

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: December 3, 2019
RE: PILOT Application: 1750 Madison Ave.

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

Project: **1750 Madison Ave.**

Applicant: 1750 Madison Development, LLC
7842 Farmington Blvd.
Germantown, TN 38138

Project Representative: Mr. Amin Zaki

Current Owner: Seventeen-Fifty Madison Ave Partnership
1014 Fulton Greer Ln.
Franklin, TN 37064

Applicant's Request: 14.5-year PILOT lease for mixed-use project to include ground-floor commercial space and 74 apartment units

Included Parcels: Parcel ID 017044 00025C (1750 Madison)
Parcel ID 017048 00022 (0 N. Auburndale)
Parcel ID 017048 00021 (0 N. Auburndale)
Parcel ID 017043 00027 (0 N. Evergreen)
Parcel ID 017043 00028 (0 N. Evergreen)

Project Description: The subject property is located in Midtown and includes five parcels on the north side of Madison Avenue near the intersection of Madison and North Auburndale Street. The combined area of the site is approximately 2.461 acres.

The applicant plans to convert an existing office building for apartment use and construct two smaller multi-family buildings on nearby vacant lots. The project will include the following major components:

- Approximately 74 apartment units
- Ground-floor retail (approximately 8,000 sf)
- Basement space (approximately 3,500 sf)
- 139 surface parking spaces; located behind the existing 6-story building

The main parcel (1750 Madison) contains a 6-story office building (81,784 sf) and a 139-space surface parking lot to the rear. The office building is only partially occupied and in need of significant deferred maintenance.

Contingent on a CCRFC PILOT, the applicant will fully renovate the existing building for retail use on the ground floor and add 52 apartment units on floors 2-6. The ground-floor office space along Madison Avenue will be converted to restaurant or retail bays.

In addition to a gym and storage for the apartment residents, the basement is being envisioned as rental space for beauty/hair salon booths. The building exterior will be modified to provide larger windows for each apartment and create new storefront along Madison Ave.

In addition to the main parcel, the project includes two adjacent secondary lots. Lot A (0.374-acres) consists of two vacant parcels on the west side of N. Evergreen Street. The applicant plans to build a 12-unit apartment on this site. Lot B (0.362-acres) includes two vacant parcels on the east side of N. Auburndale Street. The applicant plans to build a 10-unit apartment on this site.

All five parcels are currently under contract. Contingent on PILOT approval, the applicant will close on acquisition and project financing in Q1 2020. Construction will likely begin in Q1 2020 and be complete in Q1 2021.

Parking Strategy:

The development will utilize the existing parking lot.

Project Budget:

The total development cost of the project is approximately \$12,584,531. 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:

Bank Loan	\$10,067,625	(80%)
Owner Equity	\$2,516,906	(20%)
Total Sources	\$12,584,531	(100%)

Uses:

Property Purchase	\$3,150,000	(25%)
Hard Construction Costs	\$8,455,765	(67.2%)

Soft Costs	\$792,788	(6.3%)
PILOT Fee	\$185,978	(1.5%)
Total Uses	\$12,584,531	(100%)

Project Grading:

Per the PILOT scoring system, the project could achieve a maximum grade of 14.5 Years.

Primary Qualification:

Residential (+51 units) 6 Years

Secondary Qualification:

Retail (10,000 – 14,999 sf) 1.5 Years

Total Project Development Costs:

\$10 - 15 Million 3 Years

Priorities & Initiatives

Located within CCRFC Boundaries 1 Year

+20% Poverty Rate Census Tract 2 Years

Enhanced architectural lighting 1 Year

Total: 14.5 Years

Applicant's Request:

The applicant is requesting approval of a 14.5-year PILOT. According to the applicant, approval of a PILOT is necessary for the project to be economically viable and attract financing.

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.**

Based on the current information provided by the applicant, the estimated hard cost and soft costs for this project are as follows:

Hard Construction Costs	\$8,455,765	(99%)
Design Costs	\$70,000	(1%)
Total Uses	\$8,525,765	(100%)

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$2,131,441**.

Housing Policy:

This project will require compliance with the CCRFC's Affordable Housing Requirement. Per the PILOT Program policies, multi-family developments with 51 or more units are subject to, and must be compliant with, DMC's affordable 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.

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 approximately **\$45,279**. A PILOT would allow for full renovation of an existing building and new construction to replace four vacant lots.

During the 14.5-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$88,168**. This represents a **95%** increase from the amount of taxes currently generated by the property. Over the course of the 14.5-year PILOT term, the cumulative increase in taxes generated by this property will be approximately **\$621,894**.

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. 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.

Supporting new development and attracting investment to the core city is a top priority for the CCRFC and the City of Memphis. This project will reimagine an underutilized and partially-vacant office building and replace it with high-quality apartment units and new ground-floor retail space.

The project will also replace four vacant lots with new infill. Infill projects, like this one, are closely aligned with the

CCRFC's goal of increasing population density by adding new housing units and commercial activity within our urban core. Putting vacant and underutilized property back into productive use is an incremental step toward the city's goal of building up, and not out, in Memphis' core neighborhoods.

Moreover, adding new commercial vibrancy and additional residents will further solidify this section of Madison Avenue as an exciting and emergent retail and restaurant corridor in Midtown. Population density and active ground-floors are vital ingredients for creating safe, attractive, and pedestrian-friendly public streets and commercial corridors.

Recommendation:

Staff recommends approval of a 14.5-year PILOT subject to the applicant achieving the proposed grading enhancements and meeting all standard closing requirements and conditions.