

# Fulfilling the Promise of the Pyramid



## An Engine For Commerce, Conservation, Environmental Education, and Tourism

Willie W. Herenton, Mayor

August 25, 2008



**Agenda for Presentations to Memphis City Council  
and Shelby County Board of Commissioners**

Opening Comments at City Council

Mayor Willie W. Herenton

Councilman Reid Hedgepeth

Opening Comments at Board of Commissioners

Chair Deidre Malone

Project Vision

Robert Lipscomb

Process Overview and Timeline

Scott Ledbetter

Comments from Bass Pro Shops

Jim Hagale, President

Project Description/Evaluation Matrix/Economic Impact

Scott Ledbetter

Development Agreement

Hunter Humphreys, Glanker Brown PLLC

Project Financing

Overview - Tyree Daniels, Morgan-Keegan

New Markets Tax Credits – Don Holm, Farris Bobango PLC

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**A Summary of the Development Process  
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**Fulfilling the Promise of The Pyramid: An Engine For Commerce,  
Conservation, Environmental Education, and Tourism**

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**A Summary of the Development Process  
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## Fulfilling the Promise of The Pyramid: An Engine For Commerce, Conservation, Environmental Education, and Tourism

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### Background

For 20 years, Memphis' dream for The Pyramid has remained unrealized.

While achieving the goal of giving our city a signature icon on the riverfront, the economic development objectives that drove the decision to build it – chiefly the promise of a 365-day a year attraction to spark the economy and redevelopment of the Uptown, Pinch, and Convention Center districts – has never been achieved. As a result, the icon that has become a fixture on national telecasts from Memphis today stands as a monument to the unmet potential of the world's third largest pyramid. The saddest commentary of all is that The Pyramid offers nothing to lure people in the 18.5 million vehicles on I-40 driving by it every year to get off the interstate and into the building.

Like its Egyptian namesakes, the Memphis reincarnation has always had its share of mythology. That has certainly been true of the public process that recommended a destination lifestyle center (major retail) as the highest and best use of The Pyramid, based on the chief criterion of creating an economic engine that strengthens the Memphis economy, stimulates its economic activity, supports its existing strategies, and builds on its uniquely Memphis assets and relationships.

The special mayoral-appointed committee, "Sports, Entertainment and Recreation Venue Review Committee," charged with finding adaptive reuse for two underperforming assets - The Pyramid and Mid-South Fairgrounds - knew that its job would not be easy, but that was particularly true of the citizens directing the future of the former downtown arena. After all, the record for such projects was not encouraging. Many former arenas in other cities have been shut down or demolished, and few find continued uses that contribute to the local economy. For example, once touted as one of the world's wonders, the Houston Astrodome has been vacant since 2000 and the Los Angeles Forum and the Houston Summit are now mega-churches.

In this regard, the distinctiveness of The Pyramid was both a benefit and a challenge. Its iconic shape hinted at its potential,

but at the same time, left unanswered were fundamental questions about how easily and profitably the 321-foot tall Pyramid and its 360,000 square foot footprint on a 30.73-acre site could be adapted into an alternative use.

And yet, evaluations of the best options for its future were unequivocal. No potential use could approach the significant economic impact created by destination retail. It was greater than the economic impact of a theme park and the possibility of a church was eliminated early because of its lack of economic impact.

It was this emphatic conclusion by national consultants that led to Bass Pro Shops being identified as a leading prospective occupant for The Pyramid, but more to the point, Bass Pro Shops responded directly to the context and reality of Memphis' downtown and tourism industry. Because it is equal parts retail, conservation, museum/aquarium, conservation education, and natural history exhibits, it has a multi-faceted appeal that complements, enhances, and grows the downtown and tourism economies.

In this way, the mission of The Pyramid Adaptive Reuse Committee was about much more than just finding a tenant/developer for The Pyramid. More to the point, it was about identifying an occupant that would have the broadest, long-term economic impact, that has a proven track record of success, and that has the financial resources and experience that eliminate risk for local government.

But, finally, the process that focused on Bass Pro Shops targeted a developer for The Pyramid that would have existing strong relationships in Memphis that would allow for the alignment of interests and leverage its impact in our market. For example, these existing relationships for Bass Pro Shops include FedEx, exclusive carrier for Bass Pro Shops' catalog sales; the company's programs to benefit St. Jude Children's Research Hospital; its partnerships and support for Ducks Unlimited for its conservation programs; its close work with legendary Bill Dance of Memphis, bass fishing's first superstar; the synergy with Graceland's tourist base, and its NASCAR sponsorships evidenced at Memphis Motorsports Park.

Like any project of this size and investment of this significance, the due diligence by the private sector has been thorough and expected. Similarly sized public-private projects have taken considerably longer to develop, and on balance, the emphasis

was appropriate - making the right decision and entering into the right agreement rather than making a fast decision and quick agreement.

In the words of Pyramid Committee Chair Scott Ledbetter early in the process: "It's too important to the community to rush it."

That is certainly true, because in the end, Bass Pro Shops at The Pyramid is more than an anchor tourism attraction, more than another downtown asset, and more than an economic engine. More to the point, it is a final piece in the Uptown redevelopment, which is becoming a symbolic and actual microcosm of the best practices of community development by City of Memphis.

Uptown has Hope VI housing, market rate housing, St. Jude Children's Research Hospital expansion, community services, walkable neighborhoods, new infrastructure, and a new attitude. It now has new retail jobs creation. Uptown is well on its way to becoming a model of a reborn sustainable neighborhood, now augmented with important new opportunities for the diverse residents of Uptown to have easy access to work.

In the end, this project isn't just about Bass Pro Shops. It's about a new vision for the future of Memphis as landmark project after landmark project gets under way with completion in the next three to five years. In this way, The Pyramid project is a harbinger of equally great things to come.

The headline on *The Commercial Appeal* editorial was right on target. It said on August 15: "Good reasons to smile today," adding that among the "encouraging news developments" was "finalizing a development agreement with Bass Pro Shops that could put The Pyramid back into use."

In the end, as a result of the public process, Memphis and Shelby County are presented with the opportunity to achieve something that has been two decades in the making – transforming The Pyramid into an economic generator that anchors a crucial area of downtown, spurs investment in Uptown and Pinch Historic District and adjacent areas where economic benefits from The Pyramid have never materialized, deepens and renews our tourism industry, and strengthens our overall regional economy.

## A Brief Timeline

Most of all, the qualities of Bass Pro Shops' retail destination center and Memphis are symbiotic. Bass Pro Shops is anchored in a commitment to amenities that are authentic and experiential, two factors that define Memphis tourism today and have always been keys to its essential character.

Few public issues have been subject to as much confusion as the process that resulted in the recommendation for Bass Pro Shops to be developer of The Pyramid and as the role of the 16-member Pyramid Committee charged with evaluating prospective uses and issuing a recommendation to city and county governments.

The timeline for this public process provides an accurate context for the thoroughness that characterized the steps that were followed and the careful evaluation that was instrumental to the final decision:

- Nov. 9, 1991 -- The Pyramid opened with a concert by The Judds.
- June 1, 2001 -- City and county mayors released details of a memorandum of agreement that called for the construction of a new arena as home for Memphis Grizzlies.
- June 21, 2001 -- Final approval by local government of the financing plan to build FedEx Forum.
- Oct. 9, 2001 -- Grizzlies' first NBA game in The Pyramid.
- May 26, 2004 -- Mayors Herenton and Wharton appoint 30-member Fairgrounds and Pyramid Reuse Committee; 16 members appointed to The Pyramid Committee chaired by Memphis business and philanthropic leader Scott Ledbetter; members included elected officials, business leaders, accountants, lawyers, architects, real estate professionals, and civic leaders.
- June 10, 2004 -- First meeting of Pyramid Committee, which continued to

meet every Wednesday morning for 2-3 hours for about 18 months.

July 7, 2004 -- Pyramid Committee held second meeting and Chairman Ledbetter said: "Each (proposal for Pyramid use) is going to have to stand up to detailed market analysis, financial analysis and economic impact studies before we're really able to say, 'This is the one.'"

Aug. 19, 2004 -- Pyramid Committee announced the public forum to receive public ideas for future of The Pyramid.

Sept. 17, 2004 -- Pyramid closed; FedEx Forum opens with concert by Usher.

More than 100 ideas received from public by Pyramid Committee, ranging from an aquarium to a light-rail station and from a federal building to a music industry center and from an African-American trade and cultural center to an extension of Memphis Cook Convention Center.

Jan. 19, 2005 -- Pyramid Committee hired national consultants RKG Associates Inc. and Bartram and Cochran after sending requests and receiving proposals from about 20 consultants who worked on similar adaptive reuse arena projects in other cities across the country.

April 12, 2005 -- Five proposed uses chosen by Pyramid Committee for further exploration – aquarium, theme park, office building leased to federal government, African-American trade and cultural center, and demolition of the building for retail development.

April 29, 2005 -- Consultant Richard Gsottschneider of RKG Associates Inc. said: "I think the decision on how to reuse it should be made within the

context of what's best for the economy. In other words, how is the reuse of that building going to best leverage other economic activity?" Mr. Ledbetter adds: "(The question) is whether the intended use is the absolute best use for The Pyramid considering the fact that we have now focused our efforts on bringing something to The Pyramid that will increase overall business to Memphis?"

June 20, 2005 -- Consultants recommended against demolishing The Pyramid and recommended a tourism/retail destination use -- Bass Pro Shops, Cabela's, L.L. Bean, or Orvis - adding that the next step was to contact major destination retailers; RKG Associates' report said: "Reuse of The Pyramid in downtown Memphis as destination retail/entertainment would help Memphis and Shelby County retain their competitive edge with tourism" and concluded that it would more than double the tax revenues and economic impact produced by a theme park or aquarium.

June 22, 2005 -- The overall committee for The Pyramid and Fairgrounds unanimously approved The Pyramid members' recommendation that destination/lifestyle retail is the top priority for Pyramid reuse, preferably with a tourist attraction; Bass Pro Shops and Cabela's are suggested as the preferred tenant/attraction.

Subsequently, The Pyramid Committee identified the "best in class" as Bass Pro Shops, and helped by Belz Enterprises (which has a business relationship with Bass Pro Shops in Florida and Tennessee), representatives of The Pyramid Committee contacted the company.

Pyramid Committee instructed RKG to develop an economic impact matrix to evaluate the relative merits of all proposed uses.

Oct. 13, 2005 -- Bass Pro Shops was reported to be considering its interest level in The Pyramid after preliminary visits; the company was called the "hottest store in retailing" by *Time* magazine, which said cities across the U.S. are pleading for a Bass Pro Shops retail destination center and are paying tens of millions of dollars to attract them.

Dec. 28, 2005 -- Letter of intent signed with Bass Pro Shops to take possession of Pyramid with target date of June 30, 2006.

Feb. 24, 2006 -- News conference with city and county officials and Bass Pro Shops founder Johnny Morris announced the company's plans to convert The Pyramid into one of the nation's largest retail destination centers.

Although The Pyramid Committee's work is completed, Chairman Ledbetter continued to be involved in most meetings and maintained regular communications with committee members.

Jan. 7, 2007 -- Bass Pro Shops increased the financial scope of Pyramid project to more than \$100 million and stepped up its planning and due diligence.

June 27, 2007 -- Nonbinding letter of intent signed with Bass Pro Shops for project with an anticipated cost of more than \$75 million; the project could include a hotel, aquarium, restaurants, natural history and traveling exhibits, conference space, museum, and boat showroom: term until Jan. 31, 2008, to allow for geotechnical analysis,

- marine access study, structure and engineering reports, preliminary site plans, commercial viability analysis, and architectural plans.
- Dec. 17, 2007 -- Review of Bass Pro Shops' financial capabilities showed strong financial strength, including a history of successful projects, strong recommendations from financing partners, and partnerships with major corporate leaders like Gaylord Hotels.
- Jan. 28, 2008 -- RKG Associates Inc. updated 2005 fiscal analysis and determined the net present value of city and county revenues generated by the project is \$178.3 million based on proposed development of 729,904 square feet with more than 200 hotel rooms and 500 parking spaces.
- Jan. 29, 2008 -- Local leaders, including City Council members, toured Bass Pro Shops' 330,000 square foot flagship store in Springfield, MO.
- Feb. 18/19, 2008 -- Analysis of redevelopment proposals presented to local government legislative bodies, spelling out details of pending 12-month development agreement -- \$35,000 monthly fee to cover all operating costs, 30 percent requirement for minority business involvement, a 24-month construction period, a 20-year lease with 35-year renewal options, and rent calculated on 2 percent of gross sales with a minimum annual rent payment of \$1 million.
- April 2, 2008 -- A technical team led by Tom Marshall and Tony Bologna concluded that The Pyramid "is fully capable of providing a safe, economical and code compliant venue." They reported that a team of engineers and architects determined that Bass Pro

Shops has “made steady progress” and completed a “significant level of due diligence,” including environmental site assessment, structural due diligence, seismic due diligence, and mold assessment. The team agreed with consultants of Bass Pro Shops that the general structural condition of the facility is in “good shape, with the exception of several conditions in the lower concrete construction... (that) are not significant from a facility structural performance perspective and can be remedied.”

Mr. Marshall noted that the company’s concerns about seismic issues and structural integrity were understandable and deserved to be taken seriously and evaluated carefully. As a result, he engaged geotechnical and seismological consultants to perform a state-of-the-art determination of site soil classification, which led to a conclusion that “with effective design and attention to detailing, these issues can be addressed in a cost effective manner with minimal project impact.”

- April 21, 2008 -- Accounting firm Watkins, Ward & Stafford of West Point, MS, selected to conduct financial analyses of Bass Pro Shops and Ericson Group proposals.
- May 7, 2008 -- City-county Pyramid Redevelopment Committee rejected ultimatum from theme park group that called for certain criteria to be met if its project was to continue its pursuit of The Pyramid; Shelby County CAO Jim Huntzicker said local government will proceed with “remaining candidate, which is Bass Pro.”
- May 20, 2008 -- City-county committee asked Ericson Group to submit their proposal to an independent audit of its financial

capability to complete project; Mr. Huntzicker said it is intended to "give him one last opportunity to deal with this," and in reply, Mr. Ericson said he would cooperate if given 90 days to negotiate an exclusive development agreement.

- July 20, 2008 -- Draft of Development Agreement between Bass Pro Shops, City of Memphis, and Shelby County submitted to Memphis law firm Glankler Brown for its review and legal and business opinion of the agreement, which sets the stage of the Master Development Agreement, a process similar to the one used for construction of FedEx Forum. With recommended changes to the agreement, Glankler Brown gave the Development Agreement a positive review along with Chairman Ledbetter.
- July 31, 2008 -- Final agreement in principle reached with Bass Pro Shops.
- Aug. 7, 2008 -- City-county Pyramid committee meets to discuss Bass Pro Shops' satisfactory level of commitment to the project.
- Aug. 25, 2008 -- Presentations to Memphis City Council and Shelby County Board of Commissioners.

### **The Evaluation Matrix**

Fundamentally, the recommendation of Bass Pro Shops as the developer of The Pyramid is anchored solidly in the economic impact evaluations of the final potential uses considered by The Pyramid Committee.

To aid its deliberations, The Pyramid Committee hired RKG Associates Inc., and on June 20, 2005, the national firm recommended that a formal evaluation process should be established, using the following criteria:

- Spin-off benefits to city and county governments in new taxes

- Development/market feasibility study of the developer
- Financial capability of the developer
- Estimates of new job generation and secondary job generation and wages
- Benefits to Convention Center and other adjacent real estate
- Proposed purchase price and timing
- Any other concessions, or benefits, associated with the developer's proposal

The analysis by RKG Associates Inc. was clear: destination retail/lifestyle center produces a fiscal impact that is 126 percent greater than the second highest use - theme park and specialty. It was this clear-cut benefit that most influenced The Pyramid Committee, which, as early as its second meeting, set positive economic impact as the benchmark to be used in selecting the ultimate recommendation.

In its June, 2005, report, "Initial Adaptive Reuse Analysis of The Pyramid Arena," RKG Associates Inc. issued two primary recommendations that guided the committee throughout its process:

- 1) *Selling The Pyramid to the highest bidder is not recommended.*

"The consultants believe that purchase price should not be the major factor in selecting a preferred developer for The Pyramid, and instead, the likely economic and fiscal benefits to the City and the County should serve as the primary method to evaluate proposals and designate a developer."

- 2) *Quantifying economic/fiscal benefits is the recommended approach to determining the preferred reuse options and the selection of a developer.*

"This stream of 'benefits,' in the form of annual revenues, lends itself to a present value type of analysis that can facilitate the comparison of alternate options/reuse proposals. The types of economic benefits...range from

new job generation, to sales taxes, to new property taxes, and hotel occupancy taxes.”

In 2005, RKG Associates Inc. set the combined present value of tax revenue over 15 years at \$107,647,500 for destination/lifestyle center; \$47,553,800 for theme park and specialty retail; \$46,716,800 for aquarium and specialty retail, and \$16,830,300 for office use.

In January of this year, RKG Associates Inc. recalculated its fiscal analysis in light of the details of the Bass Pro Shops’ proposal – anchor retail, dining, hotel, aviary and museum, marina, and parking - and set the 20-year net present value for city and county revenues at \$247,913,589.

This amount included total annual revenues to City of Memphis of \$5,348,238 and \$13,710,403 to Shelby County, including personalty tax, sales tax, hotel occupancy tax, and annual lease payment.

The estimated 20-year revenues to City of Memphis are slightly less than \$117 million with a net present value of about \$69.6 million. Meanwhile, revenues to Shelby County are \$284 million with a net present value of \$178.3 million.

In addition, RKG Associates Inc. predicted that based on industry standards, Bass Pro Shops would create direct employment of 566 persons and indirect employment of 95 persons, generating total annual wages of \$14.9 million. Meanwhile, short-term employment benefits during the construction phase will produce estimated employment of 1,013 and wages of \$43 million.

RKG Associates Inc. based its fiscal impact on standards set by independent organizations like Urban Land Institute, U.S. Government Office of Energy Statistics, Hoovers (a Dun & Bradstreet company), Economic Research Associates, and Smith Travel Research. The analysis was based on a contemplated project with 150,235 square feet of retail; three restaurants of about 42,000 square feet; 240-room hotel; an aviary of 69,745 square feet; and 110,409 square foot museum. The total development would be 729,904 square feet.

RKG Associates Inc. projects annual sales at \$94.1 million for Bass Pro Shops at The Pyramid and \$53.2 million in off-site spending.

## The Memphis Context

As part of its report, RKG placed the development at The Pyramid within a regional and economic context. The key findings of this research were instructive in evaluating proposed uses of the building.

- *Excellent location* – a strategic location adjacent to St. Jude Children’s Research Hospital, Harbor Town, Uptown, and Memphis Cook Convention Center, plus high visibility and access from I-40
- *Unique structure* – iconic building and integral part of Memphis landscape that should be preserved
- *Improving downtown demographics* – despite population losses inside Memphis, downtown has seen significant increase in residents and household incomes
- *Soft downtown office market* – high vacancy rates for Class A and B space and rental rates below comparable space elsewhere in Memphis
- *Good tourism market but with growing competition* – fierce competition for the tourist dollar and Pyramid reuse could help retain tourism edge
- *Lackluster convention business and hotel market* – lagging convention market and lack of hotel rooms could be addressed by Pyramid reuse

In assessing these conditions, RKG determined that there were multiple reuse options, keeping in mind that Memphis and Shelby County Governments were not interested in any proposal that required them to serve in the role of the developer or make an additional financial investment from local tax funds. The consultant also recommended against selling The Pyramid to the highest bidder, saying it should not be a major factor in selecting a developer and instead, local government should pursue a land lease or revenue participation.

## The Developer

Bass Pro Shops is one of the most successful destination retailers in U.S. history. It is the world’s

leading outdoor retailer, a privately-held company with 47 stores, \$2.7 billion in annual sales and more than 100 million visitors.

*Time* magazine called Bass Pro Shops the “hottest store in retailing,” adding that across the U.S., cities are aggressively pursuing stores, because they “are so popular, they drive economic development.”

Evidence of this interest is profound. Cities routinely pay more than \$25 million to recruit Bass Pro Shops into their markets. For example, the State of Pennsylvania provided \$25 million in incentives, and the same amount was approved to attract the destination retail centers in Broken Arrow, Oklahoma; Wichita, Kansas, and Garland, Texas. In a proposal in Buffalo, New York, city and state government proposed an incentive package of \$80 million, and a proposal for Bass Pro Shops in Buda, Texas, included public incentives of \$61 million.

These governments based their investments on the proven ability of Bass Pro Shops to turn around the areas where they are located, including blighted areas in urban settings.

It is the combination of retail, museum, aquarium, aviary, and restaurants that makes Bass Pro Shops a coveted target for cities across the U.S.; however, the company is extremely selective and strategic about the locations of new stores.

A prototype for Bass Pro Shops' megastore is the 330,000 square foot headquarters store in Springfield, Missouri, a major tourist attraction for the Branson area with four million visitors a year. It is a frequent destination for school field trips and draws heavily on family and conservation (or eco) tourism. Its unique hunting lodge décor and its one-of-a-kind surprises – indoor waterfalls, massive aquariums, natural exhibits, conservation programs, and food – attract millions of people who have never picked up a fishing rod or fired a rifle or shotgun.

Bass Pro Shops is frequently listed in the top ranks of tourist attractions in many states where stores are located. That said,

there will be nothing in the entire country like its Pyramid edition -- in sheer size, grandeur, and prominence.

In fact, The Pyramid edition of Bass Pro Shops will be larger and more dramatic than even the Springfield headquarters.

With about 40 percent of each store's retail space devoted to education, history of the area where it's located, and conservation, Bass Pro Shops has been praised for the charitable and civic contributions that back up its corporate mission statement: "To be the leading merchant of outdoor recreational products, inspiring people to love, enjoy, and conserve the great outdoors."

A corporate guiding principle is its proven commitment to the principles of conservation. Proof of its conservation ethos is seen in the Ozarks Mountains in its 10,000-acre Dogwood Canyon Nature Park, complete with elk, buffalo, deer, waterfalls, hiking, biking, horseback riding, and trout fishing and its strong partnership in support of the work of Memphis-headquartered Ducks Unlimited.

But Bass Pro Shops' Memphis alliances don't stop there. FedEx is exclusive shipper for its catalog sales, St. Jude Children's Research Hospital is a frequent beneficiary of its charitable support, and its sponsorship of NASCAR is evident at Memphis Motorsports Park. Also, legendary competitive fishing champion Bill Dance of Memphis has strong ties with the company and Morgan Keegan and First Tennessee Bank have financed projects for Bass Pro Shops.

### **The Memphis Project**

Since 2005, Bass Pro Shops has indicated interest in developing The Pyramid into one of its signature destination retail centers, but in keeping with its corporate culture, it has moved ahead carefully and thoroughly with the due diligence required for a project of this magnitude, particularly with the company undertaking the role of developer.

The history of major public/private projects like Peabody Place, Uptown, and The Pyramid speak to the time and diligence required to conduct the design studies and the negotiations that result in a quality project. Most Bass Pro Shops are part of a larger development project, and even then, they regularly take three years or more to reach fruition. In light of the company's unusual role as developer in The Pyramid, its

methodical approach is not only businesslike but understandable.

More to the point, it was The Pyramid Committee that approached Bass Pro Shops following the endorsement by the committee consultant of destination retail as the best use of the former arena, so time has been spent establishing the business and personal relationships that are central to success in a project of this kind.

While the iconic nature of this retail center in Memphis is captivating, myriad questions about structural integrity, soil conditions, and design costs had to be reasonably investigated and answered before the signing of a final development agreement; however, Bass Pro Shops has shown its good faith by moving ahead, by signing interim agreements, and by even making payment of its first \$35,000 monthly fee.

Along the way, the scope of this project has increased from \$75 million to its present estimated cost of more than \$100 million, and yet, the cost – unlike other projects of its kind – will not include any revenues from the general funds of Memphis or Shelby County Governments.

In the future, The Pyramid will be the hub of activity for downtown Memphis – with a unique retail experience, with proposed entertainment venues, nature wetland, restaurants, Wolf River harbor marina, aviary, aquarium, museum, and hotel. Based on its impact seen in other cities, it seems undeniable that Bass Pro Shops will transform the area surrounding it with key civic assets – the Pinch District, St. Jude Children’s Research Hospital, the Convention Center District, Uptown, and the waterfront.

In particular, the attraction’s family-friendly appeal resonates with the profile of Memphis’ primary tourism base and strengthens our city’s positioning in the marketplace.

Bass Pro Shops’ proposed anchor retail at The Pyramid will encompass 150,235 square feet; restaurants 42,415 square feet; aviary and museum 180,154 square feet; 287,100 square feet; and 500 parking spaces with 70,000 square feet for a total project size of 729,904 square feet.

In keeping with other Bass Pro Shops’ destination retail centers, it will theme The Pyramid to local history and culture, such as the Mississippi River in Memphis. It also will capture the local

outdoor heritage of the Memphis region and capitalize on the area's rich traditions of outdoor recreation, a strategy strongly recommended in the final report of the Governors' Alliance for Regional Excellence in 2001.

Like other Bass Pro Shops' retail destination centers, the proposed Memphis retail hub may feature a surprising and attention-getting centerpiece, such as an aquarium that surrounds visitors or a man-made mountain with caves and tunnels for viewing wildlife exhibits and fish. There is also the potential for an aviary of regional and exotic birds and a locally-themed wildlife exhibits, themed restaurants, a 130-slip marina featuring Bass Pro Shops' signature line of boats and houseboats and will speak to the company's position as the world's largest retailer of boats.

Visitors will have the option of staying in Memphis overnight at the hotel connected to this development project.

In other words, to say that Bass Pro Shops is just a store is to say that Graceland is just a house. More than any other retailer, the company has pioneered concepts grounded in the experiential and the authentic, two qualities that lie at the heart of Memphis tourism itself.

In this way, a partnership between Memphis and Bass Pro Shops creates a project whose whole is greater than the sum of its part, because of the interlocking ways that Bass Pro Shops' Pyramid aligns itself with and complements the culture and tourism of the region.

## **The Agreement**

The Development Agreement negotiated by Bass Pro Shops, City of Memphis, and Shelby County sets out the general framework in which the parties have agreed to move forward. It also follows a period of due diligence that has been used to conduct financial feasibility reviews, technical assessments, and negotiations and agreement about prospective responsibilities.

Because the cost of the project to Bass Pro Shops was significantly higher than the cost contemplated by the Letter of Intent, further planning and technical information were required and has taken place.

The Development Agreement previews and becomes the foundation for the Master Development Agreement, the contract that sets out the terms for Bass Pro Shops' duties and

responsibilities as developer, the specific construction process, measurements for progress, and spells out in meticulous detail all specifications for the project, whose development period will last 24 months.

This development process follows the generally accepted procedures for local government of the past 25 years.

The Development Agreement sets out a 12-month development period with quarterly milestones, and during this time, Bass Pro Shops will continue to make a monthly payment of \$35,000. As a sign of good faith, the company has already submitted its first payment.

During the 12-month period of the Development Agreement, Bass Pro Shops will complete the design of the project, including structural, mechanical, electrical, and plumbing plans and exterior design of The Pyramid; will complete additional analysis and studies so that construction can immediately begin at the end of this period; and will work with local permitting agencies related to any construction issues.

By the end of the first three months of the Development Agreement, Bass Pro Shops will complete all studies and the conceptual plan for The Pyramid. By the end of six months, Bass Pro Shops will make a project presentation to city and county governments to obtain necessary permits. By the end of nine months, Bass Pro Shops will complete the process to obtain any waivers, permits, and approvals for the project. By the end of the 12-month period, Bass Pro Shops will complete the preliminary financing package, complete design schematics, provide final project presentation to city and county; and complete negotiations related to the Lease and Improvement Agreements.

If the national economy worsens and local government and Bass Pro Shops determine that The Pyramid redevelopment project is economically unfeasible, Bass Pro Shops will pay \$500,000 to Memphis and Shelby County in liquidated damages. That amount would be in addition to the \$420,000 in rent payments during the 12-month period.

After the construction of the project, the Development Agreement calls for rent to be based upon the industry standard of two percent of gross sales in retail and restaurant sales, and one percent of gross sales for boats, RV's, and ATV's (not to exceed \$250 per sale).

Minimum annual rent is \$1 million.

The term of the Agreement with Bass Pro Shops is 20 years with the option of seven five-year renewals. During the initial term of 20 years, according to RKG Associates Inc., City of Memphis will receive revenues – lease payments and tax revenues – of about \$117 million (in constant 2008 dollars) and Shelby County would receive revenues of \$284 million.

Under the terms of the Development Agreement, local government would have no financial risk or local government funding in The Pyramid redevelopment project. Bass Pro Shops would act as developer and in that role, it agrees to meet or exceed a 30 percent target for minority-owned or women-owned businesses.

During the 24-month construction phase of the project, Bass Pro Shops will not pay rent but will assume all costs for maintenance, upkeep, security and other operational expenses.

If, after 12 months, Bass Pro Shops, City of Memphis, and Shelby County Government agree that calamitous economic conditions make The Pyramid project unfeasible, local government would receive \$500,000 in liquidated damages and would have received \$420,000 in rent for a total of \$920,000.

## **Funding Sources**

Unlike similar projects in other cities, Memphis and Shelby County Government will invest no local taxes or general fund revenues in The Pyramid redevelopment. Instead, the funding sources for the project will come from a creative mix of federal and state-authorized revenues and Bass Pro Shops' investment.

As the owner of The Pyramid, local government will arrange for funding of \$30 million (an amount that compares favorably to other public investments in key economic development projects) as the landlord contribution to the project, and in addition, pay off the remaining \$6.8 million bond debt on the building. City of Memphis has identified multiple, possible funding sources for the \$36.8 million, sources that would generate \$87.1 million.

The final mix of funding sources will be determined after an analysis of costs, efficacy, and schedule; however, there will be no general funds from city or county governments in this

redevelopment project. During the 12 months of the Development Agreement, city government would assemble the needed funds from the sources whose revenues and schedules are shown as follows:

- *BEDI - \$2 million*

BEDI (Brownfields Grant Economic Development Initiative) is a key competitive grant program that HUD administers to stimulate and promote economic and community development. It is designed to help cities with the redevelopment of abandoned, idled, and underused industrial and commercial facilities.

Application made in December, 2007.

Awarded June 9, 2008

- *Section 108 – HUD – \$21.5 million*

The Section 108 Loan Guarantee Program is the bridge financing for the project. It is a source of financing allotted for the economic development, housing rehabilitation, public facilities rehab, construction or installation for the benefit of low to moderate-income persons, or to aid in the prevention of slums. The Section 108 loan requires that the rent is designated to the Memphis Division of Housing and Community Development.

Application made in August, 2008.

Approval process 3-9 months.

- *New Markets Tax Credits - \$8 million*

The New Markets Tax Credit program of the U.S. Treasury Department was created in December 2000 and permits taxpayers to receive a credit against federal income taxes over seven years of the amount of the investment plus a return of some or all of the capital investment in the designated Community Development Entities. Allocations are awarded annually on a competitive basis, and through the end of 2006, NMTC has infused \$5.5 billion into low-income communities, and in Memphis, they have been used

for the Westin Hotel, Court Square, the Towne Center at Soulsville, and Hope Community Credit Union. Bass Pro Shops at The Pyramid qualifies for New Market Tax Credits, because of its location in a economically distressed census tract.

Application made in March, 2008.

Award to be made in October, 2008.

6-12 months to close.

- *TDZ (Tourism Development Zone) - \$36.5 million*

The Tourism Development Zone is authorized by Tennessee state law and allows for the incremental increase in revenues created by a tourism project to be used in the financing of that tourism-related development.

If the increased revenues are not captured by the TDZ for Memphis' priorities, they will be sent to state government in Nashville. In other words, not only would the increased revenues help fund landlord improvements, but the overage could be dedicated to retire Convention Center debt earlier.

Initial meetings have been held on the TDZ, and this would be completed within the 12-month term the Development Agreement.

- *Parking Bonds - \$9.2 million*

The Parking Authority, part of the Center City Commission, issues bonds for strategic parking facilities that are incentives to key economic development projects. The bonds are paid from the PILOT extension fund of the Center City Revenue Finance Corporation.

Initial meetings have been held, and this would be completed within the 12-month term of the Development Agreement.

- *Tax Increment Financing - \$10 million*

TIF is a public financing method used for 50 years for crucial community development projects. TIF's help governments attract private development and new

businesses, which means more economic activity, more jobs, and more private investment. TIF is a tool that uses future gains in taxes to finance the current improvements that will create those gains. In this way, the incremental increase in revenues that is generated from Bass Pro Shops would be captured as part of the Uptown TIF District.

The \$36.5 million arranged by local government will likely be allocated as follows:

- Construction of 200-space garage - \$3,856,720
- Construction of 300-space garage - \$5,784,080
- Elevated vehicle access - \$11,248,763
- Miscellaneous parking improvements - \$1,285,573
- Temporary Parking Controls - \$2,571,146
- Demolition - \$4,499,505
- General conditions - \$754,213
- Debt payoff to Memphis - \$1,801,499.63
- Debt payoff to Shelby County - \$5,000,000

The balance of the project cost – beyond the \$30 million landlord investment and the \$4.15 million in debt service payoff - will be borne by Bass Pro Shops.

Estimated annual revenue streams total \$2,188,231 and are as follows:

*City of Memphis:*

- Sales tax - \$3,358,539 (based on \$149.4 million sales)
- Hotel occupancy tax - \$233,237
- Hotel sales tax - \$308,683

*Shelby County:*

- Sales tax - \$10,448,787
- Hotel occupancy tax - \$682,963
- Hotel sales tax - \$960,348

Estimated rental payments from Bass Pro Shops:

- \$50 million in sales produces \$1 million in rent
- \$65 million in sales produces \$1.3 million in rent
- \$80 million in sales produces \$1.6 million in rent

## Benchmarks

Culmination of the development agreement between local government and Bass Pro Shops accomplishes a number of ambitious objectives that guided officials and committee members throughout the process:

- Adaptive reuse of The Pyramid accomplishes the highest possible economic impact – destination/lifestyle retail – and partners with the most commercially successful destination retailer
- No general fund revenues of city and county governments, including property taxes, are used for landlord investments
- Developer responsibilities are assumed by a partner with proven experience, significant financial capacity, and a track record for success
- A partnership that leverages existing relationships with Memphis companies to ensure that the total project is more than the sum of its parts
- Existing debt of Memphis and Shelby County Governments for The Pyramid is completely paid off
- Rent payments for Bass Pro Shops during 12-month period of the agreement exceeds operating costs of The Pyramid
- Rent payments and liquidated damages in the event that all parties agree that national economic conditions make the project unfeasible at the end of the 12-month period would provide local governments with almost \$1 million
- The Pyramid becomes the exception to the rule as it is returned to a significant economic purpose while other major cities have closed arenas or converted them to uses that produce no economic impact
- The Pyramid becomes a year-round tourism magnet for the first time with a mixture of destination retail, aquarium, and conservation and natural history exhibits specific to our region

- The development adds much-needed hotel rooms to the downtown Memphis market and the vicinity of the Convention Center
- Bass Pro Shops is a final piece in the Uptown development, serving as the economic linchpin for an area whose workers can walk or bike to work at The Pyramid

## **Tab 3 - Development Agreement**

**DEVELOPMENT AGREEMENT**

**BETWEEN**

**THE CITY OF MEMPHIS, TENNESSEE,  
SHELBY COUNTY, TENNESSEE**

**AND**

**BASS PRO MEMPHIS DEVELOPMENT COMPANY, LLC**

## DEVELOPMENT AGREEMENT

This Development Agreement (this "Agreement") is dated as of \_\_\_\_\_, 2008, and entered into by and among The City of Memphis, Tennessee, a municipal corporation (the "City") and Shelby County, Tennessee, a public body corporate and politic (the "County"), which together hold title to the Pyramid Arena (the "Pyramid") through their Public Building Authority, and Bass Pro Memphis Development Company, LLC, a Delaware limited liability company ("Bass Pro"). The City, County and Bass Pro are each a "Party" and, collectively, are the "Parties."

### RECITALS

The City and County hereby recite the following:

**WHEREAS**, the Pyramid Reuse Committee was empanelled in 2004 to determine the highest and best use for the Pyramid; and

**WHEREAS**, in response to its Request for Proposals, the Committee received and reviewed in excess of fifty proposals for the reuse of the Pyramid; and

**WHEREAS**, the City retained the services of RKG Associates, Inc. and Bartram & Cochran (Economic Planning and Real Estate Consultants) to prepare an initial adaptive reuse analysis for the Memphis Pyramid; and

**WHEREAS**, in April 2005, the Pyramid Reuse Committee ("Reuse Committee") provided said consultants with five possible scenarios to consider in their analysis, and the consultants reviewed the reuse scenarios and listened to the proposal presentations; and

**WHEREAS**, in June 2005, the consultants submitted their "Initial Adaptive Reuse Analysis of the Pyramid Arena in Memphis, Tennessee," which concluded that quantifying economic/fiscal benefits was the recommended approach to determining the preferred reuse option, and the analysis also concluded that since the economic benefits to the City and County increased significantly under the Destination/ Lifestyle Center model, the City and County should give priority to pursuing this type of reuse strategy; and

**WHEREAS**, based upon the recommendations of the Reuse Committee, and its determination that Bass Pro Shops is a highly qualified entity in the Destination / Lifestyle Center industry, the City and County entered into negotiations with the Bass Pro Shops for the redevelopment of the Pyramid; and

The Parties hereby recite the following:

**WHEREAS**, on June 27, 2007, the City and County entered into a Non-Binding Letter of Intent with Bass Pro (the "Letter of Intent") which provided for a due diligence period through January 31, 2008; and

**WHEREAS**, in keeping with the Letter of Intent, Bass Pro devoted substantial internal resources and undertook a preliminary design of the project, and Bass Pro hired various consultants to study various aspects of the Pyramid and the contemplated project, one result of which were projections of the cost to construct the project contemplated by the Letter of Intent; and

**WHEREAS**, the cost of the project determined by the consultants was significantly higher than the cost contemplated by the Letter of Intent, and certain other circumstances were revealed through due diligence that required further planning; and

**WHEREAS**, the City and County have determined that Bass Pro is committed to pursue the redevelopment of the Pyramid and has committed to the completion of this undertaking, pending due diligence review including, but not limited to, the structural feasibility of the facility, as well as the overall financial feasibility of the redevelopment project, both to Bass Pro, and the City and County; and

**WHEREAS**, in light of the foregoing, and as a result of the due diligence efforts initiated by Bass Pro, the Parties have agreed to commit to the pursuit of the redevelopment of the Pyramid, but acknowledge that it is necessary to revise the plans for the project, identify partners and other resources to help with the development of the project, and work on various contingencies and other concerns, in order to assess the feasibility and viability of the project prior to entering into any agreement for the construction of improvements, or lease of the facilities by Bass Pro; and

**WHEREAS**, it is anticipated by the parties that Bass Pro will endeavor to provide enhanced amenities for the purposes of promoting outdoor sportsmanship, and encouraging conservation of wildlife and other natural resources; and

**WHEREAS**, it is the intention of the City and County to utilize federal and state sources to finance their incentives to the project. Such sources may include, but are not limited to, Brownfields Economic Development Initiative Grant and New Market Tax Credits. In addition, it is the intention of the City and County to explore the use of tax increment financing through the establishment of a Pyramid TIF District and a Pyramid Tourism Development Zone, and in that connection, sufficient resources must be established, approved and dedicated to that effort by the City and County, as well as the appropriate federal and state agencies prior to the construction of improvements, or lease of the facilities by Bass Pro; and

**WHEREAS**, the Parties are committed to advancing to the development stages of the project, and are entering into this Agreement in order to provide (among other things) for a planning phase and a permitting phase, together constituting the Development Period, as defined in Section 3.2 of this Development Agreement ; and

**WHEREAS**, the Development Period shall consist of certain project milestones which have been established by the parties; and

**WHEREAS**, in further recognition of the cooperative spirit between the Parties, and to further demonstrate its commitment to the project and desire to explore ways to create a viable project, Bass Pro has agreed to, provide a monthly fee of **Thirty Five Thousand Dollars (“\$35,000.00”)**, during the development period, which payments represent a share of the economic burden to the City and County of operating the Pyramid during the Development Period and to receive, in consideration therefore, a right of exclusivity in favor of Bass Pro, in conjunction with the rights and privileges as set forth in Section 3.4 of this Agreement.

## AGREEMENT

The Parties agree as follows:

### ARTICLE I.

#### GENERAL TERMS

- 1.1. **Owner Entities.** The City and County hold title to the Pyramid (as hereafter defined) through the Public Building Authority. The City and County have the power and authority to enter into, or to direct the Public Building Authority to enter into the definitive documents, consummate the transactions contemplated hereby and to deliver the Leased Premises as contemplated hereby. As governmental entities, certain procurement policies, procedures and ordinances must be adhered to in connection with any award of contract, license or lease agreement(s). The agreements and obligations of the City and County herein are joint and several.
- 1.2. **Landlord Entity.** It is contemplated that a Memphis Special Purpose Entity (the “Landlord”) will be created and wholly owned by the City and County to serve as the master tenant, and enter into the Lease (as defined below) and serve as Landlord thereunder.
- 1.3. **Bass Pro.** It is Bass Pro’s current intention to actively pursue the potential re-use of the Pyramid, as set forth herein. Certain corporate and other approvals are necessary prerequisites to any definitive agreement, and such approvals are made the sole discretion of Bass Pro.
- 1.4. **Leased Premises.** The premises to be leased are the complex commonly known as the Memphis Pyramid and its surrounding real property located at One Auction Avenue, Memphis, TN 38105 (the “Leased Premises,” “Pyramid,” “Memphis Pyramid,” or “Facility”). The Facility consists of the Pyramid structure of 265,740 sq. ft. (more or less) excluding the perimeter walkways; and 324,900 sq. ft. including them, and parking consisting of 1,868 standard parking spaces plus

an additional 60 handicapped spaces. The land included in the Leased Premises includes 30.73 acres around the perimeter of the Pyramid; 4.23 acres of added parking land leased from the State of Tennessee; and an additional 4.77 acres of parking land across the railroad tracks along Front Street. Additionally, there is a perpetual access easement in favor of the City of Memphis from Lonestar Industries, Inc.

## ARTICLE II.

### REPRESENTATIONS AND COVENANTS

- 2.1 **Representations and Covenants of the City and County.** The City and County individually represent and covenant as of the date of this Agreement that: (a) it is duly organized and validly existing under the laws of the State of Tennessee; (b) to its knowledge each is not in violation of or in conflict with any provisions of the laws of the State of Tennessee or its charter which would impair its ability to carry out its obligations under this Agreement (c) it is empowered to enter into the transactions contemplated by this Agreement; (d) this Agreement has by proper action been fully authorized, executed and delivered by the City and County and all steps necessary have been taken to constitute this Agreement as a valid and binding obligation of the City and County; and (e) to its knowledge there is no litigation or proceeding pending or threatened against the City and County or any other entity affecting in any manner whatsoever the right of the City and County to execute this Agreement or to otherwise comply with its obligations contained in this Agreement.
- 2.2 **Representations and Covenants of Bass Pro.** Bass Pro represents and covenants as of the date of this Agreement that: (a) it is duly organized as a limited liability company under the laws of the State of Delaware and qualified and authorized to conduct business in the State of Tennessee; (b) it has or shall obtain full power and authority to execute, deliver and perform this Agreement, as well as all instruments given by Bass Pro to evidence and to enter into and carry out the transactions contemplated herein, and any such execution, delivery and performance shall upon such event not be in contravention of applicable federal, state or local law, Bass Pro's Articles of Organization, or any indenture, agreement, mortgage, lease, judicial decree, court order or undertaking of any other instrument to which Bass Pro is a party or by which it is bound; (c) this Agreement has by proper action been fully authorized, executed and delivered by Bass Pro and all steps necessary have been taken to constitute this Agreement as a valid and binding obligation of Bass Pro; (d) it (Bass Pro) has or will obtain all federal, state and local governmental approvals and reviews as required by law to obtain with respect to the redevelopment of the Pyramid, as contemplated by this Agreement (e) to its knowledge there is no litigation or proceeding pending or threatened against Bass Pro affecting in any way whatsoever the right of the Bass Pro to execute this Agreement or comply with its obligations hereunder; (f) Bass Pro is not willing or able to go forward with the redevelopment of the Memphis

Pyramid without the assistance to be provided by the City and County pursuant to this Agreement; and (g) Bass Pro shall cause Bass Pro, Inc. to join into this Agreement for the sole purpose of guaranteeing the obligations of Bass Pro under Section 3.2.10, 3.3 and 5.4.

### ARTICLE III.

#### **THE PROJECT AND DEVELOPMENT PERIOD**

- 3.1. **Project Description.** Generally, the project under consideration involves Bass Pro leasing the Memphis Pyramid and making extensive improvements to the Facility, including retrofitting the existing facility and new construction (the "Improvements"). It is also contemplated that the project would include certain partner developments (the "Partner Developments"), which could include, but are not limited to, in addition to retail, one or more of the following components: a hotel, aquarium, restaurants, traveling exhibits, conference space, additional retail, museum and boat showroom. The "Project Costs" shall include all hard and soft costs associated with the development of the Leased Premises, including, without limitation, the improvements, all development by Bass Pro, the Partner Developments (whether developed directly by Bass Pro or by one or more third parties), and all common and supporting areas and amenities.

The total Project Cost was anticipated to be approximately Seventy Five Million Dollars (\$75,000,000). The anticipated costs, however, as revealed by the due diligence investigation and the consultants hired by Bass Pro would be significantly higher. One of the purposes of the Development Period is for Bass Pro to have the opportunity to endeavor to revise the project in a manner that is economically viable. The actual Project Costs shall be funded, in part, by a Landlord Contribution from the City and County of Thirty Million Dollars (\$30,000,000). With the increased cost of the project, the City's and County's financial involvement will be more highly leveraged than originally anticipated.

- 3.2. **Development Period.** Beginning on \_\_\_\_\_, and ending on \_\_\_\_\_, or such earlier date as this Agreement may be terminated pursuant hereto (the "Development Period"), Bass Pro shall continue to conduct due diligence and feasibility studies of the Facility and the project, and pursue permitting and other conditions. The initial phase shall be the Planning Phase, which shall begin on \_\_\_\_\_ and end on \_\_\_\_\_. The final phase shall be the Permitting Phase, which shall begin on \_\_\_\_\_ and end on \_\_\_\_\_.

- 3.2.1 **Obligations of Bass Pro during the Planning Phase.** During the initial phase of the Development Period, Bass Pro shall work to complete the design and scope of the project, and assess the feasibility and economic viability of the project as re-designed (the "Planning Phase"). During the Planning Phase, it is anticipated that Bass Pro shall undertake the following, in addition to all other actions which Bass Pro deems necessary or desirable:

- a) Continue to explore and develop design concepts, including but not limited to structural, mechanical, electrical and plumbing plans and the exterior design of the project;
- b) Continue to work to identify necessary or desirable easement and other rights over other properties; and
- c) Identify the desired highway, signage and other traffic related improvements;
- d) Engage consultants to complete such additional studies and analysis as Bass Pro shall deem desirable;
- e) Pursue such additional cost and financial analyses as it shall deem necessary or desirable to assess the economic viability of the project;
- f) Continue to work to identify appropriate operational partners for the Partner Developments, and conduct such discussions and negotiations with such partners as Bass Pro shall deem appropriate; and
- g) Review and consider proposals by the City and County with respect to Bass Pro's participation in the use of New Markets Tax Credits in the financing structure for the project.

3.2.2 **Obligations of Bass Pro during the Permitting Phase.** Upon completion of the Planning Phase, Bass Pro shall give notice to the City and County if Bass Pro has (1) developed a plan for the project that it believes to be feasible and economically viable, or (2) Bass Pro shall give notice to the City and County that it believes it cannot develop a plan for the project that it believes to be feasible and economically viable. At such time, if any, as a feasible and viable plan is completed, Bass Pro shall make an initial presentation to the City and County, which shall include, but not be limited to, the Project Scope and Proposed Project Budget. Contingent upon City and County approval, the permitting phase of the Development Period (the "Permitting Phase") shall commence. All approvals required from the City and County shall not be unreasonably withheld or delayed. During the Permitting Phase, it is anticipated that Bass Pro shall undertake the following, in addition to all other actions which Bass Pro deems necessary or desirable:

- a) Work with the City's Fire Department, Memphis Light, Gas and Water Division or other City departments regarding issues arising out of the closing of any alleys or other actions necessary for the development of the project;

- b) The Parties shall work together on matters involving life safety, code compliance, planning, security, parking, perimeter usage, signage, ADA compliance and procuring governmental approvals;
- c) Explore specific terms for obtaining any necessary waivers which may impact the construction of the project;
- d) Work with the City and County by and through its Center City Commission, and Department of Construction Code Enforcement respectively, to obtain the rights for all signage and permitting required such that Bass Pro, in its judgment, has adequate signage (including without limitation highway and road signage) for the promotion of its operations so as to enhance its marketing potential in the Mid-South region. The Parties, additionally, shall work together to promote the City through including the name "Memphis" on certain agreed Pyramid skin/facade signage;
- e) Based on working plans, undertake to identify and apply for necessary or desirable approvals, permits, waivers and accommodations; and
- f) Work with the City's Office of Contract Compliance in its efforts to encourage and enable local minority firms to compete for construction contracts and sub-contracts in order to establish a thirty percent (30%) minimum participation goal with respect to those eligible jobs, trades and skills provided by City and County ordinance(s).

It is understood that permitting and other activities contemplated for the Permitting Phase can be conducted during the Planning Phase, and the activities contemplated for the Planning Phase can continue to be conducted during the Permitting Phase, including without limitation revisions to the design and scope of the project.

3.2.3 **Bass Pro's Development Period Milestones.** During the Development Period, Bass Pro shall meet the following quarterly milestone schedule:

- a) Before the last day of the first quarter following the commencement of the Development Period:
  - (i) Complete all due diligence studies and develop the conceptual plan for the project, which shall include but not be limited to: structural, mechanical, electrical, plumbing, design and environmental studies.
  - (ii) Provide a detailed quantitative statement of probable cost(s) for the project.

- (iii) Provide a detailed timeline of deliverables through design, construction, and occupancy under a standard Critical Path Method.
  - (iv) Provide a funding approach to the project outlining intended funding sources for the project.
- b) Before the last day of the second quarter following the commencement of the Development Period:
    - (i) Provide initial project presentation to the City and County in order to obtain necessary approvals.
  - c) Before the last day of the third quarter following the commencement of the Development Period:
    - (i) Complete process for obtaining any necessary waivers, permits, approvals or accommodations for the proposed development.
  - d) Before the last day of the fourth quarter following the commencement of the Development Period:
    - (i) Complete preliminary financing package.
    - (ii) Complete design schematics.
    - (iii) Provide final project presentation to the City and County in order to obtain necessary approvals.
    - (iv) Negotiate the Lease and Improvement Agreements with the City and County in good faith.

3.2.4 **Conditions Precedent to Bass Pro's Obligations.** Bass Pro's obligations pursuant to this Agreement are expressly contingent upon:

- a) Bass Pro's ability to obtain suitable financing.
- b) Bass Pro's ability to obtain acceptable Development Partners.
- c) Bass Pro's ability to timely obtain all desired or required permits, licenses, approvals, waivers, commitments and similar governmental consents for the Project to Bass Pro's satisfaction.
- d) The City and County satisfying those necessary obligations as set forth in this Agreement.

Bass Pro's ability to satisfy conditions contained in subsections (a), (b), and (c) of this Section 3.2.4 is limited to Bass Pro's use of commercially reasonable efforts.

**3.2.5. Obligations of City and County During Development Period.** During the Development Period, each of the City and County shall undertake the following:

- a) Complete title search and review of the Pyramid and the surrounding site as well as those parcels of land which may be beneficial to the success of the project;
- b) The City and County and Landlord shall cooperate, assist and work with Bass Pro in all phases of Bass Pro's investigation and planning, and shall timely provide such information and materials in the City's, County's or Landlord's possession, and access to the City, County and Landlord, and their employees and consultants, as shall be requested;
- c) Conduct financial feasibility analyses in order to determine the most cost efficient manner in which the City and County can meet their obligations to the project, including without limitation the Landlord Contribution;
- d) Complete the appropriate reviews and analyses to determine the appropriate financing of any of the City's and County's financial obligations, including the reduction of any municipal or county debt on the Pyramid, and the Landlord Contribution;
- e) Form legal entities necessary to complete the activities relative to the redevelopment of the Memphis Pyramid. Such entities shall include, but not be limited to, those business organizations necessary for the conveyance of any interest in the Memphis Pyramid and surrounding parcels or financial structuring;
- f) Assist Bass Pro in resolving any issues with the City of Memphis, Division of Fire Services, the Memphis Light, Gas and Water Division and any other relevant division of City and County government concerning those actions arising out of the closing of any alleys or any other actions necessary for the development of the project;
- g) The Parties shall work together on matters involving life safety, code compliance, planning, security, parking, perimeter usage, signage, ADA compliance and procuring governmental approvals, and to that end, the City has engaged the services of an architectural/engineering firm to identify all code and seismic issues, in an effort to reduce the risks identified thereby;
- h) Work with Bass Pro to obtain the rights for all signage and permitting required such that Bass Pro, in its judgment, has

adequate signage (including without limitation highway and road signage) for the promotion of its operations so as to enhance its marketing potential in the Mid-South region. The parties, additionally, shall work together to promote the City through including the name "Memphis" on certain agreed Pyramid skin/facade signage. The City and County, to the extent permitted by law, shall work with Bass Pro to obtain all necessary approvals, waivers, or other entitlements to enable Bass Pro to be entitled to 50-60 foot signage on all sides of the Facility, and the City and County shall use their best efforts to accommodate the needs of the Bass Pro in road signage and way finding signage, however, no signage will be erected until the execution of a definitive lease agreement by the parties.

- i) Use their best efforts to assist Bass Pro in working with all divisions of government in connection with permitting, plan review and procurement of approvals necessary or incidental to the Lease and the redevelopment of the Pyramid;
- j) Assist Bass Pro in obtaining all Federal, State and local reviews and approvals;
- k) Assist Bass Pro in obtaining necessary or desirable waivers; and
- l) Continue to provide adequate staff resources for its involvement as described in the text of this Agreement;

3.2.6 **City's and County's Development Period Milestones.** During the Development Period, the City and County shall meet the following quarterly milestone schedule:

- a) Before the last day of the first quarter following the commencement of the Development Period:
  - (i) Complete the title review of the Pyramid, the financial analysis relative to the City and County debt and other financial obligations and the formation of all necessary legal entities.
  - (ii) Complete application for NMTC.
  - (iii) Seek State legislative approval for Tourism Development Zone (TDZ).
  - (iv) Hire consultant to perform Tax Increment Financing (TIF) study.

- b) Before the last day of the second quarter following the commencement of the Development Period:
  - (i) Review initial project presentation by Bass Pro and, if deemed acceptable, approve project.
  - (ii) Commence process to establish TDZ.
- c) Before the last day of the third quarter following the commencement of the Development Period:
  - (i) Assist Bass Pro in completing process for obtaining any necessary waivers, permits, approvals or accommodations for the proposed development.
  - (ii) Obtain determination letter from IRS on the 501 (c) (3) for the Landlord Entity
  - (iii) Obtain Council approval on TDZ.
  - (iv) Receive preliminary bond package on TDZ.
  - (v) Receive determination on receipt of NMTC.
  - (vi) Receive TIF study and begin approval process.
- d) Before the last day of the fourth quarter following the commencement of the Development Period:
  - (i) Complete preliminary financing package and release of all public obligations.
  - (ii) Review final project presentation to the City and County and, if deemed acceptable, approve project.
  - (iii) Negotiate in good faith, the Lease and Improvement Agreement.

3.2.7 **Conditions Precedent to City and County's Obligations.** The City and County shall not be obligated to perform its obligations under this Agreement unless at the time of any performance by the City and County all the following conditions prevail:

- (a) There shall exist no condition, event or act which would constitute an Event of Default by Bass Pro under this Agreement which has not been cured; and

(b) No representations and warranties of the Bass Pro set forth herein are untrue in such a materially adverse respect that it reasonably endangers the Bass Pro's performance hereunder.

3.2.8. **Access to Pyramid.** During the Development Period, upon reasonable notice, the City and County shall afford Bass Pro and its employees, agents, contractors, consultants and representatives access to the Pyramid at such times as Bass Pro shall request for the purpose of continuing Bass Pro's due diligence and planning (including without limitation, soil, engineering, environmental and other tests), and to undertake such studies and inspections as Bass Pro may deem necessary and desirable; provided, however, that (i) Bass Pro shall provide the City and County with prior written notice of any entry on to the Pyramid; (ii) Bass Pro shall, at its sole cost and expense, promptly repair any damage to the Pyramid arising from or caused by its entry on to the Pyramid and restore the Pyramid to substantially the same condition as existed prior to such entry; and (iii) the City and County shall have the right to accompany Bass Pro while on the Pyramid site. The obligation of Section 3.2.8(ii) shall survive termination of this Agreement.

3.2.9 **Documents and Reports** All documents and reports prepared by or for Bass Pro shall remain the exclusive property of Bass Pro. City and County expressly disclaim any interest therein.

3.2.10 **Indemnification.** Bass Pro shall indemnify, defend, and hold harmless the City, the County and any of their affiliates or related entities from any loss, injury, damage, or costs resulting from the acts or omissions of Bass Pro, its employees, agents, contractors, consultants or representatives in connection with this Agreement.

3.2.11 **Insurance.** Prior to such entry upon the Pyramid, Bass Pro shall provide to the City of Memphis' Purchasing Agent, and the City of Memphis Manager of the Department of Risk Management evidence of the following insurance policies, to the extent they apply, with respect to itself or its agents: (a) commercial general liability with minimum limits of \$2,000,000 bodily injury (including death) and property damage, each occurrence with \$2,000,000 aggregate-combined single limit; (b) statutory worker's compensation insurance, if applicable, in accordance with the statutory requirements and limits of the State of Tennessee, and an all states endorsement, or a certificate of the State Worker's Compensation Board showing proof of ability to pay compensation directly; (c) errors and omissions coverage; and (d) Comprehensive Automobile Liability insurance coverage in an amount reasonably acceptable to the City. The City of Memphis and Shelby County, Tennessee shall be listed as additional insured on all policies of insurance that pertain to the activities to be conducted on the premises mentioned herein.

- 3.3. **Monthly Payment.** As full consideration to the City and County for the grant of authority to Bass Pro as set forth in Section 3.4 hereof, Bass Pro agrees to pay the annual sum of \$420,000, payable in monthly installments during the Development Period. Bass Pro shall pay a monthly installment fee of Thirty Five Thousand Dollars (\$35,000) (the "Monthly Fee").

The Monthly Fee shall be due and payable beginning on \_\_\_\_\_ 2008 and on the \_\_\_\_\_ day of each subsequent month during the Development Period. Payments should be made to: The City of Memphis, Division of Finance, 125 North Main Street, Room 368, Memphis, TN 38103; Attention: Roland McElrath, Director of Finance. Payments not received by the City of Memphis, Division of Finance, by the tenth calendar day following Bass Pro's due date, shall be deemed a late payment. On the eleventh calendar day following the monthly due date where a timely payment is not received, a default shall occur. The City and County shall cause a notice of default to be mailed to Bass Pro providing for a ten (10) day cure period. If the default is not cured by the end of the ten (10) day cure period, the City and County shall have the right to immediately terminate this Agreement by written notice to Bass Pro. In the event of termination, Bass Pro shall be required to provide the City with any outstanding monthly fee(s), (through the month of termination only), as well as, liquidated damages to the extent provided for in Section 5.4 of this Agreement and cure any obligations which Bass Pro may have incurred prior to the termination of this Agreement.

- 3.4. **Exclusivity.** The City and County hereby agree, jointly and severally, in consideration of the payment of the Monthly Fee and other amounts that Bass Pro has and will expend in furtherance hereof, that Bass Pro shall have the exclusive right from the Landlord and the City and County (and any agencies, subdivisions or affiliates of each) to the redevelopment of the Pyramid Arena site, as described herein, during the Development Period, and in that connection, the City and County (and their respective representatives) shall deal exclusively with Bass Pro on all matters pertaining to the redevelopment and reuse of the Pyramid during the Development Period, and neither the City nor County shall, and no person or entity shall on either the City's or County's behalf, enter into any written document or agreement whatsoever (whether binding or non-binding) with any party regarding the prospective redevelopment and reuse of the Pyramid.

- 3.5. **Scope of Improvements.** It is agreed that the revised scope of the project (the "Scope") will be determined and presented by Bass Pro to the City and County and for approval by all Parties during the Planning Phase and again prior to the execution and delivery of the Lease. It is contemplated that the Scope will maximize the unique benefit of the Pyramid as an icon in the Memphis and Shelby County landscape, and will be utilized for purposes consistent with family oriented values and usage by the citizens of Memphis and Shelby County. All improvements, as detailed in the Scope, shall be controlled by Bass Pro, and any variance prior to the execution and delivery of the Lease shall require subsequent

notice to and approval by Landlord (not to be unreasonably withheld or delayed). Current contemplated usage includes the concept of a first class (as defined and agreed upon by the Parties) Bass Pro Shops retail store (the "Retail Store") which shall include an atmosphere conducive to families, with an anticipated draw of visitors reaching a regional territory, and with amenities (as defined and agreed upon by the Parties) available free of charge to the general public as a community benefit to the citizens of Memphis and the surrounding area. It is anticipated that the scope provided herein, with all improvements and contributions from Bass Pro and its partners will serve to enhance the existence of the Pyramid as iconic structure in the Memphis community, as well as a center for the education of the value of fish and wildlife, and the motivation of the personal involvement of individuals in the conservation of outdoor resources.

#### **ARTICLE IV.**

##### **DEFINITIVE DOCUMENTATION**

- 4.1. **Improvement Agreement.** Prior to the expiration of the Development Period, the Parties shall use reasonable efforts to negotiate and complete an agreement which encompasses, but is not limited to, the intent of the parties as detailed in this Agreement, concerning the improvements (the "Improvement Agreement").
- 4.2. **Lease Agreement.** The Landlord and Bass Pro (the "Lease Parties") shall, in good faith, negotiate a lease agreement with respect to the Leased Premises (the "Lease") which encompasses, but is not limited to, the intent of the parties as detailed in this Agreement, with a target date of completing and executing said agreement upon completion of the Development Period. It is understood and agreed that prior to the execution and delivery of definitive documents (including, without limitation, the Lease) Bass Pro shall not have a possessory interest of any kind in the Pyramid structure or premises (other than the limited access rights expressly as set forth herein), and is not and will not be deemed to be in possession of the Pyramid in any manner or form.
- 4.2.1 **Term.** The proposed Lease Term shall consist of:
- a) **Construction Period Lease Term:** A seven hundred thirty (730) day construction period (the "Construction Period" or "Construction Period Lease Term") beginning on the first day following the execution and delivery of the Lease ("Construction Commencement") and ending seven hundred thirty (730) days after Construction Commencement ("Construction Completion").
  - b) **The Initial Lease Term:** A period of twenty (20) years (the "Initial Lease Term") commencing (i) at the expiration of the Construction Period Lease Term, or (ii) the date on which the Bass Pro Shop Retail Store shall open for commercial sales to the public, whichever of said dates occurs first, subject to any agreed upon blackout periods (the "Commencement Date").

- c) **Renewal Option Terms:** Seven (7) consecutive renewal periods of five (5) full years each ("Renewal Option Terms"). Bass Pro shall provide notice of its intent to renew the Lease no later than one hundred eighty (180) days prior to expiration of the then current term.

4.2.2 **Rent.** The proposed Rent consists of:

- a) **Construction Period Lease Term Rent:** Rent during the Construction Period Lease Term shall be Zero Dollars (\$0.00). Bass Pro shall, however, assume the costs for the maintenance, upkeep, security, commercial general liability insurance and other Bass Pro insurance described in Section 4.2.5. below, costs of utilities used during renovation and construction, and any other operational costs during the Construction Period Lease Term.
- b) **The Initial Term Rent:** Rent during the Initial Lease Term ("Annual Percentage Rent") shall be payable with the commencement of operations in an amount equivalent to (2.00%) of gross sales of merchandise (other than boats, RVs and ATVs) and restaurant sales for the Retail Store, and one percent (1.00%) of gross sales of boats, RVs and ATVs (not to exceed \$250.00 per each sale) for the Bass Pro Shop Retail Store. Fees for bowling and other bowling related fees, if any, shall be excluded from gross sales for computation of Annual Percentage Rent. Rent shall be subject to an offset for taxes, as set forth below. Notwithstanding the foregoing, Rent for the first year of the Initial Lease Term shall be Eight Hundred Eighty Thousand Dollars (\$880,000), subject to the offset for taxes. Bass Pro will guaranty a minimum percentage rent of One Million Dollars (\$1,000,000) during each year of the Initial Lease Term other than the first year of the Initial Lease Term (subject to offset for taxes).
- c) **Renewal Option Terms Rent:** Rent during the Renewal Option Terms shall remain the same as the Annual Percentage Rent, or as negotiated by the Landlord and Bass Pro at the end of the Initial Lease Term or any subsequent Renewal Option Term.

4.2.3 **Landlord Contribution.**

- a) **Amount of Contribution:** It is agreed that the Landlord will contribute an amount (the "Landlord Contribution") toward the Project Costs equal to Thirty Million Dollars (\$30,000,000).
- b) **Guaranty of Landlord Contribution:** The City and County agree to guaranty the availability and payment of the Landlord Contribution, and shall provide or post (no later than the execution

of the Lease) an irrevocable letter of credit in form and substance and from an institution acceptable to Bass Pro, or other guaranty reasonably acceptable to Bass Pro, to assure the timely availability and payment of the Landlord Contribution to Bass Pro. Such letter of credit, or other agreed upon guaranty, shall be reduced on a dollar-for-dollar basis equal to the amount of Landlord Contribution funds actually received by Bass Pro (or, with the prior written approval of Bass Pro, applied on its behalf).

- c) **Payment of Landlord Contribution:** The use, timing and mechanism for distribution of the Landlord Contribution shall be negotiated by the Parties during the Development Period; however it is contemplated that the Landlord Contribution shall be the first payments applied toward the improvements.

4.2.4 **Possession.** Possession shall transfer to Bass Pro on the first day of the Construction Period Lease Term or as agreed upon by the Lease Parties. Beginning on such date of transfer of possession, Bass Pro shall be responsible for all maintenance, utilities, tenant insurance requirements and upkeep expenses relative to the Facility.

4.2.5 **Indemnities and Insurance.** Bass Pro shall indemnify Landlord for all risks and liabilities related to the improvements and operations, and shall maintain and protect the Facility free of liens and claims and shall meet all municipal insurance requirements, each as will be more fully set forth in the Lease. Bass Pro will be responsible for maintaining commercial general liability insurance during the Construction Period and will secure a completion bond in favor of the Landlord in relation to the agreed upon improvements. Upon the opening of the Retail Store, Bass Pro will be responsible for maintaining adequate insurance with respect to its personal property improvements and installations created for the operation of the store, as well as its contents and merchandise. Landlord will be responsible for insuring the building structure.

4.2.6 **Assignment Rights.** Any assignment or subletting of the Facility shall be permitted without further approval only (a) in the ordinary course of business of Bass Pro (including but not limited to the leasing of space to third parties in connection with the project and as contemplated in the Scope), (b) to an affiliate of Bass Pro, (c) to lenders to Bass Pro, or (d) in connection with the sale of all or substantially all of the assets of Bass Pro or the ownership interests in Bass Pro. Any other assignment or subletting shall require approval of the Landlord which shall not be withheld or delayed unreasonably.

4.2.7 **Environmental and Structural Condition.** Landlord and the City and County shall be responsible for any and all costs, expenses, damages and liabilities arising from (a) environmental conditions existing at the Pyramid prior to the date of the Lease, and (b) structural elements,

building materials or workmanship that is not in compliance with the original/revised plans and specifications for the Pyramid, or not in compliance with regulatory requirements in place at the time. In addition to other remedies that may be available to Bass Pro, Bass Pro shall have the right to set off and deduct from the Rent due under the Lease in an amount equal to any such costs, expenses, damages and liabilities.

- 4.2.8 **Rights to Inspect.** Landlord at all times shall have full and complete rights of inspection, upon reasonable notice.
- 4.2.9 **Taxes.** Bass Pro will be responsible for paying real estate taxes or payments in lieu thereof, however Bass Pro will receive a credit on a dollar-for-dollar basis toward Rent payable by Bass Pro (including minimum rent) equal to all payments made by Bass Pro in this regard.
- 4.2.10 **Rights Upon Default.** To be negotiated in the Lease.
- 4.2.11 **Common Areas and Easements.** Landlord shall reserve such common areas and easements, as necessary and mutually agreed between the Parties, and which shall not interfere with the proposed re-use of the Facility.
- 4.2.12 **Parking.** The parties shall work together on parking needs, including any additional parking facility needs.
- 4.2.13 **Exclusivity.** Bass Pro and all of its related, controlling or controlled entities shall agree to an exclusivity provision within the Lease so that no competing individual store facility owned or controlled by Bass Pro, of a similar size and scope as the Memphis Pyramid, shall be located within a 100 mile radius of the Memphis Pyramid.
- 4.2.14 **Financing Requirements.** The Landlord and the City and County shall agree to amend the Lease from time to time to conform to the reasonable requirements of any lender to Bass Pro.

## **ARTICLE V.**

### **TERMINATION AND DEFAULT**

- 5.1 **Events of Default.** In the event that either party shall fail to substantially perform its obligations under this Agreement or any other agreement related hereto, and shall have failed to cure the same within thirty (30) days, then an event of default ("Event of Default") shall have occurred under this Agreement. When an action constituting an Event of Default shall occur, the non-defaulting party shall notify the defaulting party in writing and advise the defaulting party of the Default, as well as the time period within which the defaulting party shall have to cure same.

If the defaulting party fails to cure the default within the period prescribed, the non-defaulting party shall issue a Show Cause Notice to the defaulting party requiring the defaulting party to provide sufficient cause as to why the non-defaulting party should not find the defaulting party to be in default of the requisite provisions of this Agreement. If the defaulting party fails to provide sufficient cause or fails to respond to the Show Cause Notice in the time designated by the non-defaulting party, the defaulting party may be considered in default of the provisions of the Agreement, and the non-defaulting party shall exercise the appropriate actions against the defaulting party up to, and including termination of the Agreement, recovery of all funds, and any other remedy available to the non-defaulting party. An Event of Default shall not have occurred if the failure to substantially perform cannot be cured within said cure period and such defaulting party has commenced to cure within said cure period and thereafter diligently pursues such cure. Each of the following events, upon failure to cure within the aforesaid curative periods, shall constitute an Event of Default hereunder:

- a) Any failure or omission on the part of the parties to comply with the material terms and conditions of this Agreement;
- b) Misrepresentation or omission by the parties of any material fact or facts related to this Agreement which materially and adversely affects the rights or obligations of the parties hereto;
- c) The filing of any petition under any bankruptcy, moratorium, re-organization or insolvency act, Federal or State, by Bass Pro or against Bass Pro which, if against same, is not dismissed within ninety (90) days of such filing;
- d) The filing of an application for the appointment of a receiver for, or the making of a general assignment for the benefit of creditors of, Bass Pro, however expressed or indicated; and
- e) The failure of Bass Pro to pay or discharge any judgment or judgments against it for the payment of money (not covered by insurance) which singularly or in the aggregate exceed One Million Dollars (\$1,000,000) and such judgment or judgments be not satisfied, or an appeal taken therefrom or enforcement stayed, or any levy thereon not be removed within thirty (30) days from issue.

5.2 **Remedies Cumulative.** All remedies of the parties provided for herein are cumulative and shall be in addition to all other rights and remedies provided by law. The exercise of any right or remedy by either party hereunder shall not in any way constitute a cure or waiver of default hereunder or invalidate any act done pursuant to any Event of Default hereunder or prejudice a party hereto in the exercise of any of its rights hereunder, unless in the exercise of said rights the party realizes all amounts owed to it under this Agreement.

- 5.3 **Right to Contest.** Notwithstanding anything to the contrary herein contained, Bass Pro shall have the right to contest, in good faith, any claim, demand, levy or assessment, the assertion of which would constitute any Event of Default hereunder. Any such contest shall be prosecuted diligently and in a manner not prejudicial to the City or the rights of the City and County. Upon demand by the City, Bass Pro shall make suitable provision by deposit of funds or by bond or other assurance satisfactory to the City and County for the possibility that any such contest will be unsuccessful. Such provision shall be made within five (5) days after receipt of demand by the City and County therefor.
- 5.4 **Termination.** Unless amended or otherwise modified, this Agreement shall automatically terminate upon the expiration of the Development Period. Upon such termination, there shall be no further obligation or liability pursuant to this Agreement on the part of any Party for the Project or otherwise, provided that the parties have either completed, or substantially completed the components set forth in Article III of this Agreement, which comprise the activities of the Development Period. If, however, during the Development Period, it should appear to the parties that either (a) the development as planned and approved is financially infeasible (b) it is determined after careful review that the Pyramid structure is unable to be redeveloped in the manner created by Bass Pro and contemplated by the parties, and the City and County fail to correct the deficiencies in the Pyramid Structure required for Bass Pro's redevelopment, or the City and County fail to deliver the premises to Bass Pro in a manner that will allow Bass Pro to carry out its pre-approved development plans, (c) Bass Pro does not secure Development Partners satisfactory to it by acceptable dates, or (d) the City or County fail to satisfy those necessary obligations as set forth in this Agreement, Bass Pro may terminate this Development Agreement by providing at least thirty (30) days prior written notice to the City and County, or (e) Bass Pro defaults on the payment of the Monthly Fee as set forth in Section 3.3 of this Agreement.

In the event of termination of this Development Agreement pursuant to subsections (a), (c) or (e) above, it would be difficult or impossible to determine the amount of loss that might be suffered by the City and County. Therefore, following any such termination by Bass Pro pursuant to subsections (a), (c) or (e), above, and within ten (10) days thereafter, Bass Pro shall pay to the City and County in place of actual damages as fixed, agreed and liquidated damages the total sum of five hundred thousand (\$500,000.00) dollars. Following such payment of liquidated damages, Bass Pro shall have no further obligation or liability pursuant to this Agreement or otherwise, and all obligations and liabilities of Bass Pro shall end.

In the event Bass Pro terminates this Development Agreement pursuant to subsections (b) or (d), above, neither party shall have any obligation or liability to the other pursuant to this Development Agreement or otherwise, and all obligations and liabilities of the parties shall end.

Notwithstanding the provisions of this Section, termination of this Agreement as set forth herein is subject to the provisions in 3.2.8(ii), 3.2.9 and 3.2.10 which survive termination.

Absent the foregoing circumstances, it is anticipated that each Party will exercise commercially reasonable efforts to complete the conditions and due diligence milestones as set forth herein.

### **5.5 Force Majeure**

If either party is delayed in performing any covenant hereunder due to causes beyond the control and without intentional misconduct or negligence of either party, then the time for performing the applicable covenant shall be extended for a period of time corresponding to the period of delay, with a reasonable adjustment to any applicable project milestone or party obligation affected by the delay.

Such causes that are beyond the control of either party shall include without limitation, if without intentional misconduct or negligence of either party: (a) acts of God or public enemy; (b) acts of governmental entity in either its sovereign or contractual capacity; (d) fires; (e) earthquakes or floods; (f) epidemics; (g) quarantine restrictions; (h) strikes or labor disputes; (i) freight embargoes; (j) unusually severe weather, (k) delays of subcontractors or suppliers at any tier arising from causes that were not reasonably foreseeable and beyond the control and without the intentional misconduct or negligence of the parties, and (l) litigation other than litigation among and between the parties or their affiliates. The parties agree, however, to the extent reasonably within its ability, to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements and covenants, provided that the settlement of strikes, lockouts and other disturbances shall be entirely within the discretion of the parties and the parties shall not be required to make settlement of strikes, lockouts and other disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the parties, unfavorable to them.

Upon the occurrence of any of the aforementioned events, the affected party shall within ten (10) business days notify the non-affected party in writing of the event or set of events, which pursuant to this section, have caused the delay of performance under this Agreement by the affected party, and shall further notify the non-affected party of the reasonable time in which performance by the affected party may be completed. Both parties shall, then in good faith agree upon a reasonable time for completion of the obligations of the affected party which have been compromised by one or more of the events set forth in this section. Failure to provide adequate notice on behalf of either party pursuant to this section, may be considered an event of default, by the affected party, and may result in the elimination of the extension which would have otherwise resulted from the force majeure event.



and a copy to: Marcus D. Ward  
Senior Assistant City Attorney  
City of Memphis  
701 North Main Street  
Memphis, TN 38107

If to the County: A C Wharton, Jr. Mayor  
Shelby County, Tennessee  
160 North Main Street,  
8<sup>th</sup> Floor  
Memphis, TN 38103

and a copy to: Brian Kuhn, Esq.  
Shelby County Attorney  
160 North Main Street  
6<sup>th</sup> Floor  
Memphis, TN 38103

- 6.3 **Governing Law.** This Agreement shall be governed, construed, and enforced according to the laws of the State of Tennessee.
- 6.4 **Assignment.** This Agreement, except as set forth herein, shall not be transferred or assigned without prior written consent of the Parties. The limitations on assignment or transfer, however, shall not include any assignment of interests by and among the City of Memphis and Shelby County, Tennessee and their boards, commissions and authorities.
- 6.5 **Entire Agreement.** This Agreement constitutes the entire agreement between the Parties pertaining to the subject matter contained herein and supersedes all prior agreements and understandings of the Parties pertaining to the subject matter contained herein. No addition to or modification of this Agreement shall be binding unless executed in writing by the parties hereto.
- 6.6 **No Intended Third Party Beneficiary.** This Agreement is not intended to, and does not confer any rights upon any person or entity other than the Parties.
- 6.7 **Number and Gender.** Wherever used the singular number shall include the plural, the plural the singular, and the use of the any gender be applicable to all genders, as the context may require.
- 6.8 **Counterparts and Signatures.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which when taken together shall constitute one and the same instrument. Signatures on this Agreement may be by facsimile, and facsimile signatures shall have the same effect as an originally executed signature.
- 6.9 **Verbal Agreements.** It is specifically stipulated that there are no verbal agreements or understandings between the parties hereto affecting this

Agreement, which have not been set forth expressly herein. This Agreement constitutes a final and complete integration of those understandings.

- 6.10 **Parties to be Bound.** The Parties each bind themselves, their partners, successors, executors, administrators and assigns to this Agreement.

This Development Agreement must be executed by the Parties, if at all, no later than September 15, 2008.

It is acknowledged that Definitive Documentation described in Article IV will not be executed unless and until (a) properly submitted to and approved by the City's and County's governing bodies (Council and Commission, respectively, and their Public Building Authority) and the Chief Executive Officer (Mayor) of each; (b) it meets all applicable procurement requirements; and (c) all necessary corporate approvals of Bass Pro and consents required from third parties have been received. Nothing set forth herein obligates the Parties to enter into Definitive Documentation. This paragraph supersedes all other conflicting language.

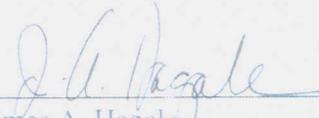
[Text Ends – signatures commence on following page]

Dated as of the date above written.

**BASS PRO MEMPHIS  
DEVELOPMENT COMPANY, LLC**

By: Bass Pro Outdoor World, L.L.C., its  
sole member

By: Bass Pro, Inc., its sole member

By:   
James A. Hagale  
President

Bass Pro, Inc. hereby joins into this Agreement for the sole purpose of guaranteeing the obligations of Bass Pro Memphis Development Company, LLC under Sections 3.2.10, 3.3 and 5.4.

**Bass Pro, Inc.**

By:   
James A. Hagale  
President

Dated as of the date above written.

**CITY OF MEMPHIS:**

By: \_\_\_\_\_  
Willie W. Herenton, Mayor

APPROVED BY:

\_\_\_\_\_  
Robert Lipscomb, Director, HCD

\_\_\_\_\_  
Keith L. McGee, Chief Administrative Officer

\_\_\_\_\_  
Elbert Jefferson, Jr., City Attorney

\_\_\_\_\_  
Marcus D. Ward  
Senior Assistant City Attorney, HCD

Dated as of the date above written.

**SHELBY COUNTY, TENNESSEE:**

By: \_\_\_\_\_  
AC Wharton, Mayor

APPROVED BY:

\_\_\_\_\_  
Brian Kuhn, Shelby County Attorney

**Tab 4 - Fiscal Analysis for Reuse of the  
Pyramid by RKG Associates**

**Tab 4 - Fiscal Analysis for Reuse of the  
Pyramid by RKG Associates**



277 Mast Road  
Durham, NH 03824-4712  
Tel: 603-868-5513  
Fax: 603-868-6463  
E-mail: rkg@rkgassociates.com

January 28, 2008

Debbie Singleton  
Interim Administrator  
City of Memphis – Housing and Community Development  
Compliance and Reporting  
701 North Main  
Memphis, TN 38107

RE – Revised Fiscal Analysis for Reuse of the Pyramid

Dear Ms. Singleton:

As you aware, RKG Associates, Inc. (RKG) has been requested by Robert Lipscomb to update the 2005 fiscal analysis of the reuse/redevelopment of the Pyramid. At the time of the original analysis, the likely fiscal impacts associated with several reuse options were presented. These reuse options included the following: (1) 600,000 square feet (SF) of office use; (2) a 200,000 SF aquarium with 400,000 SF of specialty retail; (3) a 550,000 SF amusement/theme park with 50,000 SF of specialty retail; and, (4) a destination retail center with a national anchor tenant (150,000 SF Bass Pro) and an additional 450,000 SF of specialty retail.

Since the initial analysis, the proposed redevelopment of the Pyramid has become more focused as a destination retail center, specifically to include the following uses as proposed by Bass Pro:

<b>2008 Proposed Redevelopment Uses</b>	
<b>Use</b>	<b>Square Feet</b>
Anchor Retail	150,235
Dining & Drinking	42,415
Hotel Complex	287,100
Aviary & Museum	180,154
Marina	NA
Parking (500 spaces)	70,000
	<hr/> 729,904

RKG has completed an analysis and update of the fiscal impacts associated with the redevelopment of the Pyramid in downtown Memphis, based upon the above-proposed uses. An analysis of these impacts focuses on jobs created, wages, property and sales tax



revenue, as well as estimates of hotel occupancy taxes. The assumptions<sup>1</sup> and approach RKG used in completing this revised analysis are described in an appendix to this memorandum. These reuse impacts are summarized in the two (2) following tables, the first table presents revenues and the second table presents employment and wages (all in constant 2008 dollars):

<b>SHORT-TERM IMPACTS</b>	<b>TOTAL PROJECT</b>
<b>PROPERTY USE</b>	
√8. Square Feet (SF) of Development	729,904
Number of Hotel Rooms	335
√8. Number of Parking Spaces	500
<b>MEMPHIS, TN - REVENUES</b>	
Personalty Tax	\$947,788
Sales Tax from Retail Activity	\$3,358,539
Hotel Occupancy Tax	\$233,227
Hotel Sales Tax	\$308,683
Annual Lease Payment	\$500,000
<b>Total Annual Revenues</b>	<b>\$5,348,238</b>
<b>NET PRESENT VALUE - 20 Years @ 4.5%</b>	<b>\$69,569,538</b>
<b>SHELBY COUNTY, TN - REVENUES</b>	
Personalty Tax	\$1,115,305
Sales Tax from Retail Activity	\$10,448,787
Hotel Occupancy Tax	\$685,963
Hotel Sales Tax	\$960,348
Annual Lease Payment	\$500,000
<b>Total Annual Revenues</b>	<b>\$13,710,403</b>
<b>NET PRESENT VALUE - 20 Years @ 4.5%</b>	<b>\$ 178,344,051</b>

SOURCE : RKG ASSOCIATES, INC.

An overview of the estimated revenue impacts includes the following:

- **Revenue from Personalty Taxes:** Conversations with representatives of the City of Memphis indicate that ownership of the redeveloped Pyramid will be retained by the Memphis and Shelby County Public Building Authority and therefore are exempt from property taxes. This ownership assumption is different from our original 2005 analysis. The estimated commercial taxable value of the business

<sup>1</sup> Referenced as footnote numbers in the tables.

furnishings and equipment (personalty) is \$27.6 million<sup>2</sup>. The current tax rates result in revenue of \$948,000 to Memphis and \$1.1 million to Shelby County.

- **Revenue from Sales Tax on Retail Spending:** This analysis presents three separate components of annual retail sales activity, including the spending of new employees (\$1.9 million), sales at the retail stores and restaurants (\$94.1 million), and estimated off-site (elsewhere in Memphis) retail spending (\$53.2 million) of the visitors to the redeveloped Pyramid. In total, this annual retail spending volume is \$149.4 million. Using the current sales tax rates for the City and the County indicate a return of \$3.4 million to Memphis and \$10.4 million to Shelby County from these retail sales.
- **Revenue from Hotel Occupancy Tax:** This reuse of the Pyramid includes a 287,100 SF hotel facility. RKG estimates that this hotel will have approximately 335 rooms. Conversations with representatives of the Memphis Convention & Visitors Bureau (MCVB) indicate average room occupancy for downtown Memphis hotel properties of 68% and an average room rate of \$165 per night. This results in \$13.7 million in hotel revenues from which a 1.7% occupancy tax for the City generates \$233,000 in additional revenue. The 5% occupancy tax for Shelby County results in \$686,000 in revenue for the County.
- **Revenue from Hotel Sales Tax:** The above referenced \$13.7 million in hotel revenue also equates to \$309,000 annually in sales tax revenue to the City and another estimated \$960,000 annually to Shelby County.
- **Revenue from Annual Lease Payments:** Conversations with representatives of the City of Memphis indicate that the anchor tenant, Bass Pro, will make annual lease payments on 2% of gross sales, or \$1 million at a minimum, to the Memphis and Shelby County Public Building Authority, as owners of the property. This analysis assumes the guaranteed minimum payment of \$1 million and that this payment is evenly distributed between the City of Memphis and Shelby County.
- **Total Revenues and Net Present Value (NPV):** The estimated cumulative 20-year revenues (constant 2008 dollars) from the above sources to the City of Memphis are slightly less than \$117 million, with an NPV of approximately \$70 million. The cumulative revenues to Shelby County are \$284 million with an NPV of \$178 million.

An overview of the estimated employment and wage impacts likely realized from this reuse/redevelopment of the Pyramid includes the following:

- **Ongoing Employment:** Ongoing and direct employment equates to an estimated 566 jobs, primarily in the retail and service sector industries. These employment estimates reflect industry standards regarding the average SF per employee. Indirect employment of 95 positions, across all industry sectors, also results from the multiplier, or “spin-off” impacts, as developed by the U.S. Department of Commerce and RKG.

<sup>2</sup> This specifically assumes that the aviary, museum and garage are wholly tax-exempt. The parking garage is an amenity for the reuse of the Pyramid and that there will be no associated parking fees or revenues.

- **Ongoing Wages:** The estimated direct and ongoing annual wages (expressed in constant 2008 dollars) with the above employment is a little more than \$12 million with another \$2.8 million in indirect wages. These wages reflect annual estimated salaries as reported by the Tennessee Office of Economic and Industrial Development and RKG.
- **Short Term Employment and Wages:** This is represented by the construction related activity from the various components of use and redevelopment of the Pyramid property. The construction costs, as provided by Bass Pro, and net of the personalty costs, form the basis for these estimates. An approximate 25% of construction costs are assumed wages, resulting in an approximate \$34.2 million in wages that would employ 795 construction workers fulltime. The “spin-off” or indirect wages and employment from this construction activity are estimated to generate an additional \$9 million in wages and provide 218 jobs.

EMPLOYMENT and WAGE IMPACTS	TOTAL PROJECT
<b>PROPERTY USE</b>	
\8. Square Feet (SF) of Development	729,904
Number of Hotel Rooms	335
\8. Number of Parking Spaces	500
<b>ONGOING EMPLOYMENT and WAGE IMPACTS</b>	
\1. Estimated Direct Employment (FTE's)	566
\3. Indirect Employment @ Local Capture	95
<b>Total Employment</b>	<b>661</b>
\2. Estimated Direct Annual Earnings	\$12,047,303
\3. Indirect Annual Wages @ Local Capture	\$2,806,504
<b>Total Wages</b>	<b>\$14,853,807</b>
<b>SHORT TERM EMPLOYMENT and WAGE IMPACTS</b>	
<b>\8. CONSTRUCTION COSTS</b>	
Estimated Total Costs	\$216,275,632
Less Personalty Costs	(\$79,662,514)
<b>NET Construction Costs</b>	<b>\$136,613,118</b>
<b>\2. \3. DIRECT IMPACTS</b>	
Estimated Wages	\$34,153,280
Estimated Employment (FTE's)	795
<b>\2. \3. INDIRECT IMPACTS</b>	
Estimated Wages	\$9,004,171
Estimated Employment (FTE's)	218

SOURCE : RKG ASSOCIATES, INC.



In conclusion, the proposed current reuse of the Pyramid property results in an estimated significant positive impact on jobs, wages and revenues for Memphis and Shelby County.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence E. Cranor Jr.", is written over a light blue horizontal line.

Lawrence E. Cranor Jr.  
Senior Project Manager

cc: Robert Lipscomb  
Richard Gsottschneider

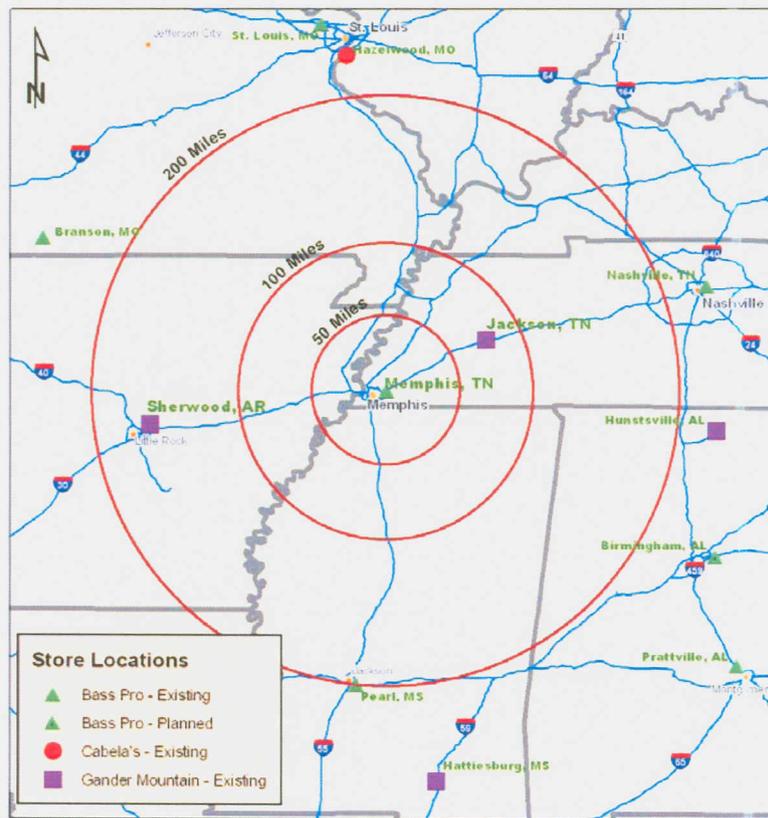


## APPENDIX

The appendix presents the more detailed research and assumptions that are the basis of the above findings and conclusions. All dollar values are constant 2008 dollars.

- **Property Use:** Estimates of the SF, by type of use, for the Pyramid are from Bass Pro, as is the number of proposed parking spaces for the garage. RKG assumes that the proposed hotel will have a 335-room count. This reflects a 75% utilization of the 190,930 SF allocated to rooms and corridors, and an average room size of 425 SF.
- **Assessment Values, Taxable Values and Taxes:** Bass Pro has provided the estimates of the construction costs, business furnishings and equipment. Conversations with representatives of the Treasurer's office in Memphis indicate that the taxable value of commercial properties (and personalty) is 40% of the assessed value. The tax rate for Memphis is approximately \$3.43 (rounded) per \$100 of taxable value. The rate for Shelby County is approximately \$4.04 per \$100 of taxable value.
- **Employment and Wages:** Estimates of the average number of direct employees, as derived on a per SF basis, are from standards developed by the U.S. Government Office of Energy Statistics. Estimates of the indirect employment, or the "spin-off" from the direct employment, are the result of industry standard multipliers for Tennessee as developed by the U.S. Department of Commerce. Typically, only a portion of such indirect employment happens in the local economy and RKG has estimated this to be 30%. Estimated direct wages reflect data from the Tennessee Office of Economic and Industrial Development. The estimated indirect wages are the result of applying the U.S. Department of Commerce multipliers and RKG estimated a 30% local capture rate.
- **Retail Spending Demand:** Estimates of annual retail spending by employees comes from standards measured by the Urban Land Institute (ULI) and updated to 2008 by RKG. These expenditures and dollar amounts are typical of what a worker spends in the course of a year before work, at lunch, and after work. Given the mix of retail and restaurant options available on-site at the redeveloped Pyramid, RKG estimates that 65% of these sales would occur on-site and that 35% would occur elsewhere in the downtown.
- **Annual Retail Sales:** Estimates of the sales volume, on a per SF basis, for the restaurants reflects data developed by ULI for national chain restaurants in a high customer traffic location, and updated to 2008 by RKG. Estimates of the sales volume on a per SF basis for the Bass Pro store reflect a variety of inputs. Hoovers, a Dun & Bradstreet company, estimated annual sales for this privately held company to be about \$2.7 billion on approximately 40 stores (\$66.5 million per store). The proposed Memphis store is 150,000 SF, which RKG estimates to be the company's average store size.

Bass Pro currently has an 80,000 SF store in Memphis and conversations with representatives of that store did not indicate that it would be closing when the Pyramid store opens. Rather, the existing store may become an outlet store. Therefore, no sales transfer adjustment to the sales estimate has been made for a potential store closing. There are no other Bass Pro stores within a 200-mile radius of Memphis, either actual or planned. Gander Mountain, a national retailer that competes with Bass Pro has recently opened a store in Jackson, TN, that is within 100-miles of Memphis. Another Gander Mountain store, in Sherwood, AR, is about 150 miles from Memphis. All other competing stores, be they Bass Pro, Gander Mountain, or Cabela's are 200-miles or more from Memphis. As such, no adjustments have been made for potentially competitive impacts on the sales estimate used in this analysis.



Finally, retailing is a volatile business. Sales may be up one year and down another for a variety of reasons, tied to the competition, the economy in general and now the near \$100 a barrel price of oil. By way of example, reportedly sales were down in 2006 for both Cabela's and Gander Mountain, publicly traded competitors to Bass Pro. However, company reports for each indicate a third-quarter 2007 increase in sales for Cabela's of 11.5% (or 13.8% year-to-date over 2006).

Similarly, reported 2006 sales for Gander Mountain were down, but company reports for the third quarter (2007) indicate an increase of 5.3% over 2006 and a year-to-date increase of 11.5%, overall. In other words, retail sales volumes fluctuate from quarter to quarter and from year to year, reflecting the economy, new store openings, and closings of older stores. In this analysis, RKG assumes a constant sales volume (in 2008 dollars) for the proposed Bass Pro in Memphis. While actual sales volume could be different in any one given year and over time, the constant rate applied in this analysis is believed to be reasonable and no adjustments have been made otherwise.

- **Visitor Volume and Spending:** Estimates of visitor volumes and visitor spending for off-site activities are developed from research, studies completed in other markets and reflecting the experiences of Economic Research Associates (ERA) and RKG. In this analysis, visitor volumes are presented in terms of visits to the aviary and to the museum. Both of these uses are assumed to support and be complimentary uses for the proposed Bass Pro and the entire City. Off-site retail spending for these visitors also figures into the retail sales activity and retail sales tax realized by the City and the County.
- **Hotel Impacts:** Conversations with representatives of the MCVB, in conjunction with data provided by Smith Travel Research (a leading industry analyst), formed the basis of estimates of occupancy rates and average room revenue for the proposed hotel component. This analysis assumes that the estimated hotel occupancy revenue is also available to the City and to the County, and as such, it is included in the net present value analysis. It is possible that a portion, or all, of this revenue is dedicated to the MCVB. If so, this spreadsheet model allows for this revision.

The following tables present the detailed analysis (along with assumptions), by use, of the revised Pyramid.



	Constant Inputs	Anchor Retail	FISCAL and ECONOMIC IMPACT ANALYSIS of REUSE of the PYRAMID - MEMPHIS, TN					TOTAL PROJECT		
			Restaurant Uses			Hotel Complex	Aviary Component		Museum Component	Parking Uses
			#1	#2	#3					
<b>PROPERTY USE</b>										
18. Square Feet (SF) of Development		150,235	11,721	16,117	14,577	287,100	69,745	110,409	70,000	729,904
Number of Hotel Rooms						335				335
18. Number of Parking Spaces									500	500
<b>ASSESSMENT and TAXABLE VALUE</b>										
18. Estimated Personality Assessment Value		\$19,313,761	\$3,729,388	\$5,128,107	\$4,684,902	\$36,160,245	\$0	\$10,645,415	\$0	\$79,661,818
Estimated Commercial Taxable Value	40.00%	\$7,725,504	\$1,491,755	\$2,051,243	\$1,873,961	\$14,464,098	\$0	\$0	\$0	\$27,606,561
<b>ESTIMATED PERSONALTY TAX</b>										
Memphis, TN	\$ 3.43	\$265,232	\$51,215	\$70,423	\$64,337	\$496,581	\$0	\$0	\$0	\$947,788
Shelby County, TN	\$ 4.04	\$312,110	\$60,267	\$82,870	\$75,708	\$584,350	\$0	\$0	\$0	\$1,115,305
<b>EMPLOYMENT and WAGE IMPACTS</b>										
11. Estimated Direct Employment (FTE's)		179	13	18	17	150	73	115	0	566
13. Indirect Employment @ Local Capture	30.00%	29	2	2	2	26	15	19	0	95
<b>Total Employment</b>		<b>208</b>	<b>15</b>	<b>21</b>	<b>19</b>	<b>176</b>	<b>88</b>	<b>135</b>	<b>0</b>	<b>661</b>
12. Estimated Direct Annual Earnings		\$4,943,771	\$245,687	\$337,832	\$305,552	\$2,750,265	\$1,341,132	\$2,123,063	\$0	\$12,047,303
13. Indirect Annual Wages @ Local Capture	30.00%	\$1,068,744	\$72,807	\$100,113	\$90,547	\$625,163	\$374,498	\$474,632	\$0	\$2,806,504
<b>Total Wages</b>		<b>\$6,012,516</b>	<b>\$318,493</b>	<b>\$437,945</b>	<b>\$396,099</b>	<b>\$3,375,428</b>	<b>\$1,715,630</b>	<b>\$2,597,696</b>	<b>\$0</b>	<b>\$14,853,807</b>
<b>14. ANNUAL RETAIL SPENDING - All Employees</b>										
Lunch		\$255,055	\$18,370	\$25,260	\$22,846	\$215,435	\$107,440	\$165,142	\$0	\$809,549
Apparel		\$116,597	\$8,398	\$11,547	\$10,444	\$98,485	\$49,116	\$75,494	\$0	\$370,079
Other Shopper Goods		\$39,560	\$2,849	\$3,918	\$3,543	\$33,414	\$16,664	\$25,614	\$0	\$125,563
Incidentals		\$39,560	\$2,849	\$3,918	\$3,543	\$33,414	\$16,664	\$25,614	\$0	\$125,563
Other Food Items		\$52,052	\$3,749	\$5,155	\$4,662	\$43,966	\$21,927	\$33,702	\$0	\$165,214
Miscellaneous		\$16,657	\$1,200	\$1,650	\$1,492	\$14,069	\$7,017	\$10,785	\$0	\$52,868
Dinner and Drinks		\$22,903	\$1,650	\$2,268	\$2,051	\$19,345	\$9,648	\$14,829	\$0	\$72,694
Other Non-Food		\$57,257	\$4,124	\$5,671	\$5,129	\$48,363	\$24,119	\$37,073	\$0	\$181,735
<b>Total Spending Demand</b>		<b>\$599,639</b>	<b>\$43,188</b>	<b>\$59,386</b>	<b>\$53,712</b>	<b>\$506,493</b>	<b>\$252,595</b>	<b>\$388,252</b>	<b>\$0</b>	<b>\$1,903,266</b>
Employee Sales Occurring On-Site	65.00%	\$389,766	\$28,072	\$38,601	\$34,913	\$329,220	\$164,187	\$252,364	\$0	\$1,237,123
Employee Sales Occurring Off-Site	35.00%	\$209,874	\$15,116	\$20,785	\$18,799	\$177,273	\$88,408	\$135,888	\$0	\$666,143
<b>19. ANNUAL RETAIL SALES VOLUME</b>		<b>\$67,605,750</b>	<b>\$7,325,625</b>	<b>\$10,073,125</b>	<b>\$9,110,625</b>					<b>\$94,115,125</b>
<b>110. ANNUAL VISITORS</b>										
Resident, Local Visitors							400,000	600,000		1,000,000
Non-local Visitor - DAY TRIPPER							60,000	90,000		150,000
Non-local Visitor - OVERNIGHT							180,000	270,000		450,000
Non-local Visitor - OVERNIGHT							160,000	240,000		400,000
<b>111. VISITOR EXPENDITURES - OFF-SITE</b>										
Resident, Local Visitors							\$ 21,300,000	\$ 31,950,000		\$ 53,250,000
Non-local Visitor - DAY TRIPPER							\$ 6,300,000	\$ 9,450,000		\$ 15,750,000
Non-local Visitor - OVERNIGHT							\$ 14,400,000	\$ 21,600,000		\$ 36,000,000
<b>RETAIL SALES ACTIVITY from SOURCE</b>										
Employee Spending		\$599,639	\$43,188	\$59,386	\$53,712	\$506,493	\$252,595	\$388,252	\$0	\$1,903,266
Sales at Establishments		\$67,605,750	\$7,325,625	\$10,073,125	\$9,110,625				\$0	\$94,115,125
Visitor Off-Site Spending							\$21,300,000	\$31,950,000	\$0	\$53,250,000
<b>Total Retail Sales</b>		<b>\$68,205,389</b>	<b>\$7,368,813</b>	<b>\$10,132,511</b>	<b>\$9,164,337</b>	<b>\$506,493</b>	<b>\$21,552,595</b>	<b>\$32,338,252</b>	<b>\$0</b>	<b>\$149,268,391</b>
<b>ESTIMATED SALES TAX REVENUE from RETAIL</b>										
Memphis, TN	2.25%	\$1,534,621	\$165,798	\$227,982	\$206,198	\$11,396	\$484,933	\$727,611	\$0	\$3,358,539
Shelby County, TN	7.00%	\$4,774,377	\$515,817	\$709,276	\$641,504	\$35,455	\$1,508,682	\$2,263,678	\$0	\$10,448,787
<b>15. ESTIMATED HOTEL IMPACTS</b>										
Estimated Room Night Demand						122,275				122,275
Estimated Occupancy	68.00%					83,147				83,147
Estimated Room Revenue	\$165					\$13,719,255				\$13,719,255
<b>HOTEL OCCUPANCY TAX</b>										
Memphis, TN	1.70%					\$233,227				\$233,227
Shelby County, TN	5.00%					\$685,963				\$685,963
<b>HOTEL SALES TAX</b>										
Memphis, TN	2.25%					\$308,683				\$308,683
Shelby County, TN	7.00%					\$960,348				\$960,348

SOURCE : RKG ASSOCIATES, INC.

Fiscal Analysis Model Inputs, Assumptions and Source References	Anchor Retail	Restaurant Use	Hotel Use	Aviary Use	Museum Use		
11. Mean SF per Employee	838	877	1,919	956	956		
Source : US Government Office of Energy Statistics and RKG							
12. Estimated Annual Wages - 2008							
All Industries	\$ 40,742						
Natural Resources & Mining	\$ 34,085						
Construction	\$ 42,959						
Manufacturing	\$ 52,054						
Transportation and Warehousing	\$ 48,270						
Wholesale Trade	\$ 52,407						
Retail Trade	\$ 27,576						
Professional Office	\$ 36,139						
Information Services	\$ 45,802						
Finance	\$ 66,453						
Education and Health	\$ 39,917						
Leisure and Hospitality	\$ 18,383						
Source : Tennessee Office of Economic and Industrial Development and RKG							
13. RIMS II Multiplier Impacts	Earnings	Employment					
Performing Arts and Museums	0.7452	0.5576					
Amusements	0.9308	0.6740					
Wholesale Trade	0.7418	1.1066					
Retail Trade	0.7206	0.5379					
Corporate Office	0.6705	1.2230					
Food and Drink	0.9878	0.4068					
Real Estate	1.7502	1.1379					
Accommodations	0.7577	0.5850					
Personal Services	0.7417	0.5468					
Source : US Department of Commerce							
14. Estimated Annual Employee Spending Demand (\$2008)							
Lunch	\$ 1,225						
Apparel	\$ 560						
Other Shopper Goods	\$ 190						
Incidentals	\$ 190						
Other Food Items	\$ 250						
Miscellaneous	\$ 80						
Dinner and Drinks	\$ 110						
Other Non-food	\$ 275						
Source : International Council of Shopping Centers, Urban Land Institute and RKG							
15. Source : Memphis Convention & Visitor's Bureau and RKG							
18. Assessment Estimates and SF	Anchor Retail	Restaurant #1	Restaurant #2	Restaurant #3	Hotel	Aviary	Museum
Personalty Assess/SF	\$129	\$318	\$318	\$321	\$126	\$0	\$96
Estimated Total SF	150,235	11,721	16,117	14,577	287,100	69,745	110,409
Source : Bass Pro and RKG							
19. Estimated Sales Volumes							
Estimated Retail Sales per SF	\$ 450	\$ 625	\$ 625	\$ 625			
Source : Hoovers of Dun & Bradstreet, Urban Land Institute and RKG							
110. Estimated Visitor Origination							
Local Visitors	15.0%						
Non-local - DAY TRIPPER	45.0%						
Non-local - OVERNIGHT	40.0%						
Source : Economic Research Associates and RKG							
111. Estimated Off-Site Visitor Spending							
Local Visitors	\$10						
Non-local - DAY TRIPPER	\$35						
Non-local - OVERNIGHT	\$90						
Source : Economic Research Associates and RKG							

The following table presents the detailed analysis, by use, of the short term or construction related impacts for employment and wages.

- Short Term Employment and Wages:** This is represented by the construction related activity from the various components of use and redevelopment of the Pyramid property. The construction costs, as provided by Bass Pro, and net of the personalty costs, form the basis for these estimates. An approximate 25% of construction costs are assumed to be wages, resulting in an approximate \$34.2 million in wages which would employ 795 construction workers full time. The

“spin-off” or indirect wages and employment from this construction activity are estimated to generate an additional \$9 million in wages and provide 218 jobs.

SHORT-TERM IMPACTS	FISCAL and ECONOMIC IMPACT ANALYSIS of REUSE of the PYRAMID - MEMPHIS, TN									
	Site and General	Anchor Retail	Restaurant Uses			Hotel Complex	Aviary Component	Museum Component	Parking Uses	TOTAL PROJECT
			#1	#2	#3					
<b>PROPERTY USE</b>										
18. Square Feet (SF) of Development		150,235	11,721	16,117	14,577	287,100	69,745	110,409	70,000	729,904
Number of Hotel Rooms						335				335
18. Number of Parking Spaces									500	500
<b>SHORT TERM EMPLOYMENT and WAGE IMPACTS</b>										
<b>18. CONSTRUCTION COSTS</b>										
Estimated Total Costs	\$9,050,433	\$40,558,989	\$5,386,852	\$7,407,239	\$7,495,918	\$81,660,617	\$14,553,135	\$27,986,317	\$22,176,132	\$216,275,632
Less Personality Costs	\$0	(\$19,313,804)	(\$3,729,350)	(\$5,128,085)	(\$4,684,949)	(\$36,160,915)	\$0	(\$10,645,411)	\$0	(\$79,662,514)
<b>NET Construction Costs</b>	<b>\$9,050,433</b>	<b>\$21,245,185</b>	<b>\$1,657,502</b>	<b>\$2,279,154</b>	<b>\$2,810,969</b>	<b>\$45,499,702</b>	<b>\$14,553,135</b>	<b>\$17,340,906</b>	<b>\$22,176,132</b>	<b>\$136,613,118</b>
<b>12. 13. DIRECT IMPACTS</b>										
Estimated Wages	\$2,262,608	\$5,311,296	\$414,376	\$569,789	\$702,742	\$11,374,926	\$3,638,284	\$4,335,227	\$5,544,033	\$34,153,280
Estimated Employment (FTE's)	53	124	10	13	16	265	85	101	129	795
<b>12. 13. INDIRECT IMPACTS</b>										
Estimated Wages	\$596,514	\$1,400,270	\$109,246	\$150,219	\$185,271	\$2,998,885	\$959,197	\$1,142,939	\$1,461,629	\$9,004,171
Estimated Employment (FTE's)	14	34	3	4	4	73	23	28	35	218

SOURCE : RKG ASSOCIATES, INC.

**Initial Adaptive Reuse Analysis  
Of The Pyramid Arena  
In Memphis, Tennessee**

**June 2005**

Prepared for:

The City of Memphis  
And  
Shelby County  
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## I. EXECUTIVE SUMMARY

RKG Associates, Inc. and Bartram & Cochran, Inc. were retained by the City of Memphis, Tennessee to prepare an initial adaptive reuse analysis for The Pyramid Arena, located at the north end of downtown Memphis along the Wolf River, a tributary of the Mississippi River. The Pyramid was built in 1991 by the City of Memphis and Shelby County and is owned by a Public Building Development Authority. The facility originally hosted the University of Memphis basketball teams and also hosted many concerts, basketball tournaments and family entertainment events. The Pyramid also served as the temporary home to the Grizzlies, an NBA team that now occupies the Federal Express Forum. As a result of the exclusive operating agreement the Grizzlies have with the "FedEx Forum," The Pyramid is now underutilized and according to SMG, the management company, it is currently losing around \$1.2 million per year. The purpose of this assignment is to assess the likely future use options for The Pyramid.

The methodology utilized in this study included a three-day site visit to Memphis, at which time numerous civic, governmental and business leaders were interviewed. A listing of the people interviewed is attached in Appendix B. In addition, the consultants toured The Pyramid with the property manager. The consultants also listened to five presentations from prospective users/developers of The Pyramid. Finally, prior studies of the downtown and the Riverfront, prepared by various organizations within the City and County, were reviewed and a limited amount of supplementary research conducted relative to demographic trends within the City and County and the downtown area was undertaken. It was beyond the scope of this initial research to evaluate the structural or mechanical elements associated with The Pyramid. Also, this research did not include a formal appraisal of the potential market value of the buildings.

The key findings as an outgrowth of this initial research are as follows:

- **An Excellent Location:** The locational attributes of the building and the site have improved significantly since The Pyramid was constructed. More than one interviewee told us that The Pyramid's location was selected initially because it was "out-of-the-way" and on land that had limited value. Today, with the successful development of Mud Island, the ongoing expansion of the St. Jude Children's Research Hospital, the Uptown Initiative, and the expansion of the Convention Center, The Pyramid and the site has a very strategic location within a strong downtown real estate market. Also, the visibility and access of the building and the site to I-40 suggests a wide range of uses are possible for the site.
- **A Unique Structure:** The 32-story stainless steel Pyramid appears to be structurally sound based upon a walk through evaluation, except for occasional roof leaks and some concern about the foundation leaking in the event the river were to rise. Based upon limited demand for The Pyramid for the uses for which it was originally built, internal demolition will likely be required to reuse the building; however, it would

appear that this could be done without adversely impacting the structural integrity of the building. A professional structural/mechanical engineer would be required to make this assessment. From a purely subjective point of view, the consultants believe the building is an icon and an integral part of the Memphis landscape and should be preserved.

- **Improving Demographics Downtown:** Despite population declines in the City of Memphis, downtown Memphis has experienced a significant increase in households along with a commensurate increase in median household incomes. This trend encompasses both new construction and mid-rise conversions and is projected to remain strong into the future. The change in demographics because of the strong downtown housing market has resulted in an increase in the number and type of businesses within downtown, particularly specialty retail and restaurants. As residential development continues to grow in and around the downtown, the demand for additional retail is likely to increase.
- **Downtown Office Market is Soft:** Reportedly, office vacancy rates in downtown Memphis are above 21%, for both Class A space as well as for Class B space. Asking rental rates for Class A space are reported to be \$17/SF and for Class B space \$14/SF in the downtown. These rates are well below those for comparable office space elsewhere in Memphis. Vacancy rates for Class A space outside of the downtown are reported to be less than 13%. In other words, despite more competitive pricing in the downtown, the vacancy rates remain higher than elsewhere in the Memphis metropolitan area. The St. Jude Children's Research Hospital is in the process of a \$1.0 billion expansion in the downtown, but otherwise, new office development and absorption of existing space is limited. Because The Pyramid is near the St. Jude campus, it might be suitable for office or medical research usage in conjunction with St. Jude.
- **Tourism Market Good but Competition is Growing:** Reportedly, Memphis attracts more than 9.0 million visitors annually, with at least one-third visiting Beale Street and the downtown area. However, the "competition" for the tourist visitor and the tourist dollar is fierce within the region, particularly with the more than 550,000 SF of gambling casinos in Tunica, Mississippi. These casinos boast nearly 15,000 slot machines, and the facilities have almost 6,500 hotel rooms. Reuse of The Pyramid in downtown Memphis as destination retail/entertainment could help Memphis and Shelby County retain their competitive edge with tourism.
- **Convention Business and Hotel Market Lackluster:** The Memphis Cook Convention Center, in downtown Memphis, has recently undergone a \$95 million expansion. Nonetheless, conversations with representatives of the Memphis Cook Convention Center indicate that the lack of nearby modern hotel space with a full compliment of amenities and services is hampering the facility's ability to attract national venues. As such, the Convention Center is reportedly running at a deficit and is not able to fulfill its potential as a catalyst for other spending and consumer activity in the downtown. Current hotel occupancy rates in Memphis are reported to be around 65%

and the average room revenue is around \$70/night according to Smith Travel Research. This would suggest that some public incentive, or partnership, would be required to encourage new hotel development in downtown Memphis. Reuse of The Pyramid, to not only tie in with the Convention Center, but also to serve as a “magnet” for enhancing destination retail and tourism to the downtown, would likely encourage additional hotel development

- **Continuing to Operate The Pyramid as an Arena Is Not Realistic:** Given the exclusive operating rights the Grizzlies have with the FedEx Forum, it is unlikely The Pyramid will be able to operate in the future for the types of uses it was built to serve. The consultants have not looked into the legality of this agreement, but assume it is valid. The onsite property manager said that to “mothball” the building would still have an annual cost of around \$500,000, and the property manager fees may still need to be paid for some period of time (the consultants have not reviewed this contract).
- **Multiple Reuse Options Exist for The Pyramid and the Site:** Given the striking beauty of this building, and its prominence within the City and County, the consultants believe it should be retained and reused. Prior to the retention of the consulting team, The Pyramid Reuse Committee received and reviewed in excess of fifty proposals to reuse the building. The consulting team reviewed and considered all of these credible proposals, including those for a museum or possibly a group of museums within the building. The museum type use suggestions were not considered because the City and County had made it clear to The Pyramid Committee that these uses would likely require the public sector to undertake the role of a developer, including making an additional financial investment, something they were unwilling to do.

The reuse of The Pyramid as a casino has been widely discussed within the City and the County and in fact, the building might be suitable for such usage. However, the consultants did not evaluate this possible reuse option because Tennessee law does not allow gambling and it is highly speculative as to whether or not this law could be changed. Meanwhile, the building asset would remain idle and continue to lose money, potentially for many years.

The consultant team had the privilege of listening to five presentations related to the reuse of The Pyramid, which included proposals for a church, an international trade center, an office complex, an aquarium, and a major entertainment center. Both the aquarium and the entertainment center concepts would include a significant amount of specialty retail/restaurant space, as well as a possible new hotel onsite. Since then, other interested parties have expressed some interest in reusing The Pyramid, but wish to remain confidential at this time.

- **Selling The Pyramid to the Highest Bidder is Not Recommended:** During the five presentations made by prospective users of The Pyramid to the consultant team and members of The Pyramid Reuse Committee, various informal comments were made relative to a possible “purchase price” for the property. These comments ranged from

an implied willingness to buy the building for its outstanding debt (around \$28 million), to being unwilling to assume any of the debt and expecting to obtain the building for \$1. The consultants strongly believe that purchase price should not be the major factor in selecting a preferred developer for The Pyramid, and instead, the likely economic and fiscal benefits to the City and the County should serve as the primary method to evaluate proposals and designate a developer. Once the potential economic and fiscal benefits are calculated, then issues related to the purchase price or some form of land lease or revenue participation should be considered and factored into the evaluation.

- **Quantifying Economic/Fiscal Benefits is the Recommended Approach to Determining the Preferred Reuse Options and Selecting a Developer:** Conceptually, each reuse option for The Pyramid will generate a series of benefits for the City of Memphis and Shelby County, and many of these benefits can be quantified. This stream of “benefits,” in the form of annual revenues, lends itself to a present value type of analysis that can facilitate the comparison of alternate options/reuse proposals. The types of economic benefits associated with various reuse options for The Pyramid range from new job generation, to sales taxes, to new property taxes and hotel occupancy taxes. From a tax perspective only, these revenue streams would occur on a regular basis over time. In addition, to the extent the selected developer also proposes to build structured parking or a new hotel or residential tower, these benefits could also be quantified.

The results of this preliminary analysis indicates that the economic benefits to the City and County from either an office complex, an aquarium, an entertainment center or a destination lifestyle type retail center, all within The Pyramid, all would be positive, with annual economic benefits ranging from \$1.5 million to over \$10 million per year. The economic benefits increase significantly with the more tourist oriented/retail/restaurant types of uses, and the initial analysis suggests that the City and County give priority to pursuing this type of reuse strategy.

**Table 1 - Summary Impact Analysis of Pyramid Reuse Scenarios**  
**Constant 2005 Dollars in \$000s**

	Office Use	Aquariu- Memphis & Specialty Retail	Theme Park & Specialty Retail	Destination/ Lifestyle Center
Property Tax - SHELBY Co.	\$824.2	\$824.2	\$824.2	\$824.2
Hotel Tax to SHELBY Co.	\$0.0	\$900.5	\$750.4	\$1,500.8
TOTAL Annual Tax to SHELBY Co.	\$824.2	\$1,724.7	\$1,574.6	\$2,325.0
Property Tax - City of MEMPHIS	\$659.0	\$659.0	\$659.0	\$659.0
Sales Tax - City of MEMPHIS	\$91.1	\$1,986.2	\$2,214.6	\$7,085.2
TOTAL Annual Tax to City of MEMPHIS	\$750.1	\$2,645.2	\$2,873.6	\$7,744.2
TOTAL Annual Tax - COMBINED	\$1,574.3	\$4,369.9	\$4,448.2	\$10,069.2
COMBINED - Present Value of Tax Revenue - 15 Years @ 4.0% Discount Rate	\$16,830.3	\$46,716.8	\$47,553.8	\$107,647.5

SOURCE : RKG Associates, Inc.

The analysis above is a summary of the potential spin-off benefits from four (4) very different types of reuse options within The Pyramid itself. Numerous assumptions were made to develop these comparisons and as such they should be considered preliminary. In addition, the analysis above does not consider potential new development onsite, or offsite, and naturally this should also be factored into the final calculations. As such, this analysis is intended more to suggest a framework for evaluation rather than present the final determination of reuse options.

As stated previously, the purchase price, or potential lease value of the property was not included in this initial analysis, although it should be noted that the present value of three out of the four uses exceeds the estimated \$30 million in outstanding debt on the building. (See Chapter 5 for greater details.)

- **Some Form of Tourism Related Activity, Coupled with Specialty Retail/Restaurants, Appears to be the Best Usage of the Property:** Although a number of assumptions were made to develop the estimates of economic/fiscal benefits in Table 1 above, the preliminary analysis clearly indicates that a tourism related activity within the building and/or onsite would generate the maximum economic benefits to the City and County. It is recommended that this type of usage be aggressively pursued.
- **A National Marketing Campaign Is Not Warranted:** The consultant team originally responded to an RFP, issued by the City of Memphis, to market The Pyramid nationally. The first task within this RFP was to essentially evaluate reuse options, and these first tasks became the focus of this initial contract. The consultant team

believes that the level of interest, and overall quality of the formal (and informal) expressions of interest to date are excellent and that the City and Shelby County should work with these prospective developers to select a preferred developer that will produce a project that provides the maximum economic benefit to the City and County. To the extent that additional developer proposals materialize, which meet the overall use recommendations within this report, they should also be considered.

- **A Formal Evaluation Process Should be Established to Select a Preferred Developer:** The following criteria should be utilized to evaluate prospective developer proposals for The Pyramid and the rest of the site:
  - Spin-off benefits to the City and County in terms of sales taxes, property taxes and hotel occupancy taxes and other benefits
  - Development/market feasibility study of the proposal
  - Financial capability of the developer
  - Estimates of new job generation (not relocated jobs) and secondary job generation and wages
  - Benefits to the Convention Center and other adjacent real estate
  - Proposed purchase price and timing
  - Any other concessions, or benefits, associated with the developer's proposal
  
- **Recommended Additional Research:** Before any long term decisions relative to The Pyramid's future use or ownership occur, some additional research is recommended to fully understand all the issues around any future transactions. These are as follows:
  - What acreage is actually available to transfer? As noted previously, The Pyramid site consists of land owned by the Public Building Company, the City and the State.
  - What are the terms of the current SMG management contract and can this contract be terminated without any penalties? Likewise, what are the terms of the ARAMARK Concession Agreement and if The Pyramid reverts to new ownership can this contract be terminated and are there penalties attached to this termination?
  - What is the realistic future and time period of making a "go-no go" decision regarding the proposed "land bridge"?
  - What is the feasibility of relocating the concrete plant? If this plant were to be relocated, what would be the preferred usage for this site? How can this site best be used to help connect The Convention Center and The Pyramid activities from a pedestrian perspective?
  - Can the "fly-over" ramp to I-40 be removed or relocated since it currently appears to cover part of The Pyramid parking lot?

- A structural evaluation of the building is recommended, as well as an estimate to demolish the arena while retaining the larger building.
- In recognition of the fact that six months to a year will likely transpire before a developer could be officially designated for the reuse of The Pyramid, it is recommended that SMG Management be asked to prepare an interim leasing strategy for the facility. At least one possible interim use is a local church group that has offered to lease the building just on Sundays.
- The City and Shelby County should carefully consider various tax incentives and federal and state developer incentives that could enhance the value of the building and/or land for the designated developer.

In summary, the consultant team believes The Pyramid is an important icon for the City and should be retained. In addition, the locational attributes of the site are excellent and warrant more intensive development, perhaps with structured parking, a new hotel and a new residential tower. The level of local/regional developer interest in the property, along with the range of ideas and enthusiasm, is excellent, and it is recommended that a national marketing campaign may not be necessary. Instead, a more formal process to work with existing prospective developers to objectively evaluate their submissions is recommended.

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## II. THE BUILDING

The Pyramid Arena in Memphis, Tennessee is a 321 feet massive tall steel structure that was built in 1991 on the banks of the Mississippi at the northern end of downtown Memphis. Originally constructed to house the University of Memphis basketball teams, the building also served as the metro region's civic center and hosted many concerts, basketball tournaments and family entertainment shows.

The 21,000-seat arena has an additional 90,000 square feet of space for conventions, trade shows and exhibitions. The Pyramid has leased space to Memphis Wonders Series for 3 years, featuring exhibits such as *Titanic*, *Ancestors of the Incas*, and *WWII through Russian Eyes*. Currently they are featuring the national touring exhibition of motorcycles. Upon the opening in 2004 of the new FedEx Forum, the arena has been used by groups that don't compete with the new center.

Facts about The Pyramid Arena:

- The arena is housed inside a 32-story stainless steel pyramid, paying homage to Memphis' namesake - Memphis on the Nile River.
- With a footprint larger than six football fields, The Pyramid's base covers 360,000 square feet. This giant pyramid has more than a half million square feet of usable space inside, and with the construction of additional floors, could accommodate up to 700,000 square feet of development.
- Seating capacity is approximately 21,000+ for concerts and just over 20,000 for basketball. On site surface parking exists for 2,000 cars, significantly less than attendance capacity would warrant.
- Twenty-six luxury suites are located on the plaza concourse. Two additional suites are designed for disabled patrons. Disabled seating is also available on all three levels of The Pyramid.
- The Pyramid Gallery of Stars is an informal gathering area on the East Mezzanine, featuring super-size photos of the biggest stars in sports and entertainment. All of the photos were taken from past Pyramid events. The Gallery area also features additional restrooms and concessions. Before the FedEx forum was built, The Pyramid was the site of 50-60 major events each year.
- The Pyramid lacks an elevator to get to the top of the building. There is a stairway; however, it is impractical to consider using this stairway to access a restaurant or night club at the top of the building, which is unfortunate, because the views are

spectacular. Either an escalator or elevator would be required to take advantage of the views from the top of the building.

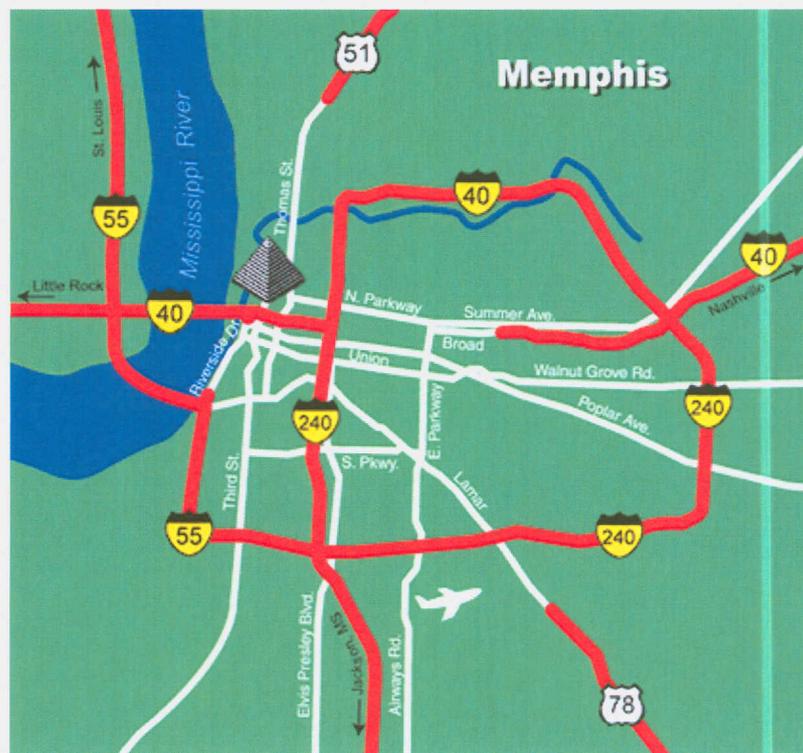
- The Pyramid site consists of 30.73 acres that is owned by the Public Building Authority. In addition, the City owns an additional 4.77 acres adjacent to the site and they lease an additional 4.23 acres from the State on a 25 year lease. This lease requires that they provide parking for 200 cars.

Additional specifications relative to The Pyramid are included in Appendix A.

### III. LOCATIONAL ANALYSIS

The Pyramid is located on the Wolf River, a tributary of the Mississippi River. When built in 1991, the river-level site was not considered prime property, but rather a semi-industrial area. The site is bounded by Interstate 40 to the south, Route 51 to the east, the Wolf River to the west, and a Coast Guard base to the north. Because the roads around the site are elevated, The Pyramid's base is not evident, and its imposing height is diminished.

The site has the attributes of a destination where attendees could drive and park easily while attending events. It has very easy car access from the highway system until a few blocks from the site, where car traffic enters the local roadways. The site is also on the trolley line that runs south connecting the area to the downtown office, retail and entertainment districts.



Since completion much of the surrounding area has evolved:

- Mud Island, located west of the site across the Wolf River is home to HarborTown, one of the first neo-traditional (new urbanism) developments in the United States. There are over 5,000 residents living in six single-family neighborhoods and five apartment communities. The community has its own retail center with grocery store, Montessori School, a foreign language immersion center and a bed and breakfast. Houses are selling in the range of \$200,000 to \$900,000, with the average price

around \$350,000. Leases are being signed from \$720 to \$2,125 per month and occupancy is currently 97-98%.

- The St Jude Children's Research Hospital is located several blocks to the east. It is currently undergoing a \$1 billion campus expansion project that will lead almost up to The Pyramid site. This will add five new buildings, including a 500,000 SF patient care and research facility, as well as a seven-story tower that will house diagnostic imaging and radiation oncology work. Over the long term, on-site employment at St. Jude is projected to increase from 3,000 people to over 6,000. The hospital is currently leasing parking at The Pyramid.
- The Uptown Initiative is a 100-block, 200-acre neighborhood revival that is located immediately to the northeast of the site. When completed, the \$150 million project will replace some of the areas poorest housing stock with new and renovated homes at a variety of income levels, including 500 single-family affordable homes, 347 newly renovated apartments and 88 new market rate apartments. The developer, who also developed Mud Island, is considering the construction of a 70,000 +/- SF neighborhood retail center at the south end of uptown, in close proximity to The Pyramid and St. Jude Hospital.
- To the immediate southeast of the site is the Civic Center area with the newly expanded Memphis Cook Convention Center (just completed \$92 million expansion and renovation), a newly expanded Marriott Hotel (additional 200 rooms at a cost of \$50 million), Criminal Justice Center expansion (\$30 million), Police headquarters renovation (\$20 million) and \$3 million in upgrades to the Federal Reserve building.

While the City's growth is occurring all around The Pyramid site, there are several elements that reinforce the sense that the facility is isolated and a destination:

- Immediately to the east is the "Pinch District," an area that was substantially demolished in the early 1990's at the time of The Pyramid construction. The anticipated spin-off of business from the Arena never materialized.
- Immediately south of the site and Interstate 40 is a concrete factory that the City wants to relocate as part of its riverfront revitalization. Access to The Pyramid from the south passes next to this industrial use and the rail lines that service it.
- Between the site and the Civic Center area is a major electricity transmission substation.
- A levy or floodwall separates the site from the River.

- A portion of the site's south parking is under Interstate 40's fly-ramps, one of which was never completed.



### **The Future - Riverfront Recapture – A Major Market Force**

As reported in the *Memphis Business Journal*, the Riverfront Development Corporation is in the process of implementing a 20-year plan to reunite the City with the River. The ambitious plan covers 5 miles of the 12 miles of City riverfront. One key element is a proposed land bridge to Mud Island that will necessitate relocating the industrial uses that would lose access to the River. As The Pyramid lies in this development zone, the implementation of the plan may impact the development potential of the facility. Without more details regarding the timing and specifications of this “land bridge,” it is difficult to predict the impact of this project on The Pyramid.

The land bridge, if built, would close the harbor that many of the companies rely on to move everything from cement to grain. The planned \$78 million, 38-acre land bridge would stretch across the harbor from Court Street to Poplar and is part of the RDC's Riverfront Master Plan drawn up in 2002 by architecture and urban design firm Cooper, Robertson & Partners. The cost of the \$332,000 feasibility study is being split by RDC and the Corps of Engineers. But even if the land bridge is never built, those harbor businesses would probably be forced to move anyway, to allow residential development to expand all the way to the water's edge.

"They are studying what impact the land bridge concept will have on the industries in the harbor and, more than that, how you get them to start looking at relocating their facilities within Memphis," says Dorchelle Spence, RDC spokesman. "The reason that needs to happen is for a number of projects that are going forward and the biggest one is Uptown, more so than the land bridge. "The Uptown development that is occurring is taking residential uses closer to the waterfront and you can't do that when you have all of these industries in the harbor because of the 18-wheel truck traffic it brings through that neighborhood," she says. "(Moving industry off the harbor) needs to happen whether we move forward with the land bridge or not."

Robert Lipscomb, director of the division of Housing and Community Development and Memphis Housing Authority, says using the harbor land for industry isn't the best use for what could potentially be very valuable residential property. "At Housing and Community Development, we want to go all the way to the river and make sure we use the land to its highest and best use," he says. "To me, the highest and best use of that land, not to mention the compatibility with residential uses, is residential and commercial development. The current use is really not compatible with the residential and commercial use that is moving toward that area." Lipscomb says he will work with the RDC, a not-for-profit, public/private partnership under contract with the city of Memphis, to redevelop the area. "The RDC is the primary motivator and will determine what goes there, so we'll be working with them to make sure the highest and best use of that property is attained," he says. "I think we're definitely on the same page."

## IV. MARKET OVERVIEW

This section presents an overview of selected demographic and economic conditions occurring in downtown Memphis, and compares these with similar indicators in the City as a whole, and in Shelby County and the larger metropolitan area. In this manner a contextual framework is presented for the changes impacting the City and for considering potential reuse and redevelopment alternatives for The Pyramid property, in the context of these changes. Additionally, an overview of the real estate market in Memphis is presented, in order to further discuss alternative reuse and redevelopment scenarios for The Pyramid property, in light of potentially competitive or complimentary uses.

### A. Baseline Trends – Socioeconomic Indicators

#### 1. Population

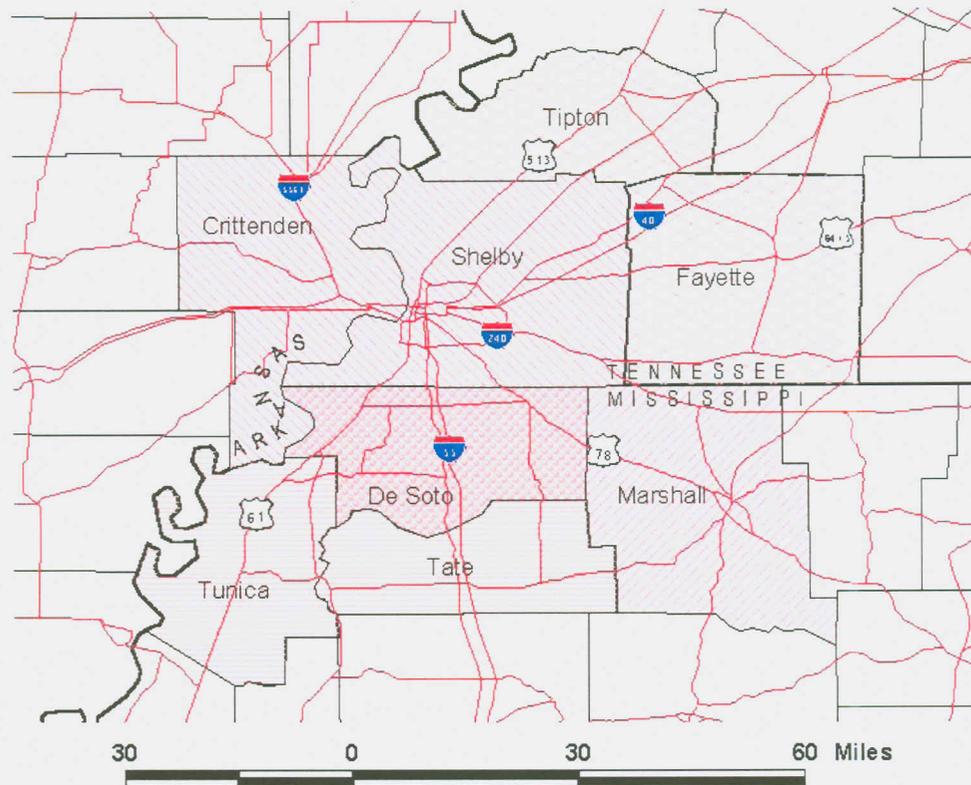
The population of downtown Memphis declined by nearly 8% during the 1990s. This is in contrast to a near 2% decline in the population of Memphis, and an 8% growth in Shelby County and a near 13% growth in the Memphis MSA, in total. However, since 2000, the City of Memphis has continued to lose population, while the downtown has grown by more than 4%. Population projections for 2009 indicate that the City will continue to lose population, but that the downtown will add population. As such, in 2000, downtown accounted for 2.5% of the City's population, but by 2009, the downtown is projected to represent a little more than 2.7% of the City population. Although these may be relatively minor percentages, the continued growth in the downtown population is contrary to the loss of population citywide, and the less robust growth in Shelby County, as presented in the following Table 2. Figure 1 presents a map of population change for the 1990 to 2004 time period.

**Table 2. Population Trends and Projections: 1990-2009  
Memphis Downtown, City, Shelby County and MSA**

	Downtown	City	Shelby Co.	MSA
1990	17,360	662,136	826,327	1,007,304
2000	16,029	650,100	897,472	1,135,614
2004	16,709	641,148	908,843	1,178,084
2009	17,253	633,609	922,152	1,227,495
	<i>Number Change</i>			
1990-2000	-1,331	-12,036	71,145	128,310
2000-2004	680	-8,952	11,371	42,470
2004-2009	544	-7,539	13,309	49,411
	<i>Percent Change</i>			
1990-2000	-7.7%	-1.8%	8.6%	12.7%
2000-2004	4.2%	-1.4%	1.3%	3.7%
2004-2009	3.3%	-1.2%	1.5%	4.2%
	<b>Representations of Larger Area</b>			
	1990	2000	2004	2009
Downtown as % of City	2.6%	2.5%	2.6%	2.7%
City as % of County	80.1%	72.4%	70.6%	68.7%
County as % of MSA	82.0%	79.0%	77.2%	75.1%

Source: Demographicsnow.com

# Figure 1. Net Population Change 1990-2004 - Memphis MSA



MSA map prepared by RKG Associates, Inc. April, 2005  
Map data provided by ESRI and Geography Network

## 2. Households

During the 1990s there was nominal growth in the number of households in downtown Memphis, especially when compared with Shelby County and the larger metropolitan area. However, between 2000 and 2004, the growth in the number of households in the downtown exceeded that for the City, the County and the MSA. The projected growth in the number of households, for 2004 to 2009, is also high for the downtown, as presented in the following table.

**Table 3. Household Trends and Projections: 1990-2009  
Memphis Downtown, City, Shelby County and MSA**

	Downtown	City	Shelby Co.	MSA
1990	7,491	251,600	303,569	365,447
2000	7,537	250,721	338,366	424,202
2004	8,156	256,191	354,604	454,941
2009	8,811	263,067	373,708	491,105
<i>Number Change</i>				
1990-2000	46	-879	34,797	58,755
2000-2004	619	5,470	16,238	30,739
2004-2009	655	6,876	19,104	36,164
<i>Percent Change</i>				
1990-2000	0.6%	-0.3%	11.5%	16.1%
2000-2004	8.2%	2.2%	4.8%	7.2%
2004-2009	8.0%	2.7%	5.4%	7.9%
<b>Representations of Larger Area</b>				
	1990	2000	2004	2009
Downtown as % of City	3.0%	3.0%	3.2%	3.4%
City as % of County	82.9%	74.1%	72.2%	70.4%
County as % of MSA	83.1%	79.8%	78.0%	76.1%

Source: Demographicsnow.com

The number of households in downtown Memphis has continued to increase, both in absolute terms and as a percentage of the households within the City, as whole. While there has generally been an increase in the number of households throughout the City (excluding the 1990 to 2000 period) and the County, each of these has witnessed a declining representation. Household growth in downtown Memphis has largely been young professionals without children, or so called “empty nesters,” whose children have left home to live on their own.

## 3. Household Income

In percentage terms, the median household income for downtown Memphis has exhibited the greatest growth when compared with the City of Memphis, Shelby County and the MSA. The median household income for downtown accounted for less than 31% of the median household income, citywide, in 1990. However, by 2009 the projected median household income in the downtown will account for nearly 64% of that of the City. By contrast, the median household income for the City, relative to Shelby County, and for the County, relative to the MSA, has continued to decline since 1990 (as presented in the following table).

**Table 4. Median Household Income Trends and Projections: 1990-2009  
Memphis Downtown, City, Shelby County and MSA**

	Downtown	City	Shelby Co.	MSA
1990	\$7,460	\$24,271	\$27,141	\$26,913
2000	\$18,042	\$32,785	\$39,630	\$40,226
2004	\$20,453	\$35,001	\$43,187	\$43,903
2009	\$24,005	\$37,765	\$49,003	\$49,799
<i>Dollar Change</i>				
1990-2000	\$10,582	\$8,514	\$12,489	\$13,313
2000-2004	\$2,411	\$2,216	\$3,557	\$3,677
2004-2009	\$3,552	\$2,764	\$5,816	\$5,896
<i>Percent Change</i>				
1990-2000	141.8%	35.1%	46.0%	49.5%
2000-2004	13.4%	6.8%	9.0%	9.1%
2004-2009	17.4%	7.9%	13.5%	13.4%
<b>Representation of Larger Area</b>				
	1990	2000	2004	2009
Downtown as % of	30.7%	55.0%	58.4%	63.6%
City as % of County	89.4%	82.7%	81.0%	77.1%
County as % of MSA	100.8%	98.5%	98.4%	98.4%

Source: Demographicsnow.com

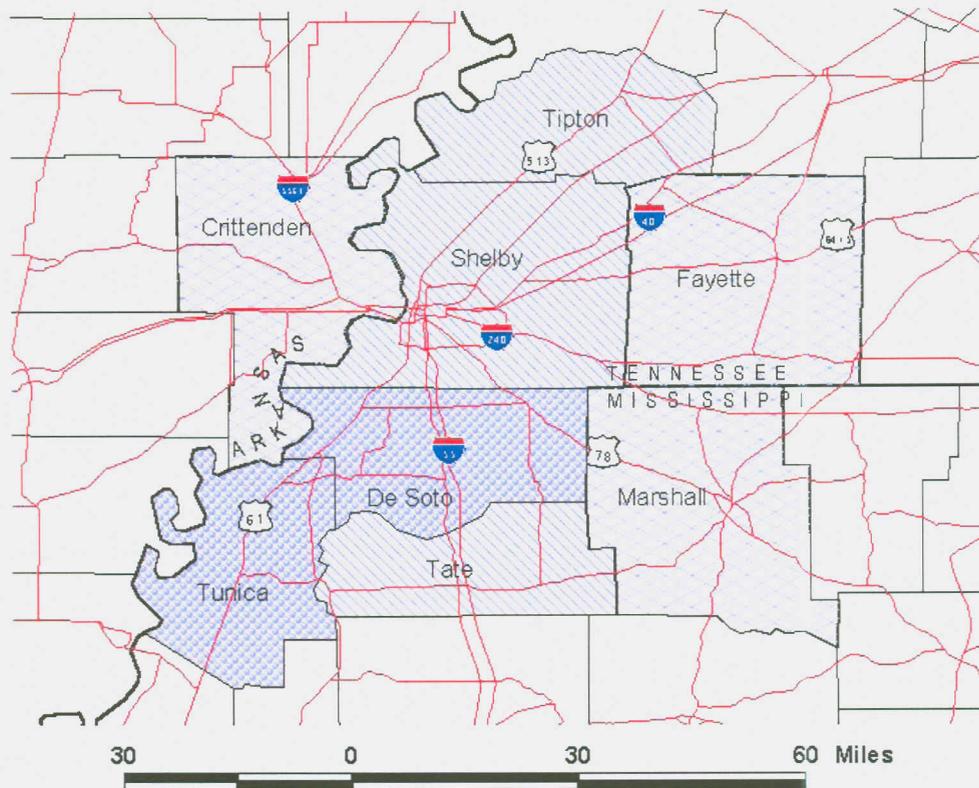
The estimated inflation over the 2000 to 2004 time period was 9.7%, such that only downtown Memphis, with a 13.4% increase in median household income, exhibited real growth during this time.

#### 4. Jobs and Businesses

Over the 1998 to 2002 time period there was a decline of approximately 14,000 jobs in Shelby County, representing a 3% loss. By comparison, over the same period there was a decline of about 11,300 jobs (or a 2.2% drop) in the MSA, indicating that there was actually some growth in employment in the MSA, outside of Shelby County. Similarly, the estimated loss of employment in downtown Memphis was 5,400 jobs, representing a near 19% decline between 1998 and 2002. As such, slightly more than one-third of the Shelby County job loss was experienced in the downtown and almost one-half of the job losses, across the entire MSA, occurred in the downtown.

Over the same 1998 to 2002 time period, there was a 3% increase in the number of business establishments in the downtown, contrasted to a 1.3% decrease in the number of businesses in Shelby County and a nominal 0.1% decline across all of the metropolitan area. The increase in establishments in the downtown, coupled with the loss of employment in the downtown, suggests that smaller businesses are increasing in the downtown, while larger businesses are either leaving, or perhaps relocating elsewhere in the metropolitan area. Three business sectors accounted for more than one-half of all the business establishments in the downtown in 2002. These include professional, scientific and technical services (26.5%); miscellaneous services, other services (except public administration) (at 15.2%); and, accommodations and food services (10.8%). Figure 2 presents a map of the changes in business establishments for the 1998 to 2002 time period for Shelby County and the larger region.

### Figure 2. Net Business Establishment Change 1998-2002 - Memphis MSA



MSA map prepared by RKG Associates, Inc. April, 2005  
Map data provided by ESR Land Geography Network

## 5. Location Quotient

This section reviews the location quotients for a variety of industry sectors in Shelby County, and the change from 1998 to 2002 in those location quotients. A location quotient is a method of comparing the relative strength and diversity of an economy by measuring change in employment of a specific region, such as Shelby County, to that of a broader region, such as the state of Tennessee. A quotient of approximately 1.0 implies that there is a relative balance between the smaller and larger regions, while a quotient of less than 1.0 indicates that the smaller geographic area is underperforming relative to the larger area. Similarly, a quotient of greater than 1.0 indicates that the smaller area, in this case Shelby County, is outperforming the state. These location quotients are presented in Table 4.

**Table 4. Change in Location Quotient: 1998-2002  
Shelby County and the State of Tennessee**

Industry Sector	1998	2002	# Change
Construction	0.90	1.02	0.12
Manufacturing	0.44	0.41	-0.03
Wholesale trade	1.50	1.40	-0.09
Retail trade	0.95	0.87	-0.09
Transportation & warehousing	1.84	1.92	0.08
Information	0.90	0.89	-0.01
Finance & insurance	1.03	1.15	0.12
Real estate & rental & leasing	1.14	1.14	-0.01
Professional, scientific & technical services	1.05	1.05	0.00
Management of companies & enterprises (offices and corporations)	2.76	2.22	-0.55
Admin, support, waste mgt, remediation services	1.38	1.29	-0.08
Educational services	0.80	0.78	-0.02
Health care and social assistance	0.93	0.95	0.02
Arts, entertainment & recreation	0.95	1.04	0.08
Accommodation & food services	0.91	0.97	0.06
Other services (except public administration)	1.07	1.14	0.06
Auxiliaries (excluding corporate, subsidiary & regional mgt)	1.37	1.57	0.20
Unclassified establishments	0.87	0.59	-0.28
Total	1.00	1.00	0.00

Source: U.S. Census Bureau and RKG Associates, Inc.

As noted in the preceding Table 4, there are several industry sectors where Shelby County outperformed the State of Tennessee, both in 1998 and in 2002. These include such sectors as wholesale trade, transportation and warehousing, real estate, offices and corporations and administrative and support services.

Similarly, as indicated in Table 4, there are some sectors of the economy where Shelby County under-performed relative to the State, including manufacturing, retail trade, information services, and education services.

Potential reuse and redevelopment of The Pyramid may be considered a “tool” for reinforcing these location quotients and for strengthening the weaker sector of the economy, for example:

- **Retail Trade** – This sector of the economy in Shelby County under-performed the State in 1998 and continued to do so in 2002. This occurred despite the strong tourism and regional draw in Memphis and Shelby County. As such, reuse of The Pyramid to strengthen the diversity of retail venues and enhance the retail gravity of the downtown should be considered.
- **Corporate Offices and Administrative Support** – Both of these sectors of the Shelby County economy strongly out-performed the State, both in 1998 and in 2002. However, both of these sectors have “slipped” somewhat from their relative position of strength in 1998. It is worth noting that the finance and insurance sector of the Shelby economy has realized marked improvement over the 1998 to 2002 period, and now performs well above the State. As such, a mixed office and financial center reuse of The Pyramid property, to reassert and further solidify these strengths, also has merit.
- **Arts, Entertainment and Recreation** – This sector of the Shelby County economy continues to improve, and surpasses the State performance in 2002, despite lagging behind somewhat in 1998. Reuse of The Pyramid to further this improvement should be considered, particularly as there are likely spin-off benefits to be realized within the retail and hotel sectors.
- **Accommodation and Food Services** – Although still somewhat below the State average economy in 2002, this industry sector in Shelby County has realized good growth over the 1998 to 2002 period and such improvement should continue to be nurtured.

## 6. Conclusions

Trends in selected population and economic indicators for downtown Memphis suggest there is a transition underway in the downtown, with a diminishing role as a central place for employment and business, to a broader place for residential growth, inclusive of new household development and higher incomes and purchasing power.

Potential reuse of The Pyramid, particularly with respect to retail, arts and entertainment and food related services, could provide a downtown venue for capturing this increased local consumer demand and purchasing power, as well as further strengthen and solidify some of those industry sectors where the Shelby County economy is strongest (tourism) or where there is room for improvement (the Convention Center and hotel occupancy).

## **B. Baseline Trends – Real Estate Indicators**

This section reviews recent trends and developments in the real estate market in Memphis and in its downtown, particularly as these trends may influence, or otherwise direct, future redevelopment and reuse scenarios for The Pyramid property. A more detailed discussion and analysis is presented in Appendix C of this report.

### **1. Office**

Brokers, and others active in the Memphis real estate market, indicate that despite recent positive signs of absorption and declining vacancies (which have fallen below 17% for the first time in over a year), there are still hurdles to overcome. For example, property taxes in Memphis, over the last five years, have reportedly continued to increase at a pace faster than can be passed through in the rent structure and lease terms. Oftentimes, as a result, tenants have found it worthwhile to upgrade to Class A office space as it has become competitive with Class B space.

Vacancy among the 11.1 million square feet (SF) of Class B space in the suburbs is reportedly at 21.6% and average rents are around \$16.50/SF. This is not too dissimilar to the 1.7 million SF of Class B space in the downtown, which is 21.5% vacant and where typical rents average \$13.50/SF. In contrast, there is about 1.5 million SF of Class A office space in the downtown, with a vacancy rate of 22%. Typical rents for Class A space in the downtown are around \$16.50/SF. This compares with a typical rent of \$22/SF for Class A space in the suburbs, where vacancy is only 13% for the estimated 7.1 million SF. In other words, Class A space downtown is about one-fourth less expensive compared to the suburbs, and yet the vacancy rate is nearly double.

In terms of new construction, the medical office/service sector appears to dominate in Memphis, notably in the downtown as the St. Jude Children's Research Hospital is in the midst of a \$1.0 billion expansion of its downtown campus, including an estimated 1.0 million SF of new office/research space. Despite this positive development in the downtown, brokers are generally concerned that absorption levels and lease rates have fallen below the threshold that would allow for new construction, at this time.

### **2. Retail and Tourism**

Brokers have indicated there is more than 2 million SF of retail development in the downtown, with typical leases ranging from \$8/SF to \$16/SF. Reportedly retail sales in the downtown core have been around \$125 million, with the Main Street district garnering more than \$40.0 million, and merchants and business along Beale Street accounting for \$25 million. According to the Center City Commission, the City of Memphis hosts over 9 million visitors annually, with at least one-third of those visiting Beale Street. Other attractions and venues in downtown Memphis include the following:

- Peabody Entertainment and Retail Center, a 300,000-square-foot urban entertainment center, anchored by a 22-screen movie theater.
- Gibson Guitar Plant/ Rock 'N' Soul Museum, which receives 140,000 visitors yearly.

- AutoZone Park, a 14,000-seat AAA ballpark located in downtown Memphis that sets attendance records every season.
- National Civil Rights Museum, which attracts 120,000 visitors each year.
- Mississippi riverboats, which draw 120,000 visitors each year.
- FedEx Forum, the new home to the NBA team the Grizzlies and the University of Memphis basketball team. The Forum is also the main venue for concerts.
- Orpheum Theatre, a 2,300-seat theater that is the most heavily ticketed off-Broadway venue in the country.
- Mud Island Park, which attracts 173,000 visitors annually.
- Memphis in May, a month-long international festival on the river drawing more than 250,000 yearly.
- National Ornamental Metal Museum, a one-of-a-kind museum and working blacksmith shop that attracts visitors from around the world.

According to the Commission, the average tourist to the City spends a little over \$190 during his/her visit. As such, retail venues, both for the resident population, and as a tourist draw, are important contributors to the Memphis economy.

Recent retail activity in the Memphis market has generally been the development of big box retailers, more or less removed from the core downtown area. However, the continued growth in households, residents and disposable income in the downtown will continue to heighten the desire and need for more localized retailing.

### **3. Hospitality**

The consultants prepared an analysis of the hotel market in Memphis, utilizing information and statistics provided by Smith Travel Research (STR), a nationally recognized resource for hospitality industry data. According to STR the average occupancy rate in Memphis for 2004 was a little over 62%. This is somewhat below the generally accepted industry standard of 65% which is the generous accepted benchmark for breakeven. The average revenue per hotel was about \$70/night, which is also somewhat low relative to investor needs for increasing the inventory of rooms. The data provided by STR does not indicate whether the existing inventory of hotel rooms in Memphis is particularly older stock, although of the 2,550 rooms sampled for the analysis only 8% were built after 2000. Newer hotel inventory, with conveniences for both the business and vacation traveler could assist in improving occupancy levels, as could an increase in demand resulting from reuse and redevelopment of The Pyramid property. It is interesting to note that from the STR study, the highest night for occupancy was Saturday night, at nearly 70%, suggesting that the inventory of hotels in Memphis is not necessarily utilized just by the business traveler, but also by tourists.

### **4. Residential**

The downtown population base is very diverse, including upper-income residents, young professionals, empty nesters, families and college students. As such, downtown Memphis provides a diversity of housing including multi-family development, more than

600 new single-family homes on Mud Island (with an additional 100+ planned) and a transformation of two of the City's public housing projects into mixed-income housing, under a \$35.0 million grant from HUD for development of Hope VI housing. Reportedly, more than 1,000 housing units, representing a \$150.0+ million investment, are under construction in the downtown. Despite this growth, local realtors have stated that the demand for new residential development continues to exceed the supply. While a potential residential use for The Pyramid Arena has not been considered, one or more residential high-rise buildings could potentially be constructed on the adjacent land. It is important to note that continued residential growth in downtown Memphis means continued growth in spending demand and aggregate household income, which in turn equate to "local consumers" to support additional retail, service and entertainment related venues.

## **5. Conclusions**

The residential market in downtown is strong and growing, and the specialty retail/restaurant market has responded, in part, to the strong residential market as well as the strong tourism market. Nonetheless, there are indicators that the retail market in Memphis and Shelby County continues to under perform the rest of the State, and it may be that many of the tourists are so called "day trippers" rather than overnight visitors. This possibly underscores why the hotel sectors performance on average is lackluster and the Convention Center utilization is less than desirable, despite a recent \$92 million expansion. The General Manager of the Convention Center blamed their inability to book more conventions on the lack of enough good quality hotel rooms within close proximity to the Center.

One likely strategy to emerge from these findings relative to The Pyramid is to use the building, and the site, to help improve business activity at the Convention Center, possibly through the construction of a new hotel, as well adding some form of tourism related activity, possibly coupled with a destination retail type of usage in The Pyramid to help keep tourists in Memphis longer. In theory this should help boost hotel occupancy and help justify a new hotel, as well as generate additional retail/restaurant spending. Naturally this should all be done in a way to compliment, not detract from the strong residential market.

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## V. INITIAL ANALYSIS OF POTENTIAL REDEVELOPMENT SCENARIOS

This section presents a comparative analysis of several reuse and redevelopment scenarios for The Pyramid property. This comparative analysis should be considered more of a conceptual framework for reviewing the potential return to the City of Memphis and Shelby County from a variety of proposed uses for the property. As such, this analysis considers employment (both direct and indirect) and tax revenues and does not consider any expenditures or incomes associated with the disposition of the property or the ongoing maintenance of the property. It also does not consider the possible purchase price, or any leasing arrangements that might be part of a more formal process of reviewing proposals by perspective bidders for the redevelopment rights to The Pyramid, so the numbers used in this analysis need to be refined.

As noted previously, the consultants had the opportunity to listen to five proposals from four developers and one non-profit group. One of the prospective developers wanted to demolish the building and construct a regional shopping center. The consultants do not believe this idea has merit given the unique nature of the building, so it was not analyzed. It is also considered to be an under-utilization of the site. The second presenter wanted to use The Pyramid to build an African-American International Trade Center, but did not provide enough details relative to their plan, or their ability to finance the project, so this potential scenario was also not evaluated.

The final three presenters represented experienced development teams with three very different types of proposals, ranging from a major federal office complex, to an aquarium with specialty retail/restaurants, to a theme park with specialty retail/restaurants. As the consultant team began to analyze each of these three proposals, it was evident they all made economic sense (from an impact perspective) to the City and the County. It also became evident that the more intensive tourism/retail type of usage created a higher economic impact than the office usage. Therefore, the consultants created additional hypothetical scenarios to evaluate what is referred to as a destination "lifestyle" type of retail center. Each of these potential use scenarios is described below:

- **Office Use** – Approximately 600,000 SF of Federal Government offices with an estimated employment of up to 1,500 persons and annual wages of \$50.8 million. This facility would consolidate existing Federal office uses from around the City and County, so it is unclear how much net new job generation would occur. Also, a small prison, as part of the courthouse, would be included within the building. An equally viable potential office usage for this site might be done in conjunction with St. Jude Children's Hospital.
- **AquariumMemphis and Specialty Retail** – A consortium of area developers and business partners have proposed an estimated 200,000 SF world class aquarium with

assorted specialty retail. It is estimated that this use might attract 1.2 million visitors annually. The proposed AquariuMemphis would employ an average of 250 persons, with wages of just over \$4.3 million. The associated on-site specialty retail and entertainment could equate to an additional 400,000 SF of development with more than 1,300 jobs and a payroll of \$34.5 million.

- **Pyramid Park and Specialty Retail** – Another proposed use for The Pyramid property is to develop an indoor theme and amusement park, incorporating the existing architecture of The Pyramid building into its design. It is estimated that 1.0 million visitors might attend this attraction annually. The estimated employment of the proposed 550,000 SF Pyramid Park is a little more than 900 jobs with a payroll of \$15.8 million. An additional 50,000 SF of specialty retail (not included in the park) is also anticipated under this scenario. This would employ an additional 160+ persons with an average annual payroll of \$4.3 million.
- **Destination/Lifestyle Center** – Another consideration for reuse and redevelopment of The Pyramid property might be as a destination/lifestyle center, to capitalize on and enhance the 9.0+ million annual visitors to the City of Memphis. Possible retail uses at such a center might include an alternate theme-based program, in conjunction with a retail center such as Faneuil Hall in Boston. This scenario assumes a potential visitor count of 2.0 million persons annually. Under this scenario an approximate 2,000 retail and service-related jobs are assumed to be created with an annual payroll of more than \$51.6 million.

A spreadsheet model has been developed in order to estimate the potential employment and revenues to the City of Memphis, and Shelby County, that might be derived from each of the scenarios. The estimated employment includes the direct employment, and associated wages, from reuse of The Pyramid property, as well as the indirect or spin-off employment and wages. The estimated revenues are derived from sales tax dollars returned to the County and the City, from consumer spending by both the expanded employment base and the annual visitors, and, the estimated real estate property taxes to be received from returning The Pyramid to the tax rolls.

There are many inputs and assumptions that have been utilized in preparing this spreadsheet model. Potential expansions and refinements to these assumptions are presented in the next section of this report. However, the assumptions used herein form the basis for comparing each of these alternative scenarios in terms of what they would give back to the City and County. The detailed spreadsheet analysis is found in Tables 6 and 7.

As indicated in Table 6, the combined taxes to both the City of Memphis and to Shelby County range from \$1.5 to over \$10 million on an annual basis assuming full build-out. This reflects the presumed addition of The Pyramid itself to the tax rolls, as well as the estimated increase in sales tax and hotel occupancy taxes to the City and County. When these cash flow streams are discounted over a 15 year period at a four percent discount rate, the present value of these benefits range from a low of \$16 million with the Federal office usage to a high of over \$100 million with the retail lifestyle center. It should be noted that all of the

entertainment/retail/restaurant uses generate a present value in excess of the estimated \$28 million debt on the building, and from an economic/fiscal impact perspective, this type of usage for The Pyramid is recommended.

### **A. Assumptions and Sensitivity of Analysis**

Several assumptions have been used as input into the attached spreadsheet model. Each of these is discussed, in turn, noting caveats and the sensitivity of the assumption, and hence the model, to more refine data and inputs. All estimates, except for property tax rates, are presented in constant 2005 dollars. All estimates of visitors and any associated spending, either from visitors or employees, is assumed to be net new as a result of the reuse of The Pyramid property.

- **Direct Employment** – All employment estimates are assumed to be net new, thereby not reflecting any transfer of employment or possible relocation of businesses or employment from elsewhere in the Memphis metropolitan area. Estimates of employment have been developed using standard ratios of the number of employees per square foot of building area as developed by the Urban Land Institute. To the extent that actual or estimated employment levels could be provided for each scenario, these estimates would be more refined. As an example, the proposed developers of AquariuMemphis have indicated there may be 200 to 300 jobs created, and as such, this analysis uses the midpoint of 250 jobs.
- **Direct Wages** – Estimated annual wages provided by the Tennessee Office of Economic and Industrial Development have been used in estimating wages for these scenarios. These estimates have been updated to 2005 dollars. If any of the proposed development for The Pyramid property had more specific estimates for the wages that might be paid to employees, this would result in a refinement to this analysis.
- **Multipliers** – Standard employment and wage multipliers, as developed by the US Department of Commerce for the RIMS II modeling, have been used in this analysis. These multipliers are broad based across many major industries, but have been specifically developed with the assistance of the US Department of Commerce for the Memphis metropolitan area.
- **Employee Spending** – Annual employee spending demand, as prepared by the International Council of Shopping Centers and the Urban Land Institute have been used in this analysis. These estimates reflect the amount an average office worker spends on selected goods and services during the year while “on-the-job”. Additionally, all spending is assumed to be net new, as is employment.
- **Indirect Employment and Wages** – The direct employment and wages that have been estimated for each of the reuse scenarios would also result in a multiplier effect, as prepared by the US Department of Commerce (and noted previously). However, it is unreasonable to assume that 100% of these indirect jobs and wages would be realized locally. As such, this analysis estimates that as much as 30% of the indirect impacts

would be realized in the local economy. As with direct employment, all indirect employment is also assumed to be net new.

- **Estimated Sales On-Site and in Downtown** – The potential new employees, estimated as a result of each development scenario, would have their own level of spending demand and it is assumed that a certain percentage of this spending would occur at the venue, or on-site, while the remainder would occur at nearby merchants and services in downtown Memphis. As an example, employees of The Pyramid Park and Specialty Retail would probably be less likely to venture into downtown for lunch and incidentals than would the employees of the proposed office use.
- **Sales Tax** – Conversations with representatives of the City of Memphis Finance department indicated that the City receives 2.25% in sales tax, or in other words 2¼¢ on every taxable \$1.00 spent. This analysis assumes that all retail, restaurant and other purchases are taxable. To the extent that tax rates are different for different types of purchases, these estimates could be further refined.
- **Assessment Values** – The consultants have estimated assessment values for each of the proposed development scenarios, for both the primary and the secondary use, based on experience in other markets and similar type projects. To the extent that these assessment values could be refined with local data and input from the City of Memphis Assessor's office, then these estimates could be refined. Property tax rates have been provided by Shelby County and the City of Memphis. These tax rates are for commercial properties, which are taxed at 40% of their assessment value. Tax rates are for Fiscal Year 2004.
- **Estimated Retail Sales** – Sales at each of the proposed venues, exclusive of the sales to be generated by the employees, have been estimated utilizing average sales per SF values as developed by the Urban Land Institute and reflecting the experience of the consultants in other markets and on similar projects. If actual estimated sales volumes were provided for each proposed use, then these estimates would be refined. As an example, developers of the proposed AquariumMemphis have suggested that annual sales would be about \$16.5 million with perhaps 20% retail related. As such, these estimates have been used in this analysis. All sales are assumed to be net new and do not factor in any potential for transferred sales.
- **Origin of Visitors** – Each scenario, except for the proposed office use, have a certain level of visitors associated with them. A certain percentage of these visitors are assumed to be from the local area. Another component of visitors is assumed to be within a reasonable driving distance and considered to be day trippers. The remaining visitors are assumed to be from greater distances and considered to be overnight visitors. Studies by Economic Research Associates for aquariums in other locations, notably Chattanooga, have estimated this distribution, and these percentages have been used in this analysis.

- **Off-Site Spending of Visitors** – As with the origin of visitors, potential off-site spending of visitors for aquarium related development has been prepared by Economic Research Associates for other aquariums, notably Chattanooga. These have been used in this analysis. All other estimates have been prepared by the consultants and are subject to revision.
- **Additional Hotel Demand, Room Revenue and Tax** – The estimated overnight visitors are presumed to spend the evening in a Memphis (Shelby County) hotel, at an average occupancy of 2.5 persons per room. The estimated average room rate of \$70/night, as presented by Smith Travel Research, has been used. A hotel occupancy tax of 6.7% (all to Shelby County) results in the estimated tax revenue for the County. To the extent that the average number of persons per room, room rates or tax rates may change, these estimates would be further revised.

## B. Additional Research and Analysis

There are also additional factors impacting the potential reuse and redevelopment of The Pyramid property that have not been addressed in this analysis, but that would require additional research and information. These are as follows:

- **Traffic** – This research has not addressed potential traffic volumes, impacts and other mitigation issues relative to a reuse and redevelopment of The Pyramid property associated with the potential for an additional 1.0+ million visitors into downtown Memphis.
- **Parking** – Similarly, the availability of adequate on-site, or nearby parking, has not been addressed in this research. Presumably, parking is available as was required with the original use of The Pyramid property. Whether this is adequate for any new or expanded use is a matter of additional research.
- **Debt** – As noted previously, this analysis does not consider financial implications of the disposition, or ongoing operation and maintenance of The Pyramid property. Whether the City of Memphis were to sell the property outright, enter into long term lease agreements (implying property management responsibilities), or consider some hybrid partnership for managing the property, is also a matter of additional research.
- **Auxiliary Uses** – While the reintroduction and expansion of consumer activity and spending power in downtown Memphis as a result of a “new” Pyramid property would likely result in additional demand and development of other retail, service or entertainment venues, these have not been explored in this analysis. Also, where such additional development may occur, either on-site or in the surrounding downtown area, assuming that other parcels of land are available for development or redevelopment, would require additional research and analysis.
- **Additional On-Site Development** – The potential exists to construct one or more new buildings on the site, possibly in conjunction with some structured parking. No new on-site or off-site construction impacts were factored into this analysis.



TABLE 7 : MODEL INPUTS/ASSUMPTIONS: (constant 2005 \$)		Constant for All Scenarios	Office Use	Aquarium Specialty Retail	Memphis Specialty Retail	Pyramid Park Specialty Retail	Destination/Lifestyle Center
11.	Employment Assumptions on a per SF Basis						
	SF per Office Employee	400			250		
	SF per Retail Employee	300					
	SF per Aquarium Employee	750					
	SF per Amusement Employee	600					
<b>Source : Urban Land Institute and RKG</b>							
12.	Estimated Annual Wages - 2005						
	All Industries	\$38,176					
	Natural Resources & Mining	\$31,938					
	Construction	\$40,252					
	Manufacturing	\$48,775					
	Transportation and Warehousing	\$45,229					
	Wholesale Trade	\$49,105					
	Retail Trade	\$25,839					
	Professional Office	\$33,862					
	Information Services	\$42,917					
	Finance	\$62,267					
	Education and Health	\$37,402					
	Leisure and Hospitality	\$17,225					
<b>Source : Tennessee Office of Economic and Industrial Development and RKG</b>							
13.	RIMS II Multiplier Impacts		Earnings	Employment			
	Performing Arts and Museums		0.7452	0.5576			
	Amusements		0.9308	0.6740			
	Wholesale Trade		0.7418	1.1066			
	Retail Trade		0.7206	0.5379			
	Corporate Office		0.6705	1.2230			
	Food and Drink		0.9878	0.4068			
	Real Estate		1.7502	1.1379			
	Accommodations		0.7577	0.5850			
	Personal Services		0.7417	0.5468			
<b>Source : US Department of Commerce</b>							
14.	Estimated Annual Spending Demand - Direct Employees						
	Lunch	\$1,150					
	Apparel	\$525					
	Other Shopper Goods	\$175					
	Incidentals	\$175					
	Other Food Items	\$235					
	Miscellaneous	\$75					
	Dinner and Drinks	\$105					
	Other Non-food	\$260					
<b>Source : International Council of Shopping Centers, Urban Land Institute and RKG</b>							
15.	Indirect Employment @ Local Capture	30.00%					
	Indirect Annual Wages @ Local Capture	30.00%					
<b>Source : RKG Associates, Inc.</b>							
16.	Estimated Sales On-Site		50.00%	75.00%	75.00%	70.00%	
	Estimates Sales in the Downtown		50.00%	25.00%	25.00%	30.00%	
<b>Source : RKG Associates, Inc.</b>							
17.	Sales Tax Returned to Memphis	2.25%					
<b>Source : City of Memphis, TN</b>							
18.	Estimated Assessment Value per SF - PRIMARY		\$85	\$85	\$85	\$85	
	Estimated Assessment Value per SF - SECONDARY		\$0	\$85	\$85	\$85	
<b>Source : RKG Associates, Inc.</b>							
19.	Estimated Retail Sales per SF - PRIMARY		\$0	\$16,500,000	\$75	\$400	
	Estimated Retail Sales per SF - SECONDARY		\$0	20.00%	\$225	\$350	
<b>Source : Urban Land Institute and RKG</b>							
110.	Local Visitors		0.00%	15.00%	15.00%	15.00%	
	Non-local - DAY TRIPPER		0.00%	45.00%	45.00%	45.00%	
	Non-local - OVERNIGHT		0.00%	40.00%	40.00%	40.00%	
<b>Source : Economic Research Associates and RKG</b>							
111.	Off-Site Spending by Local Visitors		\$0	\$25	\$15	\$5	
	Off-Site Spending by Non-local - DAY TRIPPER		\$0	\$35	\$15	\$25	
	Off-Site Spending by Non-local - OVERNIGHT		\$0	\$85	\$85	\$85	
<b>Source : Economic Research Associates and RKG</b>							
112.	Present Value Analysis - Term of 15 years, constant 2005 dollars, discount rate of 4.0%						
<b>Source : RKG Associates, Inc.</b>							

## **VI. APPENDIX A**

### **Technical Information on The Pyramid**

#### **Seating:**

- 20,142 seats for basketball
- 20,000+ seats for concerts
- Half house curtain system to accommodate 5,000 to 10,000 seats

#### **Electrical:**

- One (1) 5 wire 800 amp per leg, 30-208v., fused disconnect, backstage left
- Two (2) 5 wire 600 amp per leg, 30-208v., fused disconnect, backstage left
- One (1) 5 wire 400 amp per leg, 30-208v., fused disconnect, backstage right

#### **Lighting:**

- 185 Widelite, 1000w MVR fixtures, providing 146 horizontal foot candles, 75 vertical foot candles and 65 color rendering.

#### **Loading Dock:**

- Four (4) 50A bus electrical outlets.
- Parking for seven (7) trucks.

#### **Freight Elevator:**

- One (1) Dover 10,000 lb. Capacity.

#### **Spotlights:**

- Eight (8) Strong, Xenon Gladiator IIIs

#### **Staging:**

- Sico staging. 130, 4' x 8' deck panels.
- Four (4) eight rise modular step w/rails & wheels, carpeted. Two (2) six rise modular step (2+2+2 w rails & wheels, carpeted).
- Two (2) rise step w/rails & wheels, carpeted.
- Eighteen (18) 8' guard rails.
- Four (4) 4' guard rails.
- Ten (10) 8' chair stops.
- House barricade.
- Handicap ramp.

**Dressing Rooms:**

- One (1) Women's chorus room. 480 sq. ft. Showers and restroom.
- One (1) men's chorus room. 480 sq. ft. Showers and restroom.
- Eight (8) dressing rooms. 290 sq. ft. each. Each room is equipped with bath tub, shower units.

**Green Room:**

- 500 sq. Ft.

**Rigging:**

- Floating grid.
- Floor to low beam: 95'
- Total load capacity, 150,000 lbs.
- Catwalk around perimeter of grid.

**Production Office:**

- 250 sq. ft.

**Security:**

- Uniformed security on duty at all times. Local off-duty police officers, private uniformed security guard service and peer group security available for events.

**Sound:**

- Anchitech sound system. Sound clusters located on grid. Sound cluster located on bottom of scoreboard. Speakers located around main concourse area.

**Disabled Patron Services:**

- Seating for disabled patrons is available on each level. Accessible parking is available at the southeast corner of the facility. This is located near the handicap entrance of the building. All concession stands and restrooms are accessible.
- The backstage areas include 10 dressing rooms, four locker rooms; a media work room, interview room, show production office and green room.
- The giant center hung scoreboard has the latest state-of-the-art LED video display board technology. The entire system features full video production capabilities; four center-hung 12-foot by 10-foot replay boards and 24 concession stand monitors.

ROOM DIMENSIONS AND CAPACITIES					
Room	Sq. Ft.	Shape	Ceiling	Reception	Banquet
Tiger Club	10,275	30x29	12'	650	325
Pyramid Crown Room	2,538	137x75	12'	198	128
Riverside Club	6,513	54x47	12'	360	320
Gallery of Stars	6,513	irregular	12'	360	320
Plaza, Gate Areas 1-4	10,700	irregular	60+'	630	328
Plaza North	19,592	irregular	60+'	1,260	656
Plaza South	19,592	irregular	60+'	1,260	656
Plaza	39,184	irregular	60+'	2,520	2,400

### Interior View of Arena



## VII. APPENDIX B

### Memphis Meetings – April 11-13

Archimania	Barry Yoakum, AIA Todd Walker
BCBS	Calvin Anderson
Belz Enterprises	Jack Belz John Dudas Ron Belz Andy Groveman
Capital Advisers, Inc	John DeCell, CRE
Center City Commission	Jeff Sanford Jerome Rubin
Citizen	Ken Goff
Citizen (Retail use)	Lester Lit
Citizen (Pyramid Park)	Rebecca Webb Wilson
City of Memphis	Robert Lipscomb
Colliers –Wilkenson & Snowden	Dan Wilkenson, SIOR, CRE
Commercial Appeal	David Williams
CSP/Idea	Peter Chermayeff
D.O.I.N.G	James Deke Pope Minister Suhkara Yahew
Ericson Group Inc	Jimmy Ogle Greg Ericson Niki Anthony
FaxonGillis	Bobbi Gillis
LEDIC Management	Scott Ledbetter
Luminetx	James Phillips
Memphis Convention \$ Visitors Bureau	Kevin Kane
Memphis Cook Convention Center	Pierre Landaiche III
Memphis Zoo	Jim Prentiss
Metro Waste Management	Lewis Dunn
NAI SAIG Company	Edward Saig, SIOR, CRE
Riverfront Development Corporation	Benny Lendermon
Shelby County Commission	John Willingham
Shelby County	John Fowlkes
SMG Management	Alan Freeman
SMG Management	Denise Brown
Turley Development	Henry Turley
V. Lynn Evan	V. Lynn Evans

## VIII. APPENDIX C

### A. Market Analysis

#### 1. Overview

Memphis has a diversified economy consisting of many well-established companies such as Federal Express, International Paper, Morgan Keegan, AutoZone, M.S. Carriers, and First Tennessee National Bank. Historically, this diversification has translated into relative stability during times of economic uncertainty. A renewed sense of enthusiasm is strong in Memphis as a result of the interest shown by biomedical firms in establishing a presence in the city.

Memphis is a major health center that includes the University of Tennessee medical and dental schools, the St. Jude Children's Research Hospital, Sofamor Danek, and other notable medical facilities. The city is focusing its efforts to attract other biomedical research and technology companies.

#### Office- Downtown Memphis

Downtown Memphis is the legal, financial, and governmental hub for the region and with a workforce population topping 80,000; it is the largest employment center in the MSA. Space leases for only \$13-21 per square foot - a figure that prompted *Expansion Management* magazine to recently rate Memphis the sixth-least-expensive downtown office market in the nation.

#### Comparison of Downtown to the Overall Market

Inventory SF	Class A		Class B	
	CBD	Outside CBD	CBD	Outside CBD
Total	1,530,255	7,099,508	1,711,725	11,050,143
Vacant	335,608	904,776	368,322	2,387,948
Vacant Sublease	0	105,774	0	138,438
Under Construction	0	64,486	0	0
Net Absorption	-31,239	362,157	-82,400	-364,680
Vacancy Rate	21.9%	12.7%	21.5%	21.6%
Rental Rates <sup>(1)</sup>	\$16.55	\$22.28	\$13.58	\$16.57
Sales Price (Avg.)	NA	\$165	NA	\$75
Op. Exp.	\$7.50	\$7.50	\$6.75	\$6.75
Taxes	\$1.75	\$2.90	\$1.50	\$1.90

(1) Rental rates are gross, and include all taxes and operating expenses. Typical work letter is \$25/ SF.  
Source: SIOR Comparative Statistics

#### 2. Retail

The metro retail market continues to be strong at year-end 2004. With 1.3 million square feet of new inventory added to the market, the overall vacancy rate remained low at 9.1%

and the year-end absorption total 1.2 million square feet. The Memphis retail market experienced a decrease in overall asking rates and averaged \$11.58/ SF at YE04.

By comparison, Downtown/Midtown's vacancy rate was 11.3% at YE04, which equates to 275,977 SF of vacant space. Downtown offers more than 2 million square feet of existing retail, with leases ranging from \$8 to \$16 per square foot (average price of \$12.44/ SF).

While most of the new construction was in the suburbs, there are two notable exceptions. Home Depot opened a 77,000 square foot store in Midtown, while Wal-Mart opened a 200,000 square foot Supercenter in a south sub market. Brokers interviewed did not believe that there will be many more of these developments in or near the City center, as they are expensive to build and can be difficult to site. One exception is Henry Turley, who is expecting to develop a strip center on 8-12 acres in the Uptown Initiative area.

The Center City Commission is aggressively recruiting retailers and offers incentives to qualifying businesses, such as apparel, toy stores, specialty shops, sporting goods stores, video rental stores, home furnishing stores, shoe stores, and service retail.

### 3. Hotel

The consulting team ordered a Smith Travel Research Report (STR) to get statistics on the hotel market. When requesting the report, no more than a certain percentage can be from one company. Smith Travel takes the data from these hotels and merges them into a trend report to create an overview. Marriott Memphis, The Peabody, The Hilton, The Radisson, Doubletree Memphis, French Quarters Suites, Embassy Suites, Springhill Suites and the Madison (a total of 2,552 rooms) were included in their survey:

Item	2004 Data	% Change from previous year
Occupancy (%)	62.5%	-0.7%
Average Daily Rate (ADR) (\$)	\$112.48	0.7%
RevPAR (\$) <sup>(Note 1)</sup>	\$70.34	0.0%
Supply	814,668	2.7%
Demand	509,415	2.1%
Revenue (\$)	\$57,300,159	2.8%

Source: Smith Travel Research

Note 1: RevPAR stands for revenue per available room. It is the room revenue divided by the room available. It reflects the true rate that a hotel is receiving for revenues.

When broken down by 12-month moving averages, it was interesting to note that vacancy remains fairly level throughout the year from a low of 61% (first four months of '04) to a high of 63% (the last two months of '04). There is no "high" or "low" season in these hotels.

In the analysis of three-year occupancy by night, Sunday was the lowest at 41.2%. What is interesting is that the highest occupancy is Saturday night at 69.8%, which indicates that the rooms are not being occupied by business travelers. The bottom line is that the

revenue per available room (RevPAR) is too low to allow more hotel development at this time.

#### **4. Residential**

Memphis metropolitan home sales set records in 2004 and contributed to strong employment growth in the construction industry. Memphis home sales surged 13.8% from the previous year. After four consecutive record years, home sales are expected to ease but remain close to record levels.

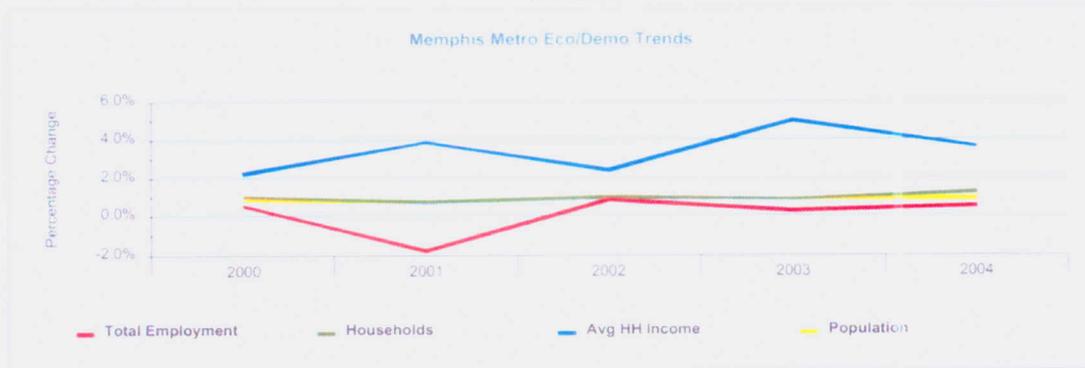
Memphis continues to be a very affordable place to live. A recent survey of 99 national housing markets found that the Memphis market is the second most undervalued. According to the report, despite generally favorable signs, incentives offered by builders in the Memphis market have become more common at certain price points, suggesting some softening may already be occurring. Interest rates will significantly influence the strength of this sector of the economy in the future.

The downtown residential district is growing at 10.3% a year. In a ten-year period the population grew from 500 residents to over 10,000. Downtown's diverse population is made up of upper-income residents, young professional singles, tourism/service-related employees, families, empty nesters, and college students. Of the more than 80,000 people who work Downtown, 31% reside Downtown. The downtown employee is an ideal candidate for Downtown residency, and as new businesses open and new attractions are developed, this market will continue to grow.

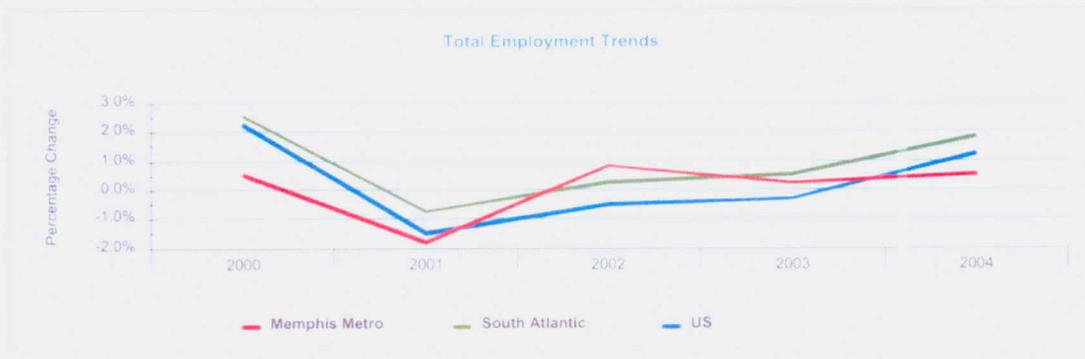
Multi-family construction starts Downtown are the highest in Shelby County, as are the square foot lease rates and monthly occupancy rates. Average apartment rental is \$733 per month (\$0.82 per square foot), compared to metro Memphis at \$635 per month (\$0.58 per square foot). Historically, the average sales price of a downtown residential property was \$192,092 (\$108 per square foot), compared to metro Memphis at \$127,170 (\$63.25 per square foot).

The current residential base within the downtown core exceeds 4,000 units. More than 1,000 units (\$150+ million investment) are under construction, which is estimated to add more than 2,000 residents in the near future. Plenty of property is still available for development. The only negative remark we heard in our interviews was that the school districts in Memphis were considered inferior to the suburban alternatives, hampering families with children from locating downtown.

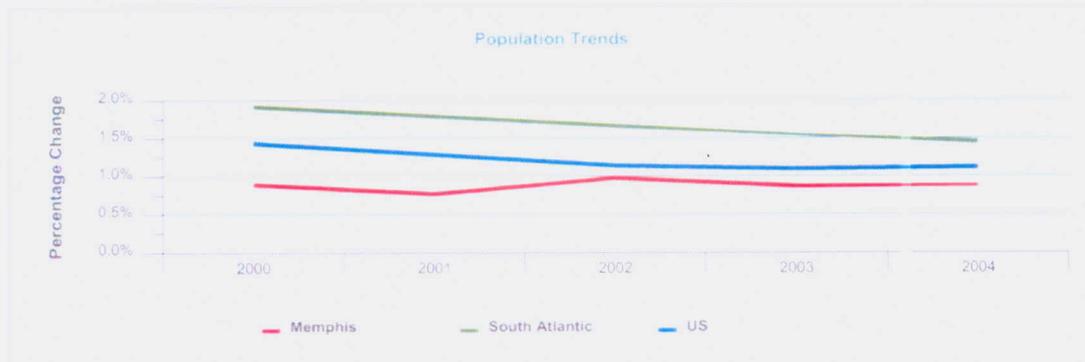
## Market Exhibits Overall



Provided by Economy.com. Period ending 12/31/04



Provided by Economy.com. Period ending 12/31/04



Provided by Economy.com. Period ending 12/31/04

## 5. Office

The following report is taken from data provided by CBRE, Cushman & Wakefield, Parkway, Center City Commission and SIOR, plus interviews with local brokers.

### a) Overall Market

Memphis is composed of eight sub-markets, the largest of these in the east, with 137 buildings and 9.8 million SF of space, followed by the downtown area. For the first time in four quarters, overall market absorption was in the black and the overall vacancy has dropped to 16.9%. The major leases were absorption of sublease space in the 385 Corridor sub market followed by direct lease in the Downtown sub market. Still, statistics show that the overall asking rates for the Memphis market have declined steadily since the third quarter 2003. As is typical in most soft markets, there is a flight to quality as Class B tenants upgrade their space and move up to Class A buildings. This leads to a further decline in Class B vacancies (now over 21%) and their rental rates.

Property taxes have increased over the last five years at a greater rate than the rental rates. As leases are quoted on a "gross" basis (including taxes) this concerns landlords who can have an issue in passing the increases on to the tenants in a soft market.

The investment market also softened in 2004 with less than \$50 million in total sales. Sublease space continued to be absorbed and new construction was primarily limited to medical office buildings, which were 50% or more pre-leased. In fact, the major new construction is at the St. Jude Children's Research Hospital that is in the midst of a \$1 billion expansion of its downtown medical campus, including 1 million square feet of new office/research space. St. Jude will hire an additional 2,000 employees over the next 3 years.

Overall, absorption and lease rates fall below the threshold that will allow for new construction. Brokers are hopeful that the market is moving toward equilibrium.

### b) Downtown Memphis

Downtown Memphis is the legal, financial, and governmental hub for the region, and with a workforce population topping 80,000 it is the largest employment center in the MSA. Space leases for only \$13-21 per square foot - a figure that prompted *Expansion Management* magazine to recently rate Memphis the sixth-least-expensive downtown office market in the nation.

**Notable Employers in the Office Market Include:**

	# of Employees
Methodist Hospital	6,700
First Tennessee Bank	2,700
Veterans Administration Medical Center	1,875
Regional Medical Center	1,775
St. Jude Children's Research Hospital	1,700
AutoZone	1,000
UT Medical School	950
Guardsmark	900
National Bank of Commerce	775
Morgan Keegan	750

**Comparison of Downtown to the Overall Market**

Inventory SF	Class A		Class B	
	CBD	Outside CBD	CBD	Outside CBD
Total	1,530,255	7,099,508	1,711,725	11,050,143
Vacant	335,608	904,776	368,322	2,387,948
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Taxes	\$1.75	\$2.90	\$1.50	\$1.90

1. Rental rates are gross, and include all taxes and operating expenses. Typical work letter is \$25/SF.  
Source: SIOR Comparative Statistic

**6. Retail**

The following report summarizes the *CBRE Market View Memphis Retail, Fourth Quarter 2004*, Center City Commission, and interviews with local brokers.

**a) Overall Market**

The retail market continues to be strong at year-end 2004. With 1.3 million square feet of new inventory added to the market, the overall vacancy rate remained low at 9.1% and the year-end absorption totaled 1.2 million square feet.

A great deal of new development in 2004 was in the form of large, big box properties, primarily in the outlying areas of the Memphis MSA. Additionally, there was a continued growth of 350,000 SF of neighborhood centers in 2004. Due to a significant amount of pre-leasing and continued consumer spending, vacancy rates in the neighborhood center property type are lower than the 12.5% rates recorded at year-end 2003. Moreover, rental rates in these centers have gradually increased over the past two years.

Not all development has been in the suburbs. Home Depot opened a 77,000 square foot store in Midtown, while Wal-Mart opened a 200,000 square foot Supercenter in a south sub market. Brokers interviewed did not believe there will be many more of

these developments in or near the City center, as they are expensive to build and can be difficult to site. One exception is Henry Turley, who is expecting to develop a strip center on 8-12 acres in the Uptown Initiative area.

The overall vacancy rate for retail space was 9.1% at YE04. Downtown/Midtown's vacancy rate is 11.3%, which equates to 275,977 SF of vacant space.

The Memphis retail market experienced a decrease in overall asking rates and averaged \$11.58/ SF at YE04. The Downtown/Midtown rate was higher and averaged \$12.44/SF.

There are 382,000 SF of new construction now in the works. Local developers and brokers expect new starts to decline as interest rates rise. The wild card is the high population growth in Memphis, which now stands at 10.3%. While population growth continues, retail will continue to be built.

#### **b) Downtown Memphis**

The Downtown Memphis retail market is made up of a highly diverse population that includes upper-income residents, young professional singles, families, college students, tourists from around the world, and thousands of employees - all in need of goods and services. Market research has identified retail as one of the key elements needed to enhance the Downtown success story.

In recent years, the Downtown Core has recorded \$125 million in retail sales, with the Main Street district claiming more than \$40 million, and Beale Street alone reporting \$25 million.

Neighborhood centers such as Harbor Town Square, the South Main Historic District, and locations throughout the Medical Center provide numerous storefronts to support the Downtown Memphis market. The edges of the Downtown Core and along major vehicular corridors present a growing number of community center opportunities that should support western and central Memphis. Locations along historic Beale Street and at the Peabody Place Entertainment and Retail Center provide opportunities for shops that will serve the entire Mid-South region.

The Center City Commission is aggressively recruiting retailers and offers incentives to qualifying businesses, such as apparel, toy stores, specialty shops, sporting goods stores, video rental stores, home furnishing stores, shoe stores, and service retail.

Downtown offers more than 2 million square feet of existing retail, with average leases ranging \$8 - \$16 per square foot.

#### **c) Primary Factors Driving Retail Growth:**

- Downtown has more than 10,000 residents living in market-rate housing.
- Residents of Downtown's 38103 zip code have an average adjusted gross income of \$70,000.

- Nearly 45,000 residents in the adjacent Midtown neighborhood have an average household income exceeding \$50,000.
- Some 80,000 employees with an average household income of \$51,000 work Downtown every day.
- Memphis Retail Trade Area - retail sales of more than \$12 billion annually.
- Retail businesses have gross receipts exceeding \$685 million.
- More than 7 million visitors come to Downtown annually, pumping \$2 billion into the local economy.

## **7. Tourism**

### ***Information was gathered from the Center City Commission.***

Memphis receives 9 million visitors a year. Beale Street, the most popular tourist destination in the State, has 3 million of those visitors a year. On average, each tourist spends \$191, generating community-wide revenues of \$1.25 billion and local and state tax revenues of \$75 million.

It is obvious that tourism is a key part of Downtown Memphis' development picture. And with the number of tourists ever increasing, a demand for new hotel rooms, convention space, and retail offerings has resulted.

Retail businesses are benefiting from the strong tourism industry with retail gross receipts exceeding \$685 million in 1999. About 35 percent of the retail businesses are food and beverage related, averaging \$130 million in gross sales. Beale Street stores that are part of national chains are some of the highest grossing units in the country.

### **Major Points of Interest in the Tourism Market**

- Beale Street, Tennessee's top tourist attraction, with more than 2 million visitors
- Peabody Entertainment and Retail Center, a 300,000-square-foot urban entertainment center, anchored by a 22-screen movie theater
- Gibson Guitar Plant/ Rock 'N' Soul Museum, which receives 140,000 visitors yearly
- AutoZone Park, a 14,000-seat AAA ballpark located in downtown Memphis that sets attendance records every season
- National Civil Rights Museum, which attracts 120,000 visitors each year
- Mississippi riverboats, which draw 120,000 visitors each year
- FedEx Forum, the new home to the NBA team the Grizzlies and the University of Memphis basketball team. The Forum is also the main venue for concerts.
- Orpheum Theatre, a 2,300-seat theater that is the most heavily ticketed off-Broadway venue in the country
- Mud Island Park, which attracts 173,000 visitors annually

- Memphis in May, a month-long international festival on the river drawing more than 250,000 yearly
- National Ornamental Metal Museum, a one-of-a-kind museum and working blacksmith shop that attracts visitors from around the world
- WONDERS: Located in The Pyramid, the Memphis International Cultural Series has brought millions of people into Downtown to view such exhibits as Ramesses the Great, Napoleon, Splendors of the Ottoman Empire, Titanic, Imperial Tombs of China, Eternal Egypt, and Czars: 300 Years of Grandeur.

#### a) Hotel

The consulting team ordered a *Smith Travel Research Report (STR)* to get statistics on the hotel market. STR is the most reliable source of hospitality industry data, as hoteliers know that the information given to this service helps all of them in understanding their markets. When requesting the report, no more than a certain percentage can be from one company. Smith Travel takes the data from these hotels and merges them into a trend report to create an overview. The following hotels were included in their survey:

Hotel	Open Date	Number of Rooms
Marriott Memphis	1985	600
The Peabody Memphis	1982	454
Hilton Memphis	1975	405
Radisson Hotel Memphis	1986	280
Doubletree Memphis	1987	266
French Quarter Suites Hotel	1984	105
Embassy Suites Memphis	1989	220
Springhill Suites Memphis Downtown	2002	102
Madison Hotel	2002	110
Total		2552

In the following chart, RevPAR stands for “revenue per available room.” It is the room revenue divided by the rooms available. It reflects the true rate that a hotel is receiving for revenues.

Item	2004 Data	% change from year before
Occupancy (%)	62.5%	-0.7%
Average Daily Rate (ADR) (\$)	\$112.48	0.7%
RevPAR (\$)	\$70.34	0.0%
Supply	814,668	2.7%
Demand	509,415	2.1%
Revenue (\$)	\$57,300,159	2.8%

When broken down by 12-month moving averages, it was interesting to note that vacancy remains fairly level throughout the year from a low of 61% (first four months

of '04) to a high of 63% (the last two months of '04). There is no "high" or "low" season in these hotels.

In the analysis of three-year occupancy by night, (as could be expected) Sunday was the lowest at 41.2%. What is interesting is that the highest occupancy is Saturday night at 69.8%, which indicates that the rooms are not being occupied by business travelers.

The bottom line is that the RevPAR is too low to allow more hotel development at this time.

#### **b) Convention Center**

*Successful Meeting* magazine recently recognized Memphis as one of the top 10 convention destinations in the country, thanks in part to the \$85 million expansion of the Memphis Cook Convention Center.

Located two blocks from The Pyramid, the 300,000 square foot multi-use convention center is designed especially for conventions, trade shows, and the performing arts. It is located on the Downtown Trolley Line and within walking distance of numerous hotels, Beale Street, FedEx Forum, and AutoZone Park.

Located 20 minutes from the Memphis International Airport, the convention center offers 31 meeting rooms, an Executive Conference Center, a 125,000 square foot, column-free exhibit hall, the 35,000 square foot South Hall, a 28,000 square foot, hotel-quality ballroom and the 2,100-seat Cannon Center for the Performing Arts.

Professional, full-service banquet catering, as well as concession services, is provided by the Memphis Marriott Downtown Hotel, which is connected to the Memphis Cook Convention Center. Parking can be easily found in one of its 1,000 indoor spaces or 200 outdoor spaces.

When the team interviewed the director of the convention center, he pointed out that they are hampered from booking large national shows due to the fact that Memphis does not have enough hotel rooms. They therefore focus on regional and smaller shows. It was reported that they run at a deficit of \$2 million per year. He felt that the convention center could use The Pyramid for 8-10 overflow events per year.

### **8. Residential**

*The following information is a compilation of several articles from the "Memphis Business Journal", "The American City Business Journal" and REIS (a national data base). The newspaper articles appeared in February, March and April 2005.*

#### **a) Overview**

The FDIC Tennessee state profile for spring 2005 reported that Memphis metropolitan home sales set records in 2004 and contributed to strong employment

growth in the construction industry. Memphis home sales surged 13.8% from the previous year.

The National Association of Realtors® predicts that after four consecutive record years, home sales should ease in Tennessee but remain close to record levels. According to the report, despite generally favorable signs, incentives offered by builders in the Memphis market have become more common at certain price points, suggesting some softening may already be occurring, according to the report.

Interest rates will significantly influence the strength of this sector of the economy in the future, the report says. "Given the uncertainty of interest rate movements, lenders will be well served to closely monitor local housing trends," the report states, "and be prepared to initiate appropriate measures to mitigate risk if conditions deteriorate unexpectedly."

Memphis continues to be a very affordable place to live. The Memphis Business Journal reported on February 18, 2005 that a recent survey of 99 national housing markets found that the Memphis market is the second most undervalued.

The study, conducted by Richard DeKaser, chief economist for National City Corporation, ranked 99 major real estate markets based on how much they are under or overpriced relative to what he deems "normal housing values."

In 2004, houses in Chico, Calif., sold for 43% more than fair value, according to DeKaser, which ranked Chico as the No. 1 overvalued market. Homes in Salt Lake City sold for 23% less than their fair value, making Salt Lake the most undervalued market. Memphis homes sold for 20% less than fair value, he concluded, making it the second most undervalued market.

To come up with each market's fair value, DeKaser studied data going back 25 years. Among other things, he looked at how much buyers are paying today relative to their incomes, versus how much they paid in the past. This helps take into account the premium buyers are willing to pay for such things as location, weather and amenities. DeKaser concluded 27 of the markets in his study are overvalued, 29 are undervalued and 43 are fairly valued, with prices no higher or lower than 10% of their fair value.

In 2004, 13.8% more homes were sold in the Memphis market than in 2003, and the sales volume of homes sold rose 19.8% to \$2.78 billion, compared to 2003.

An example of the aggressive and high demand market is the success of the "new urbanism" project on Mud Island (a development directly across from The Pyramid). The *Memphis Business Journal* reports:

"On March 12, it took just a few hours for Lenox Homes LLC to sell 71 new homes on Mud Island -- and that's before they are even built." "We sold them all in three hours," says Bruce Baskette, sales

representative for Lenox. "It's a Realtor's dream." Construction on the development, called Island Point Phase II, could begin as early as August. Baskette expects to be delivering homes through March 2006.

The 71 homes start at \$157,000 and move up to \$230,000, but Baskette says the upper-tier homes appear to be the most popular. The homes range from 1,200-2,400 square feet.

"It looks like most people are buying the bigger homes," he says. "I'd say on average, we're looking at about \$200,000 per house." The total development could be around \$14 million. Each home has three bedrooms, at least two bathrooms and double car garages along with a small yard.

More than 100 people showed up hoping to land one of the 71 units after about 700 expressed interest early on in the project, Baskette says. Lenox, which has built 600 homes on Mud Island, opened the first phase of Island Point last summer. Before the process began, the developer had almost 100 people camping overnight on the model lot, all waiting for an opportunity to buy a home. Later that same afternoon, 69 of the 83 home sites were sold.

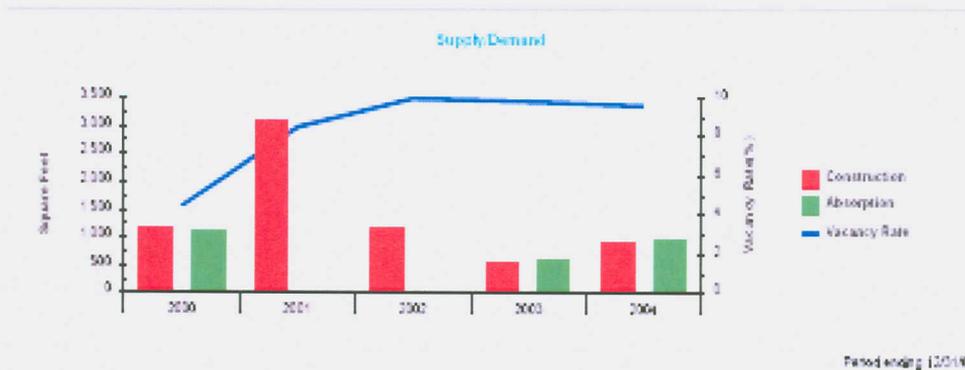
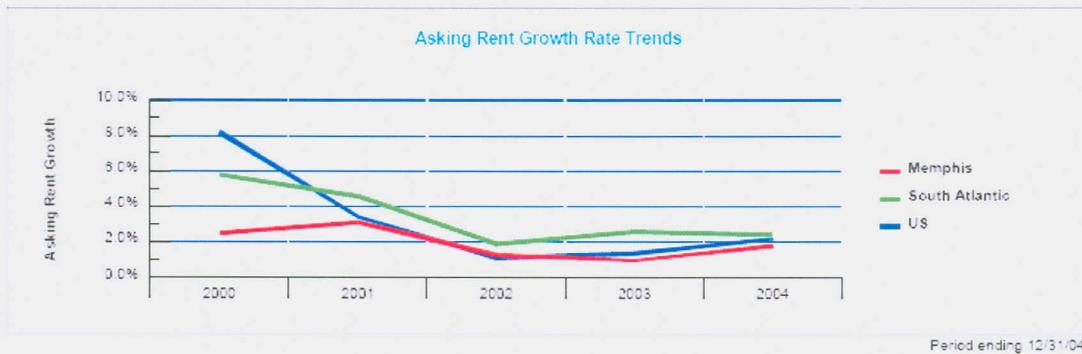
The brisk selling pace is a reflection of the demand -- from empty nesters to young professionals and medical workers -- for Downtown housing. "10 years ago, we had to work to sell houses," Baskette says. "I remember sitting in model homes 10 years ago and you couldn't give them away for \$100,000. It's the hot place to live now." Baskette says he noticed a lot of medical professionals, particularly people associated with the St. Jude Children's Research Hospital, which is halfway through a \$1 billion campus expansion, lined up to purchase homes.

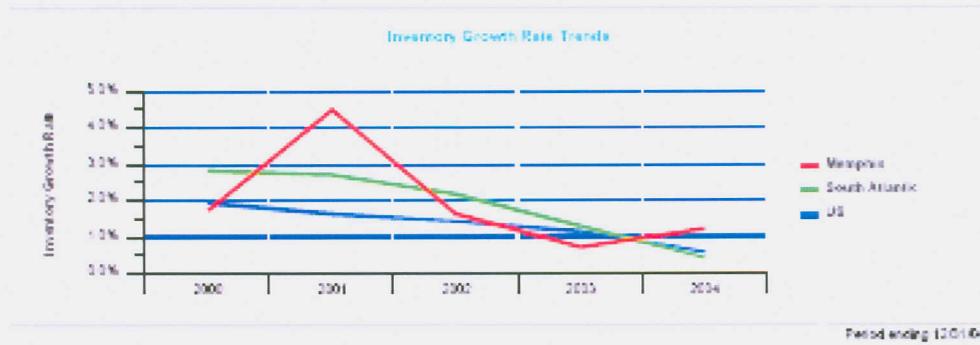
The new development backs up to The Estates at River Point Apartments on the north. The Pyramid and Memphis skyline loom in the distance to the south.

Next year, Lenox will offer another 105 homes, filling in the last large tract of developable land on Mud Island north of the Auction Street Bridge. "After that, that's it," says Nancy Miller, administrator of sales and closings for Lenox. Chris Garland of Garland Co. Real Estate, a full-service residential real estate firm that specializes in Downtown properties, says the residential boom runs deep. "The demand is far exceeding the supply," he says. "Even on the condominiums we're selling, people are just waiting on us to put them up for sale. They cannot wait to buy a piece of property Downtown."

From 2000-2004, Mud Island, the Downtown Core and the South Main District, which comprise the CBID's High Growth Area, have seen an average annual growth of 10.3%, versus the Memphis MSA which gained 1.1% in annual population growth, according to a market study requested by the Center City Commission. Mud Island experienced growth of 14.5 % annually during that time, with almost 1,800 new residents settling there, according to the market study.

And once somebody does buy a home on Mud Island, Baskette and Miller say, they are able to resell them for a nice profit. "They can get more money for it than we're selling them for, maybe 10% to 15% more," Baskette says. "Unless you set your price way out of whack, you'll sell the home. You can throw out the Realtor's rule book down here." "We had a man who purchased in March and sold in August and it sold for \$36,000 more than he bought it," Miller says."





	Quarterly						Annualized					
	4Q04 <sup>1</sup>		3Q04 <sup>2</sup>		Year to Date <sup>3</sup>		1 Year History		3 Year History		5 Year History	
	Rent Growth	Metro Rank	Rent Growth	Metro Rank	Rent Growth	Metro Rank	Rent Growth	Metro Rank	Rent Growth	Metro Rank	Rent Growth	Metro Rank
Memphis	0.8%	n/a	0.5%	n/a	0.4%	n/a	1.8%	n/a	1.4%	n/a	1.9%	n/a
South Atlantic	0.6%	9/20	0.8%	14/20	0.6%	15/20	2.4%	15/20	2.3%	15/20	3.4%	15/20
US	0.5%	19/64	0.8%	38/64	0.5%	30/64	2.2%	30/64	1.6%	33/64	3.2%	41/64

1. Qtr ending 12/31/04 2. Qtr ending 09/30/04 3. Avg over period ending 12/31/04 4. Avg over period ending 12/31/04

### 9. Downtown

The Downtown Memphis residential market boasts one of the highest occupancy rates in the metro area, thanks to such draws as 300-plus acres of parks, 100-plus restaurants, museums and cultural events, and the mighty Mississippi River.

Downtown's diverse population is made up of upper-income residents, young professional singles, tourism/service-related employees, families, empty nesters, and college students. Of the more than 80,000 people who work Downtown, 31 percent reside Downtown. The downtown employee is an ideal candidate for Downtown residency, and as new businesses open and new attractions are developed, this market will continue to grow.

Multi-family construction starts Downtown are the highest in the Shelby County, as are the square foot lease rates and monthly occupancy rates. Average apartment rental is \$733 per month (\$0.82 per square foot), compared to metro Memphis at \$635 per month (\$0.58 per square foot). In 2000, the average sales price of a downtown residential property was \$192,092 (\$108 per square foot), compared to metro Memphis at \$127,170 (\$63.25 per square foot).

The current residential base within the downtown core exceeds 4,000 units. More than 1,000 units (\$150+ million investment) are under construction, which is estimated to add more than 2,000 residents in the near future. Plenty of property is still available for development.

**a) Downtown Amenities:**

While downtown has many amenities (as listed by the Center City Commission), it also is hampered by a public school system that is not (based on our interviews) highly rated.

**Shopping:**

- Several convenience stores exist but there is a lack of convenient grocery stores.
- There are more than 450 retail stores, selling apparel, home furnishings/antiques, gifts, greeting cards, souvenirs, and sundry items.

**Dining/Entertainment:**

- Downtown offers 100-plus restaurants/bars.
- Beale Street is a vibrant urban entertainment center and Tennessee's top tourist attraction.
- Peabody Place Entertainment and Retail Center is anchored by a 22-screen movie theater, along with Jillian's, Tower Records, Ann Taylor Lofts, The Gap, and several restaurants.
- The FedEx Forum and Orpheum Theatre offer world-class concerts and theatrical productions.

**Schools (K-12)**

- A \$14 million elementary school for 750 students in grades K-6 is currently under construction.
- The Maria Montessori School in Harbor Town is at full capacity with 225 students in grades K-8.
- The Foreign Language Immersion Center provides bilingual education for children under the age of five.

**Downtown has 12 daycare facilities.****b) Other:**

- Some 20 public parks, including the four-mile riverfront greenway, offer outdoor recreation.
- Secured parking is available throughout Downtown.
- The downtown trolley system currently travels a five-mile loop through the Downtown Core and riverfront, with expansion to the Medical District underway.
- Four police substations are located in various residential and public buildings, serving as the base for downtown mounted and bike patrols. A special 40-person Entertainment District Unit is dedicated to patrolling the Sports and Entertainment District.

**Tab 5 - Suitability Assessment for  
the Pyramid by O.T. Marshall Architects**



O. T. Marshall

April 2, 2008

Mr. Robert Lipscomb, Director  
Housing and Community Development  
701 North Main  
Memphis, Tennessee 38107

RE: Initial Suitability Assessment  
Memphis Pyramid Arena

Dear Robert:

Pursuant to your request, our office has conducted an initial review of the Due-Diligence provided by Bass Pro Consultants and conducted a Suitability Assessment for the Memphis Pyramid Arena facility. In order to enhance the validity of our review, we engaged several design and engineering professionals specifically qualified in key areas of expertise to assist in our review. They are as follows:

- Dr. Howard Hill, P.E. – Wiss Janny Elstner (Seismic Risk Consultant / Structural Engineer)
- Dr. Ashraf Elsayed, P.E. – Hall Blake Associates (Chief Geotechnical Engineer)
- Dr. Shahram Pezeshk, P.E. – University of Memphis (Seismic Site Engineer)
- R. W. Howe, P.E. – (Structural Engineer, Seismic Risk Assessment Consultant)
- Joseph Tomasello, P.E. – The Reaves Firm (Structural Engineer)
- Tony Balogna, F.A.I.A. – (Architect)

Bass Pro World Outdoor LLC conducted a significant level of due-diligence to determine the facility's condition and suitability for use with the following deliverables:

- A Phase I Environmental Site Assessment
- A Structural Due-Diligence Report Part I
- A Seismic Due-Diligence Report Part II
- A Mold Assessment Report

- Meetings (with minutes) including the following individuals:
  - Construction Code Enforcement – Allen Medlock
  - City Architect – Mel Scheuerman
  - Director of Public Works – Jerry Collins
  - City Engineer – Wain Gaskins
  - Housing and Community Development – Debbie Singleton
  - Chief Fire Marshal – Ron Brown
  - Deputy Fire Marshal – Alvin Benson

We are not aware of any other substantive due-diligence effort by any other interested parties.

We have reviewed documentation relative to the above efforts by Bass Pro, made site visits, and engaged a site-seismic study (copy attached). In general, we concur with the observations documented in the reports performed by Bass Pro and appreciate the concerns raised, noting that the stated concerns are based upon initial assessments of relatively limited scope. In general, their structural condition and seismic risk concerns are qualified by the universal observation that further assessment and evaluation are in order.

We have made an effort to address the primary concerns raised by Bass Pro, and offer the following comments and as well as constructive recommendations. Note that our comments are, like those of Bass Pro's consultants, based on an initial and limited degree of assessment.

We agree with Bass Pro's consultant observations relative to the general structural condition of the facility – it is in good shape with the exception of several conditions in the lower concrete construction. It is our opinion that these conditions are not significant from a facility structural performance perspective and can be remedied.

Bass Pro's consultants have raised some good issues relative to seismic concerns. The two principal concerns are the practicality of prospective Code-required seismic upgrades and the impact of site conditions on building seismic performance issues for both existing and new construction and related cost impact on design and construction. The issues are as follows:

Issue #1      *Will the existing building's superstructure be required to undergo seismic retrofit given the facilities' proposed use thus rendering the project "too expensive for renovation to be feasible"?* (1)

Conclusion    No. The existing building's superstructure does not require a system retrofit for code compliance. City of Memphis Office of Code Enforcement relies upon the 2005 Memphis Existing Building Code, which adopts the 2003 International Existing Building Code *with local Memphis Amendments*. The proposed project does not meet any of the thresholds or trigger requirements calling for seismic upgrade or retrofit provided that (a) neither seismic demand (mass) is increased nor seismic capacity reduced by more than five (5) percent, and (b) new structures attached must enhance existing seismic resistance or must be independent of the existing structure in the event they do not enhance seismic resistance.

As we understand the proposed Bass Pro project, these provisions are met. Bass Pro's intent is to essentially demolish the interior of the superstructure in order to accommodate new retail, aquarium, restaurants, and possibly hotel functions. As noted above, new construction would require IBC 2003 compliance.

We have confirmed this interpretation of code with the Office of Construction Code Enforcement per the attached letter dated February 8, 2008.

Issue #2 Bass Pro's consultants are concerned that "soft" site soils could render new construction "economically unfeasible". (2) *What is the site seismic soil classification* and what are the design implications and economic consequences of this determination?

Conclusion At the time of Bass Pro's assessment, no site-specific seismic evaluation had been performed. For purposes of seismic performance assessment and design, site soils are classified by Code based on soil parameters determined from site investigations. We have engaged the services of geotechnical and seismological consultants (noted previously) to perform a state-of-the-art determination of site soil classification and found it to be Class E. Memphis sites typically yield class D or C. (See attached reports.)

Cost premiums associated with addressing this condition are currently indeterminate. The principal impact will be the cost of new construction since seismic retrofit, as noted previously, will not be required by the Building Official. Preliminary review of Code requirements in conjunction with the site-specific studies indicate that the overall building Seismic Design Category (SDC) will be D, which is the typical SDC for a Memphis project under IBC 2003. It is noted that the Seismic Design Category is the principal factor that drives project costs. Preliminary review indicated that design ground motions might actually be diminished for the low rise buildings by the site soil conditions, depending on building dynamic characteristics. Furthermore, the local code permits the use of the 1996 spectral response maps for 10% PE (Probability of Exceedance) in fifty years in lieu of the 2% PE in fifty years both of which are enclosed. This produces less calculated stress in resisting elements.

We are confident that with effective design and attention to detailing, these issues can be addressed in a cost effective manner with minimal project impact.

In the absence of definitive data, Bass Pro's caution toward this project is understandable. Their engineers, however, have pledged to work through these issues in a manner that enhances public safety and protects the investments of all parties involved.

In conclusion and with the above referenced conditions, we believe this facility is fully capable of providing a safe, economical and code compliant venue. If I can be of further assistance, please let me know.

Sincerely,

Tom Marshall, A.I.A., N.C.A.R.B.  
O. T. MARSHALL ARCHITECTS, P. C.

Attachment



**Tab 6 - Financial Guidebook**

Memphis  
Pyramid  
Redevelopment  
Financing  
Guidebook

# Background

## **Abstract:**

As the City of Memphis embarks on the transformation of the Memphis Pyramid from a once booming sporting arena to a regional tourist destination, citizens and developers alike are waiting anxiously to see the project come to fruition. Currently, the City is engaged in a development agreement with Bass Pro LLC to lease the Pyramid for 100 years. In order to make this possible, the City has agreed to invest \$30 million in the redevelopment of the arena. Once the project is fully completed, the site will be home to not only a world class Bass Pro Shop, but also a marina, luxurious hotels, conference center and many more amenities for the outdoorsman and citizens. This will add yet another jewel to the beautiful landscape along the Mississippi River.

## **City of Memphis Commitment:**

**\$30 Million to the Project Development Fund**

## Key Terms

**BEDI (Brownfields Grant Economic Development Initiative)** - a key competitive grant program that HUD administers to stimulate and promote economic and community development. It is designed to help cities with the redevelopment of abandoned, idled, and underused industrial and commercial facilities.

Application made in December, 2007. Awarded June 9, 2008

The **Center City Revenue Finance Corporation (CCRFC)** - an affiliate board of the CCC. It is a state-chartered industrial development board comprised of nine volunteer board members, nominated by the City and County Mayors and approved by the Memphis City Council and the Shelby County Board of Commissioners. As provided by the Tennessee Code Annotated §7-53-102, the CCRFC is authorized to finance, own, lease, and dispose of properties in order to maintain and increase employment opportunities and increase the quantity of housing in the Center City area. The CCRFC is also charged with promoting industry, trade, commerce, tourism, recreation, and housing construction, and inducing related enterprises to remain in or locate to Center City. The CCRFC can grant Payment in Lieu of Tax (PILOT) freezes to property owners who plan to improve or redevelop their property. The CCRFC can also issue bonds to provide financing for public interest projects. The CCRFC also approves the use of revenues from the PILOT Extension Rents Trust Fund.

The **Downtown Parking Authority** - The Parking Authority of the City of Memphis and County of Shelby, Tennessee, or the Downtown Parking Authority (DPA) is also an affiliate board of the CCC. It is governed by a seven-member board chartered by the State of Tennessee. The mission of the DPA is to establish uniform parking policies and coordinate parking management. The DPA contracts with private parking companies for day-to-day operations, tracks rates and occupancies of other downtown parking lots and structures, assists with strategic planning for existing and future parking facilities in the Downtown area, and issues bonds for construction or acquisition of additional parking facilities. The DPA manages the following parking garages: Justice Center Garage, 250 Peabody Place Garage, Peabody Tower Garage, Riverfront Garage and the Shoppers Garage.

**Float Loan** - A recipient may use undisbursed funds in the line of credit and its CDBG program account that are budgeted in statements or action plans for one or more other activities that do not need the funds immediately, subject to the limitations described below. Such funds shall be referred to as the "float" for purposes of this section and the action plan. Each activity carried out using the float must meet all of the same requirements that apply to CDBG-assisted activities generally, and must be expected to produce program income in an amount at least equal to the amount of the float so used. Whenever the recipient proposes to fund an activity with the float, it must include the activity in its action plan or amend the action plan for the current program year. For purposes of this section, an activity that uses such funds will be called a "float-funded activity." Maximum repayment term is 30 months.

The **New Markets Tax Credit (NMTC)** - program was enacted in December 2000 by the U.S. Treasury Department as part of the Community Renewal Tax Relief Act. The initial purpose of the NMTC program was to spur private investment in businesses operating in low-income communities. As the NMTC program developed, Self-Help successfully advocated for the program to include nonprofits. Under this program the federal government allocates tax credits to “Community Development Entities,” such as for-profit banks and nonprofit lenders like Self-Help. By offering the tax credits to private investors, these entities raise funds that they then turn into financing for businesses and nonprofits in low-income communities.

**Section 108 Loan** - The Section 108 Loan Guarantee Program is the bridge financing for the project. It is a source of financing allotted for the economic development, housing rehabilitation, public facilities rehab, construction or installation for the benefit of low to moderate-income persons, or to aid in the prevention of slums.

Application made in August, 2008.      Approval process 3-9 months.

**Tax Increment Financing (TIF)** - a tool to help local governments restore their most run-down areas or jumpstart economically sluggish parts of town. With this tool, financially strapped local governments can make the improvements they need, like new roads or new sewers, and provide incentives to attract businesses or help existing businesses expand, without tapping into general funds or raising taxes.

TIFs help local governments attract private development and new businesses. New businesses mean more jobs, more customers, and, in turn, more private investment. TIF designation also helps retain existing businesses that might otherwise find more attractive options elsewhere. The jobs and additional investment — private and public — mean more money for the community. As a result, the TIF area itself improves and property values go up.

Without TIF benefits, a deteriorating area will not improve. In a TIF district, dollars for improvements are generated by businesses — new and old — attracted by the TIF benefits. Specifically, money for infrastructure improvements and other incentives comes from the growth in property tax revenues — the tax increment

**Tourist Development Zone (TDZ)** – provides a mechanism to use sales tax increment to pay for qualified public use facilities. Must be approved by the State Department of Finance and Administration and is limited to 30 years.

The New Markets Tax Credit ("NMTC") program was established in December 2000. The program is administered by the Department of the Treasury and allocations are awarded annually on a competitive basis. Through the end of 2006, this program has meant the infusion of \$5.5 billion into low-income communities. NMTC investments supported a wide variety of projects, including coal companies, charter schools, health care facilities, condominiums, timberlands, religious institutions, child care providers, supermarkets, restaurants, museums, hotels, performing arts centers, pharmacies, convenience stores, manufacturers, processors, distributors, trucking companies, printing companies, waste management companies, sporting goods stores, business incubators, office buildings, shopping centers, substance abuse treatment facilities, car dealerships, florists and recording studios. NMTC investments in Memphis include the Westin Hotel, Court Square, the Towne Center at Soulsville and Hope Community Credit Union.

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

To qualify for funds, the business must meet a number of requirements including the following:

- The census tract where the business is located must have a poverty rate of at least 20% (a "low-income community");
- The business' income must be generated in a low-income community;
- The business' property must be located in a low-income community; and,
- The business' services must be rendered in a low-income community.

In addition to the tax requirements, a CDE will not invest in a project unless its investment has a significant community impact.

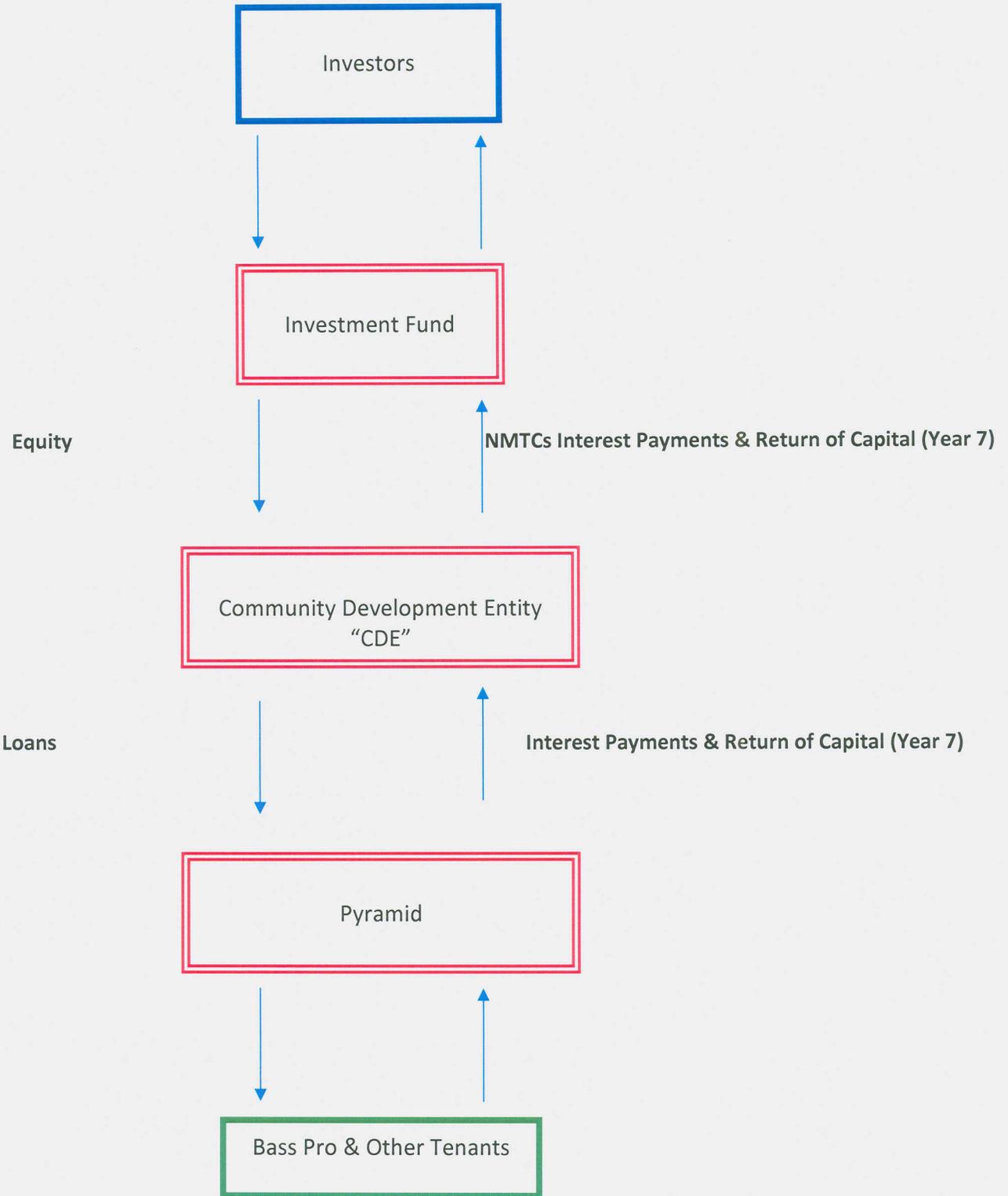
#### The Bass Pro Project

The Bass Pro project qualifies for NMTCs. It is also located in an additionally distressed census tract which has the following characteristics:

- A poverty rate of 63.5%;
- An unemployment rate of 3.16 times the national average;
- It is located in Memphis' Renewal Community;
- It is located in an SBA HUB zone; and,
- It is located in an area which is part of the Delta Regional Authority.

These census tract characteristics make this a favorable location for a NMTC investment. In addition, a NMTC investment in the Bass Pro project will be attractive to a CDE because of the community impact of this project which will include: creation of a significant number of construction and permanent jobs; and, direct and indirect generation of tourism and tax dollars.

# New Markets Tax Credit Financing for the Pyramid



**Pyramid Redevelopment Project  
Proposed Financial Structure for \$30,000,000 Landlord Contribution + Debt Payoff**

Potential Funding Sources	Amount	Timing for Approval	Status
BEDI -Brownfields Grant	\$2,000,000	Complete	Awarded May 2008
Section 108- HUD-(Bridge Financing)	\$21,500,000	2nd Quarter 2009	Application submitted to HUD on 08/08/08
New Markets Tax Credits	\$8,000,000	2nd Quarter 2009	Allocations to be awarded in October 2008.
TDZ- Tourism Development Zone	\$36,474,873	2nd Quarter 2009	Continuing to meet with Finance Director and City's FA
Parking Bonds	\$9,200,000	2nd Quarter 2009	12 month process from application to funding
TIF- Tax Increment Financing	<u>\$10,000,000</u>	2nd Quarter 2009	Continuing to meet with Finance Director and City's FA
<b>TOTAL PROPOSED SOURCES</b>	<b>\$87,174,873</b>		
<b>Potential Funding Uses</b>			
Construction of 200 space Garage	\$3,856,720		
Construction of 300 space Garage	\$5,784,080		
Elevated Vehicle Access	\$11,248,763		
Misc. Parking Improvements	\$1,285,573		
Temp. Facility Controls	\$2,571,146		
Demolition	\$4,499,505		
General conditions	<u>\$754,213</u>		
<b>TOTAL PROPOSED USES</b>	<b>\$30,000,000</b>		
<b>OVER/SHORT</b>	<b>\$57,174,873</b>		

**Estimated Annual Revenue Streams**

**City:**

<b>Sales Tax</b>	<b>\$3,358,539**</b>
<b>Hotel Occupancy Tax</b>	<b>\$233,237</b>
<b>Hotel Sales Tax</b>	<b>\$308,683</b>

**County:**

<b>Sales Tax</b>	<b>\$10,448,787**</b>
<b>Hotel Occupancy Tax</b>	<b>\$685,963</b>
<b>Hotel Sales Tax</b>	<b><u>\$960,348</u></b>

**TOTAL**                      **\$2,188,231**

**\*\* Based upon an annual retail volume of \$149.4 million which includes spending of new employees (\$1.9 million), sales at retail stores and restaurants (94.1 million), and off-site spending (\$53.2) of visitors to the Pyramid.**

**Estimated Annual Rent**

<b>Annual Sales</b>	<b>Annual Rent</b>
<b>\$50,000,000.00</b>	<b>\$1,000,000</b>
<b>\$65,000,000.00</b>	<b>\$1,300,000</b>
<b>\$80,000,000.00</b>	<b>\$1,600,000</b>

Financial Scenario Example#1  
100% TDZ

Sources	Amount
TDZ- Tourism Development Zone	\$36,474,873
<b>TOTAL SOURCES</b>	<b>\$36,474,873</b>
Uses	
Construction of 200 space Garage	\$3,856,720
Construction of 300 space Garage	\$5,784,080
Elevated Vehicle Access	\$11,248,763
Misc. Parking Improvements	\$1,285,573
Temp. Facility Controls	\$2,571,146
Demolition	\$4,499,505
General conditions	\$754,213
<b>TOTAL</b>	<b>\$30,000,000</b>
Debt Payoff (as of 06/30/09)	
City	\$1,801,500
County Buy Out	\$4,300,000
<b>TOTAL</b>	<b>\$6,101,500</b>
<b>TOTAL USES</b>	<b>\$36,474,873</b>
TDZ Debt Service Revenue Stream	
Retail Sales - Retail Store & Restaurants	\$94,100,000
Sales Tax Revenue	\$8,704,250
Available for TDZ Debt Service	\$3,916,913
Annual Debt Service of \$36,474,873 at 6% for 20 years	\$3,135,808
<b>Excess Annual Revenue over Debt Service</b>	<b>\$781,105</b>

Financial Scenario Example#2  
 BEDI 108 NMTC

Sources	MOST LIKELY CASE	BEST CASE NMTC	WORST CASE NMTC
BEDI -Brownfields Grant	\$2,000,000	\$2,000,000.00	\$2,000,000.00
Section 108- HUD-(Bridge Financing)	\$21,500,000	\$21,500,000.00	\$21,500,000.00
CDBG Float Loan	\$4,974,873		
New Markets Tax Credits	<u>\$8,000,000</u>	<u>\$33,750,000.00</u>	<u>\$4,050,000.00</u>
<b>TOTAL SOURCES</b>	<b>\$36,474,873</b>	<b>\$57,250,000.00</b>	<b>\$27,550,000.00</b>
<b>Uses</b>			
Construction of 200 space Garage	\$3,856,720	\$3,856,720	\$3,856,720
Construction of 300 space Garage	\$5,784,080	\$5,784,080	\$5,784,080
Elevated Vehicle Access	\$11,248,763	\$11,248,763	\$11,248,763
Misc. Parking Improvements	\$1,285,573	\$1,285,573	\$1,285,573
Temp. Facility Controls	\$2,571,146	\$2,571,146	\$2,571,146
Demolition	\$4,499,505	\$4,499,505	\$4,499,505
General conditions	<u>\$754,213</u>	<u>\$754,213</u>	<u>\$754,213</u>
<b>TOTAL</b>	<b>\$30,000,000</b>	<b>\$30,000,000</b>	<b>\$30,000,000</b>
<b>Debt Payoff (as of 06/30/09)</b>			
City	\$1,801,500	\$1,801,500	\$1,801,500
County Buy Out	<u>\$4,300,000</u>	<u>\$4,300,000</u>	<u>\$4,300,000</u>
<b>TOTAL</b>	<b>\$6,101,500</b>	<b>\$6,101,500</b>	<b>\$6,101,500</b>
<b>TOTAL USES</b>	<b>\$36,474,873</b>	<b>\$36,474,873</b>	<b>\$36,474,873</b>
<b>OVER/SHORT</b>	<b>\$0</b>	<b>\$20,775,127</b>	<b>(\$8,924,873)</b>

# Steps to Approvals

## Estimated Completion

### TDZ

1. Analyze and determine current TDZ boundaries and encumbrances of current funds
2. Develop necessary legislative documents for Pyramid TDZ

### TIF

1. Develop TIF area consistent with City/County long-term financial plan
2. Outline and define TIF benefits and assessments.
3. Obtain a market study regarding upcoming development
4. Prepare credit documents and secure credit enhancement
5. Market and sell bonds

### Repayment of Pyramid Debt

1. Obtain accurate numbers of current debt outstanding City/County
2. Evaluate the uses of the debt and facilitate a discussion to determine taxability
3. Evaluate the Pro's and Con's of City/County GO v.s. Entity repayment option
4. Secure credit source/revenue for debt repayment
5. Prepare credit documents and secure bond insurer
6. Market and sell bonds

### NMTC's

1. Market project to CDE's who have applied for NMTCs in 2008 Round
2. Allocation of NMTC to CDEs takes place on October 2008
3. Obtain credits from a CDE
4. Develop program documents
5. Fund Project

### 108 Loan

1. File Application with HUD
2. Once Approval is received, the loan program documents are drafted

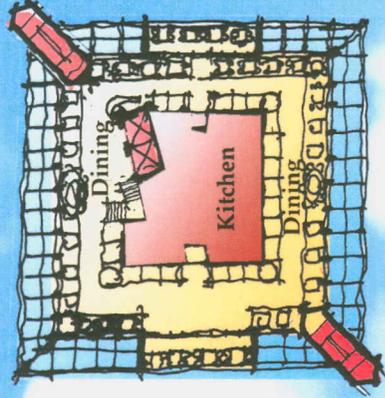
## Summary

The City of Memphis would be best served by using the TDZ financing as a means of financing its obligation for the proposed redevelopment of the Pyramid. If approved by the necessary parities, the TDZ financing would provide optimum security for debt service repayment and further utilize a source of funding that would otherwise sunset with the repayment of the existing Convention Center Debt. Also, the existing excess could possibly be used to retire some of the existing Convention Center Debt. Otherwise, the City would not be able to realize any of the current benefits from the proposed sales taxes generate with the redeveloped facility. The Section 108 Loan would require that the City designate the rent payment from the lessee to the Division of Housing and Community Development.

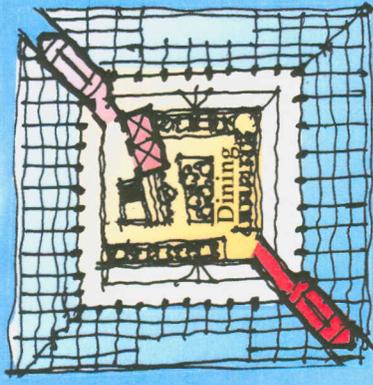
**Tab 7 - Conceptual Renderings and  
Presentation**



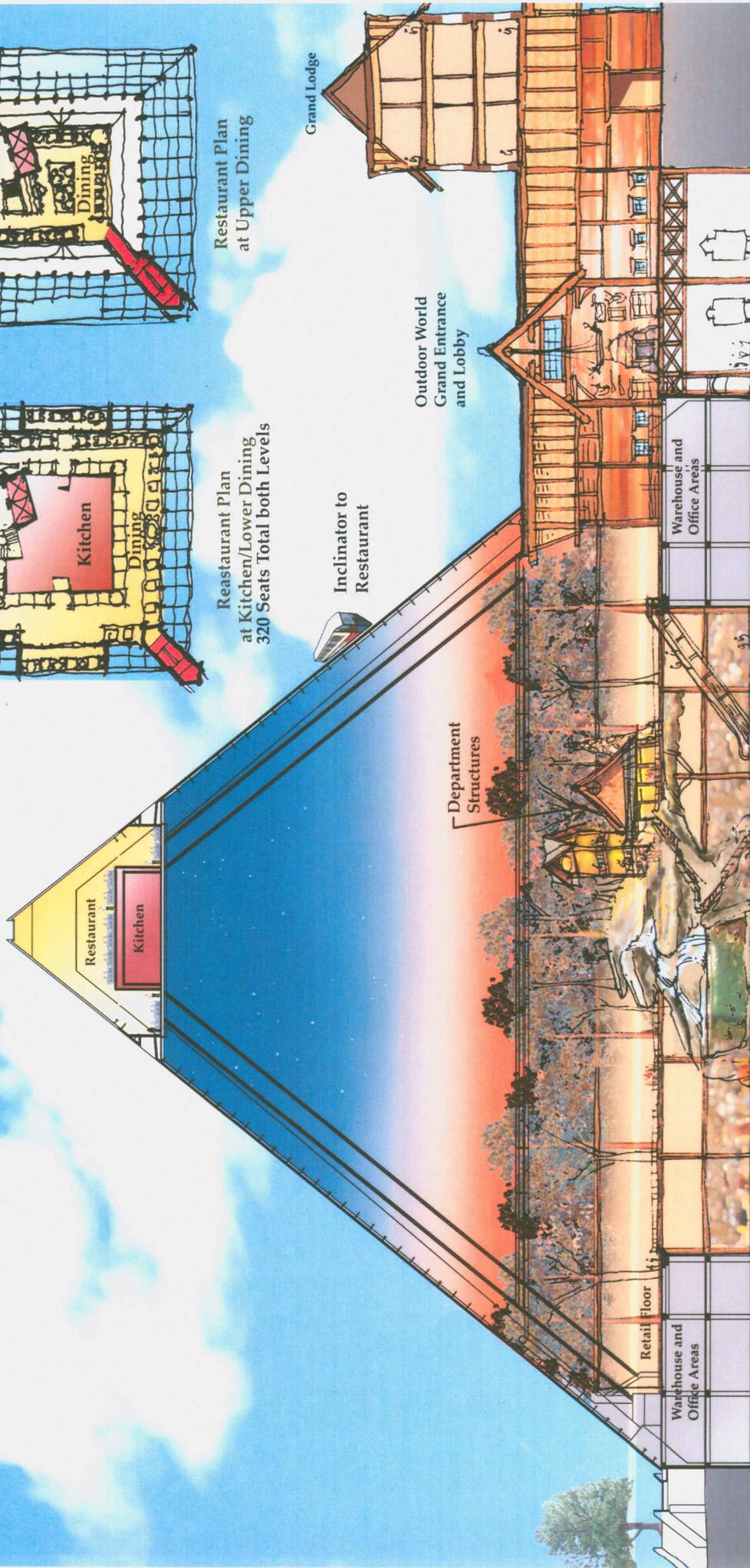
Aerial View



Restaurant Plan  
at Kitchen/Lower Dining  
320 Seats Total both Levels



Restaurant Plan  
at Upper Dining

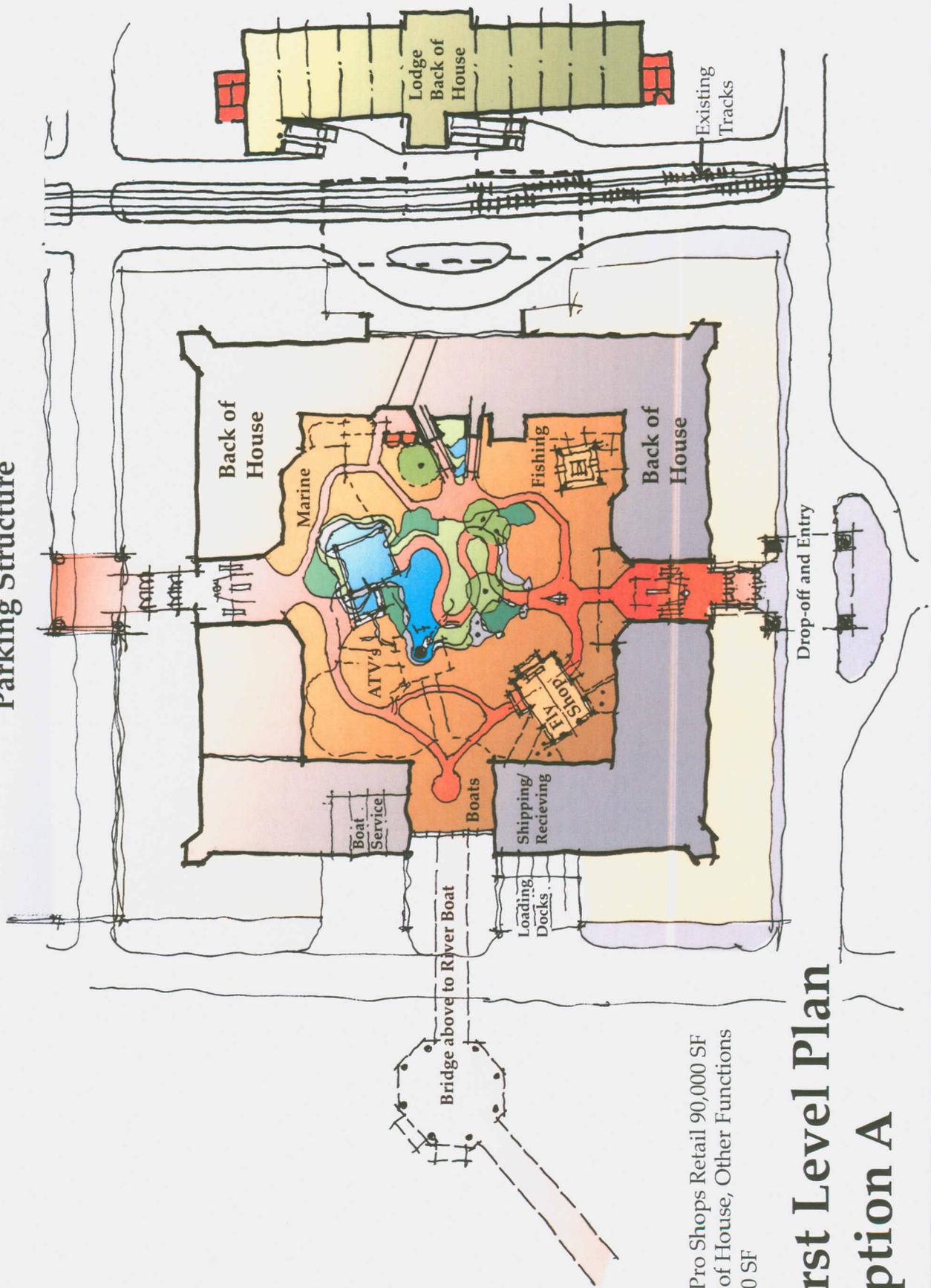


Aquarium and Rock Feature

Trolley Car Drop-off

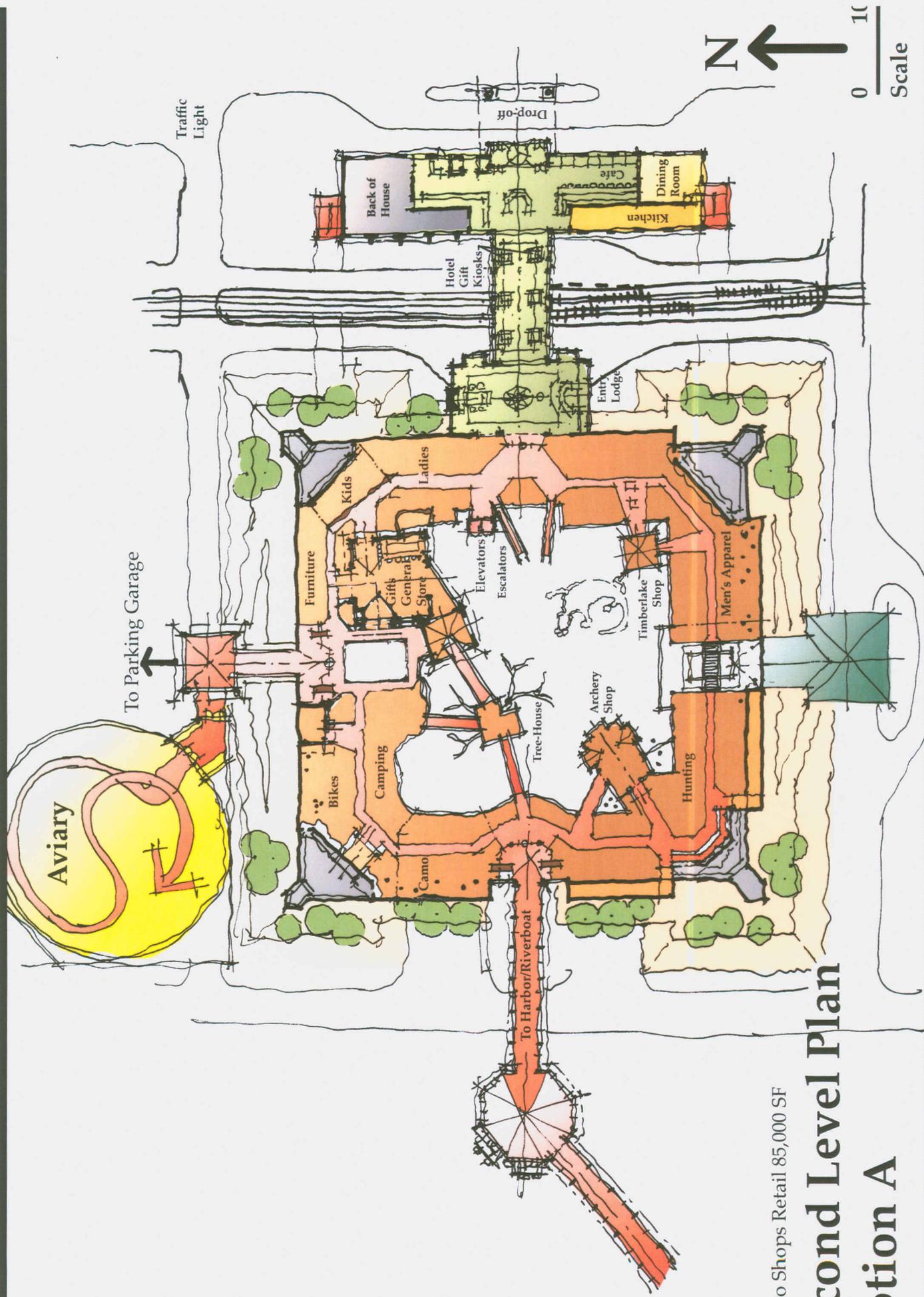
# Section - Option A

# Parking Structure



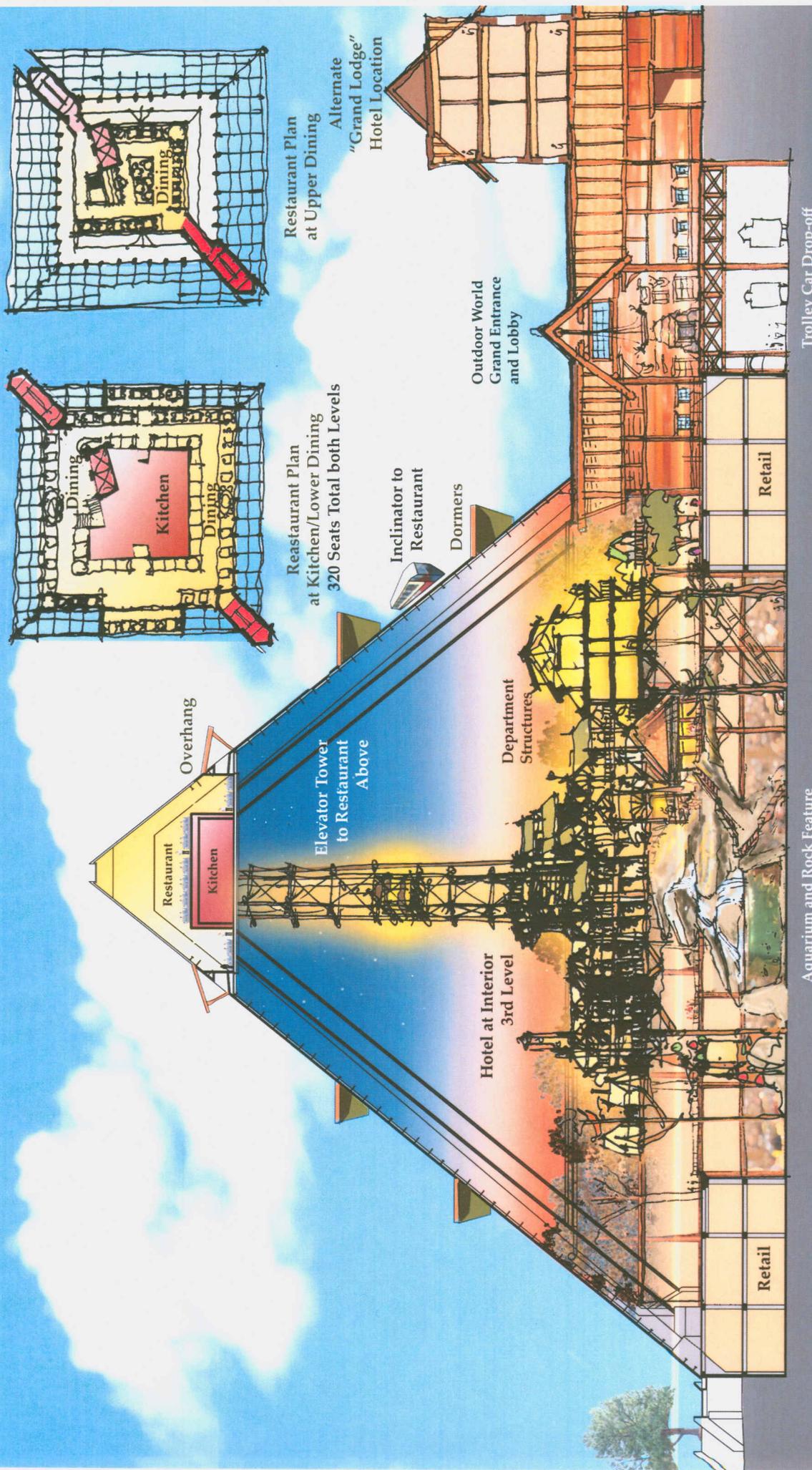
Bass Pro Shops Retail 90,000 SF  
Back of House, Other Functions 85,000 SF

# First Level Plan Option A



Bass Pro Shops Retail 85,000 SF

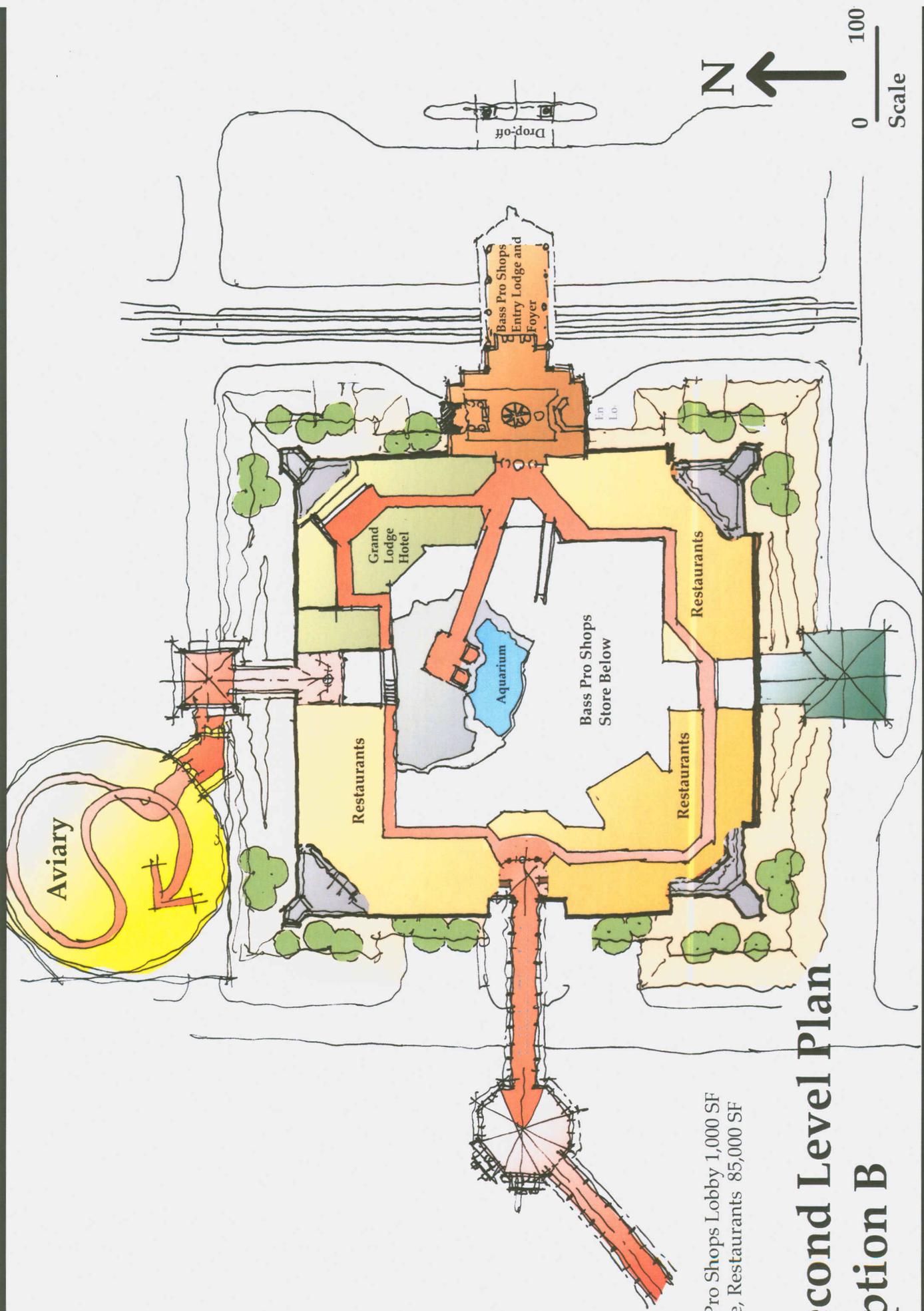
# Second Level Plan Option A



Trolley Car Drop-off

Aquarium and Rock Feature

# Section - Option B



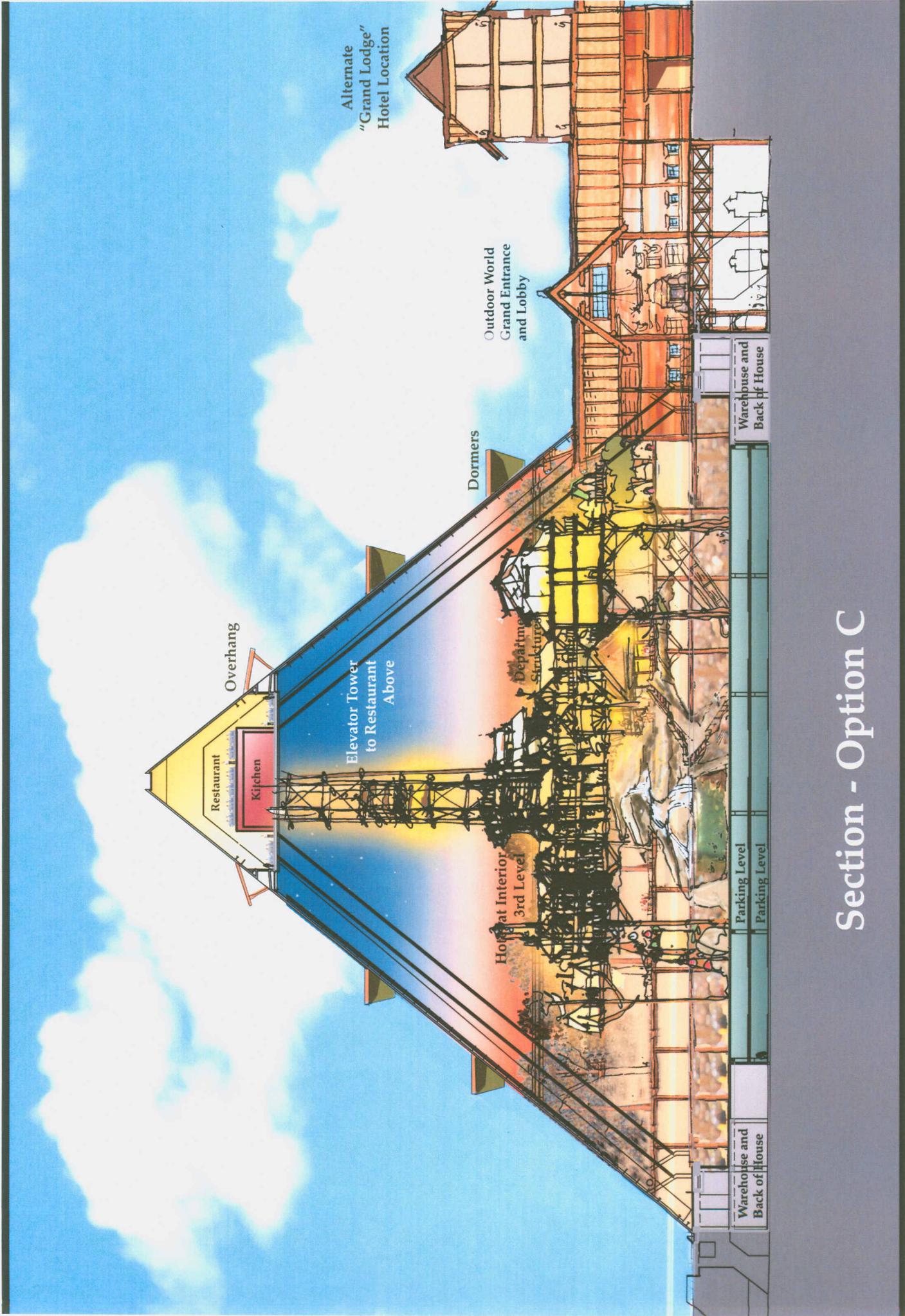
Bass Pro Shops Lobby 1,000 SF  
 Lodge, Restaurants 85,000 SF

# Second Level Plan Option B



240-300 Rooms among several levels

# Third Level Plan Option B only



Alternate  
"Grand Lodge"  
Hotel Location

Outdoor World  
Grand Entrance  
and Lobby

Warehouse and  
Back of House

Dormers

Elevator Tower  
to Restaurant  
Above

Overhang

Restaurant

Kitchen

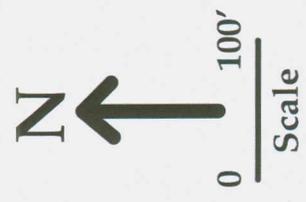
Departure  
Structure

Hotel at Interior  
3rd Level

Parking Level  
Parking Level

Warehouse and  
Back of House

# Section - Option C



240-300 Rooms among several levels

# Third Level Plan

## Option C same as Option B

To Little Rock  
135 Miles

Mud Island

Wolf River Harbor

ATV/Mountain Bike Course  
Riverboat Resort Hotel  
Loft Apartments over Retail  
Parking  
Retail  
Aviary  
12 Screen Theater  
Retail at Street

Existing Museum and Visitors Center

Outdoor Living Loft Apartments Over Retail Space  
Parking Deck

Tram Station

New Pedestrian Connection to Tram

Cook Convention Center

Memphis

To Nashville  
214 Miles

Outdoor World Grand Entrance Lobby

Grand Lodge 240-300 Rooms



Scale: 1" = 350'

# Proposed Development Plan

35°09'14.01" N 90°05'44.00" W elev 62 m

Streaming 100%

Eye alt 13



**EMPLOYMENT/WAGE IMPACTS  
TOTAL PROJECT: BASS PRO**

**PROPERTY USE**

Square Feet (SF) of Development:	729,904
Number of Hotel Rooms:	335
Number of Parking Spaces:	500

**ONGOING EMPLOYMENT and WAGE IMPACTS**

Estimated Direct Employment (FTE's):	566
Indirect Employment @ Local Capture:	95

**Total Employment** **661**

Estimated Direct Annual Earnings:	\$12,047,303
Indirect Annual Wages @ Local Capture:	\$2,806,504

**Total Wages:** **\$14,853,807**

**SHORT TERM EMPLOYMENT and WAGE IMPACTS  
CONSTRUCTION COSTS**

**DIRECT IMPACTS**

Estimated Wages:	\$34,153,280
Estimated Employment (FTE's):	795

**INDIRECT IMPACTS**

Estimated Wages:	\$9,004,171
Estimated Employment (FTE's):	218

**Source: RKG Associates, Inc.**

**SHORT-TERM IMPACTS TOTAL PROJECT  
BASS PRO**

**PROPERTY USE**

Square Feet (SF) of Development:	729,904
Number of Hotel Rooms:	335
Number of Parking Spaces:	500

**MEMPHIS, TN - REVENUES**

Personalty Tax:	\$947,788
Sales Tax from Retail Activity:	\$3,358,539
Hotel Occupancy Tax:	\$233,227
Hotel Sales Tax:	\$308,683
Net Annual Lease Payment:	\$500,000

**Total Annual Revenues** **\$5,348,238**

**NET PRESENT VALUE - 20 Years @ 4.5% \$69,569,538**

**SHELBY COUNTY, TN - REVENUES**

Personalty Tax:	\$1,115,305
Sales Tax from Retail Activity:	\$10,448,787
Hotel Occupancy Tax:	\$685,963
Hotel Sales Tax:	\$960,348
Annual Lease Payment:	\$500,000

**Total Annual Revenues** **\$13,710,403**

**NET PRESENT VALUE - 20 Years @ 4.5% \$ 178,344,051**

Source: RKG Associates, Inc.