

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: June 5, 2018
RE: PILOT Request – 138 Huling Ave.

The enclosed request is for consideration at the June 12, 2018, CCRFC Board Meeting.

Project: 138 Huling Avenue

Applicant/Owner: 138 Partners, LLC

Representatives: Robert E. Mallory
229 East Chickasaw Coves
Memphis, TN 38111

Mark Parmley
56 W. Calhoun Ave.
Memphis, TN 38103

Vince Smith, Jr.
355 Tara Lane
Memphis, TN 38111

Applicant's Request: 10-Year PILOT for new construction for 68 rental apartments with on-site parking.

The following parcels are included in this application:

- Parcel ID 002119 00003
- Parcel ID 002119 00004

Property Background: The subject property is located at the northeast corner of Huling Avenue and Mulberry Street. The site consist of attached vacant buildings on two parcels covering about 0.6 acres. Once home to Lucky Cosmetics, the oldest portions of the building date back to 1901. A more recent addition to the east was added in 1956.

Project Scope: Contingent upon PILOT approval, the applicant plans to demolish the existing buildings on site and construct a new 4-story building. The new building will include a 76-space parking structure on the lowest level and 68 residential units above. Unit size will vary from 580 sf micro units, 830 sf studio lofts, and up to 1,268 sf for two-bedroom units.

Due to the significant grade change and sloping of the site, the parking level will be partially buried below grade. Parking access for residents will be from St. Martin Street.

Project financing is scheduled to close in August 2018. Construction will likely begin in September 2018 and could be completed by August 2019.

Development Budget:

The total development cost is approximately \$9,270,000. 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 60% of the total project cost. Based on the preliminary budget, the project meets this requirement.

Sources:

Equity	\$1,390,500	(15%)
Bank Loan	\$7,879,500	(85%)
Total Sources	\$9,270,000	(100%)

Uses:

Land	\$800,000	(8.6%)
Demolition	\$250,000	(3%)
Parking construction	\$850,000	(9%)
Hard Costs	\$6,250,000	(67%)
Architect/Engineering	\$300,000	(3%)
Utility work	\$150,000	(1.7%)
Interest	\$350,000	(3.7%)
Contingency	\$250,000	(3%)
Legal/Closing	\$70,000	(1%)
Total Uses	\$9,270,000	(100%)

PILOT Grade:

Per the PILOT scoring system, the project achieves a base grade of 11 years.

Primary Qualification:

Residential (above 51 Units) 6 Years

Total Project Development Costs:

\$5-10 Million 2 Years

Priorities & Initiatives

Located within CBID 3 Years

Total Base Grade: 11 Years

Applicant's Request: 10 Years

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 minority and/or women-owned businesses (M/WBEs) 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:

Demolition	\$250,000
Parking hard costs	\$850,000
Hard costs	\$6,250,000
Architect/Engineering Fees	\$300,000
Total	\$7,650,000

According to the above estimates, a 20% level of M/WBE inclusion for the combined hard and soft costs will be approximately **\$1,530,000**.

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

Affordable Housing Policy: Per the CCRFC's program policies, residential projects with 51 or more units are subject to, and must be compliant with, DMC's affordable housing policy. That policy requires that at least 20% of the residential units shall be occupied by or held available solely for individuals and families of low and moderate income such that the percentage of median gross income shall not exceed 80% of the media income for Shelby County, Tennessee.

Estimated Payments: The current annual city and county taxes on the property total **\$7,842**.

During the 10-year PILOT term, the annual payment in lieu of taxes would equal approximately **\$51,245**. This represents a **553%** increase from the amount of taxes currently generated by the property. Over the course of the 10-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$434,031**.

Staff Evaluation: 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 the following: facilitating and accelerating real estate development, incentivizing development when necessary to increase investment and economic development, and fighting blight to improve the visual appearance of the built environment.

Staff is supportive of the proposed PILOT for several reasons. First, the development will remediate the vacant and blighted condition of the existing buildings on site. Given the adjacency of the subject property to the landmark that is the National Civil Rights Museum, improving the condition of this vacant property is even more significant.

Secondly, new investment at this location directly addresses both of DMC's dual strategic goals of increasing population density and improving commercial property values Downtown.

Lastly, new investment located between South Main Street to the west and South Third Street to the east is needed to help knit together the heart of the South Main neighborhood and the South City neighborhood. Strengthening the connection between these two important Downtown neighborhoods is a key objective for the DMC and its public sector partners.

Recommendation:

Staff recommends approval of a 10-Year PILOT, subject to all standard approval requirements and conditions.