

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: February 6, 2024
RE: PILOT & Incentive Application: 100 N. Main Street – Phase I

The enclosed application has been submitted for consideration at the February 13, 2024, CCRFC Board Meeting.

Project: **100 N. Main Street (Phase I)**

Applicant: 100 North Main, LLC
495 Tennessee Street, Suite 152
Memphis, TN 38103

Representatives: Kevin Woods
Aaron Mesmer
William Orgel
Jay Lindy
Adam Slovis

Applicant Requests: 30-year PILOT for redevelopment of the 100 N. Main building as a mixed-use commercial development.

The applicant requests that CCRFC recommend for Memphis City Council approval a 5% TDZ Tourism Surcharge incentive and the use of those proceeds as the funding mechanism for the redevelopment of the 100 North Main project.

***Included Parcels:** #002012 00002 (Assessed Value: \$57,100)
#002012 00001C (Assessed Value: \$4,437,700)

**Due to the complex nature of the incentives included in this project, the development team will likely create separate use condominium units for the hotel, apartments, retail space, and parking garage components. This may result in the need to subdivide the two existing tax parcels at a later date.*

Property History: The 100 N. Main tower was designed by the architecture firm Robert L. Hall & Associates as a multi-tenant office building for Harry Bloomfield, a Memphis developer. Groundbreaking began in 1963 and the building opened in 1965. The tower originally contained a variety of commercial tenants on the 1st floor, offices for multiple tenants on upper floors, garage parking, and a social club

containing restaurants, a health club, a swimming pool, and a rooftop garden on floors 34-38.

Shortly after the building opened, Mr. Bloomfield sold the building. The building changed ownership several times over the years before eventually falling into disrepair and vacancy in 2014. The structure was added to the National Register of Historic Places in April 2015 in an effort to make the property more likely to be redeveloped in the future.

Background:

The Downtown Memphis Commission (DMC) and its affiliate agencies partnered with the City of Memphis and Shelby County Government on a bold strategy to acquire, reposition, and redevelop the vacant and blighted building at 100 N. Main and the adjacent parcels within the 2-acre site. Following a 90-day due diligence period, the property was purchased in March 2021 by the DMA for \$10,750,000 using the PILOT Extension Fund. This use of the PILOT Extension Fund required the approval of the DMA, the Center City Revenue Finance Corporation (CCRFC), the City of Memphis Mayor, Memphis City Council, the Shelby County Mayor, and the Shelby County Commission.

A 100 North Main Project Committee composed of volunteer board members and neighborhood stakeholders and with DMC staff support was formed to create the RFP document, review the submissions, and ultimately provide advice to the DMA on which developer to select for this opportunity.

On June 15, 2021, the DMC published the RFP inviting qualified firms to submit a proposal for the redevelopment of the entire site. The property was offered in “as-is” condition. The RFP was shared proactively and advertised to local, regional, and national audiences. This was done to ensure that the applicant pool was not limited to local development firms. DMC staff led approximately 40 tours of the building with interested developers, design professionals, and other stakeholders. DMC staff worked proactively with media partners to have stories about the 100 N. Main redevelopment effort placed on broadcast, print, and digital outlets, including national exposure via Next City and AIA Architect magazine.

On January 19, 2022, the DMA Board of Directors identified a local development team, 100 N. Main Development Partners, as the preferred team to redevelop the property in response to the RFP. 100 N. Main

Development Partners is led by Kevin Woods and includes Billy Orgel, Jay Lindy, Adam Slovis, and Michael McLaughlin as key local partners. Another development company, Block Real Estate Services (BRES), led by Aaron Mesmer, was identified by the Committee as a top-two finalist and well-qualified development company. Completely on their own volition, the top two finalists decided to ultimately structure the project to be owned and operated by a joint venture limited liability company entity called 100 North Main, LLC. Fifty percent of this entity will be owned by the local developer group and its investors and fifty percent by BRES and its investors. Kevin Woods and Aaron Mesmer will serve as co-managers of 100 North Main, LLC.

Project Phasing:

The overall 2-acre site is bound by Adams Avenue to the north, Second Street to the east, Jefferson Avenue to the south, and Main Street to the west. This PILOT application covers the first project phase, generally the northern half of the site that includes the 38-story office tower and attached parking garage.

The DMA retains property ownership at the time of this PILOT application submittal. The development team has paid for all pre-development expenses at its own risk even though it does not yet own the property. Pursuant to a Development Agreement, the property will be transferred to 100 North Main, LLC at a closing to include construction financing, tax credit financing, bond issuance, and federal, state, and local incentives as set out in the Development Agreement. The parties anticipate the Phase I closing to occur in the second quarter of 2024.

The development team plans to eventually purchase the southern half of the project site at a later date for new construction under a separate PILOT or a second phase of the current PILOT request. The market conditions at that time will dictate the development schedule and exact mix of uses in Phase II.

Project Description:

This PILOT application involves the adaptive reuse of the former office tower as a mixed-use commercial building. As a condition of receiving Federal Historic Preservation Tax Credits, the historic character-defining features of this building will be preserved. The planned mix of commercial uses will include the following:

- A four-star, full-service hotel with 160 keys and 8,000 sq. ft. of meeting space

- A parking garage with 378 spaces
- +/-11,000 sq. ft. of retail and commercial space
- A multi-family apartment component with around 200 units
- Up to 80,000 sq. ft. of office space
- Amenity space with a rooftop pool and deck, an outdoor bar and lounge, and an events lawn.

The total gross building area is approximately 793,000 sq. ft. At the time of this PILOT application, the applicant estimates that the project cost will be more than \$280,000,000. The project will require around \$145,120,000 of conventional bank financing. The balance of the costs and expenses will be funded by the investor group. The developer is requesting that CCRFC approve a 30-year PILOT for this unique and catalytic project. It is understood that PILOT terms in excess of 20 years are subject to approval by the Comptroller of the State of Tennessee and the State of Tennessee Commissioner of Economic Development and Community Development.

In addition to a 30-year PILOT, the applicant is pursuing the following incentive tools as part of the development plan:

- Federal historic preservation tax credits
- Bond financing of TDZ and 5% sales tax surcharge revenue
- A Section 108 loan from the U.S. Department of Housing and Urban Development (HUD)
- A \$10,000,000 Accelerate Memphis grant

The developer has agreed to pay the DMA a total of \$10,000,000 for purchase of the entire 2-acre site. That payment will be equally split between the two project phases, with \$5,000,000 due at the closing of Phase I. At its January 18, 2023, meeting, the DMA agreed to credit a total of \$3,750,000 against the Phase I purchase price for expenses occurred by the developer during the cleanout, remediation, and select interior demolition work portion of the project.

In August 2023, the Memphis and Shelby County Economic Development Growth Engine (EDGE) approved a \$5,000,000 loan to support the project. In addition, the City of Memphis has committed to leasing approximately 60,000 sq. ft. of Class B office space in the building. The remaining 20,000 sq. ft. of speculative office space will be marketed to local business and professional firms.

PILOT Policy: The applicant entered into a Development Agreement with the Downtown Mobility Authority (DMA) and the City of Memphis upon selection as a result of a Request for Proposals (RFP) process. That agreement stipulates that the PILOT policies and procedures in effect at the time that the developer was selected will apply to the project. The agreement also caps the Phase I PILOT fee at \$1,000,000.

Timeline: Contingent on PILOT approval, the applicant plans to close on project financing and property acquisition of the Phase I site in mid-2024 and begin full renovation soon thereafter. Site mobilization for traffic control and perimeter security, select interior demolition and cleanout, and hazardous material abatement started in late January of this year. Full renovation of the tower and attached garage is expected to take approximately 30 months to complete, with Phase I expected to open in early 2027.

Project Budget: The total development cost of the project is approximately \$282,480,000. 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 easily meets this requirement. The following describes the overall sources and uses of funding:

Sources:

Owner’s Equity	\$48,000,000	(17%)
Project Debt	\$145,119,280	(51%)
Historic Tax Credits	\$43,306,228	(15%)
TDZ / Surcharge / City Grant Bonding	\$21,304,491	(8%)
Accelerate Memphis Grant	\$10,000,000	(4%)
DMA Purchase Price Credit	\$3,750,000	(1.3%)
HUD 108 Financing	\$6,000,000	(2%)
EDGE Loan	\$5,000,000	(1.7%)
Total Sources	\$282,480,000	(100%)

Uses:

Land Acquisition (Phase I)	\$5,000,000	(1.8%)
Hard Construction Costs	\$217,281,316	(77%)
Project Contingencies	\$21,185,932	(7.5%)
Soft Costs	\$21,429,522	(7.5%)
PILOT Fee	\$1,000,000	(0.35%)
Financing Fees	\$15,295,633	(5.4%)
Professional Fees	\$1,287,596	(0.45%)
Total Uses	\$282,480,000	(100%)

Project Grading: The PILOT grading system in place prior to the most recent policy changes will apply to this project. Per that grading system, the project achieves a maximum grade of up to 33.5 years:

Primary Qualifications:

Residential (+51 units)	6 Years
Hotel (101-200 keys)	5 Years
Office (50,001-100,000 sq. ft.)	3 Years
Parking Structure (301-400 spaces)	2 Years

Secondary Qualification:

Retail (10,000 – 14,999 sq. ft.)	1.5 Year
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Total Project Development Costs:

+\$20M Million	5 Year
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Priorities & Initiatives

Located within CBID	3 Years
Renovation – National Register Building	5 Years
Main to Main Corridor	3 Years

Total PILOT Grade: 33.5 Years

PILOT Request: 30 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 25% participation by minority and/or women-owned businesses (MWBES) 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.

Outreach & Inclusion Plan: The specific steps required for each applicant to be compliant with the DMC’s EBO Program will take into consideration the size, scope of work, and development costs associated with the project. At the time of PILOT application, it is typically too early in the process to identify all of the specific contractors or sub-contractors that will ultimately be involved in the construction. However, the development team has a clear understanding of the EBO Program and has worked proactively with DMC staff to identify the following key steps that will be included in its Outreach & Inclusion Plan:

- The applicant will work in good faith to identify any opportunities for a joint venture, partnership, teaming agreement, or similar creative approach to provide local MWBE general contractors an enhanced opportunity to participate in the project to gain new experience with projects of this size, scale, complexity, and budget.
- The applicant will meet and coordinate with minority-owned business assistance organizations such as the Memphis Area Minority Contractors Association (MAMCA) and the Mid-South Minority Business Council Continuum (MMBC) to make their members aware of the project and any contracting and sub-contracting opportunities.
- The applicant will use the City of Memphis Business Diversity & Compliance Registry and the resources at the Shelby County Office of Equal Opportunity Compliance to identify qualified general contractors and tradespeople to perform the needed work.
- The applicant will advertise and host pre-bid conferences to allow MWBE subcontractors proactive opportunities to learn more about the project in advance of bid submission dates. DMC staff will be invited to attend all pre-bid conferences to observe.
- The applicant will proactively contact a minimum of three certified MWBE businesses for each trade or type of subcontractor needed and provide each a fair opportunity to submit a bid and be considered for the work.
- Once the service providers have been identified, the applicant will submit the form titled “Proposed Utilization Plan” to DMC staff for review and approval prior to PILOT closing. The applicant will also be asked to provide a full record of the outreach steps taken and the results. This documentation can include items such as a phone call log, copies of emails, meeting notes, and pre-bid conference attendance sheets.
- After construction has started, the applicant will provide monthly updates to DMC staff detailing the status and level of MWBE involvement at each major phase of the project.

Minimum MWBE Goal: Based on the current information provided by the applicant, the estimated EBO-eligible costs for this project are as follows:

Hard Construction Costs	\$217,281,316
A&E Fees & Owner's Rep	\$8,315,980
Total Eligible Costs	\$225,597,296

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$56,399,324.**

Parking Strategy: The existing parking garage on site will be fully renovated and put back into service in Phase I. It is expected that any future Phase II development will include additional structured parking built by the developer to support future development on the southern half of the site.

Housing Policy: This project will require compliance with the CCRFC's Affordable Housing Requirement. Per the PILOT policies, multi-family developments 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 twenty percent (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 eighty percent (80%) of the median gross income for Shelby County, Tennessee.

Design Review Board: The applicant will submit plans to the DRB in the coming months. As part of the approval process for the Federal Historic Preservation Tax Credit program, the building design plans must also be reviewed and approved by the National Park Service (NPS) and the State of Tennessee Historic Preservation Officer (SHPO).

Estimated Payments: The property does not currently generate city or county property taxes. A PILOT will allow for the full redevelopment of this blighted and vacant property. In addition to not contributing positively to the health and vibrancy of Downtown, blighted and vacant property can do real harm to the existing property tax base. The deleterious condition of blighted property has the potential to lower the value of adjacent commercial property by up to 20%.

During the 30-year PILOT term, the annual combined payment in lieu of taxes to the City and County is estimated to equal approximately **\$852,763**.

Over the course of a 30-year PILOT term, the property will pay approximately **\$25,582,878** in total taxes to the City and County as a direct result of the PILOT.

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 the project is not financially viable without a PILOT. For this project, a PILOT is necessary in order for the debt service coverage ratio to be sufficient for debt underwriting. Moreover, the return on equity without a PILOT is far too low to attract private equity given the project risk relative to the current yields of low-risk investment alternatives such as Treasury Bills and other investment vehicles.

The repositioning of this prominent structure has been a top priority of the DMC, City of Memphis, and Shelby County Government for many years. While a 30-year PILOT is clearly an exceptional request, aggressively supporting this project at this location is highly consistent with the recommendations and goals of BuildDowntown, the Downtown Memphis Master Plan, and the anchor strategy of the Memphis 3.0 Comprehensive Plan.

BuildDowntown strongly suggests concentrating new investment in the Downtown core and along the Main Street Mall as part of the strategy to build the kind of compact critical mass that is needed to attract retail and create a vibrant and safe public realm. Moreover, the entire 2-acre site represents the largest and most prominent gap in vibrancy along the Main Street Pedestrian Mall. If Downtown is the central anchor for the city and region, the Main Street Mall is the spine and vital armature from which a strong and walkable Downtown must grow. A vibrant and safe Downtown simply cannot have such a large portion of its major north-south artery sit fallow and in a deteriorating condition.

Simply put, DMC staff believes that the rebirth and revitalization of the 100 North Main building will be a game-changer for commercial property investment in the

Downtown Core and along the Main Street Pedestrian Mall. As the tallest building in Downtown, the continued blight and vacancy of this iconic structure sends the wrong message to the local and national market. Uncertainty is the enemy of private investment. With the infusion of over \$280,000,000 in the heart of the Downtown Core, this first phase of the project will further bolster Downtown's momentum and completely transform more than an acre of highly visible and prominent blight less than two blocks from the newly renovated Renasant Convention Center. In the opinion of staff, this redevelopment plan represents the exact kind of transformational public-private partnership that the DMC was created to help make possible.

Recommendation:

Staff recommends approval of a 30-year PILOT, subject to all pertinent closing requirements and conditions. The requested PILOT term in excess of 20 years is contingent on approval by the Comptroller of the State of Tennessee and the State of Tennessee Commissioner of Economic Development and Community Development.

Staff requests that CCRFC recommend a 5% TDZ Tourism Surcharge incentive and the use of those proceeds as the funding mechanism for the redevelopment of the 100 North Main project to the Memphis City Council for approval.