

Mixed-Use Development Case Study: Crosstown Concourse



View of Crosstown Concourse from on-site parking deck.

Location: Memphis, Tennessee

Year of Section 108 Guaranteed Loan Closing: 2014

Key Numbers

\$4 million Section 108 guaranteed loan

\$205 million total project cost

426 full-time jobs created

56% of jobs created thus far have been filled by individuals in low- and moderate-income (LMI) communities

Partners

Crosstown Arts: Non-profit founding partner, tenant, and developer

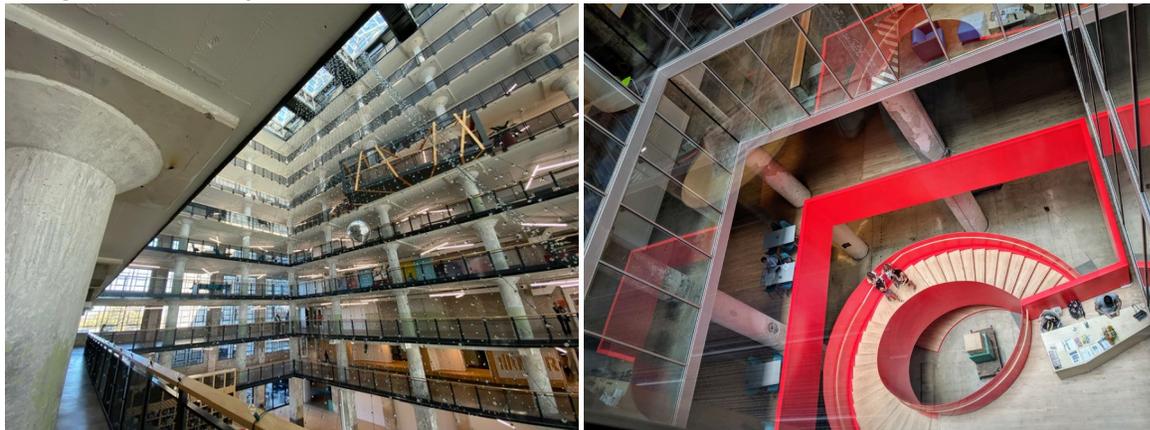
Healthcare Partners: Methodist Le Bonheur Healthcare, Church Health Center, and American Lebanese Syrian Associated Charities (ALSAC)/St. Jude Children's Research Hospital

Education Partners: Crosstown High, Gestalt Community Schools, Memphis Teacher Residency, Christian Brothers University, and Rhodes College

City of Memphis: Borrower of Section 108 guaranteed loan funds and recipient of Department of Housing and Urban Development's (HUD's) Brownfield Economic Development Initiative (BEDI) grant

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Project Description



View of main atrium (left). View of staircase in Crosstown Arts east atrium (right).

The Crosstown Concourse project transformed a former Sears distribution center into a multi-use facility providing employment, medical services, education, and housing. The redevelopment of this ten-story warehouse building and associated structure as a mixed-use development created an economic anchor in the City's Midtown neighborhood.

Crosstown is described historically as a working-class neighborhood, with the former Sears Distribution Center the dominant feature and economic engine from the 1940s to the mid-1980s. The original ten-story Sears building was constructed in 1927. The retail store closed in the early 1980s and the building was abandoned entirely in 1993. The neighborhood entered a steady rate of decline, with its main street transitioning from a vibrant hub of activity to a strip of boarded-up and empty storefronts. The building was transformed from a beloved symbol of commerce, interaction, and economic mobility into one of the most prominent and pernicious examples of blight in the City.

Crosstown Arts, a non-profit created to facilitate the redevelopment of the property, led this effort to reimagine the historic Sears Crosstown building as a mixed-use, "vertical urban village." In August 2012, Crosstown Arts provided the City of Memphis with the opportunity to change decades of abandonment by assembling eight founding partners – local well-known healthcare, education, and arts organizations – who indicated their collective commitment to inhabit nearly 600,000 square feet of the historic building. As a result, the City granted \$4 million in Section 108 loan proceeds to the project as part of a larger \$15 million contribution, which included a HUD BEDI grant, Capital Improvement Program financing, and energy credits.

The property includes 260 apartments on floors seven through ten that are home to young leaders in arts, education, and healthcare. Artists, teachers, doctors, and scientists in the various residency programs of the founding partners are living in studio, one-, two-, and three-bedroom apartments. A minimum of 20% of the units are restricted for affordable housing.

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Loan Features

The project uses the New Markets Tax Credit (NMTC) financing structure, which limits the debt repayment during the first seven years of the loan and provides a defined structure for all the loans and equity in the deal. The City disbursed the Section 108 funds and BEDI grant as a subordinate loan into the upper tier of the NMTC structure. This structure enabled the City to leverage the Section 108 loan to secure approximately \$189 million in additional investment. The City assumed responsibility for paying off the Section 108 loan with non-ad valorem revenues from its General Fund amortized over 20 years.

Community Benefit

The project provides a wide range of community, health, education, and employment services, as well as neighborhood-serving retail outlets, restaurants, and entertainment venues. The project qualified for Section 108 financing through the creation of jobs for LMI individuals. As of December 2018, 426 jobs have been created, providing quality, accessible jobs in the Midtown area. Three job fairs were held in 2016, 2017, and 2018 to ensure outreach to individuals in LMI communities. Of these jobs, 56% have been filled by individuals who either qualify as LMI or live in LMI areas. Additional jobs will continue to be created as the facility continues to be leased-up. The Crosstown project also generated indirect jobs, including 1,274 construction jobs, with 30% of construction contracts awarded to businesses owned by women and people of color.

In addition to job creation, this project revitalized a vacant and deteriorating building that sat empty for more than 20 years. The building in its previous state acted as a major deterrent to investment and economic development in the neighborhood. The opportunity to redevelop this property into an asset and economic anchor was of such importance that the City quickly pushed this project to the top of its priorities. The City's Consolidated Plan identified the need to leverage private investment into Midtown development projects that produced jobs for LMI individuals. The revitalization of the existing vacant building into a vibrant mixed-use vertical urban village anchored in arts, education and healthcare will also increase economic activity in the surrounding area, thus expanding economic opportunities. Moreover, this development brought additional essential services to the Midtown area. In particular, Crosstown includes a YMCA as well a new public charter high school and several healthcare centers targeted to serve LMI individuals.

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Sources & Uses

SOURCES ¹ :		USES:	
New Market Equity	\$ 16,700,000	Acquisition	\$7,000,000
History Tax Equity	36,000,000	Hard Costs	104,000,000
Sponsor Equity	31,000,000	Tenant Improvements	50,000,000
Delta Regional Authority Grant	250,000	Other Hard Costs	5,300,000
Section 108 Loan	4,000,000	Soft Costs	22,600,000
BEDI Grant	2,000,000	Financing and Fees	12,500,000
Qualified Energy	8,150,000	Reserves	3,600,000
Conservation Bonds City Capital Improvement Program	2,900,000	TOTAL	\$ 98,100,000
Shelby County	5,000,000		
Mezzanine Loan	12,500,000		
Senior Loan	86,500,000		
TOTAL	\$ 205,000,000		

Why 108?

The City chose to utilize Section 108 funds to address a high-priority community redevelopment need, the revitalization of the Midtown area. The projected increased tax revenue and jobs generated by the project were deemed sufficient to cover the cost of the Section 108 guaranteed loan's debt service.

Lessons Learned: Key Takeaways

- Compiling and filing related project documentation throughout the project planning and implementation process is critical.
- Utilize non-conventional development partners and involve a wide range of community stakeholders to ensure that the project takes advantage of hidden community assets and is consistent with community needs and priorities.
- Involve local government's finance department and appropriate real estate attorneys throughout the project planning and implementation process.
- Complex development projects like the Crosstown Concourse require technical expertise in reviewing and underwriting the financial structure and providing appropriate oversight during the development process.

¹ As reported in 2019 from Project Developer

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Learn More

CrosstownConcourse.com

HUD Section 108 Program Eligibility:

National Objective: Activities benefiting low- and moderate-income persons through job creation under [24 CFR 570.208\(a\)\(4\)\(i\)](#).

Eligible Activity: Provision of assistance to a for-profit developer for a special economic development activity under [24 CFR 570.703\(i\)\(1\)](#), pursuant to [24 CFR 570.203\(b\)](#).

Public Benefit Standard: Projected to meet the individual standard at [24 CFR 570.209\(b\)\(3\)\(i\)\(A\)](#) of one full-time equivalent (FTE) job per \$50,000 in Section 108/BEDI assistance by creating 877 FTE jobs for \$6,000,000 in combined Section 108 and BEDI funds.