject to all standard closing requirements and conditions.

PILOT Request	
Requested PILOT Term (years)	15.0
Project Type	Rehabilitation
Located in the CBID?	Yes
Current Amounts	
Base Appraisal	\$3,914,100
Base Assessment	\$1,565,640
Annual City Tax on Base Assessment	\$53,232
Annual County Tax on Base Assessment	\$68,418
Annual RE Taxes on Base Assessment	\$121,650
Project Costs	
Acquisition Cost	\$3,350,000
Hard Costs	\$8,603,000
Soft Costs	\$2,253,000
Total Project Costs w/o PILOT fee	\$14,206,000
Hard Costs Investment Check - 60.6%	YES
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$14,206,000
PILOT fee	\$213,090
Total Project Costs w/ PILOT fee	\$14,419,090
Valuation & CBID Assessment	
Base Appraisal	\$3,914,100
Percentage of Hard Costs	\$5,161,800
Estimated Appraisal after Improvements	\$9,075,900
Estimated Assessment after Improvements	\$3,630,360
Estimated Annual CBID Assessment after Improvements	\$23,532
Annual RE Taxes	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$123,432
Estimated Hypothetical Annual County Tax without PILOT*	\$158,647
Estimated Hypothetical Total Annual Taxes without PILOT*	\$282,079
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$70,782
Estimated Annual County Tax with PILOT	\$90,976
Estimated Total Annual Taxes with PILOT	\$161,757
Estimated Annual Benefit	\$120,322
Cumulative RE Taxes	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$1,851,484
Estimated Hypothetical Cumulative County Tax without PILOT*	\$2,379,701
Estimated Hypothetical Total Cumulative Taxes without PILOT*	\$4,231,185
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Tax with PILOT	\$1,061,728
Estimated Cumulative County Tax with PILOT	\$1,364,633
Estimated Total Cumulative Taxes with PILOT	\$2,426,361
Estimated Cumulative Benefit over 15-Year PILOT	\$1,804,823
Estimated Cumulative Increase in Taxes due to PILOT	\$601,608

*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".