

Memorandum



CITY OF DALLAS

DATE May 26, 2020

TO The Honorable Members of the Housing and Homeless Solutions Committee:
Chad West, Chair, Casey Thomas, Vice-Chair, Carolyn King Arnold, Lee M. Kleinman,
Paula Blackmon, Cara Mendelsohn, Jaime Resendez

SUBJECT **Upcoming Agenda Item: 2019 Single Family Notice of Funding Availability
Project - The Golden S.E.E.D.S. Foundation (Follow-Up from March 23, 2020 HHS
Committee Meeting)**

Summary

On March 23, 2020, the Housing and Homeless Solutions Committee was briefed on a proposed project from The Golden S.E.E.D.S. Foundation (Developer) and additional information was requested before it was submitted for City Council consideration.

Background

On July 5, 2019, The Golden S.E.E.D.S. Foundation submitted a NOFA proposal for the construction of up to 21 single-family homes on 24 Land Transfer lots. As outlined in the 2019 Single Family NOFA, lots were to be sold in complete clusters in an effort to maximize redevelopment efforts in City of Dallas neighborhoods. The proposed *Bottom Single-Family Infill Development Project* included new construction of for-sale housing for households between 80-100% of the Area Median Income (AMI). Total project costs exceeded \$4.8 million and the Developer requested \$1.4 million in General Obligation Bond funds to support the project. The proposal received 103.50 points (minimum fundable score was 100 points) out of a possible 140 points from the evaluation committee—thus making it eligible for underwriting and consideration for funding. The underwriting memo is attached.

Additional analysis of buyer profiles and existing residents targeted in the proposed necessitated an adjustment in the scope of the project. The resulting proposal includes the construction of twenty-two (22) single-family homes for households between 60-80% of the AMI. The adjusted AMI targets expand the market for residents currently residing in the neighborhood.

The Developer proposes to build several distinct model types based on lot size and offer price points accessible to homebuyers between 60-80% of the AMI. Each home will range from 1,275 square feet to 1,700 square feet. Each model offers a minimum of 2 bedrooms

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and 2 baths with off street parking. Price points will range from \$165,000.00 for a 1,275 square foot model to \$195,000.00 for a home with a 1,700 square foot layout. All units built on Land Transfer lots will remain affordable for a minimum of 10 years.

The Developer seeks \$1,400,000.00 in District 4 General Obligation Bond funds for the construction of the units. This represents an investment of \$63,636.36 per unit and will be used as construction subsidy to bring the homes into congruence with the affordability standards for the targeted homebuyers. Provision of bond funds allows for high-quality housing to be purchased by households between 60-80% of the AMI. Project will be divided into two phases, both of which include the construction of 11 units. As outlined in the proposed by City staff and as outlined in the underwriting report, developer will have access to purchase Phase I lots. Upon successful completion of Phase I, developer will have right of first refusal to purchase Phase II lots. Bond funds will be allocated for each phase of the project. If either phase is not completed, City funding will not be released to developer. The start of each phase is contingent upon the successful completion of the Phases I & II of The Bottoms Infrastructure installation project.

Underwriting & Market Study

As part of the NOFA process, the original submission of the project was underwritten by a 3rd party. Several important conclusions can be drawn from the underwriting report. Those conclusions are as follows:

- The projected development costs and price points appear reasonable and are consistent with existing market data;
- A market for infill housing, specifically new construction, exists in the development area;
- Two-Phased approach (as recommended for approval by City staff) allows City to hold the developer to performance standards for development of all lots;
- The development team has demonstrated adequate management and financial capacity to complete both phases of the project

Cash flow modeling for the project assumes the following:

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Phase I

Sq. Ft.	Beds	Baths	Sales Price	No. of Models
1275	2	2	\$165,000.00	7
1425	3	2	\$175,000.00	1
1700	3	2	\$180,000.00	3

- Total development costs for Phase I are anticipated to be \$2.1 million;
- 6-month construction period per home with a 1-month absorption rate/sell time;
- Anticipated 11 housing starts in the first month resulting in a 6-month build-out of the project;
- 4% sales expense per home;
- The \$560,000.00 subsidy to be used to pay eligible constructions costs
- The resulting profit and loss analysis of the project indicates that with \$2.1 million in total project costs and homes priced as outlined above, there is a total estimated revenue of \$1.6 million. As such, the City’s contribution of \$560,000.00 for Phase I allows the developer to **a)** close the gap (which is necessary because development costs outpace revenue based on the price points) and **b)** potentially secure a developer fee of approximately 13% on the initial phase of the project.

Phase II

Sq. Ft.	Beds	Baths	Sales Price	No. of Models
1350	3	2	\$185,000.00	4
1700	3	2	\$195,000.00	7

- Total development costs for Phase II are anticipated to be \$2.7 million;
- 6-month construction period per home with a 1-month absorption rate/sell time;
- Anticipated 11 housing starts in the first month resulting in a 6-month build-out of the project;
- 4% sales expense per home;
- The \$840,000.00 subsidy to be used to pay eligible constructions costs
- The resulting profit and loss analysis of the project indicates that with \$2.8 million in total project costs and homes priced as outlined above, there is a total estimated

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revenue of \$2 million. As such, the City’s contribution of \$840,000.00 for Phase I allows the developer to **a)** close the gap (which is necessary because development costs outpace revenue based on the price points) and **b)** potentially secure a developer fee of approximately 13% on the initial phase of the project.

Issue

At present, the City controls 24 vacant lots in The Bottom. Vacant lots do not provide tax revenue for the City and require regular maintenance. Maintaining a single vacant lot requires the City to spend approximately \$1,404 per year.

Fiscal Impact

As proposed, the Developer seeks \$1,400,000.00 in District 4 General Obligation Bond funding for construction costs. The resulting capital stack is as follows:

Sources			Uses	
Developer Equity	\$ 199,030.00	4.1%	Acquisition + construction	\$ 199,030.00
City of Dallas D4 GO Bond Funds	\$ 1,400,000.00	29%	Unit Construction	\$ 1,400,000.00
TBD	\$3,222,393.00	66.8%	Unit Construction	\$3,222,393.00
	\$ 4,821,423.00			\$ 4,821,423.00

The anticipated developer fee for the project is approximately \$634,915.00 which represents approximately 13% of the total development costs.

As proposed, the development will generate approximately \$108,659.81 in annual property taxes of which \$30,870.25 will be captured as revenue by the City of Dallas. Sale of the Land Transfer lots will result in approximately \$25,000.00 in revenue for the City of Dallas. Lastly, the City of Dallas will save approximately \$33,696.00 in annual maintenance costs for the Land Transfer lots.

Staff Recommendation

- Staff recommends Council approval of the item as detailed herein. Passage of the item will help the City achieve its affordable housing production goals.
- As indicated in the underwriting report, development team has the experience to successfully complete the proposed project. Staff will continue to work with the Developer to address any outstanding due diligence items prior to entering into any agreements.

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Please feel free to contact David Noguera, Director of Housing & Neighborhood Revitalization at 214-670-5988, or David.Noguera@dallascityhall.com if you have any questions or need additional information.



Dr. Eric Johnson
Chief of Economic Development & Neighborhood Services

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney (Interim)
Mark Swann, City Auditor
Billierae Johnson, City Secretary
Preston Robinson, Administrative Judge
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