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Dallas' Statler Hotel Sells City's Incentives in Unheard Of Bond Offering.

Commerce Statler Development LLC — the company created by developer Mehrdad Moayedi to redevelop the landmark hotel — sold the tax increment finance grant the city of Dallas provided for the huge downtown deal.

The Statler developer used the almost $46.5 million in city incentives that helped fund the project to back a unique $26.5 million public bond offering, filings for the bond offerings show.

Securities firm Jefferies LLC underwrote the public debt offering, which was made through the Wisconsin Public Finance Authority.

The sale of the tax-free bonds allowed the Statler developer to access funds that wouldn't be provided from the city's tax increment financing for years.

"This is an innovative funding tool that will allow Dallas taxpayers to realize immediate benefit of the TIF money the city of Dallas is investing," Moayedi said in a statement. "It made sense to us to be able to utilize funds now to enhance the quality of the project.

"We are thrilled with the outcome and the citizens of Dallas are going to be impressed with the new Statler."

The City of Dallas approved the sale of the debt based on the future payout from the TIF district.

"The city had to approve this deal because the municipal bond issuer in Wisconsin required the consent of the municipality in which the project is located," said Karl Zavitkovsky, who heads Dallas' economic development office.

He said other developers may have have sold their incentives in the private markets without requiring the city's consent.

"I've never heard of anyone doing this," said John Crawford with the economic development group Downtown Dallas Inc. "It's a very unique creative concept to getting your money on the front end.

"Typically it's paid out over several years, and you have to wait your turn because of the amount of money available," Crawford said. "It makes a lot of sense for the developer to do this and expedites the project and reduces the liability."

The cost of the Statler redevelopment has grown to more than $221 million, according to the SEC filings.

The original budget for the ambitious project was estimated about $175 million in early 2014 when the Dallas City Council approved redevelopment plans for the landmark downtown building.

Opened 58 years ago as one of the country's most modern hotels, the 19-story building on

Commerce Street had been empty for a decade when construction work started to transform the building in a mixed-use development.

The current construction — which is scheduled to wrap up early next year — will remake the old Statler Hotel into 219 apartments, 150 hotel rooms, and retail and office space. Originally the project had been expected to open in late 2016.

To qualify for the $46.5 million in city economic incentives, the developers must have completed the Statler redo by October of next year and have invested a minimum of $120 million in the project, according to the prospectus for the bond offerings.

The massive redevelopment has been financed in part with an $85 million EB-5 loan and $51.2 million in bridge loans based on the value of tax credits promised on the project by the federal and state governments, according to details provided to the bond buyers.

Financial data provided for the Statler project indicates that the redevelopment will cost almost $150 million. There's more than $63 million additionally in "soft costs" for the developer's fee, architectural and engineering fees and other items.

New York-based bond rating firm Moody's assigned a Baa3 rating to the bonds, which pay an interest rate of about 3.8 percent.

Investors who purchased the Statler bonds were warned that the project must be completed and meet all city requirements before the public incentives will be paid.

Developer Moayedi also warned bond investors of his ties to United Development Funding, a Grapevine-based investor and lender that is being investigated by federal prosecutors.

About 40 percent of Moayedi's projects have previously been developed with UDF funding.

"UDF is not associated with funding" of the Statler, according to the information supplied to bondholders.

The Statler developer said that it couldn't predict what impact the federal investigation of UDF "may have on the developer or the developer's ability to complete the project or continue funding the project."

Other developers who have redone downtown historic buildings say they know of no other cases where the city economic incentives have been sold as a bond to investors.

It's creative — it may set a trend," said Larry Hamilton, whose firm has done more downtown historic building conversions than any other company. "What a great idea."

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By Steve Brown

Real Estate Editor

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