



ABRIDGED EXECUTIVE SUMMARY: STRATEGIC MARKET & FISCAL IMPACT ANALYSIS

MIDTOWN IMPROVEMENT DISTRICT
DALLAS, TEXAS

Prepared for Midtown Improvement District
April 4, 2023

MID OVERVIEW AND MARKET CONTEXT

- ▶ The Midtown Improvement District (MID) is well-located in central Dallas, offering strong access to key employment nodes, retail, and recreation. Central Dallas currently features large employment centers and high income, low density residential areas, with the MID offering a unique opportunity to depart from this norm and transition into a **walkable, mixed-use neighborhood that creates strong access to employment and retail for a variety of income groups.**
- ▶ **RCLCO found that Dallas must deliver more housing near employment centers to sustain future economic growth and maintain its share of regional growth.** Given the fact that many of the city's central areas are already built out with recent high-quality structures, the MID and its large supply of dated properties can help meet the city's needs as it redevelops.
- ▶ **Dynamic, mixed-use development in a denser setting creates more livable communities while supporting increased economic activity.** Midtown presents a compelling opportunity to meet demand for these vibrant spaces.
- ▶ RCLCO compared the MID to a variety of comparable nodes within central Dallas, finding that the MID offers some of the most compelling redevelopment opportunities in central Dallas, given the ample supply of large parcels with increasingly obsolete structures.
 - » The **significant supply of dated housing stock in the MID presents opportunities to create mixed-use spaces** that support the community, while generating revenue for the City of Dallas.

DEVELOPMENT OPPORTUNITIES

- ▶ RCLCO's analysis found that the MID's ample supply of large, prime parcels with dated structures **positions the district to capture an outsized share of development activity over the next 25 years**, although optimizing these opportunities would require investing in improving the area's infrastructure, and breaking up the large blocks and streetscapes that impede walkability and secure access, also known as "megablock busting".
- ▶ RCLCO used statistical models to estimate demand for a variety of land uses over the next 25 years. These models were used to quantify development

opportunities and inform likely development patterns over the study period.

- » **RCLCO's analysis found strong structural demand for residential and commercial land uses in the district over the next 25-years** which has the potential to drive walkable, connected, mixed-use development in the district.
- ▶ Over a 25-year timeframe, RCLCO found **strong opportunities for significant development of for-rent multifamily residential, retail, and medical office uses**, moderate opportunities for for-sale residential, office, and hospitality, and weak opportunities for industrial uses.
- ▶ To model possible redevelopment patterns over the next 25 years, RCLCO surveyed the district's existing commercial properties and **created three possible development scenarios reflective of various levels of investment in the district.** These scenarios, listed below, use different criteria regarding existing properties to quantify the space available for development.
 - » **Upside:** The upside scenario attempts to estimate the future development activity in the MID if the district were to model itself after the MU-3 zoning guidelines, invest in infrastructure improvements, and provide incentives for new development.
 - » **Base Case:** The base case attempts to estimate the future development activity in the MID if the district is modeled after MU-2 zoning and provides more limited infrastructure improvements and incentives.
 - » **Downside:** The downside scenario attempts to estimate the future development activity in the MID if the status quo were to continue.
- ▶ RCLCO found that to meet RCLCO's projected demand for various land uses, **the district must experience additional investment and support to spur its evolution into a dynamic mixed-use neighborhood**, including megablock busting, infrastructure investment, and developer incentives.

See RCLCO's full market and fiscal impact study for more details and supporting documentation.

Source: RCLCO

FISCAL IMPACT ANALYSIS

INVESTMENTS, UPZONING, AND INCENTIVES ARE LIKELY TO SIGNIFICANTLY BOOST THE CITY'S REVENUES FROM THE MID

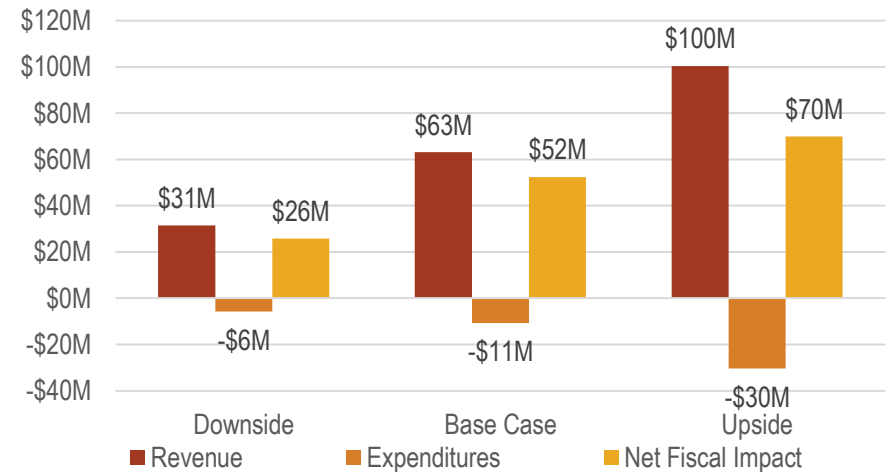
The graphics to the right and below and to the right show the fiscal impacts generated under each redevelopment scenario in 2048 – the first year which does not include one-time construction impacts. While allowing the status quo or more limited investments to occur in the district limits costs of service, **RCLCO's analysis found that investments and policy changes which increase redevelopment activity in the MID have a significant positive fiscal impact for the City of Dallas.**

- ▶ Allowing mixed-use zoning in Midtown enables the delivery of more retail, which has a major positive fiscal impact given the revenues generated by sales tax.
- ▶ Allowing greater density in the district supports not only greater redevelopment activity by heightening interest in the district but also increases assessed values and therefore property taxes by supporting higher quality development.
- ▶ Investing in infrastructure projects in the district, such as megablock busting and street improvements, also has the potential to encourage more development activity and projects of higher quality and value.

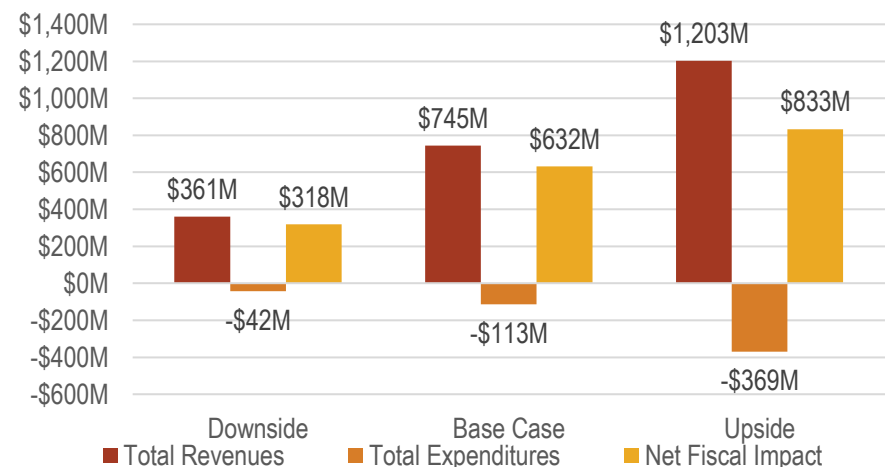
RCLCO also found that on a cumulative basis, all three scenarios have a positive cumulative net fiscal impact. However, **RCLCO also found that by investing in infrastructure, providing incentives, and upzoning the district, the positive fiscal impact for the city can be greatly increased, likely offsetting the cost of investment and incentives needed to generate the positive impacts.**

- ▶ While, increasing the district's density and number of residents increases City expenditures, these are offset by revenues gained from miscellaneous sources, sales, and property tax.
- ▶ Increasing investment in the district and meeting RCLCO's demand projections not only boosts fiscal impacts, but also has the added benefit of increasing employment and household growth.

Annual Avg. Revenue, Expenditures, & Net Fiscal Impact at Build Out (2048)
Midtown Improvement District; 2023 - 2048



Cumulative Revenue, Expenditures, & Net Fiscal Impact
Midtown Improvement District; 2023 - 2048



¹Note: 2048 figures are shown as this is the first year in which no development activity is assumed, thus this year is reflective of annual recurring impacts, exclusive of development activity, while cumulative impacts are inclusive of construction impacts

Source: RCLCO; City of Dallas; Esri

DISCLAIMERS

CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will experience a period of slower growth in the next 12 to 24 months, and then return to a stable and moderate rate in 2024 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when inflection points in economic and real cycles will occur.

With the above in mind, we assume that the long-term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- ▶ Economic, employment, and household growth
- ▶ Other forecasts of trends and demographic and economic patterns, including consumer confidence levels
- ▶ The cost of development and construction
- ▶ Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- ▶ Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- ▶ Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand
- ▶ Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.





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