Memorandum

CITY OF DALLAS

DATE April 22, 2025

TO Honorable Mayor and Members of the Government Performance and Financial Management Committee: Chad West (Chair), Paula Blackmon (Vice Chair), Cara Mendelsohn, Jesse Moreno, Jaime Resendez

SUBJECT **Market Research Report for 2929 S. Hampton Rd.**

The City of Dallas engaged CBRE to perform an evaluation of the property located at 2929 S. Hampton Rd. Acquired in 2022, the 12.5-acre site was purchased using 2017 Bond Funds (Proposition J) for the purpose of providing permanent supportive housing for formerly unhoused individuals.

CBRE was tasked with identifying the highest and best use of the site in the 2025 market conditions. Listed below are the key findings excerpted from the report which is attached for your review.

1. Valuation of the asset/site has deteriorated since the City's mid-2024 appraisal, primarily due to challenging capital markets conditions, inflation in construction costs, high mortgage rates leading to a slower residential environment, and 2023-2024 vintage multi-family coming online into a highly supplied market.

2. CBRE believes there is low probability of a market-based medical user/health care provider or operator to re-use the facility in 2025 or 2026 – while we concur that re-purposing the facility would be the best use, the cost of preserving, remediation, and providing security to the facility, will far outweigh the benefit of holding the asset.

3. CBRE believes the highest and best use long-term is likely an affordable housing development with limited retail, but speculative retail is not currently feasible in the current capital markets, and LIHTC-based affordable housing (with 9% or 4% tax credits for equity) will be a multi-year process.

4. The multi-family/ affordable housing developers will likely request material financial support from the City to demolish the current facilities or provide additional horizontal development incentives to achieve any deviations from standard multi-family programming.

5. CBRE believes the most viable current development strategy (simply, a strategy that can be executed in the next 3 years) would be to convey the land to a development partnership that requires the development/construction of affordable, single-family homes (for rent or for sale) in a 4-5 phase delivery of 8-10 units per phase.

6. If the City desires to know the true market value of the land and improvements, CBRE (page 5) suggested that the City might consider to declare the asset as surplus and list it with a broker to see what offers come in.

A representative from CBRE will be present at the April 22, 2025, Government Performance and Financial Management Committee meeting to answer questions about the study. Should you have any questions or require additional information, please reach out to me or John Johnson, Director, Facilities and Real Estate Management.

Service First, Now!

Donzell Gipson
Assistant City Manager
(Attachment)

c: Kimberly Bizor Tolbert, City Manager
Tammy Palomino, City Attorney
Mark Swann, City Auditor
Bilierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Dominique Artis, Chief of Public Safety
Dev Rastogi, Assistant City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Alina Ciocan, Assistant City Manager
Robin Bentley, Assistant City Manager
Jack Ireland, Chief Financial Officer
Elizabeth Saab, Chief of Strategy, Engagement, and Alignment (I)
Directors and Assistant Directors

MARKET RESEARCH | DEVELOPMENT ADVISORY FOR CITY OF DALLAS | 2929 S HAMPTON

PREPARED BY CBRE | MARCH 5, 2025

Peter Jansen
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Ms. Ashley Eubanks
Assistant Director – Public Works

Re: Market Research | Development Advisory for the City of Dallas | 2929 S. Hampton

Dear Ms. Eubanks,

The City requested a Broker Option of Value and strategy evaluation related to the City's asset at 2929 S. Hampton, a former medical facility acquired in recent years by the City. CBRE's scope of work to support the City included market research, development advice, and an evaluation of the due diligence of the site possessed by the City currently. CBRE considered the City's acquisition basis, the current capital markets and cost of financing for repurposing the site, the market use (the "highest and best use") in comparison to prescribed uses (through incentives, deed restrictions, and/or uses simply preferred or requested by stakeholders/neighborhood engagement), which may or may not be aligned with natural market forces, and the City's regulatory role. We are pleased to submit the following framework based on our understanding of the City's request and experience in similar projects. We welcome additional discussion and the opportunity to present our approach, observations, and findings to you and other stakeholders.

STUDY SUMMARY

CBRE focused our study on two primary objectives:

1. The first objective was to identify the highest and best use of the site in the 2025 market conditions, given the significant changes in the capital markets since the City's acquisition, which has materially changed market velocity, financing of new multi-family starts, and general risk acceptance by market participants.

2. The second objective was to identify a range of options for the City and develop these into economic scenarios for comparative evaluation.

STUDY OBSERVATIONS | FINDINGS

The following findings are the core conclusions to our study:

1. Valuation of the asset/site has deteriorated since the City's mid-2024 appraisal, primarily due to challenging capital markets conditions, inflation in construction costs, high mortgage rates leading to a slower residential environment, and 2023-2024 vintage multi-family coming online into a highly-supplied market. Furthermore, the assets' ongoing deterioration and higher costs of remediation and renovations make it more difficult to restore the asset.
2. CBRE believes there is low probability of a market-based medical user / health care provider or operator to re-use the facility in 2025 or 2026 – while we concur that re-purposing the facility would be the best use, the cost of preserving, remediation, and providing security to the facility, will far outweigh the benefit of holding the asset. We note that the appraisal cited that the owners and brokers for facility had been trying to find a new medical buyer/partner for ***nearly a decade*** prior to the City's acquisition. The facility's equipment, condition, and core/shell have not been maintained and it is speculative to suggest that any of the building has relevance to modern medical providers.
3. CBRE believes the highest and best use long-term is *likely an affordable housing development* with limited retail, but speculative retail is are not currently feasible in the current capital markets, and LIHTC-based affordable housing (with 9% or 4% tax credits for equity) will be a multi-year process. Accordingly, if the City were to sell the site, the current value for land would be at or below the 2024 appraisal (approximately $1.5 to $2M), but it would not be developed for multiple years (the buyer would land bank the site until more favorable conditions arose) Due to the significant cost increases faced by builders and developers, even at a reduced land basis, the site would not immediately be developed given requirements by lenders and investors to develop to a yield above current interest rates with debt. Our preliminary underwriting reveals that even an outright donation of the land to a multi-family developer would not make the project feasible. *The site is currently not feasible to develop without subsidies.*
4. The multi-family / affordable housing developers will likely request material financial support from the City to demolish the current facilities or provide additional horizontal development incentives to achieve any deviations from standard multi-family programming. More simply, the rental rates in the submarket do not support development with meaningful amenities. Accordingly, prescribed uses such as grocery, retail, parks, and other more speculative uses, may likely require additional subsidies and financial support by the City.

5. CBRE believes the most viable *current* development strategy (simply, a strategy that can be executed in the next 3 years) would be to convey the land to a development partnership that requires the development/construction of affordable, single-family homes (for rent or for sale) in a 4-5 phase delivery of 8-10 units per phase. In this strategy, a development partner of the City's choosing would be required to construct homes that achieve affordability levels of the City's directive and the City may support the development of new product in a traditionally challenged submarket and activate the land rather than have it sit fallow.
    a. ~13 acres will likely support the development of 60-75 homes or more, assuming smaller lots and <2,000 square foot homes
    b. The City could prescribe the affordability limits, durations, and other equitable adjustments by assuming the riskiest part of home development – the land acquisition and lot development phase – and complete the pre-development activities in partnership with the community.
    c. The site's zoning allows for a variety of uses, but a well-planned development would likely require significant variances and regulatory input, which is best addressed by the City as its holding costs for that period would be less than a buyer/developer. This cost savings (to the overall development) and risk assumption by the City will likely lead to a superior product and development outcome.
    d. The City may consider crowdfunding or other recent financing tools/trends to allow the stakeholders in the neighborhood to co-invest in the project, directly aligning incentives with preserving, managing, and creating equity for stakeholders. This would be particularly interesting for single-family-for-rent product.

STUDY DEFICIENCIES

1. The City has not performed a Facility Condition Assessment in its ownership period, which is noted in the appraisal as a material deficiency. The City has a material data gap as the true costs of many known building issues are being speculatively addressed. CBRE recommends the City perform an assessment, which will be useful to the market of potential buyers in the event of a sale, and is a low-cost item to provide accurate and complete information on material issues. CBRE estimates the cost of this study to be less than $25,000 and it will form the basis to answer whether the building can be repurposed in any manner, or whether it requires demolition.
2. The City has not evaluated or studied alternative site plans for single family, multi-family, or other uses, and while the site is known to be serviced by utilities, re-developing the site to more intensive uses may require horizontal or other infrastructure upgrades, and inhibit development.

Low-cost yield studies, complemented by preliminary master planning, and an engineering site assessment may be useful to stakeholders in their evaluation of alternatives and adoption of a development strategy. CBRE estimates the cost of these studies to be less than $40,000 for multiple iterations.

3. While the City originally intended to convert the project to supportive housing and other homeless services, no design plans, cost estimates, or operational plans were submitted to CBRE for comparative evaluation. It is unclear the depth of the technical analysis that has or has not been completed from a design or engineering perspective to consider this use.

4. The licensing process and other certification requirements may inhibit or prohibit medical uses given the duration of time since it was previously used and evolution of standards/processes. The certification / licensing process was beyond the scope of CBRE's engagement and we recommend the City not presume this to be possible without a comprehensive study.

CBRE's RECOMMENDATIONS

If the City desires to know the true market value of the land and improvements, it might consider:

1) Declare the asset surplus, list the property with a broker for the process-compliant minimum 30-day period, and see what offers come in. The marketing strategy may include listing a minimum price, but stakeholders should forewarned that this listing is fairly illiquid and it may require broker incentives. To execute this process, the City should have the following due diligence materials at a cost of less than $50,000 to include in the offering:
   a. Engineering Site Assessment
   b. Environmental Site Assessment ("ESA Phase 1")
   c. Facility/Property Condition Assessment ("FCA or PCA")
2) The City ought to compare these offers to the appraised value and determine the holding costs of the asset versus selling in this phase of the market cycle.

If the City desires to explore affordable housing partnerships, it might consider:

3) Engage a third-party broker (for purposes of expediency and augment staff capacity) to identify, qualify, and solicit SBE/MWBE builders and developers to form teams to execute a fee-development project that achieves new single family product in the area. The assessed value of 60 new homes would be $18M+, leading to an annual tax benefit to the City of $180,000+. Over 10-20 years, this value of the tax revenues exceeds the value of the appraised value. To execute this process, City should have the following due diligence materials at a cost of less than $50,000 to include in the offering:

   a. Engineering Site Assessment
   b. Environmental Site Assessment ("ESA Phase 1")
   c. Facility/Property Condition Assessment ("FCA or PCA")
   d. Development consultant

If the City desires to explore health care/medical uses at the current improvements, it might consider:

1) Engage a third-party engineer (for purposes of reliance, liability and expediency) to identify the current condition of the building. It may be prudent for City stakeholders to tour alongside staff and the consultants to see first hand the condition and probability of re-using the facility, the environmental risks, and state of the medical equipment, and the roof/systems.
2) Engage a third-party consultant to identify the operational start-up costs of re-certification of the building for medical purposes. The facility condition assessment will only identify the deficiencies required to achieve Building Codes.
3) Consider the long-term operational subsidies that may be required to operate the facility for the prescribed period and purposes.

We look forward to discussing this with you in greater detail at your convenience.

Best regards,

Peter D. Jansen

Peter Jansen
CBRE, Public Institutions

MF Development - Residual Land Value

2929 South Hampton | Dallas

Site Info & Assumptions

Deal Name	2929 Hampton	
Parcels		
City/Market	Dallas	
Zoning	TBD	
Acres	12.56	
NRSF	271,296	
Density	24	
Units	301.44	
Avg. Unit Size	900	
NRSF	271,296	
MF Gross SF	298,426	10%
Market Cap Rate	5.00%	

Development Cost Calculation

	Amount	Per Unit	PGSF
Site Work	$0	$0	$0.00
Hard Costs	$52,224,480	$173,250	$175.00
Soft Costs	$7,833,672	$25,988	$26.25
Finance Costs	$0	$0	$0.00
Total Dev. Cost	$60,058,152	$199,238	$201.25

NOI Calculation

	Amount	Per Unit	PSF/%
Gross Rent	$4,883,328	$16,200	$1.50
Other Income	$244,166	$810	5%
PGI	$5,127,494	$17,010	
-Vacancy	-$512,749	-$1,701	10%
EGI	$4,614,745	$15,309	
-Expenses	-$1,845,898	-$6,124	40%
NOI	**$2,768,847**	$9,185	

Residual Land Value - Target YOC

Target Yield on Cost	6.50%	
	Amount	Per Unit
Supportable Site Cost	$42,597,646	$141,314
-Total Dev. Cost	$60,058,152	$199,238
Residual Land Value	**-$17,460,506**	
PSF	***-$31.91***	
Per Unit	***-$57,923.65***	

Land Value PSF Sensitized with Rent PSF and Target YOC

($31.91)	$1.35 PSF	$1.40 PSF	$1.45 PSF	$1.50 PSF	$1.55 PSF	$1.60 PSF	$1.65 PSF
6.00% YOC	-$33.86	-$31.05	-$28.24	-$25.43	-$22.61	-$19.80	-$16.99
6.25% YOC	-$36.90	-$34.20	-$31.50	-$28.80	-$26.10	-$23.40	-$20.70
6.50% YOC	-$39.70	-$37.10	-$34.51	-$31.91	-$29.32	-$26.72	-$24.13
6.75% YOC	-$42.30	-$39.80	-$37.30	-$34.80	-$32.30	-$29.80	-$27.30
7.00% YOC	-$44.70	-$42.30	-$39.89	-$37.48	-$35.07	-$32.66	-$30.25