

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: November 6, 2018
RE: PILOT Request – Malone Park Commons

The enclosed request is for consideration at the November 13, 2018, CCRFC Board Meeting.

Project: Malone Park Commons (SE corner of Main & Saffarans)

Applicant: Malone Park, LLC
Mr. Andre Jones, Operating Partner
Mr. Curtis Jones, Operating Partner
516 Tennessee St. Suite 123
Memphis, TN 38103

Current Owner: MLB-Uptown, LLC
2600 Thousand Oaks Blvd.
Memphis, TN 38118

Applicant's Request: 15-Year PILOT for new construction of a multi-family rental housing development including the following parcels:

- Parcel ID 001061 00011
- Parcel ID 001061 00017
- Parcel ID 001061 00024
- Parcel ID 001061 00025

Site Control: The applicant has an option to purchase the site.

Background: The project site includes approximately half of a single block in the Uptown neighborhood. The block is bound by Saffarans to the north, Second Street to the east, Greenlaw to the south and Main Street to the west.

The 0.768-acre site has been owned by the Memphis Land Bank since 2006. The property is a brownfield site that received environmental remediation in the form of a 2-foot clay cap to make it usable for redevelopment. Following a re-platting of the block in 2006 by the Belz/Turley Partnership, four homes were built on the southern half of the site.

The applicant is now planning an ambitious project to redevelop the remaining vacant property on the block with a 25-unit rental housing community. The project will feature a variety of small unit types including studios, four-plexes, and live work buildings surrounding a park-like space.

Project Description:

The applicant will build a series of individual structures on land that is currently vacant. The design intent is to add neighborhood-scale infill rental housing that is compatible with existing homes and buildings in Uptown. The proposed unit mix includes the following:

- One (1) 340 sq. ft. detached studio
- One (1) 340 sq. ft. attached studio
- One (1) 504 sq. ft. attached one bedroom apartment
- Eight (8) 504 sq. ft. four-plex one bedroom apartments
- Six (6) 504 sq. ft. detached one bedroom cottages
- Four (4) 700 sq. ft. live/work style apartments
- Four (4) 1120 sq. ft. detached 2 bedroom cottages

Subject to the applicant receiving all required approvals, construction could begin in Q2 2019 and be completed in Q1 2021.

Development Budget:

The total development cost is approximately \$2,359,763. 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:

Project Debt	\$1,724,763	(73%)
Owner's Equity	\$435,000	(18%)
CCDC Development Loan	\$200,000	(9%)
Total Sources	\$2,359,763	(100%)

Uses:

Property Acquisition	\$50,000	(2%)
Hard Costs	\$1,750,841	(74%)
Soft Costs	\$304,674	(14%)
Financing Fees	\$17,248	(0.5%)
Other misc. uses	\$25,000	(1%)
Equity pay down (YR 2)	\$200,000	(8%)
Professional Fees	\$12,000	(0.5%)
Total Uses	\$2,359,763	(100%)

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:

Residential (16-25 units) 4 Years

Total Project Development Costs:

\$1-5 Million 1 Year

Priorities & Initiatives:

Located within CBID 3 Years

Main-to-Main Route 3 Years

Census Tract (+20% poverty rate) 2 Years

Optional Credits:

Public Art or Architectural Lighting 1 Year

MLGW Energy Advantage Certification 1 Year

Total Base Grade: 13 Years

Total Grade with Optional Credits: 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	\$1,750,841
Soft Costs/Professional Services	\$316,674
Total	\$2,067,515

According to the above estimates, a 25% level of M/WBE inclusion for the estimated hard and soft costs will be approximately **\$516,879**.

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. 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.

The applicant plans to request approval for a Development Loan of up to \$200,000 at the November CCDC meeting. For this specific application, staff fully supports the request for a Development Loan. Although the PILOT term will be longer than 10 years, this proposal is consistent with the size and type of project that the Development Loan was designed to support.

Estimated Payments:

The current annual city and county taxes on the property total **\$3,478**. During the 15-year PILOT term, the annual payment in lieu of taxes would equal approximately **\$13,627**. This represents a **292%** 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 **\$152,239**.

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. Supporting infill

housing development in Uptown is highly consistent with the DMC's dual goals of increasing population density and improving commercial property values through high-quality commercial development. The project also increases Downtown housing options by adding unique product to the market.

Additionally, the applicant for the project is a small developer with strong ties to the Uptown neighborhood. Growing the Memphis development ecosystem and supporting emerging and new developers is an important goal of the DMC and CCRFC.

Recommendation:

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