

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: January 4, 2022
RE: PILOT Application: 509 S BB King

The enclosed PILOT application has been submitted for consideration at the January 11, 2022, CCRFC Board Meeting.

Project: **509 S. BB King**

Applicant: Scott Kern
KRN Development
1331 Union Ave, Ste. 1028
Memphis, TN 38104

Applicant's Request: 12 year PILOT for a mixed-use development with 285 apartment units, 10,000 SF ground floor commercial, and a 300-space parking garage.

Included Parcels: Parcel ID: 002135 00003C
Parcel ID: 002135 00004C
Parcel ID: 002135 00007
Parcel ID: 005019 00002
Parcel ID: 005019 00001C

Project Description: The subject property spans two blocks at the northwest corner of GE Patterson Ave and South BB King Blvd. The site includes 1.5 acres of vacant lots and a 21,000 SF warehouse building on the block bounded by Butler on the North, Second on the west, GE Patterson on the south, and Hadden on the east, and the entirety of the small triangular block bounded by GE Patterson on the south, Hadden on the west, and BB King on the east.

The applicant plans to demolish the single existing building on the western block, and construct two new mixed-use buildings with a total of 285 apartments, 10,000 SF of ground floor commercial space, and 300 structured parking spaces. The development's primary building on the western block will be podium-style construction, with structured parking lined with commercial on the base, and four residential "bars" rising up to four stories above the base. The top of the podium between the residential bars will be

used as outdoor amenity space for residents. A smaller mixed-use building on the eastern block will include 41 of the development’s residential units, as well as a 3,200 SF commercial space on the block’s north end. The majority of the development’s commercial space will have frontage on Hadden Street between the two blocks, creating a new walkable commercial street. The development will utilize high-quality exterior materials, with brick covering 35% of the project’s street-facing façades.

If a PILOT is approved for the project, construction will likely begin in Q4 of 2022 and be complete in Q2 of 2025.

Project Budget:

The total development cost of the project is approximately \$65,249,569. 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	\$42,382,156	(65%)
Equity	\$22,867,413	(35%)
Total Sources	\$65,249,569	(100%)

Uses:

Hard Costs	\$49,282,004	(75.5%)
Design & Professional Fees	\$1,364,800	(2.1%)
Other Soft Costs	\$5,169,719	(7.9%)
Acquisition	\$3,415,475	(5.2%)
Cash Reserves	\$485,275	(0.7%)
Developer Fee	\$2,839,040	(4.4%)
Financing Costs	\$1,728,977	(2.6%)
PILOT Fee	\$964,279	(1.5%)
Total Uses	\$65,249,569	(100%)

Project Grading:

Per the CCRFC’s PILOT grading system, the project achieves an unadjusted grade of up to 21 Years:

Primary Qualifications:

Residential (+51 units) 6 Years

Secondary Qualification:

Office (<15,000 sf) .5 Years

Retail (5,000 – 9,999 sf)	1 Year
Parking Structure (200-300 cars)	.5 Years

Total Project Development Costs:
+\$20 Million 5 Years

Priorities & Initiatives

Located within CBID	3 Years
Located within the South City Impact Area	3 Years
Permanent Public Art	1 Year
Enhanced architectural lighting	1 Year

Total: 21 Years

Applicant’s Request: 12 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 EBO-eligible costs for this project are as follows:

Hard Construction Costs	\$49,282,004
Design & Professional Fees	\$1,364,800
Total Eligible Costs	<u>\$50,646,804</u>

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$12,661,701.**

Housing Policy:

Multi-family developments with 51 or more units are subject to the Downtown PILOT Program’s affordable housing policy. This policy states that 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 subject property total approximately **\$21,896**. A PILOT would allow for new infill development and residential density on what is currently a combination of vacant and underutilized property.

During the 12-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$264,878**. This represents a **1110% increase** from the amount of taxes currently generated by the property.

Over the course of the 12-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$3,178,536**. Without a PILOT and the resulting investment of this project, the subject property is expected to generate only **\$262,752** in city and county property tax over the next 12 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.

The proposed development represents an important step toward extending the vibrancy of South Main east to the South City Neighborhood. It builds on recent investment in the adjacent area, including a number of nearby South City Good Neighbor Grant projects, the recently completed Wiseacre brewery, and the Patterson Flats affordable housing development. The development also has the potential to activate the adjacent Army and Navy Parks, which have long been underutilized public spaces. Another notable feature of the development is the fact that the development's secondary building will infill a small, unusually-shaped block that would represent a challenge as a standalone project. By

combining this small block with the parking and amenities that can be constructed on the larger block to the west, the developers maximize the potential of this key location.

In addition to these location-specific benefits, the proposed development at 509 S. BB King exhibits qualities that would be welcome anywhere in downtown Memphis. It will increase residential density, add additional commercial vibrancy, and provides thoughtfully screened structured parking. The Downtown PILOT is meant to help developers raise underutilized properties to a higher and better use than would otherwise be possible, and a PILOT for this project would accomplish exactly that.

Recommendation:

Staff recommends approval of a 12-year PILOT subject to the applicant achieving the proposed grading enhancements and meeting all standard closing requirements and conditions.