

Memorandum



CITY OF DALLAS

DATE April 10, 2020

TO The Honorable Members of the Housing and Homeless Solutions Committee:
Chad West, Chair, Casey Thomas, Vice-Chair, Carolyn King Arnold, Lee M. Kleinman,
Paula Blackmon, Cara Mendelsohn, Jaime Resendez

SUBJECT **Consideration and Recommendation of City Council Approval of an Award of Funding and Authorization to Enter into a Development Agreement with Good Urban Development to Develop Affordable Housing Units as Part of the 2019 Single Family Notice of Funding Availability (NOFA)**

Summary

On March 23, 2020, the Housing and Homeless Solutions Committee was briefed on a proposed project from Good Urban Development, LLC (Developer) and additional information was requested before it was submitted for City Council consideration.

Background

On July 5, 2019, Good Urban Development, LLC, serving as the lead developer in a partnership with Urban Specialists, submitted a NOFA proposal for the construction of up to 148 single-family homes on 54 Developer-owned lots and the Land Transfer lots identified as Mill City clusters 1, 2, 3, 4, 5, and 6. Of the 148 units, twenty-eight were to be for-sale for household between 80-120% of the Area Median Income (AMI). The remaining 120 units were to be financed with 4% Low Income Housing Tax Credits and offered a lease-purchase option for households between 30-80% of the AMI. Total project costs exceeded \$28 million and the Developer requested \$5 million in General Obligation Bond funds to support the project. The proposal received 106.5 points (minimum fundable score was 100 points) out of a possible 140 points from the evaluation committee—thus making it eligible for underwriting and consideration for funding. The underwriting memo is attached.

Additional analysis of the project by the Developer—coupled with community input—necessitated an adjustment in the scope of the project. The resulting proposal includes the construction of fifty 50 single-family homes on 25 Mill City lots and 25 Developer-owned lots.

The Developer proposes to build three distinct model types and offer price points accessible to homebuyers between 60-120% of the AMI. Each home will range from

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1,200 square feet to 2,000 square feet with an attached garage. Approximately 24 of the units are targeted to households in the 60-80% AMI band. The remaining 26 homes will be targeted to households at up to 120% of the AMI. Each model offers a minimum of 3 bedrooms and 2 baths with an attached garage. Price points will range from \$150,000.00 for a 1,200 square foot model to \$242,000.00 for a home with a 2,000 square foot layout. All units built on Land Transfer lots will remain affordable for a minimum of five years.

Developer seeks \$2,000,000.00 in District 7 General Obligation Bond funds for the construction of the units. This represents an investment of \$40,000.00 per unit and will be used as construction subsidy to bring the homes into congruence with the affordability standards for the targeted homebuyers. Provision of bond funds allows for high-quality housing to be purchased by households between 60-120% of the AMI.

Underwriting & Market Study

As part of the NOFA process, the original submission of the project was underwritten by a 3rd party. Although the focus of the underwriting report is the rental portion of the project, the underwriters deliberately analyzed the for-sale portion of the project as a means of providing a comprehensive assessment of the Developer's ability to structure the overall development. Several important conclusions can be drawn from this comprehensive assessment. Those conclusions are as follows:

- The projected development costs appear reasonable;
- That assumptions around construction and completion timelines are reasonable;
- The for-sale project leverages developer equity;
- The [Developer] has demonstrated adequate management and financial capacity to complete both aspects of the project (lease-purchase and for-sale housing)

Similarly, the market study provides an assessment of the community's housing needs while providing parameters for evaluating the strength of the project and the associated risk. Several important conclusions are included in the market study. Those conclusions are outlined below:

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- A significant need for higher quality housing exists in the Primary Market Area (PMA);
- Existing homes for sale in the PMA are over 50 years old and many of the available homes have deferred maintenance;
- Proposed development plans (floorplans, square footages) are comparable to other new homes being brought into the PMA;
- Household and population growth projections support the addition of new housing stock;

Cash flow modeling for the project assumes the following:

- Home prices will be as follows:

Sq. Ft.	Beds	Baths	Sales Price	No. of Models
1200	3	2	\$ 150,000.00	20
1600	3	2	\$ 193,000.00	18
1600	3	2	\$ 190,000.00	4
2000	4	2	\$ 242,000.00	8

- Total development costs are anticipated to be \$9,324,400.00;
- 5-month construction period per home with a 2-month absorption rate/sell time;
- Anticipated 10 housing starts every 4 months starting at month #1 and ending in month #13; 19-20 month build out of project
- 7% sales expense per home;
- \$2,000,000.00 subsidy to be used to pay eligible constructions costs representing approximately 30.3% of total unit construction

The resulting profit and loss analysis of the project indicates that with \$9,324,000.00 in total project costs and homes priced as outlined above, there is a total estimated revenue of \$8,426,544.00 As such, the City's contribution of \$2,000,000.00 allows the developer to a) close the gap (which is necessary because development costs outpace revenue

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based on the price points) and **b)** potentially secure a developer fee of approximately 11.8% on the project.

Issue

At present, the City controls 94 vacant lots in Mill City. Vacant lots do not provide tax revenue for the City and require regular maintenance. Maintaining a single vacant lot requires the City to spend approximately \$1,404 per year.

Fiscal Impact

As proposed, the Developer seeks \$2,000,000.00 in District 7 General Obligation Bond funding for construction costs. The resulting capital stack is as follows:

Sources			Uses	
Developer Equity	\$ 7,324,400.00	78.5%	Acquisition + construction	\$ 7,324,400.00
City of Dallas D7 GO Bond Funds	\$ 2,000,000.00	21.5%	Unit Construction	\$ 2,000,000.00
	\$ 9,324,400.00			\$ 9,324,400.00

The developer profit for the project is approximately \$1.1 million which represents approximately 11.8% of the total development costs.

As proposed, the development will generate approximately \$230,346.32 in annual property taxes of which \$65,441.39 will be captured as revenue by the City of Dallas. Sale of the Land Transfer lots will result in approximately \$25,000.00 in revenue for the City of Dallas. Lastly, the City of Dallas will save approximately \$35,100.00 in annual maintenance costs for the Land Transfer lots.

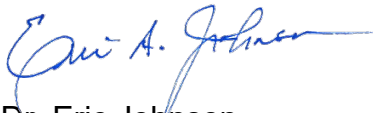
Staff Recommendation

- Staff recommends City Council approval of the item as detailed herein. Passage of the item will help the City achieve its affordable housing production goals.
- As indicated in the underwriting report, Developer has the experience to successfully complete the proposed project. Staff will continue to work with the Developer to address any outstanding due diligence items prior to entering into any agreements.

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Please feel free to contact David Noguera, Director of Housing & Neighborhood Revitalization at 214-670-5988, or David.Noguera@dallascityhall.com if you have any questions or need additional information.



Dr. Eric Johnson
Chief of Economic Development & Neighborhood Services

c: T.C. Broadnax, City Manager
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