Memorandum

CITY OF DALLAS

DATE May 19, 2023

TO 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: Authorize a Resolution Approving the Dallas Public Facility Corporation's Acquisition, Development, and Ownership of The Elms, to be located at 1710 Morrell Avenue**

This memorandum is to inform the Housing and Homelessness Solutions Committee of an upcoming agenda item on May 22, 2023 to authorize the Dallas Public Facility Corporation's (Corporation) acquisition, development and ownership of The Elms, a 153-unit mixed income multifamily development to be located at 1710 Morrell Avenue (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). The Elms will reserve 40% of the units for residents earning less than 80% AMI, 10% of the units at 60% AMI, and the other 50% of the units will be non-income restricted. The Corporation's bylaws require City Council approval of any development that results in a property tax exemption and staff recommends City Council approval of this item.

Background

1710 Morrell Avenue, LLC (Applicant), a Texas limited liability company, submitted an application to the Corporation for the development of The Elms, a 153-unit mixed income multifamily development to be located at 1710 Morrell Avenue (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 50% of the units for residents earning less than 80% AMI and 50% of the units will be market rate.

The Applicant will be a limited liability company owned by Smart Living Residential (SLR). SLR is a Texas-based real estate development and construction company that is actively developing a portfolio of multifamily properties focused on residents earning between 60-80% of area median income. Their current portfolio is heavily mission driven with principals who are committed to serving the residents of the Dallas area.

The Project will be constructed as a garden style product with surface parking and will include 153 residential units. The unit mix will consist of 20 studio units, 109 1-bedroom units and 24 2-bedroom units. The units will include energy efficient appliances, granite countertops, in-unit washer/dryers, and other Class-A features. The Market Value Analysis (MVA) market type is uncategorizable as the land is not currently developed with residential uses. The affordable units will be spread throughout the overall unit mix. This development will provide residents numerous community amenities through the adjacent and the to-be-renovated Cedar Crest Community Center. The project will provide new, high-quality housing to District 4 that is walking distance (0.3 miles) to the Morrell DART Rail Station. This will provide residents transportation that is just a few stops from job centers like Downtown, the VA Medical Center, and UNT-Dallas, all of which are accessible from the DART Blue Line.

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%	2	$1,023.00
Studio	80%	8	$1,363.00
Studio	Market	10	$1,450.00
1BR	60%	10	$1,096.00
1BR	80%	44	$1,461.00
1BR	Market	55	$1,700.00
2BR	60%	3	$1,315.00
2BR	80%	9	$1,753.00
2BR	Market	12	$2,400.00

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 $24,523,617.00 which includes the acquisition price for the land. The development budget less soft/financial costs is anticipated to be approximately $20,263,912.00, which is $132,443.00 per unit.

Proposed Financing Sources	Amount
Mortgage Loan	$ 14,714,217.00
Developer/Investor Equity	$ 9,809,400.00
Total	$ 24,523,617.00
Proposed Uses	**Amount**
Development Costs	$ 19,358,850.00
Land Acquisition	$ 905,062.00
Soft Costs	$ 4,259,705.00
Total	$ 24,523,617.00

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 $4,743,400.00 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 $221,819.00 paid at closing; (3) lease payments starting at $250,000.00 and increasing by 3% annually upon stabilization; (4) a 15% sales commission after repayment of debt, equity, and preferred equity returns upon first sale of the Project and (5) a 2% 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 $2,716.00 and the 15-year estimate of foregone taxes is $50,517.00. However, the workforce housing rental savings of $3,286,080.00 over 15 years and the estimated $4,743,400.00 in revenues provides the City with almost $8,029,480.00 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 restated in the Dallas Housing Resource Catalog.

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 as restated in the Dallas Housing Resource Catalog. 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.

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