

# ***1600 Pacific Avenue – Downtown Connection TIF District***

Economic Development Committee  
December 11, 2007



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



## Purpose of Briefing

- Provide details of proposed Downtown Connection TIF District project
- Provide staff recommendation for assistance for the 1600 Pacific Avenue project
- Receive Recommendation from Economic Development Committee

## Background – the Downtown Connection TIF District

- On August 29, 2005, the Downtown Connection TIF District was created and the District Plan was approved.
- Since the inception of the TIF District, only one residential project has begun construction within the CBD/freeway loop, the Mercantile Complex.
- The lack of near-term TIF increment coupled with the challenges of rehabilitating older buildings significantly impacts the City's 2015 goal of creating 10,000 residential units and 250,000 square feet of retail within the freeway loop.

## Background – 1600 Pacific Avenue

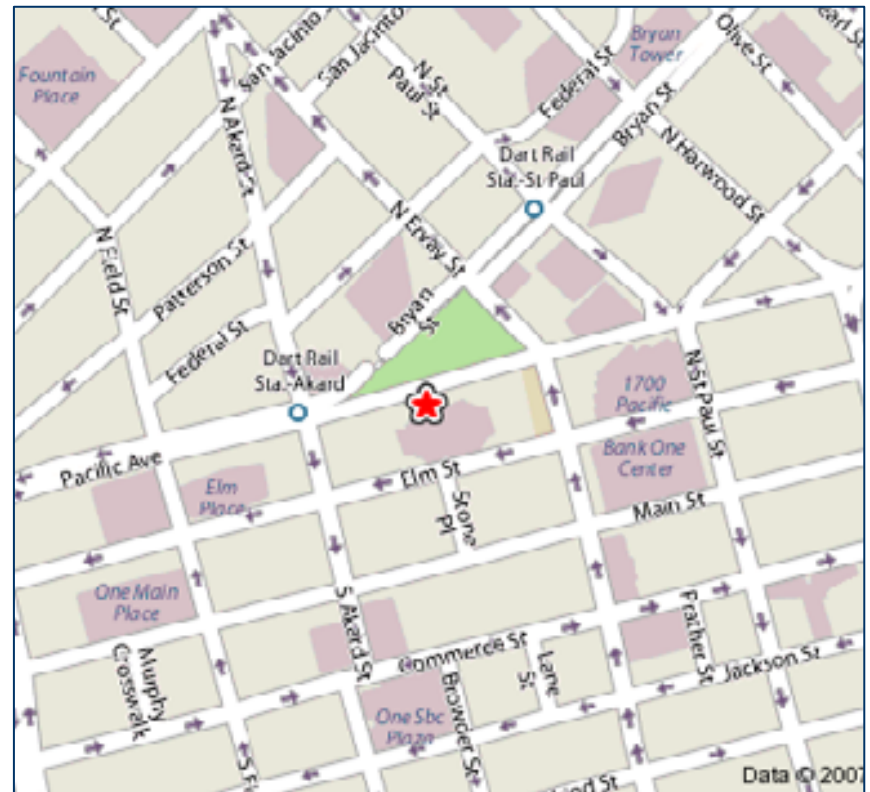
- Economic Development Staff has been working with 1600 Pacific Partners, No. 1, L.P., represented by Curtis Lockey, in the development of terms for the proposed 1600 Pacific Building.
- The 32-story building was constructed in 1964.



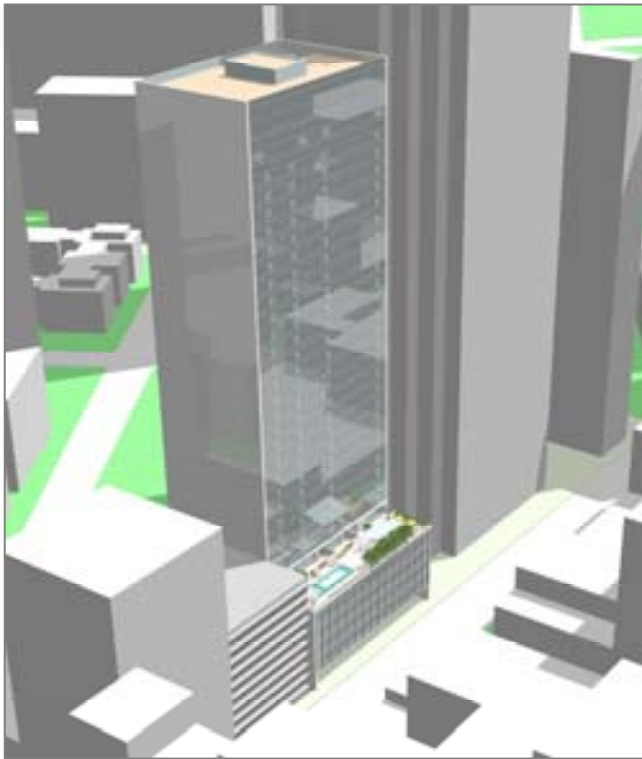
1600 Pacific - Current Condition

# Background – 1600 Pacific Avenue

- 1600 Pacific Avenue is situated near Stone Street Gardens, in the Main Street core area.
- The building contains over 500,000 square feet of obsolete office space.



# Project Terms



- The proposed project includes the renovation of the building with 307 apartment units, 26,190 square feet of retail space, and improvements to the adjacent garage.
- 1600 Pacific Partners, No. 1, L.P. will be required to make an investment of at least \$64 million, including acquisition, hard costs, and construction related soft costs in 1600 Pacific Avenue.

# 1600 Pacific Occupancy Triggers

- The developer will create a minimum of 307 residential units in 1600 Pacific Avenue, of which a minimum of 30 percent of the units, 92 residential units must be rented prior to TIF payment.
- The developer will create 26,190 square feet of retail space in 1600 Pacific of which a minimum of 50 percent of the total square footage of retail space, 13,095 square feet, must be occupied prior to TIF payment.
- The developer will be required to adhere to the classifications for acceptable, conditional and undesirable uses developed to monitor downtown retail uses.

## 1600 Pacific Avenue – Affordable Housing

- The Downtown Connection TIF District requires that 10 percent of the residential units are affordable for 15 years on rental properties. The developer of 1600 Pacific Avenue is committed to providing 20 percent of the units, 61 units, as affordable for the 15 year period.





# 1600 Pacific – Project Deadlines

- The developer will be required to obtain a building permit and start construction by June 30, 2008.
- The developer will be required to complete construction (receive final certificate of occupancy) and obtain a final certificate of acceptance issued by the Department of Public Works and Transportation for the improvements by December 31, 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).

# 1600 Pacific – Development Team

- **PRINCIPALS:** Curtis Lockey – President of Lockey Capital, LP since 2002, providing equity placement for many private real estate ventures Texas; Dan Cooksey – Principal in several commercial real estate projects in California and Colorado.
- **OWNERS REP:** Focus Residential (Ed Verde and Joe Ehrler) – experienced in project coordination and oversight; assisted on South Side on Lamar.
- **ARCHITECT:** BGO Architects (Gary Pitts)
- **GENERAL CONTRACTOR:** Andres Construction – Guaranteed Maximum Price Contract for 1600 Pacific project
- **ENVIRONMENTAL CONTRACTOR:** CST Environmental – Guaranteed Maximum Price Contract for 1600 Pacific project
- **LENDER:** Wachovia

# 1600 Pacific – Project Financing

- The developer has a HUD loan commitment for the project in the form of a 221(d)(4) market rate, market rent loan which expires at the end of 2007.
- Further, an equity source has been identified and the equity commitment is contingent on TIF funding for this project.

# 1600 Pacific – TIF Assistance



- The developer is seeking authorization for funding for the redevelopment of 1600 Pacific Avenue in an amount not to exceed the lesser of (a) 25% of the added DCAD value one year after project completion on 1600 Pacific Avenue plus \$4,000,000 for additional assistance for affordable housing development, or (b) \$15,908,777.

# 1600 Pacific – TIF Assistance

The TIF funds are contingent on the approval of a Downtown Connection TIF District Plan Amendment allowing for two changes:

1. The first amendment will allow TIF funds to be used as grants.
  - This building qualifies for \$11,908,777 under the Downtown Connection TIF District Grant Program Criteria but will not have TIF-eligible expenditures to support the funds.
  - Therefore, if approved by City Council, a portion of the funds will be used as an economic development grant.

## 1600 Pacific – TIF Assistance

2. Further, \$4,000,000 will be available from future TIF increment for additional assistance for affordable housing in accordance with the proposed Downtown Connection TIF District Affordable Housing Program, made part of the Downtown Connection TIF District Project and Financing Plan.
- The financial gap to make this project feasible is \$16,000,000.

# Staff Summary and Recommendation

- 1600 Pacific Avenue will provide several elements critical to meeting the City's goals for downtown redevelopment.
  - The building is in the downtown core and further strengthens the developing north/south corridor.
  - The redevelopment of the property will support the critical mass goals by adding a substantial number of residential units and retail space.
  - The project will provide additional, needed affordable housing units (61 affordable units total, 30 more than required).
  - Over 500,000 square feet of vacant office space will be removed from the City's inventory while being converting into a desirable use.
- City staff recommends TIF assistance in the amount of \$15,908,777 for 1600 Pacific Avenue and requests that the Economic Development Committee provide a recommendation to City Council.

# Appendix A – Project Requirements/Other Information

|  | <u>1600 Pacific/Garage</u> |
|--|----------------------------|
| Total Project Cost                                     | \$67,082,400               |
| Total Min Investment (acq, hard, const soft)           | \$64,000,000               |
| Hard Costs   | \$43,522,868               |
| Soft Costs (+ fees, marketing, admin, taxes)           | \$13,759,532               |
| Acquisition  | \$9,800,000                |
| 2007 DCAD Value  | \$5,687,760                |
| Delta Acquisition (new value)                          | \$4,112,240                |
| Hard Costs + Delta Acquisition (est. future value)     | \$47,635,108               |
| # residential units                                    | 307                        |
| # of affordable units (10% required for TIF = 31units) | 61                         |
| Retail sf  | 26,190                     |
| Total Square Feet                                      | 555,134                    |



# Appendix A – 1600 Pacific Revenue

| <u>Residential</u>                   | <u># of Units</u> | <u>Avg Rent/Mo</u> | <u>Mo. Rent/ SF</u> | <u>Total Mo. Income</u> | <u>Total Annual Income</u> |
|--------------------------------------|-------------------|--------------------|---------------------|-------------------------|----------------------------|
| Total/Avg, adjusted for afford units | 307               | \$1,656            | 1.55                | \$508,392               | \$6,100,704                |
| Parking, Storage                     |                   | \$113              | 0.11                | \$34,691                | \$416,292                  |
| Total Potential Residential Income   |                   | \$1,769            |                     |                         | <b>\$6,516,996</b>         |
| <br><u>Retail</u>                    | <br><u>SF</u>     |                    |                     |                         |                            |
| Total/Avg                            | 26,190            |                    | 20.61               |                         | <b>\$539,776</b>           |
| <br><u>Tower Garage</u>              | <br><u>Spaces</u> |                    |                     |                         |                            |
| Total/Avg                            | 490               |                    |                     | \$71,611                | <b>\$859,331</b>           |
| <b>TOTAL PROJECT REVENUE</b>         |                   |                    |                     |                         | <b>\$7,916,103</b>         |

# Appendix A – 1600 Pacific Project NOI

|   |                    |
|---|--------------------|
| Total Residential, Retail, and Garage Income    | <b>\$7,916,103</b> |
| <b>Residential, Retail, and Garage Expenses</b> |                    |
| Vacancy and Concensions                         | \$852,382.00       |
| Payroll   | \$401,019          |
| Repairs (Not CAM)                               | \$160,408          |
| Advertising/Marketing/Promotions                | \$96,245           |
| Administrative                                  | \$62,423           |
| Utilities                                       | \$192,489          |
| Management Fee                                  | \$193,442          |
| Real Estate Taxes                               | \$940,756          |
| Insurance                                       | \$96,245           |
| Replacement Reserves                            | \$207,388          |
| Garage Expenses                                 | <u>\$301,089</u>   |
| <b>Total Expenses</b>                           | <b>\$3,503,886</b> |
| <b>Total Project NOI</b>                        | <b>\$4,412,217</b> |

|          |              |              |              |
|----------|--------------|--------------|--------------|
| CAP RATE | <u>7.5%</u>  | <u>8.0%</u>  | <u>8.5%</u>  |
|          | \$58,829,559 | \$55,152,711 | \$51,908,434 |

|  |              |
|--|--------------|
| Total Project Cost (no City \$)                          | \$67,112,400 |
| Total Project Cost (w/ \$15.9M TIF Funds, NPV = \$12.4M) | \$54,708,483 |

# Appendix B – Industry Standards

|  |  |
|--|--|
| <b><u>Rental Rates (excludes vacancy and concessions)</u></b>    |  |
| Industry Standard:   |  |
| \$1.60   | market rate units                                |
| 1600 Pacific:  |  |
| \$1.55   | adjusted, including premium and affordable units |
| <b><u>Cost per unit (total project cost)</u></b>                 |  |
| Industry Standard:   |  |
| \$200,000  |  |
| 1600 Pacific:  |  |
| \$218,607  | includes garage costs                            |
| <b><u>Cost per square foot (hard cost only; gross sq ft)</u></b> |  |
| Industry Standard:   |  |
| \$105.00   | to \$150.00                                      |
| 1600 Pacific:  |  |
| \$78.45  |  |
| <b><u>Minimum Contingency</u></b>                                |  |
| Industry Standard:   |  |
| 10.00%   |  |
| 1600 Pacific:  |  |
| 7.77%  |  |

Note 1: Both Andres Construction and CST Environmental have guaranteed maximum price contracts.

Note 2: The industry standards are for complex, downtown adaptive reuse buildings. 1600 Pacific is described as a glass box with simple interior and exterior construction to convert to proposed use.

# Appendix B – 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/Units</u> |
|---|-----------------------|---------------------------------|---|---------------------------|-------------------|--|---------------------------------|-----------------------------|
| Santa Fe II (SoCo Lofts)  | n/a                   | \$1,354,735                     | \$4,050,000                                       | \$18,465,825              | 205               | 49   | \$90,077                        | \$26,365                    |
| Majestic Lofts  | n/a                   | \$768,181                       | \$4,051,760                                       | \$10,300,000              | 129               | 51   | \$79,845                        | \$37,364                    |
| Kirby Building  | \$1,375,000           | \$892,992                       | \$5,100,000                                       | \$21,500,000              | 156               | 57   | \$146,635                       | \$47,231                    |
| Davis Building  | \$1,350,000           | \$1,189,000                     | \$7,216,000                                       | \$34,000,000              | 183               | 40   | \$193,169                       | \$53,306                    |
| Wilson Building   | \$3,800,000           | n/a                             | n/a   | \$18,000,000              | 133               | 0  | \$163,910                       | \$28,571                    |
| Dallas Power and Light  | \$6,503,000           | \$997,000                       | n/a   | \$24,000,000              | 154               | 0  | \$198,071                       | \$48,701                    |
| Interurban Building   | \$5,000,000           | \$967,000                       | n/a   | \$15,000,000              | 134               | 0  | \$149,254                       | \$44,530                    |
| Republic Center   | \$4,605,000           | \$1,440,000                     | n/a   | \$34,000,000              | 227               | 0  | \$170,066                       | \$26,630                    |
| 1200 Main (Metropolitan)  | \$4,750,000           | n/a                             | n/a   | \$48,000,000              | 273               | 0  | \$193,223                       | \$17,399                    |
| Mosaic  | \$9,000,000           | \$6,777,298                     | n/a   | \$80,000,000              | 440               | 0  | \$202,273                       | \$35,857                    |
| Mercantile Complex  | \$58,000,000          | \$4,000,000                     | n/a   | \$130,000,000             | 366               | 0  | \$513,661                       | \$169,399                   |
| 500 S. Ervay/717 Leonard  | \$15,000,000          | \$2,874,600                     | n/a   | \$129,000,000             | 522               | \$1,040,000                                    | \$275,862                       | \$34,243                    |
| *1600 Pacific Avenue  | \$15,907,777          | n/a                             | n/a   | \$64,000,000              | 307               | 61   | \$260,286                       | \$51,817                    |
| <b>Total</b>  | <b>\$125,290,777</b>  | <b>\$21,260,806</b>             | <b>\$20,417,760</b>                               | <b>\$626,265,825</b>      | <b>3,229</b>      |  |                                 |                             |

\* Includes TIF subsidy for affordable housing development.

# Appendix C – TIF Criteria

| 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                                |   | 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                            |
|   |   |                              |   |                              | <b>Total = 85 points</b>      |

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

**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