

Memorandum



CITY OF DALLAS

DATE October 8, 2021

TO Honorable Mayor and Members of the City Council

Upcoming Agenda Item on October 13, 2021

SUBJECT **One City View: a Mixed-Use and Mixed-Income Development Project at the northwest corner of North Hall Street and Flora Street**

For the benefit of the full City Council, attached you will find information that was briefed by memorandum to the Economic Development Committee at its September 21, 2021 meeting pertaining to “One City View,” a mixed-use and mixed-income development project as further described herein and attached.

The Project will be located on a vacant 5.4 acre site at the intersection of North Hall Street and Flora Street. The Project will include an approximately 80,000 square foot Kroger grocery store and 375 apartments, of which 75 apartments (20%) will be rent restricted for households earning a maximum of 60% Area Median Family Income. The Project will also include an approximately 779 space parking structure. The total Project cost is an estimated \$108 million.

On October 13, 2021, staff will seek City Council authorization to:

- (1) designate approximately 5.4 acres of property addressed as 1823 North Hall Street, located at the northwest corner of North Hall Street and Flora Street, as Neighborhood Empowerment Zone No. 19 pursuant to Chapter 378 of the Texas Local Government Code to promote the creation of affordable housing and an increase in economic development in the zone, and
- (2) execute a real property tax abatement agreement for a period of ten years in an amount equal to the City’s taxes assessed on 90 percent of the increased value of the property currently located at 1823 N. Hall Street (the “Property”) with Kroger Texas L.P. (“Owner”) and SEK Hall Street, LLC (“Developer”), in consideration of the One City View Mixed-Use and Mixed-Income Development Project (“Project”). The Developer is a joint venture between Kroger (The Kroger Co.) and Southeastern (SE Hall Street Partners, LLC; SEDA).

For the past year, City staff have been working with the Developer to review the incentive application and negotiate a City subsidy as gap assistance to facilitate this Project. Staff’s recommended subsidy is a real property tax abatement that is estimated to result in taxes foregone over the ten-year period in the amount of \$3,892,504.

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One City View: a Mixed-Use and Mixed-Income Development Project

Pursuant to the City's Public/Private Partnership Program ("P/PPP") Guidelines & Criteria (effective for the period July 1, 2021 through June 30, 2022), the proposed Project will require a **¾ vote of City Council for approval.**

Please see the attached information that was provided to Economic Development Committee (**Exhibit A**) for more details regarding the Project as well as the proposed terms, conditions, and requirements of the tax abatement.

Should you have any questions, please contact Kevin Spath, Assistant Director in the Office of Economic Development, at (214) 670-1691 or kevin.spath@dallascityhall.com.



Dr. Eric A. Johnson
Chief of Economic Development & Neighborhood Services

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Biliera Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

EXHIBIT A



City of Dallas

One City View
A Mixed-Use and Mixed-Income
Development Project

Economic Development Committee
September 21, 2021

Kevin Spath, AICP, EDFP, HDFP
Assistant Director
Office of Economic Development

Overview



- Background
- Proposed Project
- Staff Recommendation
- Next Steps

- Appendix



Background: Location of Project



One City View (the "Project") is located at 1823 N. Hall Street in City Council District 14



Background: Existing Conditions



- Project site is vacant and has been consolidated into one parcel
- Project site is zoned PD 466 (Subdistrict C) which allows for multifamily residential and the proposed retail use
- In 2015, project site was purchased by Kroger Texas L.P.
 - site was previously owned by Dallas Housing Authority and is subject to a restrictive covenant running with the land requiring 20% of any residential units built on the site to be affordable at/below 60% of Median Family Income (AMFI) for the Dallas Metro area



View from N. Hall Street



View from Flora Street



Proposed Project: Summary



Project Owner and Developer: Kroger Texas L.P., an Ohio limited partnership, owns the property (“Owner”)

SEK Hall Street, LLC, a joint venture between Kroger (The Kroger Co.) and Southeastern (SE Hall Street Partners, LLC; “SEDA”) will develop the Project (“Developer”)

Together, the parties are referred to as “Owner/Developer”

Project Summary: Developer submitted an incentive application to the Office of Economic Development for One City View (the “Project”):

- on the ground level, approximately 80,000 square feet Kroger grocery store
- on the upper 4 levels, 375 apartments, of which 75 apartments (20%) shall be rent restricted in perpetuity for households earning a maximum of 60% AMFI
- approximately 779 space parking garage
- total Project cost estimated: \$108 million

	RESID UNITS
60% Area Media Income (AMI)	75
Market Rate	300
Total Units	375

BEDROOM TYPE	RESID UNITS
Studio	51
1 Bedroom	270
2 Bedroom	54
Total Units	375



Proposed Project: Urban Design



- In May 2020, City's Urban Design Peer Review Panel ("UDPRP") reviewed the Project
- UDPRP commended the development team for proposing a mixed-use development with a grocery store and affordable residential units in the City's urban core
- UDPRP recommendations:
 - Improve the neighborhood connection by activating and enhancing the facades
 - Re-orient the Kroger layout to allow the Hall Street/Flora Street corner to serve as a primary entry or enhance the corner with art, benches and/or plantings, for an improved relationship with the public realm
 - Determine if the development plan could be altered to better fit with the adjacent townhomes and multifamily developments
 - Enhance the architectural detail of the parking garage facade and streetscape along Hall Street
- As a result, Developer made changes to accommodate UDPRP's recommendations



Proposed Project: Site Plan



ONE CITY VIEW// LANDSCAPE PLAN



Proposed Project: Renderings



ONE CITY VIEW// HALL STREET PERSPECTIVE



Proposed Project: Renderings



ONE CITY VIEW// NORTHWEST CORNER

O'BRIEN

SOUTHEASTERN

Kimley»Horn



Proposed Project: Elevations



HALL STREET // EXTERIOR ELEVATION // 01



HALL STREET // EXTERIOR ELEVATION // 02



Proposed Project: Development Budget



	COST	PERCENT (by Total Use)
KROGER		
Acquisition	\$6,175,000	6%
Sitework	\$1,740,225	2%
Hard Construction Costs (Building and Parking, includes 5.5% contingency)	\$16,491,254	15%
Professional Fee (including but not limited to A&E, testing, permits)	\$462,791	0%
Soft Costs (including but not limited to construction interest, legal fees, taxes)	\$1,789,682	2%
Developer Fee	\$659,650	1%
Total Kroger Costs	\$27,318,602	
RESIDENTIAL		
Acquisition	\$6,175,000	6%
Sitework	\$1,740,225	2%
Hard Construction Costs (includes 5.2% contingency)	\$65,346,123	60%
Professional Fee (including but not limited to A&E, testing, permits)	\$1,830,532	2%
Soft Costs (including but not limited to construction interest, legal fees, taxes)	\$3,465,063	3%
Developer Fee	\$2,470,633	2%
Total Residential Costs	\$81,027,575	
TOTAL USES	\$108,346,177	100%



Staff Recommendation



1) Authorize a resolution **designating Neighborhood Empowerment Zone No. 19** ("City of Dallas NEZ No. 19") **pursuant to Chapter 378** of the Texas Local Government Code

- Tax abatements can only be granted in certain designated areas under state law.
- Pursuant to Chapter 378 of the Texas Local Government Code, a NEZ must be created for at least one of the following purposes: creation and rehabilitation of affordable housing; economic development opportunities in the zone; or an increase in the quality of social services, education, or public safety provided to residents of the zone.
- Designation of the new NEZ No. 19 is an administrative step needed to facilitate the proposed tax abatement for this Project.

2) Authorize a **real property tax abatement agreement** for a period of **ten years** in an amount equal to the City's taxes assessed on **90% of the increased value** of the property currently located in City of Dallas NEZ No. 19 pursuant to the City's Public/Private Partnership Program

- The "increased value" of the Property is the amount of the difference between the real property appraised value as shown on the Dallas Central Appraisal District ("DCAD") tax rolls as of January 1, 2021, and the appraised value of the real property, including Improvements as shown on such tax rolls on January 1 of the year of calculation, as finally determined by DCAD



Staff Recommendation



- Pursuant to the City's Public/Private Partnership Program ("P/PPP") Guidelines & Criteria (effective for the period July 1, 2021 through June 30, 2022), the proposed Project is located in a non-target area.
- Minimum eligibility criteria for a project in a non-target area: create/retain 100 jobs or provide \$5 million investment. With a total Project cost of \$108 million, the proposed Project substantially exceeds the minimum eligibility criteria for a non-target area.
- Pursuant to P/PPP Guidelines, a real property tax abatement *up to* 50% for 10 years may be offered to a project. A real property tax abatement *higher than* 50% may be offered to a project that significantly advances the public purpose of economic development. Such a project is considered a "**Non-Conforming Project**" under P/PPP Guidelines.
- Therefore, staff's recommendation of a real property tax abatement of 90% for 10 years constitutes a "Non-Conforming Project."
- Under P/PPP Guidelines, a "Non-Conforming Project" in a non-target area requires a **¾ vote of City Council for approval**.

Public / Private Partnership Program Target Area Map



Staff Recommendation: Conditions



- Owner/Developer will invest and document a **minimum of \$80,000,000 in private improvements** in the Project, excluding site acquisition, but including off-site infrastructure, on-site preparation, building construction/finish-out/furnishings, site amenities, and professional fees
- Project will include a **minimum 434,000 square foot building** of which a **minimum of 75,000 square feet shall be the grocery store**
- Project will include a minimum of **375 residential units, of which 20% (75 units) shall be set aside for households earning 60% of the Area Median Family Income for a minimum period of 15 years** (although existing restrictive covenant running with the property requires 20% of units to be affordable at 60% AMFI in perpetuity) and the affordable units shall be identical finish-out and materials as market rate units, shall be dispersed pro-rata among unit type as defined by the number of bedrooms in the unit, shall not be fixed to specific unit numbers and shall not be segregated or concentrated in any one floor or area of the Project, but shall be dispersed throughout all of the residential portions of the Project
- **At least 10% of the Project's residential units must be set aside and leased to voucher holders** or abide by any amendments to Ordinance 30246 and Chapter 20A
- Owner/Developer will **obtain a building permit by August 31, 2022**; a foundation permit may constitute meeting the obligation of this requirement
- Construction of the Project, including associated public improvements/streetscape improvements, will be **substantially complete by September 30, 2025** as evidenced by letter of acceptance, certificate of completion, or similar documentation from the City



Staff Recommendation: Conditions



- The **proposed management entity** for the Project must be submitted at least three months prior to Project completion for review by the Director of the Office of Economic Development to consider acceptance
- Owner/Developer will execute a **20-year Operating and Maintenance Agreement** for all non-standard public improvements
- Owner/Developer will make a **good faith effort to comply with City's Business Inclusion and Development ("BID") goal of 32% participation by certified Minority/Women-owned Business Enterprises ("M/WBE")** for all hard construction expenditures of the Project and meet all reporting requirements
- Owner/Developer will submit to the Office of Economic Development **quarterly status reports** for ongoing work on the Project as well as public improvements
- Developer will construct the Project (public and private improvements) in **substantial conformance with the conceptual site plan and conceptual renderings approved by the City's Planning and Urban Design Department, addressing the comments provided by the Urban Design Peer Review Panel on May 29, 2020**; allowable minor modifications may include those required for compliance with development regulations



Staff Recommendation: Conditions



- For all permanent employment opportunities, Owner/Developer shall submit **a written plan describing how Owner/Developer or property management group will use and document best efforts to recruit and hire residents of the city of Dallas**. At a minimum, the written plan shall describe how local recruitment will be targeted through local advertisement, community outreach, local engagement, participation in local job fairs, and/or coordination with local hiring sources
- The Tax Abatement will not be available until the **Kroger store is open to the public and a minimum of 60% of the residential units are leased and occupied**. The availability of the tax abatement in any given year will depend on the commercial component of the Project continuously operating as a grocery store and the residential component maintaining a minimum occupancy of 60%
- Owner/Developer is required to submit an **Affirmative Fair Housing Marketing Plan** to the Office of Fair Housing (submitted and provided a notice of no opposition)
- Owner/Developer will meet all Chapter 312 Texas Tax Code reporting requirements, file an **annual exemption certification**, and will be **subject to recapture or liquidated damages in case of uncured default**
- **Director of the Office of Economic Development may authorize minor modifications** to the Project, including, but not limited to, adjustment in unit type, unit mix, set-aside duration, qualifying Area Median Family Income and **may authorize an extension of the Project deadlines up to 18 months** for reasons including, but not limited to, delays in City's Hall Street public improvement project



Next Steps



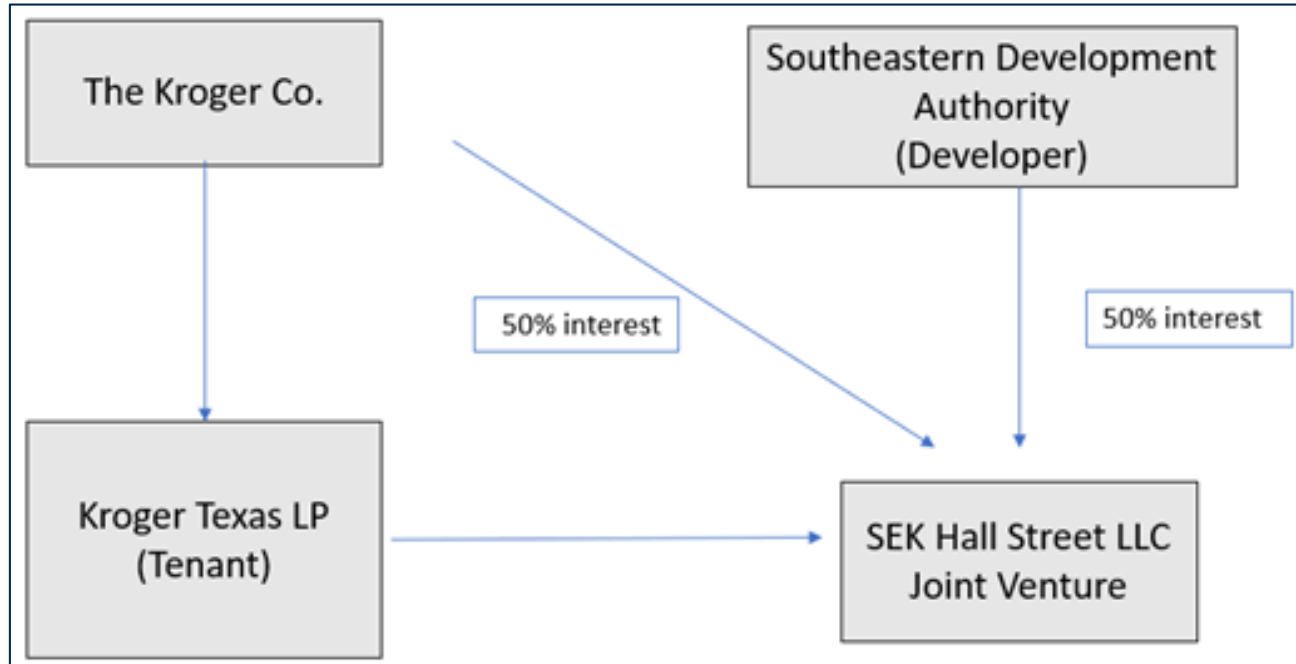
- An agenda item will be placed on the City Council voting agenda on October 13, 2021



Appendix



Appendix: Ownership and Developer Structure



- Property is owned by Kroger Texas L.P.
- SEK Hall Street LLC, a joint venture between Kroger (The Kroger Co.) and Southeastern (SE Hall Street Partners, LLC; “SEDA”) will develop the Project (“Developer”)
- Proposed tax abatement agreement will include the property owner as a party



Appendix: Development Team



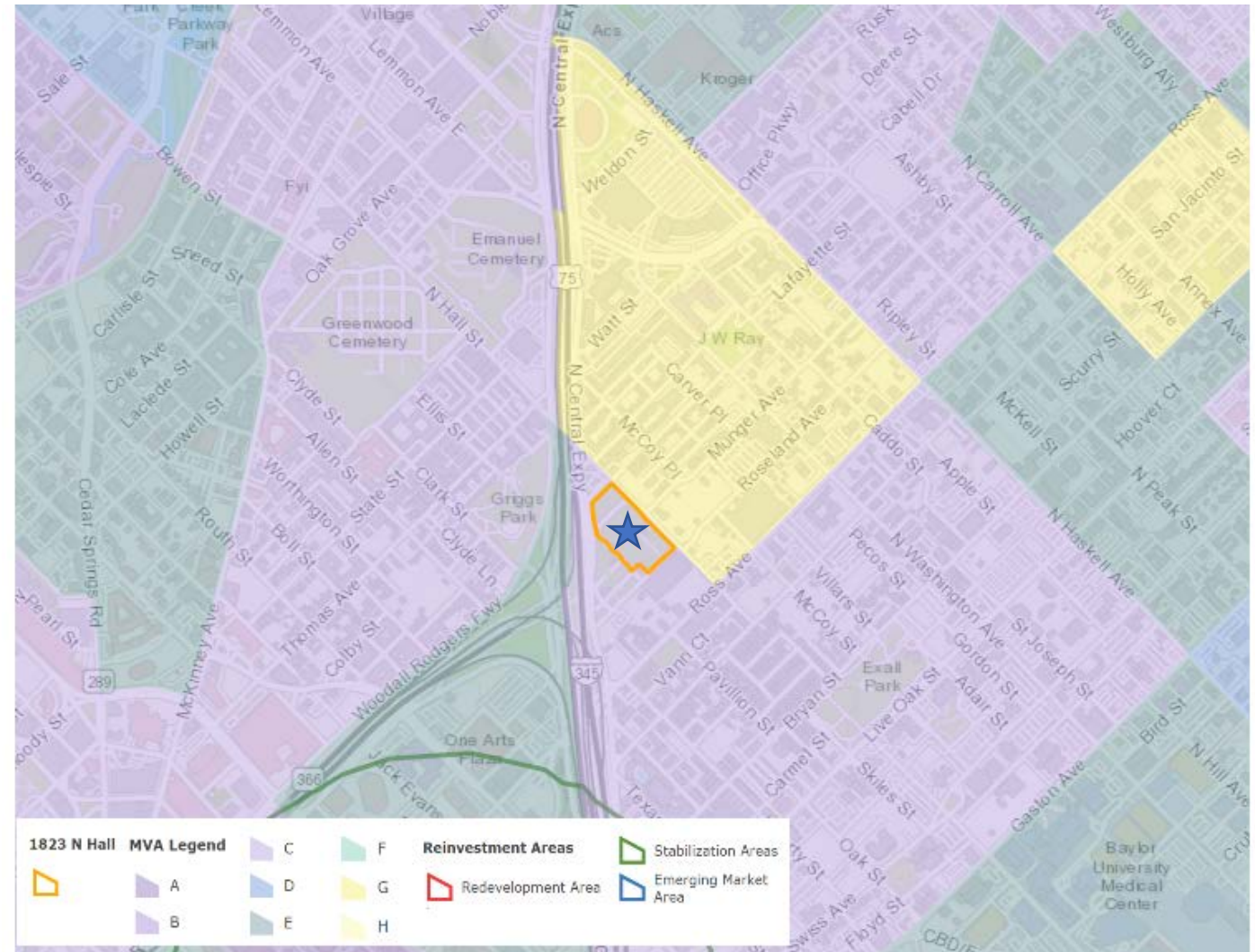
Role	Party Name
Developer	Southeastern (SEDA) and Kroger
Property Owner and Non-Residential Tenant	Kroger
Architect	O'Brien Architects
Civil Engineer	Winkelmann & Associates, Inc
General Contractor	CBG Building Company
Property Management	Village Green



Appendix: Market Value Analysis



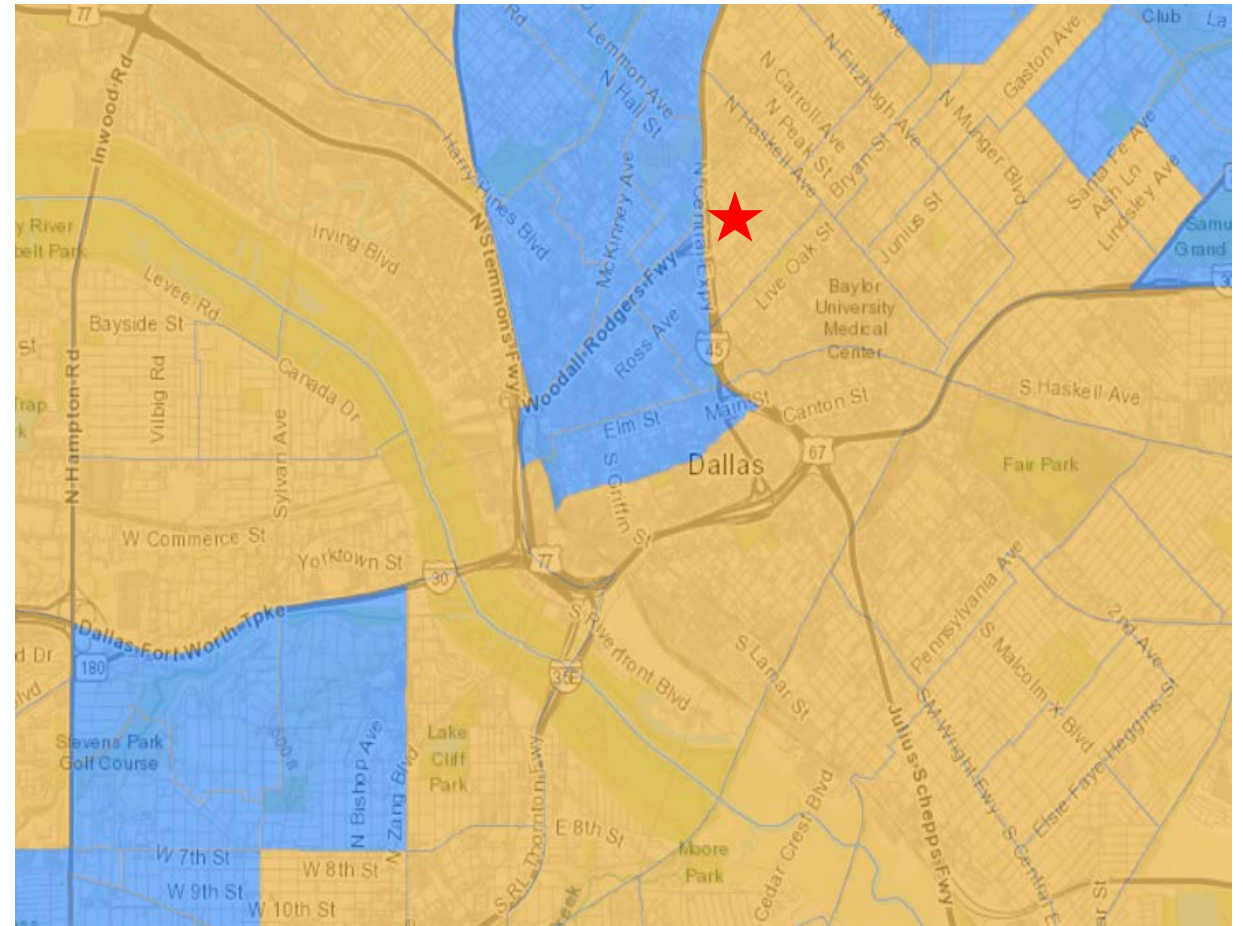
- Market Value Analysis (MVA) is a tool to assist residents and policy-makers to more precisely target intervention strategies in weak residential markets and support sustainable growth in stronger residential markets
- Project is located within market type C, reflecting a healthy residential real estate market and abuts market type G, reflecting a weak residential real estate market in Dallas
- Project will provide needed mixed-income housing and neighborhood grocery store



Appendix: High Opportunity Areas



- Project is located at the edge of a High Opportunity Area (depicted in blue color on the map)
- A High Opportunity Area within the city of Dallas is where the census tract has a poverty rate of 20% or below
- High Opportunity Areas often have attributes that, based on recent research, appear to have a positive effect on the economic mobility of residents



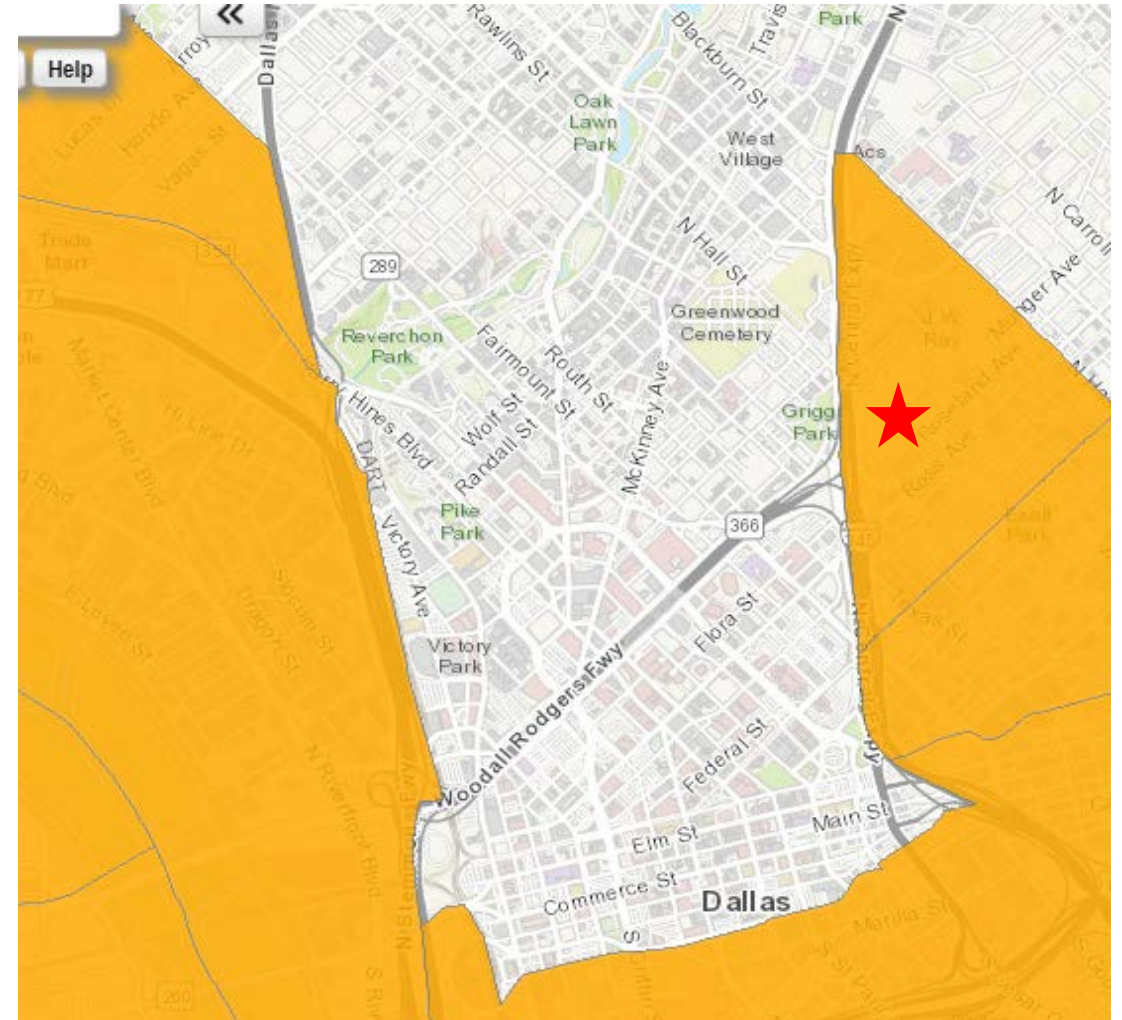
 High Opportunity Areas



Appendix: Food Access



According to the USDA Food Access Research Atlas, the Project is located at the edge of an area (depicted in yellow color on the map) characterized as a food desert (i.e. low-income census tract where more than 100 housing units do not have a vehicle and are more than ½ mile from the nearest supermarket)



Appendix: Income & Occupations Served



- 2021 Dallas AMFI for Family of 4: \$89,000
- 2021 Dallas AMFI for Single Member Household: \$62,300
- 2021 Income Limits Based on Household Size for units at 60% AMFI:

AMFI	1	2	3	4
60%	\$37,380	42,720	\$48,060	\$53,400

- Examples of occupations served:

Qualified Residents		
Occupation	Employer	Average Income
Custodian	UNT Dallas	\$28,300
Customer Service Agent	Dallas Police Department	\$28,592
Bus Driver	Paul Quinn College	\$29,796
Teaching Assistant	Dallas ISD	\$30,613
Nursing Assistant	VA North Texas Health Care System	\$32,156
Warehouse Associate	Amazon Fulfillment Center FTW1	\$34,000
Sales Representative	Allstate	\$35,568
Mail Carrier	United States Postal Service	\$38,410
Financial Clerk	Dallas ISD	\$41,207
Administrative Assistant	Methodist Charlton Medical Center	\$43,008
Plumbing Specialist	SSG Plumbing	\$45,175
Construction Worker	Bluecrew	\$45,250
Maintenance Technician	Dallas ISD	\$46,420
Entry-Level Accountant	Southwest Search	\$47,000
Financial Bookkeeper	TRS Staffing	\$47,500
Assistant Property Manager	Bell Partners	\$48,750



Appendix: Impact Analysis



- 10-year estimated value of abatement (foregone tax revenue): \$3,892,504
- Present value (PV) of abatement (discounted at 6%): \$2,837,867
- Estimated private investment: \$108,000,000
- Ratio of private investment to 10-year value of abatement: 28 to 1
- Ratio of private investment to PV value of abatement: 38 to 1
- Based on the **Project's fiscal impact** to the City over a **ten-year period**, the **net revenues to the City** is an estimated **\$2,799,813**
- Based on the **Project's fiscal impact** to the City over a **ten-year period**, the **present value** of net revenues to the City is an estimated **\$2,450,431**



Appendix: Underwriting



- Developer's amended incentive application requested a 100% real property tax abatement for 10 years and a 100% business personal property tax abatement for 5 years (estimated value \$4.3 million)
- National Development Council (NDC), under contract with the City, conducted independent underwriting of the incentive application
- Conclusions of independent underwriting:
 - **Development team:** highly qualified; experienced.
 - **Financial Capacity:** Kroger is a publicly traded company and the nation's largest grocer and would be considered by most financial institutions as a "credit tenant." The company has more than enough in cash and assets to cover any guarantees. Likewise, the two principals of SEDA have substantial cash and assets to cover any guarantees.
 - **Permanent debt capacity of Project:** Project could support \$79.3M in permanent debt with proposed City subsidy and, since projects seeking City of Dallas assistance are expected to maximize private sector debt, the \$79.3M loan amount was used in sizing the City subsidy.
 - **Appraisal and Market Study:** Applicant's assumptions are consistent with information presented.
 - **Cost estimates of Project:** costs are reasonable; total development costs rose during the analysis reflecting volatility in the construction materials market.
 - **Rationale for City subsidy based on Costs:** the affordable units are the main driver of the City subsidy (reduction in NOI causes below market returns).
 - **Rationale for City subsidy based on Returns:** With the proposed City subsidy, NDC concluded no undue enrichment of Applicant.



Appendix: Sources of Funding



Permanent Sources	Amount	Percent
Debt	\$79,319,991	73%
Owner Equity	\$29,026,186	27%
Total Uses	\$108,346,177	100%

- City subsidy based on the assumption that the Applicant will maximize debt capacity of the Project (~\$79.3 million)

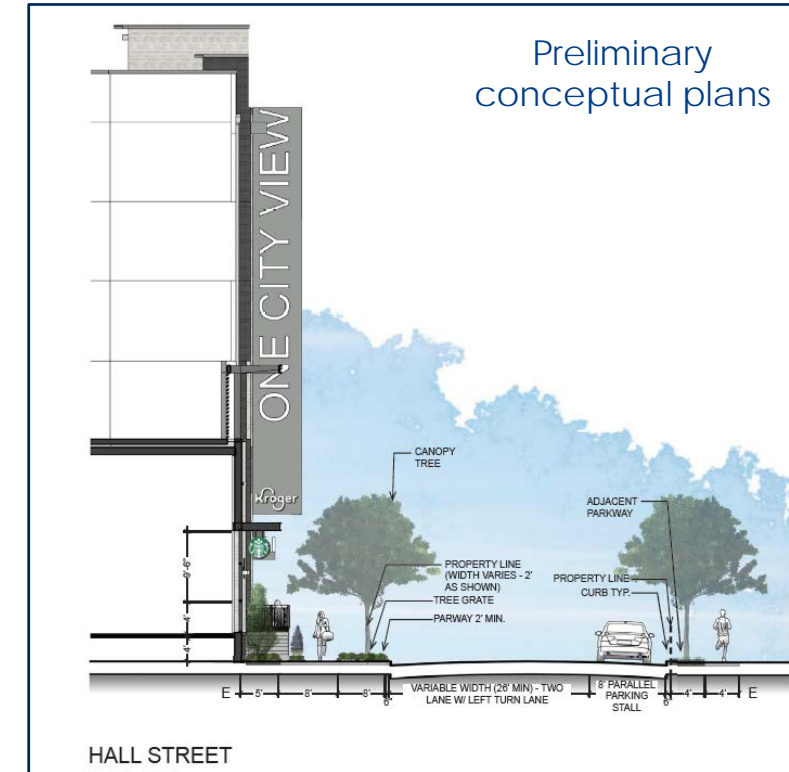
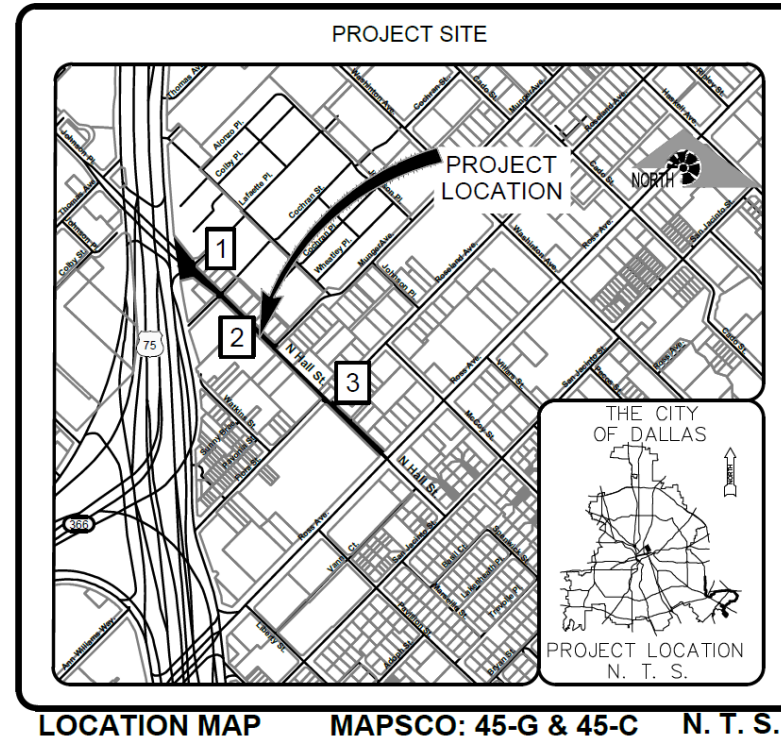


Appendix: Hall Street Improvement Project



Separate and apart from this proposed Project, the City of Dallas (Public Works Dept and Bond Office) intends to coordinate Hall Street public infrastructure improvements between Ross Avenue and Cochran Street with Developer

- City bond project PB17V316-318; 2017 Bond Proposition A
- Improvements include replacing the existing deteriorating streets with reinforced concrete pavement, curb, gutter, sidewalk, driveway approaches, pavement marking, drainage system, and water and water improvements
- Scheduled for construction award by City Council on September 22, 2021
- Assignment of construction management to Developer is anticipated for improved coordination between the City bond project and the Developer's private development project





One City View

A Mixed-Use and Mixed-Income
Development Project

Economic Development Committee
September 21, 2021

Kevin Spath, AICP, HDFP, EDFP
Assistant Director
Office of Economic Development

