DATE       April 17, 2009

TO          Housing Committee Members:  Steve Salazar, Chair, Carolyn R. Davis, Vice-Chair, Tennon Atkins, Dr. Elba Garcia, Vonciel Jones Hill, Angela Hunt, Linda Koop, Pauline Medrano

SUBJECT    Community Development Block Grant Section 108 Guaranteed Loan Application for the Shamburger Development

On Monday, April 20, 2009, you will be briefed on Community Development Block Grant Section 108 Guaranteed Loan Application for the Shamburger Development. A copy of the briefing is attached.

Please let me know if you have any questions.

A.C. Gonzalez, Assistant City Manager

C: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom P. Perkins, Jr., City Attorney
Craig Kinton, City Auditor
C. Victor Lander, Judiciary
Ryan S. Evans, First Assistant City Manager
Forest Turner, Interim Assistant City Manager
Ramon Miguez, P.E., Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Dave Cook, Chief Financial Officer
Jerry Killingsworth, Housing Director
Jeanne Chipperfield, Director, Budget and Management Services
Helena Stevens-Thompson, Assistant to the City Manager

"Dallas, The City That Works: Diverse, Vibrant and Progressive."
Community Development Block Grant Section 108 Guaranteed Loan Application for the Shamburger Development

A Briefing to the Housing Committee

April 20, 2009
Housing Department
Purpose

Consideration of Community Development Block Grant Section 108 Guaranteed Loan application for $15.2M to fund construction of the 9,100 square feet of retail component of a mixed-use project which will also include 417 apartment homes in efficiency, one, two and three bedroom floor plans, including 84 affordable units, all on a 3.65 acre parcel located within the newly created Transit Oriented Development TIF at the southwest corner of SMU (formerly Yale) Boulevard and Greenville Avenue
Section 108 Guaranteed Loan Application Process

- Develop proposed HUD application for $15.2M and waiver request for affordability of 20% of units
- Hold Neighborhood Public Hearing
  - Hearing held in the area in which funds will be used
  - Provide draft of proposed HUD application and waiver
  - Obtain views of citizens
    - Community development objectives
    - Housing and economic development needs
- Prepare Final HUD Application
  - Consideration of public comments and views
  - Finalized description of activities
Section 108 Guaranteed Loan Application Process (cont.)

- Hold City Council Public Hearing
  - Contents of final HUD application
  - Summary of public comments

- Obtain City Council Approval
  - Final application for project
  - Schedule of repayment to HUD of the Section 108 guaranteed loan
Underwriting Standards

- Section 108 funding used as subordinate gap financing as a mezzanine refunding piece
- Total loan balance of the project, including first liens, cannot exceed 85% of the lower of total cost or appraised value of the completed stabilized project
- Debt service coverage ratio of 1.15 for all debt
- Additional credit enhancement to provide collateral support to insure that payments can be repaid, if refinancing does not repay both first and second liens
- Additional credit support required, if the first lien mortgage financing does not include and interest reserve during the construction period, redevelopment and lease up
Shamburger Development

- 3.65 acre parcel to be developed as mixed-use Transit Oriented Development at Southwest corner of SMU (formerly Yale) Boulevard and Greenville Avenue, 0.25 miles from Mockingbird Station DART Rail stop in Council District 14
- New construction of 9,100 square feet of retail and 417 apartment homes
  - 42 Efficiencies – 495 square feet
  - 168 one bedrooms - average size 681 square feet
  - 199 two bedrooms – average size 933 square feet
  - 8 three bedrooms – 1,430 square feet
  - 84 affordable units, 333 market rate units
- Located in Transit Oriented Development TIF
  - First development in the new TOD TIF
  - Will provide $2.8M over a 25 year period to the Southern Sector beginning May 2010
- Applicant – MC Townhomes I, LP
  - General Partners: AP-GP townhomes, LLC, and Prescott MC Townhomes I Genpar LP (owned by Apollo Fund V [AREA Property Partners, formerly Apollo Real Estate Advisers and Prescott Realty Group, Inc.)
  - Limited Partner: Prescott MC Townhomes I Limpar LP
Prescott Realty Group is a Dallas based full-service commercial real estate investment and operating company actively involved in revitalization of urban Dallas:

- Lake Highlands Town Center, a 70 acre mixed-use transit oriented development in the Skillman corridor TIF with 300K square feet of retail, 100k square feet of office, and 1.6M square feet of multifamily residential units along its own dedicated light rail DART stop
- Mockingbird Central, a transit oriented development with 60K square feet of retail, 200K square feet of office, and 1M square feet of residential at the intersection of Central Expressway and Mockingbird
- $30M renovation of the Stoneleigh Hotel
- The Tower Residences at Stoneleigh, a development of a 116 unit, 22 story high-rise luxury condominium tower adjacent to the Stoneleigh Hotel
- Prescott owns over 1.3M square feet of office space including the 6060 building at 6060 North Central Expressway next to Mockingbird Station, and Walnut Glen Tower at Central Expressway and Walnut Hill Lane adjacent to the DART light rail line
- Over the last ten years Prescott has completed acquisitions totaling over 5M square feet, leasing transactions of 6M square feet and development projects totaling over $450M.
Property Manager

- Greystar, 600 East Colinas Blvd., Suite 2100, Irving
  - 16 years in business
  - National lease up experience of 62 properties
  - 8,682 total units managed at 30 Properties in Texas
    - 3,993 units managed at 13 properties in Houston
    - 732 units managed at 3 properties in Austin
    - 1,236 units managed at 4 properties in North Texas:
      - Tribeca in Plano, 398 A+ units owned by Zale/Corson
      - Rockwall Commons in Rockwall, 202 A+ units owned by Capmark
      - Monterra Village in Fort Worth, 288 A+ units owned by Hillwood
      - Forum at Denton Station in Denton, 348 A+ units owned by Parkland Development
Site Plan
Site Rendering
## Sources and Uses

**SOURCES**
- First Lien Note: $36,610,000
- Section 108 Guaranteed Loan: $15,254,000
- Developer Equity: $9,152,000
- **TOTAL SOURCES**: $61,016,000

**USES**
- Land Acquisition: $10,750,000
- Site Work: $3,863,000
- Construction Costs: $34,768,000
- Soft Costs: $1,947,000
- Developer Fee: $2,239,000
- Operating Reserve: $900,000
- Debt Service Reserve Fund: $2,593,000
- Section 108 Interest Reserve Fund: $2,292,000
- Real Estate and Mortgage Costs: $1,664,000
- **TOTAL USES**: $61,016,000
Pro Forma Analysis

- Construction commences in 2009 with construction completed in 2010
- Project reaches rent stabilization in 2011
- Loan to value ratio of 85% of cost and 80% LTV capitalizing the Net Operating Income @ 7%, thereby meeting the underwriting standard
- Debt Coverage Ratio for first lien debt plus second lien debt is 1.40 exceeding the underwriting standard of 1.15
- Three years of interest reserve of $2,292,000 as hedge against the projected use of one year (2010)
- Interest payments covered by Net Operating Income beginning in 2011
- City’s first payment to HUD will be August 2010 when one year of interest payment from the developer’s loan to the City will be paid leaving two years of interest reserve
- Developer’s interest rate on the City loan will be .50% higher than the City’s loan to HUD and both loans will have matching amortization
- The principal payment of the Section 108 guaranteed loan will come in the third year of stabilization of the project with the funding of a permanent loan
Credit Enhancement

- Three years of interest reserve represents an additional two years interest before project stabilization to allow for a slower than anticipated lease up
- Project @ stabilization cash flows sufficient debt coverage to pay the 1\textsuperscript{st} lien and 2\textsuperscript{nd} lien debt with a very strong 1.40 debt coverage
- Principal of the Section 108 guaranteed loan will be repaid within five to six years with the funding of a permanent loan which should provide a 75% loan to value at that point of the capitalized income stream @ 6.75%
RECOMMENDATION

- City loan $15.2M to MC Townhomes I LP to develop a mixed use Transit Oriented Development @ corner of SMU Blvd. and Greenville Ave to provide 84 affordable units in a 417 unit apartment project along with 9,100 sq. ft. of retail space with principal to be repaid with five to six years through a permanent loan and interest paid in the interim through a combination of interest reserve and net operating income
Next Steps

- Complete draft of Section 108 guaranteed loan application and waiver request to HUD
- May 5, 2009 Community Meeting to be held
- May 13, 2009 City Council call for public hearing
- June 24, 2009 City Council Public Hearing and final approval for filing of Section 108 guaranteed loan application and waiver request to HUD