

# Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)  
From: DMC Staff  
Date: June 6, 2023  
RE: PILOT Application: Union Crown (1331 Union Ave)

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

**Project:** **Union Crown (1331 Union Ave)**

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Applicant: David Propis  
Union Crown Memphis, LLC  
11 Echo Lane  
Melville, NY 11747

Applicant's Request: 12-year PILOT for the renovation of an existing office property into a multifamily property with 181 apartment units.

Included Parcels: Parcel ID: 016002 00001C

Project Description: The subject property is 1331 Union Ave, a 15-story office building constructed in 1965. The property includes 400 parking spaces in a four-story garage, and 156,342 square feet of leasable office space in the 10 floors above. Although 1331 Union is still partially occupied, several of the office floors have been entirely vacant for many years, and the building's condition is deteriorating.

The applicant plans on converting 1331 Union Ave from office to multifamily, with leasable commercial space and residential amenities on the ground floor. The building's 181 residential units will contain a mixture of units ranging from studios to 2-bedroom apartments. Outdoor residential amenities will be provided on what is currently the top floor of the garage, although over 300 parking spaces will remain in the garage floors below. The conversion will also include the creation of up to 4500 square feet of new ground floor retail space with frontage on Union.

If a PILOT is approved for the project, the applicant estimates that construction will likely begin in Q1 of 2024 and be completed within 18 – 24 months of the start date.

Project Budget:

The total development cost of the project is approximately \$54,810,000. 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:**

|                      |                     |               |
|----------------------|---------------------|---------------|
| Debt                 | \$44,750,000        | (81.6%)       |
| Equity               | \$10,060,000        | (18.4%)       |
| <b>Total Sources</b> | <b>\$54,750,000</b> | <b>(100%)</b> |

**Uses:**

|                            |                     |               |
|----------------------------|---------------------|---------------|
| Acquisition                | \$15,500,000        | (28.3%)       |
| Hard Costs                 | \$36,000,000        | (65.7%)       |
| Design & Professional Fees | \$1,000,000         | (1.8%)        |
| Financial Fees             | \$1,500,000         | (2.7%)        |
| PILOT Fee                  | \$810,000           | (1.5%)        |
| <b>Total Uses</b>          | <b>\$54,750,000</b> | <b>(100%)</b> |

Project Grading:

Per the CCRFC’s PILOT grading system, the project achieves an unadjusted grade of up to 18 Years:

**Primary Qualifications:**

Residential (+51 units) 6 Years

**Total Project Development Costs:**

\$20+ Million 5 Years

**Priorities & Initiatives**

Located within CBID 3 Years

Tract with Poverty Rate > 20% 2 Years

Tract with < 80% Area Median Income 2 Years

**Total: 18 Years**

**Applicant’s Request: 12 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                  | \$36,000,000        |
| Design & Professional Fees  | \$1,000,000         |
| <b>Total Eligible Costs</b> | <b>\$37,000,000</b> |

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$9,250,000**.

Parking Strategy: The project includes the renovation of an attached garage, which will contain over 300 parking spaces after the renovation.

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 **\$45,112**. A PILOT would allow for a complete renovation of this underutilized office property into an active residential property with 181 new housing units.

During the 12-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$275,692**. This represents a **511% 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 **\$2,766,960.**

**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.

While the subject property at 1331 Union Ave has struggled as an office building, its location in the heart of the medical district, existing structured parking, and expansive views make it an ideal candidate for residential conversion. Downtown's medical district is a major employment center, but it still contains a relatively small amount of housing to meet demand from the district's many workers. Converting an underutilized office building in the medical district to multifamily residences will help to increase the district's residential population and support further growth and activity in the area.

**Recommendation:**

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