

# Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)  
From: DMC Staff  
Date: June 5, 2018  
RE: PILOT Request – 164 Union Avenue

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

**Project:** **164 Union Avenue**

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Applicant: MHF Memphis VI LLC  
300 Centerville Road  
Warwick, RI, 02886

Applicant's Representative: Alexandra Clegg  
300 Centerville Road  
Warwick, RI, 02886

Current Owner: MNR Hospitality LLC  
622 Rivergate Pkwy  
Goodlettsville, TN 37072

Applicant's Request: 15-Year PILOT for construction of a new full-service hotel.

Background: The subject property is located at the northwest corner of Union Ave. and B.B. King Blvd. The existing structure on site was formerly the Benchmark Hotel, and it has been vacant since 2011.

In December 2012, MNR Hospitality purchased the former Benchmark Hotel property more than one year after the 124-key hotel closed. In 2016, MNR Hospitality began a partial demolition of the building, leaving only the concrete structure in place.

Due to the blighted condition of the property, the Downtown Memphis Commission (DMC) filed an anti-blight legal action in the Memphis and Shelby County Environmental Court under the Neighborhood Preservation Act. In February 2018, the building was declared a public nuisance by the Court. On March 1, 2018, MHF Properties V, LLC (an affiliate of the PILOT Applicant) entered into a purchase and sale agreement to purchase the property.

Project Scope:

Contingent upon PILOT approval, the applicant will demolish the existing structure on site and redevelop the site as a 4+ star full-service hotel with approximately 170-keys. Existing basement parking will be used. The new 5-story hotel will feature a ground-floor bar/restaurant space at the corner of Union Avenue and B.B. King Blvd.

Construction is planned to begin in Q1 2019 and be complete by Q1 2020. The applicant will start the project earlier, if possible, subject to the timing of construction documents, financing, and permitting.

The following parcel is included in this PILOT application:

- 164 Union Ave (Parcel ID 002054 00003C)

Development Budget:

The total development cost is approximately \$42,972,661. 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	\$15,040,431	(35%)
Debt	\$27,932,230	(65%)

<b>Total Sources</b>	<b>\$42,972,661</b>	<b>(100%)</b>
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**Uses:**

Land	\$7,250,000	(17%)
Hard Costs	\$27,335,000	(64%)
Soft Costs	\$7,310,000	(17%)
Transaction Costs	\$1,077,161	(2%)

<b>Total Uses</b>	<b>\$42,972,661</b>	<b>(100%)</b>
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PILOT Grade:

Per the PILOT scoring system, the project achieves a base grade of 14 years and could achieve a total of 16 years with approved public art and enhanced architectural lighting. PILOTs are limited to 15 years per CCRFC policy.

**Primary Qualification:**

Hotel (101-200 rooms)	5 Years
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**Total Project Development Costs:**

\$20+ Million	5 Years
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Priorities & Initiatives:

Located within CBID	3 Years
New construction in DT Core	1 Year

Optional Credits:

Public Art	1 Year
Enhanced Architectural Lighting	1 Year

**Total Base Grade: 14 Years**

**Total Grade with Art & Lighting: 16 Years**

**Applicant's Request: 15 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 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:

Renovation Hard Costs	\$20,600,000
Construction Contingency	\$2,485,000
Architect Fees	\$1,236,000
<b>Total</b>	<b>\$24,321,000</b>

According to the above estimates, a 20% level of W/MBE inclusion for the combined hard and soft costs will be approximately **\$4,864,200**.

Design Review Board:

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

Hotel Policy:

In 2015, the CCRFC Board determined that PILOTs for new construction hotel projects should typically be reserved for larger, full-service hotels. The Board's rationale was that smaller, limited-service hotels do not help grow Downtown's visitor and convention market. Additionally, new construction limited-service hotels showed pro formas and financial projections that did not require a PILOT to be financially viable. The Board did make it clear that boutique hotels and adaptive reuse projects are still desired Downtown and would be evaluated on a case-by-case basis.

Moreover, blight remediation is a high priority for the DMC and its affiliate agencies, including the CCRFC.

**Estimated Payments:**

The current annual city and county taxes on the property total **\$41,996**.

During the 15-year PILOT term, the annual payment in lieu of taxes would equal approximately **\$203,852**. This represents a **385%** 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 **\$2,427,834**.

**Staff Evaluation:**

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 agrees with the applicant that a 15-year PILOT is needed for the project to be viable and attract financing.

Remediating the blighted condition of the former Benchmark Hotel has been a top priority for the DMC over the past 18-24 months. That focus is in large part due to the highly prominent location of this property. Union Avenue is a key gateway to Downtown Memphis from the east and over 350,000 people attended a Redbirds game at the adjacent AutoZone Park last year alone. Additionally, significant numbers of both locals and tourists pass the site on their way to the Peabody Hotel, the Rendezvous restaurant, Beale Street, and other nearby points of interest.

Staff is in full support of the requested PILOT due to the anticipated positive impact of the \$42.9M investment at this prominent location.

**Recommendation:**

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