Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: June 13, 2017
RE: PILOT Application – Tennessee Brewery Development Phase II

The enclosed PILOT application has been submitted for consideration at the June 13, 2017, CCRFC Board Meeting.

Project:	**Tennessee Brewery Development Phase II** (SE Corner of Tennessee St. & Butler Ave.)
Applicant:	495 TN Partners Representatives: William Orgel, Jay Lindy, & Adam Slovis 4091 Viscount Ave. Memphis, TN 38118
Project Background:	On May 12, 2015, the CCRFC approved a 20-year PILOT for phase I of the Tennessee Brewery Development. The first project phase included the adaptive reuse of the historic brewery building, construction of a parking garage, and new apartment construction at two adjacent sites. The historic brewery building (ca. 1890) is being renovated to contain 46 apartment units and approximately 13,500 s.f. of commercial and office space. Immediately to the north, a new 6-story building with 88 apartment units and an interior courtyard is being constructed. The applicant partnered with the Downtown Parking Authority (DPA) to build a 339 space parking garage directly across Tennessee Street from the historic brewery building. That garage is lined on the west side with a mixed-use building featuring 18 additional apartment units and 3,800 s.f. of commercial space. The total development cost for phase I is approximately $28,112,981.
Applicant's Request:	The applicant is requesting approval to amend the previously approved 20-year PILOT term for the Tennessee Brewery Development to include a second phase. The applicant is requesting that phase II be added to the existing PILOT for phase I and run concurrently with that initial 20-year term. Phase II will see the construction of a new 4-story building on the vacant lot (Parcel ID 002092 00001) directly north of the new parking garage. This building will contain 130

apartment units and 1,600 s.f. of commercial space, with an estimated total development cost of approximately $12,276,290.

The total development cost of the overall project (phase I and phase II) is approximately $40,412,000.

Phase II Budget:

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, both the overall project and phase II easily meet this requirement.

The following describes the sources and uses of funding for phase II:

Sources:

Project Debt	$8,276,290	(67%)
Owner's Equity	$4,000,000	(33%)
Total Sources	**$12,276,290**	**(100%)**

Uses:

Land	$562,500	(4.6%)
Hard Costs	$10,222,900	(83.3%)
Soft Costs	$1,150,063	(9.4%)
PILOT fee	$184,125	(1.5%)
Financing Fees	$111,702	(.9%)
Professional Fees	$45,000	(.4%)
Total Uses	**$12,276,290**	**(100%)**

Design Review Board:

The applicant intends to submit phase II design plans to the DRB in the coming months.

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 for phase II would be approximately **$2,283,492.**

Estimated Payments:	The current annual city and county taxes on the property total $5,734. A PILOT would allow for new construction on a currently vacant piece of land. During the remainder of the 20-year PILOT term, the annual payment in lieu of taxes would equal $41,474 before year 15, and $95,831 after year 15. This represents a 623% increase from the current taxes during the first 15 years, and a 1571% increase afterward. Over the remainder of the 20-year PILOT term, the cumulative increase in taxes generated by this parcel would be approximately **$851,429**.
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.
	Based on the submitted application and the accompanying 20-year pro forma, staff agrees with the applicant that a PILOT is needed for the project to be financially viable. As such, staff is in full support of the applicant's request for amending the original 20-year PILOT. Staff sees the expansion of the Tennessee Brewery project footprint to include a second phase as a positive step for both the development team and the surrounding neighborhood.
	Adaptive reuse projects involving large historic properties can be inherently risky, complex, and more expensive than similarly scaled new construction in suburban areas. Adding additional apartment units to the project with a second phase will only help strengthen the financial positon of the overall development. Moreover, expanding the project footprint to include the vacant lot north of the parking garage will add additional residents and vibrancy to the neighborhood. Transforming vacant lots into new residential development is consistent with DMC's strategy of increasing Downtown's population in order to grow the customer base and attract more retail options and neighborhood amenities.
Recommendation:	**Staff recommends approval of the request to amend the previously approved 20-year PILOT term for the Tennessee Brewery Development to include a second phase with an additional 130 apartment units and 1,600 s.f. of commercial space in a new 4-story building on the north side of the parking garage.**