

Hotel Redevelopment Case Study: Farragut Hotel



Farragut Hyatt Place after the redevelopment.

Location: Knoxville, Tennessee

Year of Section 108 Guaranteed Loan Closing: 2016

Key Numbers

\$2.9 million Department of Housing and Urban Development (HUD) Section 108 guaranteed loan

\$18.4 million total project cost

61 full-time jobs created

165 hotel rooms added to downtown

Partners

Dover Development: Project Developer

City of Knoxville: Borrower of the Section 108 guaranteed funds to re-lend to the developer, facilitated PILOT (payment in lieu of taxes) agreement, and administered HUD assistance, including monitoring

Hyatt Hotels: Hotel management company for the project

Knox Heritage: Local historic advocacy group, which assisted with the Tennessee State Historic Review

Atlanta Capital Bank: Senior lender that provided construction and permanent financing

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Project Description



Updated hotel lobby (left). One of the redeveloped hotel rooms (right).

The City of Knoxville used \$2.9 million in Section 108 loan funds to help fund the redevelopment of the historic Farragut Hotel building in downtown Knoxville. The 137,000-square-foot building, first opened in 1919, had been vacant for nearly a decade and was the last vacant building in the City's designated Empowerment Zone to be redeveloped. The City considered the redevelopment of the Farragut Hotel to be the final puzzle piece in a revitalized downtown on the rise. Dover Development, a local developer, preserved the historic elements of the building while rehabilitating it into a Leadership in Energy and Environmental Design (LEED)-certified, mixed-use space, with 900 square feet of storefront commercial space and a 165-room Hyatt Place Hotel. The building contains a cocktail bar and a meeting and an event space – all of which created much-needed jobs and stimulated economic development in Knoxville's downtown core. The redeveloped hotel opened its doors to guests again in January 2018.

Loan Features

The \$2.9 million loan carries a 20-year term, with principal payments starting in the fourth year. The three years of interest-only payments helped preserve cash flow until the hotel was able to operate at full capacity. The City of Knoxville provided a \$7.7 million, 25-year PILOT agreement to reduce property taxes as additional support alongside the Section 108 loan funds. These financing sources further increased the project's operating viability. The City has a second lien position on the property subordinate to the bank financing and a continuing guarantee from the developer.

Sources and Uses

SOURCES ¹ :		USES:	
Owner Equity	\$4,000,000	Building/Land	\$4,000,000
Historic Tax Credits	2,700,000	Construction Hard Costs	11,200,000
HUD Section 108 loan	2,900,000	Furniture, Fixtures & Equipment	950,000
Construction/Permanent Loan	8,830,000	Soft Costs/Other	2,280,000
Total	\$18,430,000	Total	\$18,430,000

¹ As reported in the City of Knoxville Application for Section 108 Loan Guarantee Application, 2015.

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Community Benefit

The project met the Section 108 national objective requirements through the creation of jobs, the majority of which would be held by or made available to low- and moderate-income (LMI) individuals. Since the project is located in a high-poverty area, all jobs that were or will be created are presumed to benefit LMI individuals without the developer and City being required to document household income. Approximately 61 permanent, full-time equivalent (FTE) jobs are expected to be created by the project, providing quality, accessible jobs in downtown Knoxville.

Just as important, the project will stimulate economic development and create additional indirect jobs beyond the hotel jobs by catalyzing development in the downtown area. The project's transformation of a vacant building into a destination hotel will attract more and larger conventions to downtown Knoxville and contribute to increased tourism, including patronage to the nearby Tennessee Theater.

Why 108?

The City's Section 108 loan provided access to a low interest rate and flexible terms that were necessary for the project to be successful. By having the flexibility to pay interest only for three years, the developer could preserve the project's limited initial cash flow to build clientele to reach the hotel's full capacity. The City of Knoxville targeted its use of the Section 108 loan funds on a project that would create jobs, particularly in its downtown area. Additionally, a key priority for the City was investments in projects that would generate income to repay the Section 108 loan. The Section 108 loan funds filled a financing gap in this project, allowing for restoration of a historic building to its original use as a hotel.

Lessons Learned: Key Takeaways

- Involve your local finance department and attorneys as soon as possible, as it is easier to make changes to the deal and how the financing is structured in the beginning of the process.
- Using Section 108 loan funds for construction triggers the Davis-Bacon prevailing wage rates, which, depending on local conditions, can increase construction costs.

Learn More

[Farragut Hotel](#)

HUD Section 108 Eligibility:

National Objective: The activity benefits LMI persons through job creation or retention activities through presumptive benefit at [24 CFR 570.208\(a\)\(4\)\(iv\)\(B\)](#).

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 permanent, FTE job per \$50,000 since it was projected to create 61 full-time jobs for \$2,900,000 in Section 108 funds.