

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: February 12, 2019
RE: PILOT Request – 145 George W. Lee

This application is for consideration at the February 14, 2019 CCRFC Board Meeting.

Project: 145 George W. Lee, Adaptive Reuse of former Gibson Guitar
Factory

Applicant: Somera Road-Gibson Memphis, LLC
c/o Somera Road Inc.
130 West 42nd Street, Suite 1001
New York, New York 10036
(646) 766-8184

Applicant's Request: Amendment of existing PILOT for adaptive reuse of existing
building and addition of 40,467 sf of office space to provide for
prospective tenant, FedEx Logistics, Inc.

Subject Property: Former Gibson Guitar Factory, 145 George W. Lee
Parcel ID 002128-00026C

Project Description: The building currently consists of two levels and includes an
approximately 25,000 sf roof deck. A new mezzanine area will be
built out in order to add approximately 40,000 sf of office space,
and the roof deck will be improved to include indoor and outdoor
meeting and work areas. Additionally, the project will include
retail space at the street level, with plans to sublease to a fitness
center.

The prospective tenant is FedEx Logistics, Inc. ("FedEx Logistics" and formerly FedEx Trade Networks), an operating segment of FedEx Corporation that provides customs brokerage and global ocean and air freight forwarding, technology and e-commerce, transportation and supply chain management, as well as time-critical solutions. FedEx Logistics is growing and interested in consolidating its office space to a corporate headquarters at 145 George W Lee Ave, formerly Gibson Guitar Factory. As a result of this move, 323 current employees will relocate to Downtown, and 339 new employees will be added over a five-year period. This move will reactivate a large and increasingly vacant building and benefit the city, county and state by retaining a major company.

Construction is planned to begin in July 2019 and will be completed in Q1 2020.

Development Budget:

The total development cost is approximately \$62,522,503. 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. Due to the significant job growth, the applicant has received approval from the State of Tennessee Department of Economic and Community Development and the Comptroller for an extension of the PILOT. Staff supports the request based on the significant improvement to the building and addition of office square footage as well as new jobs created.

Sources:

Debt	\$46,891,877	(75%)
Equity	\$15,630,626	(25%)
Total Sources	\$62,522,503	(100%)

Uses:

Land	\$10,000,000	(16%)
Hard Costs (includes TI)	\$33,400,000	(54%)
Soft Costs	\$19,122,502	(30%)
Total Uses	\$62,522,502	(100%)

PILOT Grade:

Per the PILOT scoring system, the project achieves a base grade of 16.5 years. The applicant is requesting a 20 year PILOT plus 2 years to allow for construction.

Primary Qualification:

Office (100,001- 200,000 sf) 4 Years

Secondary Qualification:

Retail (less than 5,000 sf) 0.5 Year

Total Project Development Costs:

\$20+ Million 5 Years

Priorities & Initiatives:

Located within CBID 3 Years

Renovation of Existing Building, Core 2 Years

Census Tract (w/+20% Poverty) 2 Years

NOTE: Property is also adjacent to South City Impact Area and parking for the building is currently in the South City boundary. This would garner 3 Years benefit.

Total Grade

16.5 Years

Because the requested term exceeds 20 years, the applicant requested and received approval from the State of Tennessee Department of Economic and Community Development and Comptroller for the term of 20 year plus 2 years for construction.

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. A 25% level of MWBE inclusion for the estimated hard and soft costs of \$33,400,000 will be approximately **\$8,350,000**.

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

Estimated Payments: The current annual city and county taxes on the property total \$9,836 and \$366,825 going to the PILOT Extension Fund. At the end of the current term (2023), the full annual payment in lieu of taxes would equal \$376,661 and be remitted to City and County for a period of 22 years. This represents a **383%** 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 **\$7,336,500**.

Staff Evaluation: The DMC's Strategic Plan encourages facilitating and accelerating real estate development and incentivizing Downtown development when necessary to increase investment and economic development. Supporting FedEx Logistics' relocation to Downtown Memphis is consistent with DMC's Strategic Plan and its initiatives, since it increases the number of downtown workers, and strengthens the downtown office campus the DMC has worked to cultivate. Downtown has benefited from other recent office relocations to downtown through new food and beverage businesses, increased vibrancy during the day and relocation interest from other companies.

Staff is highly supportive of this project due to the adaptive reuse of a significant Downtown building which might otherwise remain empty for some time, the addition of new office space, improvements to the street level pedestrian experience with an active ground floor, as well as the presence of over 600 new employees in Downtown Memphis.

Recommendation: **Staff recommends approval of an Amendment of the PILOT for 20 additional years plus 2 years for construction, subject to all standard approval requirements and conditions.**