



To: Downtown Mobility Authority (DMA) Board of Directors
From: DMC Staff
Date: September 18, 2024
RE: 100 N. Main – Project update & request to modify final closing terms

Background:

The Downtown Memphis Commission and its affiliate agencies partnered with the City of Memphis and Shelby County Government on a bold strategy to acquire, reposition, and redevelop the blighted property at 100 N. Main Street. Following a 90-day due diligence period, the property was purchased in March 2021 by the Downtown Mobility Authority (DMA) using the PILOT Extension Fund.

The use of the PILOT Extension Fund required approval by 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. The \$10.75M purchase price included 9 total parcels and 2 acres in the heart of the Downtown Core. The 37-story main tower building was originally built in 1965 and is approximately 579,000 square feet in gross area. Vacant since June 2014, the tower building was added to the National Register of Historic Places in April 2015.

RFQ Process & Development Team Selection:

A 100 North Main Project Committee composed of volunteer board members, DMC Staff and neighborhood stakeholders was formed to create a Request for Proposals (RFP) document, review the submissions, and ultimately provide advice to the DMA on which developer to select for the 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 RFP was shared proactively and advertised to local, regional, and national audiences.

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. 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.

Original Plan for Property Disposition:

When selected as the preferred development team in early 2022, the developer originally agreed to pay the DMA a total of \$10,000,000 for the entire 2-acre site. It was contemplated that the developer will pay DMA \$5,000,000 for the northern half of the site, including the 37-story tower and the attached parking garage. The renovation of the existing tower will be the first phase of the project. As a later project phase, the developer would pay DMA \$5,000,000 for the southern half of the site including the surface parking lot, dog park, and the historic buildings fronting Main Street.

Recent Progress:

The development team provided a formal update to the DMA at its November 16, 2022 meeting regarding the current status of active and ongoing pre-development work including architecture, engineering, environmental, and construction cost estimation. This pre-development work is being done by the development team at their sole expense.

At its January 18, 2023 meeting, the DMA Board approved a request to allow the 100 N. Main Development Partners Team to begin cleanout, environmental remediation, and select interior demolition at the 37-story tower in advance of the start of full renovation. This preparatory work is at the sole expense of the developer, and at their own risk, since the DMA still retains full ownership of the site. As part of that request, the DMA agreed that a total of \$3,750,000 of the developer's expenses occurred during the cleanout, remediation, and select interior demolition work will be credited against the total purchase price. The expectation was that the new acquisition price for the 37-story tower would be a total of \$1,250,000 at closing.

This cleanout and select interior demolition work is well underway. The developer made key improvements including the addition of temporary power, interior lighting, exterior hoist installation, and testing and inspection of the fire pump and standpipes. This cleanup also removed all remaining furniture, trash, and non-attached material from the building interior. Additionally, abatement and removal of hazardous building materials within the tower, including lead paint and asbestos, is actively underway. Multiple floors have also been returned to a raw condition with the removal of all non-load bearing walls and interior partitions.

The project was approved for a 30-year PILOT from the Center City Revenue Finance Corporation (CCRFC) at its February 13, 2024 meeting. Based on that application, the planned mix of uses will include:

- Four-star, full-service hotel with 160 keys and meeting space
- Parking garage with 378 spaces
- +/-11,000 sq. ft. of retail and commercial space
- Around 200 apartment units
- 80,000 sq. ft. of office space
- Amenity space with a rooftop pool and deck, an outdoor bar and lounge, and an events lawn.

As part of the PILOT program requirements, the project must comply with the DMC's Equal Business Opportunity Program (EBO). This program requires that a fair and open outreach process is held for any contracting and subcontracting opportunities. Additionally, the EBO Program sets a minimum 25% spending target with MWBE businesses.

Cost Escalation & Market Challenges:

With a challenging capital market and continued escalation in costs for material and labor, the development team has seen the total project budget for the tower renovation increase significantly. Since November 2023, the estimated project cost has increased by 14%, from \$271.4M to \$309.8M. With more than \$38M in unforeseen additional development cost to date, the development team is conducting value engineering exercises to lower the construction cost while looking for sources of additional funding. As an example, the Economic Development Growth Engine for Memphis & Shelby County (EDGE) recently approved \$6.8M in low-interest loans for the project as part of the solution.

Staff Request:

While the project faces the kind of financial headwinds and complex challenges expected of any major catalytic investment, progress remains steady and on track. The development team remains highly confident in their ability to deliver a first-class redevelopment project. It should be noted that the developer has spent significant resources to prepare for construction for a building still owned by the DMA. Moreover, the development team is proposing to close on property acquisition within the next 30-45 days as part of a compromise to add further support to the project in exchange for reduced risk and lower carrying costs to the DMA.

Staff is in support of the developer's request with the following terms:

1. The development team agrees to pay a total of \$4,500,000 for acquisition of the entire 2-acre site. The development team will purchase the entire site from the DMA at one time.
2. The development team will close on the property within 45-days and provide a \$500,000 down payment that will be applied towards the final acquisition price at closing. The purchase agreement will provide DMA a right of first refusal to purchase the property back at the same price if the project does not move forward.
3. DMA agrees to accept a \$4,500,000 purchase price in the form of a short-term, low-interest loan. The payment will be structured as a 1% interest loan with a 5-year term from the DMA to the development team. The development team will make monthly loan payments to the DMA utilizing a 20-year amortization schedule. Loan payments will begin no later than 90 days subsequent to property transfer. Following the 60-month loan term, the developer will pay DMA the full balance of the loan as a balloon payment. The full balance of the loan will become immediately due in the event that the developer refinances the property. The loan will be secured with either a personal guarantee or a first priority lien against the Phase II property, generally understood to be the southern half of the 2-acre site.