

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 16, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: CONSIDERATION OF MODIFICATION OF LOAN AGREEMENT FOR THE BEVERLY PARK APARTMENTS DUE TO PROPOSED REVISIONS TO THE REHABILITATION PLAN

ISSUE: Proposed increase (from 80% to 100%) in permanent financing portion of previous \$1.5 million loan to Wesley Housing Development Corporation (WHDC) for Beverly Park Apartments, and reduction in proposed number of affordable units from 41 to 33.

RECOMMENDATION: That City Council approves a modification of WHDC's agreement with the City to increase the permanent financing portion of its FY2006 loan from \$1.2 million to the entire \$1.5 million loan amount and approve a change in the project's Affordable Housing Plan to reduce the number of housing units from 41 to 33.

BACKGROUND: Wesley Housing Development Corporation (WHDC), founded in 1974, is a non-profit organization committed to developing and preserving affordable housing for low and moderate income persons in Northern Virginia. WHDC's portfolio housing includes more than 1,500 rental units. Besides Beverly Park, WHDC owns and operates two other affordable rental properties in the City -- Lynhaven Apartments (28 units) on Commonwealth Avenue, and ParcView Apartments (149 units) on Holmes Run Parkway. The City has provided loans to WHDC to assist with acquisition of all three Alexandria properties.

Beverly Park Apartments is located at 627 Notabene Drive (this includes addresses 613, 625, 627 and 641 Notabene) in the Arlandria area. The 1940's-era garden apartment complex includes three buildings comprised of 41 one-bedroom units. When WHDC acquired the project in October 2005 for \$4,100,000 (with a City loan of \$1.5 million and the balance through conventional financing), it planned to rehabilitate the 41 one-bedroom units and to make several of the one bedroom units into family-sized apartments (two and three bedroom units) by constructing "bump out" additions to the existing buildings. The number of bedrooms would have increased from 41 to 57 bedrooms. It was anticipated that low income housing tax credits would provide the funds necessary to accomplish the planned renovation and new construction, with all of the resulting units being rented to households at or below 60% of the area median income.

DISCUSSION: Successive tax credit applications submitted by WHDC to VHDA in 2005 and 2006 were not successful, delaying the planned rehabilitation. In the 18 months that WHDC has owned and managed Beverly Park, it has discovered a number of deferred maintenance issues and latent deficiencies which will significantly expand the scope of work initially proposed impacting renovation and relocation costs. It should be noted that many of the problems that WHDC, an experienced developer, has encountered were not revealed in the Capital Needs Assessment conducted prior to its purchase of the property (i.e., recurrent sewer back ups, persistent pestilence/bedbugs, electrical system deficiencies). Under the circumstances, WHDC now believes that its best course of action is to apply for tax credits through VHDA's non-competitive pool targeted to preserve existing affordable rental housing and to focus all available financial resources on reconfiguring the interior layout of the existing buildings to create some two and three bedroom units (as well as improve the design and size of some of the smaller one bedroom units and make general upgrades to all units) and accomplish the extensive repairs and improvements needed for key building systems and infrastructure. WHDC believes that the units, as the layouts are now being proposed, will maximize comfort and efficiency for residents.

The project as now proposed would include renovations of kitchens and bathrooms, replacement of windows and roofs, upgrades to the plumbing, electrical and HVAC systems, improvements to the building facades, enhancements to controlled access security, and resurfacing of the parking lot. By combining some one bedroom units to create family-sized apartments, WHDC's revised plan reduces the overall number of units at Beverly Park from 41 to 33, with the following mix: 7 efficiencies, 18 one-bedroom units, 6 two-bedroom units, and 2 three-bedroom units. The number of bedrooms will be increased from 41 to 43. This means there will be fewer households containing about the same or more residents. It should be noted that WHDC now proposes that seven units be reserved for households at 50% AMI, with the balance affordable to households at 60% AMI. (The original proposal was for all units to serve households at or below 60% AMI).

At the time of the City's loan for Beverly Park's acquisition, WHDC expected to repay \$300,000 of the \$1.5 million when it secured tax credits. Now, due to the cost of the increased scope of work needed (as well as the reduction of anticipated revenues caused by WHDC targeting some households at 50% AMI, a requirement of the non competitive tax credit program, and by the reduced number of units), WHDC has requested that the City convert the entire amount of its original loan into a permanent loan, with payments beginning around Year 13 to allow WHDC to draw down its anticipated developer's fee first. Full repayment of the loan would occur between Years 35 and 40, or upon refinancing, if sooner. In return for the extended loan term, the City would require that the project's affordability period be extended from 20 years to 40 years, or so long as Wesley owns the property, whichever is greater.

WHDC projects the total development costs (acquisition and rehabilitation) at around \$7.9 million, or \$221,442 per unit for the 33 units proposed. While the total development cost is nearly the same as was originally proposed by WHDC, there will be no new construction for additions to the existing structures: instead, funds will be used to upgrade and repair critical building systems and infrastructure and to renovate unit interiors. WHDC will create eight family-sized, two- and three-bedroom units by combining some of the property's one-bedroom units, at a lower cost than the bump outs originally planned. In addition to the City loan and tax credits, funding sources would include other VHDA permanent financing. WHDC may also contribute around \$300,000 of its own equity, if required, to complete project funding.

WHDC has provided information regarding its revised proposal, and the project's prospective ability to accommodate families in the larger units, to Tenants and Workers United, and has received that group's tacit support for its new plan. The neighboring civic association, Lenox Place, has also been informed of WHDC's plans.

Due to the anticipated cost of the renovation, WHDC will still have to apply for a parking waiver prior to commencing the planned rehabilitation work. Currently, the property has 31 spaces and pursuant to the planned renovation it would be required to have 48 parking spaces. This is less than the 61 spaces that would have been required under the previous plan.

While the proposed loan terms are much less favorable to the City than those in the existing agreement, they are consistent with other recent City loans to preserve affordable housing, and staff considers them necessary to make the Beverly Park project feasible. With the reduction in affordable units from 41 to 33, the City's per unit subsidy will increase from \$36,585 to \$45,454, however, this amount is less than subsidy amounts in recent loans to other projects. Although staff is reluctant to see the number of affordable housing units reduced, WHDC's plan to internally reconfigure the building layouts to create some family-sized units and to make the one-bedroom apartments more comfortable and efficient improves the current situation without requiring an additional outlay of City monies. With the challenges presented by the property's failing condition, WHDC's proposal seems a pragmatic solution to ensure the long term physical and fiscal viability of the project as affordable housing. The revised Affordable Housing Plan and loan modification were presented to the Affordable Housing Advisory Committee at its April 5 meeting, and the Committee supported WHDC's revised proposal, with 8 members voting to approve, and 1 member abstaining.

If the proposed changes are approved by Council, the City will provide a support letter for WHDC's tax credit application for this property.

FISCAL IMPACT: No new outlay of City funds. Previously approved repayment of \$300,000 will not occur upon permanent financing, as previously approved. Repayment over time would occur beginning around Year 13 rather than being completed around Year 13.

ATTACHMENT: Funding Application for Beverly Park (per revised proposal)

STAFF:

Mildrilyn Davis, Director, Office of Housing
Helen McIlvaine, Deputy Director, Office of Housing