

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: November 1, 2022
RE: Project Update & Request to Amend Previously-Approved PILOT

The enclosed request for amendments to a previously-approved PILOT has been submitted for consideration at the November 8, 2022, CCRFC Board Meeting.

Project: **122 S. Main St. (Dream Hotel)**

Applicant/Owner: S Main 122, LLC
Mr. Tom Intrator
390 S. Main St.
Memphis, TN 38103

Project Representative: Will Garavelli
18 Main | VP of Development
390 S. Main St.
Memphis, TN 38103

Included Parcel: Parcel ID 002049 00001 (122 S. Main)

Original Approval: 20-year PILOT lease for adaptive reuse and new construction for a 178-key hotel development; estimated total development cost of \$54.5M.

Requested Change: 20-year PILOT lease and 5% surcharge tax to support the adaptive reuse and new construction for a mixed-use project to include a 181-key hotel, multiple food & beverage outlets, and 10 rental apartment units on the top two floors of the newly constructed tower; estimated total development cost of \$99.3M.

Development Concept: A 20-year PILOT for this project was originally approved by the CCRFC at its November 12, 2019 Board Meeting. The subject property consists of one parcel (0.415 acres) located at the southeast corner of South Main Street and Gayoso Avenue. The property contains a 3-story Art Deco style building formally used as a Royal Furniture store. The circa 1949 building will be renovated to create a new Dream Hotel with commercial venues including a restaurant, lobby lounge, coffee shop, and rooftop bar. While the original façade and building footprint will remain, the lobby will be transformed into a double-height space and several new

floors will be added above as a vertical tower addition. The upper two floors will contain 10 rental apartment units.

Original Project Budget:

Sources:

Debt	\$40,875,000	(75%)
Owner Equity	\$13,625,000	(25%)
Total Sources	\$54,500,000	(100%)

Uses:

Property Purchase	\$3,500,000	(6%)
Hard Construction Costs	\$43,000,000	(79%)
Soft Costs	\$3,000,000	(6%)
Financing Fees	\$5,000,000	(9%)
Total Uses	\$54,500,000	(100%)

Original Project Grading:

Per the PILOT scoring system, the project has a grade in excess of the standard cap of 15 Years.

Primary Qualification:

Hotel (101-200 rooms) 5 Years

Secondary Qualification:

Retail/Commercial (5,000 – 9,999 sf) 1 Year

Total Project Development Costs:

+\$20 Million 5 Years

Priorities & Initiatives

Located within CBID 3 Years

Historic Renovation - Contributing 4 Years

Main to Main Route Frontage 3 Years

Public Art 1 Year

Enhanced Architectural Lighting 1 Year

MLGW Energy Advantage Certification 1 Year

Maximum Total Grade: 24 Years

Original Staff Recommendation: 20 Years

New Project Budget:

Sources:

Senior Debt / Pace	\$66,931,495	(67%)
Equity	\$27,479,177	(28%)
Net Bond Proceeds	\$4,961,911	(5%)
Total Sources	\$99,372,584	(100%)

<u>Uses:</u>		
Land	\$9,900,000	(10%)
Hard Construction Costs	\$76,493,884	(77%)
Soft Costs/Financing/Etc	\$12,978,699	(13%)
Total Uses	\$99,372,584	(100%)

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 (MWBs) 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.**

Based on the current information provided by the applicant, the estimated hard cost and soft costs for this project are as follows:

Hard Construction Costs	\$76,493,884
Architecture & Engineering	\$2,491,195
Interior Design/Consulting	\$1,957,150
Total Uses	\$80,942,229

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$20,235,557**.

Project Schedule:

The development team is actively working on design plans and related pre-development tasks in anticipation of submitting architectural plans for permitting in Q2 2023. Construction is projected to begin in Q3 2023 and be complete in Q3 2025.

Estimated Payments:

The current annual city and county taxes on the subject property total approximately \$57,610. A PILOT would allow for the full renovation and transformation of a vacant building on the Main Street Pedestrian Mall. During the 20-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately \$383,791. This represents a 566% increase from the amount of taxes currently being generated by the property. Over the course of the 20-year PILOT term, the cumulative increase in City and County taxes generated by this property is estimated to be approximately \$6,523,625.

Staff Recommendation: 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, attract bank financing, and warrant equity investment.

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.

Moreover, attracting new commercial investment within the Downtown Core is a top priority of the DMC. Increasing Downtown's density through adaptive reuse and new construction helps build the kind of compact critical mass that is necessary to increase retail offerings, support well-functioning public transit, and improve walkability. The proposed project will add new commercial vibrancy and increased foot traffic to the Main Street Mall, a high-priority retail node in Downtown Memphis.

Applicant's Request: The applicant is requesting the following three modifications to the previously-approved PILOT:

1. Extend the deadline to close the previously-approved PILOT to October 11, 2023.
2. Amend the original PILOT approval to reflect the change to a mixed-use project with a rental residential component in addition to the hotel.
3. Approval to add a 5.0% surcharge tax on Dream hotel and restaurant revenue as part of a Tourism Development Zone eligible project.