



Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

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NEW MARKETS TAX CREDITS

Massive Memphis 'Vertical Urban Village' a Huge Hit

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Massive Memphis ‘Vertical Urban Village’ a Huge Hit

BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC & COMPANY LLP

Crosstown Concourse in Memphis, Tenn., greatly exceeded expectations—and expectations were very high.

“I was there at the grand opening in August and it’s more of a success than we thought it would be, even this early,” said Chris Sears, senior vice president and equity investor at SunTrust Community Capital.

“This highly impactful project is far exceeding expectations,” said James D. Howard Jr., president of DV Community Investment LLC, a CDE that provided new markets tax credit (NMTC) allocation to Crosstown Concourse. “There has been a huge outpouring of community support, high job creation and a great diversity in the nature of tenants. It’s a really impressive catalyst for the transformation of a long-neglected neighborhood.”

The 1.2 million-square-foot mixed-use property hosted a grand opening in August with 96 percent of its space leased. The iconic, art-deco building is designed to create interaction among residents, retail establishments and artists with 265 loft-style apartments, restaurants, retail space, a grocery store,

fitness center, health clinics, a charter high school, contemporary art center and commercial offices.

“Until now, I haven’t found another vertical urban village anchored with arts, education and health care,” said Dr. Todd Richardson, co-leader of Crosstown Concourse and co-founder of Crosstown Arts. “They’re interconnected because they’re better together. That’s our missional approach.”

Crosstown Concourse was developed in a former Sears, Roebuck & Company distribution center that stood vacant for decades in a depressed neighborhood. To say it’s been a quick success is an understatement.

“The tenants moved in and it’s largely full,” said Sears. “The tenant mix is what the team of Todd and McLean [Wilson] wanted and it’s greater than even we expected. This is a fantastic example of new market tax credit and historic tax credit [HTC]

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programs in action and the positive ripple effect they have on communities.”

Parts of the building have been open since early 2017, but the grand opening was Aug. 19, 2017, nearly 90 years to the day of the original opening in 1927.

“I feel like it’s going really well,” Richardson said. “At the end of the day, none of us could have imagined that

“Without the tax credits, as well as the visionary leadership of Todd and McLean, this couldn’t have happened. The people of Memphis will benefit from this development for decades.”

— Matt Meeker, partner,
Novogradac & Company LLP

on opening day, 96 percent of it would be leased. It’s staggering every day, the number of people who come and go.”

Image: Courtesy of Crosstown Development
Crosstown Concourse in Memphis, Tenn., received \$53 million in equity for new markets tax credits and historic tax credits.

Sears agrees with that assessment. “The community support for the project is phenomenal,” Sears said. “I’ve never been to a grand opening where there were

thousands of people from the community there to support it. Then, I think of the tenants—the charter school, the YMCA, Church Health as well as the retail tenants and the foot traffic. It’s just a creative mix. It’s the definition of synergy.”

The property’s financing included \$36.5 million for HTC equity and \$18 million in equity from \$56 million in NMTC allocation provided by multiple CDEs.

“Without the tax credits, as well as the visionary leadership of Todd and McLean, this couldn’t have

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happened,” said Matt Meeker, a partner in the Dover, Ohio, office of Novogradac & Company LLP, which provided tax credit consulting and the financial forecast for the development. “The people of Memphis will benefit from this development for decades.”

Rich History

The Sears Crosstown building was erected in 1927 as a mail-order processing warehouse and retail store that cost \$5 million to build and took 180 days of around-the-clock work. At its opening, it was the largest building in Memphis (650,000 square feet) and more than 47,000 people toured it on opening day—more than a quarter of the city’s population.

Image: Courtesy of Crosstown Development
Crosstown Concourse in Memphis, Tenn., has outpaced optimistic expectations in the first months since it opened. The 1.2-million-square-foot property was financed partly by new markets tax credit (NMTC) and historic tax credit (HTC) equity.

In 1983, when Sears began to shutter older buildings, it closed the Memphis retail component. A decade later, the catalog

distribution center closed, leaving the building vacant for 20 years until a 2010-2011 feasibility study found no insurmountable structural or environmental problems. That’s when Wilson and Richardson combined to cast the vision of something larger.

Richardson said the team looked at other large mixed-use properties such as Midtown Exchange in Minneapolis, the Ponce City Market in Atlanta and the Massachusetts Museum of Contemporary Art (Mass MOCA) in North Adams, Mass., as well as traditional developments that contained the elements at Crosstown Concourse.

They created something special.

Dramatic Mixed Use

“This is a vertical urban village,” said Sears. “You don’t have to leave the building if you don’t want to, it’s an experience unlike anywhere else in Memphis.”

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It's anchored in art, health care and education.

"You can go to the dentist, the grocery store, go to an art exhibition or concert and eat and drink," Richardson said. "There's so much stuff here that interconnects, whether it's commercial or retail. At full capacity, there will be 3,000 people coming and going each day."

Richardson said there are 65,000 square feet of retail (with 9,000 left to lease), 630,000 square feet of commercial office space (with 20,000 square feet left to lease) and 265 apartments, of which 254 are leased. The property is also on track to be LEED certified, has a 1,150-car parking garage and three enormous atriums.

"For me, it comes back to the building," Richardson said. "It's a beautiful art-deco building that's a massive space, close to downtown Memphis. People come into the building and are awed by it. The residents love the industrial feel and living above a grocery store, retail

and about five restaurants, as well as access to all the arts activity."

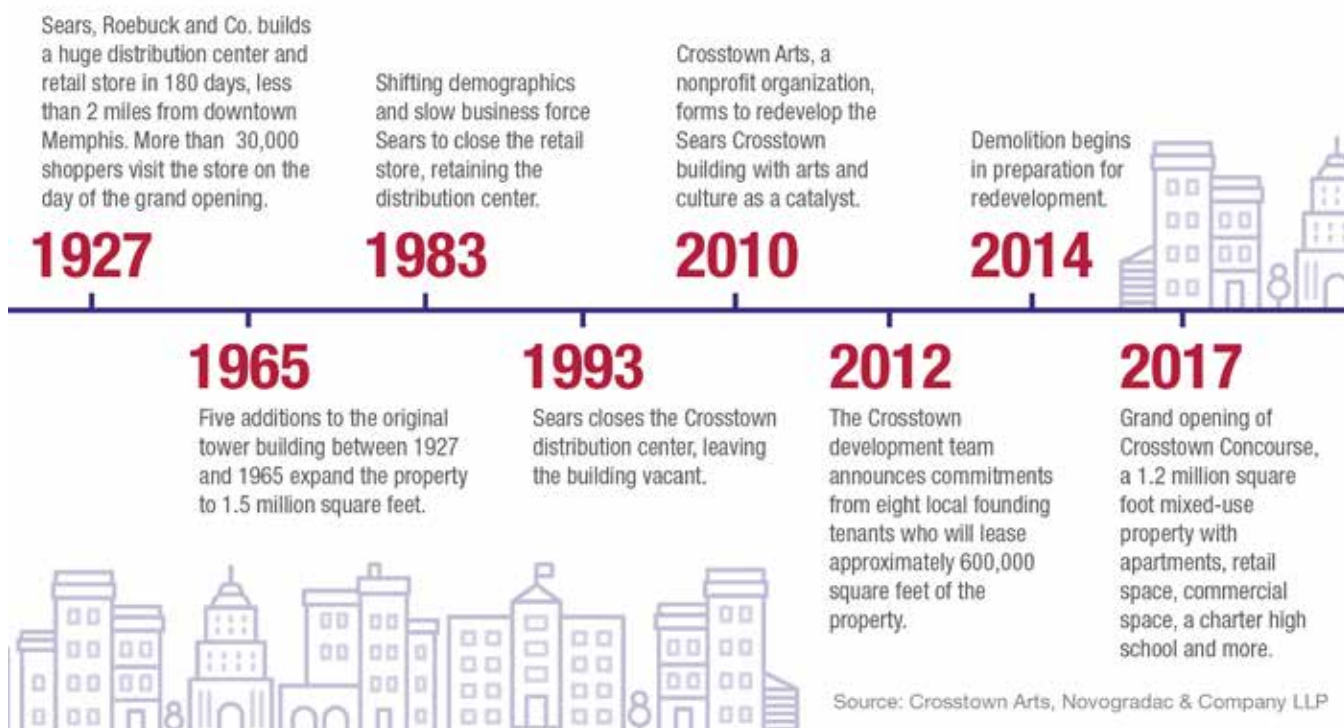
There are few similar buildings, anywhere. "I think it's unique," Sears said. "There are other developments that are similar across the country, but there's nothing like this in Tennessee. How many buildings with 1 million square feet have that much, outside of Manhattan and Los Angeles? This opportunity to save a building certainly was capitalized on with the right team to do it."

Sears pointed out that SunTrust believes in the project beyond the financials, becoming a tenant and opening a Financial Confidence Center.

"The Financial Confidence Center exemplifies our company's purpose of lighting the way to financial well-being," he said. "It's staffed by financial professionals who provide financial literacy information and classes

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Crosstown Concourse Timeline



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to the community at no charge. It also offers free one-on-one counseling on credit and money management, as well as smart business ownership in partnership with Operation HOPE.”

Few Hurdles

Richardson said developers expected significant hurdles during demolition and construction, due to the historic nature of the building, but that was largely a moot point. The biggest problem was the logistics of 32 sources of financing.

“The year 2014 was really a very hard year for McLean Wilson and me,” Richardson said. “I wouldn’t want to do that again.”

Richardson said a risk assessment done before construction identified communication as the biggest challenge, due to the number of people involved. That proved to be true for Richardson, who noted the difficulty of communicating with multiple parties through various channels, with the proper tone.

Now that the property is open, Richardson said the most significant problems are those related to success: parking, for instance, and the operational issues that accompany any mixed-used development.

“There’s a reason that the easiest way to do real estate development is to have the retail, residential and commercial areas siloed off,” Richardson said. “We chose not to do that, so there’s a lot of social friction. It’s an energy opportunity, but it’s also difficult, because you can’t predict everything. We’re living into the concept and adapting when necessary.”

Financing

Goldman Sachs Urban Investment Group provided \$36.5 million in federal HTC equity, while SunTrust Community Capital invested \$18 million in NMTCs

allocated by SunTrust CDE (\$10 million), DV Community Investment (\$10 million), Low-Income Investment Fund (\$10 million), Mid-City Community CDE (\$12 million), Midwest Renewable Capital (\$9 million) and National Trust Community Investment Corporation (\$5 million).

Financing included 30 sources of funding that had to fit in the NMTC and HTC programs.

“We were all kind of nervous about the deal given the expense,” Sears said. “What Todd and McLean do is mix for-profits and nonprofits, with more nonprofits. If you set aside the NMTC and HTC program and look at it as a banker, it’s risky. They needed the NMTC to step outside the box.”

Tax credits were crucial. “To say [tax credits were] instrumental would be an understatement,” Richardson said. “In a \$200 million project, they made up \$53 million. The project doesn’t happen without them.”

The development is projected to create at least 500 permanent jobs with \$37 million in new wages annually. Three hundred fifteen new jobs have already been created. During construction, it created more than 1,100 jobs—all in an area with a 32.9 percent poverty rate and 9.4 percent unemployment.

‘Poster Child’ Development

With the property open and thriving in early months, the feedback is positive. “The community has fully embraced the project in all sectors,” Howard said. “Employers, nonprofits, community leaders. Crosstown Concourse epitomizes a successful new markets tax credit project.”

Richardson cited the number of people who still flock to the building as a measure of success. “Memphians are still discovering it,” Richardson said. “I love it on

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weekends when I see people giving tours and I don't know who they are and they don't know me. They're

just showing people around. It's a moment of civic pride." ♦

Crosstown Concourse

FINANCING

- ♦ \$80 million senior debt with syndication led by SunTrust. Other participants are Bancorp South, Cadence Bank, Financial Federal Bank, Independent Bank, Magna Bank, Metropolitan Bank and Renasant Bank.
- ♦ \$56 million new markets tax credit allocation:
 - \$12 million from Mid-City Community CDE
 - \$10 million from SunTrust CDE
 - \$10 million from DV Community Investment
 - \$10 million from Low-Income Investment Fund
 - \$9 million from Midwest Renewable Capital
 - \$5 million from National Trust Community Investment Corporation
- ♦ \$36.5 million equity from historic tax credits from Goldman Sachs Urban Investment Group
- ♦ \$25 million in contributions and philanthropy
- ♦ \$18 million new markets tax credits equity investment from SunTrust Community Capital
- ♦ \$15 million from city of Memphis in Brownfields Economic Development Investment funds, HUD Section 108 funds and capital improvement plan dollars
- ♦ \$14 million in mezzanine financing
- ♦ \$6.1 million from land/building
- ♦ \$5 million from Shelby County in public infrastructure capital improvement plan dollars
- ♦ \$2.1 million qualified energy conservation bond
- ♦ \$250,000 Delta Regional Authority Grant

This article first appeared in the January 2018 issue of the Novogradac Journal of Tax Credits.

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