

Center City Development Corporation Board Meeting

To: Center City Development Corporation (CCDC)
From: DMC Staff
Date: January 9, 2019
RE: Development Loan Application – The Medicine Factory

The enclosed Development Loan application has been submitted for consideration at the January 16, 2019, CCDC Board Meeting.

Project: **The Medicine Factory (85 W. Virginia Ave)**

Applicant: Medicine Factory, LLC
Phillip and Joseph Lewis
9421 Plantation Way Ln.
Germantown, TN 38139

Applicant's Request: Development Loan in an amount up to \$150,000.

Project Description: The Medicine Factory is a historic (circa 1920) 2-story warehouse building on Virginia Avenue in the South End neighborhood of Downtown. The building has been primarily used as artists' studios for the last decade. There are currently nine studios, all of which are fully occupied by professional artists. Additional unfinished space in the building has been used for storage, as well as event space.

In September 2018, The Medicine Factory, LLC purchased the building. The principals of The Medicine Factory, LLC, Phillip and Joseph Lewis, plan on making improvements to the building in order to stabilize the building's condition, and expand its usage. The planned renovation will include the following items:

- Permanent roof repairs
- Painting and cleaning the exterior perimeter of the building
- Building out four new art studios on the first floor
- Setting up functioning mechanical systems in the newly built-out area of the building

Project Budget: The following budget describes the overall financial structure of the project.

Sources:

Loan for Building Purchase	\$175,000	(45%)
Owner's Equity	\$60,000	(16%)
CCDC Development Loan	\$150,000	(39%)
Total Sources	\$385,000	(100%)

Uses:

Property Acquisition	\$220,000	(57%)
Hard Costs	\$150,000	(39%)
Soft Costs	\$3,000	(1%)
Financing Fees	\$12,000	(3%)
Total Uses	\$385,000	(100%)

Dev. Loan Program:

The Development Loan can be used for commercial building renovations, site improvements, and new construction. Building system improvements, permanent equipment, and first floor, non-residential tenant improvements that are permanent in nature are also eligible uses. Removable fixtures and equipment and soft costs are not eligible expenses under the program.

The CCDC Development Loan is permanent financing at an interest rate of 1%. While the loan has a 10-year term, the amortization schedule is based on a 20-year period in order to offer lower monthly payments.

The Development Loan program has a maximum loan amount of \$200,000. As permanent financing, the final loan amount is reimbursable and based on approved receipts.

Design Review:

The applicant will submit design plans to the DRB in the coming months.

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 25% participation by women and minority-owned businesses (M/WBE) 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 estimated costs are subject to the EBO program:

Hard Costs	\$150,000
Soft Costs	\$3,000
Total	\$153,000

According to the above estimates, a 25% level of M/WBE inclusion for the combined hard and soft costs will be approximately **\$38,250**.

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.

Like other CCDC-incentivized projects, the proposed building renovations will result in a significantly improved commercial property. The renovated Medicine Factory will be a more stable and sound building due to the repaired roof, and the added studios will provide additional revenue for the owners, making it a more viable commercial investment. The investment in The Medicine Factory will also build on the momentum of other projects in the neighborhood, including the planned apartment developments at 80 W. Virginia and 27 W. Carolina, which received PILOT incentives from the CCRFC. However, this project has benefits beyond property improvement alone.

Maintaining a vibrant arts community is crucial for any thriving downtown. Often, as development and investment in an area increases, it can make become challenging for artists to find studio spaces in the midst of a hot real estate market. This renovation will help preserve The Medicine Factory as an active studio space for local artists, while increasing its capacity to serve additional artists.

Recommendation:

Staff recommends approval of a Development Loan in an amount up to \$150,000, based on approved receipts and subject to all standard closing requirements and conditions.