TRINITY GROVES CASE STUDY (BY CHRIS SEMPER)

1. KEY ATTRIBUTES

a. PROPERTY TYPE: Multiphase Redevelopment (core is restaurant incubator surrounded by retail, multifamily housing, office, hotel, and condos in later phases).

b. LOCATION: Along the Trinity River, across from downtown Dallas connected by the Margaret Hunt Hill Bridge which opened in 2012.

c. PARTNERSHIP STRUCTURE: Phil Romano and his partners – Stuart Fitts, Butch McGregor, and Jim Reynolds were the main equity contributors to the Trinity Grove Development

   i. The ownership entity was West Dallas Investments LLC which included Romano, McGregor, and Fitts.

      1. McGregor assumed the role of site acquisitions expert with many relationships in the area.
      2. Romano provided significant financial strength and restaurant experience.

   ii. The development entity was Trinity Groves LLC which includes Jim Reynolds as an equity partner serving as SVP of Development and Construction.

   iii. All partners viewed this as a long-term investment (20+ years) and were not looking for merchant builders, but additional JV partners with long-term horizon/ vision.

      1. Initial JV on multifamily apartment development was Columbus Realty Partners but looking for similar development partners for office, hotel, and condo development.

d. ENTITLEMENT PROCESS:

   i. Most of the acreage was zoned into a Planned Development (PD 891) for mixed-use development. It allows for 9 million sq ft, unlimited building heights over much of the area, and no minimum lot sizes. This flexible zoning included potentially rezoning the less dense PD714 zone south of the railroad tracks as the phases progressed.

   ii. There was also TIF (tax increment financing) on the project of $3.5MM for phase 1 and $13.9MM in phase 2 for roads and infrastructure improvements. The city added this to the existing Sports Arena TIF district in May 2012 (phase 1) and 2014 (phase 2).

   iii. The city was incentivized to rezone and provide support for the project to recast the area's image that had historically been considered unsafe with high crime.

e. CONSTRUCTION:

   i. Phase 1 utilized the old warehouses already onsite to develop the restaurant incubator concept. Each restaurant was to be about 2,500 sq ft with outside dining patios for seating about 125 people. Roughly 100,000 sq ft of warehouse space was designed to accommodate the roughly 20 restaurants. The outdoor patios included curtains, heating elements for winter, and fans for summer. Phase 1 also included culinary education, corporate events space, and brewery. 555 surface parking spaces accommodated visitors in numerous areas with an additional 700 off-site parking spaces as needed.

   ii. Phase 2 was planned to be mixed-use urban redevelopment project with 8 blocks of pedestrian friendly space and a variety of uses and building types. The first development was Cypress at Trinity Groves, a three-phase apartment project. The first phase included 352 units and 35,00 sq ft of retail and restaurant space. These buildings are 4 and 5 story wood frame buildings on concrete podiums wrapping around concrete parking structures.

f. FINANCING:
    i. Phase 1 was around $24.5 million ($5.25mm land acquisition, $18mm hard costs, and $1.5mm soft costs) financed through $12 million in equity, $3.5 million in TIF, and a $12.75 million line of credit from Texas Capital Bank.
    ii. Phase 2 was funded with TIF financing for infrastructure improvements including bond-funded projects to extend three major roads under the railroad tracks.

2. DISTINGUISHING ASPECTS

a. The restaurant incubator concept made this a truly unique deal. Typically, the residential components of a mixed-use development are constructed first but phase 1 consisted entirely of the restaurant incubator. The idea was to create a market that didn't previously exist, celebrating the local community by creating jobs for restaurant entrepreneurs in the area. The economics of the incubator were also unique as a fund was created to invest alongside the restaurant owners in a shark-tank-like competition for the spaces. The overall goal was to create economic activity to revitalize the area first, and then create the mixed-use residential component in phase 2, thereby increasing the value of future developments.

3. NEW REAL ESTATE TERMS

a. Planned Development – flexible zoning the city allows for mixed-use development. It allows for multiple uses with no prescribed use on any specific site. The idea is to include a diversified group of residential and commercial structures to create a thriving urban community that self-sustains.
b. TIF – tax increment financing is a financial tool used by local governments to fund infrastructure and other developments. The idea is that future tax revenues will pay for the TIF making it a "self-financing" tool. It is beneficial for developers to initially fund their development projects with repayment later as their property values increase (completed construction). In this case, phase 2 TIF was used to fund the land development and expired in 2042 to give a long lead time.

4. DIFFICULTIES

a. Assembling the land was a major bottleneck to planning and starting the development.
    i. West Dallas Investments LLC began acquiring land in 2005 – 2010 with over 170 individual parcel transactions. Chain of title issues, abandonments & easements, unplatted parcels, and tax liens made the acquisition process difficult and lengthy.
b. Working with the existing infrastructure in phase 1 was a challenge but also an opportunity for the developers. By not tearing down structures, they were able to build trust with the community and not create a disturbance. The industrial feel ended up being a great design aspect in attracting a strong customer base.

5. DIFFERENT APPROCHES

a. I would have tried to assemble and start construction on Phase 1 sooner. The idea for the restaurant incubator didn't occur until 2011 with operations not starting until well into 2013. They could have potentially started operations much sooner, maybe even in 2012 when the bridge was finished. The IRR on phase 1 and total development would have been higher based solely on time value of money.
b. The restaurant incubator had some failures and was only 77% occupied after 3 years of operation, leaving a large amount of potential revenue on the table. I would have explored allowing other retail to occupy a percentage of the spaces available or have a contingency plan for backup restaurants.
c. Develop a more robust marketing plan with local musical artists featured.