

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: October 5, 2021
RE: PILOT Application: 220 Claybrook

The enclosed PILOT application has been submitted for consideration at the October 12, 2021, CCRFC Board Meeting.

Project: 220 Claybrook

Applicant: CTLP, LLC
Lee Patton & Cameron Taylor
7960 Wolf River Blvd
Germanton, TN 38138

Applicant's Request: 12-year PILOT lease for a new multifamily building in the Medical District subarea of the Central Business Improvement District.

Included Parcels: Parcel ID 016002 00006 (220 Claybrook)

Project Description: The subject property is a .8 acre parcel located at the southwest corner of Claybrook St. and Eastmoreland Ave. This parcel was formerly the site of a 7-story medical office built in 1960, which was in a blighted and vacant state for many years. However, this building was demolished earlier in the year due to safety concerns stemming from an arson that occurred in the building in November of 2020.

The applicant plans to build a four-story multifamily building with 83 residential units on the site. Parking for the building will be located on site in the basement level of the building, as well as a small surface parking lot that will be screened by the building. In addition to the residential units, the building will feature a 1,112 square foot leasing office at the corner of Claybrook and Eastmoreland, as well as an adjacent 795 square foot commercial bay that could serve as a retail space.

Project Budget: The total development cost of the project is approximately \$13,000,000. 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 meets this requirement. The following describes the overall sources and uses of funding:

Sources:

Bank Loan	\$9,000,000	(69.2%)
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Equity	\$4,000,000	(30.8%)
Total Sources	\$13,000,000	(100%)

Uses:

Acquisition Costs	\$1,600,000	(12.3%)
Demolition	\$1,200,000	(9.2%)
Construction	\$9,205,000	(70.8%)
Architectural Design	\$300,000	(2.3%)
Other Soft Costs	\$200,000	(1.5%)
Reserves & Interest	\$300,000	(2.3%)
PILOT Fee	\$195,000	(1.5%)
Total Uses	\$13,000,000	(100%)

Project Grading: The project achieves an unadjusted grade of 16 years under the current PILOT scoring criteria.

Primary Qualifications:

Residential (+51 units) 6 Years

CCRFC Priorities

Located within CBID 3 Years

Census Tract Poverty Rate > 20% 2 Years

Census Tract < 80% of AMI 2 Years

Total Project Development Costs:

10 - 15 Million 3 Years

Total PILOT Grade: 16 Years

PILOT Request: 12 Years

Applicant's Request: The applicant is requesting approval of a 12-year PILOT. According to the applicant, approval of a PILOT is necessary for the project to be economically viable and attract debt and equity. Without a PILOT tax incentive, the project pro forma shows a debt service coverage ratio insufficient to attract bank financing. Standard metrics including Return on Equity (ROE) are also insufficient to warrant equity investment without a PILOT when compared to the cost of capital, alternative investment options, and risk considerations.

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.**

Outreach & Inclusion Plan: The specific steps required for each applicant to be compliant with the DMC's EBO Program takes into consideration the size, scope of work, and development costs associated with the project. At the

time of incentive application, it is typically too early to identify specific contractors or sub-contractors that will ultimately be involved in the construction.

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, sub-contractors, and tradespeople as needed to perform the planned work.
- The applicant will advertise and host a pre-bid conference to proactively invite MWBE subcontractors to participate in the process and ask questions to learn more about the job opportunity. DMC staff will be invited to attend the pre-bid conference to observe. This pre-bid conference will likely need to be held virtually due to the ongoing COVID-19 pandemic. Additionally, the applicant will look proactively to identify opportunities for a joint venture or meaningful partnerships with smaller general contractors to gain experience at this scale while adding value to the project.
- 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 the form titled “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:

The 25% minimum MWBE spending goal for this project will include the following estimated hard cost and professional fees:

Construction	\$9,205,000	(86%)
Demolition	\$1,200,000	(11.2%)
Architectural Design	\$300,000	(2.8%)
Total Uses	\$10,705,000	(100%)

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$2,676,250**.

Design Review Board: The applicant will submit plans to the DRB in the coming months. DRB approval is required prior to start of construction.

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.

Estimated Payments: The current annual city and county taxes on the property total approximately **\$43,600**. A PILOT would allow for a vacant lot to be replaced by a multi-family development that will add 83 residences to Memphis's urban core. It must be noted that a property never pays less tax as a result of receiving a PILOT. A commercial property always pays more tax as a result of being approved for a CCRFC PILOT. This tax incentive allows development projects to move forward that would otherwise not be able to occur due to insufficient economic returns that make attracting debt and equity untenable.

During the 12-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$94,901**. This represents a **118%** increase from the amount of taxes currently generated by the property. Over the course of the 12-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$615,615**.

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, attract 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.

The City of Memphis and the Downtown Memphis Commission both have a strong interest in fighting blight, and increasing property values and residential density in the heart of Memphis. Downtown's Medical District is a regionally-significant center for healthcare, employment, and education, but its residential growth has lagged behind other Downtown neighborhoods. The proposed development replaces what was a patch of blight in the middle of a major employment center with 83 new residences ready to house the medical workers, students, and others who power the vital work that occurs in the Medical District.. The development will also help to build on other nearby investment in the Medical District, including the recently-approved URBN on Union project located just a block to the north.

Recommendation:

Staff recommends approval of a 12-year PILOT subject to all standard closing requirements and conditions.