RESEARCH REPORT

Community Development Finance in Memphis

Assessing Capital Flows, the Local Ecosystem, and Opportunity Zones

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Community Development Finance in Memphis

This report explores the existing ecosystem for attracting, guiding, and financing community development projects in Memphis, Tennessee. Our interviews with practitioners and stakeholders reveal that while the ecosystem is rich in players, in aggregate, the city lacks the quantity, but especially the quality, of investment capital and projects needed to exert meaningful impact in underserved communities. This means that certain neighborhoods are succeeding in accessing capital while others are excluded. We quantify these disparities in capital access across a range of investment types.

Community development finance refers to investments intended to engender social and environmental benefits in underserved communities. This type of capital creates and preserves affordable housing, helps small businesses expand, and builds community facilities such as health clinics or charter schools (Hacke, Wood, and Urquilla 2015). Community development finance often requires investors to tolerate higher risks and sometimes lower returns compared with market or mainstream finance. However, community development finance is still subject to economic forces. Such investments, even when they have the mission to generate social benefits, are often expected to create financial returns that sustain the continuity of similar transactions.

Most cities have an ecosystem that drives community development efforts and initiatives, including ways to finance them. The ecosystem includes lenders, whether community development financial institutions (CDFIs),[1] credit unions, commercial banks, or other lending institutions with community development programs or initiatives. These programs include community development corporations (CDCs) and other nonprofit developers, as well as for-profit developers that build mission or impact projects such as rental housing financed by low-income housing tax credits. Government agencies at all levels play an important role. Community organizing and advocacy nonprofits, as well as those providing technical assistance or coaching, are key players. Corporations, universities, hospitals, and foundations can provide grants, training, or other forms of support. Angel and other equity investors can help businesses scale up. People with skills in law, accounting, and tax are also necessary. These actors' roles vary, intersect, and overlap, from sourcing and articulating the needs of the community to financing and developing final projects.

The health and richness of a community development ecosystem—much like in natural ecosystems—require diversity and density. These elements require sufficient deal flow to build sustained interaction in networks, working together, supporting each other, and competing. This is particularly challenging in small and midsize cities (Theodos, González, and Hariharan 2021), but it can

be difficult even for larger ones, such as Memphis. The city has been challenged over the past two decades by stagnant—and at times negative—economic and population growth. However, Memphis has unique assets for community development: it is a hub for the warehouse and distribution industry (which has become increasingly important during the COVID-19 pandemic) and a cultural beacon for the Mississippi Delta region.

In this report, we map out, explore, and assess the community development finance ecosystem in Memphis. We conducted a dozen in-depth interviews with stakeholders working in the field, including representatives of local government agencies, nonprofits serving small businesses, business improvement districts, CDCs, CDFIs, and philanthropy. Through these interviews, we sought to understand the main actors in the Memphis community development finance ecosystem; how this ecosystem compares with that of peer cities; how it may have changed over time; its strengths, weaknesses, and gaps; the economic and policy tools at the actors' disposal; and how the COVID-19 pandemic and Opportunity Zones may or may not have affected these dynamics.

In parallel, we analyzed the dollar flows of various investments into Memphis census tracts. We study lending activity to small businesses and across three classes of real estate: single family, multifamily, and nonresidential. We also consider federal community development investments and separately analyze mainstream lending and mission-oriented lending.

The health and richness of a community development ecosystem—much like in natural ecosystems—require diversity and density.

Our study reveals that capital flows in Memphis are deeply segregated—much like the city itself. This is especially evident in neighborhood-level trends along the lines of race and poverty. Inequity is apparent across investment type, though some are more disparate than others. Loans from the mission sector (such as those from CDFIs), as well as federal community development subsidies, are more prevalent in communities of color and high-poverty neighborhoods. However, these sources are small relative to mainstream market capital flows and, as such, are not sufficient to overcome investment disparities.

Through interviews, we learned that the community development finance ecosystem is growing. But interviewees also described the ecosystem as "complacent"—only a few local actors have the willingness and, critically, the capacity to drive complex and impactful community development projects. Despite the gaps, there was optimism about increasing the involvement of outside CDFIs,

growth in small-business activity before the pandemic, increased philanthropic engagement, local governments leveraging tax credits and pursuing regional solutions, and strategic activity by business improvement districts.

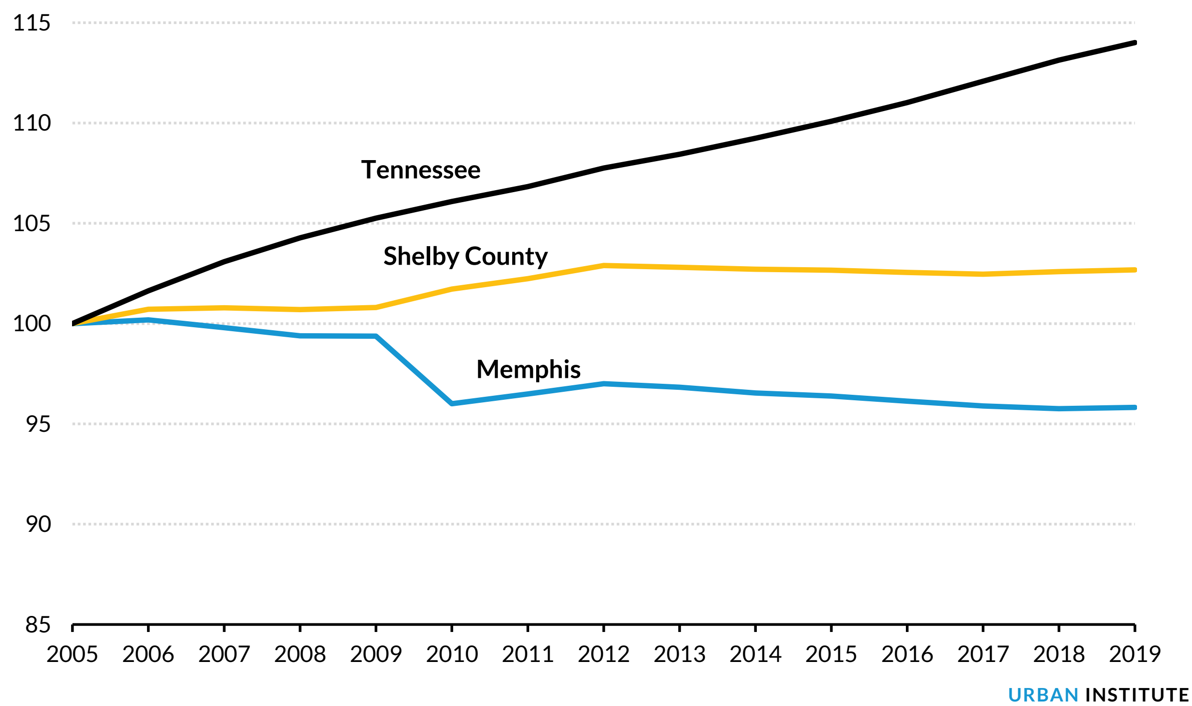
The Context in Memphis

Population

In 2019, Memphis had an estimated population of 651,000, making it the second-most-populous city in the state, behind Nashville. The city is enclosed in Shelby County, but its metropolitan statistical area (MSA) extends to nine other counties and two states, Arkansas and Mississippi. The MSA's population is about 1.3 million.

Memphis is a shrinking city. As shown in figure 1, while Tennessee has experienced fast population growth, Memphis has fewer residents today than it did in 2005. Over the same period, Shelby County gained population modestly, reflecting development happening away from the historical urban core.

FIGURE 1
Population, 2005–19
Share of 2005 population



Source: US Census Bureau.
Note: The figure shows percentage change over time, with 2005 indexed to 100 percent.

Employment and Income

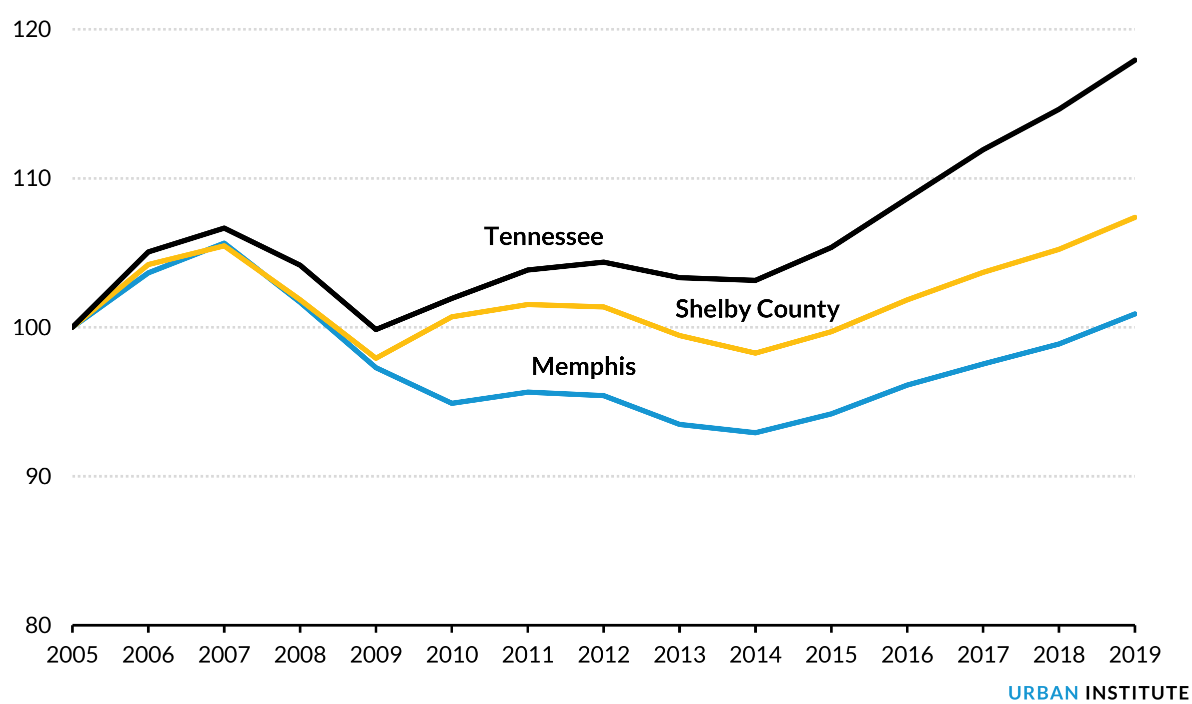
About 287,000 people worked in Memphis at the end of 2019; more than 40,000 were employed in the transportation and warehousing sector. Roughly three-quarters of the jobs in this sector are at FedEx, the largest employer in the city in terms of revenues and workforce. At its Memphis headquarters, FedEx employs more than 30,000 people, or more than 1 in 10 of the workers in the city.[2] Other relevant economic sectors are health care and social assistance (40,677 employees) and retail trade (30,518 employees).[3]

Employment in Memphis grew steadily from 2014 until the COVID-19 pandemic, although it had decreased more severely during 2009–14 relative to Shelby County and Tennessee (figure 2). The unemployment rate in the city, at about 4 percent before the pandemic, has been consistently above the county's and the state's, although it has followed the same downward trend since the end of the 2008–09 financial crisis (figure 3).

FIGURE 2

Workers, 2005–19

Share of the 2005 annual average number of employed people



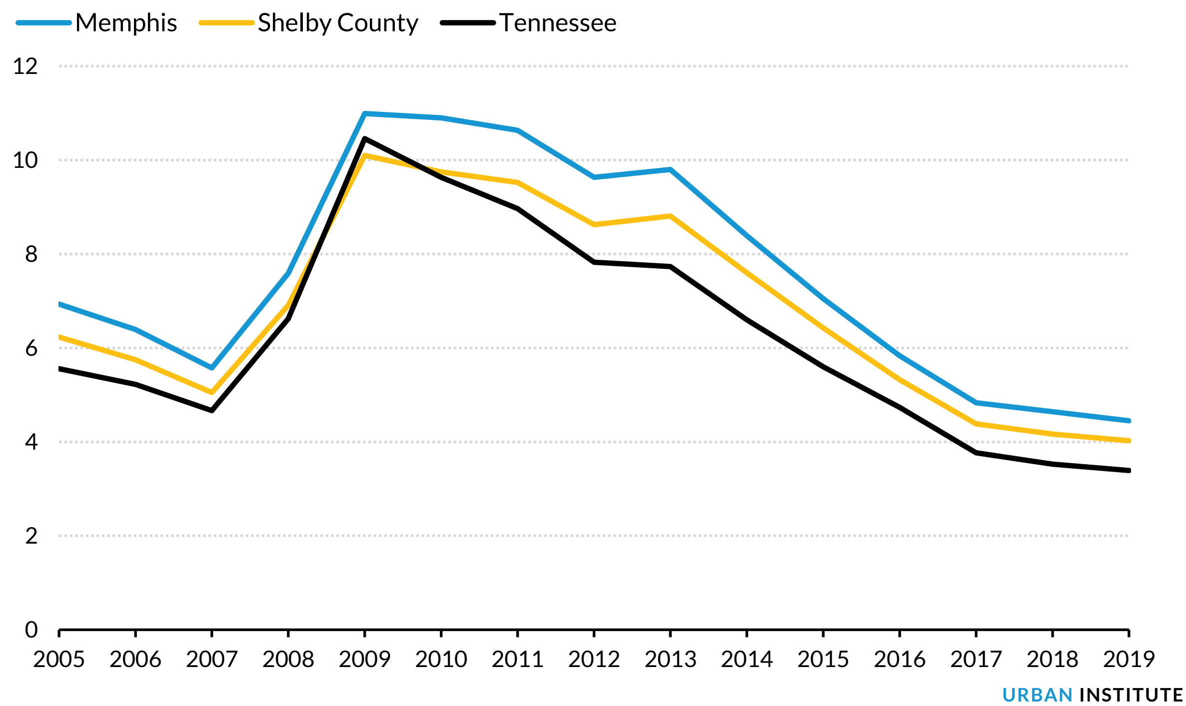
Source: US Bureau of Labor Statistics.

Note: The figure shows percentage change over time, with 2005 indexed to 100 percent.

FIGURE 3

Unemployment Rate, 2005–19

Annual average



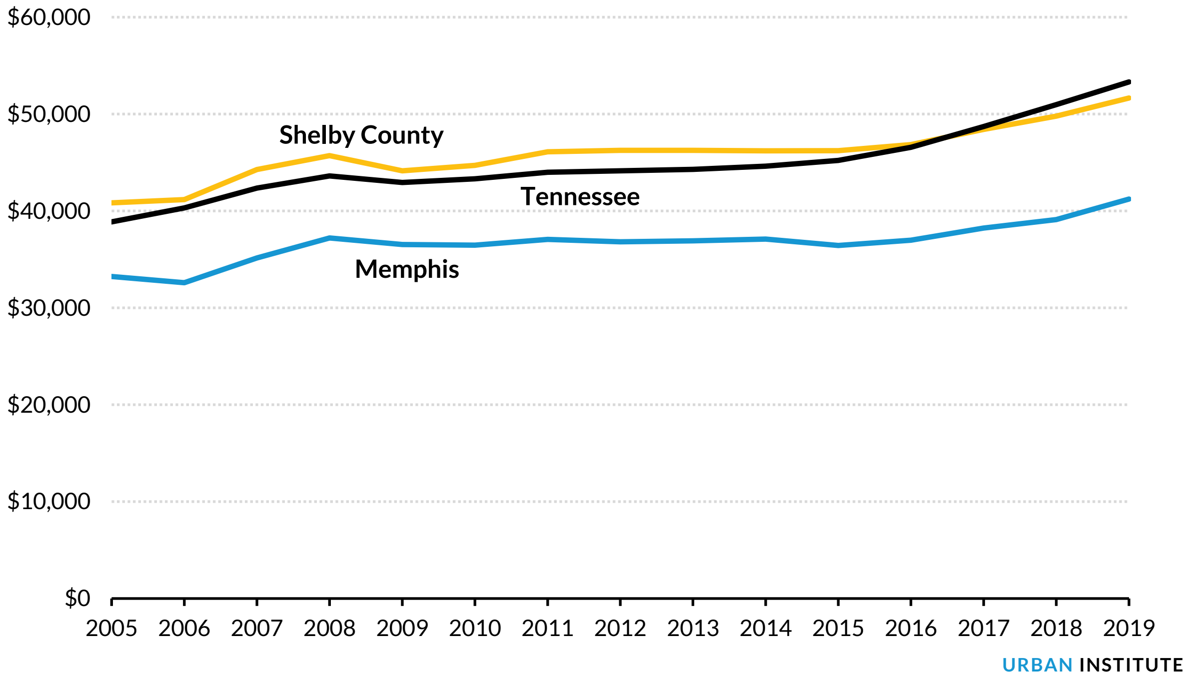
Source: US Bureau of Labor Statistics.

Memphis faced and still faces challenges that explain its somewhat slow recovery from the 2008–09 financial crisis: an overreliance on low-wage industries, misalignment between workforce skills and opportunities, and sprawl outpacing economic and population growth. If unaddressed, these challenges will also hold Memphis back as it tries to recover from the ongoing COVID-19 economic crisis.

Other economic indicators such as the median income and poverty rates show improvement between 2015 and 2019, although Memphis again underperformed the state and county (figures 4 and 5). In 2019, the Memphis median household income was $12,000 lower than the state's, and the poverty rate was 10 percentage points above that of Tennessee. Childhood poverty is also highly prevalent in Memphis: 35 percent of children in the city lived in poverty in 2019.[4]

FIGURE 4

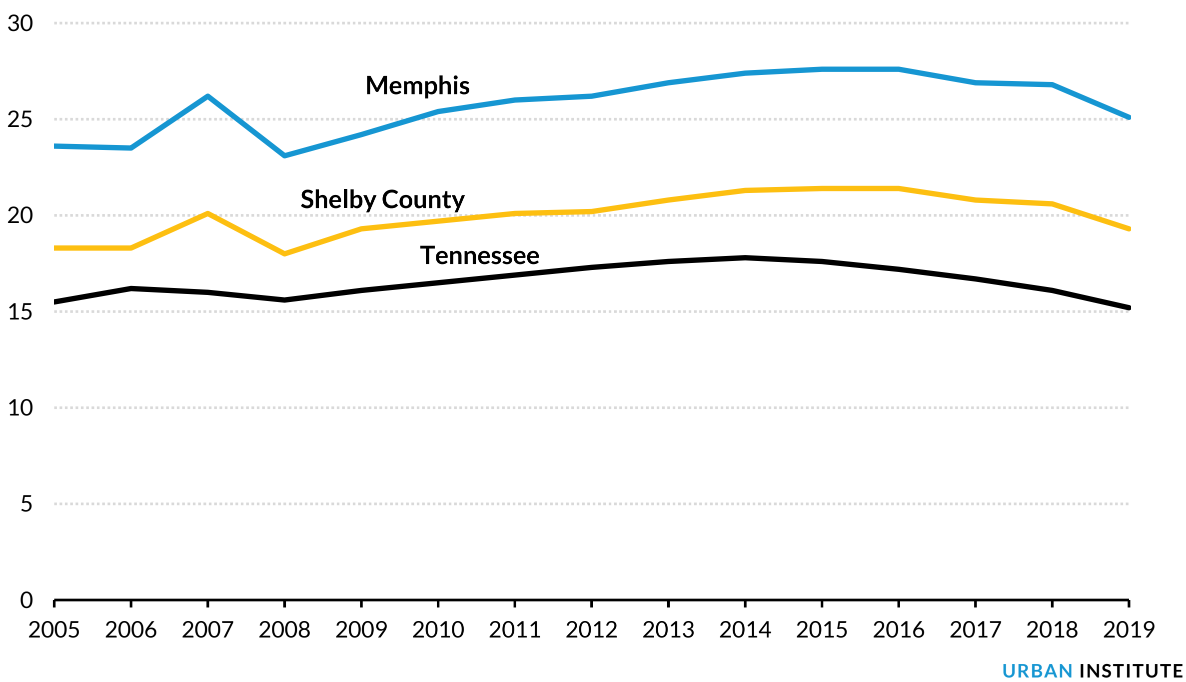
Median Household Income, 2005–19



Source: US Census Bureau.

FIGURE 5

Poverty Rate, 2005–19



Source: US Census Bureau.

Racial Inequality and Segregation

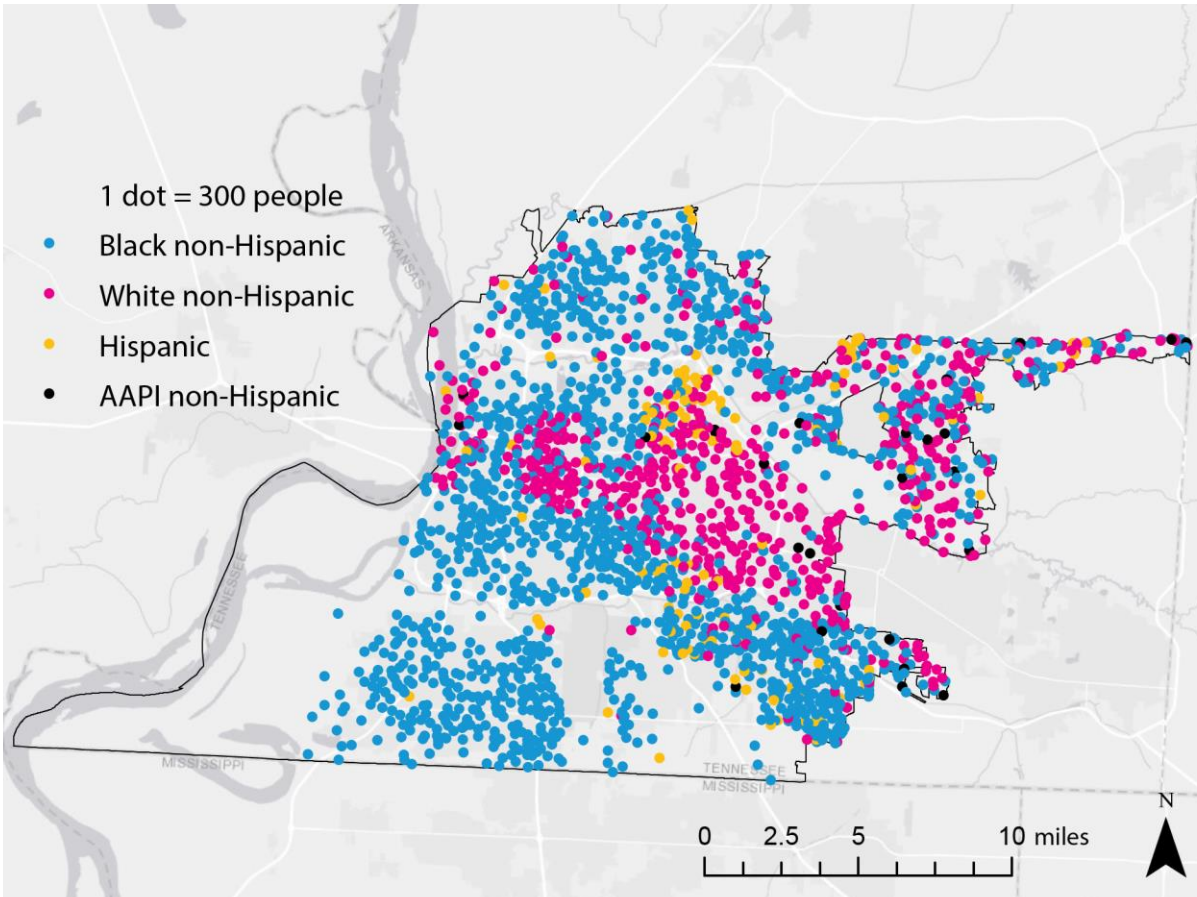
As in most major cities in the United States, economic characteristics do not hold equal across racial groups in Memphis. In 2019, 30 percent of Black Memphians lived in poverty, but only 14 percent of white residents did. These trends reflect the historical and contemporary exclusion of Black people from opportunity—at both individual and systems levels. Jim Crow's legal discrimination, New Deal economic entitlements that privileged white people, redlining, and low-quality schools and services in high-poverty neighborhoods have prevented the country from closing its racial wealth gap, even 150 years after the Emancipation Proclamation.[5]

Memphis is also highly racially segregated. This is evident in schools[6] and in neighborhoods. Forty-six percent of Black people in the city live in neighborhoods where at least four in five residents are Black, the fourth-highest rate among the 100 largest metropolitan areas.[7] While Memphis's population has been considered racially binary, recent demographic changes have led to the emergence of a Latino community (Innovate Memphis 2020).

As in the rest of the country, segregation intersects with poverty in Memphis. Only about 2 percent of white Memphians live in neighborhoods where at least 40 percent of the population is living in poverty, but 20 percent of Black residents do.[8] Figures 6 and 7 illustrate how poverty and race intersect geographically. The northern and southern areas of the city hold larger concentrations of Black residents and are the areas where poverty is more prevalent. As in most parts of the country, this correlation is explained by decades and centuries of purposeful disinvestment in Black neighborhoods by the government and the private sector (Kijakazi et al. 2016). Through redlining and exclusionary tactics, the public sector and private actors undermined Black wealth in South and North Memphis by deeming these neighborhoods "unsafe" for mortgage and construction lending.[9]

FIGURE 6

Race in Memphis, 2019



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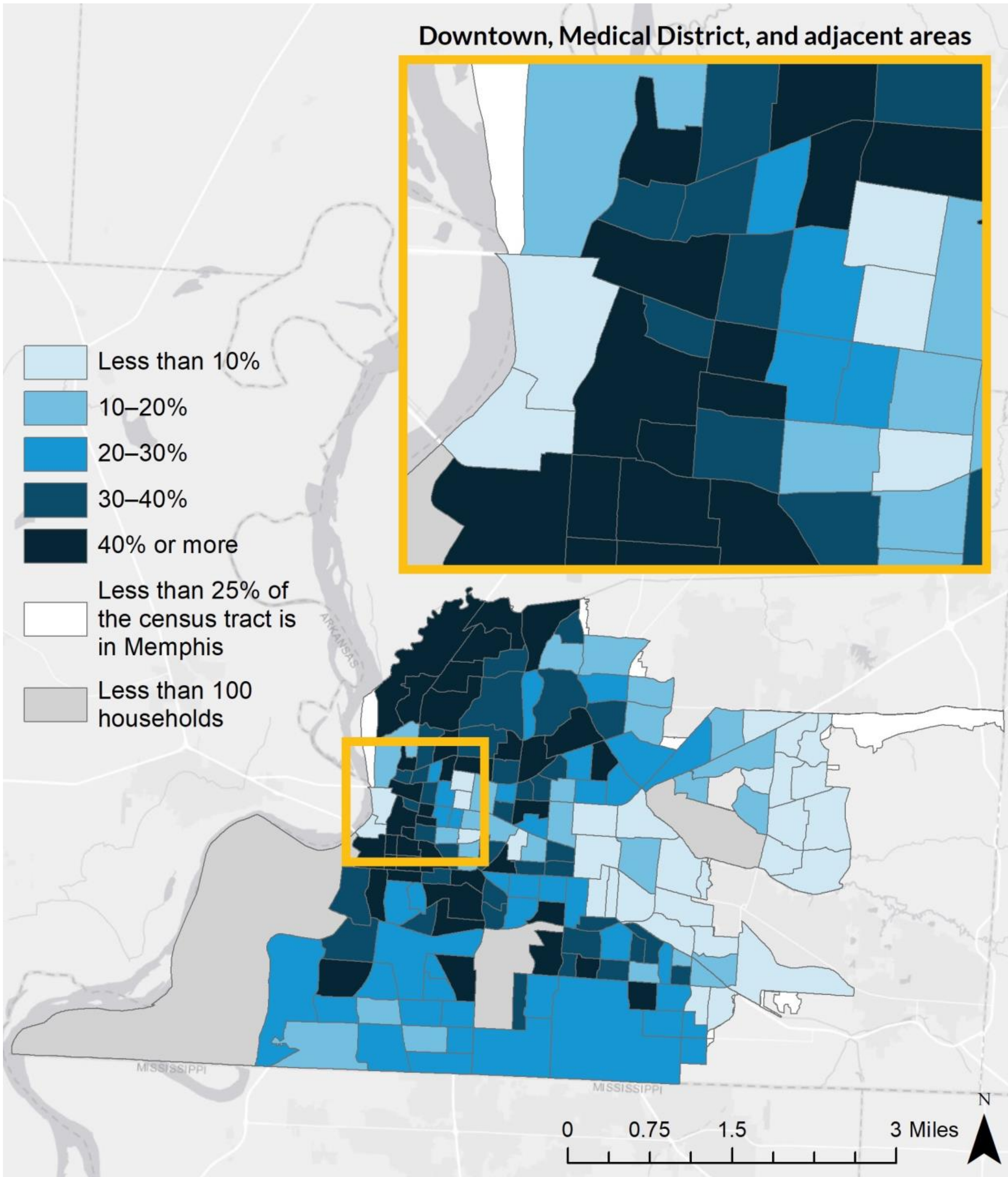
Sources: 2015–19 American Community Survey five-year estimates; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.

Note: AAPI = Asian Americans and Pacific Islanders.

FIGURE 7

Share of Population Living Below the Federal Poverty Level, City of Memphis, by Census Tract, 2019



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Sources: 2015–19 American Community Survey five-year estimates; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.

City Sprawl

Memphis is a highly sprawling city, even by American standards. It has a population density of 2,010 people per square mile,[10] less than half that of Detroit, a city synonymous with sprawl.[11] A 2014 study placed the Memphis MSA sixth among 221 in terms of worst sprawl using metrics of residential and employment density, diversity of land use, proportion of people and businesses located near each other, and measures of physical infrastructure (Ewing and Hamidi 2014). Sprawling accelerated in the 1960s with white flight and increased as the city began expanding its borders to capture more property tax revenues.[12] Between 1960 and 2010, the city's footprint grew 240 percent, while its population grew only 19 percent.[13] Sprawl has been partly responsible for stagnant population growth, as people and employment opportunities fled the city for other places within Shelby County.[14]

Tax Reliance

Memphis has been fueled, and hampered, by a high effective property tax rate: 1.85 percent (made up of both a city and a county rate) on median-valued homes. This rate is about 1.25 times the US average, placing Memphis 15th in a ranking of the highest effective property taxes for the largest cities in each state (Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 2017). Relative to other cities, Memphis receives little support for its revenue from state transfers. For every dollar Tennessee spends, only 7 cents goes to cities and counties. Nationally, this rate is 17 cents.[15]

Capital Flows in Memphis

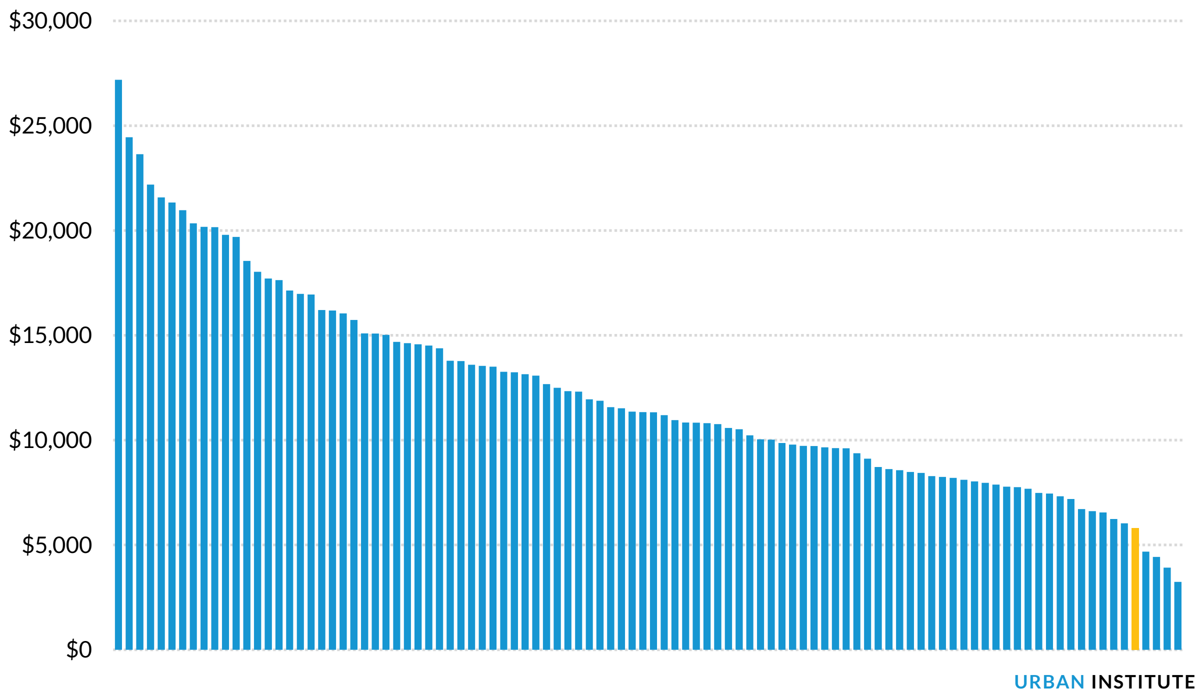
This report analyzes investment flows into the city of Memphis from 2005 to 2019, looking at city trends and geographic distribution to Memphis neighborhoods. Our methodology and analysis build on previous investment flow studies we have conducted in other cities and nationally.[16] We study these through lending across four investment types: single-family real estate, multifamily real estate, nonresidential real estate, and small business. (We also have data on sales activity for single-family and nonresidential real estate, but not multifamily real estate or small-business activity.) We then look at "mission" lending by CDFIs and other socially motivated lenders and investors. To properly evaluate neighborhood access to each investment type, we scale the flow by an appropriate denominator (e.g., small-business lending by small-business employees, single-family real estate lending by the number of owner households, multifamily lending by the number of renter households).

Our aggregate capital flow measure—which combines single-family, multifamily, and nonresidential real estate; small-business lending; mission lending; and federal community development investment—shows that compared with other cities, Memphis struggled to access capital. It ranked 96th among the 100 largest US cities in capital access per household (figure 8). Memphis received more than $2.5 billion in investment in 2005 and 2006, followed by a steep decline as the country entered the Great Recession, dipping below $1 billion annually (figure 9). From 2014 through 2018, Memphis saw growth in investment, with a spike in 2018 caused by a single large investment project.

FIGURE 8

Aggregate Capital Flows per Household, 2005–18

Memphis's rank among the 100 largest cities



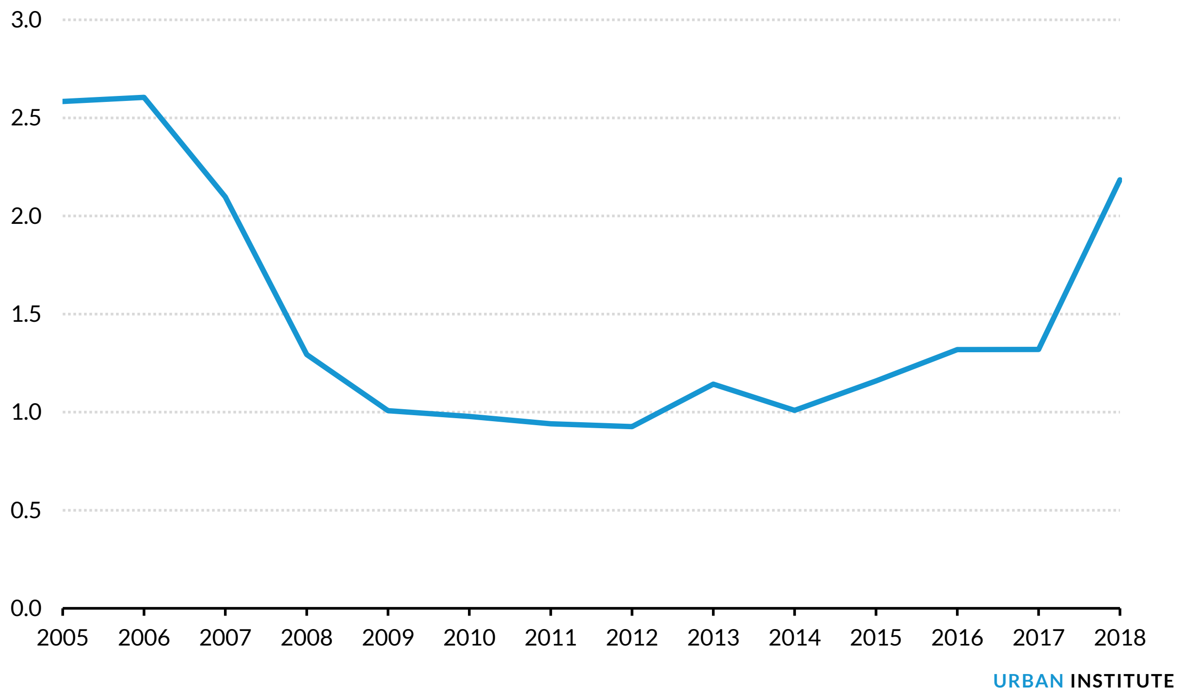
Sources: Community Development Financial Institutions Fund, Community Reinvestment Act, CoreLogic, US Department of Housing and Urban Development, Home Mortgage Disclosure Act, and Small Business Administration data; 2014–18 American Community Survey five-year estimates.

Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the 100 largest cities, all census tracts that are more than 25 percent within a city are included.

FIGURE 9

Aggregate Capital Flows from Sources Tracked in Memphis, 2005–18

Billions of dollars



Sources: Community Development Financial Institutions Fund, Community Reinvestment Act, CoreLogic, US Department of Housing and Urban Development, Home Mortgage Disclosure Act, and Small Business Administration data.

Notes: Capital flows are presented in constant 2019 dollars. These data were aggregated from the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

Memphis's foremost investment type—as is true for most cities—was single-family real estate. This investment type captured 55 percent of the aggregate capital flows we tracked from 2005 to 2018 (figure 10). Next most-prevalent was nonresidential lending—such as loans to build hotels, office buildings, grocery stores, and warehouses—which accounts for 15 percent of aggregate investment. Loans to small businesses, as tracked in Community Reinvestment Act data, were 13 percent of aggregate investment, and multifamily real estate lending represented 12 percent. Lending backed by the Small Business Administration, federal investment, and mission lending were smaller, at 2, 2, and 1 percent of aggregate investment.

FIGURE 10

Aggregate Capital Flows from Sources Tracked in Memphis, 2005–18

Sources: Community Development Financial Institutions Fund, Community Reinvestment Act, CoreLogic, US Department of Housing and Urban Development, Home Mortgage Disclosure Act, and Small Business Administration data; 2014–18 American Community Survey five-year estimates.

Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included. CRA = Community Reinvestment Act. SBA = Small Business Administration.

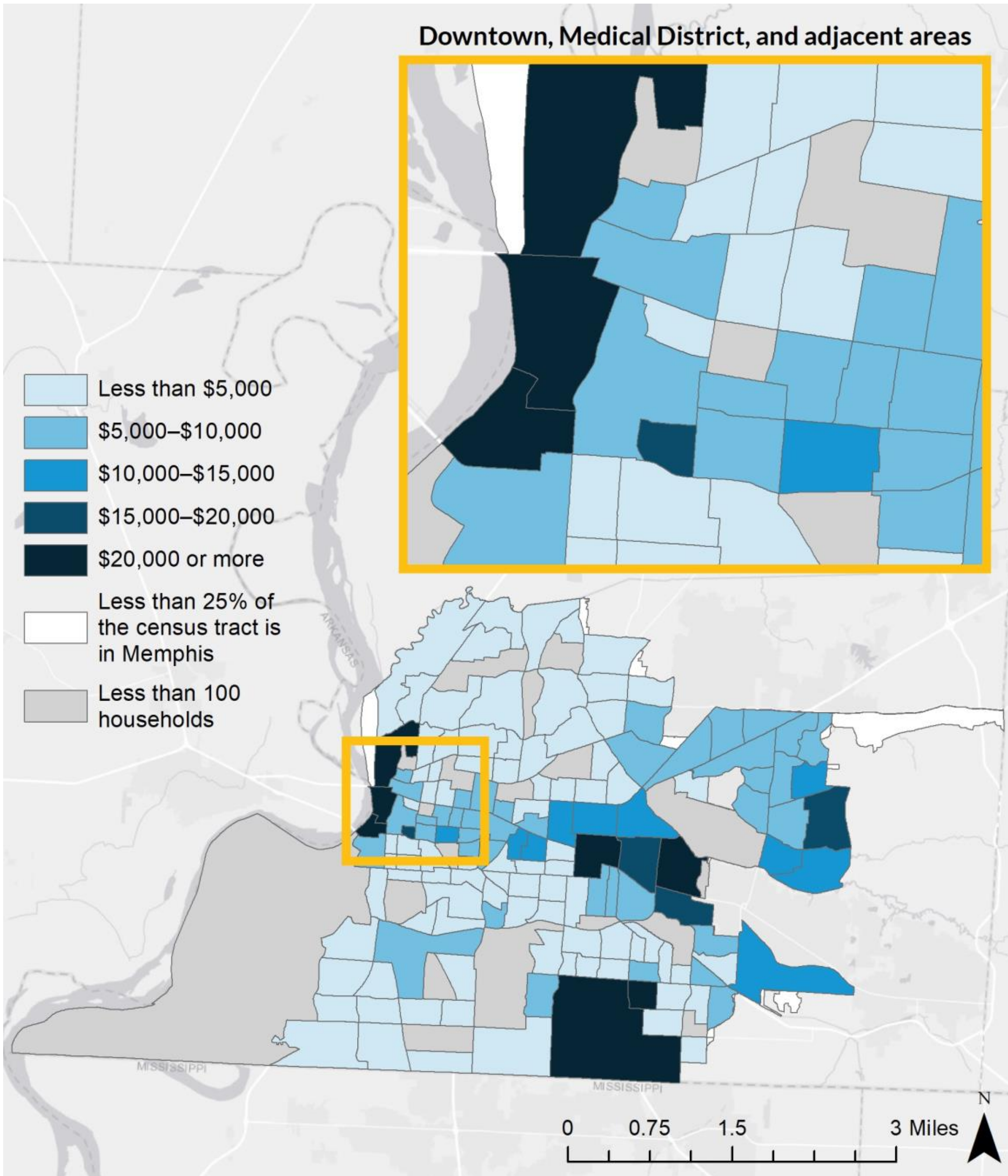
Investment Is Concentrated Downtown and in East Memphis; Other Neighborhoods Receive Little Investment

We next explore how aggregate investment is spread across Memphis. Looking at the city's census tracts and scaling investment by the number of households, we see stark disparities in capital access.

Figure 11 illustrates high investments in three areas: the predominantly industrial areas in the southeast corner of the city, neighborhoods in the east, and downtown. For the latter, a boom in real estate development and revitalization efforts has largely driven investment. More than $13 billion between 2014 and 2018 was invested in downtown Memphis revitalization projects, which include the redevelopment and conversion of old industrial buildings such as warehouses and factories into luxury housing, hotels, and mixed-use commercial projects.[17] East from downtown, in the Medical District, the Memphis Medical District Collaborative (MMDC) has largely driven investment (box 1).

FIGURE 11

Average Annual Aggregate Capital Flows per Household, by Census Tract in Memphis, 2005–18



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Sources: Community Development Financial Institutions Fund, Community Reinvestment Act, CoreLogic, US Department of Housing and Urban Development, Home Mortgage Disclosure Act, and Small Business Administration data; 2014–18 American Community Survey five-year estimates; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.

Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

BOX 1

The Memphis Medical District Collaborative Is Driving Activity East of Downtown

As with the downtown business improvement district, the burgeoning Medical District is a creative and ambitious economic and community development effort. Unlike development in downtown, where the city has played a key role in revitalization, development in the Medical District has been sponsored by Baptist Health Sciences University, Methodist Le Bonheur Healthcare, Regional One Health, the Southern College of Optometry, St. Jude Children's Research Hospital, and Southwest Tennessee Community College. Together, these health care organizations have created the nonprofit Memphis Medical District Collaborative, which shepherds and coordinates development in the district.

MMDC is a community development organization covering the 2.6-square-mile neighborhood directly east of downtown that holds most of the city's medical institutions. According to our interviewees, the area had 30,000 residents in 1970 but has only 10,000 today.[a] MMDC is a joint effort from philanthropic and medical institutions to revitalize the community equitably, with a focus on wealth building through mixed-income, mixed-use real estate, public space, and small businesses. Although not a financial partner, the City of Memphis frequently collaborates with MMDC through agreements with the Memphis and Shelby County Division of Planning and Development that allow the collaborative to oversee and fully fund planning, engineering, and streetscaping in the neighborhood. Memphis's chief operations officer also sits on MMDC's board of directors.

As neighborhood small businesses grapple with the effects of the COVID-19 pandemic, MMDC is providing technical assistance to help them reopen and access federal funds. MMDC has also launched microloans of up to $25,000 with no origination fee and a deferred repayment structure.

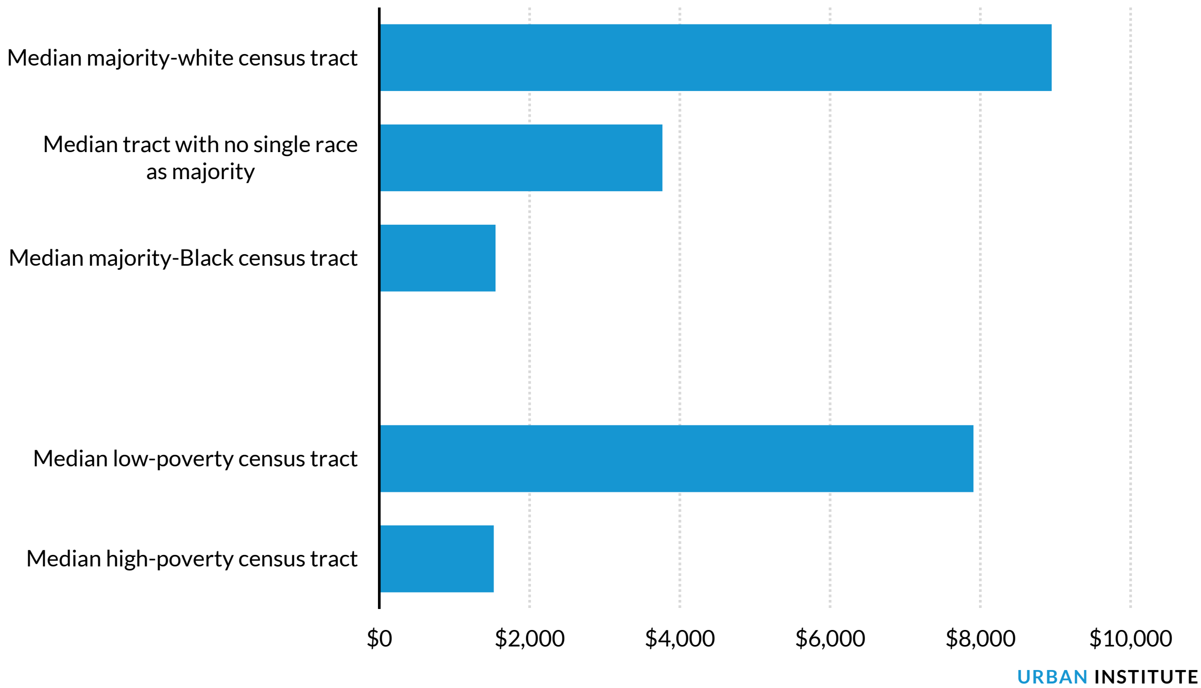
[a] Max Garland, "Memphis Medical District Targets Local Small Businesses as Part of Collaborative," *Memphis Commercial Appeal*, March 17, 2019, https://www.commercialappeal.com/story/money/2019/03/17/memphis-medical-district-targets-small-businesses-collaborative/3138520002/.

Areas that received disproportionately less investment are neighborhoods where Black people and people with low incomes are more prevalent (figure 12). The median low-poverty neighborhood received 5.2 times as much market investment per household as the median high-poverty neighborhood. The median majority-white neighborhood received 5.8 times as much market investment per household as the median majority-Black neighborhood.

FIGURE 12

Aggregate Capital Flows per Household

For the median tract with given race and poverty characteristics, 2005–18



Sources: Community Development Financial Institutions Fund, Community Reinvestment Act, CoreLogic, US Department of Housing and Urban Development, Home Mortgage Disclosure Act, and Small Business Administration data; 2000 decennial census; American Community Survey five-year estimates from 2005–09 to 2014–18.

Notes: High-poverty census tracts have a poverty rate greater than or equal to 20 percent, and low-poverty tracts have a poverty rate lower than 20 percent. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included. Tracts with fewer than 100 households were excluded. For context, 95 tracts in 2018 were majority-Black, 1 was majority-Hispanic (not included in the figure because of small sample size), 13 had no single race as a majority, and 35 were majority-white. In the same year, 95 tracts were high-poverty, and 49 were low-poverty.

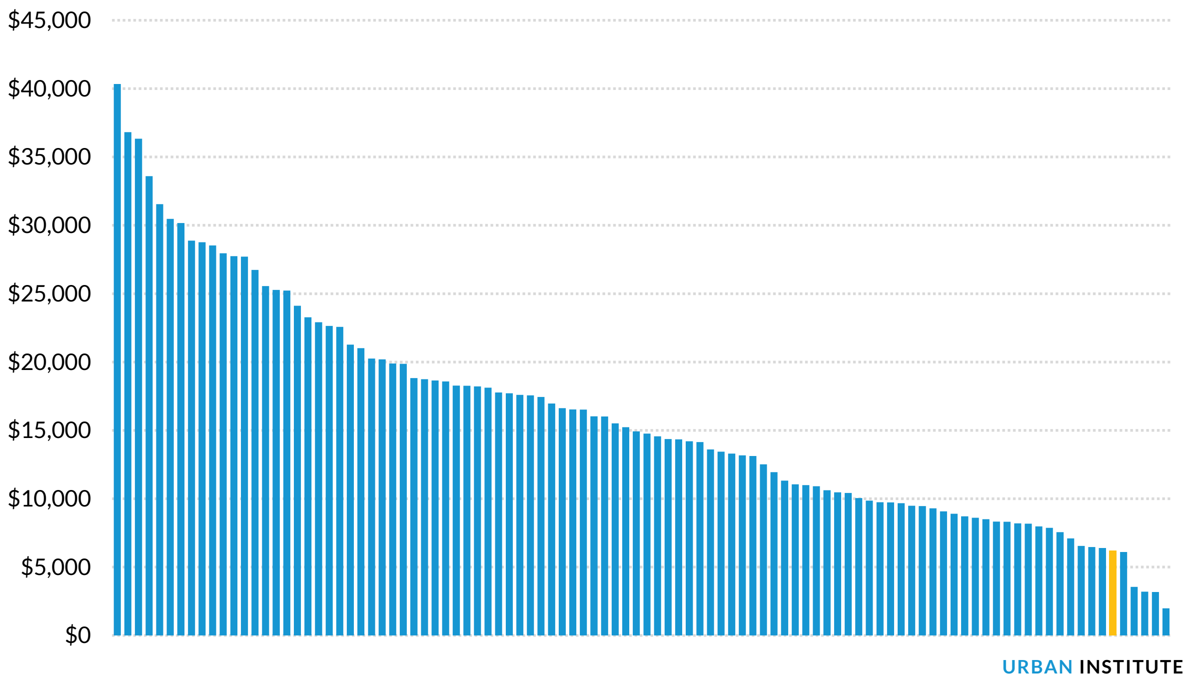
Single-Family Lending for Homeownership, While Growing, Is Well Below Its Peak

Memphis severely lags on single-family real estate lending compared with other major cities, ranking 95th among the 100 largest cities in the US on single-family real estate lending to owner-occupants (figure 13). Data indicate that single-family lending has had a slow recovery since the 2008–09 financial crisis. Lending in 2019, while appreciably higher than its nadir in 2011, was still just 56 percent of the 2005 level. Single-family real estate lending to investors, while considerably lower than lending to occupants, has similarly stagnated (figure 14).

FIGURE 13

Single-Family Housing Lending per Homeowning Household, 2005–19

Memphis's rank among the 100 largest cities



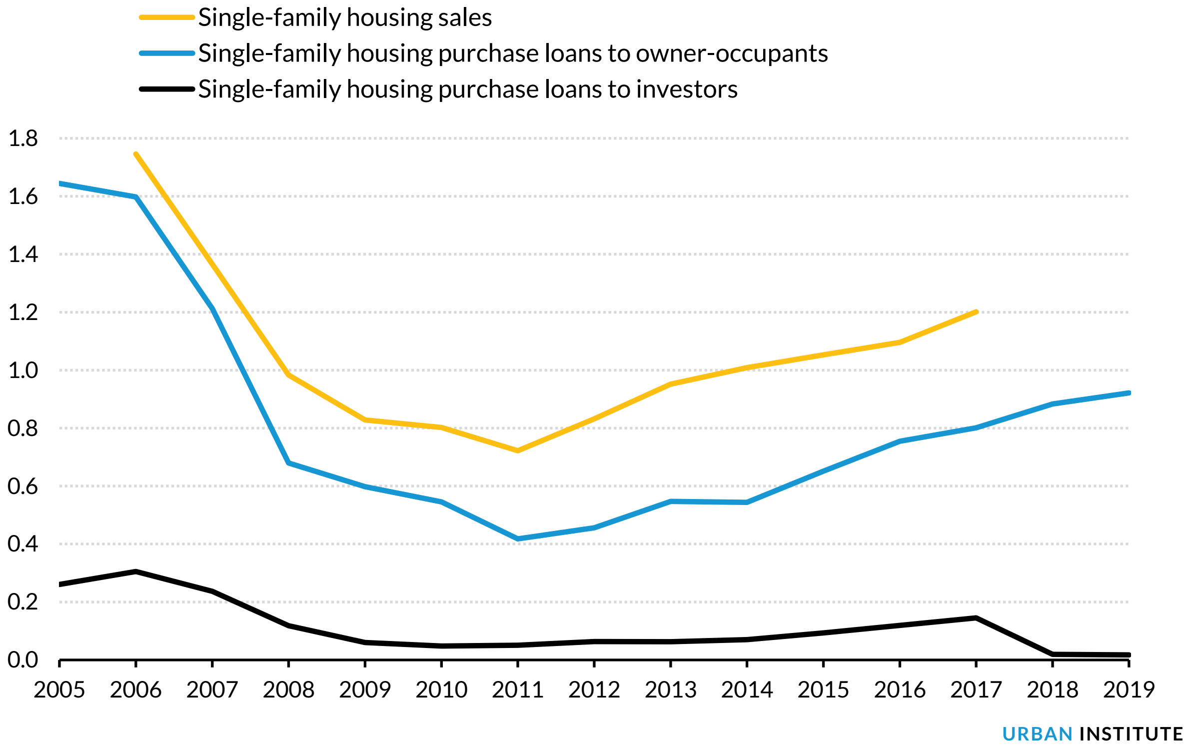
Sources: Home Mortgage Disclosure Act data; 2000 decennial census; American Community Survey five-year estimates from 2005–09 to 2014–18.

Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the 100 largest US cities, all census tracts that are more than 25 percent within a city are included.

FIGURE 14

Single-Family Housing Activity in Memphis, 2005–19

Billions of dollars

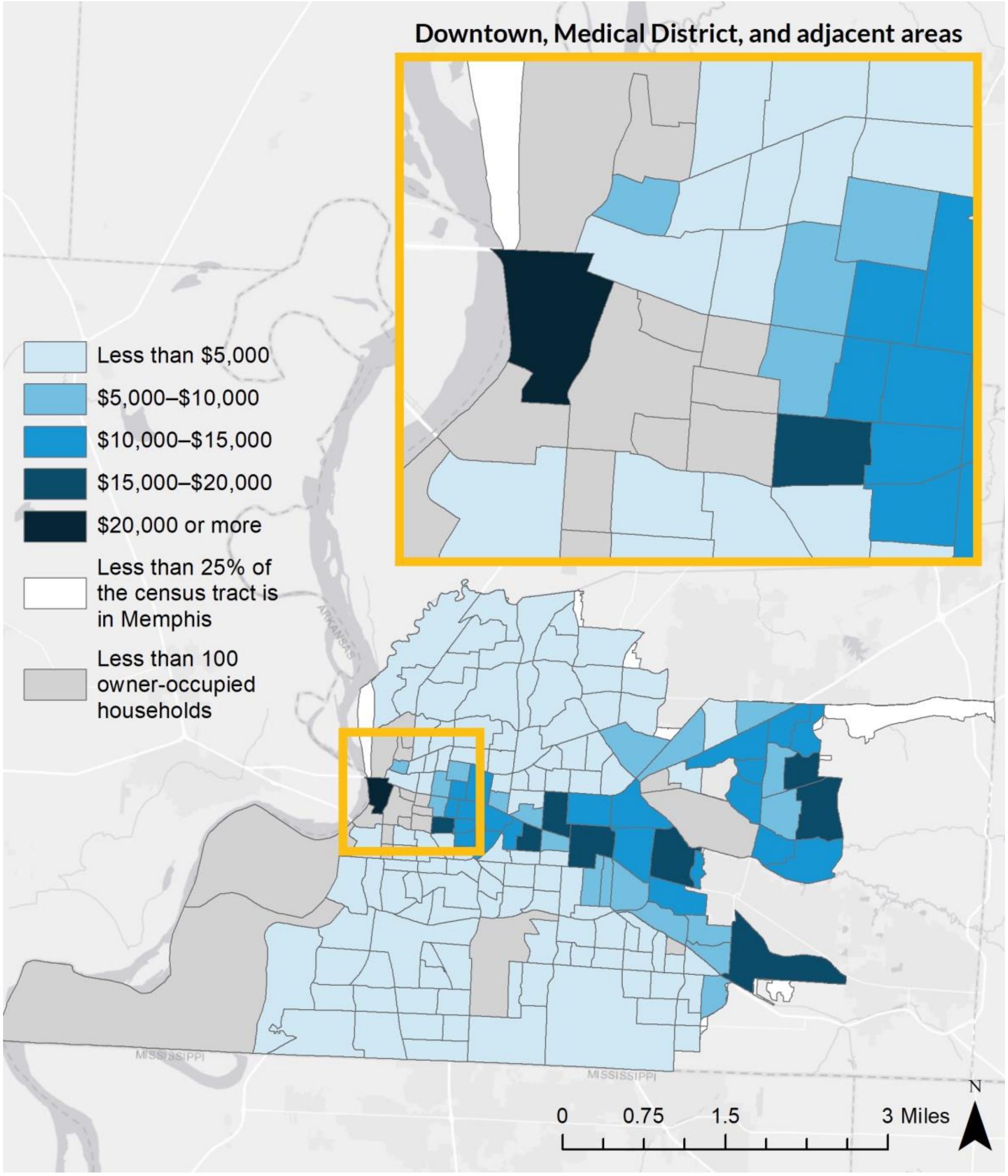


Sources: Home Mortgage Disclosure Act data; Zillow.
Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

Single-family real estate lending is not equally challenged everywhere, however. As shown in figure 15, majority-white areas in Memphis have more access to home loans. This reflects in the markets, where single-family lending is heavily concentrated in East Memphis and Mud Island. That is, single-family lending is heavily concentrated in majority-white neighborhoods and low-poverty neighborhoods (figure 16).

FIGURE 15

Average Annual Single-Family Housing Lending per Homeowning Household, by Census Tract in Memphis, 2005–19



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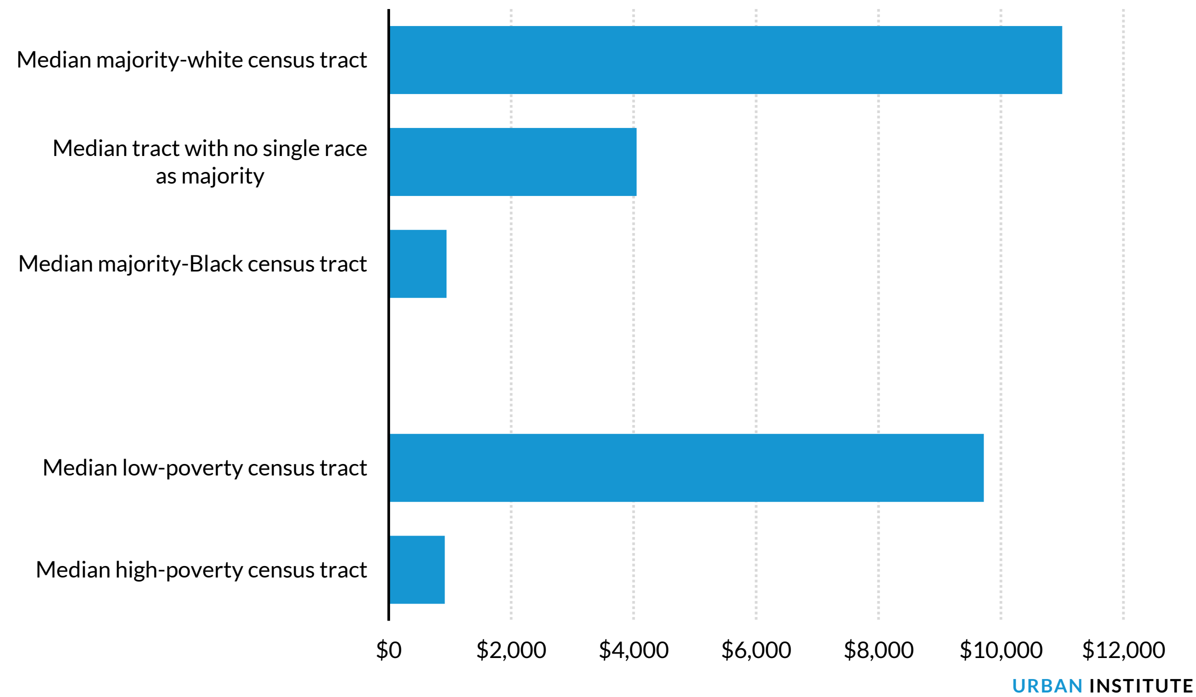
Sources: Home Mortgage Disclosure Act data; 2014–18 American Community Survey five-year estimates; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.

Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

FIGURE 16

Single-Family Housing Lending per Homeowning Household

For the median tract with given race and poverty characteristics, 2005–19



Sources: Home Mortgage Disclosure Act data; 2000 decennial census; American Community Survey five-year estimates from 2005–09 to 2014–18.

Notes: High-poverty census tracts have a poverty rate greater than or equal to 20 percent, and low-poverty tracts have a poverty rate lower than 20 percent. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included. Tracts with fewer than 100 households were excluded. For context, 95 tracts in 2018 were majority-Black, 1 was majority-Hispanic (not included in the figure because of small sample size), 13 had no single race as a majority, and 35 were majority-white. In the same year, 95 tracts were high-poverty, and 49 were low-poverty.

Our interviewees agreed that Memphis is a "soft market" for residential real estate. Unlike "hot markets," there is not an imbalance between buyers and sellers. Our interviewees also noted that the "softness" of the market is the result of an existing large housing stock. However, much of this stock has aged severely, driving many community development actors to focus on renovation rather than new developments. While only 20 percent of housing units in Nashville were built before 1960, this proportion in Memphis was 34 percent (Speer and Webb 2020).

The number of homes for sale, the home sale amounts, and the homeownership rate in Memphis have not recovered to pre-2008 levels, in part because of more stringent lending requirements but also as a result of growth in the single-family rental market (HUD 2016). The homeownership rate in Memphis declined from 52 percent in 2010 to 47 percent nine years later.[18] Neighborhoods in South,

Southeast, and North Memphis saw some of the starkest decreases in ownership (Innovate Memphis 2020). Given this shift, renting in Memphis has, understandably, risen sharply. In 2017, the number of people who rented their housing increased 11 percentage points, the largest increase among the 50 largest metro areas in the United States.[19]

Despite this increase, challenges still exist in the rental market, particularly when it comes to developing new units. The 2015–19 median gross rent in Memphis was $937.[20] Interviewees explained that low rents create a gap between development costs (either new construction or rehabilitation) and expected revenues, which makes development difficult. The public sector is aware of these challenges and has sought to respond, although the needs currently outstrip the solutions. One example is Tennessee's creation of the Appraisal Gap Program, which provides nonprofits with grants to help cover the costs of building or substantially rehabilitating homes in eligible communities where property values have not recovered (Tennessee Housing Development Agency 2019).

Multifamily Housing Has Long Been Ignored, but Lending Is Picking Up

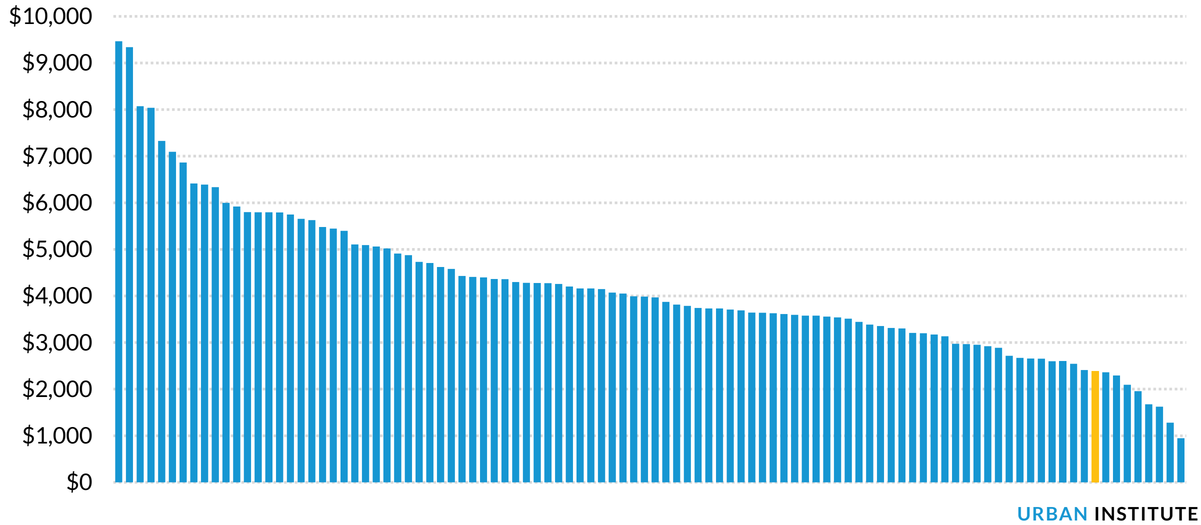
Our interviewees agreed that the Memphis market has historically focused on single-family detached homes. Part of this is due to the local tax structure. In Memphis and Shelby County, all housing that is not single family is considered commercial real estate for tax purposes, even if the owner lives in the property. While residential properties (i.e., single-family residences) are assessed at 25 percent of their appraised value, commercial properties are assessed at 40 percent. "As a city, we have decided to subsidize single-family housing," explained one interviewee.

This is reflected in the data—Memphis ranks 92nd among the 100 largest cities in the US on multifamily lending per multifamily household (figure 17). Despite the challenges, data show that multifamily lending has grown in recent years (figure 18). While lending levels vary year over year, they have reached those evident before the Great Recession. As with single-family activity, there is considerable spatial concentration to multifamily activity. Downtown and the Medical District have shown more substantial development (figure 19). As in the single-family market, multifamily lending is concentrated in majority-white and low-poverty neighborhoods, albeit to a lesser degree (figure 20).

FIGURE 17

Multifamily Housing Lending per Multifamily Household, 2005–19

Memphis's rank among the 100 largest cities



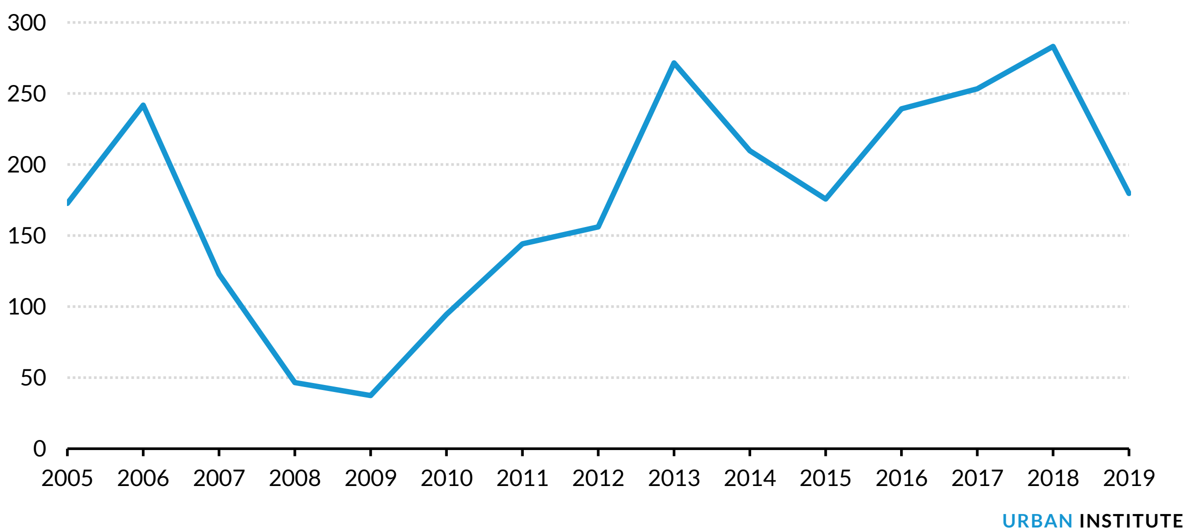
Sources: Home Mortgage Disclosure Act data; 2000 decennial census; American Community Survey five-year estimates from 2005–09 to 2014–18.

Notes: Multifamily household is defined as a household in a building of four or more units. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the 100 largest cities, all census tracts that are more than 25 percent within a city are included.

FIGURE 18

Multifamily Housing Lending in Memphis, 2005–19

Millions of dollars

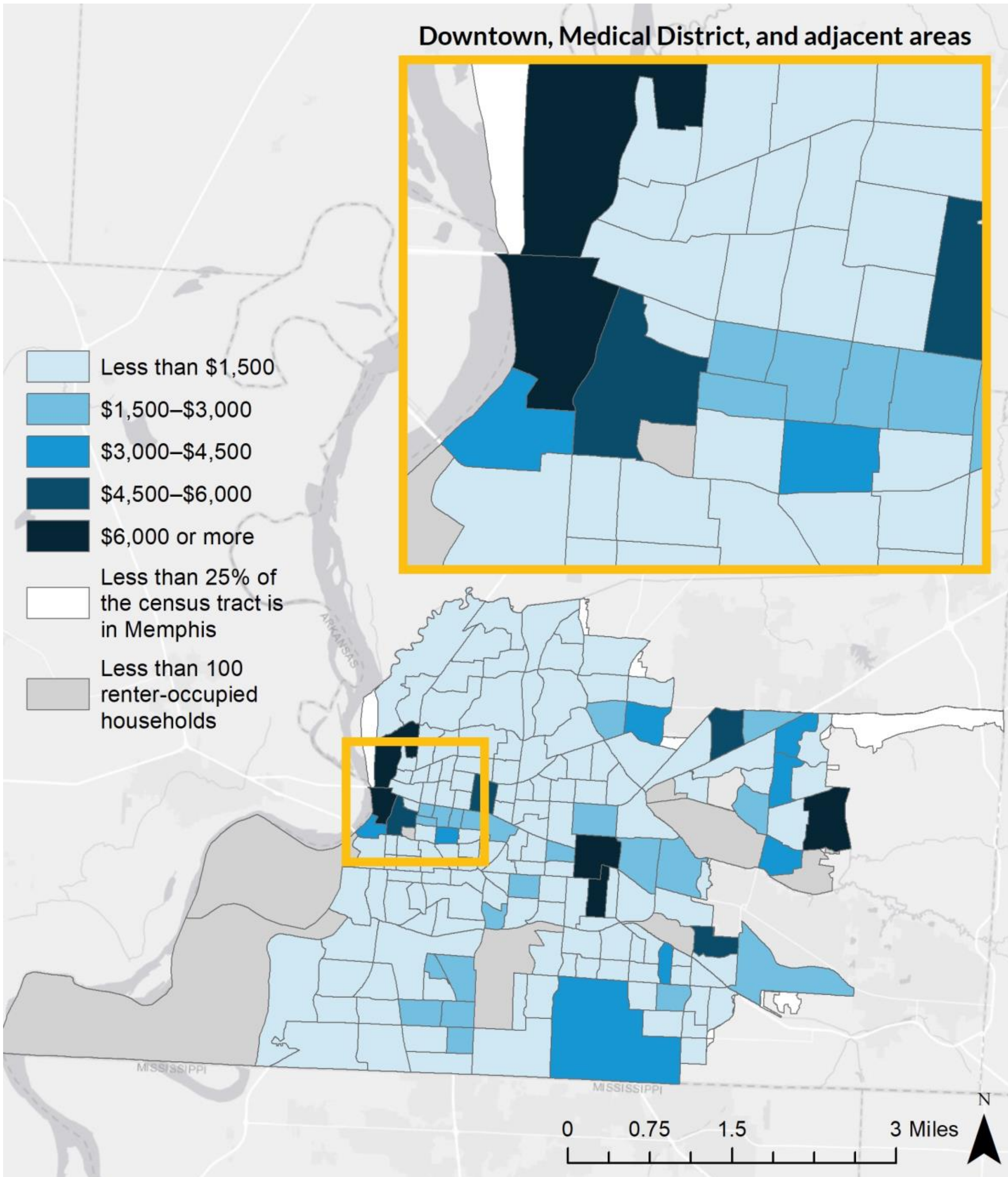


Sources: Home Mortgage Disclosure Act data.

Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

FIGURE 19

Average Annual Multifamily Housing Lending per Multifamily Household, by Census Tract in Memphis, 2005–19



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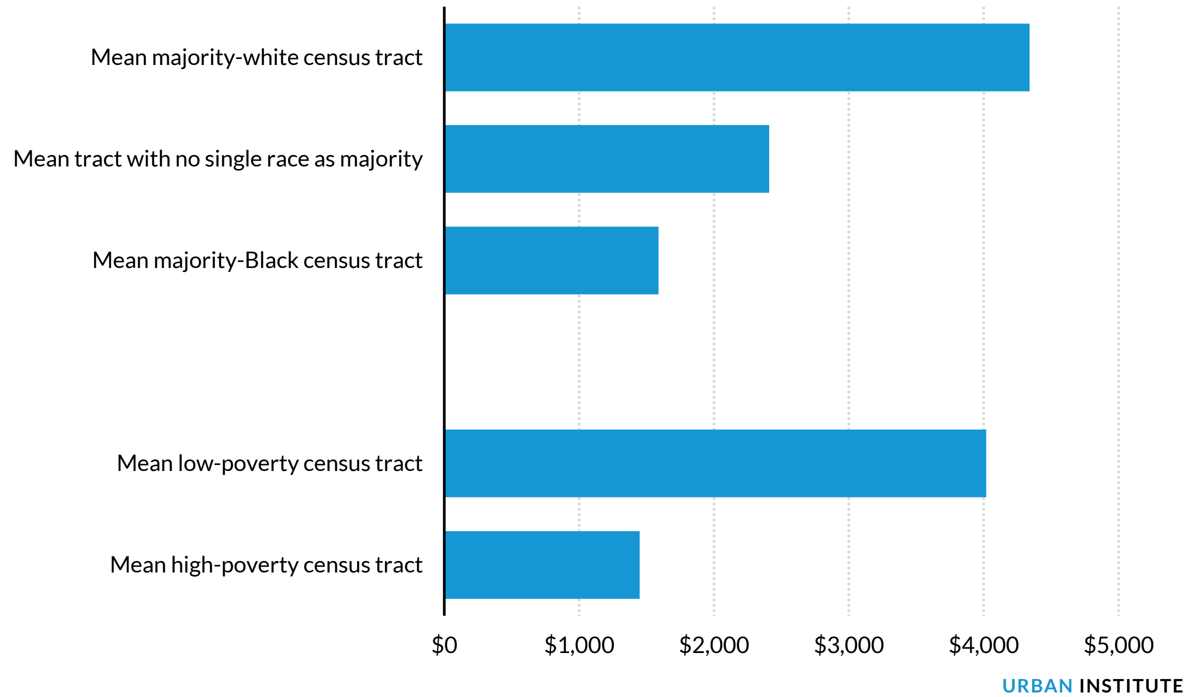
Sources: CoreLogic; 2014–18 American Community Survey five-year estimates; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.

Notes: Multifamily household is defined as a household in a building of four or more units. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

FIGURE 20

Multifamily Housing Lending per Multifamily Household

For the mean census tract with given race and poverty characteristics, 2005–19



Sources: Home Mortgage Disclosure Act data; 2000 decennial census; American Community Survey five-year estimates from 2005–09 to 2014–18.

Notes: Multifamily household is defined as a household in a building of four or more units. High-poverty census tracts have a poverty rate greater than or equal to 20 percent, and low-poverty tracts have a poverty rate lower than 20 percent. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included. Tracts with fewer than 100 households were excluded. For context, 95 tracts in 2018 were majority-Black, 1 was majority-Hispanic (not included in the figure because of small sample size), 13 had no single race as a majority, and 35 were majority-white. In the same year, 95 tracts were high-poverty, and 49 were low-poverty.

Nonresidential Real Estate Activity Is Slower but Spreading

Nonresidential real estate includes agricultural, commercial, industrial, and institutional uses—properties such as hotels, nursing homes, grocery stores, offices, and museums. Lending and sales for nonresidential real estate follow annual trend lines similar to those across other investment types.

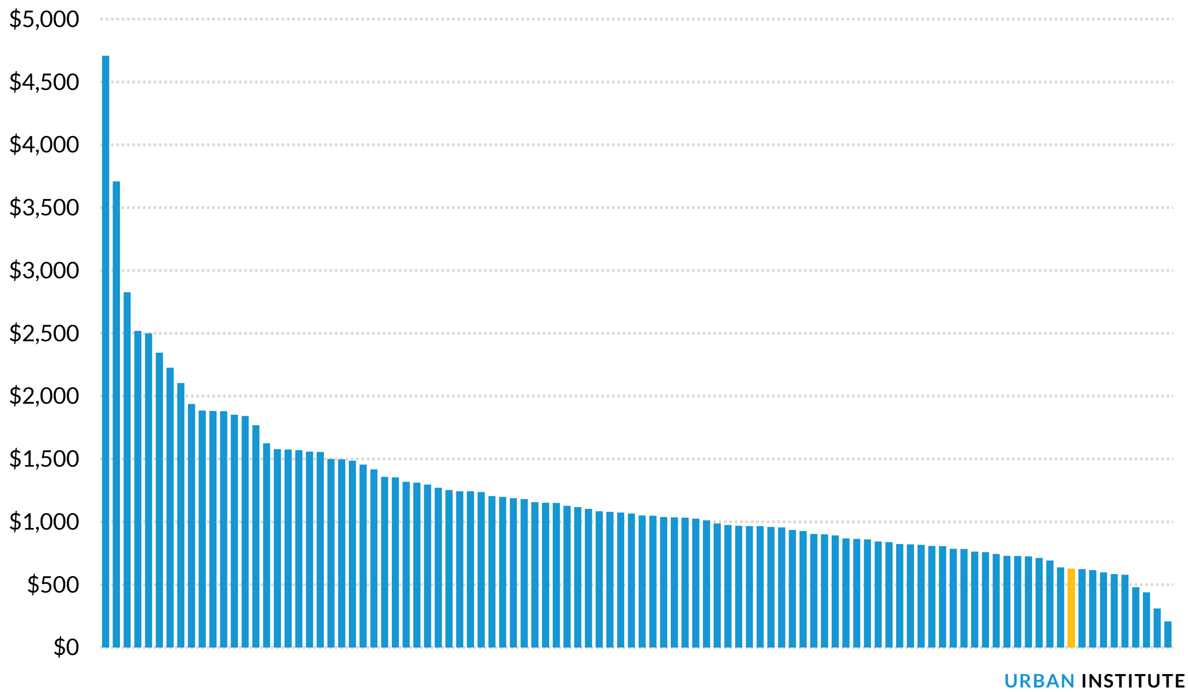
By national standards, Memphis is near the bottom on nonresidential real estate lending per employee, ranking 91st among the 100 largest cities in the US (figure 21). Apart from a single large industrial loan investment in 2018, nonresidential lending levels were below those in 2005 through 2007 (figure 22). Whether Memphis can sustain heightened investment in the nonresidential sector will

be important to track going forward. In contrast with other investment types, nonresidential real estate lending is spread throughout the city, with no singular geographic locus (figure 23). This spatial trend is also apparent in the disparities by race and poverty status, with more nonresidential investment concentrated in majority-Black neighborhoods and neighborhoods in which no single race is a majority, as well as neighborhoods with high-poverty levels (figure 24).

FIGURE 21

Nonresidential Real Estate Lending per Employee, 2005–18

Memphis's rank among the 100 largest cities

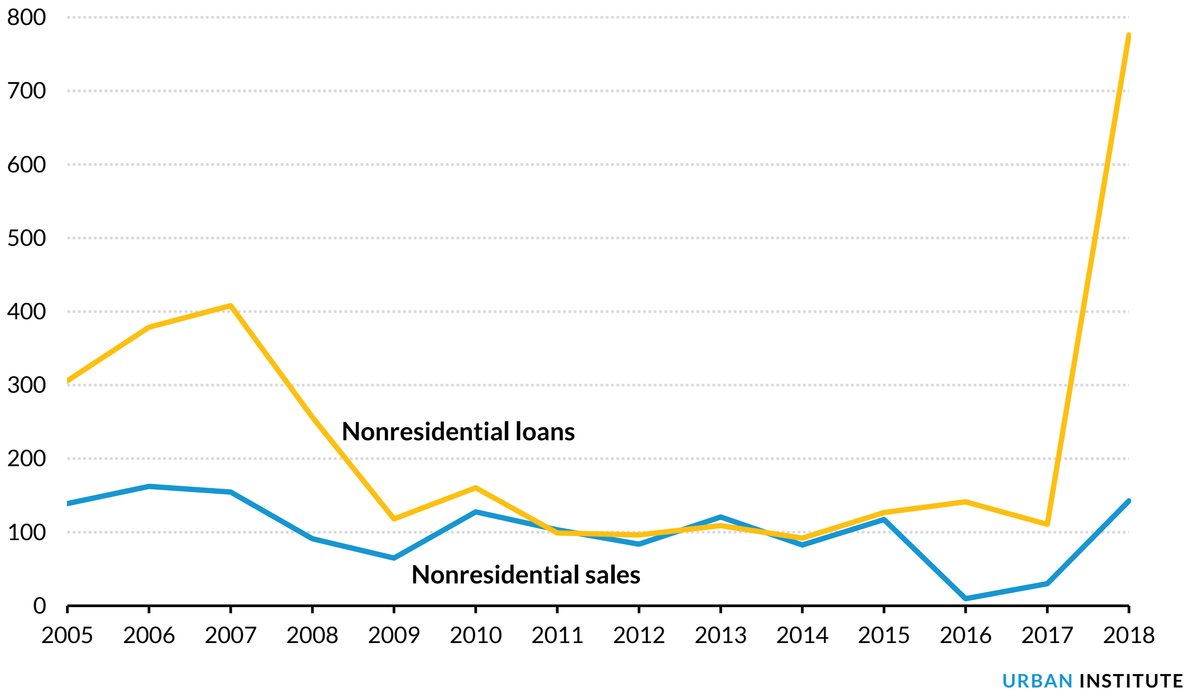


Sources: CoreLogic; 2000 decennial census; American Community Survey five-year estimates from 2005–09 to 2014–18.
Notes: Nonresidential real estate refers to real estate with agricultural, commercial, industrial, or institutional uses. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the 100 largest cities, all census tracts that are more than 25 percent within a city are included.

FIGURE 22

Nonresidential Real Estate Activity in Memphis, 2005–18

Millions of dollars

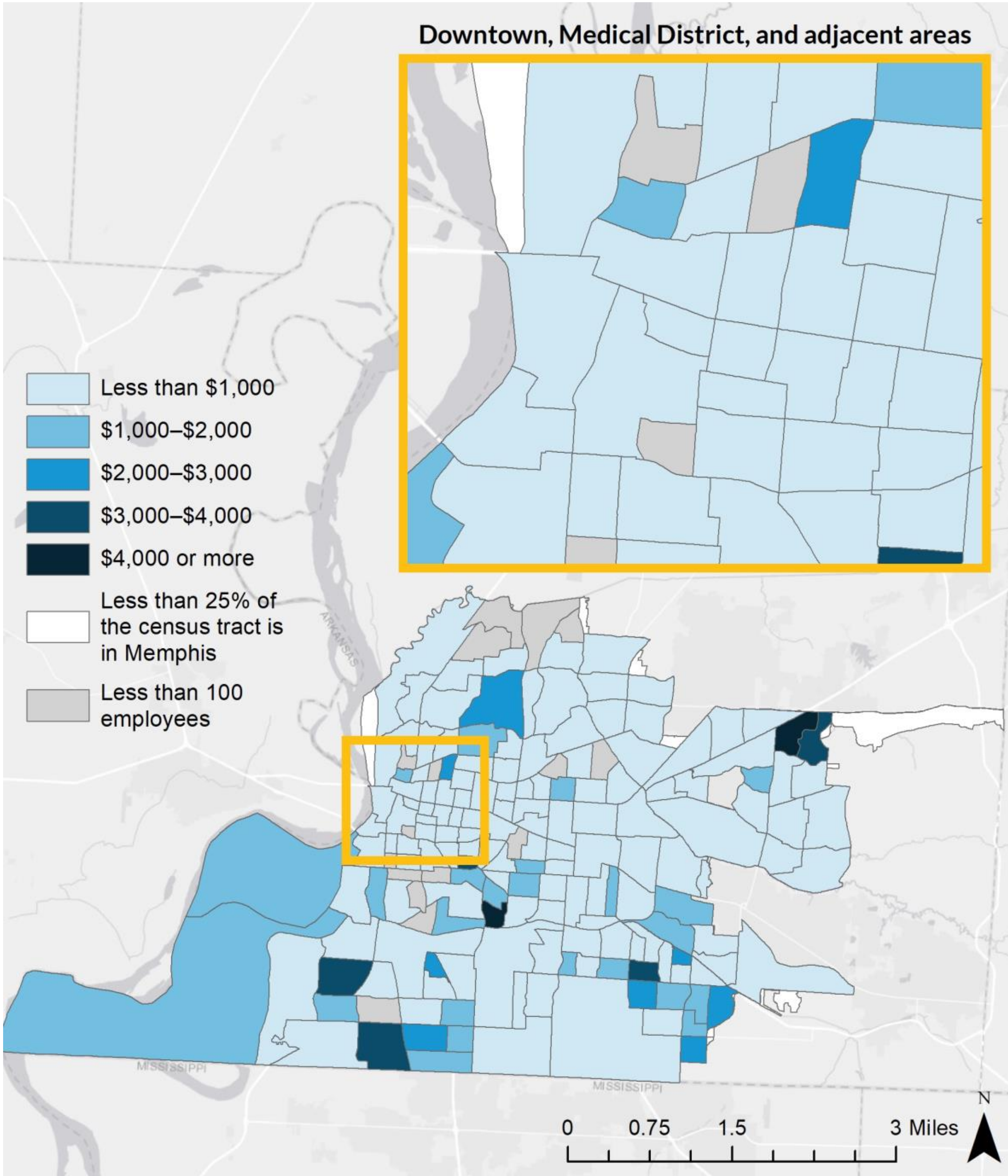


Sources: CoreLogic.

Notes: Nonresidential real estate refers to real estate with agricultural, commercial, industrial, or institutional uses. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

FIGURE 23

Annual Average Nonresidential Real Estate Lending per Employee, by Census Tract in Memphis, 2005–18



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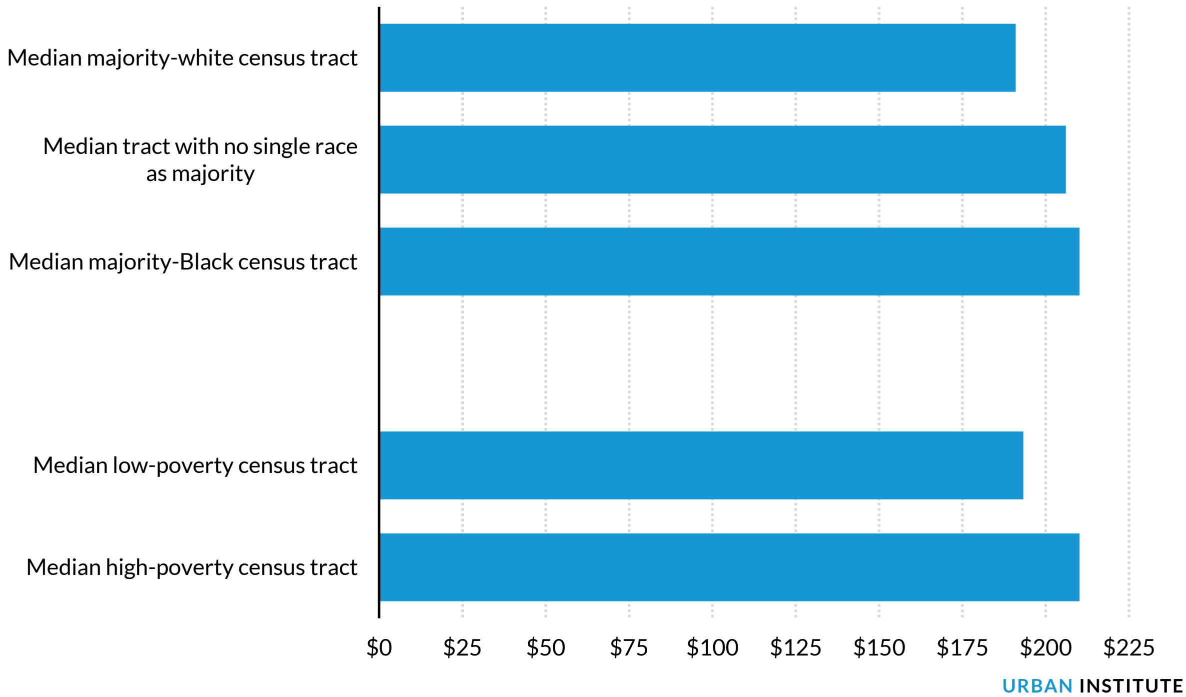
Sources: CoreLogic; Longitudinal Employer-Household Dynamics Origin-Destination Employment Statistics Workplace Area Characteristics.

Notes: Nonresidential real estate refers to real estate with agricultural, commercial, industrial, or institutional uses. Capital flows are presented in constant 2019 dollars. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

FIGURE 24

Nonresidential Real Estate Lending per Employee

For the median tract with the given race and poverty characteristics, 2005–18



Sources: CoreLogic; Longitudinal Employer-Household Dynamics Origin-Destination Employment Statistics Workplace Area Characteristics; 2000 decennial census; American Community Survey five-year estimates from 2005–09 to 2014–18.

Notes: High-poverty census tracts have a poverty rate greater than or equal to 20 percent, and low-poverty tracts have a poverty rate lower than 20 percent. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included. Tracts with fewer than 100 households were excluded. For context, 95 tracts in 2018 were majority-Black, 1 was majority-Hispanic (not included in the figure because of small sample size), 13 had no single race as a majority, and 35 were majority-white. In the same year, 95 tracts were high-poverty, and 49 were low-poverty.

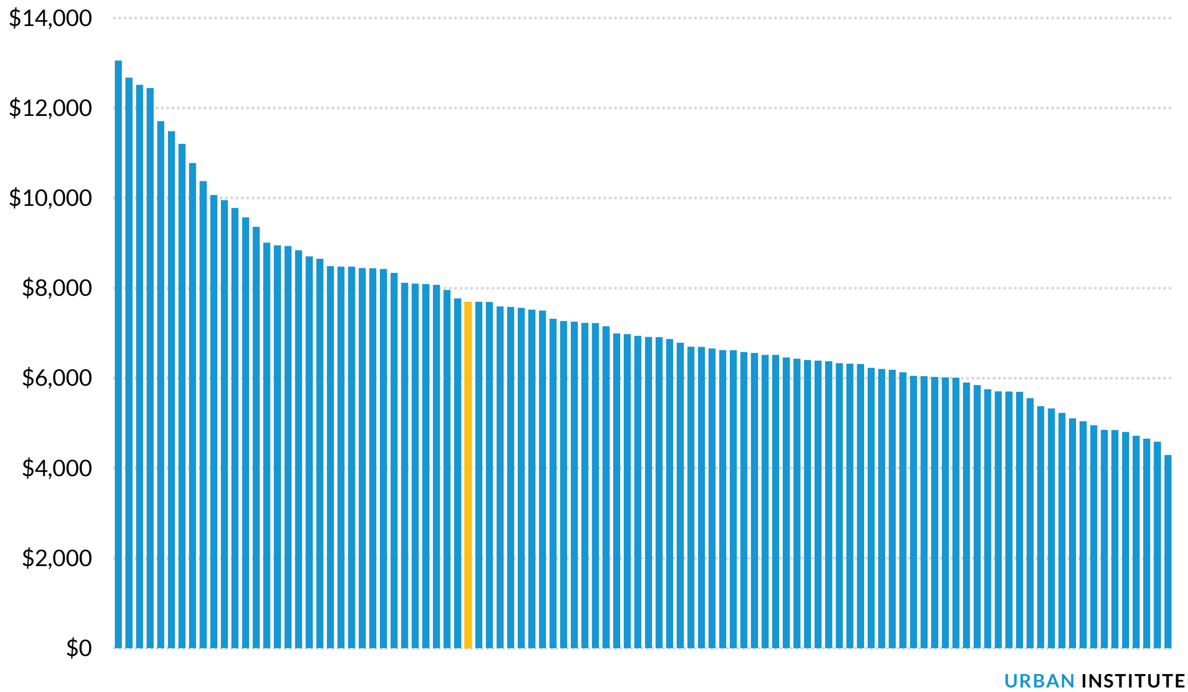
Small-Business Lending Was Flat before COVID-19; the Pandemic Poses Real Challenges

Memphis fares well on small-business lending per small-business employee, ranking 34th among the 100 largest cities in the US (figure 25). Interviewees indicated that intensive efforts have been under way to expand small-business activity. Some interviewees spoke of a renaissance happening before the COVID-19 pandemic. From 2010 through 2018, small-business lending was largely flat (figure 26) and, for the case of Community Reinvestment Act loans, well below its 2005 level.

FIGURE 25

Lending to Businesses with Revenues of Less Than $1 Million per Small-Business Employee, 2005–19

Memphis's rank among the 100 largest cities



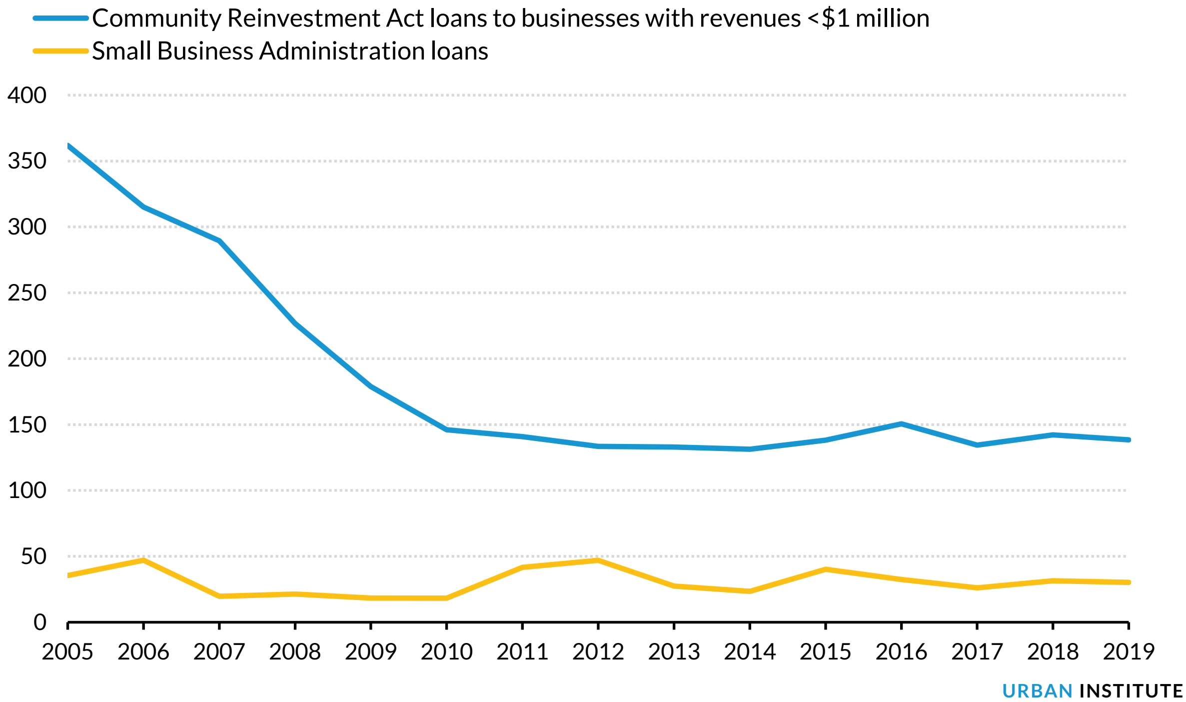
Sources: Community Reinvestment Act and Longitudinal Employer-Household Dynamics Origin-Destination Employment Statistics Workplace Area Characteristics data.

Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the 100 largest cities, all census tracts that are more than 25 percent within a city are included.

FIGURE 26

Small-Business Lending in Memphis, 2005–19

Millions of dollars



Sources: Community Reinvestment Act and Small Business Administration data.

Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

The pandemic created significant new hurdles for small businesses. Supply of loan capital, apart from the Paycheck Protection Program (PPP), diminished greatly, but demand for loans among businesses was also down. One interviewee explained that "traditional lending, with the exception of the PPP, mortgage, or car loans, has come to a halt. Businesses don't want to take on debt with all the uncertainty."

Several actors in Memphis have been working, even before the pandemic, to support entrepreneurs. For example, the city and the Greater Memphis Chamber of Commerce created a new nonprofit called Epicenter in 2015. The organization aims to have created 500 new businesses and 1,000 new entrepreneurs by 2025 through $100 million in funding. By the end of 2020, Epicenter had already raised more than $70 million. Epicenter's Friends and Families bond serves the role personal networks play for well-connected and affluent entrepreneurs. Before the pandemic, Epicenter disbursed $150,000 to $200,000 per year as small grants or investments.

In the wake of the pandemic, Epicenter, CDFIs, and local government have provided additional supports. According to a representative, Epicenter provided a relief fund of more than $110,000 that ultimately benefited 35 firms, one-third of which were microbusinesses. Pathway Lending and the MMDC partnered on an emergency microloan product of up to $25,000. At the federal level, the PPP increased capital flows toward small businesses. A total of 11,111 loans was made in Memphis through August 8, 2020, with 87 percent for less than $150,000 (table 1). As one practitioner described, "Local emergency grants are just enough to get [small businesses] through a few months. Federal funding is needed to get businesses to the other side." However, our interviewees cautioned that, as in the rest of the country,[21] the smallest and least-served entrepreneurs were left out of the PPP: "It all depends on the sophistication of the business," an interviewee said. "You can almost drive by, look at the signage, and know if they got PPP or not." In this context, the city's Office of Business Diversity and Compliance offered free consulting to help some small businesses access the PPP, according to one interviewee.

TABLE 1

Paycheck Protection Program Loans in Memphis

Number of loans through August 8, 2020

Value range	Number of loans
<$150,000	9,637
$150,000–350,000	814
$350,000–1 million	463
$1–2 million	123
$2–5 million	67
$5–10 million	7
Total	**11,111**

Source: Small Business Administration.

Many small businesses in Memphis have relied on online lenders to access the PPP. Out of all PPP dollars from loans above $150,000 in Memphis, 22 percent were originated by Itria Ventures LLC, an affiliate of the online small-business lender Biz2Credit. Ten percent were originated by Kabbage, another online lender for small businesses. The next-largest lenders by loan amounts have been Cross River Bank (10 percent), First Horizon Bank (6 percent), Celtic Bank Corporation (5 percent), Regions Bank (5 percent), and Bank of Bartlett (5 percent).[22]

Small-business capital before the pandemic appeared to be flowing slightly more equitably by neighborhood than other mainstream sources, although gaps are still apparent in North and South Memphis (figure 27). An interviewee explained that very small businesses were more likely to be in underresourced areas of the city, and their ability to access capital was limited. Quasi-governmental agencies such as the joint economic development agency for the City of Memphis and Shelby County,

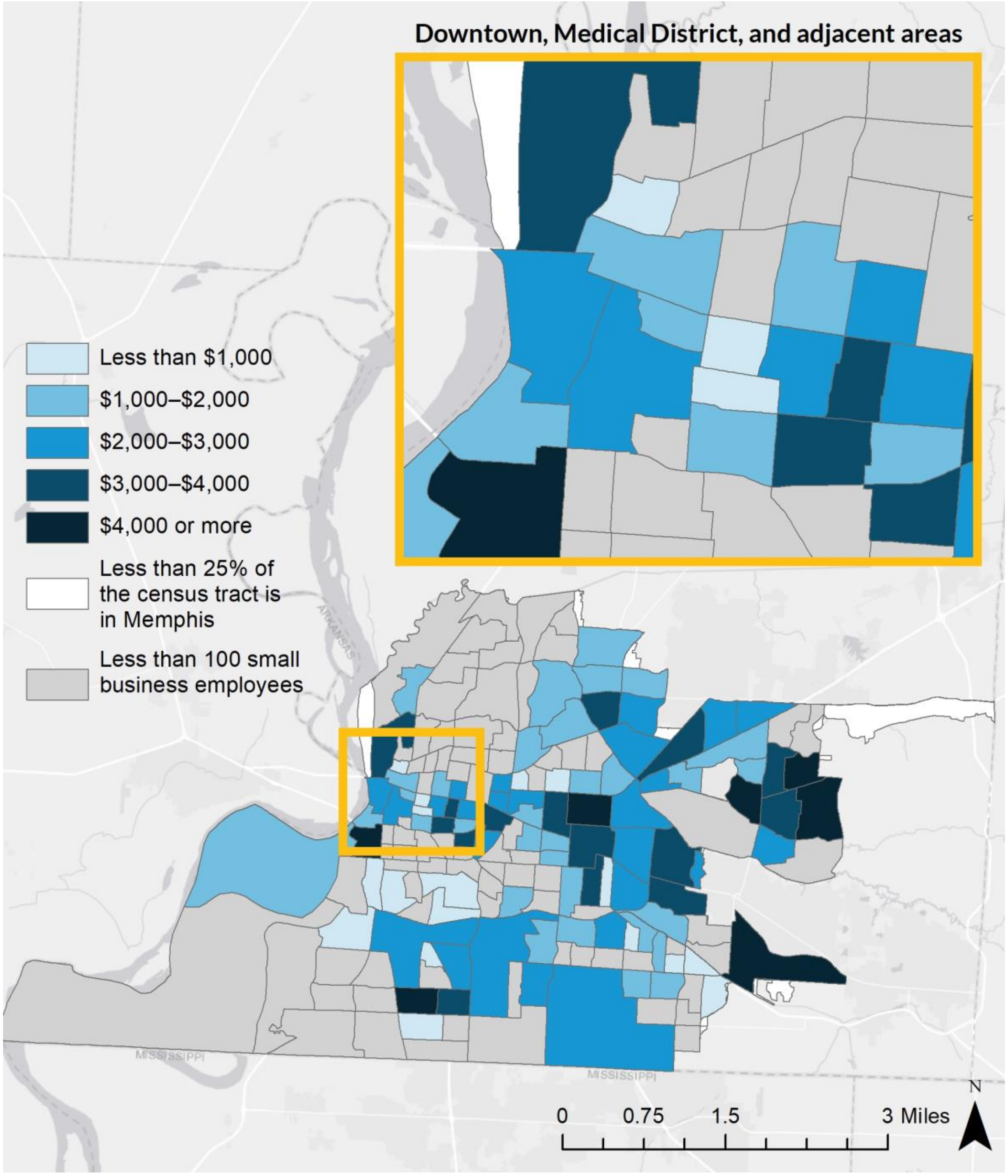
Economic Development Growth Engine (EDGE), have been partially, but not fully, able to meet the need through low-interest loans and some grant programs for physical improvements. However, majority-white and low-poverty neighborhoods still receive substantially more investment (figure 28).

CDFIs have also helped strengthen the flow of capital to small businesses. Epicenter and Pathway Lending began a $15 million small-business fund. Epicenter has also led an effort with CDFIs and local government to create a common small-business application to access funding. Separately, River City Capital Investment and EDGE run the Inner City Economic Development loan program, which provides three-year forgivable loans of up to $25,000 for interior, façade, and streetscape improvements.

What happens in Memphis is that it's all about relations. Most people of color, [people in] low- to moderate-income neighborhoods, don't have those relationships with banking institutions, and many people within those banking institutions hold the belief that those communities are in decline, are not redeemable, or are high risk…You can make those deals, but it's all about sophistication. We need that sophistication.
—Financial institution representative

FIGURE 27

Average Annual Loans to Businesses with Revenues of Less Than $1 Million per Small-Business Employee, by Census Tract in Memphis, 2005–19



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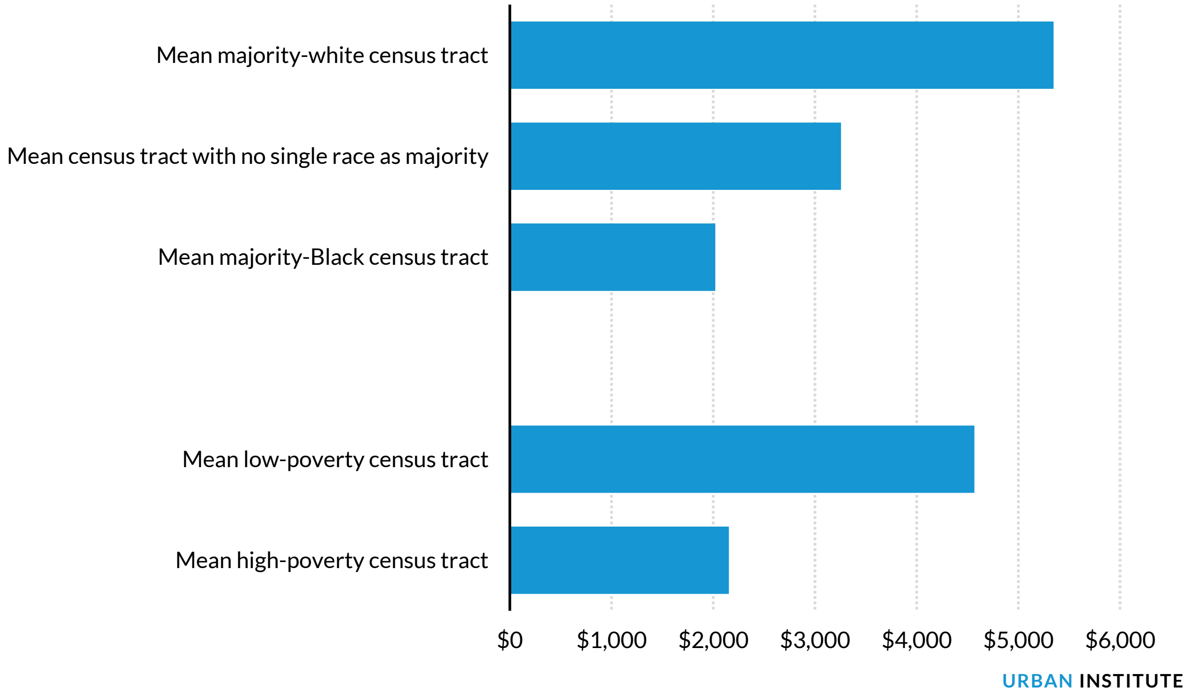
Sources: Community Reinvestment Act, Small Business Administration, and Longitudinal Employer-Household Dynamics Origin-Destination Employment Statistics Workplace Area Characteristics data; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.

Notes: The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

FIGURE 28

Lending to Businesses with Revenues of Less Than $1 Million per Small-Business Employee

For the mean census tract with given race and poverty characteristics, 2005–19



Sources: Community Reinvestment Act and Longitudinal Employer-Household Dynamics Origin-Destination Employment Statistics Workplace Area Characteristics data.

Notes: High-poverty census tracts have a poverty rate greater than or equal to 20 percent, and low-poverty tracts have a poverty rate lower than 20 percent. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included. Tracts with fewer than 100 households were excluded. For context, 95 tracts in 2018 were majority-Black, 1 was majority-Hispanic (not included in the figure because of small sample size), 13 had no single race as a majority, and 35 were majority-white. In the same year, 95 tracts were high-poverty, and 49 were low-poverty.

Reasons for Capital Flow Trends

Our interviewees widely shared the perception that the Memphis community development finance ecosystem is active and growing but that this growth is slow, with modest results thus far. Interviewees described the ecosystem as "complacent" and without a "sense of urgency" that could catalyze more meaningful action. The urgency that shaped Detroit's ecosystem after the 2009 economic crisis was an example often mentioned as missing in Memphis.

One of the first things we learned is that there is no [community development] system…It's a bunch of chaos. There is an aspirational willpower, but no real money going into community development.
—Community development corporation representative

In the following sections, we explore the actors in the ecosystem—CDFIs, CDCs, corporations, government agencies, intermediaries, and nonprofits—and the context and the dynamics that shape the way they perform. Our research found that although the number of actors, especially CDCs and financial institutions, is ample (figure 29), only a few have the capacity to drive complex and impactful community development projects. This puts the Memphis ecosystem behind that in other cities such as Cleveland, where community development actors have demonstrated commitment, coordination, and capacity to achieve impactful neighborhood revitalization. The gap in capacity in Memphis has led some external actors to step in, such as regional and national CDFIs and national foundations.

Interviewees were optimistic about an uptick in small-business activity before the COVID-19 pandemic and a nascent and coalescing ecosystem to support these efforts, but current conditions are challenging. Interviewees also reported that few organizations could serve as a convener or coordinator able to set the agenda. Although local governments (both the city and county) have sometimes stepped in to fill this role, their involvement is often limited to operating the policy tools that they control, mainly tax incentives. We also found that Opportunity Zones have failed to drive or catalyze relevant changes in Memphis's community development finance ecosystem, unlike in some peer cities (Theodos et al. 2020).

In a way, Memphis suffers because we never hit bottom [during the 2008–09 financial crisis]. We haven't gone completely bankrupt. Not that you'd wish for that, but things are not bad enough to get attention. Now it's like trying to build back with bubble gum and twine.
—Business improvement district representative

CDCs Are Present, but Only a Handful Conduct Significant Brick-and-Mortar Community Development Work

We identified nearly two dozen CDCs currently active in Memphis and Shelby County. Some date back decades, including The Works Inc., created in 1998. Despite this multitude of organizations,

interviewees reported that most community development work is coordinated by a few groups that focus on abandoned property removal, renovation of housing units, and access to single-family homeownership. Fewer actors undertake the construction of new multifamily housing for community development. We heard most frequently about one or two CDCs, lenders such as Pinnacle Financial Partners and BlueHub Capital, as well as the City of Memphis. Operations at one of the most significant CDCs in Memphis are supported by an anonymous donor.

Our interviewees commented that the larger ecosystem of Memphis CDCs still lacks sufficient staff, resources, and capacity to sponsor and coordinate new development projects. One interviewee described the activity as "blurring the line between community development and human services provision." Another explained that "most CDCs don't have sufficient funding, so they can't get much done," and a third commented, "we are 20 years late, still in CDC infancy." Predominantly grassroots and with low capitalization, most Memphis CDCs have focused on neighborhood associations, community organizing, programmatic activities, and human services provision. Though these are necessary activities, such a focus has left gaps in the city's capacity to develop real estate properties, especially considering the limitations of local for-profit developers in this space (box 2). According to one interviewee, the focus of CDCs on programmatic activities and service delivery is "something that is common across the CDC ecosystems of the South." Another interviewee considered the limited capacity of CDCs to be partly the result of how the City of Memphis uses Community Development Block Grant dollars to fund bureaucracy, rather than projects that could develop capacity among sponsors.

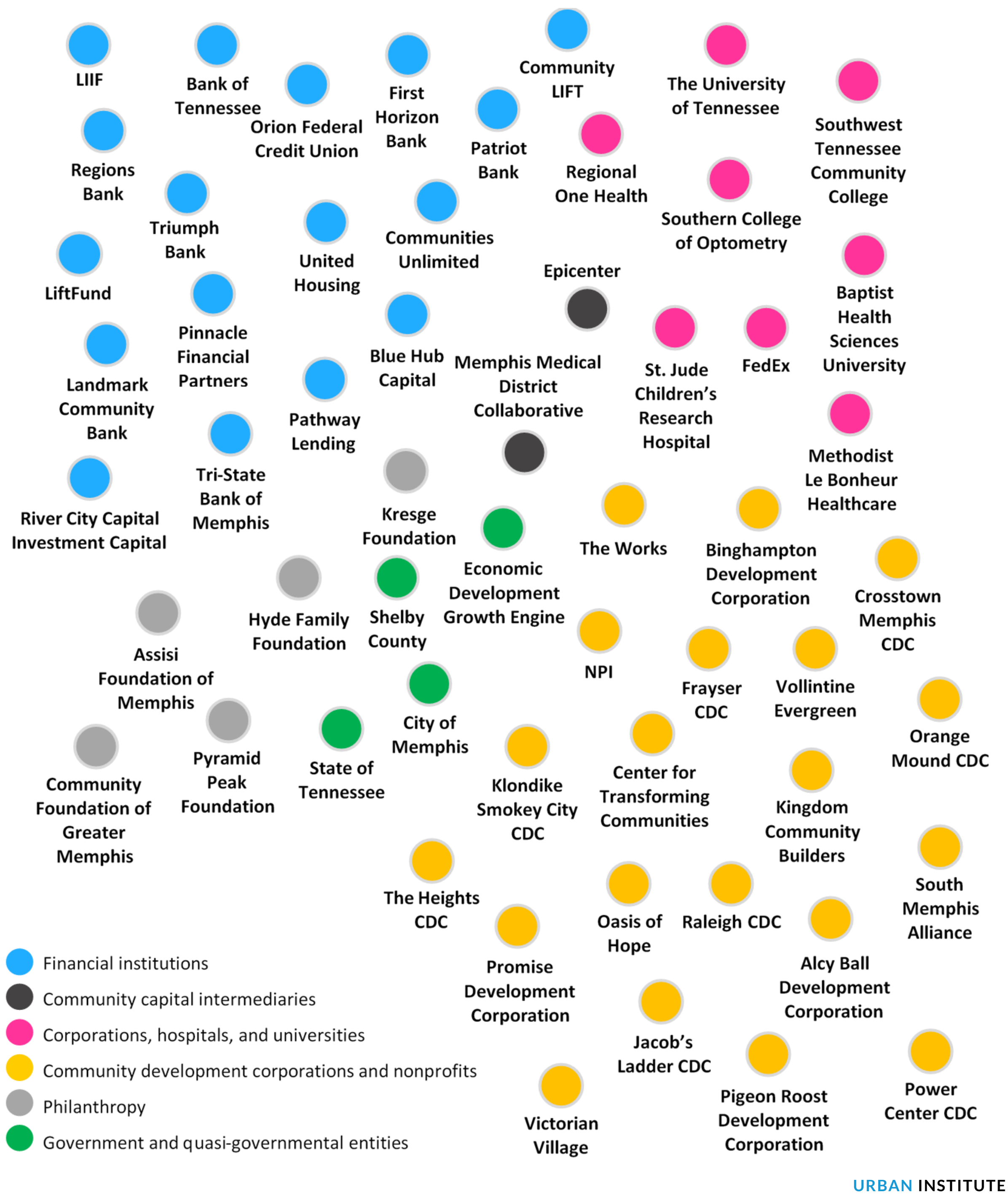
BOX 2

The Role of For-Profit Developers

Our interviewees reported that for-profit developers focus their activity in the wealthier areas of the eastern part of the city, where the greatest profits can be obtained. This is particularly true for the larger and more established developers, which tend to focus on downtown or East Memphis, along with a few projects in the Medical District. Our interviewees agreed that there is capacity among for-profit developers, but resources and sophistication are concentrated in a handful of developers that can complete more complex tax credit deals. Historically, the field has been overwhelmingly white, but more recently, it is beginning to diversify with smaller-scale developers of color. A separate issue that emerged in our conversations was a perceived gap in design, with much local development characterized as "developer boxes" without significant variation or architectural flourishes.

FIGURE 29

Community Development Finance Actors in Memphis



Sources: Interviews and authors' web-based research.

Notes: LIIF = Low Income Investment Fund. NPI = Neighborhood Preservation Inc.

Community Development Lending Expertise Is Present but Still Relies Heavily upon Outside Institutions

Multiple CDFIs, banks, and credit unions are headquartered in Memphis. However, our interviews revealed that the bulk of the city's community development deals is financed by outside institutions, such as regional CDFIs and commercial banks that finance community development (table 2). For example, one outside CDFI is the largest investor in Epicenter's loan fund for small businesses, created a homeownership loan fund for individuals with low and moderate incomes with a local CDC, and has helped finance affordable housing projects such as the Renaissance at Steele.[23]

TABLE 2

Financial Institutions Participating in Memphis's Community Development

Financial institution	Type	Headquarters
River City Capital Investment	CDFI	Memphis, Tennessee
Tri-State Bank of Memphis	CDFI	Memphis, Tennessee
United Housing	CDFI	Memphis, Tennessee
Orion Federal Credit Union	Credit Union	Memphis, Tennessee
Triumph Bank	Commercial Bank	Memphis, Tennessee
First Horizon Bank	Commercial Bank	Memphis, Tennessee
Pinnacle Financial Partners	Commercial Bank	Nashville, Tennessee
Patriot Bank	Commercial Bank	Barretville, Tennessee
Landmark Community Bank	Commercial Bank	Collierville, Tennessee
Bank of Tennessee	Commercial Bank	Johnson City, Tennessee
Pathway Lending	CDFI	Nashville, Tennessee
Regions Bank	CDFI	Birmingham, Alabama
LiftFund	CDFI	San Antonio, Texas
Communities Unlimited	CDFI	Fayetteville, Arkansas
Blue Hub Capital	CDFI	Boston, Massachusetts
Low Income Investment Fund (LIIF)	CDFI	San Francisco, California

Source: Interviews and authors' web-based research.
Note: CDFI = community development financial institution.

Our interviewees articulated that financial institutions headquartered in Memphis are not as active in local community development for two main reasons. The first is a lack of capacity to put together and underwrite complex deals—those that require the mixing of different sources of debt, equity, and government subsidies in the form of tax credits. The second is a lack of capital. In combination, these elements hinder local institutions from taking on higher risks and offering the lower-than-market-rate

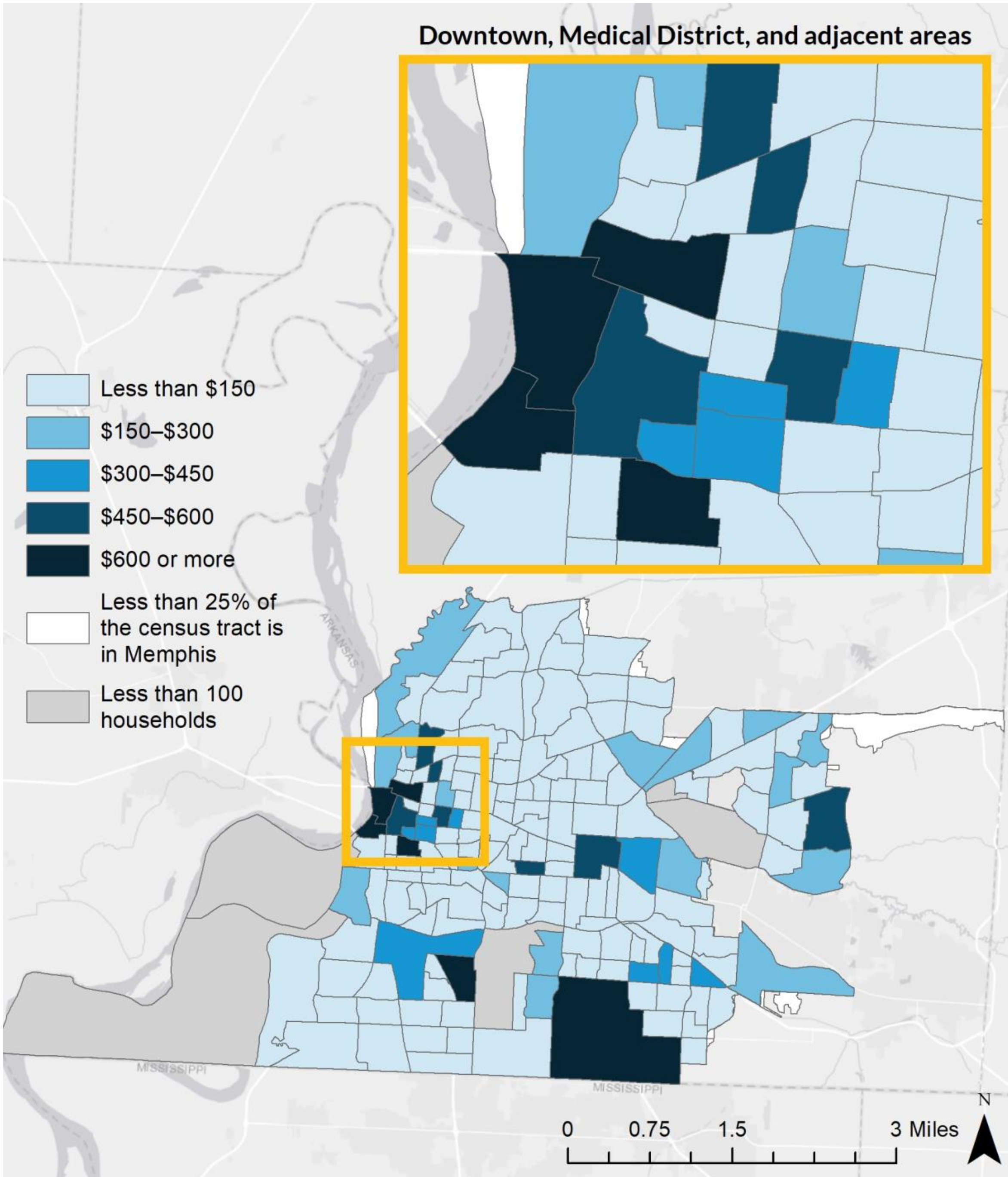
financing products that sponsors of community development projects need. One interviewee in the CDC field shared that "Memphis has some of the most risk-averse lending institutions in the country." The interviewee reported that local banks have refused to offer competitive-rate loans even for organizations with no default history and projects with considerable equity. "Even after getting grants, these CDFIs will not lower their rates," another interviewee shared.

Interviewees said, however, that some promising developments are taking place. The Local Initiatives Support Corporation has recently opened a local chapter, and United Housing became a CDFI. The Kresge Foundation is currently expanding financing with MMDC's loan fund to serve as an intermediary and capital aggregator that offers local responsiveness, which our interviewees agreed was a gap in the market. FedEx has recently begun a collaboration with Pathway Lending to offer mezzanine financing (a combination of debt and equity that allows the lender to turn debt into equity interest in case of default). An interviewee active in the CDC space feels hopeful about recent changes in leadership at Tri-State Bank, a Black-owned local CDFI.

While mission capital is more distributed throughout the city and county than mainstream capital sources are, it still focuses on downtown and the Medical District (figure 30). That is, in comparison with mainstream capital sources, mission lending has been more progressively distributed, with neighborhoods without a racial/ethnic majority receiving the greatest share, followed by majority-Black neighborhoods and finally majority-white neighborhoods (figure 31). Distribution is also greater toward neighborhoods with high poverty levels. However, as seen in figure 10, mission capital is less available relative to market capital, so the more equitable distribution we observed does not balance out the inequities in mainstream lending.

FIGURE 30

Average Annual Mission Lending per Household, by Census Tract in Memphis, 2005–18



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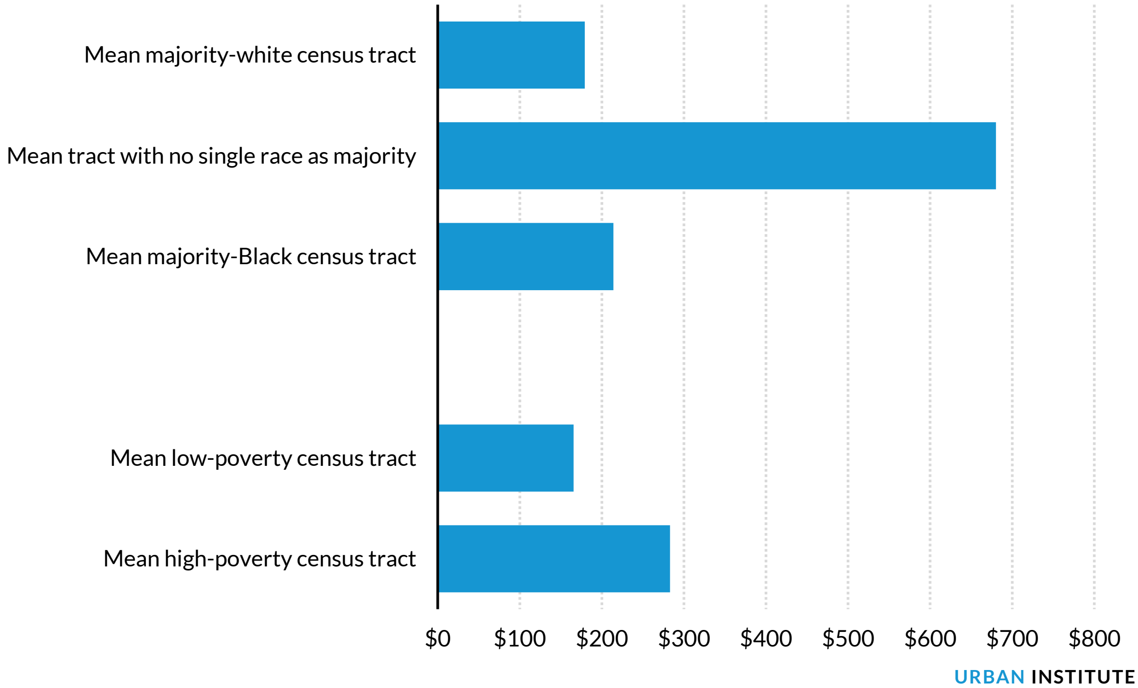
Sources: Community Development Financial Institutions Fund and CoreLogic data; 2014–18 American Community Survey five-year estimates; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.

Notes: Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included.

FIGURE 31

Mission Lending per Household

For the mean census tract with given race and poverty characteristics, 2005–18



Sources: Community Development Financial Institutions Fund, CoreLogic, and Opportunity Finance Network data; 2000 decennial census; American Community Survey five-year estimates from 2005–09 to 2014–18.

Notes: High-poverty census tracts have a poverty rate greater than or equal to 20 percent, and low-poverty tracts have a poverty rate lower than 20 percent. Capital flows are presented in constant 2019 dollars. The capital flows analysis is done at the census tract level. Because many census tracts are only partially in the city of Memphis, all census tracts that are more than 25 percent within the city are included. Tracts with fewer than 100 households were excluded. For context, 95 tracts in 2018 were majority-Black, 1 was majority-Hispanic (not included in the figure because of small sample size), 13 had no single race as a majority, and 35 were majority-white. In the same year, 95 tracts were high-poverty, and 49 were low-poverty.

Local Government Significantly Influences Community Development through Tax Incentives

Our interviews revealed that community development stakeholders want the City of Memphis and Shelby County to play a more active role as project sponsors or in helping coordinate development. The city's Division of Housing and Community Development was established in 1977, focusing on addressing slums, blight, and deterioration. In the early 1990s, the agency expanded its endeavors to economic development and small businesses, and over the past decade, it has awarded funding annually through a competitive application for organizations working on community development projects and programs.[24]

The most cited reasons for local governments' limited role in community development were a lack of staff, capacity, and resources—as is the case with CDCs. However, the local government appears to exert significant influence in the field through the toolbox it has developed: tax-increment financing for real estate and infrastructure projects and the PILOT Incentive for real and personal property taxes.[25]

Tax-increment financing and PILOTs are considered compelling incentives, given the high property taxes in Memphis. Both programs are managed by EDGE, "where everyone is going for subsidies right now," as one interviewee described. EDGE also operates Inner City Economic Development loans,[26] taxable and tax-exempt industrial revenue bonds, and Neighborhood Emergency Economic Development grants. It is promising that, according to our interviewees, EDGE is being certified as a community development entity[27] and planning to apply for New Markets Tax Credits. "The city is stepping up, recognizing they need to broaden the toolbox," said one banker. Another practitioner echoed the sentiment: "We really need a state historic tax credit, since we have some big vacant buildings that could use that help…Also, right now, anything over four units is taxed as commercial. We have to provide PILOTs even for lower-unit housing. We are missing mid-housing."

The city and county also play a role in community development through planning and zoning activities. Memphis 3.0, the city's comprehensive plan, for example, was developed in collaboration with some CDCs. Even though the city and county have a joint Division of Planning and Development, our interviewees shared their frustration that local government sometimes hinders the advancement of projects because of the "overlap and redundancies of having both the city and county regulating real estate development."

The State of Tennessee's involvement in Memphis's community development is most often focused on offering tax incentives and some affordable housing supports.[28] According to our interviewees, the state prioritizes community development in currently underserved rural communities over the larger metro areas of Memphis and Nashville. An important, but overlooked, tool offered by the state is the community investment tax credit, which gives financial institutions a credit against franchise and excise taxes when they extend qualified loans, investments, or grants in favor of low-income housing projects. Our interviewees reported that the community investment tax credit is "a powerful but underutilized tool" and that banks who have used it report realizing benefits, particularly as they relate to the Community Reinvestment Act. Other incentives include the job tax credit, the industrial machinery tax credit, and sales and use tax exemptions.

Opportunity Zones Have Not Had an Impact on the Memphis Community Development Landscape

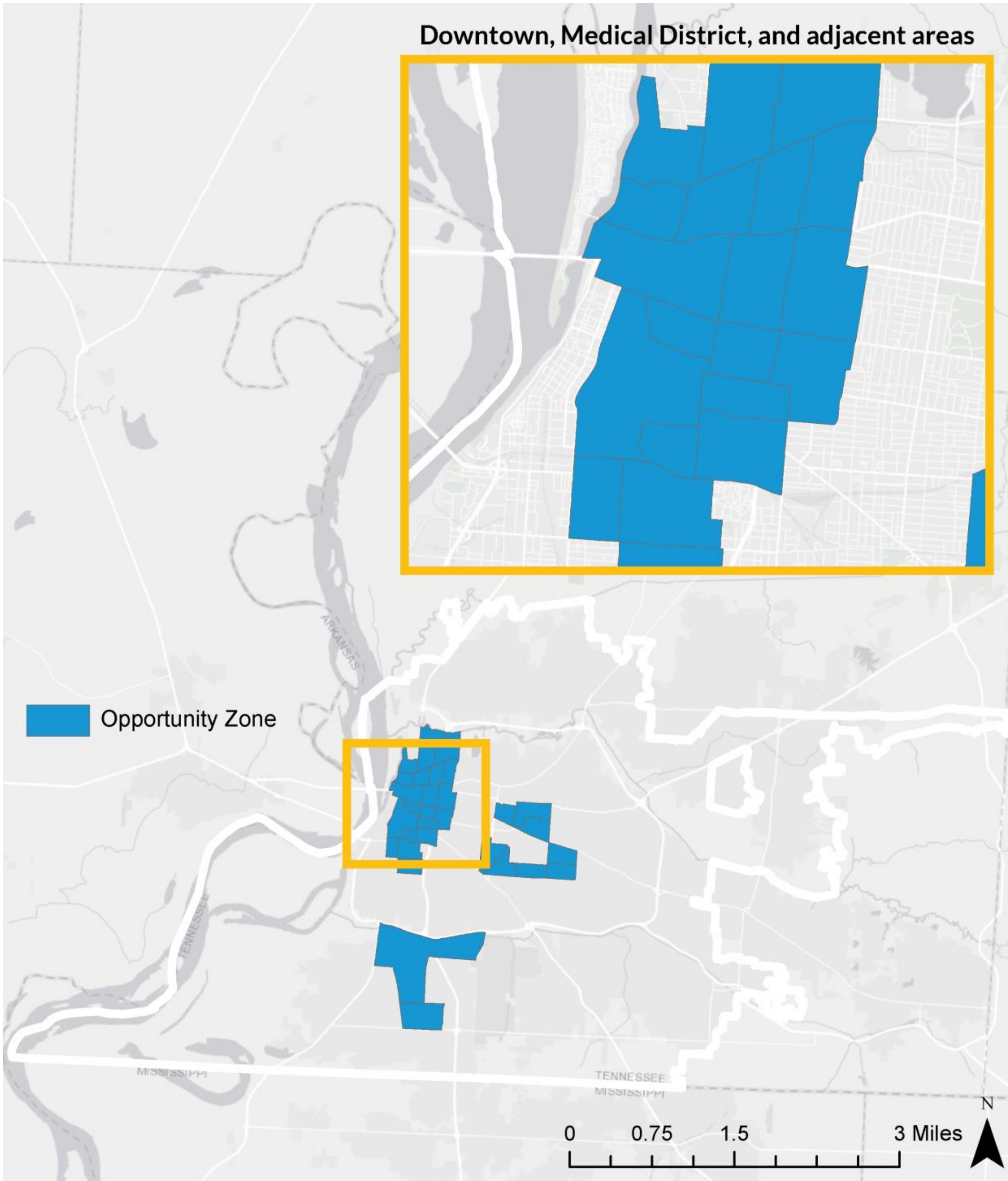
There are 176 qualified Opportunity Zones census tracts in Tennessee and 30 in Memphis. Much of downtown and the Medical District was selected to spur growth in these neighborhoods (figure 32). According to the state government, Opportunity Zone tract recommendations were "determined based on a strategic and data-driven review of the county mayor's feedback, in addition to consideration of state priorities and initiatives, including business development and brownfield redevelopment opportunities; retail, commercial and tourism development opportunities; community and rural development initiatives; low-income housing development opportunities; and proximity to entrepreneur centers, technology transfer offices, and colleges and universities."[29] Comparisons of Opportunity Zone census tracts with Memphis overall show that the selection did target areas of greater need according to economic and housing indicators. Opportunity Zones in Memphis have higher poverty rates, have higher unemployment rates, have lower rents and home values, are slightly more rent-burdened, and have higher housing vacancy rates (table 3).

Despite the selection, none of our interviewees could identify deals closed to date using Opportunity Zone equity. (The lack of a federal requirement to report Opportunity Zone investment in detail makes it difficult to obtain this information through administrative sources.[30]) One interviewee explained that developers and other potential project sponsors were finding the incentive less attractive than initially thought: "Rumor is that some projects are scaling back from [Opportunity Zones]. They are not as attractive as once thought. You have a lot of people talking about it, but I have not seen anyone close a deal in our district, only a few pipelines where [Opportunity Zones are] part of the [capital] stack."

Developers and investors may not find Opportunity Zones sufficiently attractive because of high transaction costs, such as for finding an investor, and legal and accounting fees. Additionally, absent significant appreciation, the incentive is shallow, perhaps adding 200 to 300 basis points to a deal's return. Finally, Opportunity Zones require a long investment hold (10 years), which drives investors to demand higher returns to compensate for the illiquid holding (Theodos et al. 2020). Despite these challenges, OpportunityMEM, a city and county platform to connect investors with Opportunity Zone projects in Memphis, listed 27 projects as seeking capital by February 2021, including commercial property, multifamily housing, and mixed-use real estate.[31]

FIGURE 32

Opportunity Zones in Memphis



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Sources: Community Development Financial Institutions Fund; 2014–18 American Community Survey five-year estimates; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.

TABLE 3

Demographics and Selected Economic Indicators, Memphis

	All census tracts	Opportunity Zones	Difference (OZs – all census tracts)
Population	651,073	68,200	n/a
Median household income	$50,479	$26,507	-$23,972
Median home value, owner-occupied units	$148,482	$98,712	-$49,770
Median gross rent	$937	$732	-$205
Non-Hispanic white share	33	22	-11 % pts
Black or African American share	61	73	12 % pts
Asian share	2	2	0
Hispanic/Latino share	7	3	-4 % pts
Unemployment rate	8	13	5 % pts
Poverty rate	22	35	13 % pts
Rent as a share of household income	34	37	3 % pts
Vacancy rate	15	20	5 % pts

Source: 2015–19 American Community Survey five-year estimates.

Note: Median household income, median home value for owner-occupied units, and rent as a share of household income are weighted averages.

Corporate Philanthropies Are Not Strongly Visible in the Community Development Space; Traditional and Family Foundations Are Mixed

Memphis is home to three Fortune 500 corporations: FedEx, AutoZone, and International Paper,[32] which together with ServiceMaster and First Horizon are among the largest employers in the city.[33] Interviewees did not cite these companies as relevant players in the local community development finance ecosystem unless prompted. According to one interviewee, large corporations "cannot appear to have favoritism toward Memphis. Their philanthropic activity is projected nationally and internationally." Companies in the health care sector, however, are more active. St. Jude Children's Research Hospital and other anchor partners working in health and education—that collectively employ more than 16,000 people in the city—are supporting MMDC.

Interviewees cited traditional and family philanthropies in Memphis as offering only mixed support for community development finance, with several other priorities on their agenda. There have been successes, however. For example, MMDC is supported by Hyde Family Foundation, "the most active philanthropic player in the ecosystem," as one interviewee put it. Hyde has been a key supporter of Pathway Lending's expansion into Memphis, thanks to a collaboration with the Detroit-based Kresge Foundation. In collaboration with the city's Plough Foundation (currently closing its operations and granting all its remaining assets to local nonprofits), the Kresge Foundation aided in the creation of Community LIFT and their CDFI.

Several interviewees mentioned the importance of the Kresge Foundation. "There was no big-time philanthropy providing base-level funding [for community development in Memphis]; that's why Kresge came in," explained one interviewee. The Kresge Foundation entered the Memphis community development market with initiatives to build local organizations' capacity to sponsor and coordinate projects that required more sophisticated financing. Other participating local philanthropies are Pyramid Peak Foundation, the Assisi Foundation of Memphis, and the Community Foundation of Greater Memphis. However, our interviewees clearly signaled that Kresge and Hyde were the two main players in the field.

Competition with Neighboring States and City-County Overlaps Add Challenges to the Community Development Ecosystem

Community development practitioners in Memphis must work with two governmental executives (for Memphis and for Shelby County), as well as strong city and county governments. Shelby County's budget is nearly twice the size of the city's: $1.3 billion versus $711 million, respectively.[34] In Detroit, by contrast, this relationship is inverse.[35] Shelby County and Memphis jointly operate their Division of Planning and Development, which is in charge of zoning regulation and building permits. The city's Division of Housing and Community Development also operates several programs and grants. Our interviewees shared that working in community development presented challenges because of this double bureaucracy, despite efforts from both jurisdictions to concentrate functions, for example, through EDGE.

Memphis's geographic location also presents governance challenges. The Memphis MSA extends into Arkansas and Mississippi. These two states have tax structures that compete with Tennessee's, making it harder to attract investment into the city. As one interviewee said, "Any asset in Memphis [could be] an asset for Mississippi too, but their rebate of payroll taxes is something we have to compete with."

Yet one interviewee reported positive evolution in community development, with business improvement districts establishing a dialogue through the Region Smart initiative between the Tennessee, Arkansas, and Mississippi development authorities. "The goal is to think long term about our common infrastructure issues, potential relocations due to climate change, and regional competitiveness," explained one interviewee. At the city level, similar dialogues are taking place. The Urban Land Institute's chapter in Memphis has convened 14 mayors from the region to discuss metropolitan opportunities and challenges. However, one interviewee cautioned that these

coordination efforts are coming late (compared with Nashville, where similar initiatives started in the 1980s) and are at times ineffective. As an interviewee said, “the mayors are more interested in having a good meeting, not in having the difficult, necessary conversations we need to solve our regional issues.”

Conclusions and Steps for Action

When it comes to community development and access to capital, Memphis has been challenged by negative and stagnant growth, sprawl, poverty, government fragmentation, segregation, and unequal investment—but it has not been a city in crisis. The COVID-19 pandemic, and its economic fallout, is a new challenge, but one shared with the rest of the country. The recovery will present opportunities for the city to experience economic growth beyond pre-pandemic levels. And Memphis has assets that can enable it to capitalize on those opportunities: a rich community of local and regional CDFIs, a handful of CDCs willing and able to carry out complex projects, a local government increasingly involved in addressing barriers to capital access for community development, and a promising ecosystem of supports for small businesses.

We are definitely, noticeably better. Progress is undeniable. Our challenge is we’re not progressing at the same rate as our peer cities.
—Business improvement district representative

We lay out steps local actors can take to seize the recovery moment and address the historical challenges of improving access to capital and community development in Memphis.

1. **Grow and strengthen the local ecosystem of lending and intermediaries.** Not all cities have the number of CDFIs, development finance authorities, and quasi-public organizations that Memphis does. Grants, affordable loans, and technical assistance are ways these groups help community development actors and small businesses meet their capital needs. But more can be done to strengthen this sector. Further study of specific barriers and gaps by product and provider type will help us understand how Memphis can overcome the disparities noted in this report. Grants, equity, low-cost debt, guarantees, and other tools can help CDFIs and others develop technology, systems, people, and capital that scale up their operations and allow them

to serve more borrowers. Technical assistance will be key to increasing these groups' capacity to participate in more complex deals that mix tax credits, other subsidies, and other types of capital. Recent initiatives such as the CDFI Memphis network can be a useful starting point to deliver this support.[36]

2. **Support CDCs to increase their capacity for sponsoring and cultivating community development projects**. As with CDFIs, technical capacity and grants will be key to improving CDCs' capacity to put together capital stacks beyond equity and debt and to incorporating government incentives such as low-income housing tax credits, New Markets Tax Credits, and historic tax credits. Because CDCs are place-based, they are key to driving more capital to projects in neighborhoods other than downtown and East Memphis. Existing organizations such as BLDG Memphis already focus on these neighborhoods. Enhanced support to CDCs could be delivered through existing networks of CDCs, such as Build. Live. Develop. Grow.[37]
3. **Revise local and state tax structures so multifamily housing is not at a disadvantage against single-family housing**. This is challenging and would include changes at the state level. But other urban areas in Tennessee are likely facing similar issues, increasing the likelihood that a cross-city coalition could be formed to catalyze action. Changes can be limited to how properties are defined for appraisal (e.g., what constitutes a commercial property), the tax rates themselves, or even substitution of the traditional property tax system for a land-value tax structure that will encourage owners of expensive land to build more intensively (Schuetz 2020).
4. **Consider tax abatements and other incentives for community development projects that fit the priorities of the city and the county, particularly in historically underresourced tracts, pushing development beyond its traditional nodes.** When applicable, the public and private sectors can explore ways to strategically use these incentives in tandem with Opportunity Zones to advance priority projects.
5. **Deepen corporate, traditional, and family philanthropy into community development finance.** As we detail, the corporate sector's involvement in community development is limited, and traditional and family philanthropy's is mixed. Corporate and philanthropic leaders should enhance their engagement with community development projects in underresourced neighborhoods (where many of their employees likely live). The ways in which leaders can support community development include grants, low-cost loans, investments, guarantees, loss reserves, and other financial supports to community development investors and the city. Flexible and low-cost capital can help reduce the risks of potential investment opportunities in

small and midsize cities. Support planning and technical assistance will be needed as well. Philanthropies can underwrite or provide local planning and technical assistance geared toward either the city or the community development finance industry.

6. **Increase metropolitan coordination.** Our interviewees agreed that a lack of coordination between the three states that contain the Memphis MSA and the redundancies between the City of Memphis and Shelby County were barriers to attracting capital. Arkansas, Mississippi, Tennessee, and the local jurisdictions that make up this MSA should explore the viability and appropriateness of a metropolitan authority or coordinating entity involved in urban development, similar to the Memphis Metropolitan Planning Organization for transit-related decisions. Governments should be careful that such an entity is not coopted by big developers and that it drives some real estate capital to underresourced parts of the city.

Notes

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