

# Memorandum



CITY OF DALLAS

DATE October 17, 2008

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

SUBJECT Atmos/ Forest City Conveyance

Attached is the briefing material on the Atmos/ Forest City Conveyance to be presented to the Economic Development Committee on Monday, October 20, 2008.

Please contact me if you need additional information.



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  
Ryan S. Evans, First Assistant City Manager  
Forest Turner, Interim Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Ramon F. Miguez, P.E., Assistant City Manager  
David K. Cook, Chief Financial Officer  
Theresa O'Donnell, Director of Development Services  
Helena Thompson-Stevens, Assistant to the City Manager

# *Atmos/ Forest City Conveyance*

Economic Development Committee  
October 20, 2008



Office of Economic Development  
[WWW.DALLAS-ECODEV.ORG](http://WWW.DALLAS-ECODEV.ORG)



# Overview

- Existing agreement requires Forest City to:
  - Maintain and operate the four building Atmos Complex.
  - Redevelop buildings or cause them to be redeveloped by another developer without incentives.
  - Pay \$250,000 annual fee to City from October 2007 thru October 2009 if building permits are not obtained.
  - Revert buildings to the City at anytime prior to October 2009 upon payment of any unpaid portion of the aggregate \$750,000 fee.

# Overview

- Forest City proposes to convey the Atmos Buildings to Hamilton Properties for future redevelopment.
  - Retains same obligations to City, but requests deferral of remaining fee payments to October 2009 and October 2010.
  - Hamilton Atmos LP proposes a \$50.2M\* redevelopment with approximately 225 residential units, 282 parking spaces and 10,000 square feet of retail.
  - Will require \$12.6M of TIF subsidies plus accrued interest at TIF Bond rate.

# Overview

Requires:

- Amendment to the Downtown Connection TIF Plan to allow for direct lease or sale of City-owned/City-controlled property without auction or bidding.
- Amendment of the Forest City Development Agreement
- Approval of a development agreement with Hamilton Atmos LP.

# Purpose

1. Explain the previous Forest City deal.
2. Provide details of the Hamilton Properties redevelopment proposal.
3. Describe TIF assistance requested.
4. Compare the existing situation with the redevelopment proposal.
5. Provide recommendations and propose next steps.

# Background – Forest City Agreement

- In 2005, the Atmos Complex was donated to the City of Dallas at no cost and transferred to Forest City as part of the Mercantile redevelopment deal.
- 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 Atmos Complex to be redeveloped by Forest City (or that Forest City would cause it to be redeveloped by another developer) into 202 residential units, 5,000 sf of retail space and 220 parking spaces.
- No TIF incentives allowable to Forest City for redevelopment of the Atmos Complex.

## Background – Forest City Agreement

- Atmos Complex is comprised of four buildings adjacent to the Dallas Grand Hotel and one block from Main Street Garden Park.
- The buildings contain over 249,114 square feet of obsolete office space.





# Background – Forest City Agreement

- Forest City is responsible for all operational, maintenance, repair and utility costs related to owning/operating the Atmos Complex at no cost to the City.
  - Current operational and maintenance costs are approximately \$25,000 - \$30,000 per month plus taxes and insurance.
- The agreement stipulates penalties to be paid by Forest City if building permits are not obtained. For each of the three penalty date benchmarks, Forest City would be required to pay a fee of \$250,000.
- Penalty benchmark dates, as defined by the development agreement, occur on October 26<sup>th</sup> of the years 2007, 2008 and 2009.

## Background – Forest City Agreement

- The Atmos Complex reverts back to the City, in the condition originally conveyed, if building permits are not obtained by October 26, 2009.
- Reversion of the Atmos Complex back to the City could occur prior to October 26, 2009 upon payment by Forest City of any remaining unpaid portion of the \$750,000 penalty.
- Forest City made the first \$250,000 penalty payment to the City in October 2007.
- Forest City has contacted third-party developer Hamilton Properties, Inc. concerning their interest in redeveloping the Atmos Complex.

## Project Details – Hamilton Atmos LP

- The proposed project includes the renovation of the Atmos buildings with approximately 225 residential units, 10,000 square feet of retail space, and 282 parking spaces.
- Hamilton Atmos LP estimates a total project cost of \$50.2\* million, including \$36.6 million in hard construction costs. (See Appendices A & B, Project Proformas.)



# Project Deadlines - Hamilton Atmos LP

Hamilton Atmos LP will be required to:

- Obtain a building permit by October 20, 2010.
- Receive final certificate of occupancy by February 28, 2013.
- Pay a \$250,000 option fee if building permits are not obtained by October 20, 2009.
- Pay an additional \$250,000 option fee if building permits are not obtained by October 20, 2010
- Return the Atmos Complex back to Forest City for reversion to the City if building permits are not obtained by October 20, 2010

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).



## TIF Assistance - Hamilton Atmos LP



The developer is seeking authorization for TIF subsidy for the redevelopment of the Atmos Complex in an amount not to exceed \$12,560,461 plus interest, at TIF Bond rate. (See Appendices C & D for evaluation worksheet and comparison with other projects.)

## TIF Assistance - Hamilton Atmos LP

- This project qualifies for \$12,560,401 in incentives under the Downtown Connection TIF District Project Evaluation Criteria.
- Funding is requested as follows: \$4,000,000 in TIF Funding for TIF-eligible expenditures and \$8,560,401 in an economic development grant for non TIF-eligible expenditures.
- Two of the buildings (301 S. Harwood Avenue and 1915 Wood Street) are historic and may qualify for Historic Tax Credits.

# Comparative Benefits

Summary of Comparative Benefits			
	Existing Forest City Deal		Hamilton Proposal
Developer	Forest City Enterprises d/b/a FC Atmos		Hamilton Properties, Inc. d/b/a Hamilton Atmos LP
Residential Units	202		225
Parking Spaces	220		282
Retail Space	5,000 sq. ft.		10,000 sq. ft.
Building Permit	Will not redevelop		October 20, 2010
Expected Completion	Will not redevelop		February 28, 2013
Penalty Payment	FC Atmos Cross Defaulted w/ FC Merc and FC Continental		Same FC Obligation Plus Hamilton Atmos LP
1 <sup>st</sup> Payment Due	10/26/07	\$250,000	N/A
2 <sup>nd</sup> Payment Due	10/26/08	\$250,000	10/26/09 \$250,000
3 <sup>rd</sup> Payment Due	10/26/09	\$250,000	10/26/10 \$250,000

# Comparative Benefits

Summary of Comparative Benefits		
	Existing Forest City Deal	Hamilton Proposal
Property Reversion to the City	If not redeveloped, at 10/26/09 or anytime prior upon full remittance of unpaid balance of penalty fees.	If not redeveloped, at 10/26/10 or anytime prior upon full remittance of unpaid balance of penalty fees.
Affordable Housing	No Requirement	23 Affordable Units (10% of total)
TIF Incentive	NONE	A maximum of \$12,560,401. Shared queue for reimbursement. Interest accrual at TIF Bond Rate. Maximum incentives not to exceed \$23 million
Maintenance and Indemnity Obligations	Cross defaulted w/ FC Merc and FC Continental. FC Atmos maintains all obligations until building permits are obtained or the property reverts back to the City, whichever occurs sooner.	FC Atmos (plus Hamilton Atmos) shall maintain all obligations until building permits are obtained or property reverts to City, whichever occurs sooner.



## Why Do The Deal?

- Need to maintain Downtown momentum.
- No new residential construction starts since Mercantile Complex project.
- Forest City maintains all prior obligations post conveyance to Hamilton Properties.
- Operational and maintenance costs are \$25-\$30K/month plus taxes and insurance which exceeds what the City could earn on \$250K penalty fee.

## Recommendations and Next Steps

Staff requests Committee approval and recommendation for approval to the City Council for the following items at the October 22, 2008 Council meeting:

- Amend the Downtown Connection TIF Plan to allow for direct lease or sale of City-owned/ City-controlled property without auction or bidding requirements under certain conditions.
- Approval of the amendment to the Forest City Development Agreement extending payment of the remaining two option fee payments by 12 months each.
- Approval to authorize a Development Agreement with Hamilton Atmos LP for the redevelopment of the Atmos complex as described in this briefing.

# Appendix A – Proforma Information - Project Requirements/Other Information

	<u>Atmos Complex</u>
Total Project Cost	\$50,241,603*
Hard Costs	\$36,657,603
Soft Costs	\$13,584,000*
Acquisition	\$0
2008 DCAD Value	\$3,100,760
Personal Property	\$0
# units	225
# of affordable units (10% required for TIF)	23
Retail sf	10,000
Total Square Feet	249,114
* Includes deferred developer's fee of \$4,750,000 which is paid from cash flow after construction. For purposes of calculating TIF amount, this amount was removed from total project cost.	



# Appendix B – Proforma Information - Atmos Complex Project NOI

<b>Residential Retail and Parking Income</b>		
Residential	(\$1.40/s.f - market & \$1.05/s.f - affordable units)	\$3,780,346
Other Income		\$100,255
Retail (including reimbursement income)	(\$1.50/sf - retail & \$0.33/sf - reimb. Income)	\$232,974
Parking	(282 stalls @ \$65/ month)	\$233,356
Less: Vacany and Concensions	(10% of residential, parking & 15% of retail)	<u>(\$349,472)</u>
<b>Effective Gross Total Residential Retail and Parking Income</b>		<b>\$3,997,459</b>
<b>Residential, Retail and Parking Expenses</b>		
Management Fee (3.5%)		(\$174,734)
Payroll		(\$259,655)
Administrative		(\$49,098)
Advertising/ Marketing		(\$75,536)
Utilities		(\$217,485)
Repairs and Maintenance		(\$151,072)
Real Estate Taxes		(\$721,663)
Common Area Maintenance		(\$31,827)
Property Insurance		(\$64,493)
Replacement Reserves		<u>(\$35,438)</u>
<b>Total Operating Expenses</b>		<b>(\$1,781,001)</b>
<b>Total Project NOI (Stablized Year 3)</b>		<b>\$2,216,458</b>

CAP RATE	6.0%	6.5%	7.0%
	\$36,940,967	\$34,099,354	\$31,663,686

Return on Investment (no City \$)*	4.9%
Return on Investment (w/ \$12,560,401 TIF Funds)*	6.7%

\* Total Project Cost equals \$45,491,603 (\$50,241,603 less deferred developer's fee of \$4,750,000)



# Appendix C – Hamilton Atmos TIF Value Point Worksheet

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
New Construction		Yes			No
Reuse of Existing Structure		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
Affordable Housing > 10 %				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
	75	10	0	0	0

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

**85** Tier Levels  
 Tier 1 = 100 - 81 Points  
 Tier 2 = 80 - 66 Points  
 Tier 3 = 65 - 51 Points  
 Tier 4 = 50 - 0 Points

Funding Levels  
 25 % cap  
 20 % cap  
 15 % cap  
 0 % cap



# Appendix D – Project Comparison

## DOWNTOWN PROJECT COMPARISON

<u>Project (City Center and Downtown Connection with over 75 units)</u>	<u>TIF Assistance</u>	<u>Tax Abatement (estimate)</u>	<u>Section 108 and other Intown Housing Funds</u>	<u>Private Investment</u>	<u># of Units</u>	<u># of Affordable Units/Amount of Buy-Out</u>	<u>Cost (Includes TIF/Unit)</u>	<u>Public Subsidy/Unit</u>	<u>Public to Private Investment</u>
Santa Fe II (SoCo Lofts)	n/a	\$1,354,735	\$4,050,000	\$18,465,825	205	49 \$	90,077	\$26,265	29.27%
Majestic Lofts	n/a	\$768,181	\$4,051,760	\$10,300,000	129	51 \$	79,845	\$37,364	46.80%
Kirby Building	\$1,375,000	\$892,992	\$5,100,000	\$21,500,000	156	57 \$	137,821	\$8,814	34.27%
Davis Building	\$1,350,000	\$1,189,000	\$7,216,000	\$34,000,000	183	40 \$	185,792	\$7,377	28.69%
Wilson Building	\$3,800,000	n/a	n/a	\$18,000,000	133	0 \$	135,338	\$28,571	21.11%
Dallas Power and Light	\$6,503,000	\$997,000	n/a	\$24,000,000	154	0 \$	155,844	\$42,227	31.25%
Interurban Building	\$5,000,000	\$967,000	n/a	\$15,000,000	134	0 \$	111,940	\$37,313	39.78%
Republic Center	\$4,605,000	\$1,440,000	n/a	\$34,000,000	227	0 \$	149,780	\$20,286	17.78%
1200 Main (Metropolitan)	\$4,750,000	n/a	n/a	\$48,000,000	273	0 \$	175,824	\$17,399	9.90%
Mosaic	\$9,000,000	\$6,777,298	n/a	\$80,000,000	440	0 \$	181,818	\$20,455	19.72%
Stoneleigh Hotel	\$2,500,000			\$31,000,000	17*	0 \$	1,823,529	\$147,059	8.06%
Mercantile Complex	\$58,000,000	\$4,000,000	n/a	\$130,000,000	375	0 \$	346,667	\$154,667	47.69%
500 S. Ervay/717 Leonard	\$15,000,000	\$2,874,600	n/a	\$129,000,000	602	\$1,040,000	214,286	\$24,917	13.86%
Tower Petroleum/1900 Pacific	\$12,000,000	\$2,887,877	n/a	\$102,000,000	255**	\$455,000**	400,000	\$47,059	14.60%
Santa Fe IV	\$4,296,264			\$21,600,000	170*	0 \$	84,706	\$16,848	19.89%
***1600 Pacific Avenue	\$15,907,777	n/a	n/a	\$64,000,000	307	61 \$	208,469	\$51,817	24.86%
<b>Atmos Complex</b>	<b>\$12,560,401</b>	<b>n/a</b>	<b>n/a</b>	<b>\$45,000,000</b>	<b>225</b>	<b>23 \$</b>	<b>200,000</b>	<b>\$55,824</b>	<b>27.91%</b>
<b>Total</b>	<b>\$156,647,442</b>	<b>\$24,148,683</b>	<b>\$20,417,760</b>	<b>\$825,865,825</b>	<b>3985</b>	<b>281</b>			

\* Includes hotel rooms or hotel rooms and condominiums  
 \*\*Transfer fee for 130 condominium units  
 \*\*\*Includes TIF subsidy for affordable housing development

