

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: January 5, 2021
RE: PILOT Application: Central Yards Mixed-Use Development

The enclosed PILOT application has been submitted for consideration at the January 12, 2021, CCRFC Board Meeting.

Project: **Central Yards Mixed-Use Development**

Applicant/Owner: RE&D Investments, LLC
Project Representative - Mr. Clayton Kemker
232 Southmill Drive
Eads, TN 38028

Applicant's Request: 20-year PILOT lease for new construction of a mixed-use development on 5.65 acres.

Included Parcels: Parcel ID 031136 00004 (2101 Central Ave.)
Parcel ID 031136 00005C (0 Central Ave.)
Parcel ID 031136 00001 (2074 York Ave.)
Parcel ID 031136 00012 (2078 York Ave.)
Parcel ID 031133 00003 (2093 York Ave.)
Parcel ID 031133 00001 (0 York Ave.)
Parcel ID 031133 00002 (0 York Ave.)
Parcel ID 031136 00010Z (0 York Ave.)
Parcel ID 031135 00006 (0 York Ave.)
Parcel ID 031136 00010 (0 S. Cooper St.)
Parcel ID 031136 00008 (0 S. Cooper St.)
Parcel ID 031136 00009 (0 S. Cooper St.)
Parcel ID 031136 00011 (0 Tanglewood)
Parcel ID 031135 00003C (0 Tanglewood)
Parcel ID 031133 00004C (0 York Ave.)

Project Description: The subject property consists of 15 adjacent parcels located on the west side of Cooper Street, in the block between Central Avenue and the south side of York Avenue. The western boundary of the site is near Tanglewood Street. The subject property (5.65 acres) is currently a combination of vacant land and underutilized or vacant industrial uses. The proposed mixed-use development will include 348 apartment units and 51,865 sq. ft. of retail/office/commercial space.

A new parking structure with 615 spaces will be built by the developer to support both the project and public parking in support of nearby businesses. Additionally, significant outdoor public space will be added as an amenity to the project.

A total of 7 buildings are planned for the site. Maximum height of the structures will range from 4 to 7 floors. The building height generally increases towards the south and western portions of the site, along the railroad tracks and existing mature trees. Shorter buildings are generally located along Central Avenue and Cooper Street. This massing strategy helps ensure that the project will fit compatibly in its context. It should be noted that this Planned Development was approved unanimously by the Land Use Control Board on December 10, 2020.

The applicant has purchased most of the property and is now under contract to purchase the remainder. Contingent on PILOT approval, construction will likely begin in June, 2021 and could be complete by October, 2022.

Project Budget:

The total development cost of the project is approximately \$76,812,164. 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	\$61,449,731	(80%)
Owner Equity	\$15,362,433	(20%)
Total Sources	\$76,812,164	(100%)

Uses:

Property Purchase	\$5,650,000	(7%)
Hard Construction Costs	\$66,506,000	(86.5%)
Professional Fees	\$2,992,770	(4%)
Permits & Testing	\$250,000	(0.5%)
Legal, Insurance, Marketing	\$300,000	(0.5%)
PILOT Fee	\$1,113,395	(1.5%)
Total Uses	\$76,812,164	(100%)

Project Grading:

The project can achieve a base grade of 20 years under the PILOT scoring criteria.

Primary Qualifications:

Residential (+51 units)	6 Years
Parking Structure (601-700 cars)	5 Years
Located within CCRFC Boundaries	1 Year

Secondary Qualification:

Office Space (+31,000 sf)	1 Years
Retail Space (15,000 - 20,000 sf)	2 Years

Total Project Development Costs:

+\$20 Million	5 Years
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Total PILOT Grade:

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 and attract debt and equity. Without a PILOT tax incentive, the project pro forma shows a debt service coverage ratio insufficient to attract bank financing. Standard metrics including Return on Equity (ROE) and Return on Investment (ROI) are also insufficient to warrant equity investment without a PILOT when compared to the cost of capital, alternative investment options, and risk considerations.

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.**

Outreach & Inclusion Plan: The specific steps required for each applicant to be compliant with the DMC's EBO Program takes into consideration the size, scope of work, and development costs associated with the project. At the time of incentive application, it is typically too early to identify specific contractors or sub-contractors that will ultimately be involved in the construction.

The applicant has a clear understanding of the EBO Program and has worked with DMC staff to identify the following key steps that will be included in their Outreach & Inclusion Plan:

- The applicant will meet and coordinate with minority-owned business assistance organizations such as the Memphis Area Minority Contractors Association (MAMCA) and the Mid-South Minority Business Council Continuum (MMBC) to make their members aware of the project and any contracting and sub-contracting opportunities.
- The applicant will use the City of Memphis Business Diversity & Compliance Registry and the resources at the Shelby County Office of Equal Opportunity Compliance to identify qualified contractors, sub-contractors, and tradespeople as needed to perform the planned work.
- The applicant will advertise and host a pre-bid conference to proactively invite MWBE subcontractors to participate in the process and ask questions to learn more about the job opportunity. DMC staff will be invited to attend the pre-bid conference to observe. This pre-bid conference will likely need to be held virtually due to the ongoing COVID-19 pandemic. Additionally, the applicant will look proactively to identify opportunities for a joint venture or meaningful

partnerships with smaller general contractors to gain experience at this scale while adding value to the project.

- The applicant will contact a minimum of 3 certified MWBE businesses for each trade or type of subcontractor needed, and provide each a fair opportunity to submit a bid and be considered for the work.
- Once the service providers have been identified, the applicant will submit the form titled “Proposed Utilization Plan” to DMC staff for review and approval. The applicant will also be asked to provide a full record of the outreach steps taken and the results thus far. This documentation can include items such as a phone call log, copies of emails, meeting notes, and pre-bid conference attendance sheet.
- After construction has started, the applicant will provide monthly updates to DMC staff detailing the project status and level of MWBE involvement at each major phase of the project.

Minimum MWBE Goal: The 25% minimum MWBE spending goal for this project will include the following estimated hard cost and professional fees:

Hard Construction Costs	\$66,506,000	(96%)
Professional Fees	\$2,992,770	(4%)
Total Uses	\$69,498,770	(100%)

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$17,374,693**.

Design Review Board: The applicant will submit plans to the DRB in the coming months. DRB approval is required prior to start of construction.

Housing Policy: This project will require compliance with the CCRFC’s Affordable Housing Requirement. Per the PILOT policies, multi-family developments 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.

Estimated Payments: The current annual city and county taxes on the property total approximately **\$131,006**. A PILOT would allow for a vacant and underutilized industrial property to be replaced with a sizable mixed-use development along an important Midtown commercial corridor within the core city. It must be noted that a property never pays less tax as a result of receiving a PILOT. A commercial

property always pays more tax as a result of being approved for a CCRFC PILOT. This tax incentive allows development projects to move forward that would otherwise not be able to occur due to insufficient economic returns that make attracting debt and equity untenable.

During the 20-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$516,523**. This represents a **294%** 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 **\$7,710,333**.

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 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 high-quality investment to the core city is a top priority for the CCRFC and the City of Memphis. The proposed redevelopment at Central Yards will replace vacant land and underutilized property with the type of density and development called for in the Memphis 3.0 Comprehensive Plan. By building up and not out, this infill project is closely aligned with the CCRFC's goal of increasing population density by adding new housing units and commercial activity within our urban core. In addition to new housing and commercial space, this project will add significant parking capacity in support of existing and future businesses in the neighborhood.

Recommendation:

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