

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 7, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K HARTMANN, CITY MANAGER 

SUBJECT: CONSIDERATION OF FUNDING APPLICATION FOR THE ACQUISITION OF LACY COURT APARTMENTS BY THE ROBERT PIERRE JOHNSON (RPJ) HOUSING DEVELOPMENT CORPORATION

ISSUE: Funding application for acquisition of Lacy Court Apartments located at 1502, 1506, 1512, and 1516 Commonwealth Avenue and 4, 6, and 8 West Nelson Avenue (previously operated as Monroe-Nelson and Lacy Court Apartments) for preservation of affordable housing (Attachment).

RECOMMENDATION: That the City Council:

- (1) Approve a loan of \$6,615,000 toward the total purchase price of \$10,120,000 to RPJ Housing Development Corporation for the acquisition of the 44-unit Lacy Court Apartments, as follows:
 - a. The loan will be funded with a combination of cash from City housing funds in the amount of \$4,838,757 (with debt service to be paid from the Affordable Housing Initiatives account) and \$1,776,243 in federal HOME monies, including local match. The HOME monies include \$1,507,765 currently in the Housing Opportunities Fund (HOF), and \$268,478 to be transferred into the HOF from the HOME City Special Project account.
 - b. The loan will be an interest-only loan at 2 percent interest, with the interest (and, when possible, principal) to be repaid on a residual receipts basis once the deferred developer's fee earned by RPJ has been fully paid, but beginning not later than fifteen years after permanent financing has closed.
 - c. For the length of RPJ's ownership, but in no event less than 40 years, 40% (18) of the units shall remain affordable to households at 50% of the area median income and a minimum of an additional 40% will remain affordable to households at 60% of area median income. It is understood that RPJ's goal is to achieve 100% affordability over time, through attrition; this goal shall be met not later than Year 15 following permanent financing.

- d. In the event RPJ elects to sell the property, RPJ shall offer the right of first refusal to the City, or its designee; and
- (2) Approve the transfer of \$268,478 from the Home City Special Project account to the Home Housing Development Assistance account (the HOME portion of the Housing Opportunities Fund) to facilitate the making balance of this loan.

BACKGROUND: The Robert Pierre Johnson Housing Development Corporation of the National Capital Area (RPJ Housing), founded by the National Capital Presbytery in 1978, is a 501 (c)(3) charitable non-profit organization whose mission is to develop and preserve affordable housing for limited income individuals and families and to strengthen communities in the Washington Metropolitan area.

RPJ Housing offers a continuum of affordable housing opportunities from multifamily rental housing, to transitional housing, affordable homeownership and volunteer home repair programs. It has built, renovated, and managed over 2,300 affordable housing units. This includes developing 428 housing units in Washington, DC, Maryland and Virginia, of which 174 were done in partnership. RPJ Housing operates 222 affordable rental-housing units at twelve locations in Fairfax County, two locations in Arlington County and two locations in Warren County. In 2004, RPJ Housing purchased the 80 unit Fairfield/Lynn D Apartments in Front Royal, Virginia to preserve as affordable rental housing. Also in 2004, RPJ Housing purchased 16 scattered site units in Fairfax County for the same purpose. In 2005, RPJ Housing purchased two II-unit apartment buildings in Arlington for affordable rentals. RPJ Housing also developed the 16-unit Stevenson Court Condominiums in Alexandria, a City-assisted affordable sales housing development completed in 1998. In April 2006, City Council approved a \$35 million loan to RPJ Housing for the acquisition and preservation as affordable rental housing, of Arbelo Apartments, a 34-unit development located on Bashford Lane in Alexandria. Settlement on that property is expected to occur in early June.

DISCUSSION: RPJ Housing Development Corporation has a contract to purchase the 44-unit Lacy Court Apartments (the units have operated as "Monroe Nelson" and "Lacy Court" Apartments) located at 1502, 1506, 1512, and 1516 Commonwealth Avenue and 4, 6, and 8 West Nelson Avenue. The property contains 2 efficiency units, 4 one-bedroom units, 16 two-bedroom units, and 22 three-bedroom units. RPJ's intent is to operate the property as affordable housing in perpetuity. To that end, RPJ expects to apply for Low Income Housing Tax Credits (LIHTC) in Spring 2007, anticipating that, through attrition, it can achieve an overall affordability level of 80% of all units by the time the project is placed in tax-credit financed service around 2009. Because the City plans to provide a portion of the monies for the project from federal Housing Investment Partnership Program (HOME) funds, 40% of all units must be maintained for households with incomes at or below 50% of the area median income. Pending conversion to income eligible residents (pursuant to the requirements of the low income housing tax credit

program) and rehabilitation, rents on units leased to existing residents who earn more than 60% of the area median income will be adjusted to current market level rents.

RPJ's purchase price is \$10,120,000, equal to \$230,000 per unit. In order to acquire the property, which includes a significant number of three-bedroom units, and preserve it as part of the City's affordable housing stock, RPJ had to match an offer by a for-profit developer planning to convert the property to condominiums. As a result, RPJ has determined that the property's current rents can support debt of \$3,505,000, and has received a loan commitment in that amount from Mercantile Potomac Bank. RPJ is requesting the remainder of the purchase price, \$6,615,000, from the City. The City's loan amounts to \$150,341 per unit. RPJ has already committed \$100,000 for a deposit, and is funding preliminary due diligence costs. Under the terms of the contract, settlement on this property must occur no later than August 15, 2006. Following settlement, RPJ may seek some additional City housing funds to complete pre-development investigation, planning and design work.

While the overall construction of these 1950's-era structures is sound, the property will require substantial updating, and in particular, upgrades to mechanical and electrical systems. A foundation problem affects one building, and a structural engineer has determined the appropriate remediation and estimated cost. RPJ's desired permanent financing includes Low Income Housing Tax Credits as well as financing under VHDA's SPARC and REACH loan programs, as well as a loan of HOME funds from the Virginia Department of Housing and Community Development.

Since the anticipated cost of rehabilitation (approximately \$80,000 /per unit) exceeds the City's threshold that triggers compliance with current parking standards (one-third of the building value), RPJ will seek a Special Use Permit for reduction of required parking, which can be requested for affordable housing purposes under the Zoning Ordinance. The property has 34 parking spaces, but under current City parking ratio requirements, it would need 83. Anecdotal observations which indicate that the existing parking is sufficient (particularly given that the number of units will remain the same) are being verified. In fact given the expectation that over time more families and fewer unrelated adults will be occupying units, it is likely that parking needs will decrease from the current situation.

RPJ has presented the project to the Executive Committee of the Del Ray Citizens Association and has received its letter of support for the planned acquisition and preservation. The Association has also indicated that it supports the needed reduction of required parking since the number or mix of units is not being modified. The City's Affordable Housing Advisory Committee has recommended Council approval of this \$6,615,000 City loan.

Staff recommends that all currently available HOME monies be used for the project, with the balance of the funds to come from City Housing funds. In this case the City Housing funds will be comprised of Council-authorized general obligation bonds whose debt service will be paid from revenues derived from the dedicated one-cent of real estate revenues for housing. At this time

there is approximately \$1,776,243 in federal HOME and City matching funds that can be applied at Lacy Court (the HOME figure includes \$268,478 recommended for transfer from the HOME City Special Project account--these funds are no longer needed in that account, as the projects contemplated when the account was established either did not materialize or were funded with other monies), with the balance of approximately \$4,838,757 in City loan funding coming from a portion of the previously authorized \$22.1 million in City general obligation bonds. These bonds would be issued along with other City general obligation bonds this month. The average annual debt service cost for the bonds to be used for Lacy Court is estimated to be approximately \$360,000, with this cost to be paid from the dedicated one cent in real estate taxes set aside in the Affordable Housing Initiatives Account.

Staff further recommends that the City's assistance be provided in the form of an interest -only loan at 2 percent interest, with the interest (and, when possible, principal) to be repaid on a residual receipts basis to allow payout of RPJ's deferred developer fee pursuant to the requirements of the low income housing tax credit (LIHTC) program. RPJ will repay the City 100% of residual receipts beginning not later than fifteen years following placement of permanent financing.

The City's loan of \$6,615,000 will be subordinated for repayment purposes to other lenders. This has been, and will be, typical for affordable housing loans the City makes. The loan will be set at a 2% residual receipts basis and be repaid after other loan obligations are repaid.

Because of projected constraints on cash flow resulting from a rent-restricted property, repayment on the City loan will be minimal in the early years. The City will work with RPJ to maximize repayment of the City loan by structuring a cash flow division that prioritizes the City up to 100% of proceeds once the deferred developer's fee has been satisfied, or through an arrangement to refinance the City debt at Year 15 or when RPJ exercises its right of first refusal to repurchase the property from the limited partnership, or through extending the City loan term up to forty years so that the City can be in a priority position between Years 30 and 40 once other conventional and VHDA loans have been paid. If RPJ re-syndicates the tax credits upon repurchase, there may be an infusion of equity to provide funds for a repayment of City debt.

FISCAL IMPACT: The project purchase will be financed by use of \$1,776,243 in federal HOME and local matching funds and the use of \$4,838,757 in general obligation bonds funded City housing funds and \$3,505,000 in privately provided mortgage funds. Future rehabilitation is planned to be financed with federal Low-Income Housing Tax Credits.

ATTACHMENT: Funding Application for Lacy Court Apartments from RPJ

STAFF:

Mark Jinks, Deputy City Manager
Mildrilyn Stephens Davis, Director, Office of Housing
Helen McIlvaine, Deputy Director, Office of Housing

City of Alexandria, Virginia

Housing Opportunities Fund
Application for Lacy Court Apartments



Project Description

The **Lacy Court Apartments** are located at 1502-16 Commonwealth Avenue and 4-8 W. Nelson Avenue in the City of Alexandria, within the Del Ray neighborhood, and near the intersection of Commonwealth and Monroe Avenues. The neighborhood consists of single family homes, duplexes, townhouses and garden apartments dating from the late 1800s with a great mix of construction from every decade of the 20th century as well as the first decade of the 21st century. The Lacy Court Apartments consist of 44 units, made up 2 efficiencies, 3 1BR apartments, 5 junior 2 BR apartments, 12 2 BR apartments and 22 3 BR apartments.

The Robert Pierre Johnson Housing Development Corporation of the National Capital Area (RPJ Housing) proposes to preserve units at the Lacy Court Apartments as **rental** under the Low-Income Housing Tax Credit (LIHTC) program. RPJ Housing will acquire the property on or before May 28, 2006 at a cost of \$10,120,000. After the property is acquired, a significant rehabilitation of the property is planned. Through rehabilitation, the **short term goal** is to improve the appearance, condition, and habitability of the property for existing tenants, new families, and the Del Ray neighborhood at-large. With the implementation of the LIHTC program, the **long term goal** is continued affordability through restrictions ensuring rents will serve roughly half the households at sixty percent (60%) of the area median income (ami) or less in a mixed income environment. RPJ Housing's purpose in acquiring Lacy Court is to preserve it as a source of affordable rental housing, in perpetuity.

The **target population** for the Lacy Court Apartments will be households earning 60% of ami or less. At this time, the rents are \$840 for efficiencies, \$930 for 1 BR units, \$955-960 for junior 2 BR units, \$1085-1120 for 2 BR units and \$1315-1365 for 3 BR units.

As in all RPJ Housing properties, the Lacy Court Apartments will accept Section 8 vouchers under the new ownership.

Geographic and Demographic Impacts

It is not anticipated that the proposed acquisition and rehabilitation of the Lacy Court Apartments has notable **geographic or demographic characteristics or influences** that may impact the development or the surrounding area. The property is an existing property in its current use. In summary, Lacy Court will most likely serve the same household groups it currently serves but with an improved property.

Our focus is on tenants with incomes at or below 60% of area median income (ami). We have reviewed the verified income information on Lacy Court tenant applications to determine income levels. So far, we have information on 37 of 44 tenants. Twelve of the 37 who have responded have incomes at or below the 50% ami level. There are 4 tenant households with incomes 60-80% of the ami.

Another 17 households have incomes at or below the median income. Of these 17, 4-5 households are composed of low wage adult workers who have joined together in order to afford housing. Individually, they cannot afford to live in Alexandria. Some work multiple jobs.

Three households have incomes 100-125% of ami, and one has an income above 125% ami. RPJ Housing does not displace tenants. Tenants whose incomes exceed 60% ami can remain tenants as long as they wish. When they voluntarily move, RPJ Housing will replace them with tenants of eligible income. There is an annual average turnover of 5-6 units. In one cycle, we will be able to bring in 5-6 new households with incomes at or below 60% ami.



Project Design, Amenities, & Marketability

The primary **project design** proposed involves the rehabilitation of the existing properties. There will be some curb appeal improvements like driveway, parking lot and landscaping improvements.

The proposed project would include further rehabilitation of the entire property to improve its condition and **amenities**. This would focus primarily on renovated kitchens and bathrooms, new windows, upgraded plumbing and electrical systems and new boilers.

Lacy Court has significant **marketability** strength with the proposed improvements. As is, the property has many advantages including location to transportation, employment, shopping, and leisure activities as well as its position in an increasingly expensive housing market with dwindling affordable options. With the proposed additions and renovations, its market situation greatly improves providing enhanced conditions in comparison to its immediate neighboring properties.



Funding Request and Project Financing

RPJ Housing is requesting **\$6,615,000** in Housing Opportunities Funds for the acquisition of **Lacy Court Apartments** with acquisition to occur by June 2006. RPJ Housing has calculated that the property can carry \$3.5 million in debt that can be serviced without a rent increase. RPJ Housing is seeking the \$6,615,000 to bridge the gap between the market price of the Lacy Court Apartments (c. \$10 million) and the amount of debt that the property will support at its current rents, \$3,500,000. That computes to \$150,341 per unit in acquisition assistance.

RPJ Housing plans to submit an application in VHDA's noncompetitive round of 9% LIHTC reservations on behalf of Lacy Court Apartments as soon as that round is opened.

City funds would fill a gap for acquisition of the property and remain with the project as a permanent soft-loan source. **Additional funding sources** for the acquisition and rehabilitation will include a conventional first trust lender, Mercantile Potomac, who has indicated a strong interest in financing the \$3,500,000. RPJ Housing has invested \$300,000 of its own funds in an earnest money deposit, all of which is now at risk.

At a future time, RPJ Housing may seek additional Housing Opportunities Funds for all or a portion of the costs of predevelopment costs, like architect's fees. Permanent financing will consist of VHDA REACH funds.

Immediately upon acquisition, RPJ Housing will begin to prepare an application for Low Income Housing Tax Credits, as long as the non competitive pool of Low Income Housing Tax Credits remains available for Northern Virginia. At this stage we have a rough cost estimate of rehab prepared by Bruce Zavos of Zavos Architecture and Design but no firm scope of work has been established. Further, the objective is to constrain rehab costs to 1/3 of the building value so as not to trigger increased parking requirements.



Project Budget: Sources & Uses

The following chart illustrates how City funds will be used in the context of the sources and uses of acquisition funding for Lacy Court.

Lacy Court Sources and Uses (for acquisition only*)

Sources

Mercantile Potomac	\$3,505,000
RPJ Housing	69,000
City of Alexandria	<u>6,615,000</u>
Total	\$10,189,000

Uses

Due Diligence	\$10,000
Sales Price	10,120,000
Settlement Costs	<u>59,000</u>
Total	\$10,189,000

2005 Gross Revenue	\$536,700
2005 Operating Expenses	<u>256,891</u>
2005 Net Operating Income	279,809





Partnership Description

If the Low Income Housing Tax Credit program provides the equity for the renovation, Lacy Court will operate as **limited partnership**. A partnership along the following lines will be established.

Lacy Court Limited Partnership

General Partner:	Lacy Court, Inc.	00.01%
Original Limited Partner:	RPJ Housing Development Corporation	99.99%

Upon the admittance of the equity partner to the deal, the original limited partner (RPJ Housing) will be replaced by the tax credit equity provider. RPJ Housing usually works with the Virginia Community Development Corporation (VCDC) as its tax credit equity provider. VCDC is a non-profit organization specializing in providing Low Income Housing Tax Credit equity in Virginia. To date, VCDC has secured over \$120 million in equity from corporate investors. This equity has helped generate over \$180,000,000 in total development in 58 properties which have provided more than 2,000 units of affordable housing for Virginians.

Lacy Court, Inc. will be established by RPJ Housing and will act as the managing general partner for project operations. RPJ Housing will be the developer for the financing and construction phases and will provide property management services. At the end of the Low Income Housing Tax Credit compliance period (15 years), RPJ Housing will repurchase the property via a contract that it will execute at the outset of this process and will retain the property as affordable rental housing in perpetuity.

We have had a discussion with the Alexandria Housing Development Corporation (AHDC) as to their potential involvement in the project. There are no firm arrangements at this point, but it is possible that Lacy Court, Inc. could include a minority AHDC presence.



Timeline

The following represents a **proposed timeline** for Lacy Court (if it is developed stand alone):

May 2006	Purchase property Complete architectural scope and complete development program
Summer 2006	Prepare application for Low Income Housing Tax Credits to be submitted as soon as noncompetitive round is opened up
Fall 2006	Receive award of Low Income Housing Tax Credits and prepare construction bid documents
March 2007	Begin construction
August 2007	Complete construction and close on permanent financing

Developer Experience

The Robert Pierre Johnson Housing Development Corporation of the National Capital Area (RPJ Housing), founded by the National Capital Presbytery in 1978, is a 501 (c) (3) non-profit organization whose mission is to develop and preserve affordable housing for limited income individuals and families and to strengthen communities in the Washington Metropolitan area.

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RPJ Housing completed development of the *Stevenson Court Condominiums*, a 16-unit townhouse community in Alexandria, VA, for purchase by moderate-income households in 2002. Further, its executive director acquired the Potomac Village Apartments in Alexandria and formed the 284 unit Arlandria Chirilagua Housing Cooperative.

RPJ Housing has 13 full time and 2 part time staff including site-based property management staff. Its operations include real estate, property management, finance, volunteer home repair programs, fundraising, and social services programs. Key staff is identified in the following.

Attached to this application are copies of the last two independently audited balance sheet statements. Operating budgets for the current and prior fiscal year are also attached.



Orrington Court



Mount Vernon Gardens

Belvoir Plaza

Development Staff Experience

Herb Cooper-Levy is the executive director of RPJ Housing, a position he has held since 2001. During his tenure, the organization has acquired 121 units of housing for both affordable rentals and resale to first-time homebuyers (in addition to the 78 Alexandria units presently under contract). It has also mobilized more than 10,000 volunteers to repair the homes of over 500 elder, disabled and low-income homeowners and non-profit-owned facilities. Prior to that, he served as coordinator of CooperationWorks, the national organization of developers of cooperatives from 1998-2001. He was executive director of the National Association of Housing Cooperatives from 1984 to 1998. During that time, he formed a subsidiary, the Center for Cooperative Housing, which took title to the 299 unit Potomac Village Apartments in Alexandria and formed the Arlandria Chirilagua Housing Cooperative. In 1983 he served as the executive director of the College Park Housing Authority and coordinated the \$1 million renovation of its 108 unit building.

Jeannie Cummins has been RPJ Housing's director of development since 2004. She has prepared proposals, grants and applications for acquisition, rehabilitation and permanent financing of affordable rental housing; hired and managed members of the development team; organized housing initiatives for people with disabilities; and identified suitable properties for purchase. In the past, she has served as client services specialist with Arlington County's Department of Human Services, director of advocacy and programs for The Arc of Northern Virginia and training specialist and family support services director with the United Cerebral Palsy Associations. She also serves as president of the Coalition for Housing Opportunities In the Community for Everyone (CHOICE) and vice president of The Arc of Virginia.