



City of Dallas

St. Philips Retail Redevelopment Project

**Economic Development
Committee
September 8, 2020**

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Office of Economic Development
City of Dallas

Presentation Overview



- Background
- Proposed Project
- Staff Recommendation
- Next Steps
- Appendix



Background



Project Developer: St. Philips School and Community Center and/or special purpose for-profit entity.

Project Summary: The project entails the redevelopment of an approximately 12,000 SF commercial structure located at 1632 Martin Luther King Jr. Boulevard in Dallas, TX. The developer plans to completely renovate the existing structure and create a minimum of five (5) modern leasable units. The purpose of the project is to provide increased quality, commercial services to the community such as a sit-down restaurant and dental/medical services. The estimated project costs are \$3,054,846.

City Assistance: The development is seeking City assistance in the amount of \$1,000,000 for the proposed project.



Background



The **Equitable Development Plan** was completed in early 2020. TREC, Dallas College, LiftFund, and TMF with support from JPMorgan Chase, via \$6 million grant, have formed the **Dallas Collaborative for Equitable Development** which will foster community development in the Forest District, The Bottom, and West Dallas.

WHAT WE HEARD FROM FOREST DISTRICT OUTREACH

Residents let us know exactly what their community needed.

The following reflect the Forest District's priorities for equity based on the input gained through several community outreach opportunities. This formed the foundation of the working group and the basis of the equitable development plan:



Historical Equity

- Equitable development would address historical injustices in the community, including disinvestment and property abandonment. Injustices could be corrected by addressing the community's current needs for employment, healthy food, and transportation, and by ensuring residents are well-positioned to benefit from any new investment in the Forest District.



Physical Equity

- All new development should primarily support current residents, but also attract new residents.
- Residents believe their neighborhood's proximity to Downtown Dallas, the Trinity River, and the Great Trinity Forest are strong assets to leverage with any future development.
- New retail is supported, particularly a grocery store that has fresh produce. New business would be a mix of small business and big box stores.



Social Equity

- Residents are skeptical of new residential and commercial development in the district, with many residents explaining that new development may not benefit existing residents, and could cause displacement and loss.



Planning / Policy Equity

- Community members want to work toward common goals and bring different stakeholders to discussions about the district's future. There is frustration that current and past neighborhood development efforts have failed to gather significant community participation.



Economic Equity

- New jobs should be available for current residents, and job training and recruitment should be tailored to match their skills.



Background



- City staff has been in discussions with St. Philips School and Community Center for the redevelopment of 1632 Martin Luther King, Jr. Blvd. in Dallas, TX for more than a year.
- For seven decades, St. Philip's School and Community Center (St. Philip's) has served as an anchor institution and resource for the South Dallas Community. Now known as the Forest District, this area is deeply rooted in poverty; with a median income of \$24,702 compared to the city of Dallas which has a median income of \$45,215. Revitalization depends on successful economic development initiatives along the major commercial corridors in South Dallas.



Background



- The 1632 Martin Luther King Jr. Blvd project is the revitalization of a commercial structure on the corner of Martin Luther King Jr. Blvd and Colonial Avenue. The project concept is *the complete renovation of the existing commercial retail structure, creating modern leasable units*. Also the purpose of the project is to provide increased services to the community and *to bring hope to the community by evidence of investment* on the Martin Luther King Jr. Corridor.
- The proposed project also supports the 2019 Chase Pro Neighborhoods Initiative along with their 2019 Community Master Plan to revitalize the Forest District.
- As part of St. Philips overall plan, St. Philips and its development partners plan to investment over \$6.4 million to rejuvenate the community.





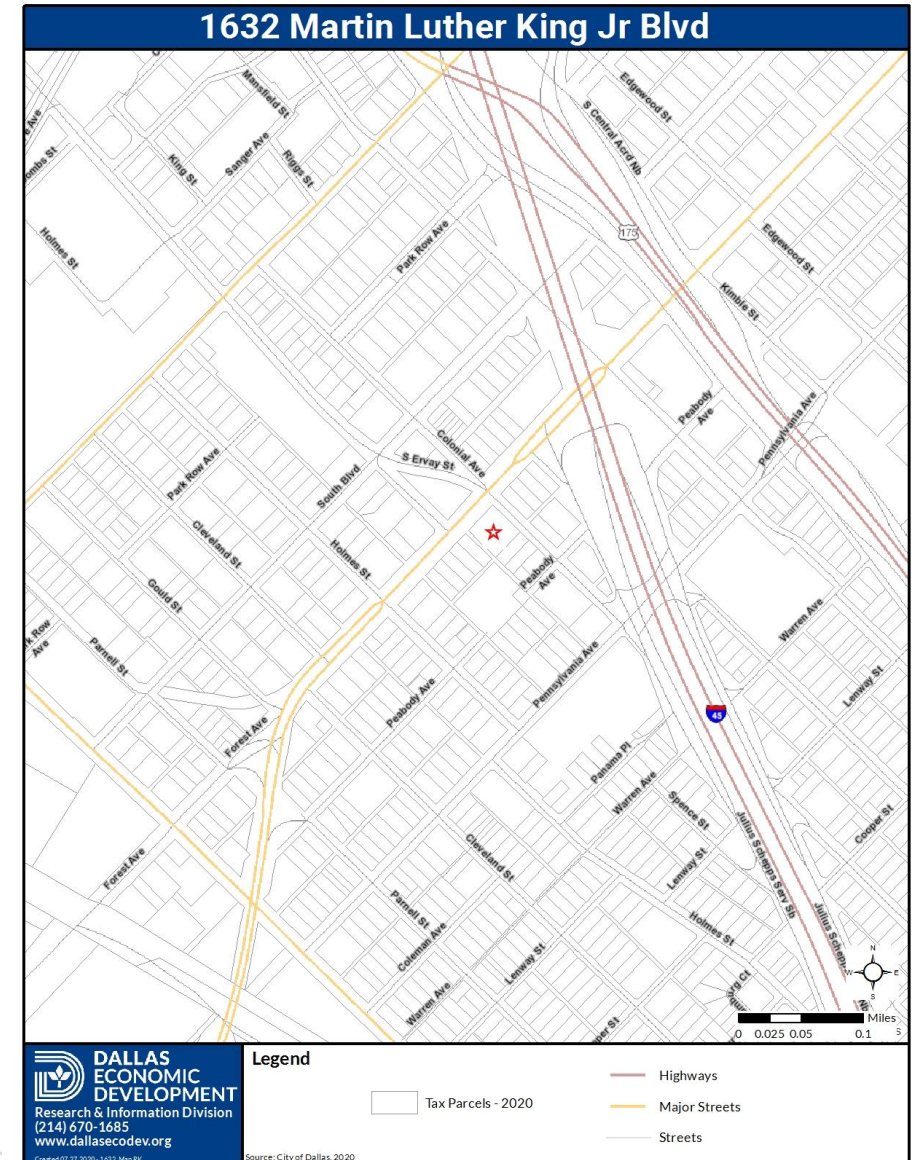
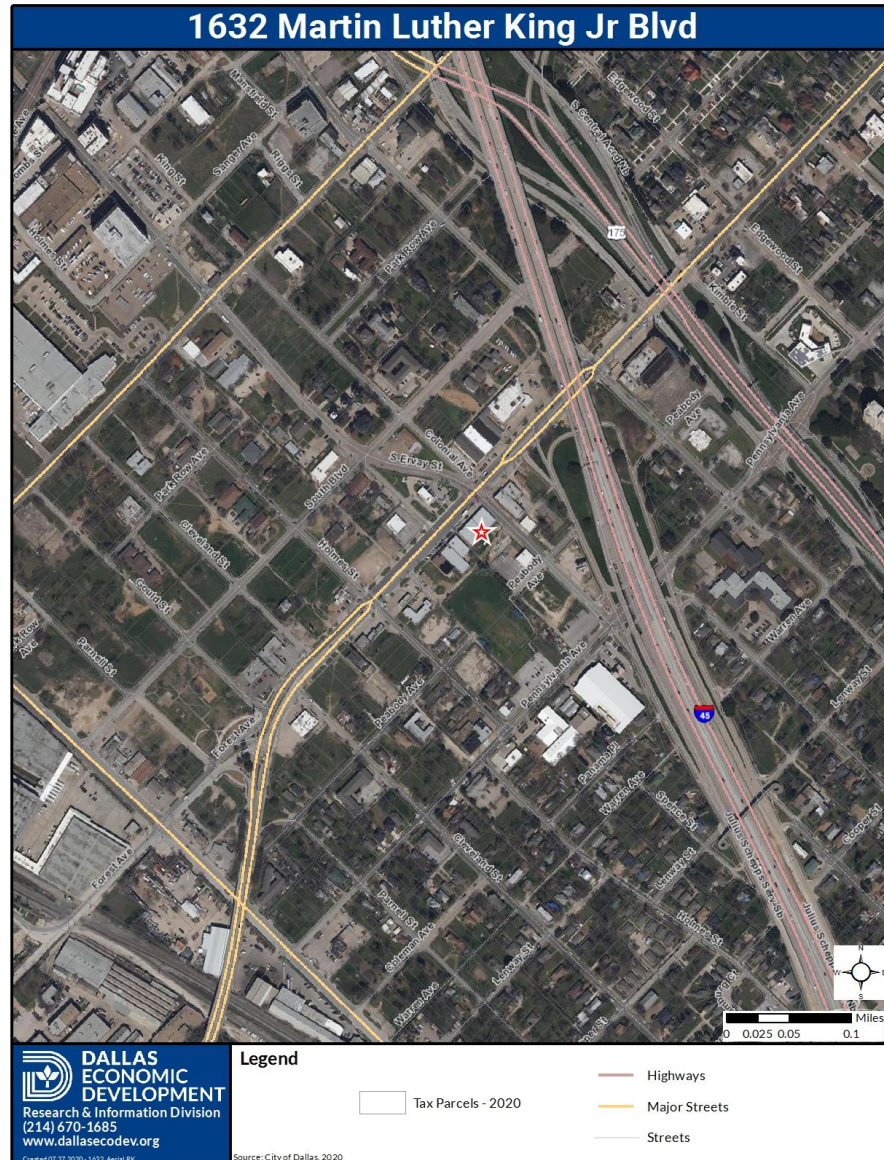
| |
|---|
| G |
| 3016 Colonial |
| <u>Community</u> <u>Innovation Center</u> Former Nightclub |



Background – Project Location



Aerial and Map



Proposed Project



View of MLK Jr Street Scene



FOREST MLK District

A Neighborhood-Focused Revitalization Plan



Proposed Project



Current Photograph of Proposed Project



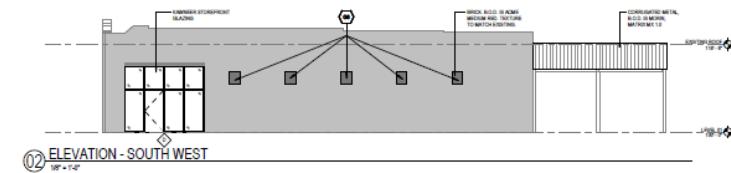
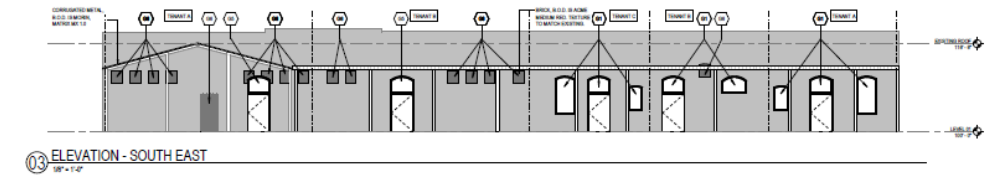
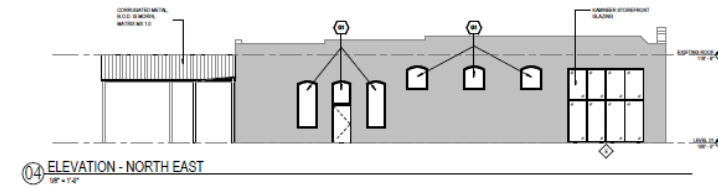
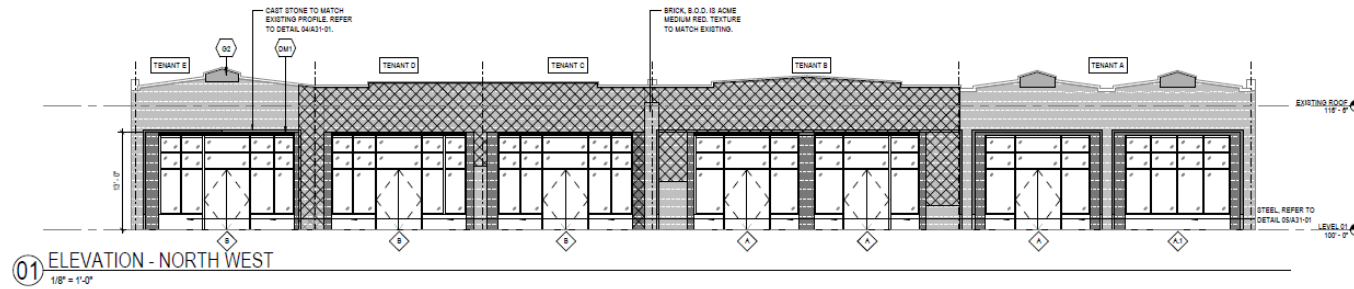
Rendering of Proposed Project



Proposed Project



Elevations



Proposed Project

Severely Distressed Census Tract

Census Tract: 48113003400

NMTC Qualified, Severely Distressed
(ACS 2011-2015)

Qualified Opportunity Zone: NO

Census Tract: 48113003400

Per Capita Income: \$16,267

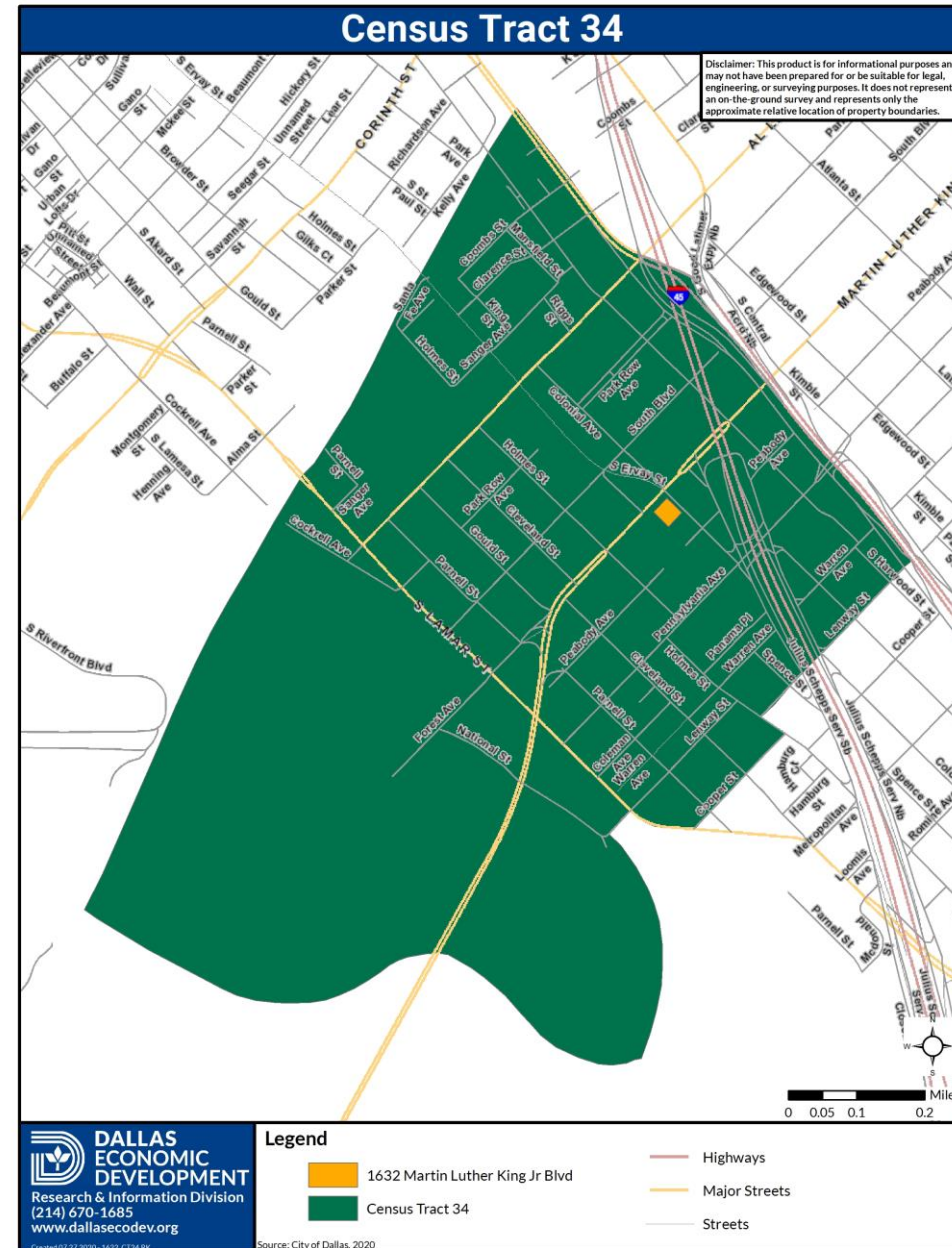
Median Family Income: \$32,804

Unemployment Rate: 13.55%

Source: 2018 ACS Data

Opportunities:

- The census tract is NMTC and CDBG eligible.
- The Census tract is a focus area for the Chase Pro Neighborhood Initiative by led TREC.

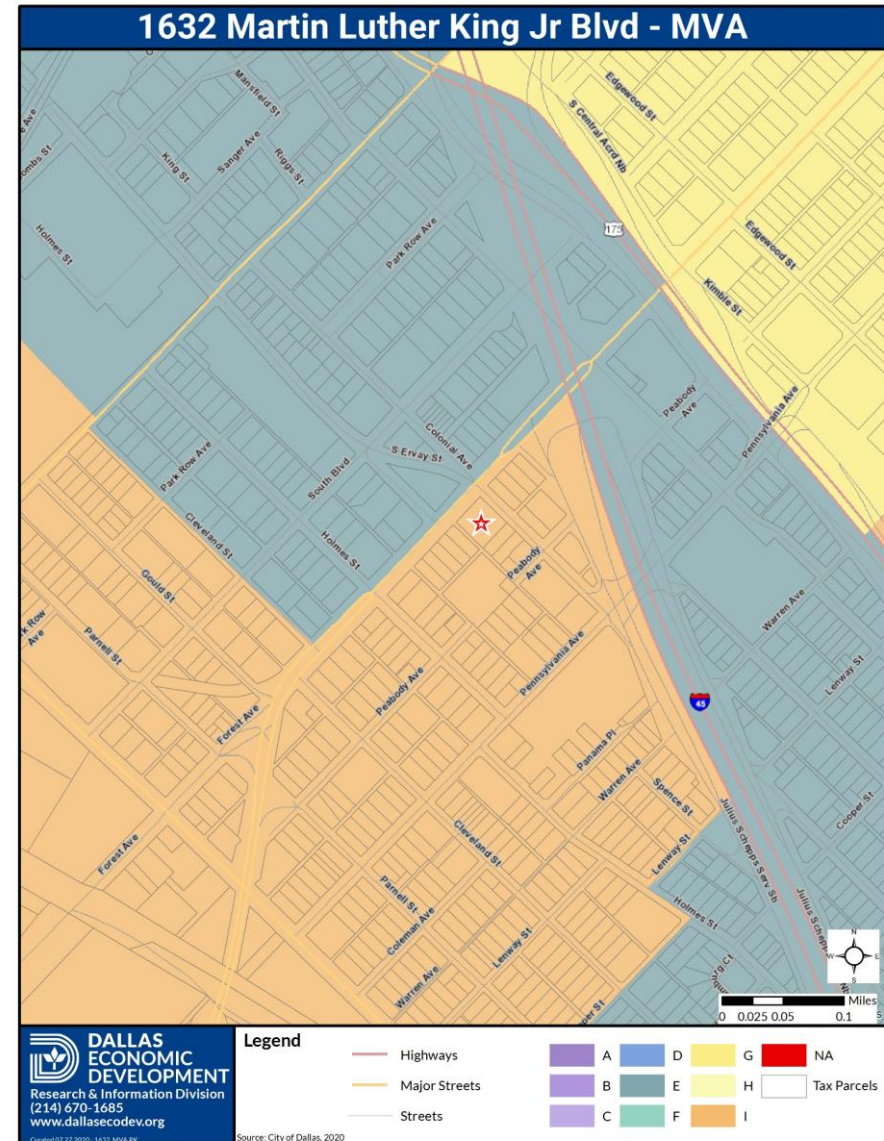


Proposed Project



Market Value Analysis (MVA)

- The Market Value Analysis (MVA) is a tool to assist residents and policy-makers to more precisely target intervention strategies in weak residential markets and support sustainable growth in stronger residential markets
- The proposed Project is located residential market type I. Market type I reflects a weak residential real estate market in Dallas. Market type E is also nearby, representing a middle residential real estate market.
- I-45 is a barrier separating the Project from the stronger market type E.
- The proposed Project will provide much needed quality retail, jobs, and entrepreneurship/small business opportunities in a rapidly changing neighborhood, particularly east of the Project site



Proposed Project



| Address | 1 632 Martin Luther King Blvd, Dallas, TX |
|------------------------------------|---|
| Parcel Identification Number | 000001 42087000000 |
| Year Built | 1913 |
| Description | 1-story masonry retail building |
| Business Plan for Asset Reposition | St. Philips as part of their overall redevelopment strategy for the community plans to renovate and secure quality tenancy for the newly rehabbed 12,000 SF building. |
| Back Story | Vacant building |



Proposed Project



- **FACILITY:**

St Philips plans to redevelop a 12,000 square foot property located at 1632 Martin Luther King Blvd.

- **TIMELINE:**

Construction will begin by Fall 2020 and be complete the project before December 31, 2022.

- **INVESTMENT:**

| | Amount | % of Total |
|-------------------|--------------------|---------------|
| Acquisition | \$501,043 | 16.4% |
| Site Improvements | \$409,482 | 13.4% |
| Construction | \$1,527,788 | 50.0% |
| Professional Fees | \$359,843 | 11.8% |
| Other | \$256,691 | 8.4% |
| TOTAL | \$3,054,846 | 100.0% |



Proposed Project



- **Sources:**

| | Amount | % of Total |
|---|--------------------|---------------|
| TREC Grant | \$475,000 | 15.5% |
| Pro Bono Services | \$274,727 | 9.0% |
| St, Philips Equity | \$517,986 | 17.0% |
| Bank Loan | \$787,133 | 25.8% |
| Economic Development Grant (To be bridged with bank financing) | \$1,000,000 | 32.7% |
| TOTAL | \$3,054,846 | 100.0% |

* Chase Bank/TREC will provide a bridge loan for the city assistance. City assistance only will be provided upon city completion of the project.



Proposed Project - Tenancy



| Suite | Tenant | RSF | Use | Lease Commence (Estimated) | Lease Expiration (Estimated) | Base Rent | Comments |
|------------|----------|------------|-------------------|----------------------------|------------------------------|-----------|-------------------|
| Restaurant | Tenant A | 2,975 | Restaurant | 10/01/2020 | 09/31/2025 | \$15 NNN | LOI |
| Retail | Tenant B | 3,500 | Restaurant/Retail | 10/01/2020 | 09/31/2025 | \$15 NNN | LOI |
| Service | Tenant C | 1,825 | Dentist | 10/01/2020 | 09/30/2024 | \$15 NNN | Negotiating a LOI |
| Service | Tenant D | 1,825 | Retail/Office | 10/01/2020 | 09/30/2025 | \$15 NNN | Negotiating a LOI |
| Service | Tenant E | 1,875 | Retail/Office | 10/01/2020 | 09/30/2025 | \$15 NNN | Negotiating a LOI |
| | | 12,000 RSF | | | | | |

A well-known mobile food operator will open its first brick and mortar location in the proposed project. A sit-down restaurant was among the top two priorities expressed by the community during the year-long equitable development planning process. The restaurant plans to partner with a Dallas based not for profit organization that will not only bring a desired service to the neighborhood, but also transform the lives of young adults through the not for profit organization's program that equips the community's most at-risk youth with life skills, education and employment opportunities.



Proposed Project – NOI Analysis



| | Proforma Information |
|--|-----------------------------|
| Effective Gross Income | \$250,727 |
| Expenses | (\$82,750) |
| Net Operating Income | \$168,006 |
| Cap Rate | 9.0% - Market Data – COSTAR |
| Estimated Stabilized Value (Year 3) | \$1,866,738 |



Proposed Project – Gap Analysis



Project Costs to Project Value Assessment

A financial gap does exist using the income capitalization approach to value and the total project costs without the incentive.

| | Without the Incentive | With the Incentive |
|--------------------------|-----------------------|---|
| Stabilized Project Value | \$1,866,738 | \$1,866,738 |
| Total Project Costs | \$3,054,846 | \$2,054,846 (Adjusted based on incentive \$1,000,000) |
| (GAP) | (\$1,188,846) | (\$188,108) |
| Return on Costs | 5.5% (NOI/TPC) | 8.2% (NOI/Adj. TPC) |

The Project achieves an acceptable ROC (8.2%) for Class B Retail Property in DFW with the incentive. CBRE's 2H 2019 Cap Rate Survey Class B retail should be between 7.5% to 9%.



Proposed Project– IRR Gap Analysis



| | Without Incentive | With Incentive (\$1MM) |
|-------------------------|-------------------|------------------------|
| Unlevered IRR - No Debt | 0.97% | 5.68% |
| Levered (IRR) - \$787K | 1.88% | 16.18% |

- The project's total budget is \$3.054 million. Given the project's maximum debt capacity of just over \$787,000 and equity and contributions, the project has a financial gap of approximately \$1,000,000.
- The need for a \$1,000,000 from OED is justified due to a below market leveraged internal rate of return of 1.88% without the incentive (\$3.054 million equity investment). Also, the project cannot support additional debt due to conventional underwriting standards.
- The subject development with city assistance achieves a 16.18% levered IRR with city assistance (\$1MM from the city and capital/contributions from the development team); thus, the project can only move forward city assistance.



Operational Impact



Incentives



**Economic Development
Grant**
\$1,000,000

Investment



Improvements
\$3,054,846

Jobs



Jobs
15 FTE created over
5 years

Revenue



**Projected
25 Yr. Property Tax
Revenue**
\$1,134,023

**Projected
25 Yr. Sales Tax
Revenue**
\$6,015,779



Proposed Incentive/Key Terms



- **INCENTIVE**

\$1,000,000 in 2017 general obligation bond funds (Economic Development Prop. I – District #7 Discretionary Funds) as a conditional grant. The grant will be payable upon the completion of the project which shall be defined as having a final certificate of occupancy and more than 50% of the space is occupied and leased.

The Grant shall be payable as a reimbursement for eligible expenses actually incurred during the construction or to pay down a bridge loan (or other credit facility) established to pay such expenses, and shall only be paid after a final certificate of occupancy and the building is open. The grant shall require the developer/operator to operate the facility for no less than five (5) years.



Proposed Incentive/Key Terms



KEY TERMS: The conditional grant will be contingent upon the following key provisions:

- The Developer shall document a minimum private investment in the Project of **\$1,500,000** prior to December 31, 2022.
- The Developer shall obtain **building permit(s) for the Project by December 31, 2021.** Demolition permits and/or foundation permits shall not fulfill this requirement.
- Developer shall complete the construction of the Project and obtain the final Certificate of Occupancy (CO) or equivalent evidence of completion of the buildings by December 31, 2022.
- Developer shall secure 40% pre-leasing (letters of intent) prior to the City executing the agreement.
- Upon the stabilization of the Project, the Developer shall maintain at least 50% occupancy for a period of no less than five (5) years.



Proposed Incentive/Key Terms



- The Developer shall make a good faith effort to attach a rider to the leases with the tenants requiring the tenants to pay hourly wages no less than \$15 per hour and ensure the tenant's workforce is comprised of no less than 25% City of Dallas residents.
- The Project shall create a minimum of fifteen (15) full-time equivalents (FTE) during the five (5) year compliance period. FTE jobs shall be greater than 35 hours per week. Jobs created by the tenants may be included in the fifteen (15) FTE requirement. The jobs shall be created no later than December 31, 2027.
- The Developer shall make a good faith effort to comply with the City's Business Inclusion and Development ("BID") goal of 25% participation by certified Minority/Women-owned Business Enterprises ("M/WBE") for all hard construction expenditures on the Project and meet all reporting requirements
- The Conditional Grant will be secured by a performance deed of trust recorded in the real property records of Dallas County against the owner's interests in the subject property. Failure to maintain and operate the building for five (5) years after the date of the Grant payment (the "Compliance Period") shall be a default of the Conditional Grant and an uncured default may result in enforcement of the City's interests or any other action allowed by law.



Staff Recommendation



- Pursuant to the P/PPP Guidelines and Criteria (effective for the period January 1, 2020 through December 31, 2020), the proposed project is located in a non-Target Area.
- Minimum eligibility criteria for projects in Non-Target Area: create/retain 100 jobs or provide \$5 million investment.
- With a total project cost of \$3.054 million, the proposed project does not meet the minimum eligibility criteria.
- Project that does not meet minimum eligibility but still significantly advances the public purpose of economic development can be considered on a case-by-case basis as a non-conforming project.
- Non-conforming project requires a $\frac{3}{4}$ vote of the City Council (12 of the 15 members).



Next Steps



- An agenda item will be placed a Dallas City Council voting agenda no later than October 28, 2020.



Appendix: Underwriting



- Recommended incentive: \$1,000,000 Economic Development Grant
- Conclusions of independent underwriting:
 - **Development team:** Experienced development team led by TREC
 - **Equity investors:** TREC will provide a \$475,000 grant . Additionally, a \$1,000,000 bridge loan for the City's Grant will be arranged with a lender.
 - **Permanent debt capacity of Project:** Based on the traditional underwriting (LTV and DSCR) the project can only support \$787,000 of conventional debt.
 - **Appraisal and Market Assessment:** The project assumptions are inline with the market conditions.
 - **Cost estimates of Project:** costs reasonable; development costs could be higher than projected since the figures provided by the developer do not represent contracted prices.
 - **Rational for economic development assistance based on Returns:** 16.18% IRR, within reasonable range for an entrepreneurial return for retail redevelopment project.



Appendix: Development Team



| Role | Party Name |
|------------------------|---|
| Project Owner | St. Philips School and Community Center |
| Owner's Representative | TREC/TREC Foundation |
| Development Consultant | 42 Real Estate |
| Architect | Perkins+Will |
| MEP Engineer | Schmidt and Stacy Consulting Engineers |
| Civil Engineer | Kimley-Horn & Associates |
| Property Management | The Beck Group |
| Leasing | The Retail Connection |

* All members of the development team are donating their services to the project.



Appendix: Ownership Entities



St. Philip's School & Community Center

- Incorporated in 1947; Original non-profit entity
- Purpose: Provide Faith Based Education & Compatible Community Services
- Operates School & Community Center

SPSCC Foundation

- Incorporated in 1997; Supporting non-profit organization for SPSCC
- Purpose: Promote Long Term Financial Stability
- Receive and Invest Endowment Gifts and Bequests

1600 Pennsylvania

- Incorporated in 2009; Repurposed in 2017; Supporting non-profit org. for SPSCC
- Purpose: Community Development Corporation
- Planning, Public Safety, Quality Housing & Economic Development

SP 1600 Penn Foundation

- Incorporated in 2011; Supporting non-profit organization for SPSCC
- Purpose: Acquisition and Holding of Real Estate
- Created primarily for environmental risk protection while holding real estate

Housing LLCs

- Incorporated in 2018; For-profit corporations (LLC sole partner = SP 1600 Penn Fdn)
- Purpose: Housing Development
- Development, Management & Operations of Multi-family Housing

1632 MLK LLC

- Incorporated in 2020; For-profit corporation (LLC sole partner = SP 1600 Penn Fdn)
- Purpose: Economic Development
- Development, Management & Operations of Retail Center





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