

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: March 5, 2019
RE: PILOT Project – 185 Union Ave

The enclosed request is for consideration at the March 12, 2019, CCRFC Board Meeting.

Project: **185 Union Ave. Memphis, TN 38103**

Applicant/Owner: King & Union Memphis Acquisitions, LLC
150 E. Broad Street
Columbus, OH 43215

Representatives: Mr. Larry Wright, Jr., President & CEO,
Wright Investments
850 Ridge Lake Blvd, Suite 401
Memphis, TN 38120

Mr. Adam Valente, President
Continental Real Estate Companies
150 E. Braod Street
Columbus, OH 43215

Applicant's Request: The applicant is requesting a 15 year PILOT in order to upgrade the current hotel to a full-service, 4-star quality hotel with upgraded urban exteriors as well as the construction of new strcutures to add meeting space. The hotel was purchased by the current owners in April 2018 and the owners believe that preserving the historic structure, increasing the quality of the interior and exterior as well as type and amount of meeting spaces will allow the property to be an asset to the Convetion Center and Memphis.

Project Scope: The project will have a development budget of approximately \$47,000,000 and include the following components:

- Exterior renovation of a 280-key, limited -service hotel into a full-service, 4-star, boutique hotel.
- Interior and physical plant renovation as well as addition of 5,000 sf of meeting space and food & beverage offerings in two exterior, newly constructed spaces- one off BB King and another off Union Ave. The current 3,000 sf of meeting space will be renovated for a new event and co-working use for a total of 8,000 sf.

- The project also includes relocating the main entrance to its original circa 1927 location on BB King to energize the corridor and allow for a public outdoor space on Union Ave. rather than the current entrance.

The closing of financing is expected in October 2019. Construction will then begin for a completion in the First Quarter 2021 or earlier.

The project property is 185 Union Ave. (Parcel ID 002006-00001C). The garage (Parcel ID 002065-00008) is not included in the PILOT application.

Budget:

The total development cost including hotel purchase is approximately \$65,825,000. 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 purpose of this requirement is to ensure adequate investment into the project. At \$47 million, we believe that the improvements are substantial and comparable to the development budget of new construction hotels nearby.

Sources:

Project debt	\$46,077,500	(70%)
Equity	\$19,261,500	(30%)
Total Sources	\$65,825,000	(100%)

Uses:

Hotel Purchase (allocated)	\$19,175,000	(36%)
Hard costs	\$40,998,297	(55%)
Soft Costs & prof. fees	\$ 2,616,000	(4%)
Financing/working capital	\$ 3,035,703	(5%)
Total Uses	\$65,825,000	(100%)

PILOT Grade:

Per the PILOT scoring system, the combined elements in the project achieve a base grade of 18 years.

Primary Qualification:

Hotel (201+ rooms) 6 Years

Total Project Development Costs:

\$20+ Million 5 Years

Priorities & Initiatives

Located within CBID 3 Years
 Renovation, contributing in a National Register or Memphis Landmarks Commission Historic District 4 Years

Total Base Grade: 18 Years
Applicant's Request: 15 Years

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 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.

The following project costs are subject to the EBO program:

Hard Costs	\$40,998,297
Architect & Engineer Fees	\$ 2,616,000
Total	\$43,614,297

According to the above estimates, a 25% level of W/MBE inclusion for the combined hard and soft costs will be approximately **\$10,903,574**.

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

Estimated Payments: The current annual city and county taxes on the property total **\$484,174**. During the 15-year PILOT term, the annual payment in lieu of taxes would equal approximately **\$840,097**. This represents a 173% increase from the amount of taxes currently generated by the property. Over the course of the 15-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$5,338,853**.

Staff Evaluation: It is staff's determination that a 15-year PILOT is needed for the overall project to be viable and attract financing.

The DMC's Strategic Plan encourages the facilitation and acceleration of real estate development, incentivizing development when necessary to increase investment and economic development, and to improve the visual appearance of the built environment. This site is of great importance to Downtown as it sits squarely on the gateway into Downtown from Union and a critical asset to AutoZone Park to the North as well as to ServiceMaster and Beale Street to the South. The upgraded hotel, meeting spaces and food & beverage offerings will improve the offerings to these users. The improvements to the public realm brought by the planned new construction and exterior changes achieve DMC's goal of ensuring that all four corners at this intersection are highest and best use. The move of the main entrance and new construction on BB King will greatly improve the pedestrian experience on this major North South Corridor.

Recommendation: **Staff recommends that the CCRFC Board approve a 15-year PILOT.**