



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 17, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:

Consideration of Predevelopment Loans to AHDC and AHC to Facilitate Two Affordable Housing Developments.

ISSUE: Two pending predevelopment loan requests from AHDC and AHC for affordable housing projects.

RECOMMENDATION: That City Council:

- (a) approve a predevelopment loan to the Alexandria Housing Development Corporation (AHDC) of \$360,000 for a proposed 72 unit (approximate unit count) affordable building within the proposed mixed use Gateway at King-Beauregard (Gateway) development;
- (b) approve a predevelopment loan to reimburse AHC, Inc. for up to \$400,000, to be drawn as eligible costs are incurred, for a proposed 85-unit affordable development that is part of a mixed use redevelopment concept for the Episcopal Church of the Resurrection (ECR) site, and
- (c) authorize the City Manager to execute documents related to the predevelopment loans to AHDC and to AHC.

BACKGROUND: There is a higher level than typical affordable housing development planning activity now underway in Alexandria. Among the factors contributing to this phenomenon are adoption of a Housing Master Plan (HMP) which established tools and targets for affordable housing through 2025, including the creation of at least 2,000 committed affordable units; cultivation of positive working relationships with a range of nonprofit partners; Alexandria's demonstrated commitment of financial and technical assistance for affordable housing development and preservation; strengthening of relationships with key funders and investors, including VHDA, Enterprise Community Partners and others; and ongoing outreach to churches and other property owners interested in using their land assets for affordable housing purposes. This is in addition to the

Alexandria Redevelopment and Housing Authority's plans to redevelop six of their existing sites.

The Gateway at King - Beauregard/AHDC

AHDC has requested \$360,000 in predevelopment funding for an affordable housing building that is proposed to be part of the mixed-use Gateway at King-Beauregard (Gateway) development located at 4600 King Street (Attachment 1). The initial scale of the development has evolved significantly over the past year, however, the Gateway development special use permit application (DSUP) is now expected to be considered by Planning Commission and City Council in early Fall 2015. A permanent loan request of up to \$4.5 million (including \$1 million from the Gateway's voluntary affordable contribution) is contemplated to be presented to Council in the fall at the time this project's land use approvals are sought from Council.

The current Gateway concept includes a market rate apartment building with nearly 300 units, a Harris Teeter grocery store, other retail stores and office space and a separate office building. This transit-oriented development is immediately adjacent to a future hub of the planned West End Transitway. The affordable building is proposed to be built above the ground level retail center near the corner of King and Beauregard behind new office space which is proposed to be built retail space directly on the corner of this intersection. Both the retail center and the housing will be served by underground parking. While the affordable housing component has changed along with the rest of the development, community outreach has always anticipated that a significant number of units within the Gateway would be affordable, and public feedback has been positive regarding this element.

Similar to the condominium structure at The Station in Potomac Yard, AHDC will acquire development rights from 4600 King LLC, above the finished retail pad on top to construct approximately 72 or so affordable apartments. Daniel R. Abramson is a principal of the 4600 King LLC entity which is developing the Gateway project. He also serves as Chairman of the AHDC Board of Directors. Firewalls have been established to safeguard against potential conflicts of interest among all parties to ensure that the underlying business transaction reflects the development entity's recovery of costs only. The acquisition amount will include the appraised value of the development rights for the affordable units and the developer's cost to construct their associated parking and *pro rata* share of the podium structure.

AHDC's design includes a large number of family-sized units, and will serve households with incomes ranging from 40% to 60% of the area median income (Attachment 2). Due to its proximity to the Beauregard Small Area Plan boundary, the Gateway will provide important affordable housing resources for tenants displaced by future redevelopment in that area.

The Episcopal Church of the Resurrection (ECR)/AHC

AHC's request of up to \$400,000 involves a proposed project which is at an earlier development stage than the Gateway (Attachment 2). AHC is working jointly with the Episcopal Church of the Resurrection (ECR), located at 2280 North Beauregard Street, on a concept for a mixed use redevelopment of the church parcel that will include new worship, preschool and administrative spaces along with approximately 85 units of affordable housing in one building (Phase I), with a second affordable housing building (Phase II) to be developed at some future date. Based on ECR's desire to serve Beauregard Small Area Plan neighbors impacted by future redevelopment, the Phase I building will provide a mix of units, including family-sized apartments affordable to households with incomes at or below 50% and 60% of the area median income. A permanent loan request of potentially up to \$6 million is anticipated to be presented to Council in 2016 at the time this project's land use approvals are sought from Council.

DISCUSSION: Requests for City financial support in the form of predevelopment loan assistance are typical for affordable housing projects as the costs of conducting due diligence, engaging consultants to get through the development review process and securing funding are hardest to finance due to the risk that the project development will not occur. The City requires that even nonprofit developers participate in sharing this risk (i.e., they must demonstrate that they are committing substantial organizational resources to advance the project); however, if a project does not go forward, the City predevelopment loan amount is usually forgiven. If the project does get land use approvals and secures funding, the City predevelopment loan amount is consolidated into the permanent loan and repaid according to the terms set out in that loan agreement.

Pursuant to adoption of the Housing Master Plan, staff's authority to administratively approve predevelopment loans for affordable development was expanded to cover amounts totaling up to \$5,000 per unit. Despite this grant of authority, staff has adopted the practice of bringing large predevelopment funding requests to AHAC and to City Council. These opportunities to vet developments and solicit guidance early in the process have been helpful in identifying potential issues and concerns, setting priorities, mapping local resources needed to induce third party leverage, developing consensus for projects to be supported, and in measuring progress in meeting HMP targets.

It is anticipated that AHDC will use City predevelopment funds for architectural, engineering and other expenses incurred over the next several months to prepare an application for low income housing tax credits in March 2016, contingent on the development receiving land use approvals before then. Given AHDC's plan to serve households with incomes at or below 60% of the area median income at the Gateway, staff proposes that HOME funds be allocated for the predevelopment loan.

The proposed permanent financing package for the Gateway affordable project includes tax credits, VHDA financing and a City gap loan of \$4.5 million, which includes approximately \$1 million from the voluntary housing contribution pledged by 4600 King LLC. By working with AHDC to create another early "leveraged" project in this area, the City can achieve significant efficiencies in terms of the level of future investment needed to provide some of the deeply subsidized committed affordable units envisioned in the Beauregard Plan (e.g., \$62,500 per unit of City investment in this AHDC project, versus the \$202,000 per unit blended unleveraged average referenced in the Plan).

The requested loan of up to \$400,000 for AHC's project will partially fund architectural, engineering and other consultant costs associated with obtaining land use approvals for affordable housing portion of the Phase I building. AHC and ECR are funding the balance of the predevelopment costs for the other elements. Taking into account limitations on both City and tax credit resources, staff recommends that Phase I potentially be positioned for the 2017 competitive/9% low income housing tax credit cycle.

Given the project's early status, staff also recommends that predevelopment funds be released as AHC submits draws for reimbursement of eligible costs as incurred. Providing access to predevelopment funds will allow Phase I to move forward while staff monitors its progress through the land use and public outreach processes.

It is anticipated that projected development costs will be refined: while AHC's preliminary estimate of the permanent loan amount is \$6 million (approximately \$70,600 per unit), staff believes this number can be improved. Through a combination of multiple housing revenue sources, including voluntary developer housing contributions, other housing trust fund monies, federal grant funds and dedicated real estate tax dollars staff believes that there should be sufficient funds available for Phase I by the time a permanent loan is requested in early 2017.

FISCAL IMPACT: It is recommended that \$360,000 in federal HOME funds be allocated to AHDC. Staff proposes for the AHDC project that some of the Housing Trust Fund money reserved to buy down early affordability at Seminary Towers and Lynbrook in 2014, when it was expected that the first phase of Beauregard redevelopment would occur, instead be programmed to fund the City's permanent loan for Gateway. It is also recommended that up to \$400,000 in Housing Trust Fund dollars be allocated to AHC, to be released as draws are submitted. Staff will return with permanent loan requests at the appropriate times in the future along with a strategy for sourcing these investments. It should be noted that these AHDC and AHC projects will likely substantially draw down in total about \$10 million Housing Trust Fund and other affordable housing monies, leaving little room for other major affordable housing projects unless City allocations for affordable housing increase.

ATTACHMENTS:

- (1) AHDC Predevelopment Loan Request for Gateway
- (2) 2015 HUD Washington DC Metro Area Income and Rent Limits
- (3) AHC Predevelopment Loan Request for ECR Phase I

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