

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: October 4, 2022
RE: PILOT Application: 785 Union Ave. (The Vic on Union)

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

Project: **785 Union Ave. (The Vic on Union)**

Applicant: Hunington Residential for The Vic on Union, LLC

Representative: Kate Good
Hunington Residential
3773 Richmond Ave., Suite 800
Houston, TX 77046

Applicant's Request: 12-year PILOT for a multifamily project with approximately 286 apartment units and a +320-space parking garage.

Included Parcel: Parcel ID: 007028 00003C

Project Description: The subject property (2.55 acres) is located on the south side of Union Avenue, directly across from Health Sciences Park in the heart of the Medical District. The site includes a 1-story commercial structure originally built in 1999 as an office supply store. The existing building has been vacant since 2019. The site comprises a total of 2.55 acres, with a 0.44-acre dedicated utility easement located on the south side of the property. An existing commercial billboard is located near the northwest corner of the site and will remain extant for the foreseeable future.

The applicant proposes demolishing the existing building to construct a new apartment building with 287 apartment units, 10,000 sq. ft. of amenity space in the building, outdoor amenities, and a parking structure with approximately 327 spaces. New construction will result in total rentable area of around 136,326 sq. ft. and significant amenities are planned including a pool, fitness center, coffee bar, study space, work pods, club and game room, mail/package center, and a pet spa. The apartment units will feature five different floor plans with a variety of studio and one-bedroom designs ranging in size from 386 to 680 sq. ft.

The exterior materials planned for the project include a combination of brick, stone, cementitious paneling, and glass & aluminum storefront. It is estimated that the Union Avenue façade will include a total of 61% masonry cladding (brick & stone). The secondary elevations on the east, south, and north sides will include up to 30% brick & stone cladding.

Pending PILOT approval, the applicant intends to close on financing and acquire the property in December 2022. Construction will likely begin immediately following closing of a construction loan in May 2023. Construction is expected to take approximately 24-36 months to complete.

Project Budget:

The total development cost of the project is approximately \$46,444,797. 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 estimated sources and uses of funding:

Sources:

| | | |
|----------------------|---------------------|---------------|
| Senior Debt | \$27,866,878 | (60%) |
| Equity | \$18,577,919 | (40%) |
| Total Sources | \$46,444,797 | (100%) |

Uses:

| | | |
|----------------------------|---------------------|---------------|
| Property Acquisition | \$4,777,500 | (10%) |
| Hard Costs (Multi-Family) | \$27,280,200 | (59%) |
| Hard Costs (Demo/Cont.) | \$639,000 | (1.4%) |
| Soft Costs (Arch & Eng) | \$1,115,000 | (2.4%) |
| Other Misc. Soft Costs | \$4,098,360 | (9%) |
| Taxes During Construction | \$490,645 | (1%) |
| Interest Reserve | \$5,216,586 | (11%) |
| Operations During Lease Up | \$1,791,118 | (4%) |
| FF&E | \$350,000 | (0.7%) |
| PILOT Fee | \$686,376 | (1.5%) |
| Total Uses | \$46,444,797 | (100%) |

Project Grading:

Per the CCRFC’s PILOT grading system, the project could achieve a maximum unadjusted grade of up to 15 Years:

Primary Qualification:

| | |
|-------------------------|---------|
| Residential (+51 units) | 6 Years |
|-------------------------|---------|

Secondary Qualification:

Parking Structure (+301 cars) 1 Year

Total Project Development Costs:

+\$20 Million 5 Years

Priorities & Initiatives

Located within CBID 3 Years

Maximum Total Grade: 15 Years

Requested PILOT: 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 (MWBs) 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 proactively 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 | \$27,919,200 |
| Arch. & Engineering | \$1,115,000 |
| <u>Total Eligible Costs</u> | <u>\$29,034,200</u> |

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$7,258,550.**

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 **\$95,834**. A PILOT would allow for new infill development and residential density on vacant property in the heart of the Medical District.

During the 12-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$231,893**. This represents a **142% increase** from the amount of taxes currently being generated by the property.

Over the course of the 12-year PILOT term, the cumulative increase in City and County taxes generated by this property is estimated to be approximately **\$1,632,708**.

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. Without a PILOT, debt service coverage and return on equity is far below a level that can attract bank financing or 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.

Downtown's Edge district has grown dramatically over the last eight years since a MEMFix event in October 2014 began galvanizing new interest in this important neighborhood. The DMC and its affiliated organizations are proud to have supported a wide a range of projects and catalytic investments like the redevelopment of the former Wonder Bread site, Orion Federal Credit Union, Preserver Partners, Inkwel, Slim & Husky's, Arnold's BBQ, 343 & 345 Madison, Karen Adams Designs, and High Cotton Brewing Company, just to name a few. Several more projects are underway or in the pipeline including the Cycle Shop, Memphis Made Brewing, 620 Madison, and the former Heartbreak Hotel.

The proposed project at 785 Union will add almost 300 new residents to this growing neighborhood, and offer housing options that will appeal to the professionals and students of the Medical District. These new residents will help support

the growing array of local businesses in the district, resulting in a stronger, more walkable neighborhood.

Moreover, adding new residents adjacent to Health Sciences Park will inject new energy and vibrancy into a public space with tremendous potential to serve students, workers, residents, and visitors to the Medical District. Approving a PILOT in support of this project is highly consistent with the vision of Memphis 3.0 and the BuildDowntown Master Plan to increase density in the core city to build up, not out.

Recommendation:

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