

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: May 7, 2019
RE: PILOT Application: 2009-2017 Peabody Avenue (Peabody Falls)

The enclosed PILOT application has been submitted for consideration at the May 14, 2019, CCRFC Board Meeting.

Project: 2009-2017 Peabody Avenue (Peabody Falls)

Applicant: Peabody Falls, LLC
c/o New Bridge Capital Advisors, LLC
Representative: Chase Carlisle, Principal
5350 Poplar Ave. STE 205
Memphis, TN 38119

Current Owner: Bridge Properties of Memphis, LLC
1554 Peabody Ave.
Memphis, TN 38104

Applicant's Request: 12-year PILOT lease for renovation and new construction for a 58-unit multi-family apartment development.

Included Parcels: Parcel ID 016059 00034
Parcel ID 016059 00038
Parcel ID 016059 00041

Project Description: The subject property is located on the south side of Peabody Avenue, in the block between Diana Street and Rembert Street. The 1.514-acre Midtown property contains a circa 1963 2-story apartment complex with four buildings containing a total of 28 units.

The applicant has a contract to purchase the property with plans to renovate the existing 28 apartment units and also build a new 30-unit apartment building at the rear of the site on vacant property. Parking will be accommodated on site with the existing surface parking lot in the center of the site.

It should be noted that the property is tax delinquent and currently owes back taxes to both the City and County. Property taxes will be made current when the property is sold.

Contingent on PILOT approval, the applicant plans to close on project financing and purchase the property this summer. Construction should begin in July, 2019 and be completed within 12 months.

Project Budget:

The total development cost of the project is approximately \$7,007,310. 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	\$5,605,848	(80%)
Owner Equity	\$1,401,462	(20%)
Total Sources	\$7,007,310	(100%)

Uses:

Property Purchase	\$1,900,000	(27%)
Hard Construction Costs	\$4,262,346	(61%)
Soft Costs	\$416,958	(6%)
Financing Costs	\$222,556	(3%)
Design & Engineering	\$205,450	(3%)
Total Uses	\$7,007,310	(100%)

Project Grading:

Per the PILOT scoring system, the project has a base grade of 9 years and could achieve a maximum grade of 12 years with approved public art, enhanced lighting, and MLGW Energy Advantage Certification.

Primary Qualification:

Residential (+51 units) 6 Years

Total Project Development Costs:

\$5 - 10 Million 2 Year

Priorities & Initiatives

Located within CCRFC Boundaries 1 Year
 Exterior Public Art 1 Year
 Enhanced Architectural Lighting 1 Year
 MLGW Energy Advantage Certification 1 Year

Total Potential PILOT Grade: 12 Years

Applicant's Request:

The applicant is requesting approval of a 12-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.

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	\$4,262,346	(95%)
Design & Engineering	\$205,450	(5%)
Total Uses	\$4,467,796	(100%)

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$1,116,949**.

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.

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 **\$37,688**. A PILOT would allow for a 28-unit apartment building to be rehabilitated and a new 30-unit apartment building to be constructed in Midtown.

During the 12-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$56,219**. This represents a **49%** increase from the amount of taxes

currently generated by the property. Over the course of the 12-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$222,371**.

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 Peabody Falls redevelopment will create 30 new apartment units and allow the full renovation of an existing 28-unit apartment development. This adaptive reuse project is aligned with the CCRFC's goal of increasing population density by adding new housing units within our urban center. 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 12-year PILOT subject to the applicant achieving the proposed grading enhancements and meeting all standard closing requirements and conditions.

Peabody Falls Basis Sheet

PILOT Request	
Requested PILOT Term (years)	12.0
Project Type	Rehabilitation
Located in the CBID?	No
Current Amounts	
Base Appraisal	\$1,300,300
Base Assessment	\$520,120
Annual City Tax on Base Assessment	\$16,623
Annual County Tax on Base Assessment	\$21,065
Annual RE Taxes on Base Assessment	\$37,688
Project Costs	
Acquisition Cost	\$1,900,000
Hard Costs	\$4,262,346
Soft Costs	\$844,964
Total Project Costs w/o PILOT fee	\$7,007,310
Hard Costs Investment Check - 60.8%	YES
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$7,007,310
PILOT fee	\$105,110
Total Project Costs w/ PILOT fee	\$7,112,420
Valuation & CBID Assessment	
Base Appraisal	\$1,300,300
Percentage of Hard Costs	\$2,557,408
Estimated Appraisal after Improvements	\$3,857,708
Estimated Assessment after Improvements	\$1,543,083
Estimated Annual CBID Assessment after Improvements	\$0
Annual RE Taxes	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$49,317
Estimated Hypothetical Annual County Tax without PILOT*	\$62,495
Estimated Hypothetical Total Annual Taxes without PILOT*	\$111,812
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$24,796
Estimated Annual County Tax with PILOT	\$31,422
Estimated Total Annual Taxes with PILOT	\$56,219
Estimated Annual Benefit	\$55,593
Cumulative RE Taxes	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$591,801
Estimated Hypothetical Cumulative County Tax without PILOT*	\$749,938
Estimated Hypothetical Total Cumulative Taxes without PILOT*	\$1,341,739
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Tax with PILOT	\$297,557
Estimated Cumulative County Tax with PILOT	\$377,068
Estimated Total Cumulative Taxes with PILOT	\$674,625
Estimated Cumulative Benefit over 12-Year PILOT	\$667,114
Estimated Cumulative Increase in Taxes due to PILOT	\$222,371

49%

*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".