

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: September 3, 2019
RE: PILOT Application: 871 S. Cooper

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

Project: 871 S. Cooper Mixed-Use Building

Applicant: CPK, LLC
Project Representative: Elizabeth Petipas
46 Flicker Street
Memphis, TN 38104

Current Owner: Seventy-Three Union Commons, LLC
350 Roseland Pl.
Memphis, TN 38111

Applicant's Request: 15-year PILOT lease for new construction of a mixed-use building with 34 apartment units, 12,000 sf office & retail space, and 66 on-site parking spaces

Included Parcels: Parcel ID 031128 00013C (871 S. Cooper)
Parcel ID 031127 00010 (0 S. Cooper)

Project Description: The subject property consists of two parcels located on the west side of S. Cooper Street, between Evelyn Avenue and Oliver Avenue. The larger parcel at 871 S. Cooper (0.687 acres) contains a vacant metal building that was formally the Southern Textile & Supply Co. The applicant plans to demolish the existing structure and replace it with a new 3-story mixed-use commercial building. The smaller parcel at 0 S. Cooper Street (0.179 acres) is currently a surface parking lot. The lot will remain a surface parking lot in support of the new development.

The new mixed-use building will occupy a rectangular footprint oriented parallel to S. Cooper Street to provide an urban frontage consistent with the commercial character of the district. The three-story building will include an active ground-floor with approximately 12,000 sf of commercial space for office and retail use. The upper-floors will contain

34 market-rate apartment units. 66 parking spaces will be provided to the rear of the main building and on the adjacent parcel to the south.

The applicant has a pending contract to purchase the subject property. Contingent on PILOT approval, the applicant plans to close on project financing and purchase the property. Construction will likely begin in Q1 2020 and could be complete within 12-14 months.

Project Budget:

The total development cost of the project is approximately \$8,315,990. 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:

Debt	\$7,068,591	(85%)
Owner Equity	\$1,247,398	(15%)
Total Sources	\$8,315,990	(100%)

Uses:

Property Purchase	\$1,200,000	(14.5%)
Hard Construction Costs	\$5,892,103	(70.5%)
Professional Fees	\$411,823	(5%)
Permits & Testing	\$50,000	(.5%)
Legal, Closing	\$35,000	(.5%)
Lease-up Commission	\$23,625	(.5%)
Taxes & Utilities	\$43,000	(.5%)
Interest (during construction)	\$252,000	(3%)
Contingency	\$294,605	(3.5%)
PILOT Closing Fee	\$113,834	(1.5%)
Total Uses	\$8,315,990	(100%)

Project Grading:

Per the PILOT scoring system, the project has a base grade of 9 years and could achieve a maximum grade of 15 years with enhanced architectural lighting, LEED Certification, and MLGW Energy Advantage Certification.

Primary Qualification:

Residential (26-50 units) 5 Years

Secondary Qualifications:

Office (below 15,000 sf) 0.5 Year
 Retail (below 5,000 sf) 0.5 Year

Total Project Development Costs:
 \$5 - 10 Million 2 Years

Priorities & Initiatives
 Located within CCRFC Boundaries 1 Year
 Enhanced Architectural Lighting 1 Year
 LEED Certification 4 Years
 MLGW Energy Advantage Certification 1 Year

Total Potential PILOT Grade: 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 and attract financing. Without a PILOT tax incentive, the project pro forma shows a debt service coverage ratio insufficient to attract bank financing. Standard metrics including Return on Equity (ROE) and Return on Investment (ROI) are also insufficient to warrant equity investment without a PILOT when compared to the cost of capital, alternative investment options, and risk considerations.

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 cost and professional fees for this project are as follows:

Hard Construction Costs	\$5,892,103	(93.5%)
Professional Fees	\$411,823	(6.5%)
Total Uses	\$6,303,926	(100%)

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$1,575,982.**

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 **\$9,742**. A PILOT would allow for a vacant metal building to be replaced with a 3-story mixed-use building along an important Midtown commercial corridor.

During the 15-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$43,897**. This represents a **351%** 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 **\$512,329**.

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.

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.

Supporting new development and attracting investment to the core city is a top priority for the CCRFC and the City of Memphis. The proposed redevelopment at 871 S. Cooper will replace a vacant, nondescript metal building with a high-quality mixed-use building. Contemporary in character, the proposed building will feature an active ground-floor with space for retail and office use adjacent to the public sidewalk. The development will create 34 new apartment units and on-site parking.

This infill project is closely aligned with the CCRFC's goal of increasing population density by adding new housing units and commercial activity within our urban core. While the project is modest in size, putting underutilized and vacant property back into productive use is an incremental step toward the city's goal of building up, and not out, in Memphis's core neighborhoods.

Recommendation:

Staff recommends approval of a 15-year PILOT subject to the applicant achieving the proposed grading enhancements and meeting all standard closing requirements and conditions.

PILOT Request	
Requested PILOT Term (years)	15.0
Project Type	New Construction
Located in the CBID?	No
Current Amounts	
Base Appraisal	\$336,100
Base Assessment	\$134,440
Annual City Tax on Base Assessment	\$4,297
Annual County Tax on Base Assessment	\$5,445
Annual RE Taxes on Base Assessment	\$9,742
Project Costs	
Acquisition Cost	\$1,200,000
Hard Costs	\$5,892,103
Soft Costs	\$1,110,053
Total Project Costs w/o PILOT fee	\$8,202,156
Hard Costs Investment Check - 71.8%	YES
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$8,202,156
PILOT fee	\$123,032
Total Project Costs w/ PILOT fee	\$8,325,188
Valuation & CBID Assessment	
Base Appraisal	\$336,100
Percentage of Hard Costs	\$4,713,682
Estimated Appraisal after Improvements	\$5,049,782
Estimated Assessment after Improvements	\$2,019,913
Estimated Annual CBID Assessment after Improvements	\$0
Annual RE Taxes	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$64,556
Estimated Hypothetical Annual County Tax without PILOT*	\$81,806
Estimated Hypothetical Total Annual Taxes without PILOT*	\$146,363
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$19,362
Estimated Annual County Tax with PILOT	\$24,535
Estimated Total Annual Taxes with PILOT	\$43,897
Estimated Annual Benefit	\$102,466
Cumulative RE Taxes	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$968,342
Estimated Hypothetical Cumulative County Tax without PILOT*	\$1,227,097
Estimated Hypothetical Total Cumulative Taxes without PILOT*	\$2,195,439
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Tax with PILOT	\$290,423
Estimated Cumulative County Tax with PILOT	\$368,029
Estimated Total Cumulative Taxes with PILOT	\$658,452
Estimated Cumulative Benefit over 15-Year PILOT	\$1,536,987
Estimated Cumulative Increase in Taxes due to PILOT	\$512,329

351%

*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".