

Memorandum



City of Dallas

DATE September 12, 2014

TO Members of the Economic Development Committee:
Rick Callahan, (Vice-Chair), Jerry R. Allen, Scott Griggs, Adam Medrano, Lee Kleinman

SUBJECT **Deep Ellum Crossroads Redevelopment Project – Deep Ellum TIF District**

On Monday, September 15, 2014, the Economic Development Committee will be briefed on the Deep Ellum Crossroads project to redevelop properties along Main, Commerce, and Elm in the core area of the Deep Ellum TIF District.

Briefing material is attached.

Should you have any questions or concerns, please contact me at (214) 671-9837.

A handwritten signature in black ink, appearing to read 'Ryan S. Evans'.

Ryan S. Evans
First Assistant City Manager

c: The Honorable Mayor and City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Forest E. Turner, Assistant City Manager

Joey Zapata, Assistant City Manager
Charles M. Cato, (I) Assistant City Manager
Theresa O'Donnell, (I) Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council
Karl Zavitkovsky, Director, Office of Economic Development
J. Hammond Perot, Assistant Director, Office of Economic Development

Deep Ellum Crossroads Redevelopment Project

Deep Ellum TIF District

Economic Development Committee
September 15, 2014



**DALLAS
ECONOMIC
DEVELOPMENT**



City of Dallas

Overview

- Discuss the redevelopment and site improvements of 42 Realty properties along Main, Commerce, and Elm
- Present proposed City of Dallas economic incentives for the project

Deep Ellum Crossroads

Background

Deep Ellum Crossroads –

- **Owner assembled 22 sites in Deep Ellum core** – Properties located on both the north and south sides of the 2600 and 2700 blocks of Main Street, as 2646 Elm, 2653 Commerce, and the parking lots at 2703, 2705, and 2711 Commerce
- **Buildings have varied redevelopment needs**
 - Historic red-brick buildings constructed between the 1920s and 1940s set tone for district and require sensitive renovations
 - Concrete masonry block buildings built between the 1960s and 1970s may require major renovation
 - Several are currently vacant, and are in need of repair and restoration
- **Owner developed comprehensive redevelopment plan for area, subject to City financial help**
 - New tenancing plan
 - More mid-block cut-through spaces
 - Plaza-like, multi-use north/south streets become more pedestrian and retail oriented
 - Added landscaping and lighting
 - Comprehensive parking strategy
- **Estimated private investment - \$15M**



Before and after plans – (above) Mid-block cut-through and (below) streetscape and building improvements



Background (cont'd)

- **Project Site**

- The project will revitalize currently vacant underutilized buildings in Deep Ellum's historic core to encourage a walkable destination for entertainment, retail, and restaurants
- The historic brick buildings will be rehabilitated in order to create new storefronts for small businesses
- No existing buildings will be demolished.
- Once completed, project will feature approximately 59,000 SF of Retail and 25,000 of public space
- Existing buildings are currently 40% occupied
- Some current tenants will be relocated to accommodate new building layouts

Map of 42 Deep Ellum Controlled Properties

CONTEXT

42 DEEP ELLUM CONTROLLED PROPERTIES

Buildings

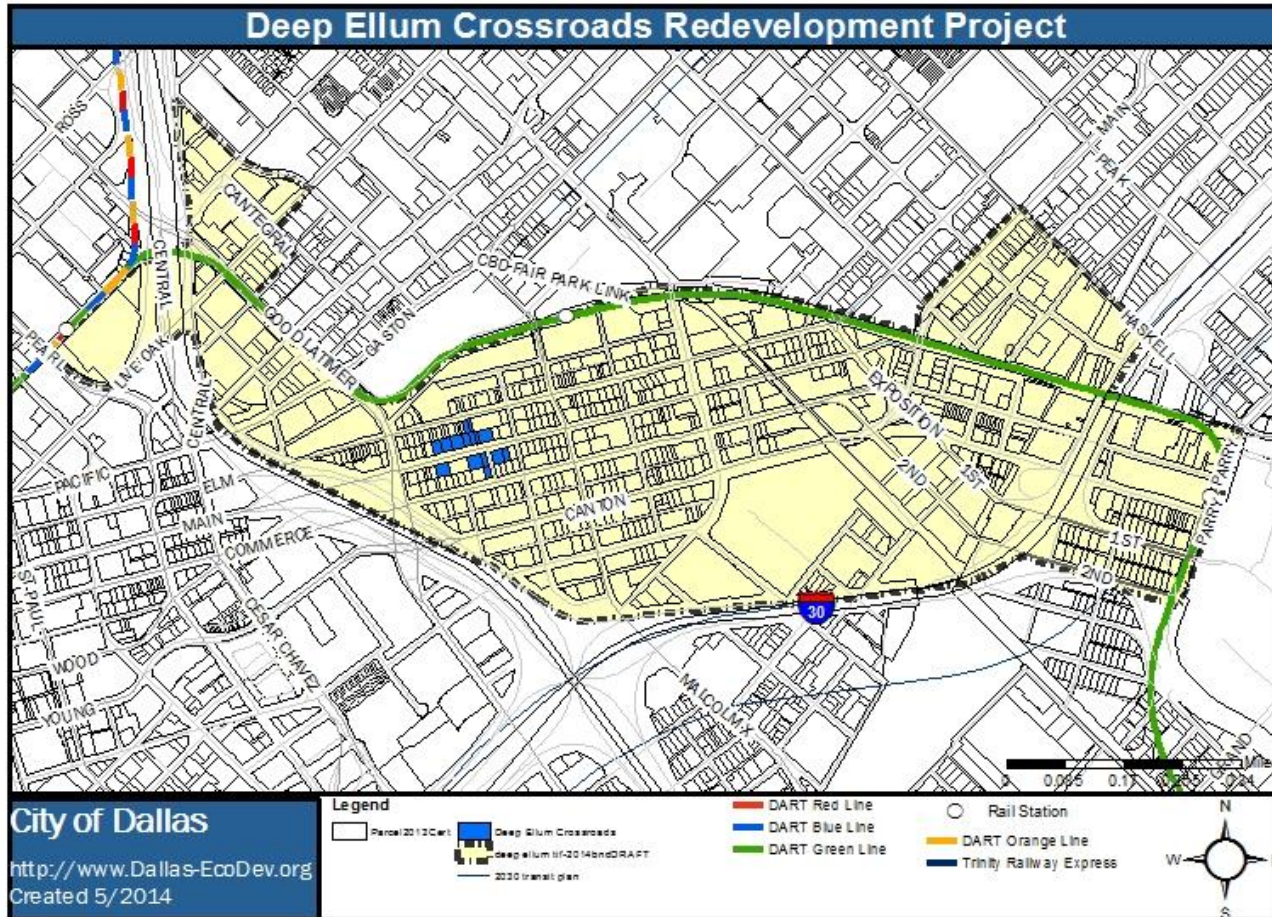
Street Address	Nickname	Building Area
1. 2609 Elm St.	Subway	2,500 SF
2. 2613 Elm St.	Stonedeck	2,500 SF
3. 2801 Elm St.	Hotel	7,882 SF
4. 2614 Elm St.	Rudberg	4,500 SF
5. 2640 Elm St.	Twille	4,000 SF
6. 2646 Elm St.	Click's - Elm	3,600 SF
7. 2649 Main St.	Click's - Main	3,844 SF
8. 2625 Main St.	BrainDead	5,262 SF
9. 2635 Main St.	Man Cave	5,328 SF
10. 2639 Main St.	Lula B's	7,033 SF
11. 2701 Main St.	Golden Eagle	9,722 SF
12. 2803 Main St.	Blind Lemon	9,594 SF
13. 2600 Main St.	Coppertank	13,000 SF
14. 2604 Main St.	Tiggers/Blue Cloud	7,332 SF
15. 2626 Main St.	Ad-Libs	4,500 SF
16. 2642 Main St.	Atwell	5,256 SF
17. 2646 Main St.	Nash/Life of Riley	5,000 SF
18. 2650 Main St.	Taboo Tattoo/Kettle	5,000 SF
19. 2656 Main St.	Corner	5,066 SF
20. 2631 Commerce St.	Diner	5,000 SF
21. 2645 Commerce St.	Comedy House	5,000 SF
22. 2651 Commerce St.	Skylight	5,066 SF
23. 2653 Commerce St.	Henderson Kitchen	3,895 SF
24. 2702 Main St.	Pecan Lodge	5,408 SF
25. 2708 Main St.	Lambeth	5,000 SF
26. 2810 Main St.	Gordon	4,940 SF
27. 2816 Main St.	Dance Lady	5,000 SF

Lots

Street Address	Nickname	Lot Area
A. 2806 Elm St.	Blind Lemon Lot	4,875 SF
B. 2607 Main St.	Baker-Main Lot	17,600 SF
C. 2647 Main St.	Lula B's Lot	5,050 SF
D. 2653 Main St.	Click's Lot	3,000 SF
E. 2611 Commerce St.	Coppertank Lot	5,000 SF
F. 2630 Main St.	Ad-Libs Lot	5,000 SF
G. 2642 Main St.	Atwell Lot	9,350 SF
H. 2625 Commerce St.	Baker-Commerce Lot	10,000 SF
I. 2629 Commerce St.	Free Lot	5,000 SF
J. 2633 Commerce St.	EBS Lot	5,000 SF
K. 2603 Commerce St.	Forberg Lot	10,000 SF
L. 2711 Commerce St.	Lambeth Lot	5,000 SF
M. 2806 Main St.	Gordon Lot	5,000 SF



Project Site



Deep Ellum *Before-After Elevations*



Proposed Incentives

- TIF Funding of \$3,500,000 includes:
 - Economic Development TIF Grant: \$775,000
 - Remaining \$2,725,000 TIF Funding for:
 - Paving Streetscape and Lighting improvements (includes paving, landscaping, streetscape and design costs)
 - Open spaces & Trails (includes site improvements and landscaping costs)
 - Façade Restoration/Environment Remediation and Demolition

Deep Ellum Crossroads Project

Strategic Importance

- Redevelops key buildings in Deep Ellum TIF District Core
- Revitalizes and transforms a fairly empty and underused area of Deep Ellum
- First major TIF request to follow Deep Ellum TIF District Plan Amendment
- TIF amended by City Council to include properties approved on September 10th
- Creates mid-block cut thru on Main Street
- Adds three public areas to the area
- Creates usable retail space out of buildings who's initially use is no longer needed in the area

Deep Ellum Crossroads *Project Team*

- **42 Deep Ellum, LP** is a Texas Limited Partnership that began acquiring retail-oriented property in the Deep Ellum Neighborhood in 2012. Since, the partnership has invested millions of dollars into rehabilitating the neighborhood by upgrading existing structures, repairing utilities, renovating storefronts, and attracting high-quality, community-minded tenants to the neighborhood. 42 Deep Ellum, LP has worked alongside the city, other property owners, and the local community to ensure that Deep Ellum is rejuvenated as a sustainable, business friendly environment that restores it's place as an icon in the Dallas city culture.
- **Scott Rohrman – Manager of the General Partner of 42 Deep Ellum, LP**, specializes in commercial real estate investment and development and oversees the day-to-day efforts of the 42 Real Estate team. The 42 Real Estate team focuses on build to suit projects for corporate tenants, and also on land investments with outside partners for future development. The investment land tracts are typically planned for future retail, office, and industrial developments. Rohrman has also assembled over 30 parcels in the Deep Ellum area of Dallas near downtown, and has embarked on helping the community redevelopment going on in that area with the 100+ year old buildings
- **Andrew Morgan – Project Management / Finance**, manages all internal operations for 42 Real Estate's investments and build-to- suit projects. From due diligence to securing construction financing for the various projects, Morgan is the main point of contact for all of 42 Real Estate's internal operations and processes. Outside of real estate investment and development, Andrew has a background in commercial real estate banking for a large, southeast regional bank.

Deep Ellum Crossroads *Project Team*

- **Joe LaGro – Project Management / Engineering & Construction**, has more than thirty years of combined construction and architectural experience with several prestigious companies throughout the Midwest and Western parts of the country. He began his career, after graduating from the University of Illinois, as an architect in Chicago and continued in Denver, Colorado after relocating to pursue a post graduate degree. After graduating from Denver University with an MBA, he managed a remote office for a major regional developer in Arizona coordinating the construction of large retail shopping centers, hotels, office showroom buildings and other various commercial projects. Following this experience, Joe directed the Circuit City construction activities for the western portion of the country, building stores, repair centers, and distribution centers. Most recently, he was involved in managing the construction of large shopping centers for Cypress Equities (Staubach) in California and Arizona.
- **Benton Payne – Asset Management / Government Relations / Marketing**, has lived in Dallas, Texas his entire life save for his undergraduate career at Vanderbilt University, from which he graduated in 2010 with a degree in Arts and Sciences. Benton served as volunteer coordinator and marketer for Mike Rawlings' mayoral campaign in 2011 and joined 42 Deep Ellum, LP in 2012, where he has handled government relations, large scale project management, marketing, and community relations.
- **Will Harris – Property Management / Construction**, grew up in Dallas, Texas and graduated with a degree in Arts and Sciences from Colorado College in 2007. Since joining Deep Ellum 42, LP in 2012, Will has handled construction management, property management, tenant relations, and maintenance regarding the company's portfolio.

Deep Ellum Crossroads

Project Funding Sources and Uses

Sources	Amount	%	Uses
Private Equity	\$11,011,495	60%	Acquisition and Construction
Bank Loan	\$3,348,085	18%	Construction
Seller Financing	4,067,800	22%	Construction
\$18,427,380			

Deep Ellum Crossroads

Proposed TIF Funding

- Portion of TIF funds will reimburse streetscape, open area site improvements, and façade restoration.
- The project is being defined as a catalyst project to help kick start redevelopment in the TIF District

Description	Amount
Redevelopment of Vacant/Public Plazas	
<i>Paving Streetscape & Lighting</i> (includes paving, landscaping, streetscaping, design, electrical, mechanical, and engineering costs)	\$750,000
<i>Open Spaces & Trails</i> (including site improvements, engineering, design, and landscaping costs)	1,075,000
<i>Façade Restoration/Environmental Remediation & Demolition</i>	\$900,000
<i>Economic Development TIF Grant</i>	\$775,000
Total TIF Funding Proposed	\$3,500,000

Deep Ellum Crossroads Project

TIF Board Funding Recommendation

- On August 5, 2014, the Deep Ellum TIF District Board of Directors reviewed and approved TIF funding for the Deep Ellum Crossroads project in an amount not to exceed \$3,500,000, of which \$775,000 is in the form of an Economic Development TIF Grant.

Recommendation

- Staff requests Economic Development Committee's favorable recommendation of approval for TIF funding for the Deep Ellum Crossroads project in an amount not to exceed \$3,500,000, of which \$775,000 is in the form of an Economic Development TIF Grant.

APPENDICES

Appendix A: Project Requirements/Other Information

Deep Ellum Crossroads Mixed Use Project Facts	
Minimum Retail Space	50,000 SF
Minimum Common Space	15,000 SF
Parking Spaces	183
Required Private Investment - (site acquisition, construction hard and soft costs)	Min. \$14,000,000
Expected Total Project Cost	\$18,427,380
TIF Funding	\$3,500,000
% TIF funds to total project cost	19%
Return on Cost without TIF	3.31%
Return on Cost with TIF	4.09%
Deadline to Obtain Building Permit	January 30, 2016
Deadline to Obtain Final CO	December 31, 2016

Appendix B: Highlights of TIF Funding Conditions

- Minimum private investment of \$14,000,000 for the Project, including acquisition, construction and construction related soft costs.
- Investment shall include a minimum of \$2,000,000 for the following TIF Eligible expenditures associated with the “Project”:
 - Paving, Streetscape, & Lighting – minimum \$500,000
 - Open Spaces & Trails – minimum \$1,000,000
 - Façade Restoration/Environmental/Remediation/Demolition – minimum \$500,000
- Redevelopment of the Project shall include a minimum of 65,000 square feet:
 - Minimum 50,000 square feet of retail/restaurant space
 - Minimum 15,000 square feet of back of house/common space, including public plaza spaces
- Start construction for the Project by January 30, 2016;
- Certificate of Occupancy (CO) for the Project by December 31, 2016;
- 25% of total net leasable commercial (non-residential) space with a minimum of 50% of ground floor space that front onto a street must be occupied prior to TIF payment;
- Project shall be managed by a management company acceptable to Director;
- TIF Reimbursement for the Project is subject to City Council’s approval of boundary amendment to add additional properties to the Deep Ellum TIF District;

Appendix B: Highlights of TIF Funding Conditions *(Cont'd)*

- On July 25, 2014, the design for the project was reviewed by the Urban Design Peer Review Panel (the “UDPRP”), an independent group of design, engineering, and/or planning professionals selected by the Dallas City Manager and required for all Deep Ellum TIF District projects.
- Recommendations by the UDPRP related to the Project include:
 - Support for the proposed building improvements, overall concept, and attention to detail of the proposal as acceptable and appropriate.
 - Support for landscape improvements including additional trees to reinforce continuity along Main as well as to provide additional shade for the pedestrian experience along Main Street.
 - The panel encourages the exploration of alternative parking solutions to eliminate valet parking over time to support the character of the area.
- Construction shall be in general conformance with site plans approved by the Deep Ellum TIF Board of Directors and Dallas City Council;
- Submit quarterly status reports for ongoing work on the project;
- 25% MWBE participation for TIF reimbursable improvements; 25% Good Faith Effort for private construction;
- Project deadline can be extended 6 months, with Director and Deep Ellum TIF District Board of Directors approval.

Appendix C: Deep Ellum Crossroads Project

Project Proforma

Deep Ellum Crossroads Pro Forma		
Deep Ellum TIF District		
PROJECT DESCRIPTION:	2600 & 2700 Block, Main St, Elm St. and Commerce St.	
PROJECT TYPE:	Mixed Use	
CONSTRUCTION START DATE:	January 1, 2016	
PROJECT SCHEDULE:	December 31, 2016	
Use Breakdown	SF	Total Leasable SF
Retail/Restaurant	62,058	59,058
Common Areas/Public Areas	21,800	4,800 *
Total Building Square Footage	83,858	
Project Costs		
Hard Costs	\$3,850,000	
Soft Costs	\$3,687,320	
Land Costs/Acquisition	\$10,890,060	
Total Project Cost (without City \$)	\$18,427,380	
Income		
		Retail/Restaurant \$ 1,059,509
		Parking Revenue \$ 83,242
		Total Revenue \$ 1,142,751
Total Project Cost	\$18,427,380	
TIF Assistance	\$3,500,000	
Net Cost to Developer (after TIF reimbursement)	\$14,927,380	
Expenses		
		Operating Expense \$ (532,096)
		Total Expenses \$ (532,096)
Return on Cost Analysis		
NOI/Total Project Costs		
Return on Cost (without City \$)	3.31%	
Return on Cost (with City \$)	4.09%	
		NOI* \$ 610,655

NOI - Total (2016-2021)

Notes: Stabilized rates in Year 3 (2019)

*Leasable SF is for outdoor eateries in public plazas

Deep Ellum TIF District

Budget Status

Budget values may fluctuate as a result of district property value changes as provided by DCAD, completion of projects within the district, changes in tax rates for taxing jurisdictions, etc. (Includes Values from the proposed Deep Ellum TIF District Plan Amendment)

Deep Ellum TIF District Project Plan Budget Projected Increment Revenues to Retire TIF Fund Obligations			
Category	TIF Budget*	Allocated **	Balance
Water, Wastewater, Storm & Off-site Utility Replacement	\$2,397,949	\$138,183	\$2,259,766
Paving Streetscape & Lighting	\$27,881,747	\$716,634	\$27,165,113
Open Space & Trails	\$2,710,725	\$35,498	\$2,675,227
Façade Restoration/Environmental Remediation/Demolition	\$10,621,356	\$307,288	\$10,314,068
Latino Cultural Center Area Improvements	\$9,609,109	\$0	\$9,609,109
Administration and Implementation	\$4,377,162	\$283,715	\$4,136,475
Total Project Costs (excluding interest)	\$57,598,048	\$1,481,318	\$56,116,730
<p>* Budget shown above in current dollar; TIF Project Plan shows the budget in net present value. ** Project and Administrative costs are allocated as increment collection began in FY 2008.</p>			

Questions?

