EXHIBIT NO. 1

City of Alexandria, Virginia
MEMORANDUM

DATE: JUNE 19, 2008
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER
SUBJECT: CONSIDERATION OF A LOAN FOR THE ACQUISITION AND PRESERVATION/REDEVELOPMENT OF A PORTION OF THE UNITS AT OLDE TOWNE WEST APARTMENTS

ISSUE: Loan application from Bonaventure Realty Group, LLC for a loan of $8.0 million for the acquisition and preservation/redevelopment of affordable units at Olde Towne West Apartments

RECOMMENDATION: That City Council:

1. Approve a loan of up to $8.0 million from affordable housing funds to Bonaventure Realty Group, LLC for the acquisition and rehabilitation/redevelopment of affordable units at Olde Towne West Apartments, generally along the lines discussed in this memorandum;

2. Authorize the use of up to $8.0 million in City general obligation bond proceeds, whose debt service will be repaid by the $1 per real estate tax dedicated to affordable housing, and

3. Authorize the City Manager to engage in further negotiations and to execute a loan agreement with Bonaventure Realty Group, LLC, with the understanding that some loan agreement terms may change either as a result of further negotiation, or as a result of the developer’s due diligence, which will begin following execution of a sales agreement with AIMCO.

DISCUSSION: The 319-unit Olde Towne West Apartments were advertised for sale in January 2008, and bids were submitted in March. Late last week, AIMCO, the property’s owner, narrowed the field to a single bidder, Bonaventure Realty Group, LLC, with whom it is now negotiating a sales agreement. A final sales agreement is expected to be executed within the next few days.

Bonaventure Realty Group is a real estate investment and asset management firm specializing in multi-family asset management, development and redevelopment, primarily in the Mid-Atlantic
and Southeastern United States. According to Bonaventure, it generally seeks to develop multi-family projects of quality construction, in good locations and with easy access to transportation systems. Additionally, Bonaventure seeks to acquire under-managed existing multi-family properties primarily consisting of stabilized communities, or communities which require redevelopment or some repositioning. Bonaventure and its affiliates currently own 3,400 units.

In Alexandria, Bonaventure currently owns The Encore, formerly known as Seminary Forest, located on Seminary Road near the Burke Library. The firm previously owned Jamestown Village, prior to selling it for conversion to condominiums.

Based on discussions between Bonaventure and City staff in March, the current proposal is to preserve 75 affordable units for 40 years, and another 144 affordable units for twelve years, and to provide the City or its designee the option to purchase the remaining 100 units within the first twelve years, at terms to be negotiated. Bonaventure, a for-profit entity, plans to seek to redevelop the property after twelve years, but to include 75 affordable units (separate from whatever may be required in connection with any increased density that may be granted by the City) in the redevelopment. Based on Council interest, Bonaventure has agreed to discuss with City staff the circumstances under which ownership, by the City or its designee, of some of the affordable units in the redeveloped project might be possible.

Olde Towne West consists of 319 units built in three phases (see Attachment II), and the developer's proposal treats each phase slightly differently. The three phases are as follows:

- **Phase I**, constructed in 1976, consists of a 100-unit mid-rise apartment building and 72 garden apartments. Sixty-eight of the Phase I units have project-based Section 8, and the remaining 104 units are made available to Housing Choice Voucher holders. The project-based Section 8 contract is subject to annual renewals each January. Both the mid-rise and the garden apartments contain a mixture of project-based and voucher units.

- **Phase II**, constructed in 1978, consists of 72 garden apartments under a project-based Section 8 contract that is also subject to annual renewals each January.

- **Phase III**, constructed in 1980, consists of 75 townhouse units under a project-based Section 8 contract. These units are subject to a VHDA mortgage, and VHDA will not allow prepayment of the mortgage. Therefore, as a condition of the VHDA mortgage, the owner may not terminate the Section 8 contract until 2020.

As described above, only the 75 units in Phase III are currently required to remain affordable for a long-period of time (12 years). There is no currently binding commitment with regard to the 104 voucher units (they are provided under a voluntary, unwritten agreement with AIMCO), and the developer has the ability to opt out of the project-based Section 8 contracts for 140 units every January, after first giving a one-year notice to the tenants (meaning that the earliest possible opt-out date for these units is January 2010).
The proposal, summarized below, removes the threat of a near-term loss of these units, and also provides for 40 years of affordability (including some years provided through redeveloped units) for 75 units.

A summary of the proposal negotiated between the developer and Housing staff is provided below:

<table>
<thead>
<tr>
<th># Units preserved &amp; length of commitment</th>
<th>219 units:</th>
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<tr>
<td></td>
<td>• 75 (Phase III) preserved and/or replaced for total of 40 years</td>
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<tr>
<td></td>
<td>• 144 (Phase II and Phase I garden apts.) for 12 years</td>
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100 units (Phase I mid-rise) to be transitioned to market (probably market affordable) immediately, but with option for City or designee to purchase. Details of this option remain to be worked out, but the expectation is that the purchase would be at market value.

| Reconfiguration of Phase I subsidies | Phase I has 72 garden apartments and 100 mid-rise apartments. It also has 68 project-based Section 8 units, and 104 units that accept vouchers. The developer plans to relocate all project-based units into the garden apartments, resulting in 68 project-based subsidies in the 72 units.¹ Vouchers would be accepted in the 100 mid-rise units and 4 of the garden apartments. Tenants in project-based mid-rise units would need to relocate to the garden apartments. Voucher holders in the gardens could relocate to the mid-rise, or take their vouchers elsewhere. Rents would increase at the mid-rise; some voucher tenants may have to relocate for affordability. |

| Method of preserving affordability | Phase III (75 units): Assumes VHDA mortgage and finance balance through private capital and City loan funds. Developer would seek approval to redevelop after current Section 8 contract ends in 2020, but would replace all 75 units in the redevelopment and commit as affordable for the remainder of 40-year period. Phase II and Phase I garden apartments (144 units): Finance through private capital and City loan funds. Developer would retain existing Section 8 contracts until expiration of contract for Phase III, then seek to redevelop all. Only the 75 Phase III units would be replaced in the redevelopment. Conditions/circumstances for ownership of redeveloped units by the City or its designee are under discussion. |

¹ The garden apartments can accommodate all but 4 of the project-based one-bedroom units from the mid-rise. If HUD allows, 4 two-bedroom units will receive one-bedroom subsidies and be offered at one-bedroom rents. Otherwise, 4 project-based one-bedroom subsidies may remain in the mid-rise.
### Rehabilitation Scope

Very limited rehab, but will undertake all deferred maintenance items and replace and repair appliances, cabinets and fixtures, as needed. City will review and confirm scope via third party inspector. Redevelopment planned for Phase III in 2020. Mid-rise will be amenitized to meet standard market level requirements. City must approve capital needs assessment after obtaining third-party review.

### Repayment Plan

Interest accrues at 2%, cash flow goes to current interest, accrued interest, 25% of annual cash flow above $500K to reduce principal; as affordable units decrease (through demolition, or loss of HUD subsidy by action of someone other than Bonaventure), loan is repaid at $36,530 per affordable unit. Negative amortizing loan, with likely balloon payment of principal and accrued interest at Year 12.

### Proposed City Loan

| Proposed City Loan | $8,000,000 (equal to $36,530/unit) |

It should be noted that staff has not seen any plans or proposals for the redevelopment, and has made no representation to the developer as to whether staff or Council would support a future redevelopment of some or all of the property. It is also important to note that, upon the termination of the project-based HUD subsidies in 2020, it is anticipated that, unless HUD regulations change, the residents would be issued Section 8 vouchers, which after a short period of time would be portable.

Staff recommends an $8 million loan at a 2% interest rate to assist Bonaventure Realty Group, LLC with the purchase of this property as a means of ensuring the continued affordability, for varying lengths of time, of 219 of the 319 currently affordable units. About two-thirds, or about $5.3 million, of the $8.0 million loan will be repaid in 12 years or less.

This matter was discussed with the Affordable Housing Advisory Committee on June 17, following which the Committee voted to recommend that Council proceed with a loan. That discussion was essentially consistent with the contents of this memorandum.

**FISCAL IMPACT:** Loan of $8 million of affordable housing funds, at a 2% annual interest rate. Significant repayment of approximately $5.3 million in about 12 years due to the expected upon conversion of 144 garden apartments (anticipated in 2020) for redevelopment. Additional repayment would occur throughout the life of the loan based on cash flow. The affordable housing funds would originate from the use of $8.0 million in general obligation bonds whose repayment source would be real estate tax revenues from the 1¢ of the real estate tax rate dedicated for affordable housing. This will increase the bonds allocated for affordable housing from $15.0 million to $23.0 million (which is $0.9 million higher than a 2005 Council authorization). It is contemplated, subject to bond counsel concurrence, that these bonds would be tax exempt bonds (instead of more expensive taxable bonds), and could originate from a prior 2006 bond issuance and a planned 2008 bond issuance.
ATTACHMENTS:
Attachment I. Term Sheet and Description of Bonaventure Realty
Attachment II. Aerial Map of Olde Towne West

STAFF:
Mildrilyn Davis, Director, Office of Housing
Helen McIlvaine, Deputy Director, Office of Housing
Olde Towne West

Bonaventure Investments, LLC / City of Alexandria Term Sheet

General: The City of Alexandria will provide a loan of Eight Million ($8,000,000) Dollars at an interest rate of 2% ("City Loan") to Bonaventure Investments, LLC ("Bonaventure") or one of its assigned affiliates. The interest will accrue and will be required to be repaid as described below. This debt will be subordinate to any and all financings. Collateral for City Loan will be secured through the Deeds of Trust for the following parcels: 50257800; 11342510; 50149100; 50149000; 11204150; 50299300; 50415800; & 50298000

Affordability Requirements: Bonaventure agrees to maintain 75 affordable units for 40 years. Additionally, 144 units for a minimum of 12 years. If at any time the HAP contracts are canceled, terminated, or not renewed by any party other than Bonaventure during the initial twelve years it may reduce its number of affordable units.

Mid-Rise Building: Phase I Mid - Rise (100 units) will be taken to market rents at expiration of leases starting at acquisition. At closing the 33 HAP units (currently in the Mid-Rise) will be transferred to market rate units in Phase I garden units. Choice Voucher unit tenants will have the ability to stay in their unit if they are willing and able to pay the gap between new market rents and established fair market rents. The City of Alexandria or its designee will be given the right to purchase the mid-rise building under mutually agreeably terms to be negotiated.

Redevelopment: Bonaventure may desire to redevelop the property beginning approximately in May 2020. At that time Bonaventure will begin a phased in redevelopment of the 144 Garden Units and 75 town homes. Bonaventure will strive to achieve a zoning classification which will allow a greater site density at the time of redevelopment. If Bonaventure is successful it will agree to increase the number of affordable units at that time. Any new affordable units gained from the increased density will have an affordability requirement that will run concurrent with the 40 year term on the original 75 units.

Acquisition Financing: Bonaventure will obtain financing for the Property (the "Acquisition Financing"), on terms acceptable to Bonaventure. The Acquisition Financing shall be obtained on a non-recourse basis and it is intended that it will be obtained on the Closing Date.

Loan Repayment: Loan will accrue at 2%. Excess cash flow will go to:

1.) Payment of current interest
2.) Payment of accrued interest
3.) 25% of cash flow above $500,000 per year will reduce principal.
At any point if the number of affordable units decreases then a partial repayment of the loan will be due such that not more than $36,530/affordable unit is outstanding at such time.
Overview

Bonaventure Realty Group, LLC (Bonaventure) is a highly entrepreneurial asset management firm focused exclusively on multi-family real estate in the Mid-Atlantic and Southeastern U.S. Our experience and expertise lie in finding opportunistic investments where our operational experience can be combined with innovative solutions to achieve performance improvements that exceed ordinary market growth. We are highly selective and focus only on opportunities where we believe any investment-specific risks can be substantially mitigated early in the project cycle. Our long-term, value-oriented approach to acquisitions & developments has produced exceptional risk-adjusted returns for our investors.

Company Profile

Bonaventure is a real estate investment and asset management firm specializing in multi-family asset management, development and redevelopment, primarily in the Mid-Atlantic and Southeastern US. Bonaventure is fully integrated to oversee every phase of the acquisition, management and disposition of all of our properties.

As principals, the Dunton family has 40 years of experience investing in multi-family real estate in the Washington, D.C. metro area. Bonaventure was founded in 1999 by Dwight Dunton III as the active manager of the family’s real estate interests and has since grown to count institutions and dozens of high net-worth individuals among its investors.

Bonaventure generally seeks to develop multi-family projects of quality construction, in good locations and with easy access to transportation systems. Additionally, Bonaventure seeks to acquire under-managed existing multi-family properties primarily consisting of stabilized communities, or communities which require redevelopment or some repositioning.

Bonaventure has organized sixteen private real estate investments which have purchased multi-family properties valued at approximately $423 million. Bonaventure and Bonaventure affiliates have acquired 3,994 multi-family units and currently own 3,400 units.

Core Competencies

Rigorous Screening Process

Bonaventure’s acquisitions team actively seeks out and carefully screens hundreds of properties each year in order to find suitable investment opportunities. A proprietary financial model is used to thoroughly evaluate the economics of every deal. Each potential investment property is presented to the investment committee for approval at every major milestone in the transaction until closing.

Market and Product Focus

Bonaventure has identified markets and submarkets within the Mid-Atlantic and Southeastern US that exhibit characteristics conducive to long-term economic stability, growth and asset appreciation. We buy Multi-family assets and land in markets where long-term population and
employment growth exceed the existing and planned supply of housing, then focus on property-specific opportunities to increase rents and reduce operating expenses. Further, the company purchases B- and C-class assets that are matched to our strengths and capabilities with “value-add” redevelopment and repositioning opportunities.

**Business Relationships**

Bonaventure has developed lasting relationships with property owners, brokers, lenders, service providers and other key influencers that consistently bring us new off-market transactions or opportunities to bid on properties before they are listed. These business partners bring us deals because they have confidence in our track record of getting deals underwritten and closed in a timely manner.

**In-Depth Planning**

Prior to taking over a property, Bonaventure develops a comprehensive financial, operational, and marketing strategy to meet the risk-adjusted return objectives of our investors. To meet each objective for cash flow and returns, key metrics are targeted and a concrete timeline for each goal is set.

**Long-Term Outlook**

Our asset management philosophy is to implement programs with an eye on long-term growth in cash flow through improved economies of scale, operational efficiencies and exploiting rent growth opportunities. We avoid a “penny-wise, pound-foolish” mentality of squeezing marginal expense reductions out of properties at the expense of long-term income growth.

**Value-Add Approach**

Our management team has extensive experience in adding value to multi-family assets including properties with rehabilitation potential, neglected or under-managed properties, properties that can be repositioned and condominium conversion opportunities.

**Integrated Property Management Operations**

A wholly-owned subsidiary, Bonaventure Property Management Services, LLC (BPMS), serves as property manager for Bonaventure’s multi-family assets. Our integrated approach to day-to-day management allows us to achieve the highest levels of customer service and operational efficiencies.
### THE ENCORE

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<tr>
<th><strong>Location:</strong></th>
<th>Alexandria, Virginia</th>
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<tbody>
<tr>
<td><strong># of Units:</strong></td>
<td>461</td>
</tr>
<tr>
<td><strong>Project Costs:</strong></td>
<td>$105 Million</td>
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<tr>
<td><strong>Renovation Cost Per Unit:</strong></td>
<td>$90,000</td>
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For years the City of Alexandria viewed this as a blighted property on its last legs. Our principals saw the opportunity to buy great land at a discount in the City of Alexandria and to utilize the existing building shells to produce an A-class property significantly below ground up development costs. Architectural features such as a pitched roofs, stone entrance accents, and balconies converted to sunrooms contribute to the dramatic transformation of this property. The redevelopment of this property was the springboard for our ground up development team. The interior and exterior facelift to this property has yielded effective rent increases of $600 per unit.
March 18, 2008

Chris Cobb
Bonaventure Realty Group
2700 South Quincy Street
Arlington, VA 22206

Re: Olde Towne West Apartments

Dear Chris:

We are pleased to consider Bonaventure’s plan to assume the two existing VHDA loans. We will also consider placing $1,500,000 of SPARC financing on the property, subject to underwriting and approval of our Board, for the Olde Towne West Apartments in Alexandria.

Virginia Housing Development Authority (VHDA) is a public mortgage finance agency established in 1972. The authority is self-supporting, using no state or federal funds for operations. Our primary source of funding is through the sale of tax-exempt and taxable bonds for our loan programs. As of September 30, 2007, our outstanding bonds totaled $5.4 billion. Our bonds carry long-term general obligation ratings of AA+ from Standard & Poor’s and Aa1 from Moody’s. VHDA is unique in that its mortgage rates are inclusive of all fees – bond counsel, rating agency and underwriting fees. We do not normally require bond insurance or other credit enhancement. We are able to provide this service as we are a frequent issuer of bonds for our large programs and use pooled financings rather than single financings that in turn offer greater efficiency.

We are also pleased to state that we have had a very satisfactory relationship with you and your subsidiaries including Bonaventure Investments and Bonaventure Realty Group, since 2006. At this time we have two outstanding loans with entities whose principals are involved in this new effort. These loans were financed using taxable bonds and cover 364 units.

VHDA’s mission is to help our fellow Virginians obtain safe, sound and decent housing otherwise unaffordable to them.

Sincerely,

Brenda D. Brophy, CPM, CCIM
Development Officer Manager

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
601 SOUTH BELVIDERE STREET | RICHMOND, VIRGINIA 23220 |PHONE: 877/VHDA123 | TDD: 804/783-6703 | WWW.VHDA.COM
Dear Mayor William D. Euille and the rest of the City Council,

I cannot come to tonight's City Council session, but I want to express my strong support for the loan that the city's Housing Office is recommending be given to Bonaventure Realty Group. The loan could help ensure that two-thirds of the housing units will continue to serve the current residents or future families in need for 40 years and one-third for 12 years.

That timing allows the city and developer to continue discussing options to further preserve this stock of housing for residents of our city who cannot afford the crushing rents/cost of housing in town.

You have pledged to serve all our city residents. I am counting on your support for some of its needier ones.

Wishing you a productive, final summer council.
session.

Sincerely,

Pat Rizzuto