



**ALEXANDRIA
HOUSING
DEVELOPMENT
CORPORATION**

801 N. Pitt Street #116
Alexandria, VA, 22314

O: (703) 739-7775
F: (703) 739-7760

housingalexandria.org

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

RE: Gateway Apartments Funding Increase

Dear Ms. McIlvaine:

This letter is to update you on the status of the Gateway Apartments and to request a \$700,000 increase in the amount of the City loan that was approved in December 2015. The increased amount will allow AHDC to continue forward with a full financial closing in September and add 74 units of affordable housing to the new mixed use project at the corner of King Street and Beauregard.

Overview

AHDC's Gateway Apartments is a proposed 74 unit affordable housing apartment complex that is part of the West Alex mixed use project currently under construction at the corner of King and Beauregard Streets in Alexandria, VA. In September 2015, AHDC submitted an application to the Housing Opportunities Fund (HOF) for a loan of \$5.5 M to help cover the cost of the affordable housing project. The Alexandria Housing Affordability Advisory Committee (AHAAC) recommended approval of the loan application and the City Council approved the loan along with the project entitlements in December 2015. AHDC submitted a tax credit application to the Virginia Housing Development Authority (VHDA) in March 2016 and was awarded tax credits in June 2016.

Since the tax credit award, the real estate environment has shifted drastically. Due to tax reform, increasing interest rates, and a significant increase in construction costs, this project is now facing a funding gap of approximately \$700,000 that will prevent AHDC from closing when the podium is delivered at the end of September. The discussion below details the increase in costs for this project and AHDC's attempts to mitigate these increases over the past two years. In addition, I have attached to this letter the most recent sources and uses, and a 40 year cash flow projection.

Tax Credit Pricing

In March 2016 when AHDC submitted the tax credit application for the Gateway Apartments, tax credits in Northern Virginia were routinely selling for over \$1.10 per credit. After the 2016 presidential election, tax credit pricing dropped approximately 10 percent within a few months. In order to address this decrease in pricing, VHDA offered projects that had recently been awarded credits access to an additional \$100,000 in tax credit.

This was very helpful and allowed many projects, including Gateway Apartments to continue forward with a financing solution. However, even with the additional credits, the Gateway project lost approximately \$250,000 in equity due to the change in tax credit pricing.

Construction Cost and Interest Rates

In addition to the loss in value of tax credits, construction costs and interest rates have continued to climb over the past two years as this project has come to fruition. In December 2015 when the HOF loan was approved, Whiting Turner's construction cost was estimated to be \$11.9M. Over the past two years, construction costs have escalated and when AHDC received our guaranteed maximum price (GMP) schedule of values, the cost had increased to \$15.4 M. Over the past two months we have worked with Whiting Turner to reduce the costs of the project through a significant value engineering exercise that has reduced the GMP to \$14.1 M which represents a growth of approximately 19 percent. At the same time interest rates have more than tripled since the tax credit award which has caused the cost of our construction loan debt to increase.

AHDC Actions to Reduce Financing Shortfall

As mentioned above, AHDC has worked with Whiting Turner over the past several months to reduce construction costs of the project. This effort has resulted in a savings of approximately \$1.3 M. The changes will not impact the quality of the building's design. In addition, AHDC has worked with VHDA to drastically increase the amount of REACH funds that will be part of the permanent loan. REACH funds carry a low fixed interest rate of 2.95% which allows the project to carry more permanent debt while maintaining a similar annual debt payment. VHDA has agreed to fund this project with a 100% REACH loan, enabling the permanent loan to carry a blended interest rate of 2.73%. Finally, AHDC has submitted three applications to the Virginia Housing Trust Fund, but has yet to be successful.

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. There may be opportunities to reduce the amount of funds needed for this project including buyout savings, leftover contingency and early delivery of units, and potentially, some alternative sources of funding. AHDC will only use the additional loan amount needed to ensure that only 50% of the developer fee is deferred and the property is operating at a healthy debt service coverage ratio.

Next Steps

The West Alex mixed use project is moving full steam ahead. Whiting Turner is currently moving forward with the last concrete pours on the podium in anticipation of turning the podium over to AHDC on September 13th. At that point AHDC will have 10 business days to close and we anticipate commencing wood framing construction on or before October 1, 2018.

We look forward to working with the City to fulfill the vision of the Gateway project, bringing 74 affordable housing units to the new West Alex mixed use community. We stand ready to answer any questions you have regarding the content of this letter or the project in general.

Sincerely,

A handwritten signature in black ink, reading "Jonathan O. Frederick". The signature is fluid and cursive, with the first name "Jonathan" being more prominent than the last name "Frederick".

Jonathan Frederick
Executive Director
Alexandria Housing Development Corporation

Cc: Eric Keeler, via email