

Commercial Redevelopment Case Study: Bakers Centre Retail



Bakers Centre Retail anchored by ShopRite Grocery store.

Location: Philadelphia, Pennsylvania

Year of Section 108 Guaranteed Loan Closing: 2012

Key Numbers

\$3 million Department of Housing and Urban Development (HUD) Section 108 guaranteed loan

\$53.2 million total project cost

279 full-time jobs created

219,000 square feet of real estate developed

Partners

Metro Development Company: Project developer

City of Philadelphia: Borrower of Section 108 guaranteed loan funds and recipient of HUD's Brownfield Economic Development Initiative (BEDI) grant and conducted the environmental review and Historic Preservation compliance reviews

Philadelphia Industrial Development Corporation (PIDC): "Subrecipient" conduit for Section 108 funding, underwriting, and administering the loan and HUD's BEDI grant; PIDC also provided a \$4.5 million revolving line of credit to bridge the Redevelopment Assistance Capital Program (RACP) grant from the State

State of Pennsylvania: Provided a \$12 million RACP Grant

Fulton Bank: Senior lender that provided construction and permanent financing

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Project Description

Founded in 1914, Tasty Baking Company enjoyed success creating and delivering snack cakes and other baked goods throughout Pennsylvania and the northeastern United States. After 85 years at its Hunting Park Avenue bakery and headquarters, the company decided in 2009 that the headquarters and bakery had grown inefficient and was limiting the company's ability to grow. The company relocated its operations to the Navy Yard in South Philadelphia in 2010, leaving its former site vacant but presenting a prime redevelopment opportunity. The City of Philadelphia considered the redevelopment of this site to be major component of its overall economic development strategy.



Interior of ShopRite grocery store.

Metro Development Company (Metro), based in Ardmore, Pennsylvania, is an acquisition and development organization with more than 25 years of experience specializing in urban and suburban development, revitalization, and redevelopment projects. Metro has established relationships with national tenants and successfully facilitated the development of a mix of uses across multiple properties, including specialty and big-box retail, supermarkets, and restaurants.

Metro purchased the former 30-acre Tasty Baking Company parcel to develop a 219,000 square-foot (sf) shopping center within 11 acres of the overall parcel. The shopping center includes a grocery store, pharmacy building, in-line retail, three junior box retail stores, two restaurant pad sites, and a drive-through bank pad site. At the time of the Section 108 loan application, Metro had secured signed leases on 61% of the property with anchor tenants and received letters of intent on another 12% of the center's available space. Given the site's former classification as a bakery and light industrial use, it qualified for a brownfield redevelopment grant from PIDC, which was another significant source of financing for the project.

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PIDC Section 108 Loan Fund Details

PIDC operates a loan fund using HUD's Section 108 Loan Guarantee Program to provide low-cost debt on subordinated terms to capital projects as a "subrecipient" of the City of Philadelphia. The loan funds are used to assist eligible activities in Philadelphia and are made to developers and businesses to provide financing for a multitude of economic development activities including, but not limited to, acquisition, site preparation, rehabilitation, construction, machinery and equipment purchases, infrastructure improvements and other related project costs.

As of June 2019, PIDC had closed 76 loans totaling \$262,324,319 in Section 108 guaranteed assistance.

- **Average loan size:** \$3,451,635
- **Average interest rate on loan to business/developer:** 6.5%
- **Private Lender Dollars Leveraged:** \$1,073,543,752

Loan Features

The Section 108 loan for \$3 million was fully amortized over 20 years with an interest rate originally based on the three-month London Interbank Offering Rate (LIBOR). PIDC converted the interim note into a permanent fixed rate note by participating in HUD's 2015 public offering, securing permanent financing rates for notes in its loan fund from 0.28% (2015) to 3.70% (2034). The Section 108 loan had a debt coverage ratio (DCR) of 1.11:1 with a 10% project vacancy and a 1.19:1 DCR with project vacancy at 5%. The security on the Section 108 loan was PIDC's interest in its loan to Metro. PIDC's loan to Metro was secured by a mortgage on the shopping center and an assignment of all leases, contracts, and accounts and a personal guarantee from the developer, which were assigned to HUD for repayment of the loan. The mortgage and assignment of all income and leases was subordinate to the project's senior lenders.

Metro was able to repay its loan from the City after only two years, when it refinanced after the project stabilized.

In addition to the other financing sources, the project received a grant from the State's RACP, which is a grant program for projects that have a regional or multi-jurisdictional impact and generate substantial increases or maintain current levels of employment, tax revenues, or other measures of economic activity. The grant was provided as a reimbursement, and a revolving line of credit from PIDC helped to bridge this capital source.

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Sources & Uses

| SOURCES ¹ : | | USES: | |
|------------------------|----------------------|-----------------|----------------------|
| Commercial Loan | \$ 29,500,000 | Land | \$ 6,850,000 |
| Redevelopment Grant | 12,000,000 | Construction | 39,050,570 |
| HUD BEDI grant | 3,000,000 | Financing Costs | 2,000,000 |
| HUD Section 108 loan | 3,000,000 | Soft Costs | 5,371,610 |
| Equity | 5,772,180 | | |
| TOTAL | \$ 53,272,180 | TOTAL | \$ 53,272,180 |

Community Benefit

With 74% of the population in the affected census tracts considered low and moderate income, the project qualified for a Section 108 loan as an activity benefitting low and moderate-income (LMI) persons on an area basis.

Metro provided needed goods and services such as groceries, a pharmacy, and retail opportunities to residents of the low-income neighborhood. One of the project's anchor tenants, Shop Rite, was operated by a franchisee highly regarded for its approach to supporting community renewal. The franchisee operates a "Goods for Guns Exchange" program, commits to employing ex-offenders, and provides additional grocery store space for fresh foods in an effort to combat adult and childhood obesity. In exchange for a below-market rent rate, the operator provided space for additional community benefits that included a pharmacy offering free and reduced-price pharmacy services for low-income residents, a preventive-care health clinic, an American Heritage credit union, and a resource to assist low-income residents with public benefits such as healthcare and food stamps.

By 2014, the project had created 279 new full-time jobs. Additionally, the project stimulated economic development and the creation of additional indirect jobs beyond the staff directly employed at the project's different businesses.

Why 108?

From PIDC's perspective, the Section 108 program is a strategic way to finance certain uses that may often be modified or discarded in a developer's pursuit of a financially feasible project. If a developer maximizes all other possible sources of financing in terms of debt and equity and there is still a financing gap, it will make tradeoffs in the project to realize greater revenue or reduced development costs. Traditional private financing required a 1.25:1 DCR, which created a financing gap. However, because of the flexible terms of the Section 108 loan, PIDC was able to underwrite the loan at a 1.11:1 DCR.

¹ As reported in the 2011 PIDC Loan Committee Report and 2012 approval memorandum.

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Lessons Learned: Key Takeaways

In a rising interest rate environment and where commercial lending rates are often competitive with the Section 108 loan rates, having a better understanding of when HUD will sell its public participation certificates to the capital markets to capitalize the PIDC's closed loans is helpful. Providing a developer with more certainty around Section 108 interest rates is a key challenge PIDC must manage, especially when it is not sure when the loan will actually be funded. As such, PIDC must be conservative in its quotes to potential borrowers.

HUD Section 108 Program Eligibility:

National Objective: The activity benefits LMI residents on an area basis by providing an essential goods and/or services to residents in an area where least 51 percent of those residents are LMI, pursuant to [24 CFR 570.208\(a\)\(1\)\(i\)](#).

Eligible Activity: The activity qualifies as a special economic development activity with assistance provided to a private, for-profit business under [24 CFR 570.703\(i\)\(1\)](#), pursuant to [24 CFR 570.203\(b\)](#).

Public Benefit Standard: Meets the individual standard at [24 CFR 570.209\(b\)\(3\)\(i\)\(A\)](#) of one full-time equivalent job per \$50,000 in Section 108/BEDI assistance since it was projected to create 279 full time jobs for \$6 million in combined Section 108 and BEDI funds.