

**Center City Development Corporation
Board Meeting**

To: Center City Development Corporation (CCDC) Board of Directors
From: DMC Staff, Planning & Development Department
Date: April 8, 2015
RE: Development Loan Application – Universal Life Building

The enclosed Development Loan application has been submitted for consideration at the April 15, 2015, CCDC Board Meeting.

Project: Universal Life Building

Applicant: Self Tucker Properties, LLC
Juan Self & Jimmie Tucker
505 Tennessee Street, Suite 101
Memphis, TN 38103

Subject Property: 480 & 504 Dr. Martin Luther King Jr. Ave.

Applicant’s Request: \$300,000 Development Loan

Property Background: The subject property consists of two (2) adjacent parcels at the northeast corner of Danny Thomas Blvd. and Dr. Martin Luther King Jr. Avenue. The 1.1 acre site includes a vacant building at the corner with a surface parking lot to the east.

The primary structure on site is a 2-story office building originally constructed as the headquarters of the Universal Life Insurance Company. Founded in 1923, this family business grew to be one of the largest African-American-owned life insurance companies in the United States. The business was a pillar of the local African-American community and served as an important place for commerce, civic, and social gathering during the era of racial segregation.

In addition to the historic importance of the Universal Life Insurance Company, the circa 1949 building is architecturally significant as a mid-20th century example of Egyptian Revival style architecture. In 2007, the building was individually listed on the National Register of Historic Places.

Project Description:

The applicant plans to renovate the building for office use. The 33,000 s.f. building offers a total of 25,482 s.f. of leasable space including both floors and part of the basement. Self + Tucker Architects, the architecture firm owned by the applicants, will lease about 20% of the building, leaving the remainder available for office tenants.

The existing parking lot will be resurfaced and upgraded with new fencing and an automated gate. Some of the parking spaces will be located under a shade structure equipped with photovoltaic panels that will generate electricity on site. The applicant intends to incorporate enhanced architectural lighting as part of the project. The exact scope of the lighting plans are still being determined, but it is likely that the exterior building elevations will be artistically illuminated and the historic Universal Life clock sign will be restored.

The applicant has owned both parcels (Parcel ID #007011 00035 & #007011 00036) since 2006. Contingent upon receipt of a PILOT from the CCRFC and a Development Loan from CCDC, the applicant intends to close on project financing in July, 2015 and begin construction later that month. Construction is expected to take around 12 months. The property is classified as Commercial by the Shelby County Assessor of Property and currently has a total assessed value of \$221,280.

It should be noted that the applicant is actively pursuing the purchase of a vacant lot immediately to the east of the existing parking area (Parcel ID #007011 00037). Acquiring that land allows for additional parking on site.

Environmental Goals:

Energy conservation and environmental sustainability are key goals for the project. The applicant will pursue Gold level certification under the Leadership for Energy and Environmental Design (LEED) program. To achieve LEED certification, the renovation work will feature significant investment in new mechanical equipment, new lighting, energy efficient windows, and water efficient fixtures. It is anticipated that as a result of these strategies, the building will achieve a minimum 10% reduction in energy usage, emissions, and water usage.

The project was awarded a grant from the Memphis Green Communities Program and the Memphis & Shelby County

Office of Sustainability in November, 2014. Up to \$1,975,000 in Qualified Energy Conservation Bonds (QECBs) are designated as grant funds to assist the project in building retrofits that promote energy conservation.

Project Budget:

Sources:

Bank Loan	\$1,800,000	29%
CCDC Development Loan	\$300,000	5%
Historic Tax Credit Equity	\$508,106	8%
Owner’s Equity	\$595,492	9%
Green Communities Grant	\$1,975,000	31%
City Infrastructure Grant	\$600,000	10%
City Pre-Development Grant	\$482,282	8%
Total Sources	\$6,260,880	100%

Uses:

Acquisition Costs	\$580,000	9%
Construction Hard Costs	\$4,860,388	78%
Soft Costs	\$820,492	13%
Total Uses	\$6,260,880	100%

Eligibility:

The Development Loan can be used for building renovations, site improvements, and new construction. Building system improvements and permanent equipment are also eligible uses for the program. Removable fixtures and equipment and soft costs are not eligible expenses under the program.

Design Review:

The applicant intends to submit design plans to the Design Review Board (DRB) in May, 2015. Additionally, the National Park Service and the Tennessee Historic Commission will also require exterior work to meet certain historic preservation standards and guidelines as a condition of receiving Historic Preservation Tax Credits.

Project Scoring:

The Development Loan program currently has a maximum loan amount of \$150,000. The applicant is requesting approval of an exceptional Development Loan in the amount of \$300,000. Per the Development Loan Project Evaluation and Scoring criteria, the project grades for a Development Loan in the amount of \$130,000.

Development Loan Scoring:

Renovation – Individually listed on NR	\$15,000
Primary Use – Office (+15,001 sf)	\$15,000

CCDC Priorities:

Financial Program – Tenant Secured	\$10,000
Financial Program – Risk & Investment	\$5,000
Enhanced Architectural Lighting	\$5,000
Streetscape Improvements	\$20,000
<u>Eligible Improvements (+\$2M)</u>	<u>\$60,000</u>
Total	\$130,000

EBO Program:

Any project that is awarded a financial incentive from the DMC must comply with the Equal Businesses Opportunity (EBO) Program. The EBO program requires that the applicant make a best faith effort to reach no less than 20% participation by women and minority-owned businesses (W/MBE) for the portion of the project scope that is eligible for bidding or subcontracting. The portion of a project subject to meeting the EBO requirements typically involves the hard and soft costs for design & construction.

The following project costs are subject to the EBO Program:

Hard Costs	\$4,860,388
Architectural Design & Project Management	\$291,765
Civil Engineering	\$24,000
Structural Engineering	\$13,000
Landscape Design	\$5,300
Construction Consultant	\$20,000
Total:	\$5,214,453

According to the estimated budget, a 20% level of W/MBE inclusion for the hard and soft costs related to design and construction would be approximately **\$1,042,890**.

Policy Issues:

The project includes a wide variety of funding sources & tools including a traditional bank loan, a CCRFC PILOT, historic rehabilitation tax credits, Green Communities Grant, Infrastructure Grant, and a Pre-Development Grant.

During the construction period, a funding gap of around \$300,000 exists. The applicant is requesting that the CCDC make an exception to allow for a Development Loan in the amount of \$300,000, above the grade amount and the standard loan maximum of \$150,000. A second exception is requested to allow the Development Loan proceeds to be made available during the construction period.

Traditionally, the CCDC Development Loan is permanent financing that the applicant receives following completion of the work and subject to approved receipts. This reimbursable loan structure is designed to protect the CCDC's investment and ensure that loan proceeds are not released until construction is completed. For this project, the applicant is requesting that the loan be dispersed as a series of draws towards the end of the construction period. The CCDC's loan would effectively be the "last dollars in" at the end of construction.

It should be noted that in 2006 a version of this project was approved for a 10-year PILOT from the CCRFC and a \$60,000 Development Loan from the CCDC. That project did not move forward as planned and was placed on hold due to the overall downturn in the economy. The property is now vacant and not producing income. As a result, the property is not current on all local property taxes.

The property is in arrears in the amount of approximately \$9,815 for Shelby County property tax, \$29,185 for City of Memphis property tax, and \$4,619 for the CBID Assessment. **As is the case with all DMC incentives, the applicant must be current on all outstanding taxes, assessments, fees, and fines prior to closing a PILOT or receiving a Development Loan.**

Staff Evaluation:

The DMC's Strategic Plan encourages 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 Downtown.

The building has sat vacant and unused since 2001. The subject property is at a key location east of the FedEx Forum and along a significant east-west route into the heart of Downtown Memphis. This project closely aligns with the DMC's primary goal of increasing commercial property values through redevelopment and reinvestment. The project will not only put a historically significant building back into productive use, the building is also being designed to achieve LEED Certification and can be a model for reducing energy use, emissions, and water consumption in historic buildings Downtown.

Recommendation:

The City of Memphis is clearly supportive of the project as demonstrated by the grants that have been awarded to help the development team realize their vision for this historically and culturally important property. Approving a CCDC Development Loan would leverage those commitments and help ensure that the project moves forward as planned.

Given the City's existing level of investment in the project, the current financing gap, and the historic significance of the property, staff is supportive of the Board giving serious consideration to granting the two (2) policy exceptions requested by the applicant.

If the Board approves a Development Loan in an amount up to \$300,000 as requested by the applicant, staff recommends that CCDC Legal Counsel structure the loan as a series of draws scheduled to occur towards the end of the construction period. The majority of the construction financing must already be in place with the CCDC Development Loan serving as the "last dollars in" needed to finish construction. The Development Loan would also be subject to all standard closing requirements and subject to the applicant providing a personal guarantee per program policy. The property must also be current on all outstanding taxes, assessments, fees, and fines prior to receiving the Development Loan.