

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: February 2, 2021
RE: PILOT Application: URBN on Union Mixed-Use Development

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

Project: **URBN on Union Mixed-Use Development, 1338 Union Ave**

Applicant: URBN Union LLC
Project Representatives: Scott Kern & Malcom Wilson
1331 Union Ave, Suite 750-F
Memphis, TN 38104

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

Included Parcels: Parcel ID 017012 00008 (1338 Union Ave.)
Parcel ID 017012 00009 (1312 Union Ave.)
Parcel ID 017012 00011 (0 Union Ave.)
Parcel ID 017012 00013 (1296 Union Ave.)
Parcel ID 017012 00002 (0 Monroe Ave.)
Parcel ID 017012 00003C (0 Monroe Ave.)
Parcel ID 017012 00006 (0 Monroe Ave.)
Parcel ID 017012 00007 (0 Monroe Ave.)

Project Description: The subject property consists of 8 parcels on the block north of Union between Cleveland and Claybrook, covering 2.87 acres. The property includes the existing First Horizon Bank branch at the northwest corner of Union and Cleveland, the existing IberiaBank branch at the northeast corner of Claybrook and Cleveland, and associated surface parking lots.

The proposed development consists of three structures: two five-story mixed-use buildings with ground-floor retail and apartments above, and a 411-space parking structure. The parking structure is partially wrapped by the larger building located on the eastern half of the block, so that it only has visible frontage on Cleveland. The smaller of the two mixed-use buildings, located on the southwest corner of the block, will feature a drive that cuts through its first story to accommodate a bank drive-through.

In total, the development will feature 270 multifamily units, and 17,500 square feet of ground-floor commercial space. At its highest point, the building reaches a maximum height of approximately 67 feet. Although the existing First Horizon

branch building on the site will be removed to make way for the new development, First Horizon plans to lease part of the ground-floor retail to maintain its presence in the neighborhood.

The applicant plans on executing a long-term ground lease with First Horizon Bank, which will remain the owner of the property. First Horizon supports the proposed project, and a letter from First Horizon can be found in the application materials. If a PILOT for the project is approved, construction is planned to begin by September 2021, with an estimated completion date of September 2023.

Project Budget:

The total development cost of the project is approximately \$55,766,421. 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:

Conventional Debt	\$36,375,621	(65%)
Mezzanine Loan	\$4,980,300	(9%)
Equity	\$14,410,500	(26%)
Total Sources	\$55,766,421	(100%)

Uses:

Acquisition Costs	\$1,245,000	(2.2%)
Hard Construction Costs	\$40,610,708	(72.8%)
Arch. & Engineering	\$1,764,903	(3.2%)
Other Soft Costs	\$2,471,692	(4.4%)
TI & Lease Com. Reserves	\$1,069,173	(1.9%)
Operating Reserves	\$330,000	(0.6%)
Development Fee	\$1,901,600	(3.4%)
Contingency / NTE	\$2,263,800	(4.1%)
Financing Costs	\$3,286,396	(5.9%)
PILOT Fee	\$823,140	(1.5%)
Total Uses	\$55,766,421	(100%)

Project Grading:

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

Primary Qualifications:

Residential (+51 units)	6 Years
Parking Structure (401-500 cars)	3 Years

Secondary Qualification:

Retail Space (10,000 - 14,999 sf)	1.5 Years
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CCRFC Priorities

Located within CBID	3 Years
Census Tract Poverty Rate > 20%	2 Years
Census Tract < 80% of AMI	2 Years

Total Project Development Costs:

+\$20 Million

5 Years

Total PILOT Grade:

22.5 Years

PILOT Request:

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	\$40,610,708	(96%)
Arch. & Engineering	\$1,764,903	(4%)
Total Uses	\$42,375,611	(100%)

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$10,593,903**.

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 **\$108,814**. A PILOT would allow for existing low-density retail and surface parking to be replaced by a mixed-use development that will add 270 residences to Memphis's urban core. 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 **\$344,226**. This represents a **216%** 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 **\$4,708,234**.

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.

The CCRFC PILOT program is designed to accelerate the development of underutilized property in Memphis's urban core, creating higher property values, higher tax revenue, and an increased population. This closely aligns with the Memphis 3.0 Comprehensive Plan's overarching principle of "building up, not out." The subject property of this PILOT application is located on a primary commercial corridor in the Medical District subarea of the CBID, across the street from a dense cluster of medical and office buildings. But in its current condition, the property only contains a handful of suburban style retail buildings surrounded by underutilized surface parking lots. The proposed development will add much needed residential density to this area, providing quality housing in the Medical District, and helping to support existing businesses in the immediate area, which includes the Madison Heights retail area.

Recommendation:

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