

**Center City Development Corporation
Corporate Board Meeting**



To: Center City Development Corporation (CCDC)
From: DMC Staff, Planning & Development Department
Date: October 2, 2015
RE: Development Grant Request – South Main Artist Lofts

CENTER CITY DEVELOPMENT
CORPORATION

CENTER CITY REVENUE
FINANCE CORPORATION

DOWNTOWN PARKING
AUTHORITY

DESIGN REVIEW
BOARD

The enclosed development grant request has been submitted for consideration at the October 14, 2015, CCDC Board Meeting.

Project: South Main Artist Lofts, 138 St. Paul St.

Applicant: Artspace Projects, Inc. (Artspace)
250 3rd Avenue North, Suite 400
Minneapolis, MN 55401
(612) 465-0208

Representative: Heidi Zimmer
Senior Vice President, Artspace
(612) 819-6754

Project Description: South Main Artist Lofts, a proposed development project that involves the adaptive reuse of the former United Warehouse Building, as well as ground-up construction of a new building on the adjacent vacant/parking lot, is proposed to offer 58 affordable live/work residential units, approximately 7,000 square feet of commercial space and community/gallery space. Currently, the property is vacant, and is in a dilapidated and blighted condition.

The total square footage of the proposed development will be approximately 91,306 square feet (approximately 61,076 in the existing historic building and approximately 30,230 in the newly constructed building). Approximately 12,000 square feet of space will be community and commercial space with varying uses. The project will include around 52 parking spaces: 30 of which will be surface parking; and 22 will be basement level garage parking in the renovated building.

The Crump Building
114 North Main Street
Memphis, TN 38103
901.575.0540

When completed, South Main Artspace Lofts will offer studios, one-, two-, and three-bedroom units to members of the artist community earning less than 60% of the area average median income. Thus, 100% of the residential units/apartments will be affordable, low-income units. The primary source of capital for the proposed development of South Main Artist Lofts will be low-income housing tax credits (4%-LIHTCs). Also, the applicant plans to pursue historic tax credits as part of the capital financing structure.

The total development cost of the project is approximately \$15,071,796. Construction is scheduled to begin in February 2016 and be completed, fully leased and occupied by July 2017.

Artspace is a nonprofit, charitable, 501(c)3 developer of LIHTC developments. They are a national leader in developing low-income housing and affordable space that meet the needs of artists through the adaptive reuse of historic buildings and new construction. Artspace has many live/work projects located from coast to coast.

The City of Memphis, in partnership with the Hyde Family Foundation et al, identified the need for affordable housing and space for artists, and recruited Artspace to further evaluate Memphis as a potential development site. After evaluating the city and different locations within for the development of one of its projects, the current South Main location was selected and placed under contract several years ago.

Artspace's goals for this project are as follows:

- Boost the local economy by creating jobs
- Provide affordable housing and amenities to the area's artist community

- Support the economic vitality and livability of the South Main Historic District and surrounding area
- Save, transform, renovate, and utilize a blighted and desolate historic building

Request Summary:

Artspace is requesting a \$200,000 grant in lieu of loan as part of the final \$1,150,000 in equity needed to be raised for the project. According to Artspace, because of nature of the project's financing – includes 4% LIHTCs rather than 9% LIHTCs (which the applicant was not successful in acquiring), the project has a shortfall and a significant amount of debt (given the nature of the project) and cannot support more. If approved, Artspace would allocate the grant proceeds towards infrastructure improvements that are public in nature.

Design Review Board:

The design plans will be presented to the DRB in November or December 2015. Also, as a condition of pursuing historic tax credits, design plans are subject to review and approval by the Historic Preservation Office of the State of Tennessee and the National Park Service.

Diversity Program:

Any project that is awarded financial incentives from the Downtown Memphis Commission (DMC), or any of its affiliate boards, shall include a best faith effort to attain no less than 20% participation by women and/or minority-owned businesses (MWBES) in the project's development costs (design and construction hard costs), and shall be compliant with the DMC Equal Business Opportunity (EBO) Program. According to the estimates provided in the application, the minimum level of inclusion for this project shall be approximately \$2,348,305. Documentation of compliance with the EBO Program is a requirement that would be a condition of any financial incentive. If the requirements of the EBO Program are not met, the CCDC reserves the right to cancel the incentive.

Staff Evaluation:

The CCDC does not have an established financial incentive program for such a request. Thus, requests as such are evaluated by staff and subsequently may be presented to CCDC for consideration and resolution on a case by case basis. In recent years, there's only been a couple of similar requests presented to CCDC, with \$200,000 being the maximum amount approved. The most recent being a grant to the Memphis Area Transit Authority for parking and public infrastructure improvements in support of the Central Station Redevelopment Project.

DMC staff has had extensive discussions with Artspace in regards to the project's funding sources, pro forma cash flow, and expected returns. Based on the pro forma cash flow, the project has limited capacity to attract more debt. The funding sources for the project include generous philanthropic donations, from the Hyde Foundation, Assisi Foundation, Ford Foundation, the City of Memphis, and others. The need for and pursuit of more donations and other financial incentives to complement the project's financing needs has also been discussed at length with Artspace (see Sources & Uses Statement in attached request for further details). The funding sources and levels of philanthropic donations indicate that the project is well supported by leading philanthropic organizations in the community.

In evaluating this request, staff also took into consideration CCDC's limited resources and other significant projects and initiatives that may need support in the near future.

The staff is very supportive of the development of South Main Artist Lofts for, but not limited to, the following reasons:

- The project will add needed affordable housing, particularly affordable housing for artists, to South Main and Downtown. All 58

residential units, 100%, will be affordable low-income live-work units.

- Artspace is a non-profit, charitable organization.
- The project is greatly supported by the City of Memphis and many leading and prominent philanthropic organizations through generous donations/grants.
- The project will add needed affordable workspace for artists to the South Main District, and Downtown in general.
- A vacant, desolate, and deteriorating historic building would be renovated.
- Development of the project would result in more people living, working, playing, and shopping in Downtown Memphis.

Staff Recommendation: After extensive evaluation and deliberations, staff recommends consideration of a grant in the amount of \$200,000. In the staff's view, South Main Artist Lofts is an extraordinary and exceptional project. Though the development of South Main Artist Lofts would not have the magnitude of economic impact as other projects receiving similar consideration, nor does it have a prominent and conspicuous location that exacerbates its current blighted and desolate pre-developed condition and its negative impact on nearby properties and Downtown in general, approving a grant in the amount of \$200,000 would be in keeping with other extraordinary and exceptional projects that were awarded grants in recent years. The development of South Main Artist Lofts will add affordable housing for artists to the South Main District while removing blight, resulting in the comprehensive renovation of a historic building and the addition of a newly constructed building. Staff recommends that any approved grant should be subject to the project remaining

an Artspace owned and operated affordable housing project (as per the terms of the LIHTC award) for thirty (30) years. The grant shall be repayable in full to CCDC if this condition is not met. If approved, the distribution of funds should occur after all applicable closing conditions, to include but not be limited to the following: CCDC and Artspace (and its applicable affiliates) establishing a grant agreement, DRB approval, and EBO compliance, are met and the project is completed.