

Memorandum



CITY OF DALLAS

DATE November 30, 2012

TO Housing Committee Members: Carolyn R. Davis, Chair, Scott Griggs, Vice-Chair, Dwaine Caraway, Linda Koop, and Pauline Medrano

SUBJECT Community Development Block Grant Section 108 Guaranteed Loan Application for Holiday Inn & Suites Project

On Wednesday December 5, 2012, you will be briefed on the Community Development Block Grant Section 108 Guaranteed Loan Application for Holiday Inn & Suites Project. A copy of the briefing is attached.

Please let me know if you have any questions.

A handwritten signature in black ink, appearing to read 'Ry - S E'.

Ryan S. Evans
Assistant City Manager

c: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Rosa A. Rios, City Secretary
Tom P. Perkins, Jr., City Attorney
Craig Kinton, City Auditor
Daniel Solis, 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
Stephanie Pegues-Cooper, Assistant to the City Manager

Community Development Block Grant Section 108 Guaranteed Loan Application for Holiday Inn & Suites Project

Housing Committee
December 5, 2012

Housing/Community Services Department



Purpose

- Consideration of Community Development Block Grant Section 108 Guaranteed Loan application for Holiday Inn & Suites - Acquisition and Rehabilitation Financing
- Obtain Housing Committee approval for consideration of December 12, 2012 agenda item
 - Adding eliminating blight on a spot basis national objective to Consolidated Plan
 - Calling a January 23, 2013 public hearing and considering final approval for 108 loan application

Summary of Issues

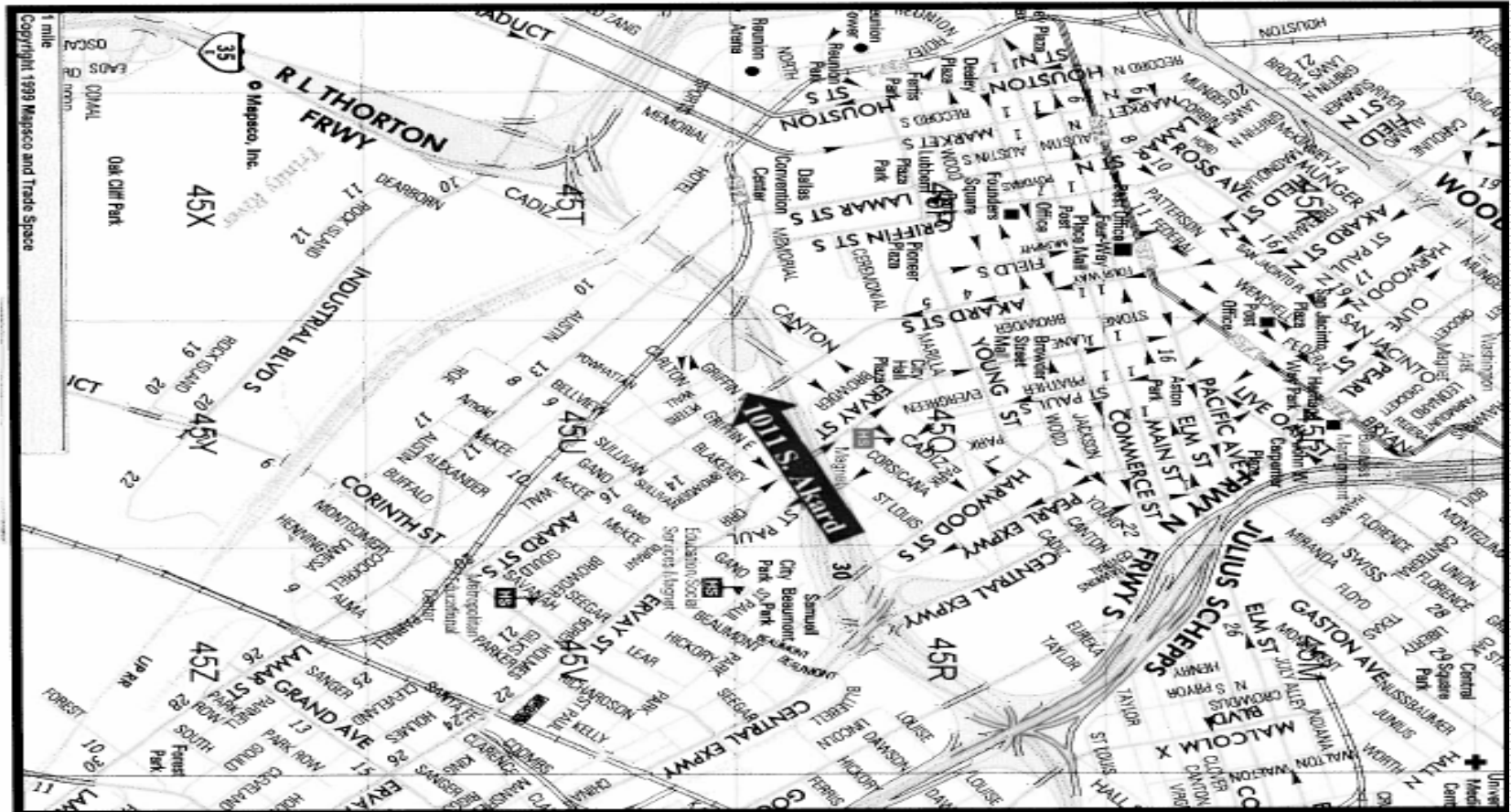
- Current project site is a 40-year old vacant hotel
 - Blighted conditions
 - Environmental remediation
- After exhausting sources of available construction financing, nonprofit developer has a funding gap to complete Holiday Inn rehabilitation
- Section 108 loan from HUD can provide needed gap financing
 - \$6.5M cost of acquisition by nonprofit to meet HUD spot blight national objective
 - \$4.5M cost of rehabilitation will create an estimated 110 jobs including 90 low/moderate income jobs to meet HUD job creation objective

Description of Development

Holiday Inn located at 1011 S. Akard St.

- ❑ Catalyst Project for Cedars neighborhood
- ❑ Public/Private Partnership – City and non-profit
- ❑ Proximity to major employment areas in Downtown Dallas CBD, Dallas Convention Center, and the Cedars area DART light rail
- ❑ Rehabilitation of blighted vacant hotel to eliminate conditions hazardous to health and safety
- ❑ Holiday Inn project site is situated on 1.97 acres of land including improvements
 - Renovate existing structure exterior/interior to meet Holiday Inn brand standards
 - 220 hotel rooms
 - Reuse existing infrastructure

Project Location



Project Aerial View



Current Condition



Project Rendering



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 national objectives requirements
 - Elimination of blight on spot basis
 - Address health and safety conditions
 - National objective met at construction completion, no use or deed restrictions required
 - Job creation
 - \$50K for each FTE
 - Estimated 90 jobs will be created for LMI persons
- Requires addition of elimination of blight on spot basis national objective to the Consolidated Plan
- Requires amendment to CDBG Section 108 Program Statement to include elimination of blight on spot basis

Section 108 Loan Parameters (cont.)

- ❑ 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
- ❑ 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	January 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	Loan closing pending
Lake Highlands Town Center	7100 Blocks of Skillman St.	North	13,350,000	January 2012	Approved July 2012	
Lancaster Urban Village	4300 S. Lancaster Rd.	So. Oak Cliff	8,492,000	June 2010	Approved Oct. 2011	Loan closed Sept. 2012; project under construction
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 \$11,000,000
 - 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
 - Approval of addition or elimination of blight on a spot basis to Consolidated Plan
 - 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

Non-Profit Owner

- Texas Educational Opportunity Fund (TEOF) experienced through affiliation with Board Chairman, John Greenan
 - Executive Director of Central Dallas Community Development Corp. (CDC) developing workforce and permanent supportive housing
 - CityWalk@Akard, an adaptive rehabilitated 15-story building into a mixed-income, mixed-use project with 200 apartment units, 6 for-sale condos, ground floor retail and two floors of offices completed in 2010
 - Ashby Commons, construction of 21-unit apartment complex in 2004
 - Gaston Commons, rehabilitation of 1-unit apartment complex in 2004
 - Reiger Commons, rehabilitation of 16-unit apartment complex in 2006
 - 5517 Columbia, construction of 4-unit apartment complex in 2008

Developer

- Hamilton Properties Corporation that has sponsored several developments in downtown Dallas including:
 - The Davis Building, 1309 Main Street, 183 loft apartments, 20,000 square feet of retail, and 12 story parking garage containing 608 parking stalls and 30,000 square feet of retail space
 - The Dallas Power & Light, 1508 Commerce, 158 loft apartments, 25,000 square feet of retail, and structured parking for 160 vehicles
 - Mosaic, 300 N. Akard Street, 440 loft apartment units, 20,000 square feet of retail, and an 8 story parking structure for 650 vehicles
 - Santa Fe IV, 1033 Young Street, conversion of 8 story commercial building into a 193 room Aloft Hotel that was completed in August 2009
 - Atmos Lofts Phase I, 1900 Jackson St., conversion of commercial building into 107 LIHTC affordable units completed in August 2012

Business Franchise

- Holiday Inn Headquarters at 11766 Wilshire Blvd., Suite 1450, Los Angeles, CA 90025
 - Founded August 1, 1952 in Memphis, TN
 - Locations
 - 1,301 hotels worldwide
 - 238,440 rooms worldwide
 - 1,874 locations in the U.S.
 - 100M guest nights booked annually
 - Holiday Inn & Suites offers all hotel amenities and consists of hotel rooms mixed with suites
 - Hotel services include lodging, food, conventions, meetings, and timeshares

Property Management

- 4G Hospitality LLC, 1033 Young St., Dallas, an affiliate of Sava Holdings / Aquila Management
 - Manages Aloft Hotel – 193 rooms in downtown Dallas
- Sava Holdings / Aquila Management
 - Manages 552 rooms in the Dallas area
 - Staybridge Suites – Plano/Richardson
 - Candlewood Suites – DFW Airport South
 - Holiday Inn – DFW Airport South
 - Element by Westin – DFW Airport North

Sources and Uses

SOURCES

First Lien Note (Conventional or Federal EB-5 Program)	\$ 8,500,000
Section 108 Loan	11,000,000
Equity Contribution	<u>5,500,000</u>
TOTAL SOURCES	\$25,000,000

USES

Acquisition & Sunk Costs	\$ 6,500,000
Construction	10,756,019
Environmental Abatement	400,000
FF&E OS&E	2,601,000
Soft Costs	2,357,981
Development Fee	2,000,000
Section 108 Interest Reserve	330,000
Payment of S108 Issuance	<u>55,000</u>
TOTAL USES	\$25,000,000

Pro Forma Analysis for Section 108 Loan

- Loan to Value ratio of 62% for all loans will meet underwriting standards based upon a capitalization rate of 8% of the net operating income
- Construction to begin in 2013 and to be completed in 2014
- Project to reach operation stabilization in 2015
- City's HUD loan of \$11,000,000 will be 2 years interest only amortized on 13 year schedule with principal and interest payments for years 3 through 13
- A \$450,000 Debt Service Reserve will be set up at closing with construction and Section 108 funds and will be increased by \$152,401 per year for 1st and 2nd liens until City's Section 108 HUD loan is paid in full
- 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 Service Coverage Ratio for all debt is never below 1.36 for all lien debt
- All debt repayment is paid from cash flow*
- Construction loan will go to permanent loan in 6th year with lower payment

*See Pro Forma Attached

Credit Enhancement for Section 108 Loan

- City will take a second lien position in a financing structure with 62% LTV
- Project @ stabilization cash flows sufficient debt coverage to pay all lien debt with minimum Debt Service Coverage Ratio of 1.36 for the entire term of the City's HUD loan
- Interest Reserves of \$450,000 will be funded equally from construction loan funds and Section 108 loan funds to cover two year 108 loan interest only period if necessary
- Interest Reserves set aside at an annual rate of approximately \$152,401 will be greater than last Section 108 payment in year of City's final 108 loan payment to HUD
- Owner will supply necessary credit enhancement, if required by HUD, for interest payments and loan repayment

RECOMMENDATION

City apply for \$11,000,000 Community Development Block Grant Section 108 Guaranteed Loan in support of a commercial project located at 1011 S. Akard St. Loan proceeds may be used for:

- Acquisition by TEOF nonprofit
- Environmental remediation, asbestos removal, and elimination of conditions detrimental to public health & safety
- Costs of HUD loan sale in public offering

Next Steps

- ❑ December 6, 2012 presentation to the Community Development Commission
- ❑ December 12, 2012 City Council call for public hearing
- ❑ Hold neighborhood public hearing between December 20, 2012 and January 23, 2013
- ❑ January 23, 2013 City Council Public Hearing and final approval
 - Amend Consolidated Plan to include elimination of blight on a spot basis
 - Submit Section 108 Guaranteed Loan application to HUD

Pro Forma Attachment

	Year One			Year Two	Year Three	Year Four	Year Five	Year Six	Year	Year Eight	Year Nine	Year Ten
	220			220	220	220	220	220	220	220	220	220
Number of Guestrooms:	80,300			80,300	80,300	80,300	80,300	80,300	80,300	80,300	80,300	80,300
Rooms Available Annually:	46,976			51,392	52,998	53,801	54,604	54,604	54,604	54,604	54,604	54,604
Annual Rooms Occupied:	58.5%			64.0%	66.0%	67.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%
Occupancy Rate:	\$103.58			\$109.77	\$115.75	\$121.77	\$126.88	\$130.00	\$132.57	\$136.88	\$141.67	\$147.91
Average Daily Rate:				6.0%	5.4%	5.2%	4.2%	2.5%	2.0%	3.3%	3.5%	4.4%
% Change:	\$60.59			\$70.25	\$76.40	\$81.59	\$86.28	\$88.40	\$90.15	\$93.08	\$96.34	\$100.58
Revenue PAR:				15.9%	8.7%	6.8%	5.8%	2.5%	2.0%	3.3%	3.5%	4.4%
% Change:												
REVENUES	Total	Per Key	Percent	Total	Total	Total	Total	Total	Total	Total	Total	Total
Rooms	\$4,865,722	\$22,117	82.2%	\$5,641,300	\$6,134,519	\$6,551,348	\$6,928,156	\$7,098,520	\$7,238,852	\$7,474,196	\$7,735,749	\$8,076,478
Food & Beverage	\$916,022	\$4,164	15.5%	\$1,053,536	\$1,139,457	\$1,183,622	\$1,228,590	\$1,228,590	\$1,228,590	\$1,228,590	\$1,228,590	\$1,228,590
Telephone Revenue	\$4,200	\$19	0.1%	\$4,326	\$4,456	\$4,589	\$4,727	\$4,869	\$5,015	\$5,165	\$5,320	\$5,480
Parking	\$93,951	\$427	1.0%	\$102,784	\$105,996	\$107,620	\$109,208	\$109,208	\$109,208	\$109,208	\$109,208	\$109,208
Other	\$36,000	\$164	0.6%	\$36,600	\$43,560	\$44,867	\$46,213	\$47,599	\$52,350	\$57,595	\$59,323	\$61,103
TOTAL REVENUES	\$5,915,896	\$26,890	100.0%	\$6,841,546	\$7,427,987	\$7,892,028	\$8,316,893	\$8,488,786	\$8,634,024	\$8,874,754	\$9,138,190	\$9,480,858
DEPARTMENT PROFIT												
Rooms	\$3,746,606	\$17,030	77.0%	\$4,456,627	\$4,938,287	\$5,306,592	\$5,681,088	\$5,856,279	\$5,986,531	\$6,196,108	\$6,428,407	\$6,735,782
Food & Beverage	\$238,166	\$1,083	26.0%	\$294,990	\$330,443	\$355,087	\$368,577	\$368,577	\$368,577	\$368,577	\$368,577	\$368,577
Telephone	-\$630	-\$3	-15.0%	-\$649	-\$688	-\$709	-\$709	-\$730	-\$752	-\$775	-\$798	-\$822
Parking	\$86,435	\$393	92.0%	\$94,561	\$97,516	\$98,594	\$100,471	\$100,471	\$100,471	\$100,471	\$100,471	\$100,471
Other	\$10,800	\$49	30.0%	\$11,880	\$13,068	\$13,460	\$13,864	\$14,280	\$15,708	\$17,279	\$17,797	\$18,331
TOTAL DEPARTMENT PROF	\$4,081,377	\$18,552	69.0%	\$4,857,409	\$5,378,646	\$5,773,444	\$6,163,291	\$6,338,877	\$6,470,535	\$6,681,660	\$6,914,454	\$7,223,330
EXPENSES												
General & Admin.	\$343,122	\$1,560	5.8%	\$396,810	\$430,823	\$449,846	\$474,063	\$483,861	\$492,139	\$505,861	\$520,877	\$540,409
Marketing	\$364,929	\$1,659	7.5%	\$406,174	\$429,416	\$458,594	\$484,971	\$496,896	\$506,720	\$523,194	\$541,502	\$565,353
Utilities	\$402,281	\$1,829	6.8%	\$465,225	\$505,103	\$536,658	\$565,549	\$577,237	\$587,114	\$603,483	\$621,397	\$644,698
Franchise Fees	\$389,258	\$1,769	8.0%	\$451,304	\$552,107	\$655,135	\$692,816	\$709,852	\$723,885	\$747,420	\$773,575	\$817,851
Property Op. & Maint.	\$236,636	\$1,076	4.0%	\$273,662	\$297,119	\$315,681	\$332,676	\$339,551	\$345,361	\$354,000	\$365,528	\$379,234
Management Fees	\$236,636	\$1,076	4.0%	\$273,662	\$297,119	\$315,681	\$332,676	\$339,551	\$345,361	\$354,000	\$365,528	\$379,234
TOTAL EXPENSES	\$1,972,861	\$8,968	33.3%	\$2,266,836	\$2,511,688	\$2,731,595	\$2,882,750	\$2,968,172	\$3,026,482	\$3,116,562	\$3,215,821	\$3,155,222
OTHER DEDUCTIONS												
Property Taxes	\$379,556	\$1,725	6.4%	\$379,556	\$379,556	\$379,556	\$379,556	\$379,556	\$379,556	\$379,556	\$379,556	\$379,556
Property Insurance	\$72,920	\$331	1.2%	\$72,920	\$75,000	\$77,500	\$79,000	\$80,500	\$82,000	\$84,000	\$86,000	\$88,000
TOTAL OTHER DEDUCTS	\$72,920	\$331	1.2%	\$452,476	\$454,556	\$457,056	\$458,556	\$460,056	\$461,556	\$463,556	\$465,556	\$467,556
NET OPERATING INCOME	\$2,035,595	\$9,253	34.4%	\$2,138,097	\$2,412,401	\$2,584,793	\$2,821,985	\$2,910,649	\$2,982,496	\$3,101,542	\$3,233,077	\$3,599,561
FF&E Reserves	\$59,159	\$269	1.0%	\$102,623	\$148,560	\$315,681	\$332,676	\$339,551	\$345,361	\$354,990	\$365,528	\$379,234
Debt Serv. 1st EB-5	\$552,573			\$552,573	\$552,573	\$552,573	\$552,573	\$552,573	\$552,573	\$552,573	\$552,573	\$552,573
Debt Serv-2d Sec 108	\$330,000			\$1,022,896	\$1,022,896	\$1,022,896	\$1,022,896	\$1,022,896	\$1,022,896	\$1,022,896	\$1,022,896	\$1,022,896
Subtotal 1st + 2nd	\$882,573			\$1,575,469	\$1,575,469	\$1,575,469	\$1,575,469	\$1,575,469	\$1,575,469	\$1,575,469	\$1,575,469	\$1,575,469
DSCR	2.31			1.36	1.53	1.64	1.81	1.86	1.91	1.97	2.05	2.28
Debt Service Reserve for 1st & 2nd				\$ 152,401	\$ 152,401	\$ 152,401	\$ 152,401	\$ 152,401	\$ 152,401	\$ 152,401	\$ 152,401	\$ 152,401
Cumulative Reserve	\$330,000			\$482,401	\$634,802	\$787,203	\$1,396,807	\$1,854,010	\$2,463,614	\$3,073,218	\$3,682,822	\$4,292,426
Cash Flow After 1st, 2nd & Reserve	\$ 1,093,864			\$ 307,604	\$ 535,972	\$ 541,242	\$ 774,037	\$86,725	\$92,763	\$ 1,018,682	\$1,139,680	\$1,402,457
Debt Serv-Soft 3d Harn 1011	\$ 726,717			\$ 726,717	\$ 726,717	\$ 726,717	\$ 726,717	\$ 726,717	\$ 726,717	\$ 726,717	\$ 726,717	\$ 726,717
NET CASH FLOW	\$367,147	\$1,669	6.2%	-\$419,113	-\$190,745	-\$185,475	\$48,220	\$130,008	\$196,046	\$291,965	\$412,963	\$765,740
Value at Cap. Rate		8%			\$30,155,014							
Loan to Value % of 1st + 2nd						65%						