

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: August 4, 2020
RE: PILOT Request – The Walk (formerly Union Row) Mixed-Use Development

The enclosed request is for consideration at the August 11, 2020, CCRFC Board Meeting.

Project: **The Walk Mixed-Use Development**

Applicant: Union Row LB, LLC (formerly Big River Partners, LLC)

Site Control: The applicant has control of the 21.54 acre site. All parcels are either owned by the applicant or under contract.

Background: The applicant previously was approved for a 30-year Tax Increment Financing (TIF) for this development project in 2018. In December 2019, the applicant was approved for an amended TIF to increase the scope of the project. **This application represent substantially the same development approved in December 2019; however, the design, budget, component counts and square footage have been refined.** Since December 2019, the impact of COVID-19 has significantly impaired the financial markets and economy and has caused the applicant to revise expected rent projections. Further, expected proceeds from the bond issue have decreased due to market conditions. The developer has invested \$30 million in pre-development and land acquisition and has cleared the portion of the site that will contain the first phase of construction. **The result of current market conditions has reduced the public incentives as a percentage of total sources from 25% to 18%, or \$135 million; yet the overall investment remains at \$741 million.**

Applicant's Request: The applicant is requesting approval of a 30-year PILOT. According to the applicant, approval of a PILOT is necessary for the project to be financially viable and attract both equity and financing. Without a PILOT tax incentive, the project pro forma shows deficient debt service and low return on investment given the project complexity and risk. The maximum length of a PILOT from the CCRFC is limited by statute to 20-years. Subject to State of Tennessee approval,

the applicant is requesting a PILOT with a term up to 30 years for this project.

Additional Approvals:

Use of PILOT Rents Rather than benefit from annual property tax savings from the PILOT, the applicant is requesting the ability to pay 100% of the property tax and have the PILOT payments (75% of the incremental increase in property taxes) deposited to a trust account from which to pay debt service on the project. This will require approval from the Memphis City Council and Shelby County Commission.

Project Site: The project is a mixed-use development comprised of 21.54 acres located generally on Union Avenue, Danny Thomas Boulevard, and Beale Street. See detailed map in the PILOT Application for the exact boundaries of the site and parcel list.

Project Overview: The Walk (formerly Union Row) envisions a mixed-use campus of apartments, retail, commercial, offices, hotel, grocer, park space, and new structured parking. A new central boulevard will also be added to improve connectivity within and through the site.

Building Program:

Retail	75,270 sq. ft.
Multi-family Apartments	1,168 units
Class A Office Space	403,544 sq. ft.
Hotels (4)	574 keys
Structured Parking	2,841 spaces
Total Development Cost	\$741,173,922

Project Timing: Contingent upon PILOT and other required approvals, the development team plans to close on financing in Q4 2020. Construction for Phase I is planned to begin in Q1 2021 and will take approximately 20-24 months to complete.

Development Budget: The total development cost for the entire project is approximately \$741,173,922. 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.

Sources:

Equity	\$150,569,468	(20%)
Debt	\$424,222,853	(58%)

Estimated PILOT	\$134,604,701	(18%)
New Market Tax Credits	\$ 10,973,400	(1%)
Tourism Surcharge Bond**	\$ 20,803,500	(3%)
Total Sources	\$741,173,922	(100%)

Uses:

Land	\$ 48,500,000	(7%)
Hard Construction costs	\$519,807,367	(70%)
Arch, design, & engineering	\$ 47,797,371	(6%)
Development fees	\$ 23,632,801	(3%)
Financing Costs	\$ 42,458,599	(6%)
Tenant Improvements/Leasing	\$ 24,914,614	(3%)
Furniture, Fixtures, Equipment	\$ 19,036,300	(3%)
Operating Reserves	\$ 15,026,870	(2%)
Total Uses	\$741,173,922	(100%)

Numbers rounded. ** See separate application.

PILOT Grade:

The length, or grade, of a PILOT is based on a clear grading system that reflects the strategic priorities of the CCRFC. Generally, a higher PILOT grade indicates that a project is expected to have a greater positive impact on the development of Downtown Memphis.

The CCRFC's PILOT Program is currently limited by statute to the maximum length of a PILOT to 20-years. The applicant plans to request authorization from the State of Tennessee to receive a PILOT up to 30-years in length for this catalytic and exceptional project. Given the complexity, size, and development costs associated with Union Row, the project grades far in excess of the program maximum. Per the scoring system, the project achieves a base grade of 35 years and could reach 37 years with public art & lighting.

Primary Qualification A:

Office (+300,000 sf) 6 Years

Primary Qualification B:

Residential (+51) 6 Years

Primary Qualification C:

Hotel (100-200 keys) 5 Years

Primary Qualification D:

Retail (+30,001 sf) 6 Years

Secondary Qualification:

Parking 701+ spaces 3 Years

<u>Total Project Development Costs:</u>	
+\$20 Million	5 Years
<u>Priorities & Initiatives:</u>	
Located within CBID	3 Years
New Construction in DT Core	1 Year
<u>Optional Credits:</u>	
Public Art	1 Year
Enhanced Architectural Lighting	1 Year
Total Base Grade:	35 Years
Total Grade with Public Art & Lighting:	37 Years
Applicant's Request:	30 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.

The following estimated costs are subject to the EBO program:

Hard Costs	\$519,807,367
<u>Arch/design/engineering</u>	<u>\$ 47,797,371</u>
Total	\$567,604,738

According to the above estimates, a 25% level of MWBE inclusion for the estimated hard and soft costs will be approximately **\$141,901,185**. The applicant has committed to a goal of 28%, or **158,929,327**.

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 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 is partnering with Montgomery Martin Contractors, Turner Construction, StartCo and Customized Solutions to create a plan that includes outreach, procurement and support to businesses that will be working on the project.
- The applicant has and will continue to 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 hold its own meetings with MWBE trade partners and make introductions between minority sub-contractors and larger sub-contractors.
- The applicant will deploy a website to provide updates and critical information to MWBE firms.
- 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 general contractor will arrange, divide and structure multiple trade packages to maximize participation among MWBE subcontractors and vendors. Turner has completed a preliminary assessment of each trade and the MWBE potential.
- The general contractor will also offer sub-contractors access to the Turner Accelerated Payment Program™ (APP), which expedites payments to subcontractors, improving their cash flow, and strengthening their balance sheets. Through APP, subcontractors are expected to reap substantial benefits, including i) known payment timing and ii) a low-cost, non-debt source of working capital.

- The applicant will provide access to training opportunities through Turner’s School of Construction Management, Turner’s Workforce Development Program and other established programs.
- 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.
- NOTE: The applicant states “Current MWBE Spend at 33%. DMC recently reported this project at 7% participation. The DMC report uses contracts paid and the application uses contracts awarded.

Design Review Board: The applicant will submit design plans to the Design Review Board (DRB) in the coming months.

Housing Requirement: Per the PILOT Program policies, multi-family apartment developments with 51 or more units are subject to, and must be compliant with, DMC’s housing policy. Per the policy, at all times during the PILOT term, at least 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 80% of the median gross income for Shelby County, Tennessee. The applicant is committed to meeting this requirement.

Economic Impact: The applicant commissioned an economic impact study to quantify the direct positive impact of the Union Row project. According to the economic projections, the one-time impact of construction will produce over 5,800 construction jobs and produce in excess of \$5.7 million in local taxes. This is in addition to the impact of the construction wages that will exceed \$338 million.

Once construction is complete and the project is stabilized, the project is expected to create an annual positive economic impact in excess of 175 million while creating approximately 3,460 jobs.

Estimated Payments:

The current annual city and county taxes on the property total \$254,905. During the 30-year PILOT term, the annual payment in lieu of taxes is estimated at approximately \$4.1 million. **This represents a 1,614% increase from the amount of taxes currently generated by the property.** Over the course of the 30-year PILOT term, the cumulative increase in new taxes generated by this property will be approximately \$123 million. At the end of the PILOT term, annual taxes are estimated to exceed \$16 million per year.

Staff Evaluation:

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.

Staff is highly supportive of the proposed PILOT application. As one of the largest private developments in the history of Memphis, Union Row will be transformative and catalytic. Over \$750MM in mixed-use development will anchor the eastern end of the Downtown Core and provide critical infill to better connect recent investment around ServiceMaster and Main Street with ongoing investment in the emergent Edge neighborhood.

Union Row will also be instrumental in transforming Union Avenue into a welcoming and vibrant gateway into Downtown Memphis from the east. This sizable investment will effectively create a new sub-neighborhood and special place out of an area currently defined as consisting mostly of vacant property and underutilized structures.

Recommendation:

Subject to the applicant receiving State of Tennessee approval, staff recommends approval of a PILOT of up to 30 years in length, subject to all standard approval requirements and conditions.