

# Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)  
From: DMC Staff  
Date: August 2, 2022  
RE: PILOT Application: Dermon Building Apartments (46 N. B.B. King)

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The enclosed PILOT application has been submitted for consideration at the August 9, 2022, CCRFC Board Meeting.

**Project: Dermon Building Apartments**

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Applicant: 46 BB King LLC

Sam Patel  
11227 Matthews Cove Ln  
Knoxville, TN 37934

Nick Patel  
11227 Matthews Cove Ln  
Knoxville, TN 37934

Applicant's Request: 12 year PILOT for a multifamily project with 103 apartment units.

Included Parcels: Parcel ID: 002027 00030  
Parcel ID: 002027 00029  
Parcel ID: 002027 00028

Project Description: The subject property is the historic Dermon Building at 46 N. B.B. King, as well as the two adjacent lot parcels on the east side of the block. The Dermon Building was constructed in 1925 to serve as the offices of the Dermon Company. The building is individually listed on the National Register of Historic Places, and is noteworthy for its extensive use of decorative glazed terra cotta. However, the building has remained in a vacant and blighted condition for years.

The applicant plans on renovating the Dermon Building into a multifamily property with 103 apartment units. The adjacent lots are planned to be incorporated as outdoor amenity space, including a pool and a dog run.

If a PILOT is approved for the project, construction will likely begin in Q3 of 2023 and be complete in Q4 of 2024.

Project Budget:

The total development cost of the project is approximately \$17,108,112. 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	\$13,686,490	(80%)
Equity	\$3,421,622	(20%)
<b>Total Sources</b>	<b>\$17,108,112</b>	<b>(100%)</b>

**Uses:**

Acquisition	\$1,500,000	(8.8%)
Hard Costs	\$14,288,900	(83.5%)
Design & Professional Fees	\$300,000	(1.8%)
Other Soft Costs	\$766,383	(4.5%)
PILOT Fee	\$252,829	(1.5%)
<b>Total Uses</b>	<b>\$17,108,112</b>	<b>(100%)</b>

Project Grading:

Per the CCRFC’s PILOT grading system, the project achieves an unadjusted grade of up to 22 Years:

Primary Qualifications:

Residential (+51 units) 6 Years

Total Project Development Costs:

\$15 - \$20 Million 4 Years

Priorities & Initiatives

Located within CBID 3 Years  
 National Register – Individually Listed 5 Years  
 Tract with Poverty Rate > 20% 2 Years  
 Tract with < 80% Area Median Income 2 Years

**Total: 22 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 Costs	\$14,288,900
Design & Professional Fees	\$300,000
<b>Total Eligible Costs</b>	<b>\$14,588,900</b>

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$3,647,225**.

Parking Strategy: The applicant is working with the owner of the surface lots east of the Dermon, as well as the Hotel Indigo to the south, to secure long term leases of parking for its residents. The DMC encourages shared parking strategies that increase the use of underutilized existing parking assets.

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 **\$17,510**. 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 **\$69,736**. This represents a **298% 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 **\$626,708**. Without a PILOT and the resulting investment of this project, the subject property is expected to generate only **\$210,120** 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 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.

The Dermon Building is a noteworthy historic building in the Downtown Core, and it has been one of Downtown's most prominent blighted buildings for years. Bringing the Dermon back into active use will be an important step to expanding development activity east of B.B. King, building on other recent projects, including The Commonwealth and Hotel Indigo. The 103 units of housing introduced by the development will also help build up a critical mass of residents in the Downtown Core, providing new employees and patrons for Downtown businesses, and creating a more active and safe public realm.

**Recommendation:**

**Staff recommends approval of a 12-year PILOT subject to meeting all standard closing requirements and conditions.**