



Legislation Text

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City of Alexandria, Virginia

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MEMORANDUM

**DATE:** NOVEMBER 4, 2015

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

**DOCKET TITLE:**

Consideration of a Request for City Loan of Up to \$5.5 Million to the Alexandria Housing Development Corporation (AHDC) for Development of Affordable Housing Within the Gateway at King and Beauregard and a Resolution Designating the Building Site as a Revitalization Area. [ROLL-CALL VOTE]

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**ISSUE:** Request for City loan of up to \$5,500,000 to AHDC for development of 74 affordable rental units within the proposed The Gateway at King and Beauregard ("Gateway") mixed-use development and passage of a resolution to designate the project site as a Revitalization Area.

**RECOMMENDATION:** That City Council docket for consideration on November 14:

- (a) Approval of a permanent loan to AHDC of up to \$5,500,000 (including \$350,000 of previously approved predevelopment funds) to facilitate a proposed 74-unit affordable building within the Gateway project;
- (b) Approval of the attached resolution designating the project site as a Revitalization Area pursuant to Section 36-55.30:2.A of the Virginia Code; and
- (c) Authorization for the City Manager to execute all appropriate documents.

**BACKGROUND:** AHDC has requested a permanent loan of up to \$5.5 million from the Housing Opportunities Fund (HOF) to acquire development rights to construct an affordable housing building containing 74 apartments in a mixed-use development proposed at the intersection of King and Beauregard Streets. In this case, acquisition of the development rights includes the associated entitlements, the underground parking required for the affordable units and delivery of a finished podium (above retail space) on which the affordable units can be constructed. Like the affordable housing in The Station at Potomac Yard, once constructed the Gateway affordable building will be owned and operated by AHDC as a condominium unit within a larger master condominium regime.

Per the project description (Attachment 1), the site is adjacent to a future bus rapid transit (BRT) station along

the corridor that will eventually connect the Van Dorn Metro, Landmark and Beauregard neighborhoods in Alexandria to various locations in Arlington, including the Pentagon. In June, the Alexandria Housing Affordability Advisory Committee (AHAAC) recommended, and City Council approved, a predevelopment loan of \$350,000 to assist AHDC with legal, architectural, engineering and other professional costs (including a third party appraisal of the value of the development rights to be acquired) to help assess project feasibility. As planned, besides the affordable housing building, the mixed-use development will include 278 market rate apartments, 53,000 sf of retail and commercial space, 91,000 sf of office space, and a grocery store. More than 800 underground parking spaces will serve the overall development. At its October 1 meeting, AHAAC reviewed AHDC's application, and is recommending (with 8 voting in support, and 2 abstentions) that Council approve a permanent loan of up to \$5.5 million for the affordable housing development.

For the affordable building, AHDC plans to develop a mix of 1, 2 and 3 bedroom units, with ten (10%) percent of the total being accessible. The units will serve households with incomes ranging from below 40% Area Median Income (AMI) through 60% AMI (Attachment 2). Currently the mix is proposed to be 8 units affordable at 40% AMI, 29 units at 50% AMI and 37 units at 60% AMI. In addition to an onsite property management office, a laundry facility, a community room and a courtyard area featuring play and picnic areas, residents of the affordable building will have access to all other site amenities. Consistent with the City's new parking standards for multifamily development, 44 of the underground parking spaces will be reserved for residents of the affordable building.

**DISCUSSION:** AHDC has requested a loan of up to \$5.5 million from the City. This amount is higher than the \$4.5 million gap anticipated in the June predevelopment loan application, however, some savings may be realized as the project design progresses and value engineering occurs to lower estimated construction costs. The loan request amount also reflects possible interest rate risk and conservative underwriting of tax credit equity. In addition, AHDC has applied for new state housing trust fund monies that act like additional equity. These factors, if realized, may reduce the final amount requested from the City.

The affordable building, along with other components of the project, is subject to a long term, third-party ground lease. The developer will cover AHDC's future ground lease payments and any costs that would otherwise be owed by AHDC with its planned exercise of a future lease buy out around Year 10. The developer contribution amount has been adjusted in exchange for the estimated value of this financial commitment (\$900,000), however, the developer will still make a \$300,000 voluntary affordable housing trust fund contribution when it requests its first certificate of occupancy for any non-affordable housing building element of the mixed-use project. These funds will then be available for other upcoming affordable projects.

Because of the project's proximity to the Beauregard Plan Area and the opportunity to provide deeply affordable housing resources to residents impacted by future Beauregard redevelopment, staff recommends that \$3.5 million in Beauregard reserve funds be applied to this project. These reserve ("seed") funds were set aside from housing trust fund dollars in 2012 when it was expected that the first phase of Beauregard redevelopment would occur by 2014. By working with AHDC to create another early "leveraged" project, the City can achieve significant efficiencies in terms of the level of investment needed to provide some of the deeply subsidized committed affordable units envisioned in the Beauregard Plan (e.g., \$74,000 here, versus the \$202,000 per unit blended average City investment referenced in the Plan). If needed in the future, Beauregard reserves can be replenished with housing contribution monies pledged for projects that are currently under construction.

Other funding for the projected total development cost of \$28.3 million is anticipated to come from \$14.9

million in low income housing tax credit equity (AHDC plans to apply for 9% credits in March 2016) and \$6.75 million in first trust mortgage debt. It should be noted that the 9% LIHTC funding which is key to this project is awarded on a very competitive basis by VHDA. AHDC will defer nearly \$1.2 million of its developer fee. As stated above, AHDC has also applied for State Housing Trust Fund monies in the amount \$750,000. Since this is a new source of funds for Virginia projects, AHDC is not able to forecast the likelihood of receiving these dollars, however, it believes the deep affordability of the proposed 40% and 50% AMI units in this mixed-use development within the Northern Virginia market will make the project attractive to application reviewers. Similar to other City loans for affordable housing, payments to the City are projected to begin in Years 13-14, after AHDC's deferred developer fee is fully paid, pursuant to IRS requirements for the tax credit program.

Staff also recommends that Council adopt a resolution designating the parcel that will contain the future AHDC affordable building as a Revitalization Area pursuant to Section 36-55.30:2.A of the Code of the Virginia (Attachments 3 and 4). The relevant portions of the Code Section state that while economic development of the Area will benefit the City, private enterprise and investment are not reasonably expected to produce the construction or rehabilitation of affordable housing that will meet the needs of low and moderate income persons and families without government assistance to create a desirable economic mix of residents in the Area. Given the mixed-use redevelopment plan for the rest of the site, including nearly 300 market rate apartments, staff and the City Attorney believe this designation is appropriate for the affordable building. The designation will potentially increase AHDC's tax credit score.

Multiple community meetings have been held with Arlington and Alexandria neighbors. All support the affordable project, and are pleased that a range of housing options will be achieved within this important mixed-use development.

**FISCAL IMPACT:** The \$350,000 predevelopment loan was comprised of federal HOME funds and City match dollars. Funds for the \$5,150,000 permanent loan balance will derive from Beauregard reserve funds (\$3.5 million) and other housing trust fund dollars (\$1.65 million). It is anticipated that the developer's voluntary housing contribution of \$300,000 will be paid by FY 2019. City loan dollars will be drawn down by AHDC at various project milestones, such as land acquisition (Fall 2016) and completion of site work.

**ATTACHMENTS:**

- (1) Gateway Affordable Housing Project Description
- (2) HUD 2015 Incomes and Rents for 40, 50 and 60 % AMI
- (3) Resolution Designating Gateway Affordable Building as a Revitalization Area
- (4) Graphic Identifying Project Site

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