

# Memorandum



CITY OF DALLAS

DATE October 30, 2009

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

SUBJECT Downtown Connection TIF Fund Loan and Section 108 Guaranteed Loan Application for The Continental Building

On Monday, November 2, 2009, you will be briefed on Downtown Connection TIF Fund Loan and Section 108 Guaranteed Loan Application for The Continental Building. 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 'A.C. Gonzalez'.

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, Judiciary  
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

# Downtown Connection TIF Fund Loan and Section 108 Guaranteed Loan Application for The Continental Building

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A Briefing To The Housing Committee

November 2, 2009

Housing/Community Services Department



# Purpose

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Consideration of funding for the conversion of The Continental Building, a vacant commercial building, into 199 rental units. The Continental Building is located at 1810 Commerce Street:

1. \$2M Loan of Downtown Connection TIF funds and
2. Community Development Block Grant Section 108 Guarantee Loan application for \$7,600,000

# The Continental Building

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- 1810 Commerce Street, Council District 14
- 380,000 square foot vacant commercial building converted into 199 rental units with ground floor leasing office and fitness room
  - 156 one bedrooms - average size 978 square feet
  - 4 one bedrooms – average size 1,129 square feet
  - 30 two bedrooms – average size 1,452 square feet
  - 3 two bedrooms – average size 1,494 square feet
  - 6 three bedrooms – average size 1,919 square feet
  - 40 affordable units, 159 market rate units
- Applicant – FC Continental Complex, L.P.
  - Partners: FC Continental GP, Inc., General Partner, Forest City Residential, Inc., Limited Partner

# Developer

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- Forest City Residential Group, Inc. is a wholly-owned subsidiary of Forest City Enterprises, Inc., a publicly traded New York Stock Exchange real estate development company that has sponsored several developments in downtown Dallas including:
  - The Mercantile Tower, 1800 Main Street
    - 366 apartment units, 13,770 square feet of ground floor retail and 423 below grade parking spaces
  - The Wilson Building, 1623 Main
    - 143 apartment units and 14,000 square feet of ground floor retail

# Property Manager

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- Forest City Residential Management, Inc., 50 Public Square, Suite 1200, Cleveland, Ohio 44113
  - Formed in 1965
  - 20,943 apartment units managed nationwide in 92 cities and 21 states
  - Properties managed in Dallas
    - The Mercantile Tower, 1800 Main
      - 366 apartment units, 13,770 square feet of ground floor retail and 423 below grade parking spaces
    - The Wilson Building, 1623 Main
      - 143 apartment units and 14,000 square feet of ground floor retail

# Continental Building Outside View

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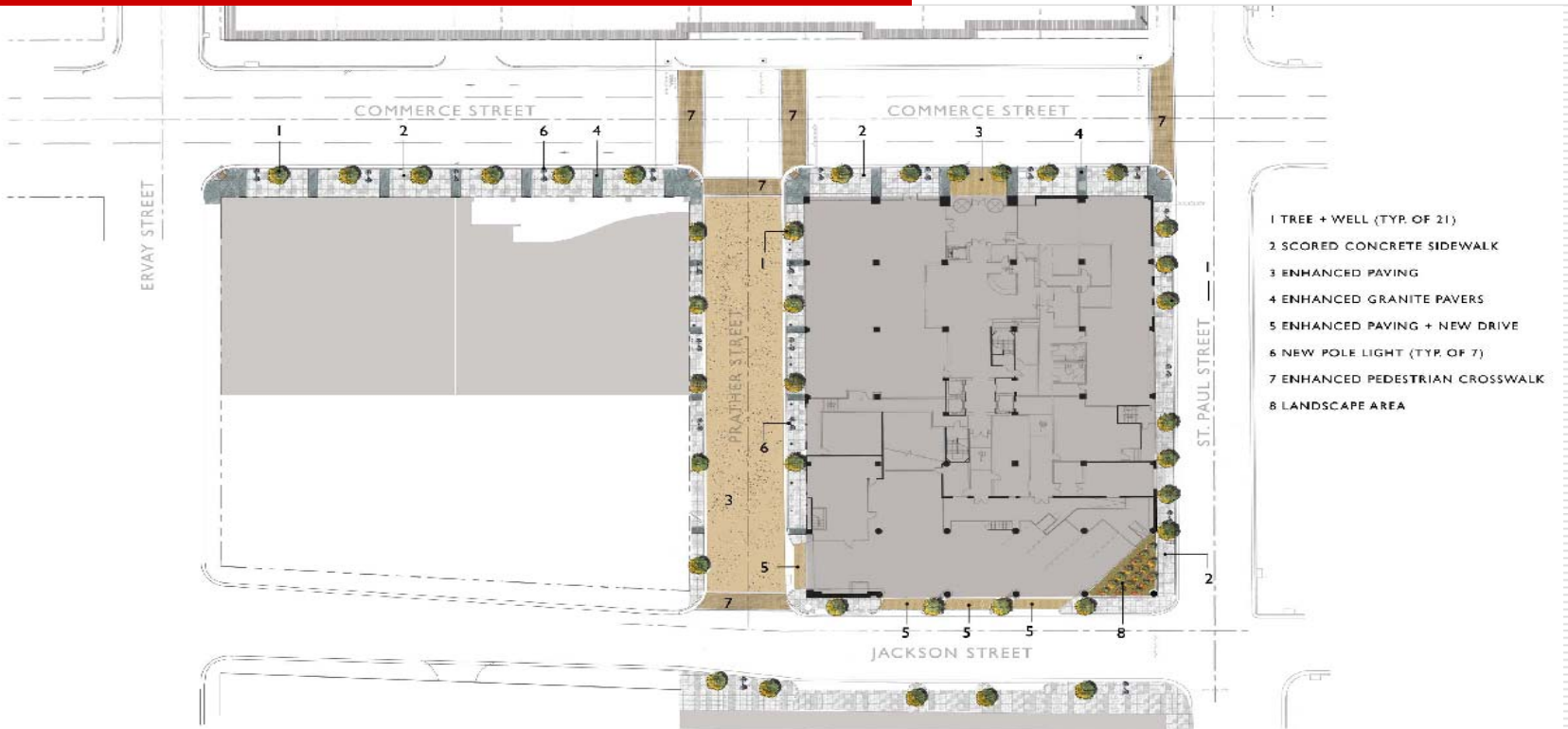
Continental Building - Arial View



Continental Building - North Elevation



# Site Plan



NCTCOG RTC SUSTAINABLE APPLICATION

Continental Building  
1810 Commerce Street Dallas, Texas  
maa.2008010 07.21.09



©merriman associates architects, inc. 2008

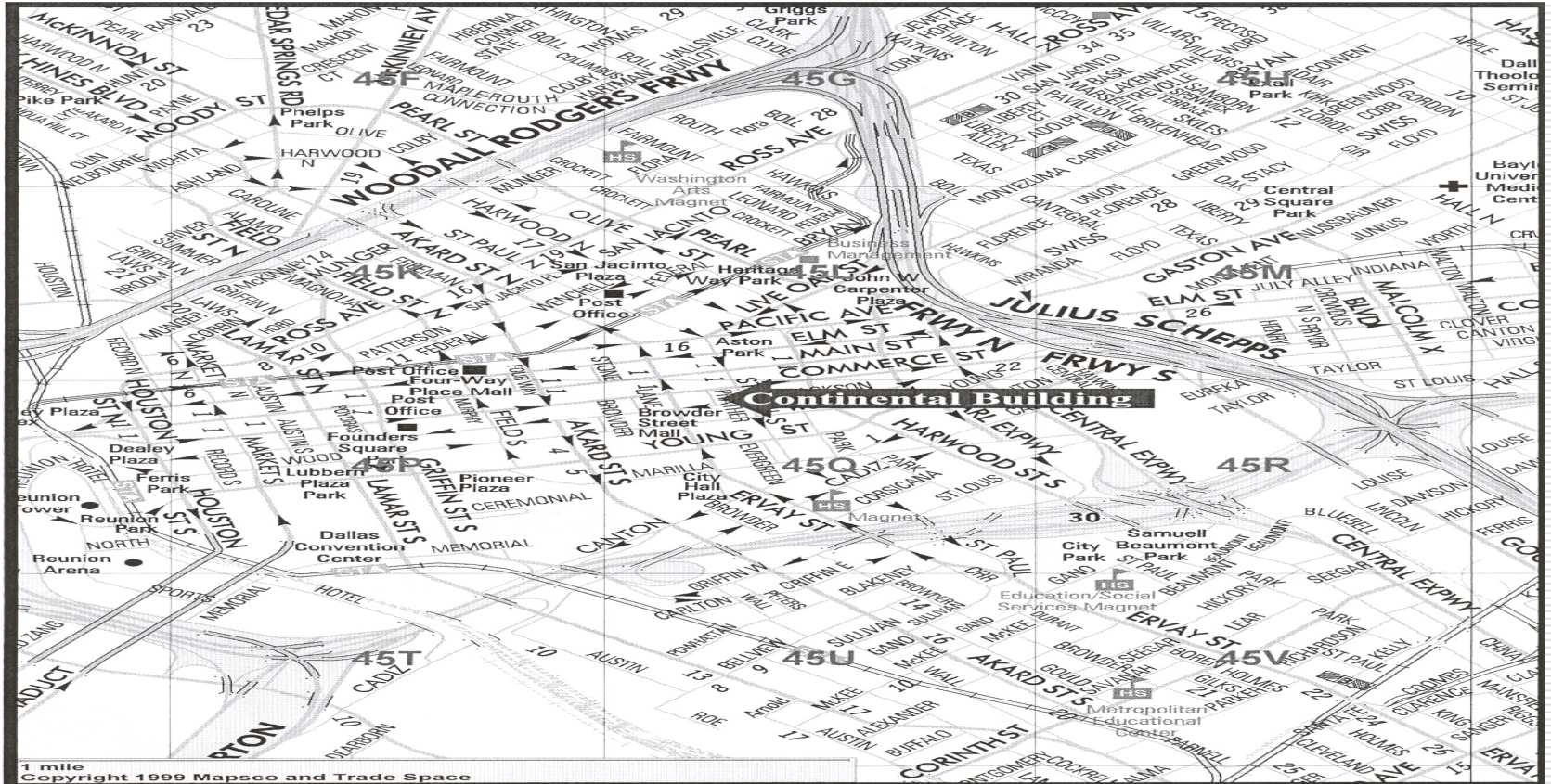
SITE PLAN



FORESTCITY

RESIDENTIAL GROUP

# Project Location



MAPSCO 45Q

# Downtown Connection TIF District Loan

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- ❑ The Downtown Connection TIF District Plan budget includes \$3,000,000 for affordable housing
- ❑ Affordable Housing for households not exceeding 80% Area Median family Income as established by HUD
- ❑ Minimum affordability of 20% of units
- ❑ Terms of loan for Continental Building
  - \$2M loan needed to provide financing for \$37.7M purchase and conversion of abandoned office building to residential
  - 2% interest
  - 15 year term payable:
    - ❑ Interest accrues for 5 years with no payments due
    - ❑ Annual payments totaling \$251,000 from 2016 through 2025

# Section 108 Loan Application Process

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- Develop proposed HUD application for \$7.6M and waiver request for affordability of 20% of units
- Hold Neighborhood Public Hearing
  - Hearing to be held at Central Library downtown in the area in which funds will be used
  - Participants provided Section 108 Loan Guarantee purpose and eligible uses
  - Obtain views of citizens
    - Community development objectives
    - Housing and economic development needs
- Prepare Final HUD Application
  - Consideration of public comments and views
  - Finalized description of activities

## Section 108 Loan Application Process (cont.)

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- Hold City Council Public Hearing
  - Contents of final HUD application
  - Summary of public comments
- Obtain City Council Approval
  - Final application for project
  - Schedule of repayment to HUD of the Section 108 guaranteed loan

# Sources and Uses

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## SOURCES

Section 108 Loan	\$ 7,600,000
Downtown Connection TIF Loan	2,000,000
City TIF Reimbursement	2,500,000
Net Historic Tax Credit	7,230,861
NTCOG Grant	608,000
Developer Equity	9,862,883
<u>Construction Loan</u>	<u>27,687,000</u>
<b>TOTAL SOURCES</b>	<b>\$57,488,744</b>

## USES

Building Purchase	\$ 6,195,689
Construction	31,556,311
Demolition	940,960
Infrastructure	759,675
Security and Administration	2,113,210
Architect/Engineering	2,237,983
FF&E	400,121
Legal	202,079
Marketing	492,663
Tax and Insurance	771,665
Project Management	1,577,816
Financing Fees	949,352
Section 108 Interest Reserve	912,000
P&I thru Construction	2,669,143
Start-up	63,074
Contingency	3,196,576
<u>Operating Deficit or Surplus</u>	<u>2,450,427</u>
<b>TOTAL USES</b>	<b>\$57,488,744</b>

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# Credit Enhancement

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- Three years of interest reserve for 108 loan represents two years more interest reserves than needed to pay debt and allows for slippage in lease up of the project
- 100% of TIF reimbursements totaling \$13.3M (up to a maximum with interest of \$17.5M) as estimated to be available 2015, will be pledged directly to repay the \$7.6M Section 108 loan

# Pro Forma Analysis

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- Construction commences in 2010 and completed in 2011
- Project reaches rent stabilization in 2012
- Loan to Value ratio of 85%:
  - Value based upon a capitalization rate of 7.25% of the net operating income plus value of tax abatements and current value of TIF reimbursements
  - Debt includes HUD 221(d)(4) construction loan, Section 108 loan and Downtown Connection TIF fund loan
- City now will receive TIF reimbursement in order to facilitate the underlying bank loan that otherwise would not be approved
- The 100% TIF reimbursement of \$13.3M results in the City being paid back in approximately 6 years on \$7.6M loan
- The TIF reimbursement represents the only payback of the principal of 108 loan
- Three years of 108 interest reserve @ \$912,000 (current LIBOR plus 300 basis points) will be set up at closing of construction loan
- Based upon pro forma, there are two years of extra interest to allow for construction delays and or slow lease up before project stabilizes
- No partnership distributions except to required historic tax credit partners will be made until the first TIF reimbursement is paid

# RECOMMENDATION

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- City loan \$2M in Downtown Connection TIF funds at 2% interest with payments beginning 2016 and balance of loan to be paid in full in 2025
- City loan \$7.6M in 108 funds borrowed from HUD to FC Continental Complex, L.P., to redevelop the project known as The Continental Building with interest to be paid starting in 2010 and loan to be repaid in full upon City's distribution of TIF proceeds estimated to be in 2015

# Next Steps

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- ❑ December 9, 2009 City Council call for public hearing for Section 108 loan application
- ❑ January 13, 2009 City Council Public Hearing and final approval for filing of Section 108 loan application and waiver request to HUD
- ❑ January 13, 2009 City Council approval of loan of Downtown Connection TIF funds
- ❑ Complete draft of Section 108 loan application and waiver request and submit to HUD