

# Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)  
From: DMC Staff  
Date: October 2, 2018  
RE: PILOT Request – 64 S. Main Street

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The enclosed request is for consideration at the October 9, 2018, CCRFC Board Meeting.

**Project:** **64 S. Main Street**

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Applicant: Mr. Gabriel Velasquez, owner representative  
November 6 Investments  
64 S. Main St.  
Memphis, TN 38103

Current Owner: Dr. Claudia P. Neira  
1068 Cresthaven Rd.  
Memphis, TN 38119

Applicant’s Request: 15-Year PILOT for redevelopment of the existing building  
as a mixed-use development.

Included Parcel: 64 S. Main Street (Parcel ID 002056 00009)

Site Control: The applicant has an option to purchase 64 S. Main from the  
current owner, contingent upon the approval of a CCRFC  
PILOT, CCDC Development Loan, and bank financing.

Background: The subject property is located on the east side of the Main  
Street Mall, in the block between Monroe Avenue and Union  
Avenue. The building, currently vacant, is recognized as a  
Contributing Structure within the locally-zoned Gayoso-  
Peabody Historic Preservation (Landmarks) District. The  
11,145 sq. ft. building was constructed in 1942 and once  
served as a pharmaceutical distribution center.

As part of its Main Street Strategy, the Downtown Memphis  
Commission (DMC) has a strategic focus on fighting blight,  
adding vibrancy, and improving property values within the  
Downtown Core and especially along the Main Street Mall.  
Encouraging the full renovation of this vacant building has  
been a goal of the DMC staff over the past 24 months.

Project Description:

The applicant began to focus on the building in late 2017 with a vision to redevelop it into a vibrant health hub that will attract health-conscious consumers, startups, local businesses and foodies. Their goal is to create an environment for both residents and visitors to eat, shop, work, and exercise in the heart of Downtown. The two-story building contains about 3,715 sq. ft. per floor including a full basement.

Contingent upon PILOT approval, the applicant will renovate the building as a mixed-use development to include a boutique fitness and wellness center, a healthy food concept, pop-up shops, co-working, and creative office space. Subject to the applicant receiving all required approvals, construction could begin as early as this fall and be completed in late 2019.

Development Budget:

The total development cost is approximately \$2,390,757. 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.

**Sources:**

Owner’s Equity	\$652,024	(28%)
Tenant-funded Improvements	\$217,341	(9%)
CCDC Dev. Loan	\$200,000	(8%)
Bank Loan	\$1,321,391	(55%)
<b>Total Sources</b>	<b>\$2,390,757</b>	<b>(100%)</b>

**Uses:**

Property Acquisition	\$335,000	(14%)
Hard Costs	\$1,626,917	(68%)
FF&E	\$217,341	(9%)
Soft Costs	\$211,499	(9%)
<b>Total Uses</b>	<b>\$2,390,757</b>	<b>(100%)</b>

PILOT Grade:

Per the PILOT scoring system, the project achieves a base grade of 13 years and could reach a total of 15 years with approved public art and enhanced architectural lighting.

**Primary Qualification:**

Office (Below 15,000 sf) 1 Year

**Secondary Qualification:**

Retail (5,000 – 9,999 sf) 1 Year

Total Project Development Costs:

\$1-5 Million 1 Year

Priorities & Initiatives:

Located within CBID 3 Years  
Renovation (Contributing/Landmarks) 4 Years  
Main to Main Route 3 Years

Optional Credits:

Public Art 1 Year  
Enhanced Architectural Lighting 1 Year

Total Base Grade: 13 Years  
Total Grade with Public Art & Lighting: 15 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 minority and/or women-owned businesses (M/WBEs) 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 estimated costs are subject to the EBO program:

Hard Costs	\$1,626,917
Soft Costs/Professional Services	\$211,499
<b>Total</b>	<b>\$1,838,416</b>

According to the above estimates, a 25% level of M/WBE inclusion for the estimated hard and soft costs will be approximately **\$459,604.**

Design Review Board:

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

Development Loan:

The Center City Development Corporation (CCDC), an affiliate of the DMC, offers a low-interest loan up to \$200,000 for commercial development projects located within the Central Business Improvement District (CBID). This loan product is permanent financing at 1% interest to assist the building owner in making permanent building

improvements. The loan has a 10-year term using a 20-year amortization schedule.

Historically, the CCRFC's PILOT program was designed to support larger projects. In an effort to direct additional resources towards smaller projects, the DMC and CCDC created the Development Loan Program.

Under current CCRFC policy, the PILOT term is limited to 10-years for projects receiving both a CCRFC PILOT and a CCDC Development Loan. One noted exception is for projects located within the Demonstration Block (Main Street Mall, between Union & Gayoso). The original intent of this policy was to direct Development Loans to smaller projects given the reality of limited CCDC resources for the loan pool. Typically, a development receiving a PILOT longer than 10 years will be a large project with a substantial budget.

For this specific application, staff supports the request for a Development Loan. Although the PILOT term will be longer than 10 years, this proposal is precisely the size and scale of project that the Development Loan was designed to support. The longer PILOT grade for this project has much more to do with the proposed location rather than project size and overall budget.

The applicant plans to request approval for a Development Loan of up to \$200,000 at the October or November CCDC meeting.

Estimated Payments:

The current annual city and county taxes on the property total **\$6,400**. During the 15-year PILOT term, the annual payment in lieu of taxes would equal approximately **\$13,473**. This represents a **110%** increase from the amount of taxes currently generated by the property. Over the course of the PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$106,098**.

Staff Evaluation:

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.

Staff agrees with the applicant that a PILOT is needed for the project to be economically viable and warrant equity

investment. Staff is highly supportive of the project as it aligns with multiple strategic objectives. First, the adaptive reuse of existing buildings Downtown is a top goal of the CCRFC and its affiliates. Reusing existing historic buildings is a proven strategy for community development that maintains authenticity and sense of place.

Second, attracting new investment to the Downtown Core, and especially along the Main Street Mall, is a priority for the DMC. Moreover, the applicant for the project is a small developer. Growing the Memphis development ecosystem and supporting emerging and new developers is an important goal of the DMC, CCRFC, and CCDC.

Third, this property has been on the DMC Anti-Blight Committee's priority list over the past 24 months.

Lastly, redevelopment of this property as a mixed-use building will help provide new ground-floor animation on Main Street with the addition of new space for retail, office, and similar commercial uses. Removing high-profile vacancy at this location advances the DMC's dual objectives of increasing density and improving commercial property values along strategic corridors.

**Recommendation:**

**Staff recommends approval of a 15-Year PILOT, subject to all standard approval requirements and conditions.**