

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: May 22, 2018
RE: Updated PILOT Project – One Beale

The enclosed request is for consideration at the May 29, 2018, CCRFC Board Meeting.

Project: One Beale Mixed-Use Development (Phase I)

Applicant/Owner: Front Street DevCo, LLC
Carlisle Hotels, Inc.
c/o Carlisle LLC
263 Wagner Place
Memphis, Tennessee 38103

Representatives: Mr. Chance Carlisle, Chief Executive Officer
Mr. Louis Jehl, Chief Financial Officer

Applicant's Request: The One Beale mixed-use development last received CCRFC approval for a 20-year PILOT and funding for a public parking garage in July 2015. Since that time, the applicant has acquired additional property to expand the footprint of the site.

The project will be undertaken in two phases. To begin Phase I, the applicant is requesting CCRFC approval for 1) an updated and expanded project scope, 2) approval to extend the deadline to close the previously approved 20-year PILOT, and 3) reaffirmation of the previous commitment to fund a public parking garage on site.

Previous Scope: The project approved for a PILOT in 2015 envisioned a development budget of approximately \$160,000,000 and a 2.2-acre site. Two towers containing a 225-key hotel, 280 residential apartment units, and a 500-space public parking garage were to occupy property owned by the Carlisle family at 245 & 263 Wagner Pl.

Revised Scope: Since 2015, the project site expanded to include key property east of Wagner Pl. The One Beale site more than doubled in area and now comprises 5.5 acres generally bound by Beale Street to the north, Front Street to the east, Pontotoc Avenue to the south, and the railroad line to the west.

Phase I will have a development budget of approximately \$111,000,000 and include the following components:

- New construction of a +201-key full-service hotel with 20,000 sf meeting space and ground floor retail/restaurant space (located at SW corner Beale & Front Street).
- New construction of a 227-unit residential apartment building with 10,000 sf Class A office, 7,000 sf restaurant/retail, and parking garage with up to 490 spaces (located at 263 Wagner, 275 S. Front, and 287 S. Front). The existing Carlisle office building at 263 Wagner will be demolished.
- Redevelopment plans for the former Ellis Machine Shops, located at the northwest corner of Dr. M.L. King Jr. Avenue and Front Street, are being developed as a future commercial use. The developer is investigating the feasibility of adaptive reuse for several of the existing buildings on site.

The closing of financing for Phase I is expected in late 2018. Construction could begin as early as spring, 2019 and will take approximately 20 months to complete.

The following parcels are included in this Phase I PILOT application:

- 0 Wagner Pl. (Parcel ID 002099 00002C)
- 263 Wagner Pl. (Parcel ID 002071 00004C)
- 245 S. Front St. (Parcel ID 002099 00008)
- 275 S. Front St. (Parcel ID 002098 00004)
- 287 S. Front St. (Parcel ID 002098 00005)

Phase II Scope:

Phase II of the project is planned to include a Class A office building at the SW corner of Beale Street and Wagner Pl. (Parcel ID 002070 00001C). Depending on office demand and anchor tenant commitments, the size of the office building could range from 200,000 – 400,000 sf. Timing and budget for Phase II will be determined after anchor tenants have been finalized. Phase II will be submitted to the CCRFC in the future as a separate PILOT application.

Phase I Budget:

The total development cost for Phase I is approximately \$110,675,794. 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	\$70,000,000	(63%)
Equity (land)	\$10,000,000	(9%)
Equity (cash)	\$20,875,794	(19%)
DPA garage funding	\$9,800,000	(9%)
Total Sources	\$110,675,794	(100%)

Uses:

Land	\$10,000,000	(9%)
Parking garage	\$9,800,000	(9%)
Hard costs	\$76,658,108	(69%)
Soft Costs & prof. fees	\$10,462,386	(10%)
Financing/working capital	\$3,755,300	(3%)
Total Uses	\$110,675,794	(100%)

Phase I PILOT Grade:

Per the PILOT scoring system, the combined elements in Phase I achieve a base grade of 24 years. A maximum grade of 26 years would be possible with approved public art and enhanced architectural lighting. However, the CCRFC's PILOT Program caps all PILOTs at a maximum of 15 years. The CCRFC Board has the ability to approve PILOTs of up to 20 years for high-impact and catalytic projects.

Primary Qualification A:

Residential (51+ units) 6 Years

Primary Qualification B:

Hotel (201+ rooms) 6 Years

Secondary Qualification A:

Office (below 15,000 sf) 0.5 Year

Secondary Qualification B:

Retail (20,001 – 30,000 sf) 2.5 Years

Total Project Development Costs:

\$20+ Million 5 Years

Priorities & Initiatives

Located within CBID 3 Years

New Structure in Core 1 Year

Total Base Grade: 24 Years

Applicant's Request: 20 Years

It should be noted that while the applicant is proposing a comprehensive project with multiple components, the individual components would also achieve a high PILOT grade on their own merits. For example, the apartment component

could achieve a PILOT grade of 20 years on its own and the proposed hotel could achieve a PILOT grade of 17-20 years, depending upon project details.

Parking Request:

The applicant requests that the previously approved funding for a public parking garage be reaffirmed for the revised project scope. In addition to providing structured parking for the One Beale development, the public parking garage will provide parking for neighborhood businesses, Beale Street Landing, Tom Lee Park, and the general public.

Under the terms of the previous parking agreement, the CCRFC will acquire a portion of the property (to be subdivided via a condominium parcel) where the garage will be built. The applicant will contribute the property to the CCRFC. CCRFC will own that subdivided parcel and the new parking garage structure is financed using resources available through the PILOT Extension Fund. The use of this fund is always contingent upon approval from the Downtown Parking Authority (DPA), Memphis City Council, Shelby County Commission, and both the City and County Mayors.

The agreement provides that CCRFC/DPA (as lessor) enters into a capital lease with the applicant (as lessee). The lease outlines the manner in which the garage will be constructed and operated as a public parking facility, as well as other terms and conditions to include rent. The rent is set to remunerate the approximately \$10,000,000 contribution from the PILOT Extension Fund. The capital lease provides an option for the applicant to purchase the garage from the CCRFC for the outstanding principal balance of the loan.

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 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 project costs are subject to the EBO program:

Apartment Hard Costs	\$39,901,658
Hotel Hard Costs	\$33,480,000
Garage Hard Costs	\$9,800,000
Construction Contingency	\$2,201,450
Architect & Engineer Fees	\$2,900,000

Total **\$88,283,108**

According to the above estimates, a 20% level of W/MBE inclusion for the combined hard and soft costs will be approximately **\$17,656,621**.

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

Affordable Housing: Per the CCRFC's program policies, residential projects with 51 or more units are subject to, and must be compliant with, DMC's affordable housing policy. That policy requires that at least 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 80% of the media income for Shelby County, Tennessee.

Estimated Payments: The current annual city and county taxes on the property total **\$115,343**. A PILOT would allow for a transformative development over a 5.5-acre site in Downtown Memphis.

During the 20-year PILOT term, the annual payment in lieu of taxes would equal approximately **\$367,396**. This represents a **244%** 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 **\$5,041,037**.

Staff Evaluation: It is staff's determination that a 20-year PILOT and the proposed public garage support are needed for the overall project to be viable and attract financing.

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.

One Beale has been a high priority of the DMC and its partners for many years. The developer has diligently worked to bring the project to fruition since the mid-2000's. Originally, the project team attempted to develop the site as a mixed-use development to include condominiums, hotel, and Class A office space. That project was stopped due to economic downturn of the Great Recession at a cost of more than \$2,000,000 to the developers.

In 2015, the site was awarded a 20-year PILOT from the CCRFC at 245 Wagner to build a twin tower building to accommodate multi-family apartments and a hotel. The project

was paused and redesigned once the Carlisle family was able to purchase key property on the east side of Wagner Pl. from the Ellis family in 2016. At that point, the Carlisle family modified the site plan and scope to reflect the new site. The developers have also been approached to develop a sizable Class A office tower at the northwest corner of the site in a later phase.

The DMC's support for this project has been consistent and unwavering. One Beale will be a true mixed-use development including residential, commercial, hotel, and office. The proposed new hotel will be at a key location with great potential to improve the pedestrian experience and help anchor the western half of Beale Street. Creating better connections between the Downtown Core and the Riverfront is a high priority for the DMC and its partners.

As a whole, One Beale will be an iconic and transformative project for Downtown Memphis. The project will add much-needed population and residential density to an area linking the Downtown Core with the South Main District. Moreover, a commercial real estate investment of this magnitude will only bolster the positive momentum demonstrated with the approximately \$2.9 Billion currently in Downtown's development pipeline.

Recommendation:

Staff recommends the following CCRFC Board actions:

1. Approve the revised and expanded scope for the previously approved 20-year PILOT for One Beale Phase I.
2. Extend the deadline to close the previously approved PILOT for Phase I to May 31, 2019.
3. Reaffirm the previous commitment for public parking garage support in an amount up to \$10,000,000 from the PILOT Extension Fund, subject to all required approvals and conditions.