

# Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)  
From: DMC Staff  
Date: August 8, 2017  
RE: PILOT Application & Parking Garage Proposal:  
Bakery Development - Edge District

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The enclosed PILOT application has been submitted for consideration at the August 8, 2017, CCRFC Board Meeting.

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**Project:** Bakery Development - Edge District

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**Applicants:**

Gary Prosterman, Developer & Principal  
Development Services Group (DSG)  
40 S. Main St. Suite 2200  
Memphis, TN 38103

John Tirrill, Developer & Principal  
SWH Partners  
1720 Peachtree St. NW #540  
Atlanta, GA 30309

Worthington Hyde Partners  
Bob Worthington, Developer & Principal  
3930 East Jones Bridge Rd Suite 145  
Norcross, GA 30092

Primary Project Contact: Ethan Knight  
DSG Inc; PGK Properties, LLC  
40 S. Main St. Suite 2200  
Memphis, TN 38103

**Applicant's Request:**

20-year PILOT lease for a comprehensive development project including new construction and adaptive reuse to create new space for office, apartments, and ground-floor retail.

The following six parcels are included in the PILOT request:

- 400 Monroe Ave. (Parcel ID 007001 00004C)
- 0 Monroe Ave. (Parcel ID 007004 00003C)
- 407 Monroe Ave. (Parcel ID 007004 00007)
- 411 Monroe Ave. (Parcel ID 007004 00008)
- 421 Monroe Ave. (Parcel ID 007004 00010C)
- 435 Madison Ave. (Parcel ID 007002 00003)

Project Description:

The development includes 286 apartment units, a 480-space public parking garage, and over 155,000 sf of renovated space for retail, office, and mixed-use. The following six properties are to be redeveloped as part of this PILOT:

400 Monroe & 0 Monroe

- Existing: Former Wonder Bread Bakery (3.88 ac.)
- Proposed: 286-unit multifamily development (new construction)
- 75,000 sf office space (adaptive reuse)
- Public parking garage (480 spaces)

421 Monroe

- Existing: Former Memphis Cycle Supply (0.58 ac.)
- Proposed: 27,000 sf office and retail (adaptive reuse)

411 Monroe & 407 Monroe

- Existing: Vacant auto service facility (0.5 ac.)
- Proposed: 17,000 sf office space (adaptive reuse)

435 Madison

- Existing: Vacant office and warehouse building
- Proposed: 35,000 sf mixed-use (adaptive reuse)

Subject to approval of a 20-year PILOT, the applicant intends to begin demolition and new construction at 400 Monroe by the end of 2017. Construction of the new apartments and garage should be complete by Q2, 2019. The exact construction timeline for the remaining parcels will be dictated by the specific tenants ultimately selected to fill each space.

Project Budget:

The total development cost of the project is approximately \$73,061,578. 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 sources and uses of funding:

Sources:

Owner’s Equity	\$23,573,250	(32%)
PILOT Extension Fund	\$6,000,000	(8%)
Bank Loan	\$43,488,328	(60%)
<b>Total Sources</b>	<b>\$73,061,578</b>	<b>(100%)</b>

<u>Uses:</u>		
Land	\$4,724,233	(6.5%)
Hard Costs	\$60,496,620	(82.8%)
Design & Engineering	\$2,318,950	(3.2%)
Financing	\$2,193,360	(3%)
Operating Deficit	\$967,452	(1.3%)
Taxes & Insurance	\$431,235	(0.6%)
Professional Fees	\$495,000	(0.7%)
Misc. Project Cost	\$355,000	(0.5%)
PILOT Fee	\$1,079,728	(1.5%)
<b>Total Uses</b>	<b>\$73,061,578</b>	<b>(100%)</b>

Project Grading:

Per the PILOT scoring system, the project has a base grade of 21.5 years and could even achieve a maximum grade of 23.5 years with approved public art and enhanced architectural lighting. Current program policy caps the PILOT term at 15 years. However, CCRFC has the ability to grant PILOTs up to the statutory maximum of a 20-year term and has done so in recent years for catalytic projects including Crosstown Concourse, Chisca Hotel, and the Tennessee Brewery.

Primary Qualification:

Residential (51+ Units) 6 Years

Secondary Qualification A:

Office (100,001 – 200,000 sf) 2 Years

Secondary Qualification B:

Parking Structure (401-500 cars) 1.5 Year

Secondary Qualification C:

Retail (15,000 – 20,000 sf) 2 Years

Total Project Development Costs:

\$20+ Million 5 Years

Community Initiatives

Edge Neighborhood 3 Years

Census Tract w/Poverty Rate 20%+ 2 Years

Design & Energy

Public Art 1 Year

Enhanced architectural lighting 1 Year

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**Total Grade: 23.5 Years**  
**Requested PILOT Term: 20 Years**

Applicant's Request: The applicant is requesting approval of a 20-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 proforma shows a deficient debt coverage ratio for the first 17 years of the project and low return on investment given the project complexity and risk.

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

Public Parking Garage: In addition to a PILOT, this public-private partnership is proposed to include support from the CCRFC/DPA for a new public parking garage with about 480 spaces. The parking garage construction would be financed using up to \$6,000,000 from the PILOT Extension Fund, contingent upon approval from the Memphis City Council and Shelby County Commission. The applicant is funding the remaining cost to construct the garage (\$2,893,353).

The CCRFC/DPA would enter into a 45-year capital lease with the applicant which would outline the manner in which the garage will be constructed and operated as a public parking facility, as well as other terms and conditions. The capital lease will provide the applicant the option of eventually purchasing the garage from the CCRFC.

Affordable Housing: Per the PILOT program polices, multi-family projects with 51 or more units are subject to, and must be compliant with, DMC's affordable housing policy. Per this policy, at all times during the PILOT terms, 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.

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 20% participation by women and/or minority-owned businesses (W/MBEs) 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.

According to the above estimates, a 20% level of W/MBE inclusion for the combined hard and soft costs would be approximately **\$12,662,114**.

**Estimated Payments:**

The current annual city and county taxes on the property total \$63,318. A PILOT would allow for the buildings to be renovated and brought back into productive use. During the 20-year PILOT term, the annual payment in lieu of taxes would equal \$376,753. This represents a 495% increase from the amount of taxes currently generated by the property. Over the course of the 20-year PILOT term, the cumulative increase in taxes generated by these six parcels would be approximately **\$6,268,704**

**Staff Evaluation:**

Based on the submitted application and the accompanying proforma, staff agrees with the applicant that a PILOT is needed for the project to be viable and attract financing.

The DMC's Strategic Plan encourages the following: facilitating and accelerating real estate development, incentivizing Downtown development when necessary to increase investment and economic development, and fighting blight to improve the visual appearance of the built environment.

The Edge neighborhood is an area of strategic focus for the Downtown Memphis Commission. The DMC, through its affiliate Center City Development Corporation (CCDC), has made significant recent investments in the neighborhood including \$65,000 in public art, \$110,000 in façade grants, and \$240,000 in streetscape and public realm improvements.

While these investments have made noticeable improvements to the neighborhood, we believe true catalytic change will be created by new development and capital investment on the scale that the applicant is now proposing. This mixed-use project simultaneously addresses multiple key DMC priorities including fighting blight, increasing residential population, attracting new office users, and strengthening the climate for new retail. DMC staff agrees with the applicant that a new public parking garage in the neighborhood is needed to help unlock the development potential of vacant and underutilized buildings in the Edge district.

The former Wonder Bread site at 400 Monroe is one of the largest empty industrial buildings in the district. Putting this site back into productive use will add significant vibrancy to a district that has long been on the verge of transformation. This development will also address prominent blight in the neighborhood. Several of the parcels included in this application, particularly the Cycle Shop at 421 Monroe, are on the DMC's list of blighted properties in need of investment.

This development will add over 120,000 sf of new office space to Downtown. Strengthening the Downtown office market is a high priority for the DMC and its affiliate agencies. With the announced relocation of Service Master, Southern Sun Asset Management, and Wunderlich Securities, the outlook for major office tenants choosing to move their headquarters to Downtown Memphis is strong. This development will continue that momentum by adding new office space to the market in a variety of interesting and unique buildings.

Ultimately, as a result of this project, over 300 new residents will call this neighborhood home. And in addition to adding much needed population density to our core city, new residential development is key to growing Downtown's customer base in order to help attract and retain new retail options.

**Recommendation:**

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

**Staff recommends using up to \$6,000,000 from the PILOT extension fund to construct a new public parking garage with approximately 480 spaces at 400 Monroe Avenue, subject to approval of the Memphis City Council, Shelby County Commission, and the Downtown Parking Authority (DPA).**