

Memorandum



CITY OF DALLAS

DATE December 4, 2009

TO Housing Committee Members: Steve Salazar, Chair, Carolyn R. Davis, Vice-Chair, Tennell Atkins, Dwaine Caraway, Angela Hunt, Ann Margolin, Pauline Medrano

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

On Monday, December 7, 2009, you will be briefed on Community Development Block Grant Section 108 Guaranteed Loan Application for the Zang Triangle Development. A copy of the briefing is attached.

Please let me know if you have any questions.

A handwritten signature in black ink, appearing to be 'A.C. Gonzalez', written over a faint, larger version of the same signature.

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, Administrative Judge, Municipal Court
Ryan S. Evans, First Assistant City Manager
Forest Turner, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Dave Cook, Chief Financial Officer
Jerry Killingsworth, Housing/Community Services Director
Jeanne Chipperfield, Director, Financial Services
Helena Stevens-Thompson, Assistant to the City Manager

Community Development Block Grant Section 108 Guaranteed Loan Application for the Zang Triangle Development

A Briefing to the Housing Committee

December 7, 2009

Housing/Community Services Department



Purpose

Seek Council recommendation of Community Development Block Grant Section 108 Guaranteed Loan application for \$5.5M for a mixed-use project at the intersection of Oakenwald St., Plowman Ave. and Zang Blvd.

- Fund acquisition of approximately 2.88 acres of property and interest reserve

- Fund loan for demolition, sitework, public infrastructure

Section 108 Guaranteed Loan Application Process

- ❑ Develop proposed HUD application for \$5.5M and waiver request for affordability of 20% of units
- ❑ Neighborhood Public Hearing
 - Hold hearing held in the area in which funds will be used
 - Provide description of proposed HUD application and waiver
 - Obtain views of citizens
 - ❑ Community development objectives
 - ❑ Housing and economic development needs
- ❑ Prepare Final HUD Application
 - Consider public comments and views
 - Finalize description of activities

Section 108 Guaranteed Loan Application Process (cont.)

- City Council Public Hearing to review
 - Description of contents of final HUD application
 - Summary of public comments
- Obtain City Council Approval for
 - 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 an interest reserve during the construction period, redevelopment and lease up

Zang Triangle Development

- 2.88 acre parcel to be developed as residential and retail:
- Construction of 260 apartment units
 - 43 Studios – 576 square feet each
 - 156 one bedrooms - average size 785square feet
 - 61 two bedrooms – average size 1, 206 square feet
 - 52 affordable units, 208 market rate units
- Amenities will include
 - Resort style pool, fitness center, club room, outdoor courtyards with kitchen, downtown views
 - 390 spaces in covered garage
- Construction of 3,400 square feet of retail space
- Applicant – Lang Partners, LLC
 - Members: Dirik Oudt (President), Matt Johnson (Secretary, Vice President), Kyle Oudt (Treasurer, Vice President), John Ausburn (Vice President)

Developer

- Lang Partners is a recently formed development company comprised of real estate professionals with over 30+ years experience in developing and delivering well-conceived residential communities:
 - Dirik Oudt, President
 - Director of INCAP Fund's Fort Worth and San Antonio land acquisition and development program
 - INCAP production totaling over 125 acres of urban infill property through 30 separate acquisitions
 - Expert in zoning and entitlements, environmental mitigation, public/private incentive acquisition, title issue resolution and formulation of acquisition strategies
 - John Ausburn, Vice President
 - 25 years of real estate and development experience, focusing the last 12 years on urban residential and mixed-use projects
 - 1,800 multifamily units and 150,000 square feet of retail space with a value in excess of \$286M.
 - Developer of apartments, condominiums, and hotels in Las Vegas and large urban mixed-use projects in Dallas including West Village
-

Property Manager

- Hanover Co., 5847 San Felipe St., Suite 3600, Houston, TX 77057
 - 27 years in business
 - 32,000 units managed nationwide since inception
 - National lease up experience of 100+ properties
 - 5,800 total units managed at 26 Properties
 - Units developed and managed in Uptown Dallas
 - The Ashton, 2215 Cedar Springs, 267 units
 - The Cirque, 2500 N. Houston Street, 252 units
 - 1900 McKinney, 230 units

Site Plan



Zang Triangle
Dallas, TX



Illustrative Conceptual Site Plan
Scale 1" = 50' - 0"

0' 25' 50' 100'

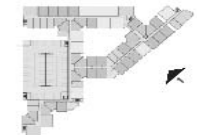
09.18.2009 200913.00

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 Registered Architect of State of Texas, Registration No. 2496

Site Rendering



01 Building Elevation - Overall
not to scale



Key Plan Scale: Not to Scale



Zang Triangle
Dallas, TX

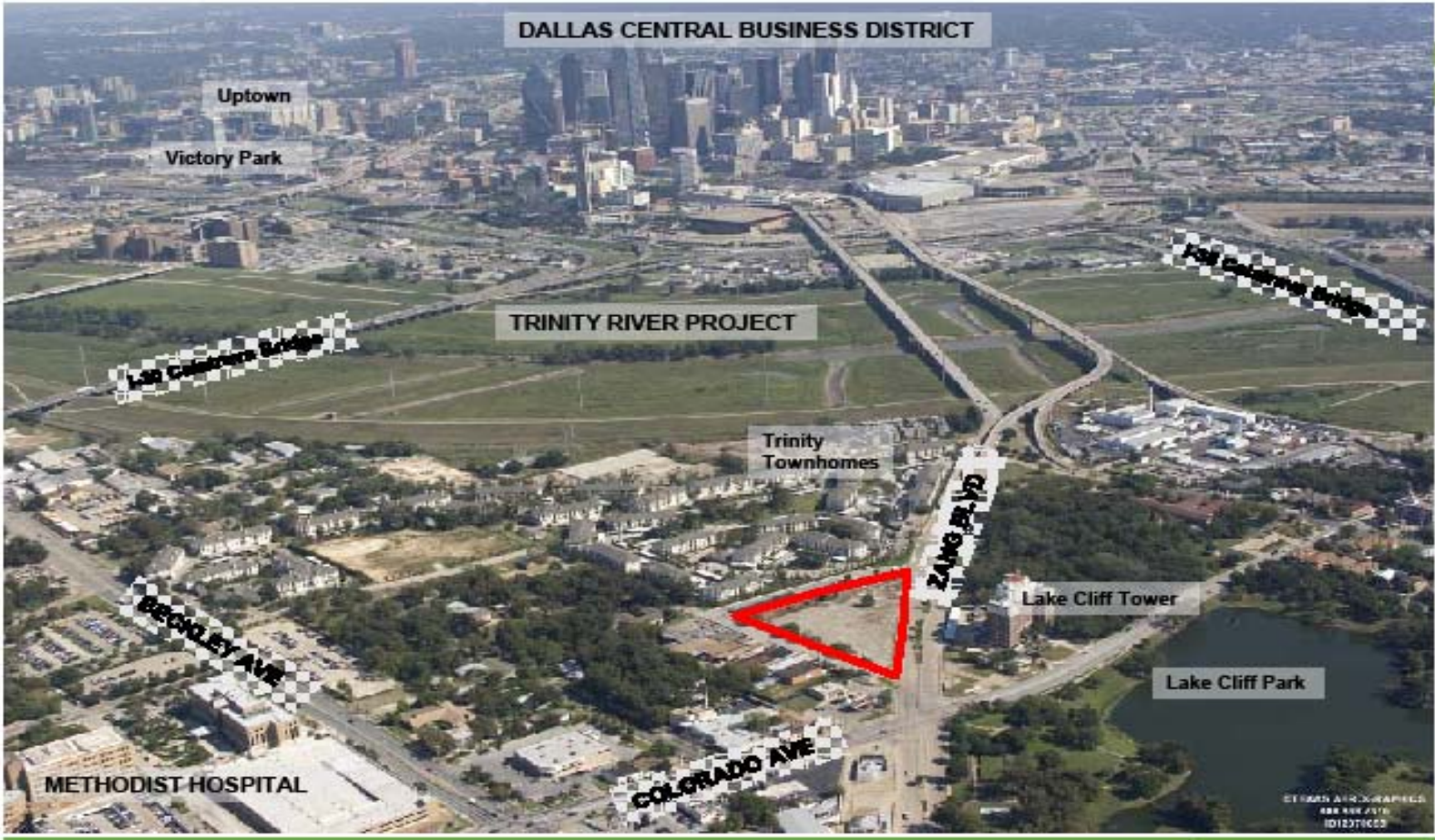


LANG PARTNERS

Conceptual Building Elevation
Along N. Zang Blvd

09.18.2009 | 200913.00 | mj
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Registered Architect of State of Texas, Registration No. 2696

Project Location



Sources and Uses

SOURCES

First Lien Note	\$20,738,000
Section 108 Guaranteed Loan	5,500,000
NCTCOG Grant	1,750,000
Developer Equity	<u>4,342,000</u>
TOTAL SOURCES	\$32,330,000

USES

Land Acquisition	\$ 3,190,000
Demolition	93,000
Site Work	254,000
Public Infrastructure	1,499,000
Construction Costs	21,116,000
Contingency	527,000
Architectural & Engineering	766,000
Amenities/Office FF&E	450,000
Due-diligence & Closing Costs	262,000
Taxes & Insurance	300,000
Developer Fee & Reimbursables	916,000
Operating Reserve	420,000
HUD & MAP Fees	715,000
Section 108 Interest Reserve	825,000
First Lien Interest Reserve	<u>997,000</u>
TOTAL USES	\$32,330,000

Pro Forma Analysis

- Construction commences in 2010 and completed in 2011
- Project reaches rent stabilization in 2012
- Loan to Value ratio of 85% for both 1st lien debt and Section 108 second lien loan will meet underwriting standard based upon a capitalization rate of 6% of the net operating income
- Developer's interest rate on the City loan will be .50% higher than the City's Section 108 loan from HUD and both loans will have matching amortization
- Average Debt Coverage Ratio for first five years for first lien debt and second lien debt is 1.17, exceeding the underwriting standard of 1.15
- The TIF reimbursement and TIF 380 Grant of \$5.5M results in the City being paid back over 5 years on \$5.5M loan
- Three years of Section 108 interest reserve @ \$825,000 (current LIBOR plus 300 basis points) will be set up at closing of construction loan
- Based upon pro forma, there will be one and one-half years of extra interest reserve to allow for construction delays and or slow lease up before project stabilizes
- No partnership distributions will be made until the first TIF reimbursement is paid
- All NOI that exceeds 1.15 debt coverage on the first and 108 loan will be used to reduce the 108 loan and not paid as a partnership distribution

Credit Enhancement

- Three years of interest reserve for the Section 108 loan represents one and one-half years more interest reserve than needed to pay debt and allows for slippage in lease up of the project
- Project @ stabilization cash flows sufficient debt coverage to pay 1st and interest on the 2nd lien debt
- 100% of the TIF reimbursements and TIF 380 Grant totaling \$5.5 beginning in 2012 will be pledged directly to repay the \$5.5M City loan
- No partnership distributions will be made until the first TIF reimbursement is paid.
- All NOI that exceeds 1.15 debt coverage on the first and 108 loan will be used to reduce the 108 loan and not paid as a partnership distribution

RECOMMENDATION

City apply for \$5.5M Community Development Block Grant Section 108 Guaranteed Loan in support of construction of 260 multifamily residential units in studio, one, and two bedroom floor plans, including 52 affordable units, and 3,400 square feet of retail for a mixed-use project at the intersection of Oakenwald St., Plowman Ave. and Zang Blvd. Loan proceeds to be used for

- Acquisition of approximately 2.88 acres of property
- Section 108 loan interest reserve
- Loan to Lang Partners, LLC to fund, demolition, sitework, public infrastructure and interest reserve

Next Steps

- ❑ Complete draft of Section 108 guaranteed loan application and waiver request to HUD
- ❑ December 9, 2009 City Council call for public hearing
- ❑ December 16, 2009 Neighborhood Public Meeting to be held
- ❑ January 13, 2010 City Council Public Hearing and final approval for filing of Section 108 guaranteed loan application and waiver request to HUD