

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 23, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: PRELIMINARY CONSIDERATION OF FUNDING APPLICATION FOR THE ACQUISITION/REHABILITATION OF PARCVIEW APARTMENTS BY WESLEY HOUSING DEVELOPMENT CORPORATION

ISSUE: Preliminary consideration of a funding application by Wesley Housing Development Corporation (WHDC) for acquisition and rehabilitation of ParcView Apartments (formerly Landmark Apartments) located at 5380 Holmes Run Parkway for preservation of affordable housing.

RECOMMENDATION: That the City Council:

- (1) Contingent upon final Council approval in September indicate Council's interest in approving a loan of up to \$9 million toward the total purchase price of \$24 million to Wesley Housing Development Corporation for the acquisition and rehabilitation of ParcView Apartments, as follows:
 - a. The loan, which would be formally reviewed and approved when the Council convenes again in September, would be funded from the Affordable Housing Initiatives account.
 - b. The loan would likely 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 WHDC has been fully paid, but beginning not later than eleven years after permanent financing has closed.
 - c. For the length of WHDC's ownership, but in no event less than 40 years, 80% (117) of the units shall remain affordable to households at 60% of the area median income.
 - d. In the event WHDC elects to sell the property, WHDC shall offer the right of first refusal to the City, or its designee.

- (2) Indicate that Council tentatively supports increasing the amount of City general obligation bonds allocated to affordable housing by at least \$1.0 million.
- (3) Docket Council's final consideration of approval of this loan and increasing the allocation of affordable housing bonds for its September 12 legislative meeting.

BACKGROUND: Wesley Housing Development Corporation, founded in 1974, 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. To date, the organization has purchased and/or developed more than 1100 units of affordable housing in 20 different communities.

WHDC's portfolio is valued at more than \$150 million: while the majority of Wesley's efforts involve affordable rental housing, the purchase of the 216-unit Madison Ridge project in Centreville in 2005 was WHDC's first condo conversion project. WHDC manages most of its own portfolio, which includes affordable rental apartments, units rented to households with Section 8 tenant-based vouchers, supportive housing units, and units with project-based Section 8 assistance. WHDC owns and operates two affordable rental properties in the City, the 28-unit Lynhaven Apartments on Commonwealth Avenue, and the 41-unit Beverly Park Apartments on Notabene Drive. The City provided loans to WHDC to assist with its acquisition of both properties.

WHDC was recently named 2006 Developer of the Year by the Housing Association of Nonprofit Developers (HAND), a regional consortium of non-profit and for-profit developers, lending institutions, government agencies, and affordable housing advocates.

WHDC is negotiating the details of a contract for the acquisition of ParcView Apartments, formerly Landmark Apartments. The property currently has 159 units (105 one-bedroom and 54 two-bedroom); WHDC plans to combine 26 one-bedroom units to create 13 additional two-bedroom units, resulting in a 146 unit property, with 79 one-bedroom and 67 two-bedroom units. WHDC proposes to set aside 80% (117) of the rehabilitated units as affordable.

This property prepaid its federally-assisted Section 236 mortgage in 1998, but there was no immediate adverse impact, as existing residents received Section 8 tenant-based vouchers and the rents, while increased, remained within affordable levels. Although the rents continue to be affordable, the property has stopped accepting new residents with vouchers during the past couple of years. According to information provided to WHDC by the current property manager, 56 existing resident households have vouchers, and approximately 23% of the tenants are elderly.

Wesley has offered \$24 million (\$150,943 per existing unit, or \$164,384 per completed unit under its conversion proposal) to the owner. Its preliminary estimate of rehabilitation hard costs is \$2.5 million. WHDC's anticipated total development cost (including financing and soft costs as well as rehab) is \$30.4 million, with proposed financing to include VHDA tax-exempt bonds, 4% tax

credits, and other VHDA funding. The City is being asked to provide \$9 million to complete needed project funding, which is equivalent to approximately \$61,600 per completed unit or \$77,000 per affordable unit. Wesley was competing with two other bidders to purchase this property. One bidder (a for-profit entity) was willing to provide for a 20% affordable set-aside for a limited period of time, and wanted a significant loan from the City to provide this 20% level of affordability. While Wesley's loan request is substantial, it represents at least a 40-year affordability pledge for 80% of the units, and the granting right-of-first refusal to purchase to the City made Wesley's proposal more attractive to the City.

Wesley must place \$100,000 at risk upon contract signing (anticipated for the last week of June after the Council meeting) and would have to place another \$400,000 at risk at the end of the due diligence period, which will end around August 1. Before putting this amount of money at risk, WHDC has asked that the Council preliminarily consider and provide an expression of support for the transaction. Additional information will be provided to Council in September, as due diligence is completed and as negotiations of the loan progress with City staff.

The property is in sound condition and appears to have been well maintained, requiring only a moderate rehabilitation except for those one-bedroom units that will be converted into family-sized apartments. WHDC's plan to maintain 80% of the units as affordable will ensure that current residents with vouchers may remain at the property at affordable rent levels as well as preserve a significant number of units overall as affordable for 40 years or more; in addition, the retention of a 20% market component makes dislocation of current over-income residents unlikely.

The Affordable Housing Advisory Committee (AHAC) will be meeting on Monday, June 26, and will be making a recommendation to Council before its June 27 meeting.

FISCAL IMPACT: The requested City loan of up to \$9 million to Wesley for the purchase of ParcView is part of a \$30.5 million funding package necessary for Wesley to finance the proposed project. Wesley estimates that it will be able to fund this project with a combination of tax exempt revenue bonds, 4% low income housing tax credits, a VHDA SPARC loan, and with the City funds closing the gap. This is consistent with the City's practice of leveraging the City's affordable housing funds by maximizing all outside funding sources to the greatest degree possible. The \$9 million is an estimated loan amount, and will be finalized during the next two months, with a final recommendation scheduled to come to Council in September..

Given the prior allocations of affordable housing funds for Gunston Hall (\$12.8 million), Arbelo (\$3.5 million), Lacy Court (\$6.6 million¹), Birmingham Greens (\$0.4 million), the anticipated allocation to Harambee (\$0.8 million), the allocation of this proposed \$9 million for the ParcView project, coupled with \$1.6 million in debt service payments on the affordable housing general obligation bonds recently sold by the City, results in insufficient existing funds to provide the \$9

¹Comprised of \$4.8 million of City funds and \$1.8 million of federal HOME monies.

million loan to Wesley. It appears that the City's housing funds which can be applied to this project is about \$1.0 million short. While the Gunston Hall project is not a certainty due to the appeal of the City's "cannot demolish" decision, in order to assure the funds are available if Gunston Hall is able to be saved and go forward, it is necessary to consider the Gunston Hall funds allocated. The amount allocated for Gunston Hall will be able to be reduced to some degree by the application of open space funds.

In order to increase the amount of available funds to be able to fully fund the \$9 million requested loan for the ParcView project, it would be necessary to increase Council's prior \$22.1 million affordable housing bond authorization by about \$1.0 million. This does not fully leverage by bond financing of the one-cent in real estate revenues dedicated for affordable housing. It is estimated that the one-cent which currently generates \$3.3 million annually in real estate tax could support about \$30 million or about \$7.9 million more than Council's prior authorization of \$22.1 million. Therefore if Council approves a \$9 million loan to Wesley (which will require \$1.0 million in additional bond authorization) there will only be \$6.9 million left to allocate to future projects and then one-cent will have been fully utilized. In September when the ParcView project finances are finalized, and the actual amount of the proposed City loan needed is determined, staff will bring forward not only the ParcView loan for final Council consideration, but will also bring forth recommendation on future bonding of the dedicated one-cent for affordable housing.

STAFF:

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Subject FW: ParcView Apartments - Council agenda item June 27

From: Al Smuzynski
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Cc: Mildrilyn Davis (mildrilyn.davis@alexandriava.gov); 'Helen.McIlvaine@alexandriava.gov'; Mary Claire Davis
Subject: ParcView Apartments - Council agenda item June 27

Members of the City Council:

This message follows up my earlier e-mail last Tuesday via you website and voice-mail messages I have left with each of your assistants.

You will soon be receiving a recommendation from housing staff regarding Wesley Housing Development Corporation's proposed purchase of ParcView Apartments, 5380 Holmes Run Parkway. The Council action on June 27 is preliminary consideration of a loan to Wesley Housing of \$9 million to help purchase this property. Ordinarily this Council action would not be for several weeks, but due to the summer recess, this action was moved forward. We appreciate your willingness to consider it next week. Final action will be in September.

I and/or my staff will be available to brief you individually. We have just executed the purchase contract today.

To briefly summarize the transaction:

- ParcView Apartments contains 159 rental apartments. We propose to preserve 80% of the units as affordable using low-income housing tax credits, tax-exempt bond financing, a loan from the City, and possibly other loans.
- ParcView (formerly Landmark Apartments) was a "Section 236" property which the current owners "opted out" and prepaid the HUD assisted mortgage several years ago. Residents living there at the time received Housing Choice Vouchers, and 56 current residents have vouchers. Also, 44 residents in 37 apartments are age 60 or older.
- We plan to combine 26 one-bedroom apartments into 13 two-bedroom, two-bath units, producing some larger apartments but reducing the total number of units to 146, of which 67 will be two-bedrooms. Preliminary architectural analysis indicates this is structurally feasible.
- We would preserve 117 units as affordable to families earning 60% of the Area Median Income or less, with most residents holding Housing Choice Vouchers being very low-income. Wesley Housing always welcomes new residents holding vouchers.
- We are requesting a loan from the City of \$56,603 per unit acquired, and \$61,600 per unit after combination of one-bedroom units into two-bedroom units.
- Over the summer we will continue our detailed due diligence and solidify our lender commitments and underwriting. City housing staff will access to all of our studies and underwriting, to prepare a recommendation to you at the first Council meeting in September.

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Subject Support ParcView Acquisition

Please support the surprising opportunity for Wesley Housing to acquire and operate ParcView as affordable rental property. Wesley has an excellent record (including ultimate repayment of loan funds) and we need to keep this building, with its elderly and voucher-supported tenants, in the affordable stock. We will support you in additional bonding or other funding efforts should that be needed. Let's make our commitments real. Nancy Carson and Jim Hoben for Housing Action.