

# Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC) Board of Directors  
From: DMC Staff  
Date: February 14, 2017  
RE: Union Avenue Mixed-Use Development – Revised Project

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The enclosed request is for revisions to the previously-approved PILOT application for a mixed-use project at the southwest corner of Union Avenue and McLean Boulevard. The request has been submitted for consideration at the February 14, 2017, CCRFC Board Meeting.

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**Project: Union Avenue Mixed-Use Development**

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Applicant: Belz HRP Partners  
c/o Belz Enterprises  
100 Peabody Place  
Suite 1400  
Memphis, TN 38103

Representatives: Mr. Ron Belz  
Belz Enterprises

Mr. Jim Cheney  
Harbour Retail Partners  
35 Johnson Ferry Road  
Marietta, GA 30068

Subject Property: Southwest corner of Union & McLean

- i. 1835 Union – PID 016043 00020
- ii. 1837 Union – PID 016043 00021
- iii. 1801 Union – PID 016043 00019C

Background: At its October 13, 2015 meeting, the CCRFC approved a 15-year PILOT for the ground-up new construction of the proposed Union Avenue Mixed-Use Development. The original project was slated to demolish the blighted and vacant structures at the southwest corner of Union & McLean and replace them with all new construction. The four-story mixed-use development was originally planned to include the following:

- Total project cost of \$43,522,739
- 188 apartments (new construction)

- Approximately 30,500 sq. ft. of ground floor commercial space for anchor retail tenant
- Approximately 10,521 sq. ft. of ground-floor commercial space for smaller tenants
- 264-space parking deck for residential tenants and their guests
- 249-space parking area on two (2) levels, split at grade, to service commercial tenants and patrons

Revised Project:

The original development proposal was not able to move forward as planned. The developer has worked diligently to revise the scope and feels confident that the revised project can get financed and built with the assistance of a PILOT. The developer now proposes a combination of new construction and adaptive reuse to include the following:

- Total project cost of \$33,583,182
- 175 apartments (new construction and renovation)
- Approximately 26,500 sq. ft. commercial space (new construction and an existing building on site)
- 288 parking spaces in combination of surface and existing structured parking

The initial phase of the project will include demolishing the 4-story office building at the northeast corner of the site and replacing it with new construction to feature ground-floor commercial and apartments above. Additionally, the former 8-story Artisan Hotel building on site will be renovated and converted to apartments.

The third extant building, currently being used as a Methodist Minor Medical office, will be renovated as necessary to retenant the space in 2019 after the existing lease expires. Staff proposes adding this parcel to the PILOT in the second phase, immediately following its renovation.

Project Budget:

The total development cost of the revised project is approximately \$33,583,182. To be eligible for a PILOT, the value of the proposed 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:

Permanent Financing	\$25,033,182	75%
Section 108 Loan	\$4,000,000	12%
Owner's Equity	\$4,550,000	13%

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<b>Total Sources</b>	<b>\$33,583,182</b>	<b>100%</b>
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Uses:

*Hard Construction Costs*

Renovation (old hotel)	\$10,194,086	30%
New construction	\$11,595,762	34.5%
Garage renovation	\$1,281,416	4%
Retail TI	\$503,984	1.5%
Asbestos removal	\$250,000	1%

*Soft Costs*

Design & engineering	\$877,358	2.5%
Due diligence	\$172,800	0.5%
Marketing	\$295,015	1%
Financing costs	\$1,176,676	3.5%
Development fee	\$687,555	2%
PILOT fee	\$482,903	1.5%
Contingency	\$1,153,563	3.43%

Acquisition costs	\$4,550,000	13.5%
FF&E	\$362,064	1%

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<b>Total Uses:</b>	<b>\$33,583,182</b>	<b>100%</b>
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Project Grading:

Per the PILOT grading system, the revised project has a base grade of 14 years. A 15-year PILOT is possible with the addition of enhanced architectural lighting and/or public art.

Primary Qualification:

Residential (+51 Units)	6 Years
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Secondary Qualification:

Retail (+30,000 sq. ft.)	3 Years
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Total Project Development Costs:  
+\$20 Million 5 Years

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**Base Grade: 14 Years**

Other Possible Credits:

Exterior Public Art 1 Year  
Approved Architectural Lighting 1 Year

Requested PILOT Term: 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 viable and attract financing. Additionally, the project's lender has indicated that financing will be subject to obtaining a PILOT.

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

Affordable Housing: Per the PILOT program requirements, residential projects with 51 or more units are subject to, and must be compliant with, DMC's affordable housing policy. Per the policy, at all times during the PILOT term, at least 20% of all residential units shall be occupied by or held available solely for individuals and families of low and moderate income. Low and moderate income is defined in this program as no more than 80% of the median gross income for Shelby County, Tennessee.

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:

Hard Costs \$23,825,248

Consultants/Architectural \$877,358

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**Total: \$24,702,606**

According to the above estimates, a 20% level of W/MBE inclusion for the above costs related to design and construction would be approximately **\$4,940,521.**

**Estimated Payments:** The current annual property taxes on the property total \$134,763. A PILOT would allow for improvements that would produce an estimated annual, payment in lieu of taxes of \$207,644. A 15-year PILOT would result in a cumulative payment increase to the city and county of approximately \$1,093,222 over the term.

**Staff Evaluation:** It should be noted that in July, 2016, CCRFC modified its policy for awarding PILOTs outside the CBID to cap the maximum term at 8 years. Since this project is a modification to a previously-approved PILOT, the application will be evaluated under the policies that were in place in October, 2015, when the project was originally approved. This includes an exemption from the current 8-year cap on PILOTs outside the CBID.

Even with the reduction in scope since originally approved, DMC staff is highly supportive of this project. This new investment will immediately remedy a long-blighted property and add density to the core city with 175 new apartment units and new ground-floor commercial space. Based on the submitted application and the accompanying proforma, staff agrees with the applicant that a PILOT is needed for the project to be viable and attract financing.

**Recommendation:** **Staff recommends approval of a 14-year PILOT, subject to all standard closing requirements and conditions. One (1) additional year will be added to the PILOT term following installation of DRB-approved public art or enhanced architectural lighting.**

<b>PILOT Request</b>	
Requested PILOT Term (years)	15.0
Project Type	New & Rehab
Located in the CBID?	No
<b>Current Amounts</b>	
Base Appraisal	\$4,336,000
Base Assessment	\$1,734,400
Annual City Tax on Base Assessment	\$58,970
Annual County Tax on Base Assessment	\$75,793
<b>Annual RE Taxes on Base Assessment</b>	<b>\$134,763</b>
<b>Project Costs</b>	
Acquisition Cost	\$4,550,000
Hard Costs	\$23,825,248
Soft Costs	\$4,725,031
<b>Total Project Costs w/o PILOT fee</b>	<b>\$33,100,279</b>
<b>Hard Costs Investment Check - 72.0%</b>	<b>YES</b>
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$33,100,279
<b>PILOT fee</b>	<b>\$496,504</b>
<b>Total Project Costs w/ PILOT fee</b>	<b>\$33,596,783</b>
<b>Valuation &amp; CBID Assessment</b>	
Base Appraisal	\$4,336,000
Percentage of Hard Costs	\$16,677,674
Estimated Appraisal after Improvements	\$21,013,674
<b>Estimated Assessment after Improvements</b>	<b>\$8,405,469</b>
<b>Estimated Annual CBID Assessment after Improvements</b>	<b>\$0</b>
<b>Annual RE Taxes</b>	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$285,786
Estimated Hypothetical Annual County Tax without PILOT*	\$367,319
<b>Estimated Hypothetical Total Annual Taxes without PILOT*</b>	<b>\$653,105</b>
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$58,970
Estimated Annual County Tax with PILOT	\$148,675
<b>Estimated Total Annual Taxes with PILOT</b>	<b>\$207,644</b>
<b>Estimated Annual Benefit</b>	<b>\$445,461</b>
<b>Cumulative RE Taxes</b>	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$4,286,789
Estimated Hypothetical Cumulative County Tax without PILOT*	\$5,509,785
<b>Estimated Total Hypothetical Cumulative Taxes without PILOT*</b>	<b>\$9,796,575</b>
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Taxes with PILOT	\$884,544
Estimated Cumulative County Tax with PILOT	\$2,230,121
<b>Estimated Total Cumulative Taxes with PILOT</b>	<b>\$3,114,665</b>
<b>Estimated Cumulative Benefit over 15-year PILOT</b>	<b>\$6,681,910</b>

**Estimated Cumulative Increase in Taxes due to PILOT \$1,093,222**

*\*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".*