

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: Feb 2, 2021
RE: PILOT Application: 1030 Poplar Ave

The enclosed PILOT application has been submitted for consideration at the February 9, 2021, CCRFC Board Meeting.

Project: 1030 Poplar Ave

Applicant/Owner: 1030 Poplar LLC
Project Representative: Amin Zaki.
7842 Farmington Blvd
Germantown, TN 38138

Applicant's Request: 14-year PILOT lease for renovation of an existing multifamily property.

Included Parcels: Parcel ID 020090 00007C (1030 Poplar Ave.)

Project Description: The subject property is a vacant multifamily property located at 1030 Poplar Ave, consisting of two vacant two-story buildings. The buildings are in poor physical condition, and will continue to deteriorate without investment to bring them back into active use. The applicant plans on restoring the buildings as an 84-unit multifamily complex, with a mix of 66 studio apartments, and 19 one bedroom apartments.

Each building will receive a complete interior and exterior renovation. The units will be demolished down to the studs, and rebuilt with all new floors, furnishing, and fixtures. All windows, doors, stairs, and railings will be replaced. Each building will feature redesigned courtyards as a community amenity, and the buildings will feature new lighting and security systems. Rotten wood on the building's exterior will be removed and replaced with new siding, and the roof will also be completely replaced.

The applicant currently owns the subject property. If a PILOT is approved, the applicant plans to begin work as soon as possible following CCRFC and DRB approval. With a construction time of between 9 to 12 months, the applicant estimates that the project could be complete by Q4 2021 or Q1 2022.

Project Budget: The total development cost of the project is approximately \$6,191,391. 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	\$4,700,000	(75.9%)
Equity	\$1,466,391	(23.7%)
MMDC Façade Grant	\$20,000	(0.3%)
MMDC Pre-Dev Grant	\$5,000	(0.1%)
Total Sources	\$6,191,391	(100%)

Uses:

Property Purchase	\$950,000	(15.3%)
Design Fees	\$15,000	(0.2%)
Interest Reserve	\$134,875	(2.2%)
Hard Construction Costs	\$4,495,842	(72.6%)
Demolition	\$188,476	(3.0%)
Soft Costs	\$315,700	(5.1%)
PILOT Fee	\$91,498	(1.5%)
Total Uses	\$6,191,391	(100%)

Project Grading:

The project can achieve a grade of 14 years under the PILOT scoring criteria.

Primary Qualifications:

Residential (+51 units) 6 Years

CCRFC Priorities:

Located within CCRFC Boundaries 1 Year
 Census Tract Poverty Rate > 20% 2 Years
 Census Tract < 80% of AMI 2 Years
 Architectural Lighting 1 Year

Total Project Development Costs:

\$5-10 Million 2 Years

Total PILOT Grade: 14 Years

Applicant’s Request:

The applicant is requesting approval of a 14-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 conventional 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 (MWBs) 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	\$4,495,842	(95.7%)
Demolition	\$188,476	(4%)
Design Fees	\$15,000	(0.3%)
Total Uses	\$4,699,318	(100%)

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$1,174,829.50**.

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 **\$10,501**. A PILOT would allow for a vacant apartment complex to be renovated into an active multifamily property. 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 14-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$30,866**. This represents a **194%** 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 **\$285,117**.

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.

Fighting vacancy and blight is a core priority of the DMC and its partner boards, as well as the City of Memphis and Shelby County. Left in its current condition, 1030 Poplar Ave will continue to deteriorate, becoming a visible blighted structure on Memphis's most prominent street, and a primary gateway to Downtown. Unfortunately, the poor condition of the building means that the cost of renovating the property outstrips the financial returns that can be expected under normal market conditions. With the assistance of a PILOT, a patch of blight on Poplar can be replaced with a high-quality development that will increase the neighborhood's stability and build up momentum on a corridor that is in need of investment.

Recommendation:

Staff recommends approval of a 14 -year PILOT subject to all standard closing requirements and conditions.