

# Memorandum



CITY OF DALLAS

DATE October 11, 2019

TO Honorable Mayor and Members of the City Council

SUBJECT **Upcoming Agenda Item #56, October 23, 2019 – Authorize a development agreement with Cabana Development, LLC and/or its affiliates for the Cabana Hotel Redevelopment Project in the Design District TIF District**

On October 23, 2019, City Council will be asked to consider a development agreement with Cabana Development, LLC (“Developer”) and/or its affiliates in an amount not to exceed \$15,500,000, payable from future Design District TIF District Funds, in consideration of the Cabana Hotel Redevelopment Project (“Project”) on property currently addressed at 899 North Stemmons Freeway in the Design District TIF District.

Redacted briefing material for the Project is attached. A detailed presentation is available upon request.

On September 26, 2019, the Design District TIF District Board of Directors reviewed and recommended approval of the development agreement.

Staff recommends City Council’s approval of the item.

Should you have any questions, please contact me at (214) 670-3390 or Courtney Pogue, Director of the Office of Economic Development, at (214) 670-1685.

A handwritten signature in black ink, appearing to read 'Michael A. Mendoza'.

Michael A. Mendoza

Chief of Economic Development & Neighborhood Services

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

# **Cabana Hotel Redevelopment Project Design District TIF District**

**City Council  
October 23, 2019**

**Courtney Pogue, Director  
Office of Economic Development**



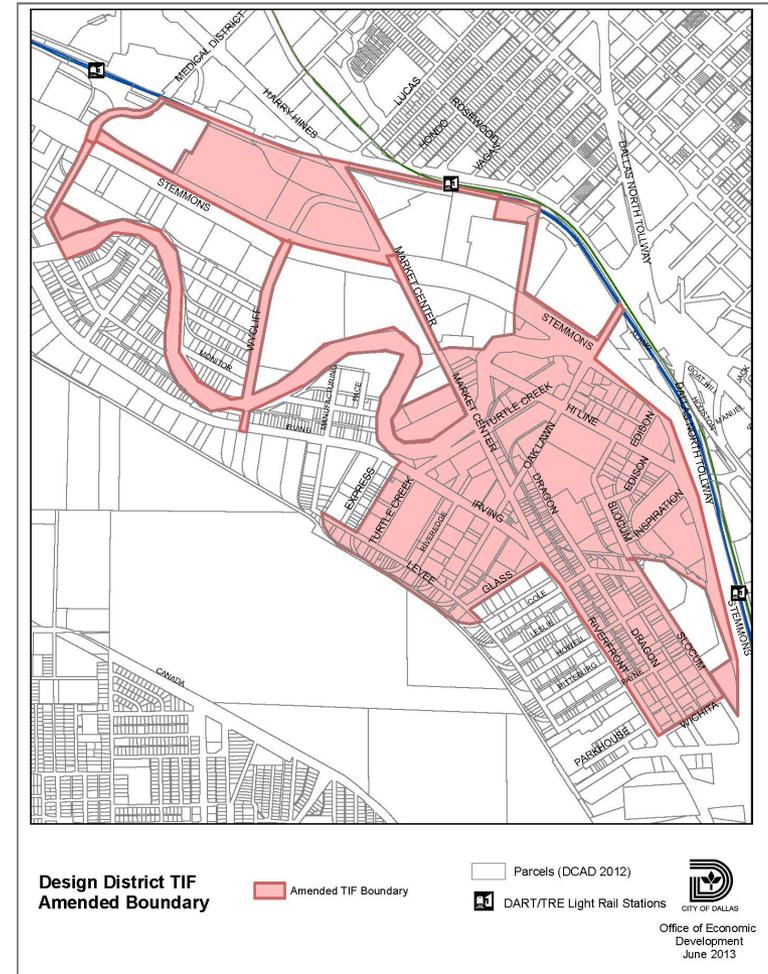
# Presentation Overview

- Background
- Proposed Project
- Staff Recommendation
- Next Steps
- Appendix

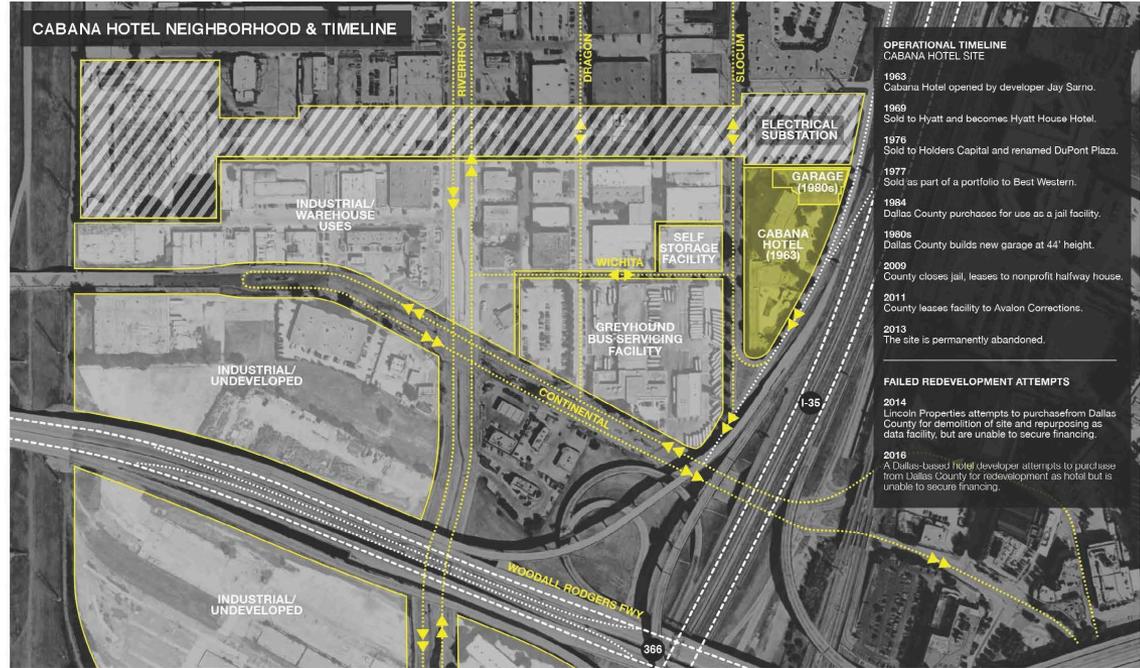
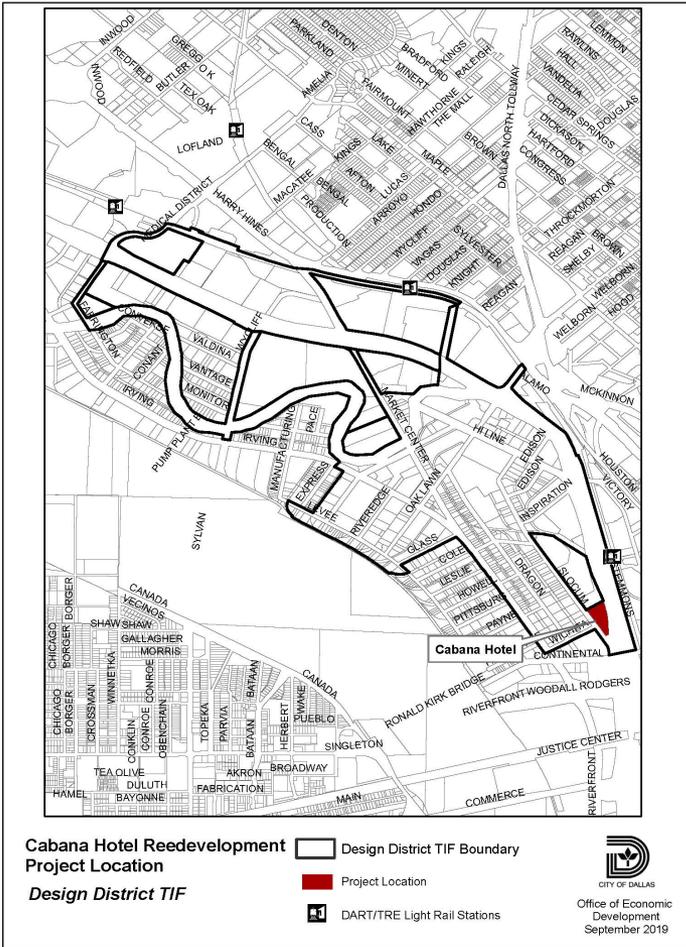


# Background – Design District TIF District

- Established in 2005 as a long-term tool to assist in conversion of industrial and warehouse district to a unique urban neighborhood.
- TIF District took effect on January 1, 2006 and is scheduled to terminate on December 31, 2027.
- TIF District boundary and final plan were amended in 2013.
- City of Dallas and Dallas County are the two participating jurisdictions.
- To date, taxable value of real property has increased by \$637.8 million within the District, an increase of 226% from the base value.



# Background – Location of Project



- Project is located at 899 North Stemmons Freeway near the intersection of Slocum Street and Wichita Avenue, at the southeastern edge of the Design District.

# Background – Historic Site



Credit: Dallas Historical Society

- The site of the proposed Project was originally developed in 1962 as the 10-story Cabana Motor Court Hotel by Las Vegas hotelier Jay Sarno and, in its heyday, was visited by celebrities including Raquel Welch, The Beatles, and Led Zeppelin.
- The hotel changed ownership a few times before being sold in 1984 to Dallas County for use as a jail facility. The property has been vacant since 2013.
- In November 2017, the property was purchased by the Developer.
- The building is on the National Register of Historic Places (SG100003923).

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# Background – Existing Conditions



- Vacant since 2013, the building had been vandalized and was in severe decay when purchased by the Developer.
- Almost all the original interior features were demolished or substantially altered prior to Developer's acquisition.
- Rehabilitation of the building will be subject to State and Federal historic requirements.
- The surrounding area is challenged with a large electrical substation, existing uses with limited street activity, and a lack of pedestrian amenities.

# Proposed Project - Summary

**Developer:** Cabana Development, LLC, a Texas limited liability company 98.99% owned and controlled by Mehrdad Moayedi.

**Project Summary:** Developer submitted an incentive application to the City of Dallas Office of Economic Development seeking assistance for the redevelopment of the historic Cabana Hotel building located at 899 North Stemmons Freeway. The Developer plans to rehabilitate and renovate the property for approximately 260 hotel rooms as well as the hotel's original amenities, including restaurant, entertainment, and conference facilities. The Project will also involve the restoration of the existing parking garage (273 spaces) and the addition of one new level of parking (66 spaces). The Developer's total Project cost, including property acquisition, is estimated at \$115 million.

- Land: 142,672 square feet (3.28 acres)
- Building: 282,392 gross square footage
  - Hotel: 243,142 square feet
  - Venues/Amenities: 39,250 square feet

Developer intends to rehabilitate the property according to the Secretary of the Interior's Standards for the Rehabilitation of Historic Buildings. The property is on the National Register and is eligible for state and federal tax credits if the rehabilitation is conducted according to the Secretary of the Interior's Standards. Developer has submitted the Project to the Texas Historical Commission and the National Park Service for review and has received conditional approvals.

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# Proposed Project - Summary

- In August 2018, the Project was reviewed by the City's Urban Design Peer Review Panel ("UDPRP"). The UDPRP recognized the catalytic potential for the Cabana Hotel Redevelopment Project to increase exposure to the southern half of the Design District and encouraged the City and Developer to participate in the implementation of a larger district-wide public improvement strategy.
- As a result, a portion of the recommended TIF funding will be earmarked for off-site district-wide improvements such as gateway features, wayfinding signage, and open space.
- Other UDPRP recommendations that Developer has incorporated include pedestrian enhancements to Slocum Street adjacent to the development, streetscape improvements along the Stemmons Freeway frontage to allow for a pedestrian buffer while preserving existing trees and amplifying the plaza-like qualities of the primary motor court entry area.

# Proposed Project



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Stemmons Freeway

Cabana building

Electric Sub-station

CENTURION AMERICAN PREDEVELOPMENT STUDY. CABANA HOTEL, DALLAS TX.

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16 AUG 18

**GIESE LTD**



# Proposed Project

Hotel entry area showing the concrete mesh façade preserved



CENTURION AMERICAN PREDEVELOPMENT STUDY, CABANA HOTEL, DALLAS TX.

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GIESE LTP



# Proposed Project



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Restoration of pool courtyard

CENTURION AMERICAN PREDEVELOPMENT STUDY, CABANA HOTEL, DALLAS TX.

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**GIESE LTD**



# Proposed Project



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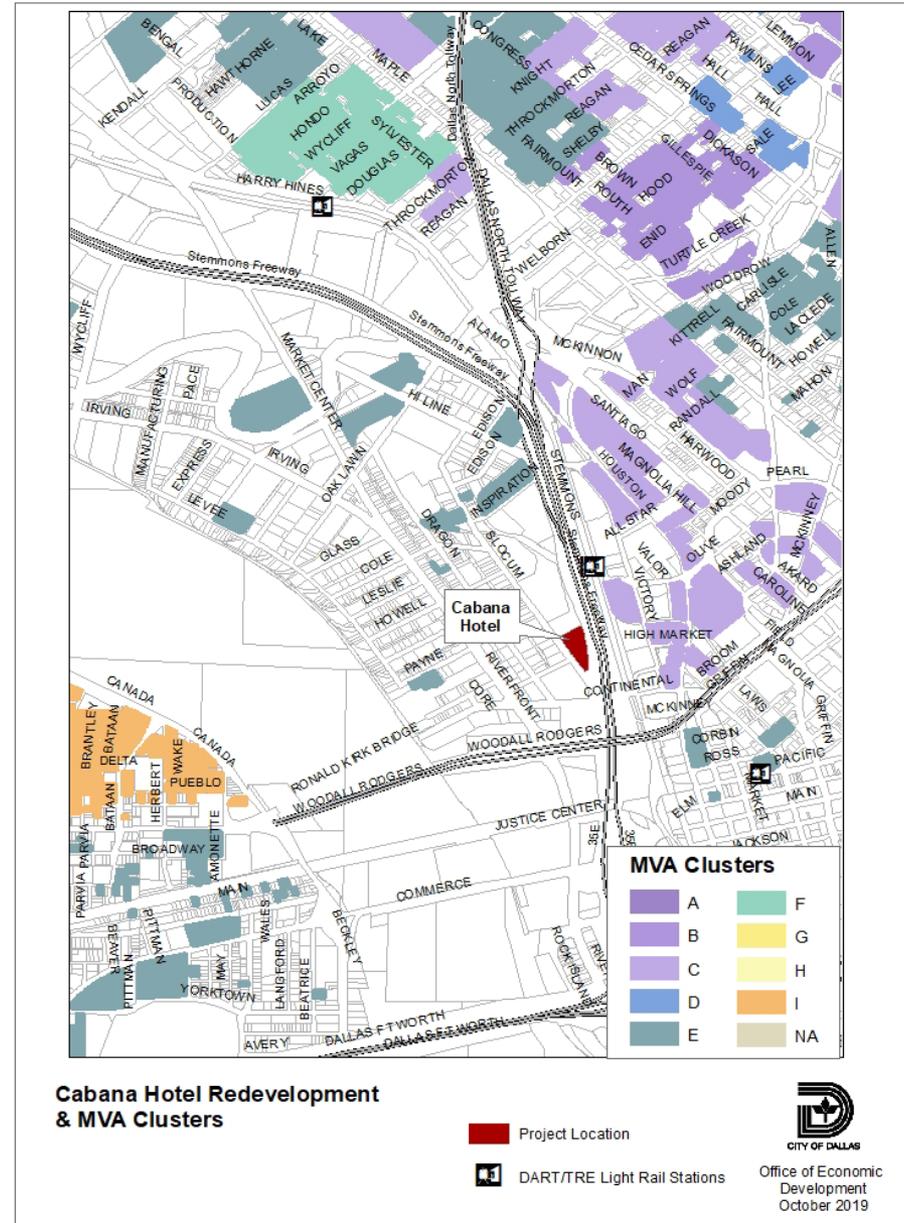
# Proposed Project

| Item                       | Cost                 | Percent of Total Budget |
|----------------------------|----------------------|-------------------------|
| Land Acquisition           | \$8,500,000          | 7.3%                    |
| Hard Costs                 | \$76,531,762         | 66.1%                   |
| Professional Fees          | \$6,543,450          | 5.7%                    |
| Soft Costs                 | \$11,491,112         | 9.9%                    |
| Developer Fee              | \$8,500,000          | 7.3%                    |
| Operating Reserve          | \$4,308,567          | 3.7%                    |
| <b>Total Project Costs</b> | <b>\$115,874,891</b> | <b>100%</b>             |

# Proposed Project

## Market Value Analysis (MVA)

- The 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.
- The proposed project is located in a non-residential tract and has closest proximity to residential market type E. Market type E reflects a middle residential real estate market in Dallas.
- Stemmons Freeway is a significant barrier separating the project from the stronger market type C that is northeast of the project area.
- The proposed project will provide opportunity for local employment to the surrounding residential market areas.



# Staff Recommendation

Authorize a development agreement with Cabana Development, LLC (“Developer”) and/or its affiliates in an amount not to exceed **\$15,500,000**, payable from future Design District TIF District Funds, in consideration of the Cabana Hotel Redevelopment Project (“Project”).

The TIF funding shall be divided into both a Phase I TIF Subsidy (directly related to redevelopment of the Cabana Hotel and public improvements adjacent to the Cabana Hotel) and Phase II TIF Reimbursement (off-site district-wide public improvements).

# Staff Recommendation

The “Phase I TIF Subsidy” includes (i) and (ii) below:

(i) estimated \$2,021,579 in reimbursement (“Phase I TIF Reimbursement”) for actual expenditures incurred for public improvements adjacent to or on the Project site (\$423,041 estimated for water/wastewater/storm; \$1,215,533 estimated for paving and streetscape; \$383,005 estimated for burial of overhead utilities). These improvements shall be in public right-of-way, public easements, or publicly accessible. Phase I TIF Reimbursement does not include any direct funding for hotel's private entry areas. Related design, engineering, and professional services may be included in these public improvement categories.

(ii) estimated \$12,978,421 in an economic development grant (“Phase I TIF Grant”) as gap financing for the Project. As a condition of the Phase I TIF Grant, the Developer must document a minimum of \$2,000,000 in actual expenditures for environmental remediation and demolition for the Project.

Funds for the Phase I TIF Subsidy may be shifted among categories with no restriction on the public infrastructure items up to the maximum \$15,000,000 in TIF funding. However, the grant portion (Phase I TIF Grant) shall not exceed \$13,800,000 regardless of the outcome of final bids and may be less if the public infrastructure costs are higher

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# Staff Recommendation

The “Phase II TIF Reimbursement” includes:

- Up to \$500,000 for actual expenditures incurred for off-site district-wide public improvements, which may include one or more of the following: wayfinding and district signage, gateway and portal improvements, streetscape improvements, and/or open space. Specific details of any off-site district-wide public improvements will be determined with additional collaboration from City (i.e. staff with Office of Economic Development, Planning and Urban Design Department, and other City departments as necessary). Funds may be shifted from one category to another so long as the total amount of Phase II TIF Reimbursement funding does not exceed \$500,000.

# Next Steps

- On September 26, 2019, the Design District TIF District Board of Directors reviewed and approved the recommended TIF development agreement in an amount not to exceed \$15,500,000.
- An agenda item has been placed on the City Council voting agenda on October 23, 2019.



# Appendix: Developer Background

- Cabana Development, LLC, a Texas limited liability company 98.99% owned and controlled by Mehrdad Moayedi.
- Mr. Moayedi has been in the development business over 25 years. In 1990, he entered the homebuilding business by establishing Centurion American Custom Homes, Inc. and is president/CEO of Centurion American Development Group (CADG).
- Since 2000, CADG has completed developments in 40 different cities, including Dallas, Fort Worth, Austin, Houston, and San Antonio.
- Notable comparable projects in Dallas include redevelopment of the historic Statler Hotel & Residences in downtown and the Residences at the Stoneleigh in Uptown.

# Appendix: Development Team

| DEVELOPER STAFF/CONSULTANTS            |                    |
|--|--------------------|
| Centurion American Development Group   | Kay Zafar          |
| Centurion American Development Group   | Travis Boghetich   |
| Miklos Cinclair                        | J. Prabha Cinclair |
| Ramp Development                       | Jeff Carey         |
| Giese, Ltd                             | Matthew Giese      |
| David Pettit Economic Development, LLC | David Pettit       |
| Merriman Anderson/Architects, Inc.     | Jerry R. Merriman  |
| T Kirk Wilson & Associates             | Kirk Wilson        |
| Bush Design & Associates               | Ralph Bush         |
| 1 Hour 2 Escape                        | Roy Magno          |

# Appendix: Sources and Uses of Funds

| Sources                |                      |             | Uses              |                      |             |
|------------------------|----------------------|-------------|-------------------|----------------------|-------------|
| Senior Debt            | \$46,462,825         | 40.1%       | Acquisition       | \$8,500,000          | 7.3%        |
| PACE Debt              | \$15,000,000         | 12.9%       | Hard Costs        | \$76,531,762         | 66.1%       |
| HTC Equity (State)     | \$16,875,000         | 14.6%       | Professional Fees | \$6,543,450          | 5.7%        |
| HTC Equity (Fed)       | \$13,365,000         | 11.5%       | Soft Costs        | \$11,491,112         | 9.9%        |
| Equity (Developer)     | \$16,000,000         | 13.8%       | Operating Reserve | \$4,308,567          | 3.7%        |
| Deferred Developer Fee | \$8,172,067          | 7.1%        | Developer Fee     | \$8,500,000          | 7.3%        |
|                        |                      |             |                   |                      |             |
| <b>TOTAL SOURCES</b>   | <b>\$115,874,891</b> | <b>100%</b> | <b>TOTAL USES</b> | <b>\$115,874,891</b> | <b>100%</b> |

Notes:

- To close what would otherwise be about a 7% funding gap, Developer will defer and take payment of almost 100% of the Developer Fee from cash flow once the Project is in operations.
- The TIF Subsidy of \$15,000,000 for Phase I will allow Developer to use annual TIF payments to make principal reduction payments on the senior debt over a period of years (pending the availability of TIF increment).
- Developer has already spent \$11 million on acquisition, environmental remediation, and demolition.

# Appendix: Underwriting

- Developer's incentive application requested \$24 million in TIF funding.
- The National Development Council (NDC), under contract with the City, conducted independent underwriting of the incentive application.
- Staff's recommendation of \$15 million in TIF funding (plus additional \$500,000 for reimbursement of district-wide off-site improvements) is within the range recommended by the independent outside underwriter.
- The proposed project is risky and pioneering for the area (southern end of the Design District near the Greyhound facility; electrical substation; wedged between two highways; poor ingress/egress) and is subject to design limitations due to the standards governing historic tax credits (e.g. limited ability to add new parking; required preservation of meshed façade). In recent years, several development groups have tried but have failed to pull together a viable project.
- \$15 million in TIF funding is needed to sufficiently mitigate the risk by leveraging participation of private lenders and providing adequate returns to investor equity (17.5 – 18% leveraged Internal Rate of Return).
- The debt capacity of the Project appears to be maximized.
- Current taxable value is \$8.1 million. Taxable value post-completion estimated at \$47 million.

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