

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: September 3, 2019
RE: PILOT Application: 82,86,88 S. Main

The enclosed PILOT application has been submitted for consideration at the September 10, 2019, CCRFC Board Meeting.

Project: **82, 86, 88 S. Main**

Applicant/Owner: GFLP Holdings LLC
Dr. Ramesh C. Gupta
6245 River Grove Cv.
Memphis, TN 38120

Applicant's Request: 15-year PILOT lease for a mixed-use development

Included Parcels: Parcel ID 002053 00001 (82 S. Main)
Parcel ID 002053 00025 (86 S. Main)
Parcel ID 002053 00024 (88 S. Main)

Project Description: The subject property is located on the east side of Main Street, in the block between Union Avenue and Barboro Alley. The site contains three attached historic buildings.

The buildings at 82 and 86 S. Main were built in 1901 as separate 3-story structures. The adjacent building at 88 S. Main was built in 1915. The buildings historically served a commercial purpose and were home to a variety of stores and activities including Sherron Shoe Company, Kress & Co, Levy's, and Macon & Andrews Business School.

The applicant plans a full renovation of all three attached buildings. Each building will be connected internally to share an elevator and stairwells. About 7,000 sq. ft. of commercial space is proposed for the ground-floor. The development project also includes 38 market-rate apartments on the upper floors. Unit mix will include studio and one-bedroom units, ranging from 400 to 1,300 sq. ft. The average unit size is approximately 900 sq. ft.

In addition to a CCRFC PILOT, the applicant plans to request a \$200,000 Development Loan from the Center City Development Corporation (CCDC) as part of the project's

overall capital stack. Contingent upon PILOT and Development Loan approval, the applicant could begin construction as early as December, 2019. Renovation is expected to be complete by the end of 2020.

Project Budget:

The total development cost of the project is approximately \$9.1MM. 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 applicant intends to pursue Historic Tax Credits (HTCs) as part of the deal structure.

The following describes the overall sources and uses of funding:

Sources:

Property Value (less debt)	\$608,700	(7%)
Owner's Equity	\$1,094,091	(12%)
Historic Tax Credit Equity	\$1,322,248	(14%)
Bank Financing	\$5,892,388	(65%)
<u>DMC Development Loan</u>	<u>\$200,000</u>	<u>(2%)</u>
Total Sources	\$9,117,427	(100%)

Uses:

Property	\$608,700	(7%)
Hard Construction Costs	\$7,150,983	(78%)
<u>Soft Costs</u>	<u>\$1,357,744</u>	<u>(15%)</u>
Total Uses	\$9,117,427	(100%)

Project Grading:

Per the PILOT scoring system, the project has a base grade in excess of the 15-year PILOT program cap.

Primary Qualification A:

Residential (26-50 units) 5 Years

Primary Qualification B:

Retail (5,000 – 9,999sf) 1 Year

Total Project Development Costs:

\$5 - 10 Million 2 Years

Priorities & Initiatives

Located within CBID 3 Years

National Register of Historic Places 4 Years

Located on Main to Main Corridor 3 Years

Total: 18 Years

Applicant's Request: The applicant is requesting approval of a 15-year PILOT. According to the applicant, approval of a PILOT is necessary for the project to be economically viable, warrant equity investment, and attract financing. Without a PILOT tax incentive, the debt service coverage ratio without a PILOT is far below the threshold that can be financed by a bank.

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 estimated hard and soft development costs for this project are as follows:

Hard Construction Costs	\$7,150,983	(84%)
Soft Costs	\$1,357,744	(16%)
Total Uses	\$8,508,727	(100%)

According to the above estimates, a 25% level of M/WBE inclusion for the combined hard and soft costs will be approximately **\$2,127,182**.

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 property total **\$17,643**. A PILOT would allow for a vacant building to be rehabilitated and brought into active use. During the 15-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$48,732**. This represents a **176%** increase from the amount of taxes currently generated by the property. Over the course of the 15-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$466,343**.

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 bank financing, and warrant equity investment.

Located prominently in the heart of the Downtown Core and along the Main Street Mall, the long-vacant properties at 82, 86, & 88 S. Main are a top-priority of the DMC and CCRFC. Improving the blighted condition of these buildings and replacing vacancy with market-rate apartments and ground-floor commercial space is closely aligned with the DMC's Main Street strategy and priorities.

As outlined in the DMC's Market Study & Retail Action Plan, it is vitally important to fill the gaps in ground-floor commercial activity and increase the density of retail offerings within the Downtown Core. Reanimating this vacant property along the Main Street Mall will help build the compact critical mass that leads to vibrant and pedestrian-friendly urban districts. Moreover, the subject property remains one of the final undeveloped portions of the Demonstration Block, a focused effort to encourage development along Main Street between Union Avenue and Gayoso Ave.

Staff is in full support of this PILOT application. A strategic investment at this location will only add to the significant momentum of numerous redevelopments projects that are planned, underway, or recently completed along the Main Street Mall, including 1 S. Main, 18 S. Main, 26 S. Main, 47-51 S. Main, 55 S. Main, and 64 S. Main.

Recommendation:

Staff recommends approval of a 15-year PILOT, subject to the all standard closing requirements and conditions.

PILOT Request	
Requested PILOT Term (years)	15.0
Project Type	Rehabilitation
Located in the CBID?	Yes
Current Amounts	
Base Appraisal	\$608,700
Base Assessment	\$243,480
Annual City Tax on Base Assessment	\$7,782
Annual County Tax on Base Assessment	\$9,861
Annual RE Taxes on Base Assessment	\$17,643
Project Costs	
Acquisition Cost	\$608,700
Hard Costs	\$7,150,983
Soft Costs	\$1,357,744
Total Project Costs w/o PILOT fee	\$9,117,427
Hard Costs Investment Check - 78.4%	YES
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$9,117,427
PILOT fee	\$136,761
Total Project Costs w/ PILOT fee	\$9,254,188
Valuation & CBID Assessment	
Base Appraisal	\$608,700
Percentage of Hard Costs	\$4,290,590
Estimated Appraisal after Improvements	\$4,899,290
Estimated Assessment after Improvements	\$1,959,716
Estimated Annual CBID Assessment after Improvements	\$12,673
Annual RE Taxes	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$62,632
Estimated Hypothetical Annual County Tax without PILOT*	\$79,368
Estimated Hypothetical Total Annual Taxes without PILOT*	\$142,001
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$21,494
Estimated Annual County Tax with PILOT	\$27,238
Estimated Total Annual Taxes with PILOT	\$48,732
Estimated Annual Benefit	\$93,269
Cumulative RE Taxes	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$939,484
Estimated Hypothetical Cumulative County Tax without PILOT*	\$1,190,527
Estimated Hypothetical Total Cumulative Taxes without PILOT*	\$2,130,011
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Tax with PILOT	\$322,414
Estimated Cumulative County Tax with PILOT	\$408,567
Estimated Total Cumulative Taxes with PILOT	\$730,981
Estimated Cumulative Benefit over 15-Year PILOT	\$1,399,030
Estimated Cumulative Increase in Taxes due to PILOT	\$466,343

176%

*Staff has concluded that this project would not go forward without a PILOT. Hence, the "Estimated Hypothetical" amounts are fictional/moot numbers used to calculate the benefit of the PILOT to the project. The benefit figure does not represent lost tax revenue to the City or County. Without the PILOT, the property would remain unimproved and the tax assessment would continue to be based upon the unimproved value. With the PILOT, the amount listed above as "Estimated Cumulative Increase in Taxes due to PILOT" would be the approximate benefit over the PILOT term to the City and County from newly generated property tax revenue. That amount does not include any new sales taxes that will be generated by the construction and operation of the project. Furthermore, after the PILOT term has finished, it is expected that the annual taxes will be approximate to the amount listed as "Estimated Hypothetical Total Annual Taxes without PILOT".