



**ALEXANDRIA  
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August 28, 2018  
Ms. Helen McIlvaine  
Director, Office of Housing  
City of Alexandria  
421 King Street, Suite 200  
Alexandria, VA 22314

RE: The Bloom at Braddock Funding Increase

Dear Ms. McIlvaine:

This letter is to update you on the status of the Carpenter's Shelter Redevelopment project and to request an additional \$1.7 M to assist with the funding shortfall that has been caused by increased construction costs. The increased amount will allow AHDC to continue forward with a closing in September and add 97 units of affordable housing to the rapidly growing Braddock Metro Area.

### **Overview**

The Bloom at Braddock is a new affordable community that is planned for the Braddock Metro area in a partnership between AHDC and the Carpenter's Shelter. The project proposes to purchase the land associated with the Carpenter's Shelter and redevelop the parcel with a new shelter on the first level and 97 units of affordable rental housing above. AHDC submitted an application to the Housing Opportunities Fund (HOF) for a loan of \$7.1 M to help cover the cost of the 97 affordable housing units in October 2016. The Alexandria Housing Affordability Advisory Committee (AHAAC) recommended approval of the loan application and City Council approved the loan, along with the project entitlements, in December 2016. AHDC submitted a tax credit application to the Virginia Housing Development Authority (VHDA) in March 2017 and was awarded tax credits in June 2017.

Since AHDC was awarded tax credits in June 2017, construction costs and interest rates have continued to increase. The project is now facing a funding shortfall of approximately \$1.7 M as a result. The discussion below details the increase in costs for this project and AHDC's attempts to mitigate these increases over the past several months. In addition, I have attached to this letter the most recent sources and uses, and a 40 year cash flow projection.

### **Construction Cost and Interest Rates**

Construction costs have increased at a rapid rate since AHDC submitted its Alexandria HOF loan in October 2016. Prior to submitting a second concept plan to the City in May 2016, AHDC selected Whiting Turner to assist the project with preconstruction services. At the time we submitted our HOF loan in October the construction cost of The Bloom residential building was anticipated to be \$22.9 M. After months of VE efforts to reduce the cost of the project, in consultation with Planning staff to ensure that building quality is maintained, the same building is estimated to cost \$28.3 M, an increase of approximately 25% in two years.

In addition, interest rates have continued to climb over the past two years, with our cost of construction debt increasing by approximately \$300,000.

### **AHDC Actions to Reduce Financing Gap**

The current construction cost referenced above is the result of a several month effort by our development team to reduce the cost of the project while maintaining the level of quality design, construction and building materials the City desires. While AHDC has made a number of changes of the building over the past few months that reduced the cost by over \$2.0 M, there is still a shortfall.

AHDC has also worked with VHDA to increase the permanent loan on this project by increasing the amount of REACH debt used to finance the project. This effort with VHDA has allowed us to increase the permanent loan to \$10.35 M at a blended interest rate of 3.61%. This permanent loan is up from the estimated \$7.9 M loan that was anticipated when we submitted our HOF application in 2016. Unfortunately, VHDA was unable to increase the loan further as it has in a number of our other projects because so many projects throughout the Commonwealth are facing similar construction costs issues and need additional funds stretching the VHDA resources available.

Finally, this project was awarded \$1.6 M in housing trust fund dollars in early 2018. We worked with the Virginia Department of Housing and Community Development (DHCD) to reduce the interest rate on this funding from 3% interest only to .5% interest only.

### **Structure of Increased Loan Request**

AHDC's increased loan request will be structured as an up to amount that will be drawn as part of the permanent take out loan when construction is complete. We are hopeful that there may be opportunities to reduce the amount of funds needed through buyout savings, leftover contingency and early delivery of units. AHDC will only use so much of the additional loan amount as is needed to ensure that only 50% of the developer fee is deferred and the property is operating as a healthy debt service coverage ratio.

### **Next Steps**

AHDC has been working diligently over the past several months to complete all project documents with our investment and initial lending partner, Wells Fargo. In addition, we have a contract with Whiting Turner that is ready to be executed to start construction. If the additional funds requested are approved, AHDC will be able to close on the project and begin construction. We are available to answer any questions you may have about this additional request and we look forward to working with you to get this project under construction in September.

Sincerely,



Jonathan Frederick  
Executive Director  
Alexandria Housing Development Corporation

*Cc: Eric Keeler, via email*