

Castle Hills at a Turning Point – Continued

DECEMBER 2, 2011 BY PATRICK KELLY AND JOHN EHINGER

Last month, we outlined the potential benefits of the expected commercial property expansion in the Castle Hill Development. This month's article will provide an overview of the planned developments and close with an analysis of what it means to you as a resident.

Anyone who looks at a real estate brochure may have noticed, plans are subject to change. Since most of the information used here is from such brochures, the same caveat applies.

The Bridges

Bright Realty's "The Bridges" project is the latest and most concrete version of the mixed-use town center concept that has been a feature of the Castle Hills master plan since its conception. Located primarily in districts 1-G and 1-H along SH 121, the most recent brochure indicates that The Bridges is planned to include a theater, over 300,000 sq. ft. of retail and restaurant space, a hotel, over 600,000 sq. ft. of office space and around 800 multi-family units. While The Bridges is an exciting project both financially and in terms of amenities, it is hard to understand when ground breaking will start – given the commercial and municipal lending markets, not to mention the anticipated use of (public improvement district funding) for some of the infrastructure.

The Village Shops

The Village Shops is a smaller mixed use development in the older part of Castle Hills. It is mostly in district 1-D with a small part in 1-B. Bright Realty is currently marketing Phase III of the Village Shops. Phase III and future phases of the Village Shops will provide significant new taxable value to district 1-D (the 1-B part is complete) and additional sales taxes split between 1-D and 1-B.

Other CH Commercial Areas

While The Bridges is generally treated as the Holy Grail (couldn't resist) for the Castle Hills water districts, it is not the only commercial development anticipated. Additional commercial development is anticipated in Lewisville Towne Crossing. The areas to the west and east of Lewisville Towne Crossing are expected to be similar conventional retail shopping centers. The land across Windhaven to the south is currently being developed as a "Class A" multi-family project. Additional commercial development is likely along SH 121 near Castle Hills North and at the intersections of Old Denton and FM544 and Windhaven and Josey.

Farther afield

The above commercial areas leave significant tracts of land inside districts 1-H and 1-G for which development plans are less clear. The area around the intersection of SH 121 and 121-Business has been mentioned as a possible office development. Also undeveloped is an approximately 25 acre parcel inside 1-D adjacent to Baylor Hospital which is tentatively planned for medical office space.

Much of the land north of the existing parts of Castle Hills and east of Castle Hills North remains undeveloped. The eastern portion of this area is inside district 1-H and has been identified as the potential location of multi-family developments. Much of the eastern portion of this area is part of the

Austin Ranch/Austin Waters development. The Austin Ranch/Austin Waters area seems to follow similar New Urbanism and Traditional Neighborhood Design concepts as Castle Hills. Austin Ranch and Castle Hills could effectively grow together and support each other but they could also compete for tenants and home buyers. Moreover, the high concentration of multi-family and retail could raise concerns about maintenance service levels and public safety expenses.

The area between Austin Ranch and Castle Hills also contain some complicated municipal boundaries – with the Castle Hills districts, Carrollton, Lewisville, Plano, The Colony and the town of Hebron converging in a few square miles. This patchwork of boundaries creates the risk that a lack of coordination among the various entities could result in incompatible land uses.

Finally, most of the Castle Hills districts' boundary with the city of Lewisville consists of undeveloped land inside the city limits. This includes land west of Windhaven and across from Independence ES as well as areas north of SH 121.

Several transportation projects will likely affect Castle Hills significantly. The planned connection of Windhaven to Corporate Drive in Lewisville will provide an additional connection between Castle Hills and the rest of Lewisville. FM 544 is expected to be widened and will effectively extend Parker Road to SH121. These connections may help speed along commercial development but also would likely increase traffic. A longer term plan mentioned by the developer is to improve pedestrian and bicycle connectivity among the different parts of Castle Hills. SH 121's completion within the last few years and the recent connections to the Dallas North Tollway can be anticipated to spur development along 121 both inside and outside of Castle Hills.

What does it mean?

The expense allocation mechanisms described in the last article could result in significant shift of expenses currently born by the residential districts to commercial districts. Within individual districts, commercial development can provide direct benefits from expanded property tax base and sales taxes. But in order for these benefits to be realized, expenses of the districts would generally need to increase at a lower rate than the increase in aggregate taxable value. District expenses are set both by district 1-A and by the spending decisions of the individual boards. The existing districts are also getting older and are likely to face increased maintenance and capital improvement expenses. Moreover, the addition of significant portions of commercial, mixed-use and multi-family areas will likely require a different mix of municipal services than the existing residential areas and could potentially increase expenses for police, fire and EMS.

Highlighting the potential benefits for other districts requires two caveats: The first is that the potential savings to the districts' water expenses may be partially offset by increased (demand fees) related to water consumption. While commercial customers do not normally have as severe of a usage spike in the summer like residential irrigation, increased commercial water consumption may be enough to result in higher demand fees when combined with peak summer usage. The second is to note that the districts' M&O tax rate is from around \$0.20 of their combined rates to \$0.00. The rest is for the debt service payments of each district – which are specific to each district and are not affected by either shared expenses or the debt service payments of other districts. So while a highly optimistic forecast might project M&O tax rates to approach \$0.12 to \$0.15 with full commercial property development, this

might only reduce the overall tax rate to \$0.82 to \$0.85 – closer to cities like Dallas and Ft. Worth, but still significantly higher than Plano or Lewisville.

Secondary effects of development in these areas are unclear. While improved access to amenities may be desirable to home buyers and increase values, the potential for increased traffic and noise may do the opposite. And while new development may marginally help the existing residential districts, the average home value in CH has fallen annually by two to three percent for the last two years. This may be due to external economic factors but might be part of a larger trend affecting Castle Hills. If average home values decline at the same rate that expenses are absorbed by commercial districts, residents could see declining tax bills or water bills but no reduction in rate. And of course, if average home values decline at a greater rate, it could result in a higher tax rate or reduced service levels.

The projects described above will likely influence the financial future of the residential districts and in turn will have a significant effect on their ability to lower their tax rates or utility rates. Monitoring these developments can enable residents and the residential districts' director to respond to new development and to support beneficial projects. While the timing and ultimate success of commercial development in CH is unclear, what is clear is that these types of commercial development will largely determine if and when Castle Hills is fully annexed into the city. Our next article will shift gears and discuss the upcoming elections for the Castle Hills districts.