

Memorandum



CITY OF DALLAS

DATE September 18, 2009

TO Members of the Economic Development Committee:
Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Dwaine Caraway,
Jerry Allen, Sheffie Kadane, Ann Margolin, Linda Koop, and Steve
Salazar

SUBJECT Continental Building Redevelopment / Amendments to Mercantile
Agreement

Attached is the briefing material on the Continental Building Redevelopment / Amendments to Mercantile Agreement to be presented to the Economic Development Committee on Tuesday, September 22, 2009.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'A.C. Gonzalez'.

A.C. Gonzalez
Assistant City Manager

C: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah A. Watkins, City Secretary
Thomas P. Perkins, Jr., City Attorney
Craig D. Kinton, City Auditor
Judge C. Victor Lander, Judiciary
Ryan S. Evans, First Assistant City Manager
Forest Turner, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
David Cook, Chief Financial Officer
Jeanne Chipperfield, Director of Office of Budget & Management Services
Karl Zavitkovsky, Director of Office of Economic Development
Helena Thompson-Stevens, Assistant to the City Manager

Continental Building Redevelopment/ Amendment to Mercantile Agreement

Economic Development Committee
September 22, 2009



Office of Economic Development
WWW.DALLAS-ECODEV.ORG



Purpose

- Explain the previous Mercantile/Forest City deal related to the Continental Building.
- Provide details of the Forest City redevelopment proposal and needed amendments to the Mercantile Agreement.
- Describe TIF assistance requested.
- Provide recommendations and propose next steps.

Background – Forest City Agreement

- On August 2005, City Council approved a Development Agreement with Forest City to redevelop the Mercantile Block, the Continental Building and the Atmos Complex.
- The agreement called for the Continental Building to be redeveloped by Forest City into 140-160 residential units, 9,000 sf of retail space and 350 parking spaces.
- TIF funding, up to \$10 million, was allocated out of the Downtown Connection TIF District to Forest City for redevelopment of the Continental Building.
 - o \$2.5 million from TIF Bond Proceeds for Environmental Remediation; and
 - o \$7.5 Million in privately placed DDDA bonds to be supported solely by the property tax increment generated by the property itself.
- Authorization of a development agreement for the Continental Building as proposed, requires an amendment to the Mercantile Agreement as it relates to this property.

Amendments to Mercantile Agreement

Since 2005, there have been significant changes in the marketplace and in specific redevelopment plan for the Continental Building.

On September 16, 2009, the Downtown Dallas Development Authority reviewed the following amendments to the Mercantile Agreement that are needed to allow the redevelopment of the Continental Building and recommended approval by the Dallas City Council:

- Decrease the retail square footage from 9,000 square feet to 5,000 square feet to accommodate requirements from the National Park Service related to historic tax credits;
- Adjust the number of parking space from 350 spaces to 250 spaces to correct a typographical error in the original agreement;
- Extend the project completion date from June 30, 2011 to December 31, 2011;
- Decrease the amount of Bonds to be issued by the DDDA from \$7,500,000 to \$2,500,000 (Privately Placement Bonds to be purchased by Forest City and supported only by increment generated by Continental Building);
- Increase the aggregate limit on City funding from \$10,000,000 to \$22,528,288.

Project Details – Continental Building

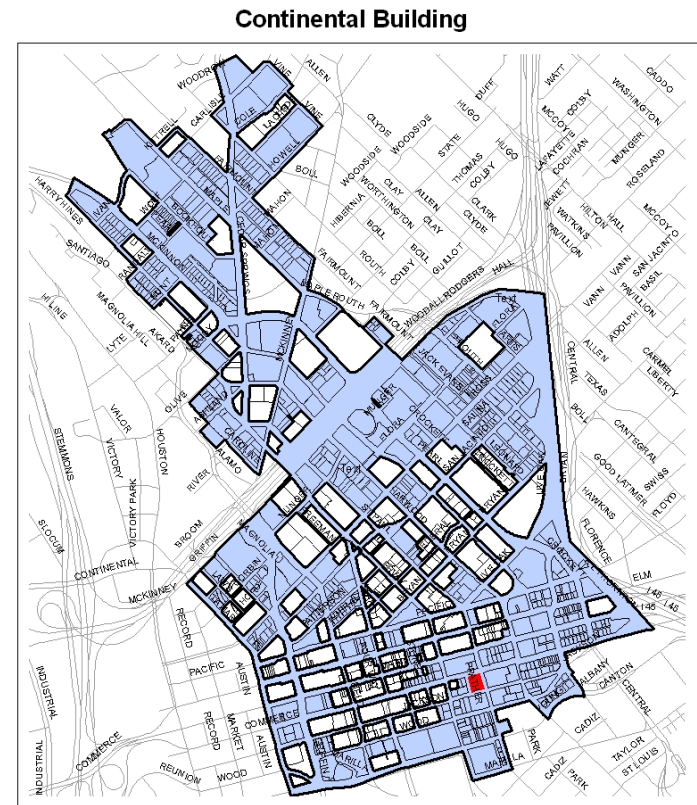
- FC Continental Complex LP proposes to renovate the Continental Building into approximately 199 residential units, 5,000 square feet of retail space, and 250 parking spaces.
- FC Continental Complex LP estimates a total project cost of \$57.1 Million, including \$32.5 million in hard construction costs. (See Appendices A & B, Project Proformas.)



Continental Building – Northern Elevation (Proposed)

Project Details – FC Continental LP

- Continental Building is located across Commerce Street from the redeveloped Mercantile Tower/ Element Building and Main Street Garden Park, and adjacent to the Dallas Grand Hotel.
- The building contains over 304,860 square feet of obsolete office space (Source: Dallas Central Appraisal District)



Downtown Connection TIF District

- Continental Building
- Properties outside TIF
- Properties inside TIF

Project Details – Development Team

- **DEVELOPER:** FC Continental Complex, LP (Forest City Enterprises, Inc.) Forest City recently completed Mercantile Place on Main and the Element Building as part of the Mercantile Block Redevelopment Project.
- **OWNERS REP:** David Levey, Executive Vice President of Forest City Residential Group. Jim Truitt, Vice-President of Development for Forest City Residential Group and George Burchlaw, Director of Development of Texas Region.
- **ARCHITECT:** Merriman Associates
- **GENERAL CONTRACTOR:** Turner Construction
- **HISTORICAL CONSULTANT:** Architexas
- **LENDER:** Housing of Urban Development (HUD)

TIF Assistance - FC Continental Complex LP

On September 16, 2009, the Downtown Dallas Development Authority approved the 4th Amendment to the Mercantile Agreement.

Both the DCTIF and DDDA approved an amended and restated Article II to the Mercantile Agreement for the redevelopment of the Continental Building at 1810 Commerce Street, providing for future TIF subsidies consisting of an amount not to exceed \$18,305,700 (includes \$13,305,700 for TIF base funding, \$2,500,000 for reimbursable environmental remediation cost, and bond funding in an amount not to exceed \$2,500,000*) plus interest in an amount not to exceed \$4,222,588 for a total incentive amount not to exceed \$22,528,288.

*Note: \$2.5M in reimbursable environmental remediation costs are funded from previously issued DCTIF Bonds; \$2.5M in DDDA Private Placement Bonds, supported solely by property tax increment generated by the Continental Building; interest on \$13,305,700 Base TIF Reimbursements accrues at 5.65%

TIF Assistance – Conditions for Funding

As a condition for funding, FC Continental Complex LP will be required to:

- Provide a minimum of 180 residential units. Twenty percent (20%) of the total number of residential units shall be set-aside as Affordable (80% of Area Family Median Income).
- Provide a minimum of 5,000 square feet of ground floor retail space. Fifty percent (50%) of the total net leasable space must be occupied prior to TIF payment.
- Provide a minimum of 200 parking spaces.
- Provide evidence of a minimum private investment of \$46,000,000 into the project.

TIF Assistance – Conditions for Funding cont'

FC Continental Complex LP will be required to meet the following deadline dates:

- Provide evidence of a receipt of a building permit by June 1, 2010.
- Obtain Landmark Commission review by December 31, 2010.
- Provide evidence of a receipt of a final certificate of occupancy by December 31, 2011.

The Office of Economic Development Director may authorize adjustments to the project deadlines should reasonable adjustments be needed and supported by additional consideration (the project will be in the shared queue for TIF payment).

Why Do The Deal?

- Maintain Downtown momentum.
- Strengthens redevelopment efforts surrounding Main Street Garden Park.
- Create a total of 40 new affordable housing units.
- Remove more than 300,000+ square feet of vacant office space from the City's Vacant Building Registration list.

Recommendations and Next Steps

Staff requests Committee approval and recommendation for approval by City Council for the following items at the October 14, 2009 Council meeting:

- Amendments to the Mercantile Agreement as follows:
 - o Decrease retail square footage from 9,000 square feet to 5,000 square feet.
 - o Adjust the number of required parking spaces to 250 to correct an error in the previous agreement.
 - o Extend the project completion date from 6/30/2001 to 12/31/111.
 - o Reduce the amount of the DDDA Private Placement Bonds from \$7.5M to \$2.5.
 - o Increase the aggregate TIF Reimbursement Funding support from \$10M to \$22,528,288.
- Authorize a development agreement with FC Continental Complex LP for the redevelopment of the Continental Building.

Appendix A – Proforma Information - Project Requirements/Other Information

	<u>Continental Building</u>
Total Project Cost	\$57,133,000*
Hard Costs	\$32,497,000
Soft Costs	\$11,295,000
Acquisition	\$6,196,000
2009 DCAD Value	\$2,132,000
Personal Property	\$0
# units	199
# of affordable units (10% required for TIF)	40
Retail sf	5,572
Total Square Feet	304,860
<p>*Project cost as submitted by developer included several carrying related cost were not allowed and were removed from total project cost for purposes of calculating TIF amount.</p>	

Appendix B – Proforma Information - Continental Building Project NOI

INCOME

Rental Income - Market Rate Units	\$2,802,000
Rental Income - Affordable Units	\$456,000
Other Income	\$80,000
Retail Rental Income	\$134,000
Retail Reimbursement Income	
Parking Income	\$261,000
Gross Potential Income	\$3,733,000
Less Estimated Vacancy/ Collection Loss	(\$229,000)

EFFECTIVE GROSS INCOME

\$3,504,000

EXPENSES

Multifamily Operating Expenses	\$1,487,000
Retail Operating Expenses	\$6,000

TOTAL EXPENSES

\$1,493,000

NET OPERATING INCOME (NOI)

\$2,011,000

RETURN ON INVESTMENT (without subsidies)

3.76%

RETURN ON INVESTMENT (with subsidies not including TIF interest)

7.71%

* Based on DCTIF Increment Projections assumption or 0% property appreciation and approval of modified queue reimbursement method.

** Return of investment calculated on revised project cost of \$53,522,288.

Appendix C – Continental Building: Sources and Uses of Funds

<u>SOURCES</u>		<u>USES</u>	
\$27,687,000	HUD 221-d(4) Loan	\$32,497,000	Hard Costs
\$ 7,600,000	Section 108 Loan	\$11,295,000	Soft Costs
\$ 2,500,000	DDDA Private Placement Bonds	\$ 6,196,000	Property Acquisition
\$ 2,000,000	Housing Department Grant	<u>\$ 7,145,000</u>	Financing & Operating Deficit
\$ 7,150,000	Historic Tax Credit	\$57,133,000	Total Project Cost
<u>\$10,196,000</u>	Equity		
\$57,133,000	Total Project Cost		

Appendix D – FC Continental Complex LP TIF Value Point Worksheet

Value/ Point Matrix
Downtown Connection TIF District
Continental Building

VALUES	15pts	10pts	8pts	4pts	0pts
Reaching Critical Mass - Residential	200 + Units	199 - 150 Units	149 - 100 Units	99 - 1 Unit(s)	0 Units
Reaching Critical Mass - Retail	10,000 + sq. feet	9,999 - 5,000 sq. feet	4,999 - 2,500 sq. feet	< 2,500 sq. feet	0 sq. feet
Proximity to Main Street Core or Catalyst Project / Park	Within Main Street Core or Directly Adjacent to Catalyst Project / Park	Adjacent to Main Street Core	Within one block of catalyst project / park	Inside Downtown Freeway Loop	Outside Downtown Freeway Loop
Public vs. Private Investment (Benefit Analysis)	Benefit = 2x > Cost	Benefit = 1.9x - 1.5x > Cost	Benefit = 1.4x - 1.1 > Cost	Benefit = 1x > Cost	Benefit = 0.9x > Cost
Historic Restoration	Yes				No
Reuse of Existing Structure	Yes				No
Affordable Housing > 10 % (actual units not including buyout)		Yes			No
Buildings with 3 stories or less (existing/historic buildings)		Yes			No
Years to Recover Public Investment		< 5 Years	6 - 8 Years	9 - 10 Years	11 + Years
New Construction				Yes	No
Permanent Jobs Created > 20				Yes	No
Commitment to Minority / Women Bus.(all funding sources) > 25 %				Yes	No
Offering Public Parking > 50 Spaces				Yes	No
Land Use - Hotel and/or Office				Yes	No
Impact Project - Bonus Points = 15 Points	Yes				No
	60	30	0	0	0

High Ranking = 15 point maximum
 Medium Ranking = 10 point maximum
 Low Ranking = 4 point maximum
 Special Impact Project = Bonus 15 points

90 Tier Levels
Tier 1 = 100 - 81 Points 25 % cap
 Tier 2 = 80 - 66 Points 20 % cap
 Tier 3 = 65 - 51 Points 15 % cap
 Tier 4 = 50 - 0 Points 0 % cap

Appendix E – Continental Building Affordable Housing Grant Worksheet

Affordable Housing Computation for Continental Building

Stablized Market Rate per sf. = \$1.60 / sf

Affordable Rate per sf. = \$1.03 / sf

# of Units	Avg. sf	Affordable units by sf	market rent/ s.f	Market Rent/ Unit	Annual Rents @ Market Rate	affordable rent/s.f	Affordable Rent/ Unit	Annual Rents @ Affordable Rate
28	806	22568	\$1.60	\$1,289.60	\$433,305.60	\$1.03	\$830.18	\$278,940.48
12	1108	13296	\$1.60	\$1,772.80	\$255,283.20	\$1.03	\$1,141.24	\$164,338.56
40	957	35,864			\$688,588.80			\$443,279.04
						Gap		\$245,309.76
						Cap. Rate		7.00%
					Max. Affordable Housing TIF Grant			\$3,504,425.14

Appendix F – Downtown Connection TIF Budget

Downtown Connection TIF District Budget

	Budget in 2006 Dollars	Budget in Actual, Anticipated Dollars
Total Project Costs*	\$189,807,592	\$364,776,643
Debt Service (Interest Only)		(\$150,363,000)
Catalyst Projects:**	(\$58,000,000)	(\$58,000,000)
Administration and Implementation	(\$3,940,386)	(\$6,765,600)
Park and Plaza Design and Acquisition	(\$1,500,000)	(\$1,736,109)
Affordable Housing	(\$3,000,000)	(\$3,000,000)
Retail Initiative/ Streetscape Improvements	(\$2,500,000)	(\$1,985,000)
Downtown Area Plan		(\$515,000)
Remaining for Other Redevelopment Projects	\$100,520,961	\$142,411,934
--Stoneleigh		(\$2,500,000)
--Santa Fe IV		(\$4,296,264)
--Atmos Complex		(\$23,000,000)
Arts District Garage		(\$9,000,000)
Remaining for Redevelopment Projects After Existing Commitments		\$103,615,670
--Continental Building		(\$22,525,288)
Remaining After Refunding Existing Commitments funded by Other Sources		\$81,090,382

** Anticipated increment could increase or decrease depending on the actual rate of tax increment collections..

**Catalyst Project amount was reduced by \$10M and funds were redistributed to Funds Remaining for Redevelopment Projects.