Memorandum

CITY OF DALLAS

DATE November 10, 2022

TO Honorable Members of the City Council Housing and Homelessness Committee: Casey Thomas II (Chair), Jesse Moreno (Vice Chair), Carolyn King Arnold, Paula Blackmon, Cara Mendelsohn, Paul Ridley, Jaynie Schultz

SUBJECT **Upcoming Agenda Item: Public Facility Corporation Development – 1508 Mockingbird**

This memorandum is to inform the Housing and Homelessness Solutions Committee of an upcoming agenda item on December 14, 2022 to authorize the Dallas Public Facility Corporation's (DPFC or Corporation) acquisition, development and ownership of 1508 Mockingbird, a 400-unit mixed-income multifamily development to be located at 1508 West Mockingbird Lane (Project). In order to receive a property tax exemption as a public facility, the Texas Public Facility Corporation Act requires a multifamily property reserve at least 50% of the units for residents earning at or below 80% of the area median income (AMI). 1508 Mockingbird will reserve 40% of the units for residents earning less than 80% AMI and 10% of the units will be reserved for residents earning less than 60% AMI. The other 50% of the units will be non-income restricted. The Corporation's bylaws require Council approval of any development that results in a property tax exemption. The Corporation's Board of Directors approved a term sheet with Provident Realty Advisors, Inc. (Applicant) and staff recommends Council approval of this item.

BACKGROUND

Provident Realty Advisors, Inc. (Applicant) submitted an application to the Dallas Public Facility Corporation (DPFC or Corporation) for the development of 1508 Mockingbird, a 400-unit mixed income multifamily development to be located at 1508 West Mockingbird Lane (Project). The Corporation will own the site and improvements and lease the Project back to the Applicant or its affiliate. Pursuant to the Texas Public Facility Corporation Act, Chapter 303 of the Texas Local Government Code, as amended (Act), any public facility owned by a Public Facility Corporation is exempt from all ad valorem taxes. To qualify as a public facility, pursuant to the Act, a multifamily property must reserve at least 50% of the 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 for residents earning less than 60% AMI, and 50% of the units will be market rate.

The Applicant will be a limited liability company owned by Provident Realty Advisors (Provident). Since 1991, Provident has developed and acquired an over $2 billion portfolio that includes various product types such as mixed-use developments, multifamily communities, master-planned single-family communities, office, industrial, retail, self-storage, hospitality, workforce and affordable housing, medical facilities, and senior housing and healthcare. Provident's previous executions include, but are not limited to, 24 million square feet of office, industrial, and retail, 12,000 multifamily units, 10,000 master-planned community lots, 15,000 self-storage units, and over 3,400 hotel keys.

The Project will be constructed as a 4-story wrap product with structured parking and will include 400 residential units with 56 studio units, 260 1-bedroom units, and 84 2-bedroom units. The units will include energy efficient appliances, granite countertops, in-unit washer/dryers, and other Class-A features. The Property will also include a swimming pool with outdoor grills and fire pits, fitness center, business and conference rooms, package lockers, dog park, and a common area lounge. The Market Value Analysis (MVA) market type is uncategorizable as the land is not currently developed with residential uses. A vacant office building currently sits on the property and will be demolished as part of this development to provide a higher and better use of the site. The development is well-located in close proximity to job centers and community amenities such as Love Field Airport, the Medical District, convenient public transportation, and other City investments.

The Applicant will consult with the Office of Integrated Public Safety Solutions (OIPSS) for security input, community activities and the Crime Prevention Through Environmental Design (CPTED). The Applicant and OIPSS will continue to work together to ensure the community is secure and take proactive measures to ensure the safety of the residents that will include security cameras with Dallas Police Department access, individual entry key fobs, lighting, and security access gates/entry points.

The anticipated unit mix and rental rates are as follows:

Unit Type	AMI	Units	Rent
Studio	60.00%	6	$1,023.00
Studio	80.00%	22	$1,364.00
Studio	Market	28	$1,425.00
1BR	60.00%	13	$1,096.00
1BR	80.00%	54	$1,462.00
1BR	Market	67	$1,725.00
1/1.5BR	60.00%	13	$1,096.00
1/1.5BR	80.00%	50	$1,462.00
1/1.5BR	Market	63	$2,000.00
2BR	60.00%	5	$1,315.00
2BR	80.00%	22	$1,754.00
2BR	Market	27	$2,100.00
2/2.5BR	80.00%	3	$1,315.00
2/2.5BR	Market	12	$1,754.00
2/2.5BR	80.00%	15	$2,250.00

The rents for individuals and families earning between 60% and 80% AMI are meant to provide housing to the "missing middle" of the market: residents that earn above low-income housing tax credit income restrictions of 60% AMI but would be cost burdened by market rents. These incomes range from approximately $54,560.00 to $77,900.00 in the City based on family size and represent a wide variety of employment sectors including, but not limited to, teachers, first responders, government employees, health care providers, etc. The rents for individuals and families earning below 60% are included to provide deeper affordability at this property. These incomes range from $40,920.00 to $58,440.00 depending on family size.

Total development costs are anticipated to be approximately $106,166,983.00 which includes the acquisition price for the land. The development budget less soft/financial costs is anticipated to be approximately $89,460,625.00, which is $223,652.00 per unit.

Proposed Financing Sources	Amount
Mortgage Loan	$ 69,008,539.00
Developer/Investor Equity	$ 37,158,444.00
Total	$106,166,983.00
Proposed Uses	**Amount**
Development Costs	$ 89,460,625.00
Developer Fee	$ 5,308,349.00
Soft Costs	$ 4,942,087.00
Financial Costs	$ 6,455,922.00
Total	$106,166,983.00

The Project will be owned by the Corporation and leased to the Applicant and other potential owners for a period of 75 years. In consideration for the Corporation's participation in the Project, the Corporation is estimated to receive $14,247,195.00 over the initial 15 years of the lease. Potential proceeds to the DPFC include (1) a $250,000.00 structuring fee paid at closing; (2) a general contractor fee of $645,264.00 paid at closing; (3) lease payments starting at $502,000.00 and increasing by 3.00% annually upon stabilization; (4) a 15.00% sales commission after repayment of debt, equity, and preferred equity returns upon first sale of the Project which is anticipated to equal $4,158,540.00 in Year 5, and (5) a 2.00% sales commission on all future sales. In the event of a sale throughout the life of the Project, the Corporation will continue to receive the annual lease payments. Upon termination of the 75-year lease, the Project will be owned free and clear by the Corporation.

The revenues of the Corporation will be used to fund 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 2022 City tax bill for this property is $44,898.00 and the 15-year estimate of foregone taxes is $835,054.00. However, the workforce housing rental savings of $15,314,222.00

over 15 years and the estimated $14,247,195.00 in revenues provides the City with almost $30,000,000.00 in benefits that outweigh the foregone revenue.

The Corporation's estimated revenues were calculated by the Corporation's partnership counsel and financial advisors. Market rent comps and current construction costs were analyzed to ensure the project costs were reasonable for the market. Corporation financial advisors 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. The Corporation's revenue consideration and affordability levels were also analyzed to confirm that the ad valorem tax exemption does not over subsidize the Project.

The City is authorized by the Act to create a public facility corporation for the purposes established in the Act, including the financing, acquisition, construction, and leasing of public facilities under the Act. On June 24, 2020, City Council authorized the creation of the Corporation to further the public purposes stated in the Corporation's articles of incorporation and bylaws pursuant to the Act by Resolution No. 20-1035. Section 6.2 of the Corporation's 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 Corporation's bylaws, any Public Facility related to multifamily residential development of the Corporation shall not proceed unless (1) the development of the Public Facility could not be feasible but for the Corporation's participation, and (2) the development of the Public Facility is in furtherance of the City of Dallas's Comprehensive Housing Policy (CHP), as amended.

Staff and the Corporation's Counsel and Financial Advisors have confirmed that this Project would not be feasible but for the Corporation's participation and that the Project furthers the goals of the CHP. Staff recommend approval of this item to allow this mixed-income housing development to move forward.

Should you have any questions or require any additional information, please contact me or David Noguera, Director, Department of Housing & Neighborhood Revitalization at David.Noguera@Dallas.gov or 214-670-3619.

Majed A. Al-Ghafry, P.E.
Assistant City Manager

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Bilierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizor Tolbert, Deputy City Manager
Jon Fortune, Deputy City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Dr. Robert Perez, Assistant City Manager
Carl Simpson, Assistant City Manager
Jack Ireland, Chief Financial Officer
Genesis D. Gavino, Chief of Staff to the City Manager
Directors and Assistant Directors