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Capital Markets
Sales • Finance • Investment Banking

August 1, 2020

Union Row LB, LLC
2724 Central Avenue
Memphis, TN 38111

Re: The Walk on Union – Capital Market Status

To Whom It May Concern,

CBRE Capital Markets, Inc., through its Debt & Equity Finance division (“CBRE DEF”), continues to evaluate the viability of securing financing for Phase I of The Walk on Union, the first phase of a groundbreaking and transformative project for the City of Memphis. Phase I will include approximately 410 multifamily units as well as 510 parking spaces, strategically designed to address demand needs for new housing and parking in the Downtown area.

From historic job losses due to the COVID-19 pandemic beginning in March (24.7 million jobs were lost between February and April), to historic job gains in both May (2.5 million jobs were added vs. an expected loss of more than 8.3 million) and June (4.8 million jobs were added, almost doubling economist’s consensus expectations), the U.S. unemployment rate soared to a record high of 14.7% before declining to its current rate of 11.1%. While the strong recovery of jobs for the second consecutive month bolsters expectations that the U.S. economy is recovering, the recent resurgence in COVID-19 cases continues to keep the capital markets in a volatile and uncertain state, particularly capital that was previously dedicated and readily available for new development.

Both investment and commercial banks, including those at the national, state, and local levels, as well as other traditional institutional lending sources, such as life insurance companies, have been exercising considerable caution as they evaluate new construction projects. A large majority of lenders are generally reserving credit for institutional-quality repeat clients only, while the projects that are ultimately approved and moving forward are “straight down the fairway” developments in national top tier and select secondary markets. In addition, the participating lenders are only active at overly restrictive loan parameters (e.g. lower Loan-To-Value and Loan-To-Cost metrics, raising guaranty requirements, increasing credit spreads to cost prohibitive levels) in order to offset the perceived risk of a longer term economic recovery. The end result is a significant lack of viable development capital, a major issue for supply-constrained tertiary markets that are hurting for new development and redevelopment, such as Memphis.

In addition to the trophy location, cutting edge design, and highly qualified and experienced development team, the revised incentive package that includes the upfront PILOT Agreement and Tourism Rebate will be paramount in securing the necessary financing needed for The Walk at Union project to move forward.

The ongoing economic uncertainty and challenging capital market environment will continue to inhibit new development in many cities throughout the country, making incentive packages such as this one more important now than ever. Aside from the development financing, the incentive package will also pave the way for more efficient long-term permanent financing upon completion and stabilization due to the affordability component of the project, a highly important characteristic desired by mission-centric lenders such as Fannie Mae, Freddie Mac, and HUD.

We sincerely appreciate your consideration of these issues and look forward to discussing in more detail as the project continues to move forward in the coming months.

Sincerely,

CBRE Capital Markets, Inc.

By: 

K.O. Kennedy, Vice Chairman