

Memorandum



CITY OF DALLAS

DATE January 20, 2023

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

SUBJECT **Upcoming Agenda Item: Approval of a Resolution Authorizing the Dallas Housing Finance DHFC to Issue Tax-Exempt Essential Function Bonds to Finance, Acquire, and Own Muse at Midtown, An Existing Multifamily Property Located at 13675 Noel Road**

This memorandum is to inform the Housing and Homelessness Solutions Committee of an upcoming agenda item on February 22, 2023 to authorize the Dallas Housing Finance Corporation (DHFC) to issue tax-exempt essential function bonds to finance, acquire, and own Muse at Midtown, a 289-unit multifamily development located at 13675 Noel Road (Project). This acquisition provides the City with the opportunity to convert an existing Class-A multifamily property to mixed-income, workforce housing in a high opportunity area of the City near the International District, job centers, transportation, parks, retail, and other high-quality amenities. The DHFC Board of Directors approved a term sheet with Opportunity Housing Group, Inc. (Applicant), and staff recommends City Council approval of this item.

Background

Opportunity Housing Group, Inc. (Applicant), submitted an application to the Dallas Housing Finance Corporation (DHFC) to acquire, develop, and own Muse at Midtown, a 289-unit multifamily development, located at 13675 Noel Road (Project). The DHFC will own the site and improvements while contracting with the Applicant who will act as the Project Administrator. Pursuant to the Texas Housing Finance Corporation Act, Chapter 394 of the Texas Local Government Code (Act), a Housing Finance Corporation 1) may issue bonds to acquire affordable housing and 2) any residential property owned by a Housing Finance Corporation is exempt from all ad valorem taxes. As with all bonds issued by the Corporation, they are non-recourse to both the City and the DHFC. They are not liabilities of the City and are repaid solely through the revenues of the Project.

The Project is currently market rate/non-income restricted. However, upon acquisition by the DHFC, at least 50.00% of the units will be reserved for residents earning below 80.00% Area Median Income (AMI), 40.00% of the units will be reserved for residents earning between 80.00%-140.00% AMI, and 10.00% of the units will be market rate.

The owner of the project will be Muse at Midtown, LLC, a limited liability company having the DHFC as its sole owner. Opportunity Housing Group, Inc., a DHFC authorized to do

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business in Texas, is a real estate development firm that specializes in mixed-income and workforce multifamily projects throughout the country. Applicant's principals have acquired over 7,700 apartments and developed an additional 7,750 apartments using the proposed public bond financing structure as well as other programs.

The Project consists of 289 residential units. The unit mix includes 13 studio units, 188 1-bedroom units, and 88 2-bedroom units. The units include energy efficient appliances, granite countertops, in-unit washer/dryers, and other Class-A features. The Property also includes a swimming pool with outdoor fire pit and grilling area, fitness center, business and conference rooms, dog park and pet wash stations, electric vehicle charging stations, and a common area lounge. The Project does not require a zoning change because it is already existing and in operation. The Market Value Analysis (MVA) Market Type is Type E and adjacent to MVA Market Type B. The Project is currently 92.00% occupied.

Upon acquisition, the unit mix and rental rates will be the lesser of the Texas Department of Housing and Community Affairs (TDHCA) published income restricted rents or market rents:

Unit Type	AMI	Units	Rent
1BR	80.00%	94	\$1,455.00
1BR	140.00%	75	\$1,831.00
1BR	Market	18	\$1,831.00
2BR	80.00%	44	\$1,754.00
2BR	140.00%	36	\$2,523.00
2BR	Market	9	\$2,523.00
Studio	80.00%	7	\$1,177.00
Studio	140.00%	5	\$1,177.00
Studio	Market	1	\$1,177.00

All income qualifying residents that are currently paying more than the TDHCA income restricted rents will see their rents lowered to that amount instead of being increased to market rents. This represents annual average rent savings of \$553.00/month or \$6,633.00/annually for residents earning less than 80.00% AMI compared to current market rents across all unit types. The rents for individuals and families earning less than 80.00% 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 60.00% 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 81.00% to 140.00% AMI restricted units function like market rate units, but are included to satisfy the income requirements of the Act. The market rents are anticipated to grow much faster than the income restricted rents over the next 15 years resulting in exponential rental savings to

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residents earning less than 80.00% AMI. Total rental savings are estimated to be roughly \$31,000,000.00 over 15 years.

Total bond issuance is anticipated to be approximately \$102,560,120.00. The financing will be funded 100.00% by tax-exempt essential function bonds which will be issued by the DHFC. The bond issue premium of \$725.00 is deducted from the initial issue amount which will leave \$102,559,395.00 in bond proceeds to cover the acquisition costs of the transaction.

Proposed Financing Sources	
Series A Bonds	\$102,560,120.00
Original Issue Premium	(\$ 725.00)
Total	\$102,559,395.00
Proposed Uses	
Deposit to Project Acquisition Account	\$ 80,482,491.00
Deposit to Capitalized Interest Account	\$ 6,153,556.00
Deposit to Capital Reserve Fund	\$ 750,000.00
Deposit to Operating Reserve Fund	\$ 922,476.00
Deposit to Coverage Reserve Fund	\$ 625,327.00
Deposit to Administration and Authority Reserve Fund	\$ 1,800,000.00
Deposit to Senior Debt Service Reserve Fund	\$ 6,153,557.00
Deposit to Operating Account	\$ 307,492.00
Initial Payment to Asset Manager	\$ 2,000,000.00
Costs of Issuance	\$ 3,364,494.00
Total	\$102,559,395.00

The Project will be owned by the DHFC outright, with the option to sell or refinance the Project beginning at year 15. Following the retirement of the bonds, the DHFC will own the asset free and clear. All excess cash flow will go toward the retirement of the bonds, further strengthening the financial position of the property and increasing the equity of the DHFC in the project. Applicant will act as the Project Administrator to negotiate the Purchase Sale Agreement, provide the required deposit, assemble third party reports, and take on the risks of performing all the front-end “sponsorship” functions. Following the closing, the Project Administrator will work with the property manager in the administration of the Project, oversight of affordability compliance, operational management and in providing of information on Project performance to bond holders on behalf of the DHFC. As Project Administrator, Applicant will receive a \$2 million fee paid at closing as well as \$500.00/unit per year annually for the administration of the project. Applicant will also receive subordinate bond proceeds of \$5 million after the bonds are retired at some point between years 15 to 35. This will act as compensation to Applicant in consideration for the long-term administration and careful management of the property over the course of operations.

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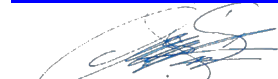
In consideration for the DHFC's participation in the Project, the DHFC will receive an annual asset management fee of 0.50% of effective gross income. The DHFC will also receive 100.00% of net proceeds from the sale of the asset, which is conservatively estimated to be at least \$58 million in year 15 and \$277 million if it is held until year 35. These revenues generated for the DHFC will be used to fund operations and the provision of additional affordable and workforce housing throughout the City. Other cities that have utilized this essential use bond structure to provide workforce housing have planned to refinance the debt in year 15 to provide deeper affordability at the properties (30.00%, 50.00%, and 60.00% AMI units).

This proposed DHFC acquisition results in foregone tax revenues for the City until the project is sold and income restrictions are removed. The 2022 City tax for this property is \$436,915.00 and the 15-year estimate of foregone taxes is \$8,126,126.00. However, the workforce housing rental savings and the value of the property provides the City benefits that outweigh the foregone revenue. This acquisition and financial structure also allows the City to immediately own and provide mixed-income housing in a high opportunity area nears jobs, parks, transportation, retail, and other amenities.

The DHFC's estimated revenues were calculated by the DHFC's partnership Counsel and Financial Advisors. Market rent and sales comps were analyzed to ensure the project costs were reasonable for the market. DHFC financial advisors also confirmed that but for the ad valorem tax exemption and the issuance of tax-exempt bonds, the Project would not be economically feasible with the workforce housing income restrictions.

Staff and the DHFC's Counsel and Financial Advisors have confirmed that this Project would not be feasible but for the DHFC's participation and that the Project furthers the goals of the Comprehensive Housing Policy (CHP). Staff recommend approval of this item as it furthers the goals of the CHP by providing mixed-income housing in a high opportunity area of the City with access to amenities, jobs, and other resources.

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



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