

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: March 14, 2017
RE: PILOT Application – Medical Arts Building, 240 Madison & 251 Court

The enclosed PILOT application has been submitted for consideration at the March 14, 2017, CCRFC Board Meeting.

Project: **Medical Arts Building, 240 Madison & 251 Court**

Applicant: Walk-Off Properties, LLC
Representative – Stuart Harris
6070 Poplar Ave. Suite 300
Memphis, TN 38119

Applicant's Request: 15-year PILOT lease for adaptive reuse project to create office space, apartments, and ground-floor retail

Project Description: The historic Medical Arts Building, also known as the Hickman Building and located at 240 Madison Ave (Parcel ID: 002026 00011), is planned to be renovated as a mixed-use building. A nearby blighted and vacant building at 251 Court Avenue (Parcel ID: 002026 00010) will also be repurposed into a garage to provide parking in support of the project.

The Medical Arts Building was constructed circa 1925 as an eight-story office building with an adjacent two-story parking garage. This historic structure, an example of the Commercial Gothic Revival style, is individually listed on the National Register of Historic Places.

The development includes 60,000 leasable square-feet with a committed long-term office tenant, 40 rental apartments, and ground-floor retail space. A principle investor has also committed to a long-term lease of the roof-top shell space, which will be finished as a penthouse apartment as a separate project.

Subject to approval of a 15-year PILOT, the applicant intends to begin construction in April, 2017, with completion possible in the first quarter 2018.

<u>Total Project Development Costs:</u>	
\$15-20 Million	4 Years
<u>CCRFC Priorities</u>	
Renovation – Individual NR	5 Years
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Total Grade:	16 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 financing. Without a PILOT tax incentive, the project proforma shows a deficient debt coverage ratio and low return on investment given the project complexity and risk.

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 **\$2,991,487**.

Estimated Payments: The current annual city and county taxes on the property total \$19,447. 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 \$53,072. This represents a 173% 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 these two parcels would be approximately **\$504,385**.

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 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.

Redevelopment of the Hickman building has long been a high priority of the DMC. This property has perennially been a DMC target for redevelopment given its high profile location on Madison Avenue and the architectural value of the building. The property is also located within the Downtown Core, an area of renewed focus for the DMC.

Moreover, the vacant property is located near several significant Downtown sites, including AutoZone Park, Downtown Elementary, Visible Music College, Hotel Napoleon, YMCA, Fielder Square Apartments, and the First Tennessee building. Putting this empty building back into productive use will remove an impediment to the area's continued growth and vibrancy. The diverse mix of complementary uses introduced by this redevelopment will further enhance its positive impact by adding new activity along the street throughout the day.

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	\$625,700
Base Assessment	\$250,280
Annual City Tax on Base Assessment	\$8,510
Annual County Tax on Base Assessment	\$10,937
Annual RE Taxes on Base Assessment	\$19,447
Project Costs	
Acquisition Cost	\$1,157,700
Hard Costs	\$12,824,433
Soft Costs	\$2,094,297
Total Project Costs w/o PILOT fee	\$16,076,430
Hard Costs Investment Check - 79.8%	YES
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$16,076,430
PILOT fee	\$241,146
Total Project Costs w/ PILOT fee	\$16,317,576
Valuation & CBID Assessment	
Base Appraisal	\$625,700
Percentage of Hard Costs	\$7,694,660
Estimated Appraisal after Improvements	\$8,320,360
Estimated Assessment after Improvements	\$3,328,144
Estimated Annual CBID Assessment after Improvements	\$21,568
Annual RE Taxes	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$113,157
Estimated Hypothetical Annual County Tax without PILOT*	\$145,440
Estimated Hypothetical Total Annual Taxes without PILOT*	\$258,597
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$8,510
Estimated Annual County Tax with PILOT	\$44,563
Estimated Total Annual Taxes with PILOT	\$53,072
Estimated Annual Benefit	\$205,524
Cumulative RE Taxes	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$1,697,353
Estimated Hypothetical Cumulative County Tax without PILOT*	\$2,181,598
Estimated Hypothetical Total Cumulative Taxes without PILOT*	\$3,878,952
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Tax with PILOT	\$127,643
Estimated Cumulative County Tax with PILOT	\$668,443
Estimated Total Cumulative Taxes with PILOT	\$796,086
Estimated Cumulative Benefit over 15-Year PILOT	\$3,082,865
Estimated Cumulative Increase in Taxes due to PILOT	\$504,385

**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".*