

Memorandum



DATE March 19, 2018

TO The Honorable Members of the Economic Development & Housing Committee:
Tennell Atkins (Chair), Rickey D. Callahan (Vice Chair), Lee M. Kleinman,
Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin
Felder, Omar Narvaez

SUBJECT **Real Property Tax Abatement Proposal First Mountain Creek Distribution Center**

Summary

On the March 28, 2018 City Council Agenda, you will consider an item to authorize a 10-year 90 percent real property tax abatement agreement for the development of a distribution center facility (approximately 1 million square feet) located at the northeast corner of Mountain Creek Parkway and Camp Wisdom Road. This memo is to provide information regarding that upcoming agenda item.

Background

First Industrial Realty Trust Inc. (First Industrial) was formed as a public real estate investment trust (REIT) in 1993 and is a full-service real estate development company which has developed or acquired over 47 million square feet in property in 18 core markets throughout the United States. Headquartered in Chicago, Illinois, First Industrial has developed over 9 million square feet of new buildings during the current business cycle, of which approximately 2 million square feet have been in the DFW area.

First Industrial would like to develop a speculative distribution center facility of approximately 1 million square feet situated on approximately 82 acres of property located south of I-20, north of Camp Wisdom Road, and east of Mountain Creek Parkway in Dallas, Texas, as depicted on the map attached as **Exhibit A**. A rendering of the development is attached as **Exhibit B**.

During 2016, First Industrial worked with area residents, elected officials, and City staff to rezone the site to allow for development of the facility. Planned Development District 521 was approved by the Council on January 11, 2017 (Ordinance No. 30305) to allow for data centers, computer system housing, and light industrial uses to facilitate e-commerce tenants. As part of the zoning process, First Industrial made several site design allowances to mitigate neighborhood concerns, including:

- Creation of a 22-acre on-site conservation easement

- Dedication to the City of Dallas of an approximately 43-acre site on Five Mile Creek (4700 W. Ledbetter) as a permanent conservation easement to address tree mitigation issues at the development site.
- Use of berms and tree screening on the south and west sides of the building to buffer nearby residential areas.

These mitigation measures are shown on **Exhibits C** and **D**.

First Industrial Realty Trust, Inc. will develop the project through an affiliate, First Industrial, L.P. The entity will invest approximately \$52,000,000 in the project (inclusive of land, hard and soft construction costs). Total vertical construction costs are estimated at \$37,000,000.

The project site is in a Texas Enterprise Zone, as depicted on **Exhibit E**. Pursuant to Section 312.2011 of the Texas Tax Code, designation of an area as a Texas Enterprise Zone constitutes designation of an area as a reinvestment zone without further hearing or other procedural requirements.

Issue

First Industrial is requesting Council consideration of a 10-year 90 percent ad valorem tax abatement for the development. The real property tax abatement will help secure new real property investment and job opportunities at this southern Dallas location. The tax abatement will keep this new distribution center competitively viable within a market providing similar lease rate benefits to users. First Industrial is designing, building, and marketing the Facility to appeal to an e-commerce tenant.

The tax abatement agreement terms shall include:

- First Industrial will be required to spend a minimum of \$27,000,000 after the date of the Council approval developing a minimum 900,000 square foot Facility with substantial completion by December 31, 2019.
- Since the requested tax abatement is intended to assist in securing a tenant at the facility, First Industrial will not be eligible for the tax abatement until at least 51 percent of the facility is leased to and occupied by a tenant.
- If at least 51% of the space is not leased or is or is not occupied during a given year within the ten-year tax abatement period, the abatement will be lost for that year. If the abatement is lost for 2 years in a row, then the abatement agreement shall be terminated.
- All real property tax revenue foregone by the City because of the tax abatement agreement shall be recaptured by the City if improvements to real property are not made and maintained as provided by the tax abatement agreement.
- For the term of the abatement, the developer will submit quarterly reports to the City certifying the net number of new jobs created at the project.
- If the abatement agreement is not executed by December 31, 2018, it is void.

Alternatives

If we offer no tax abatement or a tax abatement at a percentage or duration less than what is proposed, First Industrial has represented that they will not undertake the development. City Staff has prepared a gap analysis to support the tax abatement.

Exhibit F

Fiscal Impact

The estimated foregone revenue to the City associated with the tax abatement is \$2,598,730 over the ten-year term (net present value of \$1,912,689). After factoring in the estimated foregone revenue, the net fiscal impact to the City from the project is estimated at \$893,873 over 10 years and \$6,358,812 over 20 years.

Departments/Committee Coordination

On November 17, 2016, the City Plan Commission approved (1) an amendment to and an expansion of the Subdistrict S-1c, South Zone portion on property zoned Subdistricts S-1c, S-1d, and S-2a, South Zone, within Planned Development District No. 521; and (2) rezoning a portion of Subdistrict S-1d, South Zone into Subdistrict S-2a, South Zone on property regarding this matter located generally along the east line of Mountain Creek Parkway, north of Camp Wisdom Road. On January 11, 2017, the City Council approved Ordinance No. 30305 authorizing the zoning changes described above.

The Office of Economic Development also reviewed the proposal in the context of the Market Value Analysis. The project is located in a non-residential tract, adjacent to MVA Categories E and F, as shown on **Exhibit G**. The proposed development will provide additional local employment to this mid-market residential area. The development will also provide dedicated open space and an additional conservation easement near Dallas Executive Airport. Finally, the development will strengthen the area's commercial real estate market due to the significant investment associated with the First Industrial project.

Staff Recommendation

Staff recommends that the City of Dallas enter into a 10-year 90 percent real property tax abatement agreement with First Industrial, L.P. This item will be placed on the City Council agenda for March 28, 2018.

The proposed development is in a Non-Target Area, as defined in the City's Public/Private Partnership Program (P/PPP) Guidelines and Criteria. However, because the proposed development is a logistics project, it meets the definition of a Target Industry project. Because the proposed development is a Target Industry project and significantly advances economic development, it can be considered a "Non-Conforming Project" pursuant to the P/PPP Guidelines and Criteria.

As a Non-Conforming Project, the real property tax abatement requested by First Industrial requires approval by a three-fourths vote of the City Council.

Should you have any questions, please contact me at (214) 671-5257.



Raquel Favela
Chief of Economic Development and Neighborhood Services

c: The Honorable Mayor and the Members of City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Biliera Johnson, City Secretary (I)
Daniel F. Solis, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Jo M. (Jody) Puckett, P.E., Assistant City Manager (I)
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Nadia Chandler Hardy, Chief of Community Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors

EXHIBIT A
Site Map



EXHIBIT B

Rendering



“Our Product is Service”
Empathy | Ethics | Excellence | Equity

EXHIBIT D
4700 W. Ledbetter Road Conservation Easement



EXHIBIT E

Texas Enterprise Zone

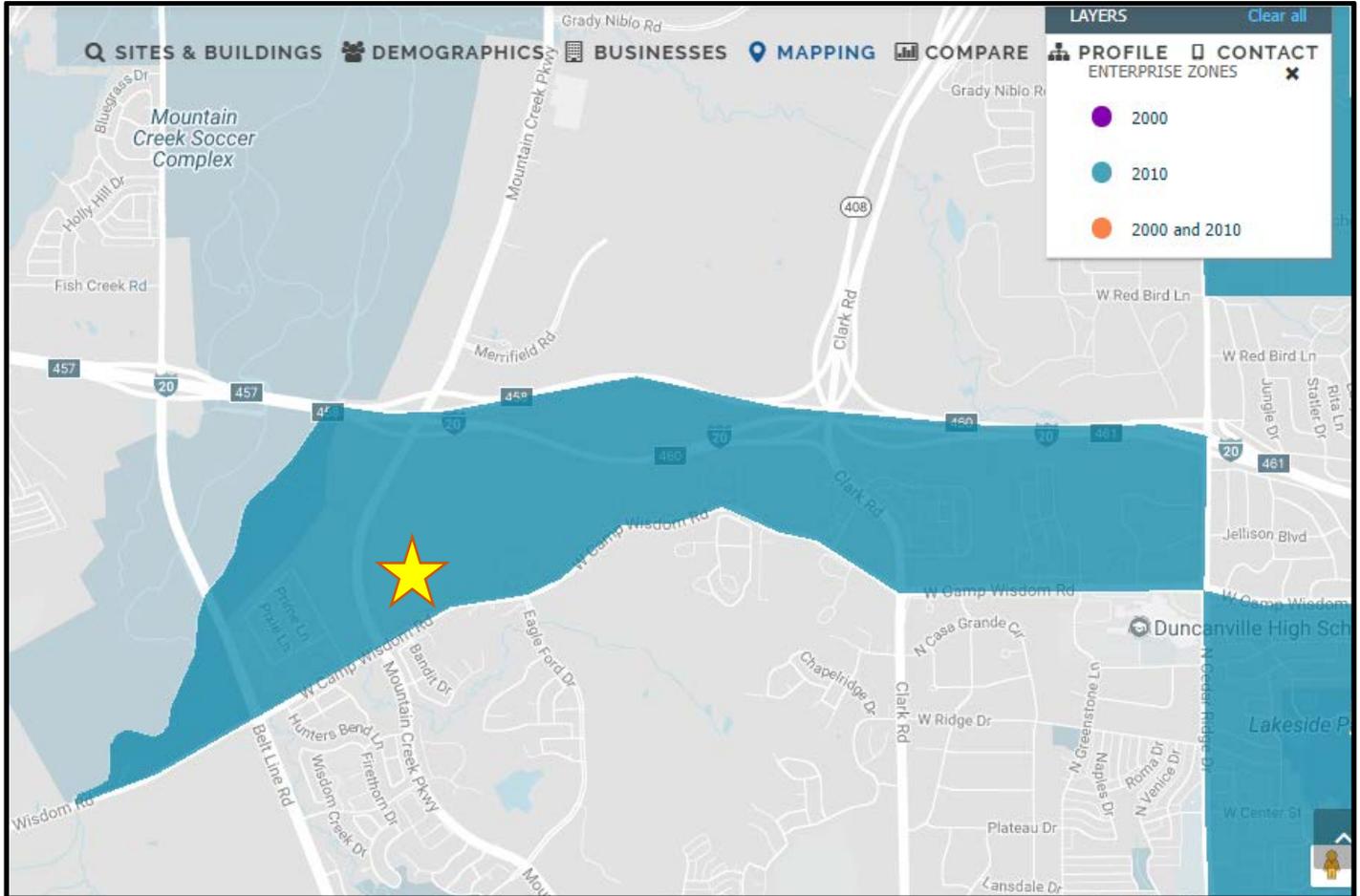


Exhibit F – Gap Analysis

| | | | |
|---|--|-----------------------------|----------------------|
| Justification for the Incentive: | The project costs for the subject development are approximately 10% above typical construction costs for similar projects due to physical challenges that the project contains. Specifically, the topography, the poor soils conditions, and dense forestation (resulting in high tree mitigation costs) on the site have added approximately \$5.0 million to the overall development budget. The proposed tax abatement will aid in improving the return on costs for the project. | | |
| Capitalization of the Project: | First Industrial, a publicly traded REIT on the NYSE – ticker symbol: FR, plans to capitalize the project with corporate level debt and equity from its shareholders. | | |
| Total Development Costs: | The following represents a summary of the total development costs related to the subject project: | | |
| | Acquisition Costs | \$4,378,397 | |
| | Infrastructure | \$3,626,100 | |
| | Hard Costs | \$30,215,900 | |
| | Softs Costs | \$2,712,617 | |
| | Interest Costs | \$4,531,356 | |
| | LC/TI | \$6,287,971 | |
| | Fees | \$112,000 | |
| | TDC: | \$51,864,341 | |
| Ratio of Private Investment to PV of the Public Incentive (Tax Abatement): | Total Development Costs = \$51,864,341 10yr Value of the COD Tax Abatement = \$2,598,730 Present Value (PV) of the COD Tax Abatement = \$1,912,689 Ratio to Private Investment to PV Tax Abatement = 27.12 to 1 Ratio to Private Investment to 10yr Value of COD Tax Abatement = 19.95 to 1 | | |
| ROC with Tax Abatement: | 6.40% = \$3,320,000 (NOI)/\$51,864,341 (TDC) | | |
| ROC without the Tax Abatement: | 5.90% = \$3,060,000 (NOI)/\$51,864,341 (TDC) | | |
| ROC Rationale: | The Applicant views this project as long-term investment and although the return on costs are below typical investor returns, which range from 6% to 9%, the applicant plans to move forward with the project subject to the approval of the tax abatement. | | |
| Gap Analysis | | With RP Tax Abatement | w/o RP Tax Abatement |
| | NOI | \$3,320,000 | \$3,060,000 |
| | Cap Rate | 6.25% (South Dallas Market) | 6.25% |
| | Value | \$53,120,000 | \$48,960,000 |
| | TDC | \$51,864,341 | \$51,864,341 |
| | GAP | \$1,255,659 | (\$2,904,341) |
| | Without the tax abatement, the project has an unacceptable TDC to value gap of \$2,904,341; thus, the project cannot move forward without the tax abatement. The tax abatement for the project is supported by the gap analysis. | | |

Exhibit G Market Value Analysis



MVA Market Types/Categories

| | | | |
|--|---|--|----|
| | A | | F |
| | B | | G |
| | C | | H |
| | D | | I |
| | E | | NA |