

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: September 3, 2019
RE: PILOT Application: 345 S. Main St.

The enclosed PILOT application has been submitted for consideration at the September 10, 2019, CCRFC Board Meeting.

Project: **345 S. Main St.**

Applicant/Owner: Cabigao Investments, LLC
Principal – Mr. Ed Cabigao
467 Johnson Cv
Memphis, TN 38117

Applicant's Request: 15-year PILOT lease for the adaptive reuse of a historic building for 10 apartment units and ground-floor commercial space.

Included Parcels: Parcel ID 002103 00014 (345 S. Main)
Parcel ID 002103 00005 (adjacent parking lot)

Project Description: The subject property is a vacant 3-story building on the west side of South Main Street, in the block between Talbot and Vance. This building originally served as the Main Street portion of the historic Ambassador Hotel. Subject to approval of a PILOT, the applicant plans a full renovation of the 15,000 sq. ft. building for a restaurant tenant on the ground floor and a total of 10 apartments on the upper floors. An outdoor patio in support of the restaurant will be added to the parking area immediately south of the building. The upper two floors will be leased by a short-term rental company under a 5-year master lease.

Contingent on CCRFC PILOT approval, construction could begin by the end of 2019 and be complete in Q4 2020.

Project Budget: The total development cost of the project is approximately \$2,495,261. 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 overall sources and uses of funding:

Sources:

Project Debt	\$1,746,683	(70%)
Owner's Equity	\$748,578	(30%)
Total Sources	\$2,495,261	(100%)

Uses:

Land & Building	\$590,000	(24%)
Hard Construction Costs	\$1,652,850	(66%)
Soft Costs	\$125,000	(5%)
Financing Costs	\$127,411	(5%)
Total Uses	\$2,495,261	(100%)

Project Grading:

Per the PILOT scoring system, the project achieves a maximum grade of 15.5 years including enhanced architectural lighting and public art.

Primary Qualification A:

Residential (6-10 units) 2 Years

Secondary Qualification A:

Retail/Commercial (Below 5,000sf) 0.5 Year

Total Project Development Costs:

\$1-5 Million 1 Year

Priorities & Initiatives

Located within CBID 3 Years

Renovation (NR - Contributing) 4 Years

Main-to-Main Corridor 3 Years

Enhanced Architectural Lighting 1 Year

Approved Public Art 1 Year

Total: 15.5 Years

Program Cap: 15 Years

Applicant's Request:

The applicant is requesting approval of a 15-year PILOT. According to the applicant, approval of a PILOT is necessary for the project to be economically viable, warrant equity investment, and attract financing.

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 minority and/or women-owned businesses (MWBES) 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 estimated hard and soft development costs for this project are as follows:

Hard Construction Costs	\$1,652,850	(93%)
Soft Costs	\$125,000	(7%)
Total	\$1,777,850	(100%)

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$444,463**.

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

Estimated Payments: The current annual city and county taxes on the property total **\$7,223**. A PILOT would allow for a vacant and blighted building to be rehabilitated and brought back into active use. During the 15-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$14,409**. This represents a **99%** 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 **\$107,789**.

Staff Evaluation: Based on the submitted application and the accompanying pro forma, DMC staff agrees with the applicant that a PILOT is needed for the project to be economically viable, attract bank financing, and warrant equity investment.

This project is closely aligned with the DMC's primary goals of improving commercial property values, encouraging new investment, and fighting blight. With major neighborhood investments underway or recently completed at Tennessee Brewery, Central Station, Artspace Lofts, Malco Theater, Arrive Hotel, Slider Inn, Oden, Wiseacre, Museum Lofts, Century House, and the Arcade building, this project will only add to the significant momentum of South Main.

Moreover, ameliorating the blighted condition of the Ambassador Hotel has been a high priority of the DMC's Anti-Blight Committee over the past 24 months. This

building has been open to the elements, open to casual entry, and in a deteriorating physical condition due to roof failure and resulting water damage. Finally, adding new ground-floor restaurant and commercial space along South Main Street is highly consistent with the Downtown Retail Strategy & Action Plan. A key focus of this work is to increase the density of retail offerings and fill vacancy gaps in ground-floor activity within established retail nodes, including the South Main District.

Recommendation:

Staff recommends approval of a 15-year PILOT, subject to the all standard closing requirements and conditions.

PILOT Request	
Requested PILOT Term (years)	15.0
Project Type	Rehabilitation
Located in the CBID?	Yes
Current Amounts	
Base Appraisal	\$249,200
Base Assessment	\$99,680
Annual City Tax on Base Assessment	\$3,186
Annual County Tax on Base Assessment	\$4,037
Annual RE Taxes on Base Assessment	\$7,223
Project Costs	
Acquisition Cost	\$590,000
Hard Costs	\$1,652,850
Soft Costs	\$125,000
Total Project Costs w/o PILOT fee	\$2,367,850
Hard Costs Investment Check - 69.8%	YES
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$2,367,850
PILOT fee	\$35,518
Total Project Costs w/ PILOT fee	\$2,403,368
Valuation & CBID Assessment	
Base Appraisal	\$249,200
Percentage of Hard Costs	\$991,710
Estimated Appraisal after Improvements	\$1,240,910
Estimated Assessment after Improvements	\$496,364
Estimated Annual CBID Assessment after Improvements	\$3,161
Annual RE Taxes	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$15,864
Estimated Hypothetical Annual County Tax without PILOT*	\$20,103
Estimated Hypothetical Total Annual Taxes without PILOT*	\$35,966
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$6,355
Estimated Annual County Tax with PILOT	\$8,053
Estimated Total Annual Taxes with PILOT	\$14,409
Estimated Annual Benefit	\$21,558
Cumulative RE Taxes	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$237,956
Estimated Hypothetical Cumulative County Tax without PILOT*	\$301,541
Estimated Hypothetical Total Cumulative Taxes without PILOT*	\$539,497
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Tax with PILOT	\$95,329
Estimated Cumulative County Tax with PILOT	\$120,802
Estimated Total Cumulative Taxes with PILOT	\$216,131
Estimated Cumulative Benefit over 15-Year PILOT	\$323,366
Estimated Cumulative Increase in Taxes due to PILOT	\$107,789

99%

*Staff has concluded that this project would not go forward without a PILOT. Hence, the "Estimated Hypothetical" amounts are fictional/moot numbers used to calculate the benefit of the PILOT to the project. The benefit figure does not represent lost tax revenue to the City or County. Without the PILOT, the property would remain unimproved and the tax assessment would continue to be based upon the unimproved value. With the PILOT, the amount listed above as "Estimated Cumulative Increase in Taxes due to PILOT" would be the approximate benefit over the PILOT term to the City and County from newly generated property tax revenue. That amount does not include any new sales taxes that will be generated by the construction and operation of the project. Furthermore, after the PILOT term has finished, it is expected that the annual taxes will be approximate to the amount listed as "Estimated Hypothetical Total Annual Taxes without PILOT".