



March 29, 2022

Downtown Memphis Commission
114 N. Main Street
Memphis, TN 38103

Re: PILOT Lease, 421 Monroe Ave, Cycle Shop

Dear Downtown Memphis Commission Board & Staff:

This letter and its attachments are submitted in conjunction with a formal request for an extension of the construction completion date in the PILOT lease for the historic property at 421 Monroe Ave, a property we refer to as Cycle Shop in acknowledgement of its tenant history.

Cycle Shop was acquired by Chestnut Opportunity Zone Fund, LP in February 2020, as the initial investment by this impact fund. Chestnut Opportunity Zone Fund is managed by Chestnut Funds, a real estate fund management firm located in Chattanooga, Tennessee. Chestnut Funds, founded in 2012, is registered with the Securities & Exchange Commission as an investment advisor firm.

Chestnut's acquisition of Cycle Shop aligns well with the fund's investment thesis, which is best described as the development or redevelopment of middle market (defined as \$5M – 20M in total asset value) commercial real estate properties that are anticipated to meet the fund's financial return objectives and meet a local community's defined needs. In the case of Cycle Shop, during our underwriting process, we determined that restoring the property for productive commercial use is consistent with the vision for the Edge District and consistent with federal legislation's goal of incentivizing new private investment in census tracts locally designated as Opportunity Zones.

Formal Request to Extend the Deadline for Construction Completion

Under the original PILOT Lease executed in January 2019 and assigned to Chestnut Cycle Shop QOZB, LLC in February 2020, the completion date established was June 30, 2021. We would like to extend this date until June 2023 to allow for a 14-month construction timeline, which is to commence in April 2022.

Immediate Activity Following Acquisition

Following Chestnut's acquisition of Cycle Shop, the firm initiated these activities:

- *February 2020 – Closing and Development Agreement* – Chestnut closed on the property in February 2020 and engaged Development Services Group (DSG) as the fee developer for the project to ensure continuity in the effort to realize a Live Work Play neighborhood vision that DSG had fostered for the Edge District under which the original PILOT was approved. Via this engagement, DSG maintained responsibility for developer activities for this project. Chestnut's asset management team began meeting with DSG's team monthly to understand and stay abreast of the construction scope, timeline, and budget.



- *February 2020 – Historic Preservation* – Chestnut engaged a consultant to lead the process to request Cycle Shop’s recognition on the National Registry of Historic Places and pursue Historic Tax Credits to support the preservation of the property. Part I was submitted in May of 2020.
- *June 2020 – Leasing* – Chestnut engaged a local commercial leasing broker, Universal Commercial. Between June 2020 and November 2021, the broker provided 30 property tours and discussed the available space with well over 100 prospective tenants. Eight (8) LOIs were drafted and sent out but none moved ahead to lease negotiations.
- *September 2020 – Due Diligence* – Chestnut’s design team performed a structural assessment of the building. This was required to ensure design and construction coordination and pricing. It was also required to support Part II application.
- *April 2021 – Part I Approved*, listing Cycle Shop on the National Register of Historic Places
- *May 2021 – Part II Submitted* to National Park Service (NPS) for review. Reviews are stated to take 30 days. This review took four months to receive comments.
- *September 2021 – Part II Comments Received*. Additional design details needed on the windows and storefront for resubmittal and response to comments.
- *November 2021 – Construction Budget* – Following the design updates, the construction budget was updated to reflect the new designs/details provided by our architect.
- *February 2022 – NPS Part II Resubmitted and Application for Building Permit*
- *March 2022 – Building Permit Approved*
- *April 2022 – Construction Start*

Pandemic Challenges

Memphis experienced its first COVID-19 cases and closures the week of March 9, 2020, which began an extended period of uncertainty and operational disruption for businesses and households. The City of Memphis’ mitigation measures as well as those undertaken by local, regional, and national organizations and businesses that were necessary in response to the pandemic affected the timeline of Cycle Shop’s redevelopment directly in these ways:

- *Leasing* – Although the broker engaged with numerous prospective tenants, the uncertainty of the operating environment for small businesses limited their readiness to lease space.



- *Historic Preservation Process* – Cycle Shop was placed on the Historic Registry in April 2020, completing Part I of the historic preservation process. This first phase took close to a year to complete, much longer than typical and communicated review timelines. We promptly submitted Part II following receipt of Part I approval but did not receive comments from the NPS until September 2021, a 4 month delay attributable to the pandemic. The NPS comments and the intricate detail of the building’s façade required the project’s General Contractor and design team to spend additional time preparing a revised Part II, which was submitted in February 2022.
- *Construction* – NPS’ shift to virtual operations increased their review and approval time for historic designation applications. Without NPS’s timely approval of the intended design, we were unable to begin construction on the historic property.

Current Activity & Next Steps

Despite the significant pandemic impacts over the last two years, Chestnut Funds has remained committed to the original investment strategy for Cycle Shop. Chestnut Funds’ current and future actions to ensure the successful redevelopment of this historic and iconic building are reflected below:

Construction & Historic Preservation: We feel confident that our Part II re-submittal provided detail and designs will be approved by the NPS. As a result, we finalized construction plans and submitted for permit, which was approved March 10, 2022. We are ready to begin construction on this project and have signed a contract with Montgomery Martin to begin construction once we have the PILOT lease amended.

Leasing: To reinvigorate the leasing process, we engaged a new leasing broker team, one with local and national relationships, to lead the leasing effort going forward.

Financing: Several lenders have reviewed the project and we have received interest from Pinnacle Bank and FirstBank. We have a letter of commitment from Pinnacle and expect a term sheet from First Bank by April 1st. Furthermore, Chestnut Opportunity Zone Fund has capital available and currently invested in the project ownership entity, Chestnut Cycle Shop QOZB, sufficient to complete more than one-third (1/3) of the scope of work and all the initial improvements needed to stabilize the building, including roof repair and façade/window renovation.

We are eager to begin and complete the historic preservation and adaptive reuse of Cycle Shop. We hope to have your continued support through an extension of the construction start date in the PILOT lease. We appreciate the opportunity to further demonstrate our integrity and commitment to local partnership.

Sincerely,

Steen Watson
Chief Executive Officer