

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: May 2, 2023
RE: PILOT Application: 22 N. Front St. (Falls Building Redevelopment)

The enclosed PILOT application has been submitted for consideration at the May 9, 2023, CCRFC Board Meeting.

Project: 22 N. Front St. (Falls Building Redevelopment)

Applicant: Falls Building Property Owner, LLC
c/o Left Lane Development, LLC
827 Washington St.
New York, NY, 10014

Representatives: Gene Shevaldin
SVP Investments
Left Land Development, LLC

Ash Shaaban
President
Left Lane Development, LLC

Applicant's Request: 12-year PILOT for redevelopment of the historic Falls Building as a 170-unit apartment building

Included Parcel: #002005 00001C (22 N. Front St.)

Project Description: The subject property is located at the southeast corner of Court Avenue and Front Street in the heart of the Downtown Core. This 11-story building is approximately 156,000 sq. ft. in size and was most recently used as Class B multi-tenant office space for a variety of commercial tenants. It should be noted that the property was approved for a 25-year PILOT from the CCRFC that began in 1984 and expired in 2009.

Originally built in 1910, this historic structure is listed on the National Register of Historic Places. The applicant purchased the Falls Building in May 2022 with plans for a conversion from office to residential use. The proposed redevelopment will consist of a 170-unit, Class A multifamily apartment community with associated

amenities and commercial tenant space on the north side of the building along Court Ave.

The planned unit mix will include studio, one-bedroom, two-bedroom, and three-bedroom units. Up to 50 of the units will be offered as fully furnished apartments.

Contingent on receipt of a PILOT, the applicant plans to close on project financing in October 2023 and begin renovation in November 2023. Construction is expected to take approximately 15 months to complete.

Project Budget:

The total development cost of the project is approximately \$79,075,000. 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:

Equity	\$29,075,000	(37%)
Debt	\$50,000,000	(63%)
Total Sources	\$79,075,000	(100%)

Uses:

Property Acquisition	\$10,000,000	(13%)
Construction Costs	\$52,675,000	(67%)
Professional Fees/Soft Costs	\$12,200,000	(15%)
Financing Costs	\$4,200,000	(5%)
Total Uses	\$79,075,000	(100%)

Project Grading:

Per the CCRFC's PILOT grading system, the project achieves a maximum grade of up to 22.5 Years:

Primary Qualification:

Residential (+51 units) 6 Years

Secondary Qualification:

Retail (Below 5,000 sq. ft.) 0.5 Year

Total Project Development Costs:

+\$20M Million 5 Year

Priorities & Initiatives

Located within CBID	3 Years
Renovation – National Register Building	5 Years
Main to Main Corridor	3 Years
Maximum Grade:	22.5 Years

PILOT 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 developer 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 at the property 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.

- The developer will work in good faith to identify any opportunities for a joint venture, partnership, teaming agreement, or similar creative approach to provide local MWBE general contractors an opportunity to participate in the project to gain new experience with projects of this size and scale.
- 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. 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	\$52,675,000
A&E Professional Fees	\$1,700,000
<u>Total Eligible Costs</u>	<u>\$54,375,000</u>

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$13,593,750.**

Parking Strategy: The applicant has an agreement negotiated with the adjacent parking garage (Metro 67, currently managed by Premium Parking) for 160 parking spaces to satisfy the parking needs of the future residents at the subject property. Additional

parking capacity, if needed, also exists at the nearby Shopper's Garage located at Jefferson Ave. and Front St.

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.

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 **\$140,328**. A PILOT will allow for the full redevelopment of this underutilized and mostly vacant property.

During the 12-year PILOT term, the annual payment in lieu of taxes to the City and County is estimated to equal approximately **\$332,803**. This represents a **137% increase** from the taxes currently generated by the property.

Over the course of the 12-year PILOT term, the property will pay approximately **\$3,993,636** in taxes, a cumulative increase of around **\$2,309,693** in new property tax to the City & County as a direct result of this PILOT.

Staff Evaluation: 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.

Even before the significant impact of the COVID-19 pandemic on multi-tenant office buildings, the overall market for speculative office in Downtown Memphis was challenged with higher vacancy, lower occupancy, and lower rent than other segments of the Memphis office market.

While Class A office buildings, and their occupants, remain a vital ingredient for creating the daytime population needed

for a vibrant downtown, strategic conversion of Class B and lower office space may be a reasonable strategy for responding to current market conditions and finding a viable future use for potentially obsolete structures. Repositioning a vacant office tower as a fully-occupied multi-family development is in many ways consistent with the DMC's overall goal of growing Downtown's population and improving commercial property values to strengthen the tax base for the benefit of Memphis and Shelby County.

Taking inferior or surplus office product off of the market through conversion to a higher and better use, such as residential, may also ultimately help strengthen the Downtown office market by increasing the desirability of the remaining Class A space.

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.