

Memorandum



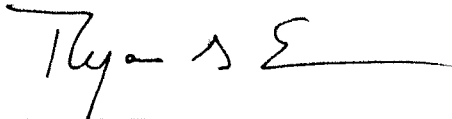
DATE December 2, 2011

TO Members of the Economic Development Committee: Tennell Atkins (Chair), Ann Margolin (Vice Chair), Jerry R. Allen, Sheffie Kadane, Monica Alonzo

SUBJECT Community Development Block Grant Section 108 Guaranteed Loan Application for Lake Highlands Town Center

On Monday, December 5, 2011, you will be briefed on the Community Development Block Grant Section 108 Guaranteed Loan Application for Lake Highlands Town Center. A copy of the briefing is attached.

Please let me know if you have any questions.



Ryan S. Evans
Assistant City Manager

c: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Rosa A. Rios, Acting City Secretary
Tom P. Perkins, Jr., City Attorney
Craig Kinton, City Auditor
C. Victor Lander, Administrative Judge, Municipal Court
A.C. Gonzalez, First Assistant City Manager
Forest Turner, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Jerry Killingsworth, Housing/Community Services Director
Helena Stevens-Thompson, Assistant to the City Manager

Community Development Block Grant Section 108 Guaranteed Loan Application for Lake Highlands Town Center

Economic Development Committee

December 5, 2010

Housing/Community Services Department



Purpose

- ❑ Consideration of Community Development Block Grant Section 108 Guaranteed Loan application for Lake Highlands Town Center (LHTC) - Phase I Retail Construction Financing
- ❑ Obtain Economic Development Committee approval for consideration of December 14, 2011 item calling for a January 25, 2012 Council public hearing and final approval

Summary of Issues

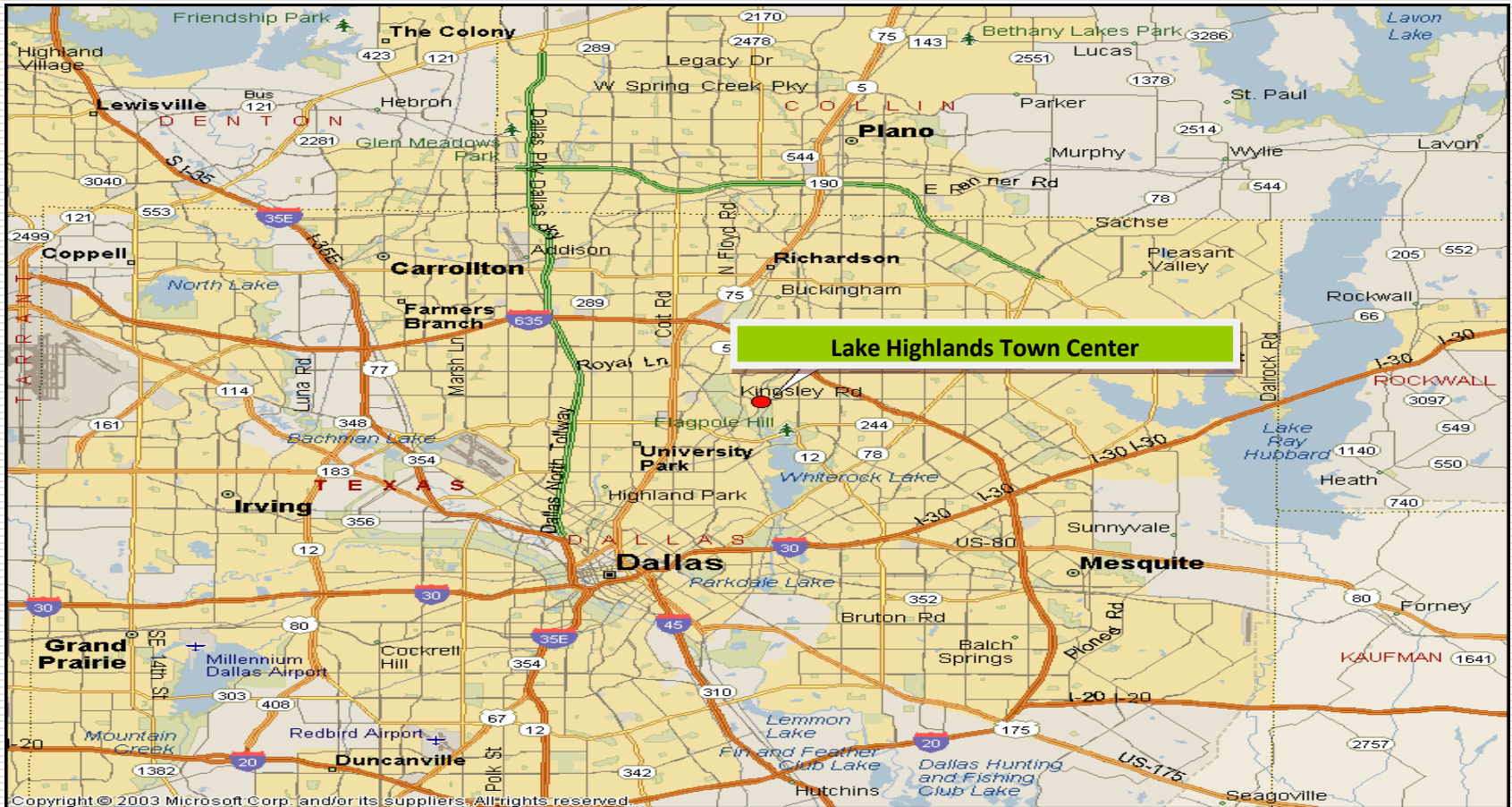
- ❑ After exhausting sources of available construction financing, Phase I retail project of LHTC has a funding gap to start vertical construction
- ❑ TIF funding commitment approved by City Council:
 - Several contingencies including timing, private investment and design
 - Funding phased based on completed development
 - TIF reimbursements subject to availability of funds (generated by new development in district). Estimated TIF funding availability – 2014
- ❑ Project requires funds to bridge the time between start of construction and 2014
- ❑ Section 108 loan from HUD can provide needed gap financing
- ❑ TIF funds can be used to pay off Section 108 loan

Description of Development

Lake Highlands Town Center, 7000 to 7200 blocks of Skillman, is a strategically located, 70-acre, urban infill, mixed-use transit oriented development

- ❑ Anchored by DART light rail - Lake Highlands (LH) Station
- ❑ Proximity to established single family LH neighborhoods – historically underserved (quality retail/restaurant uses)
- ❑ Catalyst Project for Skillman Corridor TIF
- ❑ Public/Private Partnership - City, County, NCTCOG, DART
- ❑ Proximity to major employment areas (US Highway 75 office corridor; Downtown Dallas)
- ❑ Infrastructure 100% complete and vertical development parcels are shovel ready

Project Location



Description of Development (cont.)

Lake Highlands Town Center project encompasses 70 acres of urban infill land

- Land area assembled in 2007; critical mass necessary for significant economic redevelopment impact
- 20 acre dedication of public space
 - Watercrest Park - Public park conveyed to City
 - Hike and bike trails (will link to White Rock Trail system)
 - Public amphitheater
 - Water features
- 10 acres of infrastructure
 - Public streets
 - Rights of way, etc.

Description of Development (cont.)

The remaining 40 acres contain approximately 9 development parcels. At completion, LHTC will contain a minimum of 1.7 million square feet of mixed-use space:

- As a condition of TIF funding, Street Works, LLC (a nationally recognized firm experienced in transit and mixed use developments) has been engaged as an independent consultant and is currently working with Prescott Realty Group to refine the design for the Phase I retail component as well as overall future phasing.
- Phase I (located on the portion of the site along Skillman Street, south of Walnut Hill Lane) includes:
 - A grocery store anchored retail development with structured parking (utilizing Section 108 funding); and
 - A residential development containing 200 market rate multi-family units (utilizing HUD 221(d)(4) financing).

Site Plan



Rendering at Completion



Project Status

- ❑ Completed demolition and abatement of 1,334 deteriorated apartment units
- ❑ Completed infrastructure - grading, utilities, streets, streetscapes
- ❑ Completed 20-acre park including amphitheater, hike & bike trail, lake, fountains and water features
 - Park now called “Watercrest Park” conveyed to City in March 2011
 - O&M agreements in place with PID/Developer for Watercrest Park and non-standard public improvements in public R.O.W. such as special pavers and landscaping
- ❑ Over \$86 million invested to date including public financing
- ❑ DART completed the Lake Highlands Station anchoring LHTC, a multi-modal light rail, bus, kiss ‘n ride facility (approximately \$10M invested)
- ❑ Funding for the Phase 1 residential development, a 200-unit market rate multi-family project in Neighborhood 2 is in final approval stages with a HUD 221(d)(4) loan
- ❑ Grocery anchor negotiations in final stages for Phase 1 commercial (retail) development

Aerial View



Challenges and Solutions

- Project is under financed to start construction of Phase I Retail Phase
 - Economic downturn has constrained credit markets and delayed financing of vertical development
 - Credit is only extended during the downturn for projects with significant pre-leasing and increased equity investment
 - Retailers have closed stores, limited new store openings and limited expansion
- TIF funds will not be available to start construction
 - The project is ready to commence construction and it would be financially prudent to do so prior to construction costs rising or losing potential interest from grocery anchor
 - TIF funds are allocated on a reimbursement basis after project completion. TIF funds will be available upon completion of both the initial grocery anchored development and residential development, estimated to be 2014. Actual TIF funds available are contingent on incremental revenue generated.
 - TIF funds can be pledged as the repayment source for Section 108 loan funding

Challenges and Solutions (cont.)

- Section 108 funds can help finance
 - Construction of Neighborhood 2 grocery anchored retail which will support Lake Highlands local demand and the new 200-unit residential development in LHTC
 - Lower than market construction financing interest rates
 - Interest payments during interest-only time period of Section 108 loan can be financed with Section 108 loan funds

Section 108 Funds Background

- ❑ Program established January 2009, when City Council adopted CDBG Section 108 Guarantee Loan Program Statement
- ❑ Since May 2009, each project has been individually briefed and Council has passed individual project resolutions to grant City Manager authority to apply to HUD for Section 108 loan funds and to execute loans with HUD and loans with developer/owner to fund individual projects

Section 108 Loan Parameters

- CDBG affordability requirements
 - Income 80% or less of Area Median Family Income
 - 51% of residential units must be affordable
 - Job creation required for commercial projects
- Loan must be secured and is backed by a pledge of current and future CDBG funds
- The maximum repayment period for a Section 108 loan is 20 years

Section 108 Loan Parameters (cont.)

- The loan can be structured to match the needs of the project(s) and the City
 - Each loan has a separate interest rate
 - Interim borrowing currently at .5 to .7% linked to 3 month LIBOR plus 20 basis points (0.2%)
 - Loans must be permanently financed through HUD public offerings pegged to yields on U.S. Treasury obligations of similar maturity to the principal amount with a small additional basis point spread added to the Treasury yield

Section 108 Active Applications and Projects

Project	Address	Location	Loan Amt	Council Approval	HUD Application Status	Project Status
Continental Building	1810 Commerce St.	Downtown	7,600,000	Jan. 2010	Approved Aug. 2011	Loan closed Sept. 2011, project under construction
Atmos Lofts	Harwood & Wood Streets	Downtown	11,750,000	June 2009	Under review at HUD HQ, Wash DC	
Champion Homes at Copperridge	5522 Maple Ave.	North	4,800,000	Pending	Pending City Council Approval	
Lake Highlands at Town Center	7100 Blocks of Skillman St.	North	13,350,000	Pending	Pending City Council Approval	
Lancaster Urban Village	4300 S. Lancaster Rd.	So. Oak Cliff	8,492,000	June 2010	Approved Oct. 2011	Loan closing pending NMTC loan finalization
Sphinx @ Fiji	Fiji & Compton	Oak Cliff	8,000,000	N/A	N/A	Project proposal under review

Section 108 Guaranteed Loan Application Process

- Post proposed draft HUD application for \$13,350,000
 - On city hall internet site
 - At library branches city-wide
- Neighborhood Public Hearing
 - Hold hearing in the area in which funds will be used
 - 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

Developer

- Prescott Realty Group is a Dallas based full service commercial real estate development, investment and operating company actively involved in the revitalization of urban Dallas. In addition to Lake Highlands Town Center, other urban and/or transit focused projects include:
 - The Shelby, a mixed use development with 55 multifamily units (4 stories) above 4,000 SF of restaurant space on SMU Blvd between U.S. Highway 75 and Greenville Avenue; completed in 2009; 100% leased
 - BLVD, a mixed-use project currently under construction with 417 units of multifamily residences above 9,100 square feet of retail at southwest corner of SMU Blvd and Greenville Avenue
 - Newton Townhomes, a 58-unit townhome development project located in Oak Lawn and completed in 2007; 100% sold-out
 - Renovation of the historic Stoneleigh Hotel in 2009 located in Uptown
 - Over 650,000 square feet of commercial office buildings in strategic locations adjacent to DART light rail
- Since its founding in 1997, Prescott has completed acquisitions totaling over 5M square feet, leasing transactions of 6M square feet and development projects totaling over \$450M.

Sources and Uses

SOURCES

First Lien Note	\$27,565,055
Section 108 Loan	13,350,000
Equity Contribution	<u>7,220,304</u>
TOTAL SOURCES	\$48,135,359

USES

Land Cost	\$ 7,884,266
Site Prep and Construction	14,089,065
Tenant Improvements	5,582,897
Parking Garage	11,206,011
Architect, Structural & Consultants	200,000
Other Soft Costs	335,000
Loan Origination Fee	275,651
Interest Reserves	3,596,527
Real Estate Taxes	865,027
Leasing Commissions	1,428,736
Development Fees	1,629,039
Other Development/Financing Costs	<u>1,043,140</u>
TOTAL USES	\$48,135,359

Pro Forma Analysis for Section 108 Loan

- Loan to Value ratio of 66% for both 1st lien debt and Section 108 second lien loan will meet underwriting standards based upon a capitalization rate of 7% of the net operating income
- Construction to begin in 2012 and to be completed in 2013
- Project to reach lease-up and stabilization in 2015
- City's HUD loan of \$13,350,000 will be 5 years interest only and equal annual principal payments of \$890,000 per year for years 6 through 20.
- The 5 year interest only period includes 2 additional years past projected stabilization to protect against slower lease up or construction delays.
- Five years of Section 108 interest reserve @ \$2,446,871 (4.25%) will be set up at closing of construction loan with Section 108 loan funds
- Developer's interest rate on the project loan with the City will be .50% higher than the City's Section 108 loan from HUD and both loans will have matching amortization
- Debt Coverage Ratio for all debt is 1.15
- A portion of the projected TIF payments to the entire LHTC project, estimated to be available starting 2014, will be sufficient to cover Section 108 loan repayments until paid in full.

Credit Enhancement for Section 108 Loan

- Five years of interest reserve for the Section 108 loan represents all amounts needed to pay interest-only period of City's loan with HUD
- Project @ stabilization cash flows sufficient debt coverage to pay 1st lien debt with NOI of 1.15 for the entire term of the City's HUD loan
- A portion of the estimated \$40 million TIF payments to the LHTC project, beginning in 2014, will be pledged directly to repay the development loan with the City and are projected to be sufficient to repay the City's loan with HUD
- No partnership distributions will be made until the project receives the first TIF payment, unless debt service is paid current via NOI, additional equity or other sources of funding.
- Owner will supply necessary credit enhancement, if required by HUD, for interest payments and loan repayment

RECOMMENDATION

City apply for \$13,350,000 Community Development Block Grant Section 108 Guaranteed Loan in support of a commercial project located in 7100 blocks of Skillman Street. Loan proceeds may be used for:

- Commercial construction
- Site work and public improvements
- Section 108 loan interest reserve
- Costs of HUD loan sale in public offering

Next Steps

- ❑ December 14, 2011 City Council call for public hearing
- ❑ Hold neighborhood public hearing between December 14, 2011 and January 25, 2012
- ❑ January 25, 2012 City Council Public Hearing and final approval for filing of Section 108 Guaranteed Loan application to HUD