

Memorandum



DATE March 29, 2019

TO The Honorable Members of the Economic Development & Housing Committee:
Tennell Atkins (Chair), Rickey D. Callahan (Vice-Chair), Lee M. Kleinman,
Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin Felder,
Omar Narvaez

SUBJECT **Adolphus Tower: City Center TIF District**

Summary

On April 1, 2019, the Committee will be briefed on the proposed Adolphus Tower project in the City Center TIF District.

Background

The Adolphus Tower, located at 1412 Main Street in the downtown core at the southwest corner of Main Street and Akard Street, was constructed in 1954. Of the 185,990 square feet of net rentable office space, 63% is currently occupied. The ground floor currently has just over 2,000 square feet of retail space, occupied by Freshii. Interior improvements are underway to modernize the office tower. The proposed future phase includes façade improvements as well as expansion of the ground floor retail to over 6,000 square feet, addition of outdoor dining space, and enhancements to the public realm.

The developer, 1412 Main Street, LLC (Sardar (Mike) Hoque), has requested TIF funding assistance for the public realm and façade improvements. Plans for the proposed ground floor improvements have been reviewed and adjusted by the Urban Design Peer Review Panel. The adjustments ensure ample walking space, ADA compliance and pavement lighting.

Allocating \$2,247,605 in City Center TIF District funds for the Adolphus Tower project is likely to be the last City Center Sub-District development/redevelopment project. The City Center Sub-District of the City Center TIF District expires December 31, 2022, with final collection and disbursement in 2023. No TIF subsidy would be paid until all terms of the development agreement are met, including occupancy of at least 50% of the ground floor space. This project will complete a key downtown corner and will increase the retail opportunities for the growing office and residential populations.

Alternatives

The City may decline to provide TIF funding assistance in the amount of \$2,247,605, in which case the façade and public realm enhancements would not occur or the design would fall short of the preferred improvements.

Financing

Not to exceed \$2,247,605.00 – Financing: City Center TIF District Funds (subject to future appropriations from tax increments).

Coordination

Staff coordinated with the Planning and Urban Design Department, Office of Business Diversity and the City Attorney's Office to review the project details.

Recommendation

Staff recommends authorization of a development agreement in an amount not to exceed \$2,247,605 from future City Center TIF District funds for the Adolphus Tower project.

Should you have any questions, please contact me at (214) 670-1696.



Courtney Pogue, Director
Office of Economic Development

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|--|---|
| c: Chris Caso, City Attorney (Interim) | Jon Fortune, Assistant City Manager |
| Carol A. Smith, City Auditor (Interim) | Joey Zapata, Assistant City Manager |
| Biliera Johnson, City Secretary | Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer |
| Preston Robinson, Administrative Judge | M. Elizabeth Reich, Chief Financial Officer |
| Kimberly Bizar Tolbert, Chief of Staff to the City Manager | Laila Aleqresh, Chief Innovation Officer |
| Majed A. Al-Ghafry, Assistant City Manager | Directors and Assistant Directors |

Adolphus Tower City Center TIF District

**Economic Development and
Housing Committee
April 1, 2019**

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



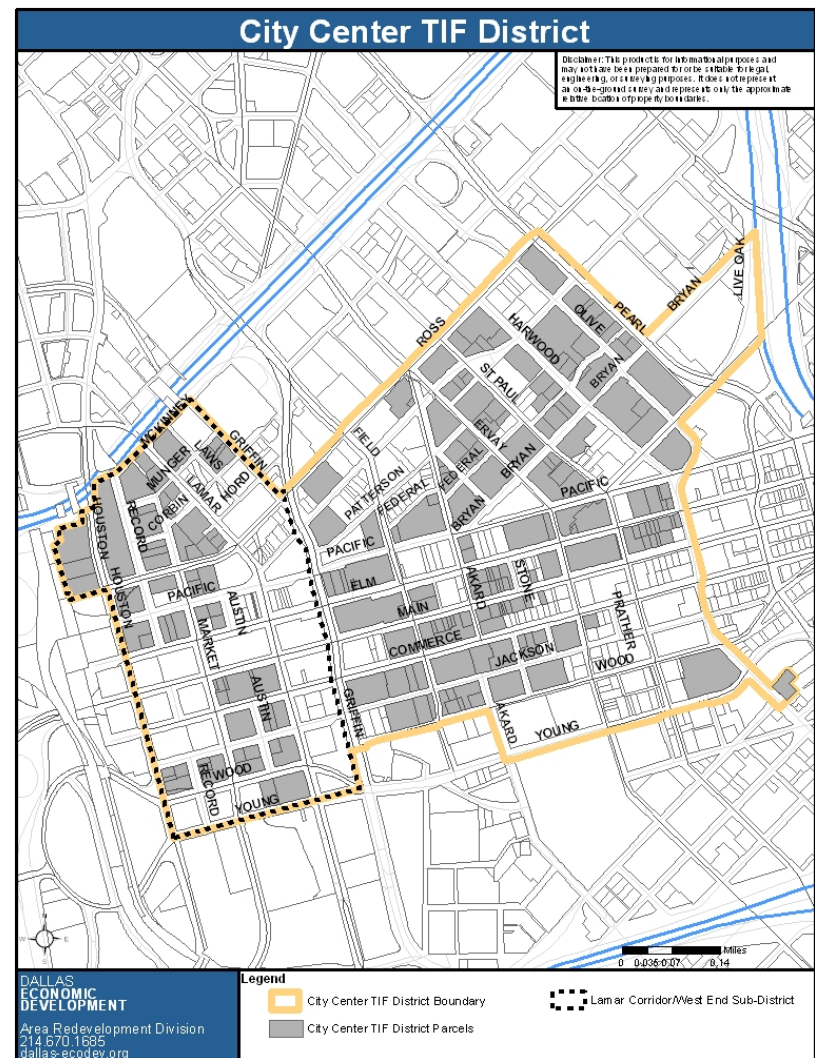
Presentation Overview

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



Background

- City Center TIF District established in 1996
- In 2012, the City Center TIF District's Project Plan and Financing Plan ("TIF Plan") was amended
 - Termination date of the City Center Sub-District was extended for 10 years to December 31, 2022 (collection through December 31, 2023)
 - Lamar Corridor/West End Sub-district term was established for 25 years, January 1, 2012 to December 31, 2037



Background

- When the TIF Plan was amended in 2012, the District's budget increased from \$87.6 million to \$152.0 million.
 - Funding source to stimulate redevelopment of the Lamar Corridor and Historic West End
 - Funding source to fill in redevelopment gaps in the downtown core
- Although the District's budget allows for an additional \$49.6 million (\$25.5 million for development/redevelopment projects) in TIF funds to be collected and disbursed, the City Center Sub-District will expire in 2022 and there is a queue of approved and completed projects to be repaid.
- To date, \$83.88 million in District funds have leveraged \$1.218 billion in new taxable value.

Background

- TIF funded projects have not only spurred increased property value and occupied space downtown, they have also helped produce well-designed street-level improvements through the Design Review process that all TIF-assisted projects undergo.
 - Improved streetscapes and facades (public realm)



Thanksgiving Tower (1601
Elm Street)



Mid Elm Lofts (1512-1516
Elm Street)

Proposed Project

- Adolphus Tower
 - Constructed in 1954
 - Located at 1412 Main Street, SW corner of Main Street and Akard
 - Across the street from Pegasus Plaza
 - 231,660 gross square feet (185,990 net rentable sf)
 - Building currently 63% occupied
 - Ground floor 34% of current and future space occupied
 - 27 floors
 - Developer/Applicant: 1412 Main Street, LLC
 - Sardar (Mike) Hoque



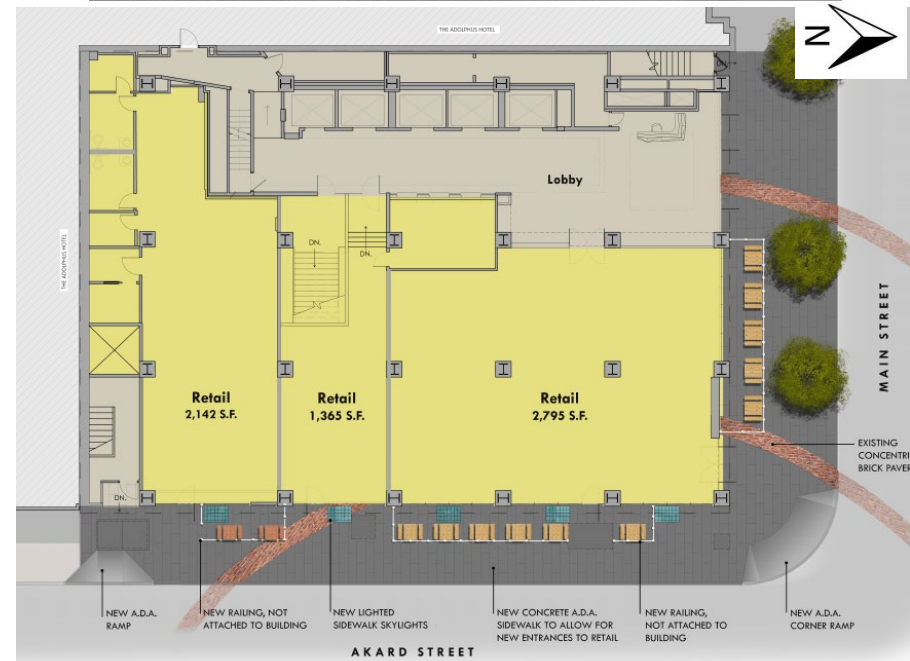
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Proposed Project



Proposed Project

- Portion of Project Scope to be TIF-assisted:
 - Improve/Preserve Façade (all floors)
 - Improve public realm environment on Main Street and Akard Street
 - Increase from 2,142 square feet to over 6,000 square feet of ground floor retail/restaurant space, with outdoor seating
 - Provide ample sidewalk width on Main and Akard Streets with pedestrian enhancements including pavement lighting and ADA standards



Staff Recommendation

- TIF funding in an amount not to exceed \$2,247,605 from development/redevelopment TIF budget category.
- The Adolphus Tower sits at the critical Main and Akard corner and lacks street appeal and pedestrian activity.
- This potentially last project in the City Center Sub-District (term expires 2022, with final collection and disbursement 2023) will complete a key downtown corner and increase the retail opportunities for the growing office and residential populations.



Staff Recommendation

- Proposed Terms:
 - Required minimum investment: \$17.7 million
 - Includes ongoing tower rehabilitation (acquisition, construction, tenant improvements)
 - Required completion date: March 31, 2020
 - 40% Business Inclusion and Development (BID) M/WBE participation good faith effort goal on façade and public realm improvements
 - Best efforts to recruit and hire local residents for retail tenant employment opportunities
 - Minimum 50% ground floor occupancy prior to TIF payment and throughout TIF subsidy payments
 - Conformance to Urban Design Peer Review recommended design

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Next Steps

- On March 14, 2019, the City Center TIF District Board of Directors reviewed and approved TIF funding for the Adolphus Tower project in an amount not to exceed \$2,247,605.
- With a favorable recommendation from the Economic Development and Housing Committee, an agenda item will be placed on the City Council agenda for March 27, 2019.

Appendix



Appendix: Sources and Uses of Funds

Sources		Uses	
Debt	\$14,000,000	Acquisition	\$8,200,000
Equity	\$9,981,919	Construction	\$10,888,176
TIF Subsidy	\$2,247,605	Tenant Improvements	\$3,790,841
Net Cost to Developer	\$21,734,314	Contingency	\$1,102,902
TOTAL SOURCES	\$23,981,919	TOTAL USES	\$23,981,919

Note that the amount shown above is actual anticipated investment which is greater than the minimum investment required for TIF subsidy; the TIF subsidy minimum investment removes some expenditures that are not anticipated to add to the building's value.

Appendix: Proforma

Proforma Metric	Proforma Information
Total Stabilized Retail/Office/Antenna Income	\$3,117,728
Reimbursements	\$531,907
Total Gross Income	\$3,649,635
Vacancy (15%)	(\$453,928)
Expenses	(\$1,633,256)
Net Operating Income	\$1,562,450
Cap Rate	7.5%
Stabilized Value	\$20,832,667

- Stabilized Value is in line with Net Cost to Developer, with TIF assistance.

Appendix: Return on Cost Analysis

- TIF subsidy allows developer to have a fair amount of return on cost.

Return on Cost NOI/Total Project Cost	Return on Cost
Without TIF subsidy	6.5%
With TIF subsidy	7.2%

Appendix: Cash on Cash Analysis

- Without the \$2,247,605 TIF subsidy, the project's cash on cash returns over 10 years are too low to justify pursuing the façade and public realm improvements.

Cash on Cash Return	Average Annual Cash on Cash Return
Without TIF subsidy	8.51%
With TIF subsidy	12.91%

Development Team

STAFF/CONSULTANTS	
5G Studio	Scott Lowe
Radius Architect	Alex Quintanilla
Hixxa Construction	Justin Lawrence
Andrews Kurth Kenyon LLP	Carrie M. Winkler
Asset Management Consultant	Don Dowell
HG Real Estate Solutions	Carla Machulis
David Pettit Economic Development, LLC	David Pettit

Adolphus Tower City Center TIF District

**Economic Development and
Housing Committee
April 1, 2019**

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

