



March 29, 2019

Eric Keeler
Deputy Director, Office of Housing
City of Alexandria
421 King Street, Suite 215
Alexandria, VA 22314

Via Email

Re: The Spire – Increased Housing Opportunities Fund Loan Request

Dear Mr. Keeler:

I am writing to thank you and the Alexandria Housing Affordability Advisory Committee (AHAAC) for your support of The Spire and to update you on the status of this development. Since The Spire won tax credits in June of 2018, the development has encountered increased costs related to hard costs, utility undergrounding, and higher construction loan interest rates. In light of these unexpected cost increases, AHC is requesting increased City funding in the amount of \$940,000 to keep this new 113-unit affordable community in the rapidly-developing Beauregard corridor on schedule for a Spring 2019 construction start. It is our intent to use these additional loan proceeds only if needed. If we lock in a more favorable permanent loan interest rate than currently assumed prior to closing, we will seek to draw less than the full \$940,000 in additional City funds.

Overview

The Spire has received overwhelming support from the City of Alexandria, including unanimous approval from the Beauregard Design Advisory Committee, AHAAC, Planning Commission, and City Council for its design and zoning. The Spire won an allocation of 9% Low Income Housing Tax Credits (LIHTCs) from the Virginia Housing Development Authority (VHDA) last summer. We anticipate beginning construction, funded with an initial draw on the City loan, in May and closing on tax credit financing in late June.

The Spire will meet a critical need for affordable housing in the City of Alexandria. The City's Affordable Housing Master Plan found that Alexandria lost 12,000 units of housing

affordable at or below 80% of area median income (AMI) between 2000 and 2011, and is projected to lose more. Benefits of this development to the City include but not limited to those highlighted below:

1. Provide 113 units of replacement affordable housing in the Beauregard corridor,
2. Offer 56 units affordable to families at 60% AMI, 45 units at 50% AMI, 6 units at 40% AMI, and 6 units at 30% of AMI.
3. Generate real estate tax revenue of approximately \$200,000 on currently untaxed land, as the affordable building will pay real estate taxes, plus additional sales tax revenue.

Project Cost Increases

Since the tax credit award, project costs have increased significantly in the following categories:

- Construction costs: the current increase in material costs and high demand for labor in the construction industry has driven up the construction costs of The Spire. Despite value engineering efforts to reduce costs where possible, we experienced a \$1.2 million increase in hard costs since receiving cost estimates from our general contractor Harkins Builders prior to submission of our tax credit application.
- City mandates: the site houses several unique electric poles critical to the Dominion Energy network. The electric equipment on the site has proven more complex and costly to underground per City requirements than our consultants had previously estimated. Based on an updated design from Dominion Energy, the cost of undergrounding these overhead utilities has increased by approximately \$400,000. The budget also includes a \$445,730 City-required contribution to the Beauregard fund.
- Construction interest: rising interest rates since last summer have resulted in financing costs increasing by approximately \$430,000.

Cost Mitigation

AHC has taken the following steps to decrease the financing gap in the Spire:

- Value engineered construction costs – we have sought to reduce our construction costs without impacting the high quality design or environmental requirements of the building. This effort has decreased our construction costs by approximately \$450,000 since the last pricing estimate from Harkins.
- Won additional sources of financing – AHC successfully applied for multiple highly-competitive sources of funding, including a grant from the Federal Home

Loan Bank of Atlanta. The Spire was also the recipient of the largest award from the Virginia Department of Housing and Community Development's Fall 2018 funding round. These additional competitive sources have increased our sources by over \$1.6 million.

AHC deeply appreciates the City's continued support of The Spire as we move to begin construction in the coming weeks. If you have any questions, please contact me at 703-486-0626 x170

Sincerely,



Haley Norris
Development Manager, Multifamily Group

cc: Helen McIlvaine, via email
Alan Goldstein, via email

