

# Memorandum



CITY OF DALLAS

September 23, 2024

DATE

Honorable Members of the City Council Housing and Homelessness Solutions Committee: Jesse Moreno (Chair), Cara Mendelsohn (Vice Chair), Zarin Gracey, Chad West, Gay Donnell Willis

TO

**Upcoming Agenda Item: Authorize the Dallas Public Facility Corporation to Acquire, Develop, and Own Oakhouse Apartment Homes – Phase 2, a Mixed-Income, Multifamily Development to be Located at 909 E. Colorado Blvd. (Project) and Enter into a Seventy-Five-Year Lease Agreement with Mintwood Oakhouse II DFW, LLC or its Affiliate, For the Development of the Project**

SUBJECT

This memorandum is to inform the Housing and Homelessness Solutions Committee of an upcoming agenda item on October 23, 2024 to authorize the Dallas Public Facility Corporation's (DPFC's) acquisition, development, and ownership of Oakhouse Apartment Homes – Phase 2, a 358-unit mixed-income multifamily development to be located at 909 E. Colorado Blvd., Dallas, Texas 75203 (Project). To receive a property tax exemption as a public facility, the Texas Public Facility Corporation Act, codified in Texas Local Government Code, Chapter 303 (the Act), requires a multifamily property to reserve at least 50% of the housing units for residents earning at or below 80% of the area median income (AMI). The Project will reserve 40% of the units for residents earning less than 80% AMI, 10% of the units at 60% AMI, and the remaining 50% of the units will not be income-restricted. The DPFC bylaws require Council approval of any development that results in a property tax exemption.

## **PROJECT BACKGROUND**

The Applicant, Mintwood Real Estate LLC, is a limited liability company (Mintwood). This Applicant is Texas-based with real estate development and multifamily construction experience. Its current portfolio includes 6 multifamily projects in Dallas totaling approximately 855 units in various stages of development.

The property is a 358-unit mid-rise multifamily development in South Dallas, just south of Trinity River off 35E in North Oak Cliff on 3.2 acres of vacant land located on E. Colorado Blvd. Amenities will include a clubhouse, dog park, green space, a pool, and fitness center. The Project is accessible to Dallas Area Rapid Transit bus stops.

The Project is zoned for multifamily development without any opposition. Mintwood executives, employees, staff have held a meeting with the surrounding neighborhoods and received support from each neighborhood group. The Applicant will consult with the Office of Integrated Public Safety Solution for security input, community activities and the Crime Prevention through Environmental Design.

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The anticipated unit mix and rental rates are as follows:

Unit Type	AMI	Units	Rent
Studio	60%	8	\$1,158
Studio	80%	31	\$1,410
Studio	Market	39	\$1,450
1BR	60%	22	\$1,240
1BR	80%	89	\$1,654
1BR	Market	109	\$1,850
2BR	60%	6	\$1,489
2BR	80%	24	\$1,986
2BR	Market	30	\$2,300

Reserving units at fair market rents (as annually set by the U.S. Housing and Urban Development) for individuals and families earning between 60% and 80% AMI provides affordable housing for the “missing middle” of the housing market: residents that earn above low-income housing tax credit income restrictions of 60% AMI but would be cost-burdened by market rents. Household incomes at 60 – 80% AMI range from approximately \$54,560.00 to \$77,900.00 in the City, based on family size, and reflect average incomes for a variety of employment sectors, such as teachers, first responders, government employees, and health care providers. The rents for individuals and families earning at or below 60% AMI are included to provide deeper affordability at this property with incomes ranging from \$40,920.00 to \$58,440.00, depending on family size.

Total Project development costs are approximately \$103,160,000.00, including the land acquisition cost. The Project development budget (less soft/financial costs) is approximately \$78,760,000.00 or \$220,000.00 per unit.

Proposed Financing Sources	Amount
Mortgage Loan	\$ 56,738,000.00
Developer/Investor Equity	\$ 46,422,000.00
Total	\$103,160,000.00
Proposed Uses	Amount
Development Costs	\$ 69,810,000.00
Land Acquisition	\$ 8,950,000.00
Soft Costs/Other Costs	\$ 19,722,157.00
Contingency	\$ 4,677,843.00

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Total	\$103,160,000.00
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The Project will be owned by the DPFC and leased to the Applicant and other potential owners for a period of 75 years. In consideration for the DPFC's participation in the Project, the DPFC is estimated to receive \$193,168,139.00 in revenues over the 75 years of the lease. Potential proceeds to the DPFC include (1) a \$250,000.00 structuring fee paid at closing; (2) lease payments starting at \$362,000.00 and increasing by 3% annually upon stabilization; (3) a 15% sales commission after repayment of debt, equity, and preferred equity returns upon first sale of the Project; and (4) a 2% sales commission on all future sales. In the event of a sale during the life of the Project, DPFC will continue to receive the annual lease payments. Upon termination of the 75-year lease, DPFC will own the Project free and clear.

The DPFC's Project revenues will be used to fund DPFC operations and the provision of additional affordable and workforce housing throughout the City. This proposed development results in foregone tax revenues for the City while the DPFC owns the asset. The current City tax bill for this property is \$61,565 and the 75-year estimate of foregone taxes is \$157,656,559.00. However, the workforce housing rental savings of \$152,149,728.00 over 75 years and the estimated \$40,093,411.00 in Project revenues provide the City with \$193,168,139.00 in benefits that outweigh the foregone revenue. Without the DPFC's participation in this Project, it would require a subsidy of approximately \$90 million over the same period.

The DPFC's estimated revenues were calculated by DPFC's partnership counsel and financial advisors. Market rent comps and current construction costs were analyzed to ensure the project costs are reasonable for the market. DPFC financial advisors have also confirmed that but for the ad valorem tax exemption, the Project would not be economically feasible and would not attract responsible debt and equity investment in the Property. Also, the DPFC's revenue consideration and affordability levels have been analyzed to confirm that the ad valorem tax exemption does not over-subsidize the Project.

The DPFC Board, its outside legal counsel, and its financial advisors have confirmed that this Project would not be feasible but for the DPFC's participation and that the Project furthers the goals of the CHP, as restated in the DHP33. The DPFC Board recommends approval of this item to allow this mixed-income housing development to move forward.

On November 7, 2023, the DPFC Board of Directors approved the negotiation and execution of a term sheet with the Applicant or its direct affiliate.

**DPFC BACKGROUND**

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The Act authorizes the City to create a public facility corporation for the purposes established in the Act, including the financing, acquisition, construction, and leasing of public facilities. On June 24, 2020, City Council authorized the creation of the DPFC to further the public purposes stated in the DPFC's articles of incorporation and bylaws pursuant to the Act by Resolution No. 20-1035, which were subsequently amended by Resolution 22-1194 (bylaws). Section 6.2 of the DPFC bylaws requires City Council approval by written resolution prior to entering into any agreement that would result in a property tax exemption. Per Section 7.3 of the DPFC bylaws, the DPFC shall not proceed with any public facility related to multifamily residential development unless (1) the development of the public facility could not be feasible but for the DPFC's participation, and (2) the development of the public facility furthers the City's Comprehensive Housing Policy (CHP), as restated in the Dallas Housing Policy 2033 (DHP33).

Should you have any questions or require any additional information, please contact me or Cynthia Rogers-Ellickson, Director, Department of Housing & Community Development at [Cynthia.Rogers.Ellic@Dallas.gov](mailto:Cynthia.Rogers.Ellic@Dallas.gov) or 214-670-3601.

Service First, Now!



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