

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: July 5, 2023
RE: PILOT Application: Desoto Lofts (154 GE Patterson)

The enclosed PILOT application has been submitted for consideration at the July 11, 2023, CCRFC Board Meeting.

Project: **DeSoto Lofts (154 GE Patterson)**

Applicant: Brian Bullard, AIA
AOD Properties
498 South Main St.
Memphis, TN 38103

Applicant's Request: 10-year PILOT for the renovation of a historic commercial building into a mixed-use development with office space and 10 residential units.

Included Parcels: Parcel ID: 002134 00005C

Project Description: The subject property is a 3-story commercial building located on the north side of GE Patterson Avenue, in the block between St. Martin and Second Street. Army-Navy Park is located immediately to the east of the property. The building, which was built around 1900, contains approximately 14,000 sq. ft. of interior space and most recently served as a Prince Hall Masonic lodge. Most of the 0.172-acre site is occupied by the building with a small open lot to the rear.

The applicant is planning to fully renovate the building as a mixed-use development. UrbanARCH, a local architecture firm owned by the applicant, would occupy office space on the ground floor. Ten apartment units will be added on the upper floors. The applicant was previously awarded a Center City Development Corporation (CCDC) Exterior Improvement Grant of \$60,000 in 2022 to assist with the renovation. However, due to current costs and interest rates, the applicant has concluded that the project is no longer viable without a PILOT incentive, and has opted to pursue a PILOT in place of the grant.

If a PILOT is approved for the project, construction would begin in Q3 of 2023, with completion expected to take around 12 months. By Q3 of 2024, the ground floor of the building would be occupied by UrbanARCH, and the apartments above would be available for lease.

Project Budget:

The total development cost of the project is approximately \$4,601,157. 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	\$3,220,810	(70%)
Equity	\$1,380,347	(30%)
Total Sources	\$4,601,157	(100%)

Uses:

Acquisition	\$820,000	(18%)
Hard Costs	\$3,094,980	(67%)
Design Costs	\$30,950	(1%)
Developer Fee	\$92,023	(2%)
Finance and Startup Costs	\$522,824	(11%)
PILOT Fee	\$40,380	(1%)
Total Uses	\$4,601,157	(100%)

PILOT Length:

Per the CCRFC’s adopted PILOT policies, effective July 1, 2023, the project qualifies for a standard PILOT length of **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 general contractors and tradespeople to perform the needed work.
- The applicant will advertise and host a pre-bid conference to allow MWBE contractors an opportunity to ask questions and learn more about the job opportunity. DMC staff will be invited to attend the pre-bid conference to observe.
- Once a general contractor is identified, 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	\$3,094,980
Design Costs	\$30,950
Total Eligible Costs	<u>\$3,125,930</u>

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$781,482**.

Parking Strategy: The project includes an attached surface lot with 13 parking spaces, as well as on-street parking in the surrounding neighborhood.

Design Review Board: The applicant received DRB approval for the project on July 6, 2022 following its approval for a CCDC Exterior Improvement Grant. If the design is substantially altered from this earlier approval prior to construction, the applicant will reapply for DRB approval.

Estimated Payments: The current annual city and county taxes on the subject property total approximately **\$12,256**. A PILOT would allow for a complete renovation of this historic building into an active mixed-use property with office space and 10 new housing units.

During the 10-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$23,568**. This represents a **108% 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 **\$113,121**.

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.

When the applicant applied for an Exterior Improvement Grant for the redevelopment of 154 GE Patterson in 2022, DMC staff strongly supported the project for a number of reasons:

- The project reuses and preserve a historic building.
- The project helps to strengthen investment on a key corridor connecting South Main and South City.
- The project will bring new residents to Downtown Memphis, and help permanently retain an established Downtown business.

The current project still provides all of these benefits, and closely aligns with key goals of PILOT program, including incentivizing significant investment in Downtown properties, encouraging adaptive reuse, and increasing both property values and the number of people Downtown.

Recommendation:

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