

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: November 6, 2018
RE: PILOT Request – The Marine Residence

The enclosed request is for consideration at the November 13, 2018, CCRFC Board Meeting.

Project: The Marine Residence, 360 Metal Museum Drive

Applicant/Owner: Mr. Lauren T. Crews, Representative & Partner
Desoto Pointe Partners, LLC
2285 Lansingwood Drive
Germantown, TN 38139

Applicant's Request: 20-Year PILOT

Background: The subject property (Parcel ID# 012008 00012) is the site of the former U.S. Marine Hospital, located on the southern end of Downtown in the French Fort neighborhood. The U.S. Marine Hospital compound was originally built in the 1880s and is listed on the National Register of Historic Places. The Nurses Quarters is the oldest building on the property that remains from the original hospital. The maintenance structure and primary hospital buildings visible today were built in the 1930s. The property was used as recently as the late 20th Century as a headquarters for the National Guard.

Project Description: The Marine Hospital and its companion buildings will be renovated and converted for use as 71 market-rate apartments. Amenities will include a pool, covered parking, courtyards, water features, storage, bike care facilities, pet wash area and common gathering areas in the buildings and on the grounds.

The following structures on site will be renovated:

Main Hospital building	87,937 sq. ft.
Maintenance Building	10,629 sq. ft.
<u>Nurses Building</u>	<u>3,889 sq. ft.</u>
Total	102,455 sq. ft.

Subject to the applicant receiving all required approvals, construction will likely begin in 2019 and be completed in approximately 13 months.

Development Budget: The total development cost is approximately \$18,736,056. 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:

Project Debt	\$8,350,000	(45%)
CCDC Development Loan	\$300,000	(2%)
Infrastructure Support	\$575,530	(3%)
Historic Tax Credits	\$2,472,310	(13%)
Owner's Equity	\$3,864,659	(21%)
Property Cost	\$788,558	(4%)
Deferred Development Fee	\$2,385,000	(13%)
Total Sources	\$18,736,056	(100%)

Uses:

Property Acquisition	\$788,558	(4%)
Hard Costs	\$13,696,401	(73%)
Soft Costs	\$4,251,097	(23%)
Total Uses	\$18,736,056	(100%)

PILOT Grade:

Per the PILOT scoring system, the project achieves a grade in excess of the maximum PILOT term of 20 years.

Primary Qualification:

Residential (+51 units) 6 Years

Total Project Development Costs:

\$15-20 Million 4 Years

Priorities & Initiatives:

Located within CBID 3 Years

Renovation (Individually NR Listed) 5 Years

Census Tract (+20% poverty rate) 2 Years

Census Tract (80% AMI) 2 Years

Public Art 1 Year

Enhanced Architectural Lighting 1 Year

Total Grade: 24 Years

Maximum PILOT Length: 20 Years

Applicant's Request:

20 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 (M/WBEs) 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 Construction Costs	\$12,135,694
<u>Architecture & Engineering</u>	<u>\$619,500</u>
Total	\$12,755,194

According to the above estimates, a 25% level of M/WBE inclusion for the estimated hard and soft costs will be approximately **\$3,188,798**.

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

Development Loan: The Center City Development Corporation (CCDC), an affiliate of the DMC, offers a low-interest loan up to \$200,000 for commercial development projects located within the Central Business Improvement District (CBID). This loan product is permanent financing at 1% interest to assist the building owner in making permanent building improvements. The loan has a 10-year term using a 20-year amortization schedule.

Historically, the CCRFC's PILOT program was designed to support larger projects. In an effort to direct additional resources towards smaller projects, the DMC and CCDC created the Development Loan Program. Under current CCRFC policy, the PILOT term is limited to 10-years for projects receiving both a CCRFC PILOT and a CCDC Development Loan. The original intent of this policy was to direct Development Loans to smaller projects given the reality of limited CCDC resources for the loan pool. Typically, a development receiving a PILOT longer than 10 years will be a large project with a substantial budget.

The applicant plans to request approval for an exceptional Development Loan of up to \$300,000 at the November CCDC meeting. For this application, staff supports the request for a Development Loan due to the historic and architectural significance of this property.

Estimated Payments: The current annual city and county taxes on the property total **\$3,649**. During the 20-year PILOT term, the annual payment in lieu of taxes would equal approximately **\$63,195**. This represents a **1632%** increase from the amount of taxes currently generated by the property. Over the course of the PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$1,190,927**.

Housing Policy:

Per the PILOT Program policies, residential 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 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.

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 agrees with the applicant that a PILOT is needed for the project to be economically viable, attract bank financing, and warrant equity investment. Staff is in full support of the project as the adaptive reuse of this historic property has been an organizational priority for many years. Although the property has significant historic and architectural value, it has sat vacant and in a deteriorating condition for almost two decades. The Marine Hospital has been listed by the Tennessee Preservation Trust as one of the Top Ten most endangered historically significant buildings in the state.

Moreover, remediating the blighted condition of this property for multi-family use aligns closely with the DMC's dual goals of improving commercial property values and increasing Downtown's population. Even with approval of a CCRFC PILOT, the overall development project is still a complex and expensive undertaking. Approval of a CCRFC PILOT and CCDC Development Loan will be important steps forward as the developer works to make this important project a reality.

Recommendation:

Staff recommends approval of a 20-Year PILOT, subject to all standard approval requirements and conditions.