City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 4, 2019

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

DOCKET TITLE:
Consideration of a Request from the Alexandria Housing Development Corporation (AHDC) for a City Loan of $8 Million to Acquire the Avana Alexandria Apartments Property and Preserve it as Affordable and Workforce Housing.

ISSUE: Consideration of a City loan of $8 million to the Alexandria Housing Development Corporation (AHDC) to acquire the Avana Alexandria Apartments to preserve it as committed affordable and workforce rental housing (Attachment 1).

RECOMMENDATION: That City Council approve a loan of $8 million to AHDC from City affordable housing funds to acquire and preserve the Avana Alexandria Apartments as committed affordable and workforce rental housing.

BACKGROUND: In mid-October, AHDC was contacted by representatives of JBG-SMITH (JBGS) regarding a potential multifamily acquisition opportunity listed for sale in the City. The Avana Alexandria Apartments, located at 3001 Park Center Drive, has 326 apartments, including a mix of one- (137) and two- (187) bedroom units, as well as one three-bedroom unit and one four-bedroom unit. There are many onsite amenities, including a tot lot and playground, business center, swimming pool, community room and a fitness room. The property is in very good condition, with more than one-third of the units fully renovated very recently, and other units receiving updates at turnover. The complex is located on approximately six-acres, with half of the site currently developed as surface parking. The property is privately-owned with unrestricted rents: most rents fall within a range characterized as "workforce" level by the City, i.e., affordable to households at 70% to 80% AMI, with some above that.

For more than a year AHDC and JBGS have collaborated to potentially acquire and preserve existing affordable and workforce multifamily properties in Alexandria. None of the prior opportunities have materialized within parameters set by the entities, however AHDC and JBGS have developed a productive working relationship to efficiently assess transactions and marshal resources and potential partners based on their goals, capabilities and relationships.

DISCUSSION: The proposal developed by AHDC will create a component of affordable housing within this workforce level asset within the first year of AHDC's ownership based on anticipated turnover and attrition (annually trending at 35%). No displacement will occur. Going forward, AHDC plans that 40% of the apartments (130 units) will be maintained as committed affordable units with rents at 60% AMI for income eligible households, and 35% (114 units) remain committed workforce, with rents affordable to households with incomes up to 80% AMI. (Attachment 2). The balance of units will have rents at market rate. While rents would be initially adjusted to create the 60% affordable units at unit turnover, further rent adjustments would be made over a 5-year period to incorporate tenant-paid utilities into the affordable rent structure. Based on this model, cash flow generated by the workforce and market rate units will cross-subsidize affordable rents implemented in the short term until the property is refinanced in Year 10.

Due diligence is underway, but through inspections of the property so far, it has been determined that no substantial renovation is needed for 10 years. Updates and necessary repairs will continue at unit turnover. The property will be operated as a mixed-income community, with all residents having full access to all amenities. The property may potentially serve as an important temporary housing relocation resource for upcoming redevelopment projects.

AHDC proposes to acquire the property using a financing package that includes a VHDA first trust loan, with REACH blended funds and grant monies. JBGS will provide mezzanine financing from its Social Impact Fund. This will be the first use of the JBGS Innovative Social Impact Fund in the D.C. area, as well as the first use of the state-provided Amazon H2Q housing funds from VHDA. The City's Real Estate Assessor confirms that the sales price is consistent with recent comparable transactions in the same submarket. JBGS will provide property management services during its 10-year loan period. It is anticipated that AHDC will refinance the property at that time, potentially using low-income housing tax credits. It may also redevelop some of the site's existing surface parking to create additional housing.

AHAAC will consider the loan request at its December 5 meeting. If City Council approves the gap loan, closing is anticipated to occur in mid-January.

FISCAL IMPACT: The City has approximately $4.5 million remaining in its various FY 2020 housing fund accounts. It is proposed that the $3.5 million gap be closed with a bridge loan from monies reserved for future Capital Improvement Projects, with the bridge loan repaid from Housing's FY 2021 meals tax monies. Contingent on the refinancing strategy developed for Year 10, it is anticipated that the City gap loan will remain in place as part of the long-term funding for Avana Alexandria's component of affordable housing. The City loan is proposed as a residual receipts loan that is reviewed annually for opportunities to be repaid from property cash flow, with full repayment occurring in no more than 40 years.

ATTACHMENTS:

(1) AHDC Request for Funding (dated December 2, 2019)
(2) HUD 2019 Area Median Income and Rent Levels
(3) Presentation

STAFF:

Emily A. Baker, Deputy City Manager

Helen McIlvaine, Director, Office of Housing
Eric Keeler, Deputy Director, Office of Housing