

# Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)  
From: DMC Staff  
Date: September 3, 2019  
RE: PILOT Application: 99-105 S. Front St.

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

**Project:** **99-105 S. Front St.**

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Applicant/Owner: 99-105 Front Street, LLC  
495 Tennessee Street, Suite 152  
Memphis, TN 38103

Project Representatives: Mr. William Orgel  
Mr. Jay Lindy  
Mr. Adam Slovis

Applicant's Request: 20-year PILOT lease for adaptive reuse of a historic property to include apartments and commercial space.

Included Parcels: Parcel ID 002041 00009 (99 S. Front)  
Parcel ID 002041 00010 (105 S. Front)

Project Description: The subject property consists of two adjacent historic buildings on the west side of South Front Street, in the block between Gayoso and Union. Vacant since The Pier Restaurant and The Butcher Shop closed, the buildings are located within the Cotton Row National Register Historic District. The total gross building area is approximately 162,459 sq. ft.

The 5-story Joseph N. Oliver building at 99 S. Front was built ca. 1905 and is the larger of the two buildings. The Oliver building is a brick and stone structure known for its ornate façade. 105 S. Front is a 3-story brick structure originally known as the Stewart Building and constructed ca. 1900.

Unfortunately, the buildings are in a deteriorated condition due to water damage and long-term neglect. Their previous owner, a New York-based company, purchased the property in 2007 for over \$2 million with a plan to convert the property into apartments or possibly a boutique hotel.

The timing of their efforts unfortunately coincided with the economic downturn and development plans failed to materialize. Because of its prime location, architectural significance, and deteriorating condition, this property became a top priority for the DMC Anti-Blight Committee.

Due to serious concerns about falling debris and the ongoing physical decay of the building, the owner erected emergency scaffolding along Front Street and the adjacent alley in October 2017.

In June 2018, the owner announced plans to demolish the buildings. The DMC staff strenuously opposed that request and advocated for adaptive reuse. The owner ultimately decided to sell the property. In December 2018, a local developer assembled an investment group and purchased the two buildings for \$1.2 million.

In January of 2019, the DMC and its Center City Development Corporation (CCDC) awarded the developer a \$650,406 grant to stabilize the buildings and make future redevelopment of the historic buildings possible.

The adaptive reuse project will consist of eight floors above basement level, a basement level and two sub-basement levels. Development plans currently estimate 112 residential apartments, two commercial/retail spaces, and 61 underground parking spaces.

Contingent on CCRFC PILOT approval, construction could begin in Q1. 2020 and be complete in Q2. 2021.

**Project Budget:**

The total development cost of the project is approximately \$23,321,782. 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 applicant intends to pursue Historic Tax Credits (HTCs) as part of the deal structure.

The following describes the overall sources and uses of funding:

**Sources:**

Debt	\$16,327,500	(70%)
Owner's Equity	\$2,974,675	(13%)
Historic Tax Credit Equity	\$3,369,201	(14%)

DMC/CCDC Grant	\$650,406	(3%)
<b>Total Sources</b>	<b>\$23,321,782</b>	<b>(100%)</b>

**Uses:**

Property	\$1,200,000	(5%)
Hard Construction Costs	\$19,034,815	(82%)
Soft Costs	\$1,534,995	(6.5%)
PILOT Fee	\$349,875	(1.5%)
Financing Fees	\$787,097	(3%)
Professional Fees	\$415,000	(2%)
<b>Total Uses</b>	<b>\$23,321,782</b>	<b>(100%)</b>

Project Grading:

Per the PILOT scoring system, the project exceeds the standard program cap of 15 years and achieves the maximum PILOT length of 20 years.

Primary Qualification A:

Residential (+51 Units) 6 Years

Secondary Qualification A:

Retail/Commercial (5,000 – 9,999 sf) 1 Years

Total Project Development Costs:

+\$20 Million 5 Year

Priorities & Initiatives

Located within CBID 3 Years

Renovation (NR - Contributing) 4 Years

Enhanced Architectural Lighting 1 Year

**Total: 20 Years**

Applicant's Request:

The applicant is requesting approval of a 20-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	\$19,034,815	(98%)
Soft Costs	\$415,000	(2%)
<b>Total</b>	<b>\$19,449,815</b>	<b>(100%)</b>

According to the above estimates, a 25% level of M/WBE inclusion for the combined hard and soft costs will be approximately **\$4,862,453**.

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

Housing Policy: Per the PILOT Program policies, residential developments with 51 or more units are subject to, and must be compliant with, DMC's housing policy. Per the policy, at all times during the PILOT term, at least twenty percent (20%) of the residential units shall be occupied by or held available solely for individuals and families of low and moderate income such that the percentage of median gross income shall not exceed eighty percent (80%) of the median gross income for Shelby County, Tennessee.

Estimated Payments: The current annual city and county taxes on the property total **\$33,894**. A PILOT would allow for two vacant and blighted buildings to be rehabilitated and brought back into active use. During the 20-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$116,649**. This represents a **244%** increase from the amount of taxes currently generated by the property. Over the course of the 20-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$1,655,112**.

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.

Staff is in strong support of this development project. The full redevelopment of this vacant, deteriorated, and blighted building has long been a top anti-blight priority for the DMC. In addition to the acknowledged architectural significance of these two buildings, the property is located in a critically important location. Near the AutoZone Headquarters and the announced Downtown Brooks Museum location, these blighted buildings prominently face

both the riverfront and Front Street. Putting blighted priorities like this one back into productive use is highly consistent with the DMC's dual goals of improving commercial property values and increasing population downtown.

With support of the CCDC Stabilization Grant and a 20-year PILOT from the CCRFC, the new owner will be able to transform an eyesore back into a neighborhood asset. Approximately 112 apartment units and ground-floor retail will breathe life and commercial vibrancy back into a handsome and historically significant property that came precariously close to being lost to disinvestment and neglect.

**Recommendation:**

**Staff recommends approval of a 20-year PILOT, subject to the all standard closing requirements and conditions.**

<b>PILOT Request</b>	
Requested PILOT Term (years)	20.0
Project Type	Rehabilitation
Located in the CBID?	Yes
<b>Current Amounts</b>	
Base Appraisal	\$1,169,400
Base Assessment	\$467,760
Annual City Tax on Base Assessment	\$14,950
Annual County Tax on Base Assessment	\$18,944
<b>Annual RE Taxes on Base Assessment</b>	<b>\$33,894</b>
<b>Project Costs</b>	
Acquisition Cost	\$1,200,000
Hard Costs	\$19,034,815
Soft Costs	\$2,740,310
<b>Total Project Costs w/o PILOT fee</b>	<b>\$22,975,125</b>
<b>Hard Costs Investment Check - 82.8%</b>	<b>YES</b>
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$22,975,125
<b>PILOT fee</b>	<b>\$344,627</b>
<b>Total Project Costs w/ PILOT fee</b>	<b>\$23,319,752</b>
<b>Valuation &amp; CBID Assessment</b>	
Base Appraisal	\$1,169,400
Percentage of Hard Costs	\$11,420,889
Estimated Appraisal after Improvements	\$12,590,289
<b>Estimated Assessment after Improvements</b>	<b>\$5,036,116</b>
<b>Estimated Annual CBID Assessment after Improvements</b>	<b>\$32,670</b>
<b>Annual RE Taxes</b>	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$160,954
Estimated Hypothetical Annual County Tax without PILOT*	\$203,963
<b>Estimated Hypothetical Total Annual Taxes without PILOT*</b>	<b>\$364,916</b>
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$51,451
Estimated Annual County Tax with PILOT	\$65,199
<b>Estimated Total Annual Taxes with PILOT</b>	<b>\$116,649</b>
<b>Estimated Annual Benefit</b>	<b>\$248,267</b>
<b>Cumulative RE Taxes</b>	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$3,219,071
Estimated Hypothetical Cumulative County Tax without PILOT*	\$4,079,254
<b>Estimated Hypothetical Total Cumulative Taxes without PILOT*</b>	<b>\$7,298,325</b>
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Tax with PILOT	\$1,029,011
Estimated Cumulative County Tax with PILOT	\$1,303,978
<b>Estimated Total Cumulative Taxes with PILOT</b>	<b>\$2,332,989</b>
<b>Estimated Cumulative Benefit over 20-Year PILOT</b>	<b>\$4,965,336</b>
<b>Estimated Cumulative Increase in Taxes due to PILOT</b>	<b>\$1,655,112</b>

244%

*\*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".*