

# Center City Revenue Finance Corporation

## Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)  
From: DMC Staff  
Date: September 5, 2023  
RE: PILOT Application: Dermon Building, 46 N. B.B. King

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The enclosed PILOT application has been submitted for consideration at the September 12, 2023, CCRFC Board Meeting.

**Project:** **The Dermon Building, by Holiday Inn Express  
46 N. BB King**

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**Applicant:** Nick Patel, Dermon Building OZ LLC  
11227 Matthews Cove Ln  
Knoxville, TN 37934

**Applicant's Request:** 10-year PILOT for renovation of the existing building for use as a hotel with 150 keys and ground-floor commercial.

**Included Parcels:** Parcel ID: 002027 00030  
Parcel ID: 002027 00029  
Parcel ID: 002027 00028

**Background:** The subject property is the historic Dermon Building and two adjacent parcels to the east. The Dermon Building was constructed in 1925 to serve as the offices of the Dermon Company. The building is individually listed on the National Register of Historic Places and is noteworthy for its extensive use of decorative glazed terra cotta. However, the building has remained in a vacant and blighted condition for more than a decade.

The applicant received a 12-year PILOT from the CCRFC at its August 9, 2022 meeting. The original plan called for conversion of this historic building for use as 103 multi-family rental apartments with an estimated development budget of approximately \$17M. That version of the project is not moving forward and the previously-approved PILOT will be canceled.

The property owner has decided to renovate the historic building for use as a 150-key hotel with ground-floor commercial space. The current plan is to brand the property as The Dermon Building, by Holiday Inn Express. The applicant is requesting a 10-year PILOT to enable this

project to move forward and attract debt and equity investment. If a PILOT is approved for the project, construction will likely begin in Q1 of 2024 and be substantially complete in Q1 of 2025.

Project Budget:

The total development cost of the project is approximately \$22.3M. 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:**

Project Debt	\$16,756,575	(75%)
Owner’s Equity	\$5,585,525	(25%)
<b>Total Sources</b>	<b>\$ 22,342,100</b>	<b>(100%)</b>

**Uses:**

Acquisition	\$5,000,000	(22%)
Hard Const. Costs	\$13,542,100	(61%)
Soft Costs	\$520,000	(2%)
PILOT Fee	\$190,621	(1%)
Financing Fees	\$425,000	(2%)
Other Project Costs*	\$2,164,379	(10%)
Contingency	\$500,000	(2%)
<b>Total Uses</b>	<b>\$22,342,100</b>	<b>(100%)</b>

*\*Includes owner-directed purchases for hotel, initial franchise fee, etc.*

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 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 general contractors and subcontractors 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.
- The applicant will proactively contact a minimum of 3 MWBE general contractors and provide each a fair opportunity to submit a bid and be considered for the project.
- 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 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: Based on the current information provided by the applicant, the estimated EBO-eligible costs for this project are as follows:

Hard Costs	\$13,542,100
Design & Professional Fees	\$520,000
<b>Total Eligible Costs</b>	<b>\$14,062,100</b>

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$3,515,525**.

Parking Strategy: The developed site will provide 25 new off-street parking spaces to the east of the hotel, including 3 accessible spaces, primarily to serve those requiring mobility assistance and staff. All other parking will be provided via lease from an existing parking garage at 156 Court Ave. The DMC encourages shared parking strategies that increase the use of underutilized existing parking assets.

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 **\$13,889**. A 10-year PILOT will allow for the revitalization of a vacant and blighted commercial building in the Downtown Core.

During the 10-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$63,385**. This represents a **356% increase** from the amount of taxes currently generated by the property.

As a result of receiving this PILOT, it is estimated that this property will pay **\$494,962** more in taxes to the City and County over the course of the 10-year PILOT term than if the property remained undeveloped.

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 Dermon Building is a noteworthy historic building in the Downtown Core and has been one of Downtown's most prominent blighted buildings for many years. Bringing the Dermon back into active use will be an important step to expanding development activity east of B.B. King, building on the momentum of other recent projects, including The Commonwealth and Hotel Indigo. This transformative investment in a high-priority blighted property will help increase the critical mass of commercial activities in the Downtown Core, providing new customers for Downtown businesses, and creating a more active public realm.

**Recommendation:**

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