

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: February 2, 2021
RE: PILOT Application: 7 Vance

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

Project: 7 Vance Mixed-Use Development

Applicant: M&M Enterprises, LLC, 7 Devco, LLC, and Carlisle Development Company, LLC
119 S. Main Street, suite 800
Memphis, TN 38103

Current Owner: 7 Vance, LLC
119 S. Main Street, suite 800
Memphis, TN 38103

Applicant's Request: 19.5-year PILOT for approximately 210 multi-family apartments, 10,000 sf retail, and a 244-space parking garage.

Included Parcel: Parcel ID 002075 00001C

Project Description: The subject property consists of a 1.239-acre parcel at the southwest corner of Vance Avenue and Wagner Place. The property includes a historic brick building with an area of approximately 186,000 sq. ft. The building dates from the mid 1890's and was first used to store grocery supplies. The building is commonly referred to as The Nylon Net building after the manufacturer of nets and mesh products. The Nylon Net company purchased the building in 1961 and operated there until a fire partially destroyed the upper floors in 1966. A non-historic addition is located at the southern half of the block.

The property is currently vacant, blighted, and continues to be in a deteriorating condition since it was sold to an out-of-town property owner in 2015. The applicant has purchased the property and studied numerous development scenarios for reusing all or part of the historic structure and has reached the conclusion that rehabilitation of the existing building is non-viable given the significant costs involved in

structural repair, hazardous material removal, and deferred maintenance.

The developer plans to demolish the existing building and build a new 7-story commercial building with 210 apartment units, over 244 parking spaces, class A apartment amenities, and 10,000 sq. ft. of ground-floor commercial space along Vance Ave . The development will feature 5 stories of wood frame construction on top of a concrete podium parking garage.

Contingent on PILOT approval, the applicant plans to close on project financing. Construction will likely begin in Q3 2021 and be complete in Q2 2023.

Project Budget:

The total development cost of the project is approximately \$52,235,278. 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	\$33,943,180	(65%)
Equity – Land	\$3,150,000	(6%)
Equity – Cash	\$15,142,097	(29%)
Total Sources	\$52,235,278	(100%)

Uses:

Property Purchase	\$3,150,000	(6%)
Hard Construction Costs	\$38,840,500	(74.5%)
Professional Fees/Soft Costs	\$8,401,306	(16%)
Financing/Working Capital	\$1,843,472	(3.5%)
Total Uses	\$52,235,278	(100%)

Project Grading:

Per the PILOT scoring system, the project could achieve a grade of 19.5 Years.

Primary Qualifications:

Residential (+51 units)	6 Years
Parking Structure (200-300 cars)	1 Year

Secondary Qualification:

Retail (10,000 – 14,999 sf)	1.5 Years
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Total Project Development Costs:
 +\$20 Million 5 Years

Priorities & Initiatives
 Located within CBID 3 Years
 Permanent Public Art 1 Year
 Enhanced architectural lighting 1 Year
 MLGW Energy Advantage 1 Year

Total: 19.5 Years

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 will take into consideration the size, scope of work, and development costs associated with the project. At the time of PILOT application, it is typically too early in the process to identify specific contractors or sub-contractors that will ultimately be involved in the construction. However, 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 general contractors and tradespeople to perform the needed work.

- The applicant will advertise and host a pre-bid conference to allow MWBE general contractors and subcontractors an opportunity to ask questions and learn more about the job opportunity. DMC staff will be invited to attend the pre-bid conference to observe.
- Once a general contractor is identified, 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:

Based on the current information provided by the applicant, the estimated hard cost and soft costs for this project are as follows:

Hard Construction Costs	\$38,840,500	(97%)
A&E Fees (estimated)	\$1,200,000	(3%)
Total Uses	\$40,040,500	(100%)

According to the above estimates, a 25% level of MWBE inclusion for the eligible hard and soft costs will be approximately **\$10,010,125**.

Housing Policy:

Per the PILOT Program policies, multi-family 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 approximately **\$16,367**. A PILOT would allow for new infill development and increased density just south of major investments at One Beale and Old Dominick's Distillery.

During the 19.5-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$241,517**. This represents a significant increase from the amount of taxes currently generated by the property.

Over the course of the 19.5-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$4,390,428**. Without a PILOT and the resulting investment of this project, this vacant and blighted building is expected to generate only **\$319,156** in city and county property tax over the next 19.5 years.

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.

This project will add new investment and remediate blight and vacancy in a part of the South Main neighborhood that is experiencing noticeable momentum. Adding 210 new apartment units and ground-floor commercial space a block west of South Main Street will help animate neighborhood retail and increase vibrancy throughout the district.

While the DMC and CCRFC have a long and proud track record of encouraging adaptive reuse and historic preservation whenever possible, not every building can or should be reused. A vibrant, healthy Downtown Memphis will include a mix of adaptive reuse and appropriate new construction. The potential to adaptively reuse a building is contingent on a variety of factors includes the condition of the structure, environmental challenges, seismic considerations, layout and volume of space, past stewardship, and intended future use. The owner has studied

the reuse potential of this building thoroughly and reached the conclusion that new construction is the only viable option for moving forward at this site.

Moreover, new infill development at this site will fill a substantial gap in activity along Vance Avenue, an important connector from the riverfront park system to the South City neighborhood. This long-vacant property sits surrounded by investment to the north and south. Filling gaps in ground-floor commercial activity is an important strategy for increasing walkability and pedestrian safety Downtown.

Recommendation:

Staff recommends approval of a 19.5-year PILOT subject to the applicant achieving the proposed grading enhancements and meeting all standard closing requirements and conditions.