

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: June 6, 2023
RE: PILOT Application: 1162 Peabody Apartments

The enclosed PILOT application has been submitted for consideration at the June 13, 2023, CCRFC Board Meeting.

Project: **1162 Peabody Apartments**

Applicant: Alfredo Cerpa
Cerpa Construction, LLC
1201 Sycamore View Rd.
Memphis, TN 38134

Applicant's Request: 10 year PILOT for a new-construction multifamily building with 12 apartment units.

Included Parcels: Parcel ID: 018047 00020

Project Description: The subject property is a .275 acre vacant lot located on the north side of Peabody Ave, near I-240. The lot's immediate neighbors on Peabody are multifamily buildings, and the lot is zoned RU-3, which allows for several types of multifamily buildings. An existing structure on site was demolished in 2018 by the property's previous owner.

The applicant plans on building a new 12-unit multifamily building on the lot. The planned three-story structure will include a mixture of one bedroom and studio apartments, and will be served by 13 secure parking spots located behind the building. Ground floor units facing Peabody will feature patios screened by new landscaping.

If a PILOT is approved for the project, construction is planned to commence in October 2023, and the applicant estimates that construction will be substantially complete by Q2 of 2024.

Project Budget: The total development cost of the project is approximately **\$2,083,056**. 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. The following describes the overall sources and uses of funding:

Sources:

Debt	\$1,603,943	(77%)
Equity	\$479,103	(23%)
Total Sources	\$2,083,056	(100%)

Uses:

Acquisition	\$350,000	(8.8%)
Hard Costs	\$1,445,484	(83.5%)
Soft Costs	\$120,000	(1.8%)
Financing Fees	\$148,867	(4.5%)
PILOT Fee	\$18,705	(1.5%)
Total Uses	\$2,083,056	(100%)

Project Grading:

Per the CCRFC’s PILOT grading system, the project achieves a total grade of up to 10 Years:

Primary Qualifications:

Residential (11 - 15 units) 3 Years

Total Project Development Costs:

\$1 - \$5 Million 1 Year

Priorities & Initiatives

Located outside CBID 1 Year
 Tract with Poverty Rate > 20% 2 Years
 Tract with < 80% Area Median Income 2 Years
 Includes Enhanced Architectural Lighting 1 Year

Total: 10 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 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 specific contractors or sub-contractors that will ultimately be involved in the construction. However, the applicant has a clear understanding of the EBO Program and has worked with DMC staff to identify the following key steps that will be included in their Outreach & Inclusion Plan:

- 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 contractors and tradespeople to perform the needed work.
- The applicant will contact a minimum of 3 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 a proposed utilization plan to DMC staff for review and approval. The applicant will also be asked to provide a full record of the outreach steps taken and the results thus far. This documentation can include items such as a phone call log, copies of emails, meeting notes, and pre-bid conference attendance sheet.
- After construction has started, the applicant will provide monthly updates to DMC staff detailing the project 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 Costs	\$1,445,484
Design & Professional Fees	\$120,000
Total Eligible Costs	\$1,565,484

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$391,371**.

Parking Strategy: Parking will be provided on site in a secure 13-space lot behind the building.

Housing Policy: Multi-family developments with 51 or more units are subject to the Downtown PILOT Program’s affordable housing policy. This policy states that 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.

Estimated Payments: The current annual city and county taxes on the subject property total approximately **\$658**. A PILOT would allow for new infill development and residential density on what is currently a combination of vacant and underutilized property.

During the 10-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$9,037**. This represents a **1273% 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 **\$83,792**.

Staff Evaluation: Based on the submitted application and the accompanying pro forma, DMC staff agrees with the applicant that a PILOT is needed for the project to be economically 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.

The subject property has been a vacant lot since 2018, when a previous owner demolished an existing building on the site. Vacant lots provide little value to the city, and require lots of attention and maintenance to prevent them from becoming nuisances to surrounding property. Infilling this vacant lot with a high-quality multifamily building will replace a potential nuisance with new residents, and encourage further investment in the area. The project aligns with the city's goal of building "up, not out" by adding residential density to vacant land on a key corridor.

Recommendation:

Staff recommends approval of a 10-year PILOT subject to meeting all standard closing requirements and conditions.