1500 Marilla Street
Council Chambers, 6th Floor
Dallas, Texas 75201

Legislation Text

File #: 24-343, **Version:** 1

STRATEGIC PRIORITY: Housing & Homelessness Solutions

AGENDA DATE: February 14, 2024

COUNCIL DISTRICT(S): 7

DEPARTMENT: Department of Housing & Neighborhood Revitalization

EXECUTIVE: Majed Al-Ghafry

SUBJECT

Authorize the Dallas Public Facility Corporation to **(1)** acquire, develop, and own Santa Fe Trail at Haskell located at 4000 Ash Lane, Dallas, Texas 75223, a mixed-income, multifamily development to be located at 4000 Ash Lane; and **(2)** enter into a seventy-five-year lease agreement with Larkspur Capital, LP, or its affiliate, for the development of the Project - Estimated Revenue Forgone: General Fund $2,609,794.00 (For 75 years; see Fiscal Information)

BACKGROUND

Larkspur Capital, LP (Applicant), a Texas limited partnership, submitted an application to the Dallas Public Facility Corporation (Corporation) for the development of Santa Fe Trail at Haskell, a 240-unit mixed income multifamily development to be located at 4000 Ash 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 Larkspur Capital, LP. Larkspur Capital is a Texas-based real estate development and construction company that is actively developing a portfolio of multifamily properties. Their current portfolio includes 8 multifamily projects around the Dallas area including one project (Larkspur Fair Park) already approved through the Corporation. In addition to their multifamily ventures, Larkspur is experienced in developing retail, industrial, and office properties as well.

The Project will be a 240-unit podium/wrap hybrid style mid-rise multifamily development in Dallas' Expo Park submarket. The Project will be situated on 2.5 acres off Haskell and Parry Avenue, along the Santa Fe Trail.

The Project has been designed to capture the spirit and history of Fair Park & Deep Ellum through the utilization of art deco design on the interior and exterior, as well as a focus on being walkable and engaging with the pedestrian experience along the Santa Fe Trail. The Project will have a minimal setback and highlight urban principals such as vertical and horizontal façade articulation, pedestrian-engaging features such as awnings, stoops, and balconies, and active uses on the ground floor. Amenities will include a courtyard and pool, cantina, large dog park, and coworking space. The Project is just a two-minute walk to Dallas Area Rapid Transit's Fair Park rail station.

The Project is currently being rezoned from Industrial to allow for the Project. Larkspur Capital has held four meetings with the surrounding communities and has received significant support from each community as they appreciate the project and sincerely want to avoid any future industrial development on the site. The project was on the agenda for The Planning and Zoning board's November meeting, and they received no opposition to the re-zoning request. 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. 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%	8	$1,083.00
Studio	80%	28	$1,444.00
Studio	Market	36	$1,650.00
1BR	60%	12	$1,160.00
1BR	80%	48	$1,547.00
1BR	Market	60	$1,925.00
2BR	60%	5	$1,392.00
2BR	80%	19	$1,856.00
2BR	Market	24	$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 $64,643,024.00, which includes the acquisition price for the land. The development budget less soft/financial costs is anticipated to be approximately $55,157,509.00, which is $229,822.95 per unit.

Proposed Financing Sources	Amount
Mortgage Loan	$35,553,663.00
Developer/Investor Equity	$29,089,361.00
Total	$64,643,024.00
Proposed Uses	**Amount**
Development Costs	$48,267,986.00
Land Acquisition	$6,889,523.00
Soft Costs	$6,485,515.00
Contingency	$3,000,000.00
Total	$64,643,024.00

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 $86,717,801.00 in revenues over the 75 years of the lease. Potential proceeds to the Corporation include (1) a $250,000.00 structuring fee paid at closing; (2) lease payments starting at $339,000.00 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, the Corporation will continue to receive the annual lease payments. Upon termination of the 75-year lease, the Corporation will own the Project free and clear.

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 forgone tax revenues for the City while the Corporation owns the asset. The 2022 City tax bill for this property is $9,572.63 and the 75-year estimate of forgone taxes is $2,609,794.00. However, the workforce housing rental savings of $162,235,020.00 over 75 years and the estimated $86,717,801.00 in revenues provides the City with $248,952,821.00 in benefits that outweigh the foregone revenue. If this same project were to be constructed without a partnership with the Corporation, the City would need to subsidize the property with approximately $25,389,592.00 from some other source in order to keep the project as-is with the affordability levels that are currently planned at the property.

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, the 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, which were subsequently amended by Resolution 22-1194 (bylaws).

Section 6.2 of the Corporation’s bylaws requires the 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 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 Policy 2033 (DHP33).

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 DHP33. Staff recommends approval of this item to allow this mixed-income housing development to move forward.

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

On November 7, 2023, the Dallas Public Facility Corporation Board of Directors approved the negotiation and execution of a term sheet with the Applicant.

The Housing and Homelessness Solutions Committee was briefed by memorandum regarding this matter on January 22, 2024. <https://cityofdallas.legistar.com/View.ashx?M=F&ID=12607496&GUID=4C560000-12A5-4C37-A652-645B3CA7B994>

FISCAL INFORMATION

Estimated Revenue Foregone: General Fund $2,609,794.00 (over 75 years, resulting in a net revenue of $84,108,007.00)

Exhibit A provides the supporting details on the estimated $86,467,801.00 in lease payments over 75 years in addition to an acquisition fee in the amount of $250,000.00 totaling $86,717,801.00 to the Corporation.

MAP

Attached