

**Center City Revenue Finance Corporation  
Board Meeting**



To: Center City Revenue Finance Corporation (CCRFC) Board of Directors  
From: DMC Staff, Planning & Development Department  
Date: October 2, 2015  
RE: PILOT Application for Union Avenue Mixed-Use Development

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CENTER CITY DEVELOPMENT  
CORPORATION

CENTER CITY REVENUE  
FINANCE CORPORATION

DOWNTOWN PARKING  
AUTHORITY

DESIGN REVIEW  
BOARD

The enclosed PILOT application has been submitted for consideration at the October 13, 2015, CCRFC Board Meeting. The following report describes the project.

**Project: Union Avenue Mixed-Use Development**

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Applicant: Belz HRP Partners  
c/o Belz Enterprises  
100 Peabody Place  
Suite 1400  
Memphis, TN 38103  
(901) 260-7400

Representatives: Mr. Ron Belz  
Belz Enterprises  
  
Mr. Jim Cheney  
Harbour Retail Partners  
35 Johnson Ferry Road  
Marietta, GA 30068

Subject Property: Southwest Corner of Union & McLean  
i. 1835 Union- PID: 016043 00020  
ii. 1837 Union- PID: 016043 00021  
iii. 1801 Union- PID: 016043 00019C

Applicant's Request: The applicant is requesting a 15-year PILOT in order to secure capital and financing for the ground-up construction of the proposed Union Avenue Mixed-Use Development.

Project Description: The Union Avenue Mixed-Use Development is proposed to be constructed at the corner of Union Avenue and McLean Avenue. The existing structures will be demolished and removed to make way for brand new ground-up construction. When

The Crump Building  
114 North Main Street  
Memphis, TN 38103  
901.575.0540

built, the four-story, mixed-use development will include the following:

- 188 apartments (47 studios, 94 one bedroom units, 47 two bedroom units) with pool and other amenities
- Approximately 30,500 square feet of ground floor commercial space for an anchor retail tenant (recruiting a national gourmet grocery store)
- Approximately 10,521 square feet of ground floor commercial space for smaller tenants
- Parking deck for residential tenants and guests will include approximately 264 spaces
- Approximately 249 spaces on two (2) levels, split at grade, to service commercial tenants and patrons
- Project and new buildings will contain over 218,000 gross square feet

The development of the project will remove the blight that has progressively worsened, at a major intersection, since the former 8-story Artisan Hotel and adjacent 4-story office building went into bankruptcy and vacated back in 2010. The new mixed-use development will be transformational and will result in brand new development in the entire block from Union and McLean, to Idlewild. The new apartments will significantly increase the supply of new and modern multifamily rental units in the Midtown area.

The three parcels that will comprise the property on which the project would be built combine to include approximately 3.3 acres. The parcels currently have assessed values of \$585,040 (1835 Union Avenue), \$507,120 (1837 Union Avenue), and \$642,240 (1801 Union Avenue).

The applicant's goal is to close on financing in December 2015. Construction is expected to begin in June 2016 and could be completed by October 2017.

Project Budget:

The total development cost of the project is approximately \$43,522,739.

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 sixty percent (60%) of the total project cost. Based on the preliminary budget, the project meets this requirement. The following describes the sources and uses of funding:

Sources:

|              |              |     |
|--------------|--------------|-----|
| Project Debt | \$32,642,054 | 75% |
| Equity       | \$10,880,685 | 25% |

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|                      |                     |             |
|----------------------|---------------------|-------------|
| <b>Total Sources</b> | <b>\$43,522,739</b> | <b>100%</b> |
|----------------------|---------------------|-------------|

Uses:

|                           |              |     |
|---------------------------|--------------|-----|
| Land                      | \$4,560,000  | 10% |
| Construction Costs        | \$33,012,124 | 76% |
| Soft & Professional Costs | \$5,950,615  | 14% |

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|                    |                     |             |
|--------------------|---------------------|-------------|
| <b>Total Uses:</b> | <b>\$43,522,739</b> | <b>100%</b> |
|--------------------|---------------------|-------------|

Project Grading:

Per the PILOT scoring system, the project has a base grade of 14.5 years and could achieve a maximum grade of 16.5 years with approved public art and enhanced architectural lighting. However, as per the Downtown Memphis PILOT Program, the maximum term allowed is 15 years.

Primary Qualification:

|                         |         |
|-------------------------|---------|
| Residential (188 units) | 6 Years |
|-------------------------|---------|

Secondary Qualifications:

|                                     |          |
|-------------------------------------|----------|
| Retail (30,001+ sq. ft.)            | 3 Years  |
| Parking Structure (200 to 300 cars) | .5 Years |

Total Project Development Costs:

|             |         |
|-------------|---------|
| +20 Million | 5 Years |
|-------------|---------|

Other Possible Credits:

|                                 |        |
|---------------------------------|--------|
| Exterior Public Art             | 1 Year |
| Enhanced Architectural Lighting | 1 Year |

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**Total: 16.5 Years**

Requested PILOT Term: 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 viable and attract financing. According to the applicant, financing will be subject to the project being awarded a 15-year PILOT.

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

Affordable Housing: Per the program's policies, residential projects with 51 or more units are subject to, and must be compliant with, DMC's affordable 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.

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 20% participation by women and/or minority-owned businesses (W/MBEs) in the project's development costs (design soft costs and construction hard costs). Compliance with the 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 project costs are subject to the EBO Program:

|                    |                     |
|--------------------|---------------------|
| Construction Costs | \$33,012,124        |
| Professional Fees  | \$1,410,996         |
| <b>Total:</b>      | <b>\$34,423,120</b> |

According to the above estimates, a 20% level of W/MBE inclusion for the above costs related to design and construction would be approximately **\$6,884,624.**

Estimated Payments:

The current annual property taxes on the property total \$134,763. However, due to bankruptcy, the most recent owner of two of the three parcels is in arrears with taxes. A PILOT would allow for improvements that would produce an estimated annual payment in lieu of taxes of \$250,173. **A 15-year PILOT would result in a cumulative payment increase to the city and county of approximately \$1,731,156 over its term. Also, the city and county would collectively receive over \$1,000,000 in back taxes.**

Staff Evaluation:

The proposed Union Avenue Mixed-Use Development is located in Midtown, which is outside of Downtown and the Central Business Improvement District (CBID). CCRFC's legal jurisdiction to issue PILOTs includes eligible projects within the Parkways (which includes Midtown); however, CCRFC policy generally limits PILOTs to Downtown. There is language in the program that outlines the extraordinary attributes that projects outside Downtown must possess to be eligible for a PILOT. The main purpose for keeping that area in CCRFC's policy for PILOTs was to have the tool available to make the renovation of Sears Crosstown possible. A PILOT was recently awarded to Sears Crosstown, and as a result the property is currently undergoing a \$150+ Million comprehensive renovation as "Crosstown Concourse."

With Crosstown Concourse now under construction, DMC staff and CCRFC are evaluating the extent in which PILOTs may be used to promote investment outside Downtown. In evaluating the PILOT program and goals of the DMC/CCRFC, and in discussions with EDGE, Community Lift, commercial real estate organizations, developers, et al, the following

factors are just some of possibly many that staff and CCRFC should consider in making decisions in regard to the use of PILOTs outside Downtown:

- Downtown belongs to everyone in the city, county, and region. Downtown is the cultural, sports, entertainment, and economic center of the tristate region: It represents Memphis to the world. Though vastly improved in the last 10 years, Downtown still has many properties, buildings, and areas that are in need of investment and redevelopment. PILOTs should continue to be supported for eligible projects in Downtown.
- Midtown is a part of the core city and is an important gateway into Downtown.
- Given its high multi-family rental occupancy level, it appears that there is a demand for more rental housing in Midtown.
- There hasn't been any new market-rate multi-family housing built in Midtown, and other parts of the city outside of Downtown in many years. This is likely due in part to low rents and high property taxes.
- The ongoing redevelopment and repopulation of Midtown and the city's core (within the Parkways) should be encouraged.

As part of its continued discussions and evaluation of this matter, CCRFC has instructed staff to submit projects that are located outside of Downtown (but within CCRFC's jurisdiction) that meet the eligibility requirements of the PILOT program, but that would also have a high-impact in the community. Staff and CCRFC agreed that accepting and evaluating PILOT applications for certain projects outside Downtown would be an effective approach in establishing the most

beneficial way to use PILOTs within the entirety of CCRFC's jurisdiction.

Based on the submitted application, accompanying financial pro formas, staff's independent evaluation, and discussions with the applicant regarding its preliminary discussions with potential capital sources and lenders, it is staff's determination that a PILOT is needed for the project to be viable and attract financing.

Based on the following reasons, staff is in full support of the applicant's request for a 15-year PILOT:

- Though not of the magnitude of Sears Crosstown, the Union Avenue Mixed-Use Development, with a development cost of around \$44M, would be one of the largest private projects built in Memphis in years. The project is clearly catalytic and high-impact.
- The project would help to populate the core city by adding 188 new class A apartments to Midtown.
- With its mixed uses and density, the project has an urban design that promotes walkability. This type of project, with its design, mixed uses, and scale, would be the first of its kind in Memphis.
- Development of the project would remedy major blight at one of the most prominent intersections, Union and McLean, in Memphis.
- There are extraordinary costs (blight remediation, demolition, and back taxes) associated with acquiring and developing the project.
- Even with approval of a PILOT, the project is still tenuous. Attracting financing isn't certain.
- Without the award of a PILOT, the project does not move forward and the main and most conspicuous portion of the site remains in its prominently blighted condition and there is no resulting growth in

tax revenues or growth in economic development. Approval of a PILOT would result in economic growth and a significant increase in overall tax revenues.

**Recommendation:**

**Staff recommends approval of a 15-year PILOT, as requested. If approved, the PILOT shall be subject to the inclusion of public art and enhanced architectural lighting (in sufficiency as per the DRB), and shall be subject to all standard requirements and conditions.**



|   |                     |
|---|---------------------|
| <b>PILOT Request</b>  |                     |
| Requested PILOT Term (years)  | 15.0                |
| Project Type  | New Construction    |
| <b>Current Amounts</b>  |                     |
| Current Appraisal   | \$4,336,000         |
| Current Assessment  | \$1,734,400         |
| Current Annual City Tax   | \$58,970            |
| Current Annual County Tax   | \$75,793            |
| <b>Current Annual RE Taxes</b>                                      | <b>\$134,763</b>    |
| <b>Project Costs</b>  |                     |
| Acquisition Cost  | \$4,560,000         |
| Hard Costs  | \$33,012,124        |
| Soft Costs  | \$5,307,422         |
| <b>Total Project Costs w/o PILOT fee</b>                            | <b>\$42,879,546</b> |
| Public grants eligible for PILOT fee basis reduction                | \$0                 |
| PILOT fee basis   | \$42,879,546        |
| <b>PILOT fee</b>  | <b>\$643,193</b>    |
| <b>Total Project Costs w/ PILOT fee</b>                             | <b>\$43,522,739</b> |
| <b>Hard Costs Investment Check - 75.9%</b>                          | <b>YES</b>          |
| <b>Valuation &amp; CBID Assessment</b>                              |                     |
| Current Appraisal   | \$4,336,000         |
| Percentage of Hard Costs  | \$26,409,699        |
| Estimated Appraisal after Improvements                              | \$30,745,699        |
| <b>Estimated Assessment after Improvements</b>                      | <b>\$12,298,280</b> |
| <b>Annual RE Taxes</b>  |                     |
| <i>Without PILOT</i>  |                     |
| Estimated Hypothetical Annual City Tax without PILOT                | \$418,142           |
| Estimated Hypothetical Annual County Tax without PILOT              | \$537,435           |
| <b>Estimated Hypothetical Total Annual Taxes without PILOT</b>      | <b>\$955,576</b>    |
| <i>With PILOT</i>   |                     |
| Estimated Annual City Tax with PILOT                                | \$58,970            |
| Estimated Annual County Tax with PILOT                              | \$191,204           |
| <b>Estimated Total Annual Taxes with PILOT</b>                      | <b>\$250,173</b>    |
| <b>Estimated Annual Benefit</b>                                     | <b>\$705,403</b>    |
| <b>Cumulative RE Taxes</b>  |                     |
| <i>Without PILOT</i>  |                     |
| Estimated Hypothetical Cumulative City Tax without PILOT            | \$6,272,123         |
| Estimated Hypothetical Cumulative County Tax without PILOT          | \$8,061,522         |
| <b>Estimated Total Hypothetical Cumulative Taxes without PILOT*</b> | <b>\$14,333,645</b> |
| <i>With PILOT</i>   |                     |
| Estimated Cumulative City Taxes with PILOT                          | \$884,544           |
| Estimated Cumulative County Tax with PILOT                          | \$2,868,055         |
| <b>Estimated Total Cumulative Taxes with PILOT</b>                  | <b>\$3,752,599</b>  |
| <b>Estimated Cumulative Benefit over 15-year PILOT</b>              | <b>\$10,581,046</b> |

**Estimated Cumulative Increase in Taxes due to PILOT**

**\$1,731,156**

*\*Staff has concluded that this project would not go forward without a PILOT. Hence, the "Estimated Hypothetical Total Cumulative Taxes without PILOT" figure is a fictional/moot number used to calculate the benefit of the PILOT to the project ("Cumulative" meaning over the term of the PILOT). 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 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".*