



Alexandria Redevelopment and Housing Authority

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*Keith Pettigrew, Chief Executive Officer*

To: City of Alexandria Housing Department  
 Fr: Keith Pettigrew, CEO  
 Alexandria Redevelopment & Housing Authority  
 Da: November 10, 2022  
 Re: Application for Pre-Development Funds  
 North Building, Samuel Madden Homes Redevelopment

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On behalf of the Alexandria Redevelopment and Housing Authority (ARHA), I hereby submit the below information in conformance with the information requested for the “**2020 Application for Pre-Development Funds, City of Alexandria, Office of Housing**”. This funding proposal is in support of our predevelopment efforts to create an all-affordable building (207 rental units for households earning between 0-80% area medium income) on the Northern-most parcel of the current Samuel Madden public housing site. Therefore, all references below will be solely limited to the planning, development and ultimate construction and operation of the building on the North parcel of the Madden site.

### **Project Description**

ARHA Property:

#### **Samuel Madden Homes – North Building**

899 N. Henry Street  
 Constructed in 1945

#### Current Property Details:

Two adjacent city parcels  
 100% Low-income rental units  
 Town homes development across 13 buildings with large open space; 66 total public housing units (46 two-bedroom & 20 three-bedroom units)  
 3.44 acre combined site; 22 units per acre  
 Braddock Road Small Area Plan

Project Type:

Multifamily Rental Building

Existing Buildings:

66 multifamily rentals  
 100% (66 units) for households with incomes from 0-60% AMI  
 Operating subsidy from HUD public housing funds (Section 9)

Proposed Building:

**Affordability Chart**

Incomes	# Units	% of Total
0-30% AMI	77	37.2%
50-60 AMI	79	38.2%
80% AMI	51	26.6%
<b>Total Units</b>	<b>207</b>	

Location:

North Parcel of the Samuel Madden Homes site

Short/Long-term goals:

To create a quality multifamily rental property and expand the number of low-income and workforce units in the City of Alexandria

Construction of the property, in part, will be financed with Low-income housing tax credits. We expect to submit a “twining” 4%/9% tax credit application, with an income blending to permit additional workforce housing on the property. ARHA, together with our development partners, are submitting a Section 18 disposition application to HUD based on an obsolesce criteria, thereby allowing ARHA to obtain project-based operating subsidy for these units. (A portion of these units will be placed in the North and the balance in the South building construction.) In the alternative, if the Section 18 disposition is not successful (previously, ARHA successfully submitted Section 18 disposition applications for Park, Saxony and Ladrey properties), we will submit a request for a RAD-blend allowing a portion of the units to receive project-based Section 8 funding and the balance RAD operating subsidy. To balance out the additional units affordable to very low-income households (0-30% AMI), ARHA will seek to bring back into the ARHA portfolio previously authorized public housing units with RAD operating subsidy (Faircloth to RAD conversion units). The balance of the units will be LIHTC credit units with the 80% AMI units be eligible for the subsidized tax credit rents through a successful application for income blending under the tax credit program.

ARHA will lease the North parcel of Madden to the ownership entity for \$1 annually. The currently assessed land value (2022-over \$7M) will be donated as an in-kind contribution for deal structuring purposes.

During the 15-year tax credit compliance period, the building will be owned by a limited partnership (if the twining application is successful, two ownership entities will be created each for the 4%

tax credits and another for the 9% tax credits). The investor limited partners in one structure, if the twining application is not successful, and in both structures, if the twining application is successful, will own over 99% of the entity and the general partner will own less than 1% of the entity. The general partner entity will be comprised of ARHA (with 51% ownership interest) and an entity created by our development partners, who in total will own 49% of the GP entity. Any cash flow (and other benefits) derived from the building's operation will be split among the GP owners in the 51-49% split. During the tax credit compliance period, the building will be managed by Fairstead and ARHA.

Over the long-run, after the 15-year tax credit compliance period, ARHA will exercise its right of first refusal to take full control of the building by paying the exit taxes of the limited partners and sharing any available reserves with the other GP entities. ARHA's goal is to maintain the affordability levels in the building in perpetuity. After the tax credit compliance period, ARHA will own the building outright and self-manage the building or procure a third-party property management entity for the building.

Existing Population:  
Target Population:

66 units for very low-income households (0-30% AMI)  
See Affordability Chart Above

Relocation Strategy:

Will require temporary relocation of existing residents. Households in the occupied units will be relocated to temporary housing for the demolition and construction of the new building. HOU (Housing Opportunities Unlimited), a nationally recognized relocation firm with over two decades experience in the DMV and northern Virginia in particular, will create a case-management approach to understanding resident needs and eventually relocate them to an appropriate sized unit in Alexandria, Northern Virginia or the District. Our development partners have units that they will make available for relocation purposes, ARHA will use its existing portfolio and list of available Section 8 landlords, and HOU will use its extensive list of property owners to assist with relocation of current Madden residents.

ARHA will obtain tenant relocation vouchers to pay for the rentals units during this temporary relocation. (ARHA submitted and obtained approval from the City's Landlord-Tenant Relations Board for the Draft Relocation plans.) Residents will have a right to return to an appropriately sized unit in the new development

(either in the North or South Building). All relocation expenses incurred by residents will be paid from project funds.

Consistency with SMAP: We expect the project to be entitled soon. The project is consistent with the small area plan, zoning and land issues. In March 2022 the development team submitted the first concept plan. Next week, the development team will respond to Staff comments to the Preliminary Completion #2 submission and prepare the docket for a City Council hearing in the first quarter of 2023.

### **Procurement Background- Selection of ARHA Development Partners**

ARHA implemented a two-step procurement process for the selection of potential development partners for current ARHA public housing properties. The first step was to create a list of previously procured development partners selected by the ARHA Board of Commissioners, and a second step to select a development partner for a specific parcel. The below are the steps taken to select the Fairstead/Mill Creek/The Communities Group (The Fairstead Team) as the ARHA Development Partner for the redevelopment of the Samuel Madden site.

#### *Step One:*

- Procurement of Pre-qualified Development Partner List  
RFQ issued to for evaluation of qualifications from potential development teams  
**RFQ: Q-20-01**  
Issued: February 25, 2020  
Returned: June 25, 2020  
Board Accepted 11 potential partners from a response by 23 development teams  
Board Resolution: 696-2020

#### *Step Two:*

- Invitation to three pre-qualified Development Partners to submit proposal for Samuel Madden public housing community

#### **RRP: P-03-08-21**

Issued: March 8, 2021  
Returned: June 11, 2021

A five-member Evaluation Panel was assembled by the Procurement Department and was composed of a resident of the Samuel Madden public housing community and included two ARHA employees, and two development consultants. After extensive deliberation of the submitted proposals, the Evaluation Panel determined that the point differential between the three firms required further review by the Panel. On July 19, 2021 the three firms received from the ARHA Procurement Department general and

specific questions that the Evaluation Panel wanted to evaluate more deeply. On July 30, 2021 the responses were timely submitted by the three teams, and the Evaluation Panel met on August 3, 2021 to consider the responses.

In August 2021, the ARHA Board of Commissioners voted to enter into an exclusive negotiation period with the Fairstead team. In October 2021, the Board selected approved the negotiated Term Sheet and voted to accept The Fairstead Team as the procured development partners. In March 2022, the Board accepted the negotiated Master Development Agreement. This acceptance by the Board allowed the development team to submit its Concept Plan to the City's Planning and Zoning department in March 2022.

### **Predevelopment Funds Use/Budget**

The City predevelopment loan funds will be used to:

- Advance architectural and civil engineering construction drawings for the project to 100% completion. The entitlement process resulted in numerous design changes that were not factored into the original project budget. The predevelopment funds, in part, will be used to finance these additional costs.
- Investigate environmental impacts of the site including existing soil conditions. During preparation of the needs assessment for submission with the Section 18 disposition application, unanticipated environmental hazards were discovered while conducting the site environmental assessment. This required that we contract with a general contractor with experience in the required remediation to provide a cost estimate. This cost estimate will be added to the capital needs assessment for justification of the obsolescence application. This was an unanticipated cost when the original predevelopment budget was prepared at the commencement of the project.
- Perform a traffic study including any impacts related to the redevelopment of the site. During the entitlement process, the city requested that two streets be converted from a current one-way to both being two-ways after project completion. The additional traffic studies were not included in the original project budget.
- Conduct additional Section 106 historical documentary review along with archaeological trenching and investigation, as well as carry out the oral history component of the Section 106 process.

### **Project Budget**

Please see the attached sources and uses permanent budget.

Given the uncertainty of interest rates for construction and permanent financing, the development team continues to explore alternative financing vehicles for this project. The attached S&U is based on an assumption of an awarded 4%-9% twining LIHTC application and an interest rate as of October 31, 2022. As the interest rates increase, the potential project gap

will also increase requiring creativity in the project approach. Despite the market uncertainties, the project team anticipates closing this project on or about December 2023.

### **Project Schedule**

- Alexandria City Council Approval for Zoning: 02/01/2023
- Virginia Housing Tax Credit Application Submission: 03/15/2023
- Closing on Financing: 12/15/2023
- Construction Start: 01/15/2024
- 50% Construction Completion: 01/15/2025
- 100% Construction Completion: 01/15/2026
- 100% Lease-Up and Stabilization/Delivery of Affordable Units: 04/15/2026

Affordable, workforce and market units will be delivered simultaneously. It is anticipated that both the North and South buildings will be delivered within close proximity to each other.

### **Organizational Structure and Capacity**

The development team consists of a public-private partnership between ARHA and the following organizations:

- **Fairstead**, a vertically integrated real estate developer specializing in creating sustainable, high-quality housing. It owns over 16,500 units across 18 states, and its national footprint includes more than \$6 billion in assets and identified pipeline. This is the first affordable housing project to be completed by Fairstead in the city of Alexandria.
- **Mill Creek**, one of the largest developers of Class A multifamily apartment homes in the country. Since its inception in 2011, the company has completed more than 41,000 homes across sixteen offices. The Mill Creek group has at least three previous market-rate projects in Alexandria and additional buildings throughout northern Virginia.
- **The Communities Group** has over 34 years of experience revitalizing public housing communities and developing affordable housing, including a variety of commercial and civic uses. The company has implemented revitalization activities of thousands of units in 16 states and 28 cities. The City of Alexandria has previously worked with TCG as an affordable housing consultant.

ARHA has a rich history of affordable housing development in the City of Alexandria. In its most recent project, Ramsey Homes, ARHA successfully carried out the entire entitlement process, obtained and provided guarantees for project financing, managed the construction and delivery of the 52 affordable units and otherwise self-managed the delivery of a successful affordable housing project for the City. These redevelopment efforts were strengthened when the ARHA Board of Commissioners adopted development principles and aggressively embraced an operating subsidy replacement strategy that will conclude with the elimination of the current public housing subsidies and replace them with more financially feasible and development friendly operating subsidies. To date, this repositioning strategy has netted the agency with

over 200 Section 18 PBV units, and a RAD strategy that will transform an additional over 200 units.

The combination of all the above-mentioned skills with the public housing development experience of ARHA staff and consultants will allow ARHA to implement creative financing vehicles for this project. It is anticipated that the pre-development activities will lay a strong foundation for the submission of a strong Section 18 disposition application which would allow ARHA to convert the current operating subsidies for the 66 Madden units to project based vouchers. The expertise of TCG, will assist with an innovative approach to add units for very low-income households under the Faircloth to RAD project. In addition, Fairstead's extensive and rich history in Virginia and throughout the US will allow the team to submit a strong and competitive 9% LIHTC application. Moreover, Fairstead's and Mill Creek's experience with entitlement processes generally, and in Alexandria in particular will allow the project to meet the above-outlined aggressive entitlement schedule.

Since ARHA's selection of the development partners for the Samuel Madden redevelopment in 2021, the team has been working hand-in-hand through the entitlement process, concept design, funding applications, and community engagement. This is the first affordable housing project carried out by ARHA that will include a partnership with a for-profit developer. ARHA development consultants have decades experience with multi-component complex public-private partnerships. This expertise will assist ARHA staff with the implementation of the development plans for the Samuel Madden Homes property.

### **Conclusion**

ARHA respectfully requests the award of a predevelopment loan of One Million Dollars (\$1,000,000) for the entitlement and development of the North parcel of the Samuel Madden redevelopment project. ARHA will contribute these funds to the development budget. To safeguard the city's loan, ARHA will sign appropriate promissory notes and other required documents, and record such documents as are necessary to perfect the city's interest.

Since we have been informed that the City does not have development funds to contribute to this project, we do not anticipate the need for any additional city funds beyond these which we seek. If City's development fund pool were to become available, given the recent interest rate increases, we may return to the City with an application to close any financing gap which we are unable to close through other financing methods.

## **Exhibit: Project Sources & Uses**

<b>Sources and Uses</b>			
<b>Samuel Madden Homes Redevelopment</b>			
<b>Sources</b>	<b>Total</b>	<b>Per Unit</b>	
Tax Credit Equity:	\$ 50,393,000	\$ 243,444	
First Mortgage:	\$ 45,922,401	\$ 221,847	
Deferred Developer Fee:	\$ 5,600,000	\$ 27,053	
RAD Income (18mo)	\$ 473,616	\$ 2,288	
City of Alexandria	\$ 1,000,000	\$ 4,831	
	\$ 103,389,017	\$ 499,464	
<b>Uses</b>	<b>Total</b>	<b>Per Unit</b>	
Acquisition Costs	\$ -	\$ -	
Construction Costs	\$ 75,722,306	\$ 365,808	
Project Soft Costs	\$ 12,735,438	\$ 61,524	
Financing Costs	\$ 3,653,929	\$ 17,652	
Reserves and Escrows	\$ 3,277,345	\$ 15,833	
Developer Fee	\$ 8,000,000	\$ 38,647	
	\$ 103,389,017	\$ 499,464	