

2. Authorize to the City Manager to execute the loan agreement and related documents.

BACKGROUND: Representatives of Landmark Towers, LLC, located at 101 South Whiting Street and across Duke Street from Landmark Mall, contacted the Office of Housing last Fall seeking resources to help facilitate its 10-year capital improvement plan (Attachment 1). The 16-story building, constructed in 1964, includes three floors of commercial and retail space, including building amenities, professional offices and a preschool operated by the Child & Family Network Centers (CFNC), with the floors above containing 154 apartments. The City real estate assessment of this property is \$22 million. The property has been operated by a local family for more than 50 years since acquiring it 1968. A family partnership, comprised of the adult children of the original owners, now manages Landmark Towers and hopes to fulfill their parents' legacy to provide housing affordable to working families while also continuing to implement a capital improvement program to update the interior and exterior of the building, replace building systems, address life-safety and deferred maintenance issues, and make the building more energy efficient. The loan request and project narrative are attached (Attachment 2).

Based on data collected by the Office of Housing for its annual apartment survey, Landmark Towers is among a decreasing number of "market affordable" rental housing resources in Alexandria. Inclusive of utilities, rents are at or just above what would be considered affordable to households with incomes at 60% AMI. Residents of the building generally have incomes ranging up to 100% AMI, with the majority at or below 70% AMI. While the City has not before provided a housing opportunities loan to a privately-owned entity, doing so is consistent with its housing and community development powers under Code Section 7-4-2 related to making grants or loans to properties for the purpose of subsidizing rental housing costs to benefit low- and moderate-income households.

The importance of this residential asset to Alexandria's housing affordability ecosystem, the property's many long term tenants, its locational and transit efficiency, as well as its capacity for potential additional development, combined with the owner's desire to collaborate with the City on a mutually agreeable solution that maintains the property as market rate affordable and workforce housing, has induced the parties to come up with a package that offers short, medium and long term benefits.

DISCUSSION: Because of the building's age and condition, including substantial maintenance needs accrued prior to transition of day-to-day management to one of the original owners' children in 2014, the bulk of the property's cash flow is being invested to tackle capital improvements. A small portion is being used by the partnership to reduce tax obligations of the parents' estate which are unrelated to the property. The City's investment - which will share costs of some work items deemed critical - will help accelerate the pace of other necessary improvements and allow some future work to proceed more efficiently since it can be sequenced to take advantage of infrastructure being added now.

The Office of Housing reviewed the list of capital improvements created through a third party physical needs assessment and, with the owner, selected two projects deemed most impactful to the building's long term affordability and useful life: replacement of the building's HVAC system (which, in addition to maximizing energy efficiency, will set up some of the infrastructure to install a future sprinkler system) and modernization of the building's three elevator systems, including the addition of life-safety upgrades related to ventilation, airflow and fire suppression features. The modernization will also install controlled access between the building's commercial spaces and its residential floors, enhancing safety for tenants. With more than 40% of the building's population comprised of families with children, or persons over 60, having a safe and reliable elevator system in the high-rise structure is critical. Proposals for the projects are being updated, but it is anticipated that the proposed City loan amount of \$2.5 million will cover about one-half of the costs, with the balance to be paid by the owner. As with all City-supported projects including renovation or construction, Housing staff will review proposals and monitor the work once it is under way, attending progress meetings and inspections scheduled with subcontractors.

In exchange for the City loan which Landmark Towers will repay over fifteen years, the property will comply with the City's voluntary rent guidelines, with annual increases to be no more than 5% even though the rent currently includes utility costs. The City will receive a right of refusal, meaning that the City, or its designee, will have the opportunity to match any bona fide third-party offer received by the partnership if it decides to sell Landmark Towers during the next twenty years. The owners have also agreed to explore with the City and/or its designee redevelopment options to potentially add more affordable and workforce housing on the site, if feasible and mutually beneficial.

A right of first refusal was incorporated in City housing loans to nonprofits beginning in 2006 as an important vehicle to protect the City's investment, be at the table when the property is sold, and to ensure properties that have received City financial support might be preserved as affordable housing. The provision of a right of first refusal in a private loan transaction helps build potential future pipeline projects by giving the City an opportunity to "buy its way in" and act to add to its portfolio of committed affordable units.

The commitment to comply with the City rent guidelines, details of the loan repayment plan, the City's right of first refusal, and the parties' intent to collaborate to explore a potential joint venture for future redevelopment of the site will be incorporated in the loan agreement and in a restrictive covenant to be filed in the land records. The Office of Housing has engaged Alexandria law firm

MercerTrigiani, LLC to evaluate the business transaction and draft loan documents to safeguard the City's interests with a private entity.

FISCAL IMPACT: The \$2.5 million loan will be sourced from City CIP Funds. Landmark Towers, LLC will repay the loan (set at a 2% interest rate) over 15 years, with interest-only payments during Years 1-3 while the capital improvement program is completed. The City loan would be in a first trust position as there is no existing mortgage on this property. Beginning in Year 4, annual installment payments amortizing the remaining loan and interest balance will be made on a schedule to fully repay the loan by Year 15. A proforma detailing project operations and cash flow reflecting the loan repayment plan is attached. (Attachment 3)

ATTACHMENTS:

- 1) Landmark Towers LLC 10-year Capital Improvement Plan
- 2) Landmark Towers LLC Loan Request and Project Narrative
- 3) Landmark Towers Proforma, including 15- Year Loan Repayment Plan

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