

# Memorandum



DATE January 13, 2017

TO Members of the Economic Development Committee:  
Rickey D. Callahan (Chair), Casey Thomas, II, (Vice Chair), Adam Medrano,  
Lee M. Kleinman, Carolyn King Arnold, Adam McGough

SUBJECT **Factory Six03 (West End Marketplace/603 Munger)**

On Tuesday, January 17, 2017, the Economic Development Committee will be briefed on the Factory Six03 (West End Marketplace/603 Munger) project.

Briefing material is attached. Thank you.

Should you have any questions, please contact me at (214) 670-3390.



Mark McDaniel  
Assistant City Manager

C: The Honorable Mayor and Members of the City Council

A.C. Gonzalez, City Manager	Jill A. Jordan, P.E., Assistant City Manager
Larry Casto, City Attorney	Joey Zapata, Assistant City Manager
Craig D. Kinton, City Auditor	M. Elizabeth Reich, Chief Financial Officer
Rosa A. Rios, City Secretary	Sana Syed, Public Information Officer
Daniel F. Solis, Administrative Judge	Karl Zavitkovsky, Director, Office of Economic Development
Ryan S. Evans, First Assistant City Manager	J. Hammond Perot, Assistant Director, Office of Economic Development
Eric D. Campbell, Assistant City Manager	Elsa Cantu, Assistant to the City Manager – Mayor & Council

# Factory Six03 (West End Marketplace /603 Munger)

*City Center TIF District  
(West End/South Lamar Sub-District)*

Economic Development Committee  
January 17, 2017

# Purpose

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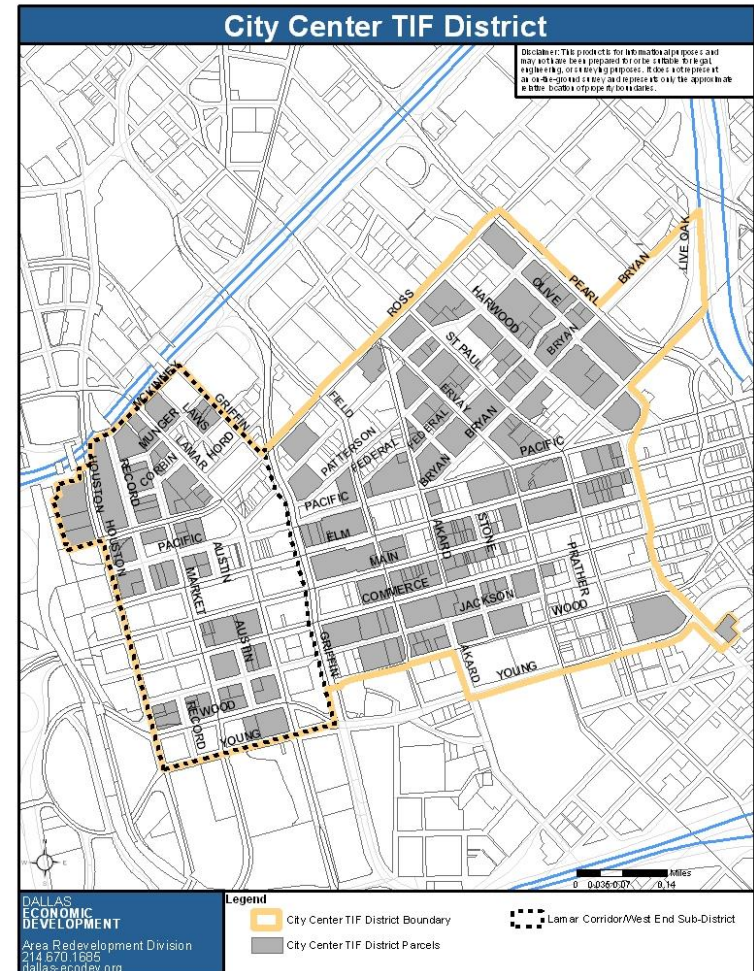
Provide background information on City Center TIF District

Review the Factory Six03 (West End Marketplace/603 Munger) redevelopment project

Obtain Economic Development Committee's approval for consideration of the project by City Council on January 25, 2017

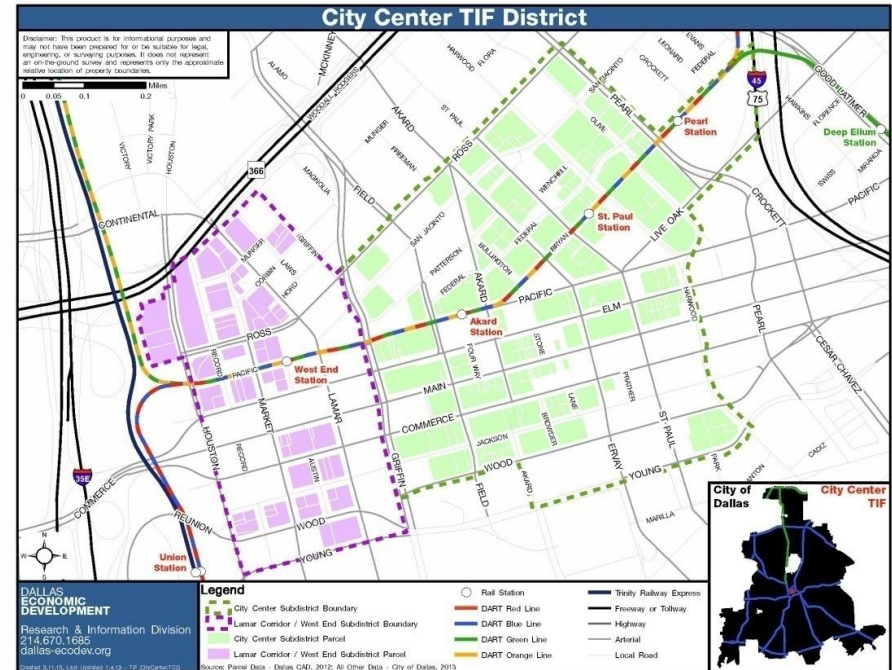
# City Center TIF District Background

- Created to develop an attractive, sustainable urban core and reimburse costs of public improvements and redevelopment of vacant or underutilized buildings downtown
- District was amended December 2012 to:
  - Extend District's Boundary to the West End area
  - Extend Term of District
  - Increase District's Budget
  - Decrease City Participation Rate
  - Establish Other Taxing Jurisdiction Participation Rates



# City Center TIF District Amendments

- Boundary Adjustment  
(Creation of two Sub-districts)
  - City Center Sub-district – original district boundary (green dashed line)
  - Lamar Corridor/West End Sub-district – approximately 27 acres; encompasses properties along the Lamar Corridor and properties in the Historic West End area (lavender dashed line)
- Term Extension
  - City Center Sub-district – 12/31/2012 to 12/31/2022 (10 yrs)
  - Lamar Corridor/West End Sub-district – 12/31/2012 to 12/31/2037 (25 year term)



# City Center TIF District Amendments (Continued)

- **District Budget Amendment**
  - The District's budget increased from \$87.6M to \$152.0M
  - The increased budget:
    - Provides a source of funding to stimulate redevelopment of the Lamar Corridor and Historic West End area
    - Provides a source of funding to accomplish recommendations of the Downtown Dallas 360 Area Plan, that wouldn't otherwise be funded
    - Provides a source of funding to fill in redevelopment gaps in the downtown core

City Center TIF District Projected Increment Revenues to Retire TIF Fund	
Category	TIF Budget
Original City Center TIF Collections**	\$75,696,253
Public Infrastructure Improvements <i>Streetscape Improvements, Pedestrian Linkages, Lighting, Utility Burial, Utility Upgrades</i>	\$8,500,182
Parking	\$5,500,000
Redevelopment/Development Projects <i>Environmental Remediation, Interior &amp; Exterior Demolition, Façade Improvements/Restoration, TIF Grants</i>	\$40,972,111
District Wide Improvements	\$4,000,000
Affordable Housing	\$6,500,000
Ground Floor Activation ( <i>in the form of a TIF Grant</i> )	\$8,300,000
Plan Implementation/Administration	\$2,500,000
<b>Total Project Costs</b>	<b>\$151,968,546</b>
<i>Budget shown above in total dollars, as approved in the Amended Project Plan and Reinvestment Zone Financing Plan for the District.</i>	

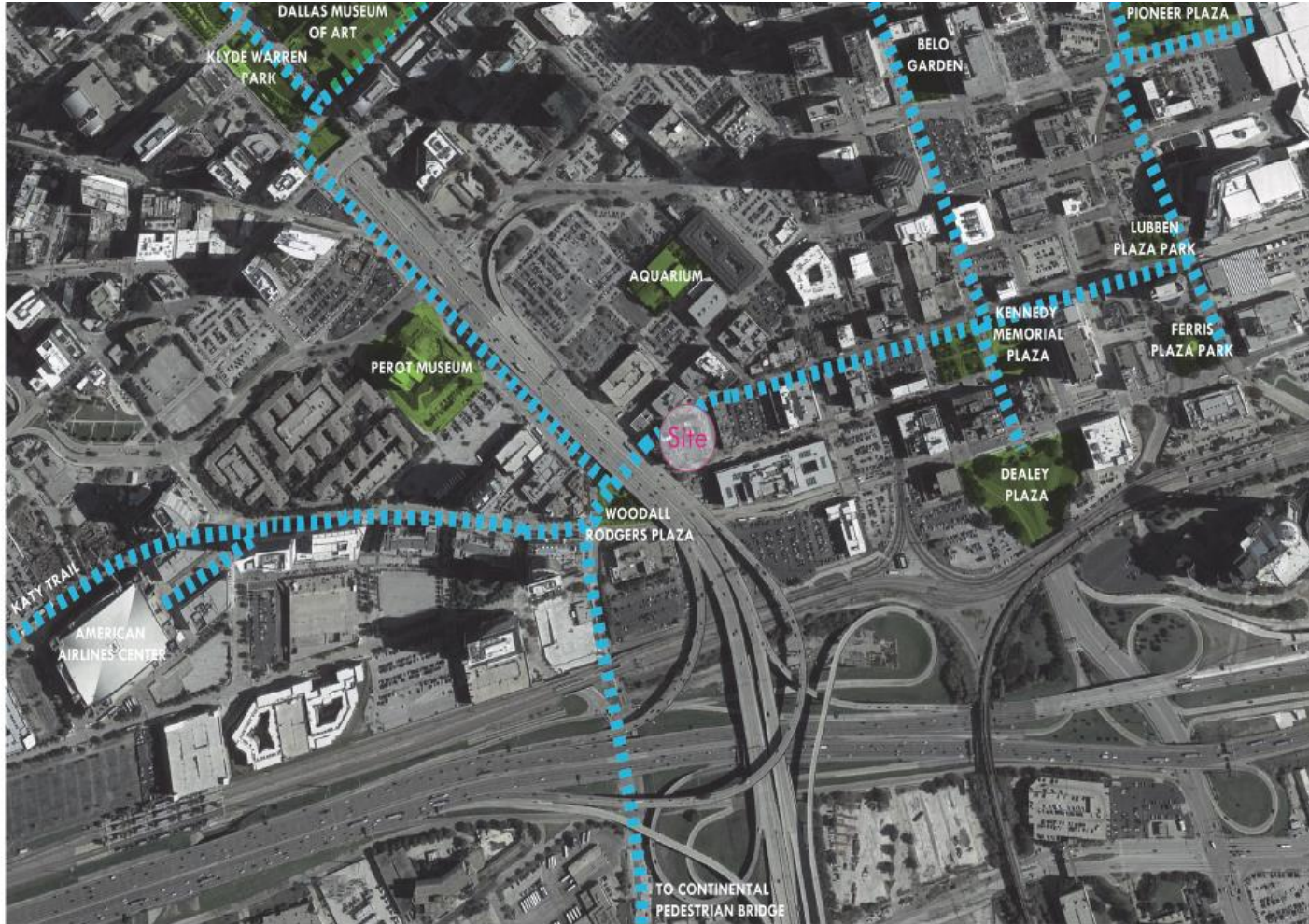
# City Center TIF District

## *Factory Six03*

- Located in Historic West End District
- Built in stages between 1903 and 1923
- Originally built as Brown Cracker and Candy Company and over the years, until its closing over ten years ago, held a variety of tourist and destination activities
- Some of those uses, including a movie theater, affected the structure and rendered the building unfit for future uses



# Factory Six03 Project Location





# Factory Six03

## Project Description

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- Existing 182,000 square foot building (plus 28,000 sf basement space)
  - Both 4 story and 7 story portions of building will have additions to top for an executive office, tenant lounge and conference center
  - New entrance will be added to building
  - All additions will be reviewed and approved by National Park Service, in compliance with national historic renovation guidelines
  - Minimum 9,000 square feet ground floor retail/restaurant space required
  - Minimum 165,000 square feet office space required
    - Target market is creative/innovative office tenants
  - Basement to be converted into 55 parking spaces

# Factory Six03, Cont.

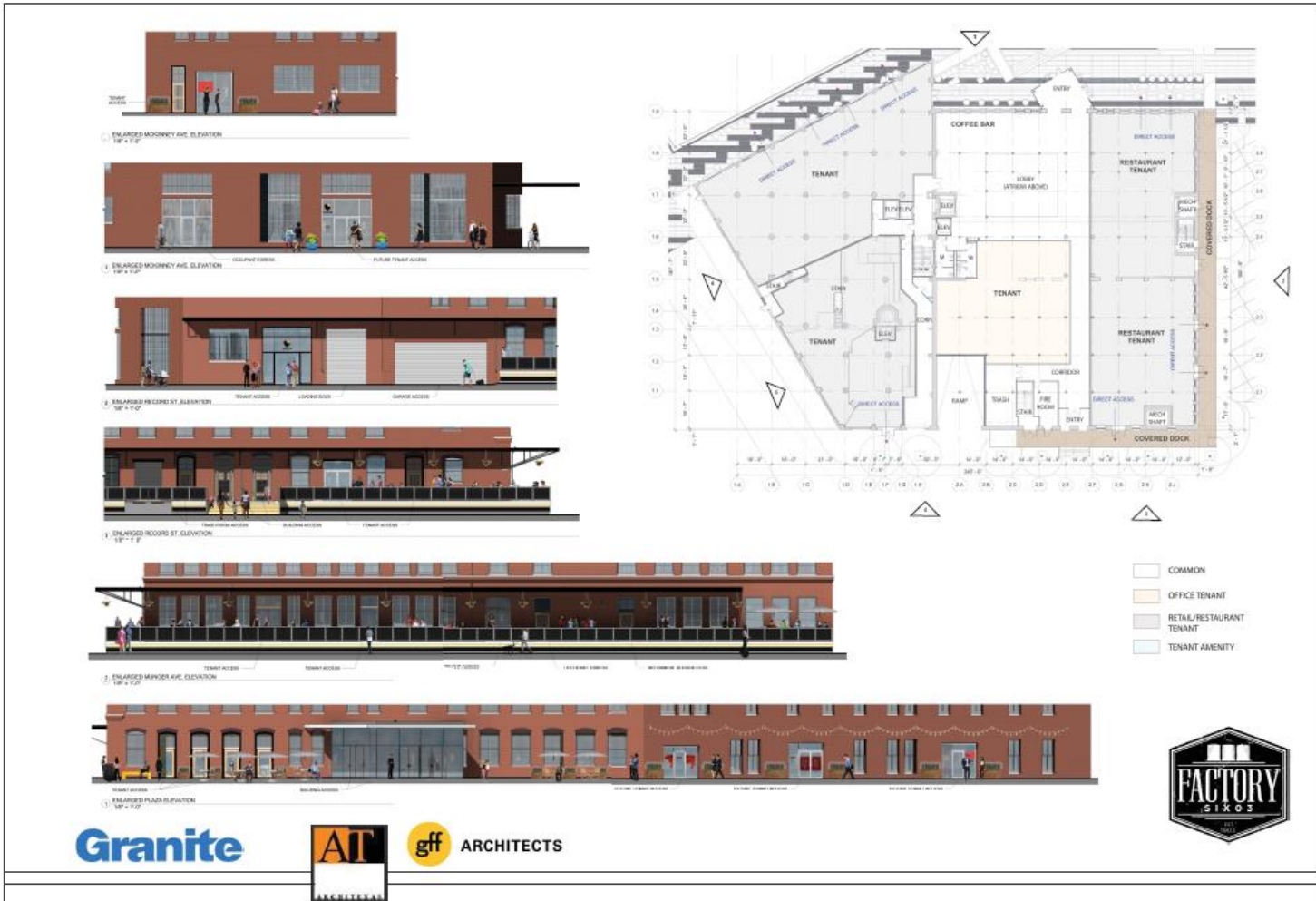
## Project Description

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- Required Project Cost: \$54,000,000, including acquisition (anticipated actual cost \$73.3M)
- Deadline to Obtain Building Permit: September 30, 2016\*
- Project Completion Date: September 30, 2017
- TIF Funding:
  - Total \$4.66M
    - Public Infrastructure Improvements: \$2.25M
    - Redevelopment/Development: \$2.41M

\* Permit has been obtained and work is underway. Upon acquisition of property, Granite Properties began negotiating public incentives for the project. They agreed to proceed with the project at their own risk in hopes that City Council would ultimately approve incentives for the project. They considered timing of the construction of the renovated facility as crucial as the public incentives (developer did not want to miss market opportunity). As such, they began renovating the building and planning for the open space plaza improvements.

# Factory Six03 Site Plan



**Granite**



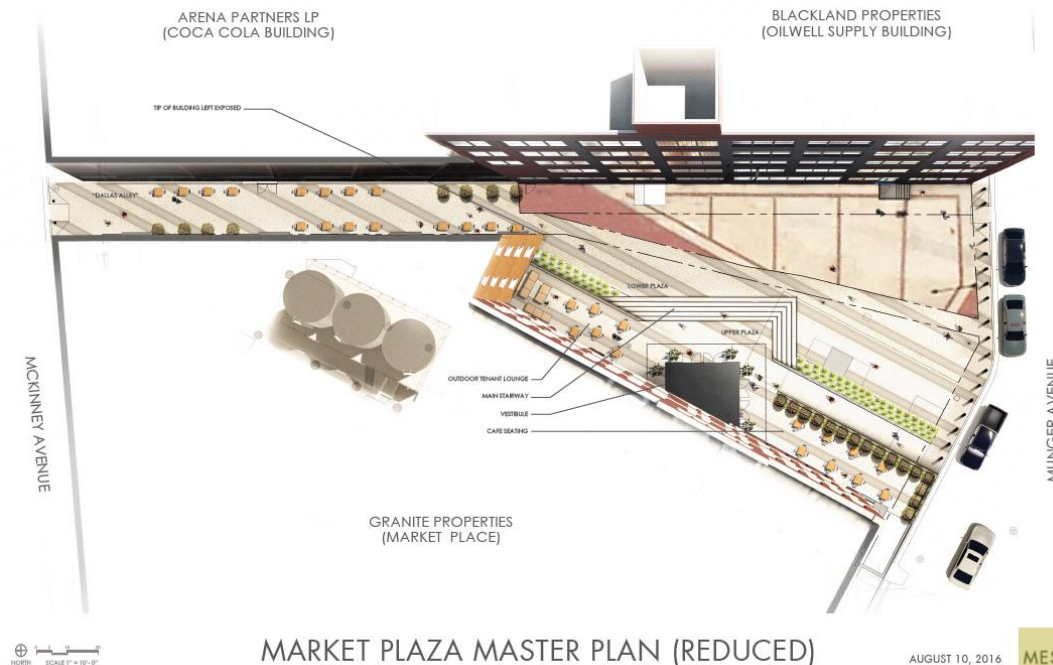
**gff ARCHITECTS**



# Factory Six03

## Streetscape Related Improvements

- Proposed TIF funding for streetscape and plaza improvements and renovation of historic building
  - Streetscape improvements will take place on all sides of the building
  - Plaza space will be repositioned as a key gathering space in the West End Historic District and a space that transitions from downtown to the Sports Arena/Victory area
- On July 22, 2016, the developer's design team and Economic Development staff met with the Urban Design Peer Review Panel to review the project's design. CityDesign Studio compiled the panel's comments and provided them to developer. Developer adjusted plaza design to accommodate recommendations



Note: only includes improvements to plaza area that Granite controls

# Factory Six03

## Building Improvements

- Proposed TIF funding also for renovation of historic building
  - Ground floor will be used primarily to house restaurants, spilling out into the old dock space, as well as serve as the office lobby
  - TIF funds would also be used to assist with renovations to the historic façade and historic structure



# Factory Six03

## Proposed TIF Funding

- If all conditions of agreement are met, a maximum of \$1,250,000 may be released prior to the expiration of the City Center Sub-District (December 31, 2022 with last collection and disbursement 2023), unless funds are available after all City Center Sub-District obligations have been fulfilled
- Remaining TIF funds may be reimbursed from the West End/Lamar Sub-District, beginning in 2023, with 2024 collections
- Actual TIF amount will be based on actual expenditures for each line item in the TIF reimbursement budget below

Description	Amount
<b>Public Infrastructure Improvements</b>	
Streetscape improvements, Landscaping, Lighting, Signage, Design and Engineering, Contingency Costs (5%)	\$2,250,000
<b>Redevelopment/Development Projects</b>	
Environmental Remediation, Interior & Exterior Demolition, Façade Improvements, Storefront Improvements, Design and Engineering, Contingency Costs (5%)	\$2,407,174
<b>Total TIF Funding Recommended</b>	<b>\$4,657,174</b>

# Factory Six03

## Budget and Sources and Uses of Funds

<b>Factory Six03 (603 Munger Avenue/West End Marketplace) Project Budget</b>	
Acquisition	\$12,372,746
Environmental and Demo	\$2,378,850
Façade Restoration	\$5,431,007
Hard Construction Costs - Existing Structure (includes sitework and contingency)	\$23,002,945
Additions (5th flor and 8th floor)	\$5,482,036
Streetscape/Public Space	\$1,841,225
Tenant Improvements and Leasing Commission	\$13,461,085
Soft Costs	\$9,291,396
<b>Total Costs</b>	<b>\$73,261,290</b>

<b>Sources</b>	<b>Amount</b>	<b>%</b>
Equity	\$27,409,490	37%
Construction Loan	\$29,250,000	40%
Historic Tax Credit Proceeds	\$16,601,800	23%
<b>TOTAL</b>	<b>\$73,261,290</b>	<b>100%</b>

# Factory Six03 Summary

<b>Factory Six03 (603 Munger/West End Marketplace) Redevelopment Project</b>	
Minimum Office Renovations (required)	165,000 s.f.
Minimum Retail/Restaurant Space (required)	9,000 s.f.
Required Private Investment – (acquisition, construction hard and soft costs)	Min. \$54,000,000
Expected Total Project Cost	\$73,261,290
TIF Funding	\$4,657,174
% TIF funds to total project cost	6.36%
Return on Cost without TIF	6.6%
Return on Cost with TIF	7.1%
Deadline to Obtain Building Permit	September 30, 2016*
Deadline to Obtain Final CO (165,000 sf of renovated space)	September 30, 2017

\* Permit Issued



# Strategic Importance of Proposed Project

- Revitalizes obsolete and vacant historic building in West End Historic District
- Adds needed streetscape improvements and plaza that serves as gathering space and connects to Victory
- Increases leasibility of downtown office space, focused on creative class



# Factory Six03

## *TIF Board Funding Recommendation*

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- On August 11, 2016, the City Center TIF District Board of Directors reviewed and recommended approval of a development agreement with GPIWE Limited Partnership for TIF incentives and dedication of TIF funding for TIF-eligible project costs associated with redevelopment of the West End Marketplace building located at 603 Munger Avenue in an amount not to exceed \$4,657,174, subject to 1) sufficient public access assurance and 2) satisfying Peer Review's comments

# Recommendations

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- Economic Development Committee recommendation for Council approval of a development agreement for TIF funding
- Council consideration on January 25, 2017

# APPENDICES

# Appendix A: *Factory Six03*

## *Conditions of TIF Funding*

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- Minimum private investment of \$54,000,000 for the Project (acquisition, construction and construction related soft costs).
- The term “Invest” or “Investment” means the sum of all acquisition costs, construction costs (hard and soft) paid, payable or actually incurred by or on behalf of the Owner, with respect to the Project and the improvements thereon. Construction related soft costs include the following items: architecture and engineering, interior design, remediation and demolition. Carrying or other similar costs shall not be considered toward this definition of project investment. The owner must provide verification of all expenditures.
- Redevelopment of the Project shall include:
  - Minimum 165,000 square feet of office space; and
  - Minimum 9,000 square feet of retail/restaurant; and
  - Streetscape improvements
- Obtain a building and/or demolition permit and start construction for the Project by September 30, 2016 (note that this milestone has been met)
- Obtain a Certificate of Occupancy (CO) for a minimum of 165,000 square feet of rentable office space by September 30, 2017, 2017
- Occupy a minimum of 50% of the newly converted ground floor retail/restaurant space prior to TIF reimbursement

# Appendix A: *Factory Six03*

## *Conditions of TIF Funding (Continued)*

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- Obtain final acceptance of public infrastructure improvements associated with the Project, as evidenced by the issuance of a Green Tag from the Public Works and Transportation Department by September 30, 2017 and submit documentation to the Office of Economic Development (the “OED”)
- Execute an Operating and Maintenance agreement for public infrastructure improvements associated with the Project by September 30, 2017, for a period of 20 years
- Construct Project in substantial conformance with design plans approved by the City Center TIF Board of Directors, the Dallas Design Studio and Dallas City Council
- Submit to the Director of the OED a quarterly status report for ongoing work on the project, as well as public improvements. Status reports will be due once every three months after the Council approval date
- Owner shall make a good faith effort to (i) comply with the Business Inclusion and Development (“BID”) goal of twenty-five percent (25%) Minority/Women-owned Business Enterprise (M/WBE) participation for TIF reimbursable improvements, and (ii) achieve a goal of 25% certified M/WBE participation for total private improvement construction expenditures for the Project, and meet all reporting requirements for each;
- If necessary, the project deadline can be extended up to 6 months, subject to the Office of Economic Development Director’s and City Center TIF District Board of Director’s approval

# Appendix B: *Factory Six03* Renovation *Project Proforma*

Factory603 (West End Marketplace) Renovation Proforma			
City Center TIF District			
<b>PROJECT DESCRIPTION:</b>		603 Munger	
<b>PROJECT TYPE:</b>		Office and Restaurant/Retail	
<b>CONSTRUCTION START DATE:</b>		September 30, 2016	
<b>PROJECT SCHEDULE:</b>		September 30, 2017	
<b>Use Breakdown</b>	<b>SF</b>	<b>Total Leasable SF (entire project)</b>	
Office	166,457	201,457	
Addition of executive office, conference center	25,000		
Basement conversion to parking (55 spaces)	28,000	<b>Total Bldg SF (Gross)</b>	
Retail/Restaurant	10,000	284,701	
Back of House/Common Area	55,244		
<b>Project Costs</b>		<b>Income</b>	
Hard Cost	\$28,484,980	Office Revenue	\$6,776,782
Soft Cost (less Developer Fee)	\$7,760,558	Retail Revenue	\$536,500
Acquisition	\$12,372,746	Parking & Other	\$118,072
Office Tenant Improvements	\$10,081,050	<b>Total Income</b>	<b>\$7,431,354</b>
Office Leasing Commissions	\$3,380,035		
Public Improvements (include hist façade, etc)	\$11,181,919		
<b>Total Project Cost</b>	<b>\$73,261,288</b>		
<b>Total Project Cost</b>		<b>Expenses</b>	
Total Project Cost	\$73,261,288	Office Operating Expense	\$903,072
TIF Assistance	\$4,657,174	Retail Operating Expense	\$44,200
Historic Tax Credits	\$16,601,800	Property and Franchise Taxes	\$1,285,890
<b>Net Cost to Developer</b> (after TIF reimbursement)	<b>\$52,002,314</b>	Property Management	\$199,313
<b>Return on Cost Analysis</b>		<b>Total Expenses</b>	<b>\$2,432,475</b>
<b>NOI/Total Project Costs</b>		Capital Reserves	\$145,948
Return on Cost (without City \$)	6.6%	<b>NOI (after reserves)</b>	<b>\$4,852,931</b>
Return on Cost (with City \$)	7.1%		

# Appendix C: *Factory Six03*

## *Development Team*

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**Granite Properties** Since 1991, Granite Properties has acquired or developed more than 20 million square feet of commercial real estate. With an emphasis on office properties, Granite Properties' business is based on recognizing outstanding investment opportunities and maximizing their value. They are dedicated to creating exceptional work environments for their tenants while conserving natural resources.

**Michael Dardick, CEO** – Michael is a founding partner and President and CEO of Granite Properties, Inc. Prior to founding Granite Properties, Michael served as a Senior VP at a JPMorgan/Chase predecessor running the Foreclosed Real Estate Division. Prior to that, Michael was responsible for establishing a new regional office for one of the largest real estate auction-marketing firms in the country and before that, started his career spending 3 years as a commercial real estate lender.

**Greg Fuller, COO/President** – Greg joined Granite Properties in 2000 and oversees operations, development, human resources and corporate administration company wide. He also focuses on development, leasing and growth opportunities for the Dallas office. Prior to joining Granite, Greg was vice president of business development and corporate marketing of Paric Corporation, a design build and construction firm where he also served on the Executive Committee.

**David R. Cunningham, Director of Development and Construction** - David joined Granite in 2000 and is responsible for development and construction management for shell projects as well as interior construction for Granite Properties. Prior to joining Granite, David developed projects for his own account and was the director of development and construction for the DalMac Companies.