

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 6, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *J*

SUBJECT: CONSIDERATION OF FUNDING APPLICATION FOR THE ACQUISITION OF ARBELO APARTMENTS BY RPJ HOUSING DEVELOPMENT CORPORATION

ISSUE: Funding application for acquisition of the Arbelo Apartments located at 831-833 Bashford Lane for preservation of affordable housing (Attachment).

RECOMMENDATION: That City Council approve a loan of \$3.5 million (the total purchase price is \$6 million) to RPJ Housing Development Corporation for the acquisition of the 34-unit Arbelo Apartments, as follows:

1. The loan will be funded with previously authorized City general obligation bonds (with debt service to be paid from the Affordable Housing Initiatives account).
2. The loan would be authorized to be financed from the expected proceeds of the planned June 2006 City general obligation bond sale, with the City making a general cash advance prior to the bond sale.
3. 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, beginning not later than fifteen years after permanent financing has closed.
4. The property shall remain affordable to households at 60% of median income for the length of RPJ's ownership, but in no event less than 20 years, or until the City's loan is repaid. It is understood that RPJ's goal is to achieve 100% affordability over time, through attrition.
5. In the event RPJ elects to sell the property, RPJ shall offer the right of first refusal to the City, or its designee.

DISCUSSION: 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 11-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.

RPJ Housing Development Corporation has a contract to purchase the 34-unit Arbelo Apartments located at 831-833 Bashford Lane. The property contains 8 efficiency units, 6 one-bedroom units, and 20 two-bedroom units. RPJ's intent is to operate the property as affordable housing in perpetuity. Currently, based on 28 income surveys returned, 12 of the units are occupied by households with incomes at or below 60% of the area median income, and 16 of the units are occupied by households with incomes above 60% of the area median income. RPJ does not plan to displace any current residents, regardless of income, but over time will achieve full 100% occupancy by households with incomes at or below 60% of median through natural attrition. Pending conversion to income eligible residents (pursuant to the requirements of the low income housing tax credit (LIHTC) program), the rents on existing market rate units will be adjusted to actual current market rate rents.

RPJ's purchase price is \$6 million, equal to \$176,471 per unit. RPJ has determined that the property's current rents can support debt of \$2.5 million, and has received a loan commitment in this amount from Mercantile Potomac. RPJ is requesting the remainder of the purchase price, \$3.5 million, from the City. The City's loan amounts to \$102,941 per unit. RPJ is providing \$55,000 for due diligence and settlement costs. Under the terms of the contract, settlement on this property must occur no later than May 4, 2006.

The rehabilitation is expected to include new kitchens and baths, new boilers, addition of a sloped roof, upgrading of plumbing and electrical systems, and re-installation of improperly installed windows. RPJ's desired permanent financing includes Low Income Housing Tax Credits as well as financing under VHDA's taxable bond, SPARC, and REACH programs.

However, RPJ will not seek permanent financing until such time as the property achieves the income mix that will generate the amount of tax credit equity necessary for this project to be successful. As a result, the tax credit financed rehabilitation will be delayed until this occurs.

RPJ's original goal was to keep the cost of rehabilitation below the amount that would trigger the City's requirement for compliance with current parking standards. Under the Zoning Ordinance, absent a waiver which can be granted for affordable housing purposes, a property must comply with the City's current parking requirements, if the cost of rehabilitation exceeds one-third of the value of the buildings. Housing staff has calculated the trigger amount to be \$40,076 per unit. RPJ's latest rehab estimate is nearly \$70,000 per unit. The property has 29 parking spaces, but under current City parking ratio requirements would need 54 spaces. At this time, RPJ plans to seek a Special Use Permit for reduction of required parking.

Staff recommends that the \$3.5 million in City loan funding for the Arbelo Apartments come from a portion of the previously authorized \$22.1 million in City general obligation bonds for which debt service will be paid from the Affordable Housing Initiatives account.

RPJ has discussed this project with the Northeast Civic Association and has received the unanimous support of the Association for this acquisition. The Association president believes the Association will support the needed reduction of required parking.

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 pay out 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 no later than fifteen years following permanent financing.

It should be noted that RPJ also has a contract to purchase 44 units on 1502 to 1516 Commonwealth Avenue, and 4, 6, and 8 West Nelson. The units operate as "Monroe Nelson" and "Lacy Court." The purchase price is \$225,750 per unit. In the 44 unit mix are 22 three-bedroom units and 11 two-bedroom units. While the finances are still being worked out, it appears that the City loan amount would be around \$6.6 million (\$150,000 per unit). While these are higher costs than the Arbelo, this is a relatively unique opportunity to acquire a complex with difficult to find three-bedroom units. The loan request will likely come before Council on April 25.

FISCAL IMPACT: The City's loan of \$3.5 million 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 tax credit 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.

The City would issue general obligation bonds to finance the loan. These bonds would be issued along with other City general obligation bonds in June. These housing bonds would be issued (along with a to-be-determined amount of other housing bonds) on a taxable, and not a tax exempt, basis. While taxable bonds run about one percent higher interest rate than tax exempt bonds, the use of taxable bonds permits the application of 9% federal housing tax credits which will allow RPJ to earn an estimated \$2.2 million in tax credits for the Arbelo rehabilitation. Tax exempt bonds can only be used with 4% federal housing tax credits which would generate less than \$1 million in tax credits for this project. As a result, it is more cost efficient to use taxable bonds and 9% tax credits.

The average annual debt service cost of \$3.5 million in taxable bonds is estimated to be about \$95,000 in interest and \$175,000 in principal for a total debt service cost of \$270,000. This debt service cost would be paid for from the dedicated 1 cent in real estate taxes set aside in the Affordable Housing Initiatives Account.

ATTACHMENT: Funding Application for Arbelo Apartments from RPJ

STAFF:

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

**City of Alexandria, Virginia
Housing Opportunities Fund
Application for Arbelo Apartments**



Project Description

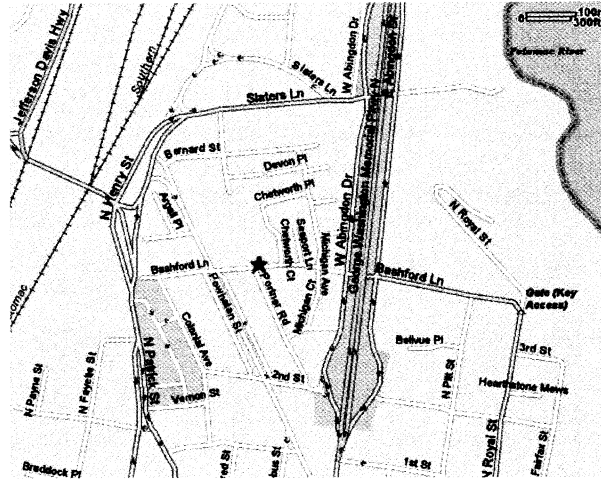
The Arbelo Apartments are located at 831-833 Bashford Lane in the City of Alexandria, within an area known as Northeast, and near the intersection of Bashford Lane and the George Washington Parkway. The neighborhood consists of garden apartments and townhouses dating from the 1940s with a great deal of new construction. The Arbelo Apartments consist of 34 units, made up 8 efficiencies, 6 one bedroom apartments and 20 two bedroom apartments.

The Robert Pierre Johnson Housing Development Corporation of the National Capital Area (RPJ Housing) proposes to preserve units at the Arbelo Apartments as **rental** under the Low-Income Housing Tax Credit (LIHTC) program. RPJ Housing will acquire the property on or before May 4, 2006 at a cost of \$6,000,000. 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 Northeast community at-large. With the implementation of the LIHTC program, the **long term goal** is continued affordability through restrictions ensuring rents will serve households at sixty percent (60%) of the area median income (ami) or less. RPJ Housing's purpose in acquiring Arbelo is to preserve it as a source of affordable rental housing, in perpetuity.

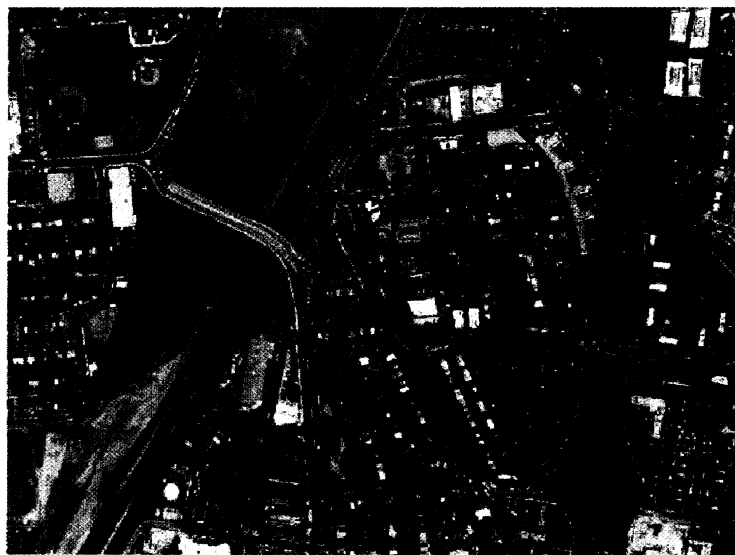
The **target population** for the Arbelo Apartments will be households earning 60% of new median income (ami) or less. At this time, the rents range from \$400 to \$625 for efficiencies, \$775 to \$975 for one-bedroom units and \$750 to \$1075 for two-bedroom units.

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

Site Development Description



The **general characteristics** of the Arbelo Apartments include two parcels zoned RB, totaling 35,046 square feet (.8 acres) with two, four-story brick apartment buildings built in 1954. Currently, there are 34 units, made up 8 efficiencies, 6 one bedroom apartments and 20 two bedroom apartments. The efficiencies are 353 square feet, the one bedrooms are 616 square feet and the two bedrooms range from 800 to 853 square feet. Apartments do not include many amenities or upgrades. However, they have consistently high occupancy levels. The property includes thirty-four on-site parking spaces. The location is convenient to shopping, employment, public transportation, recreation, schools and services, including City and non-profit social services. Tenants are close to the George Washington Parkway and in walking distance to the Braddock Road Metro Station. The Northeast neighborhood has undergone a rapid increase in value. Nearby new townhouse construction is in the upper 6 figures. The property has full access to **public utilities** that includes electricity (Dominion Power), water/sewer (Virginia American Water Company), gas (Washington Gas), telephone, and cable.



Geographic and Demographic Impacts

It is not anticipated that the proposed acquisition and rehabilitation of the Arbelo 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, Arbelo 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 are surveying the current Arbelo tenants to determine their income levels. So far, 24 of 34 tenants have responded. Twelve of the 26 who have responded have incomes at or below the 60% ami level. Of the 12, 2 have income below 30% ami and 6 have income below 50% 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.

Our objective is to acquire the property and not increase rents. That said, there are inequalities in the current rent roll. Long term tenants pay less for the same space. Once we have provided improvements to assure that all people in a given size unit have the same amenities, we will seek to equalize rents. In the event that there are persons who would pay more than 30% of their income for rent, we will seek subsidies to assist them with rent payments.

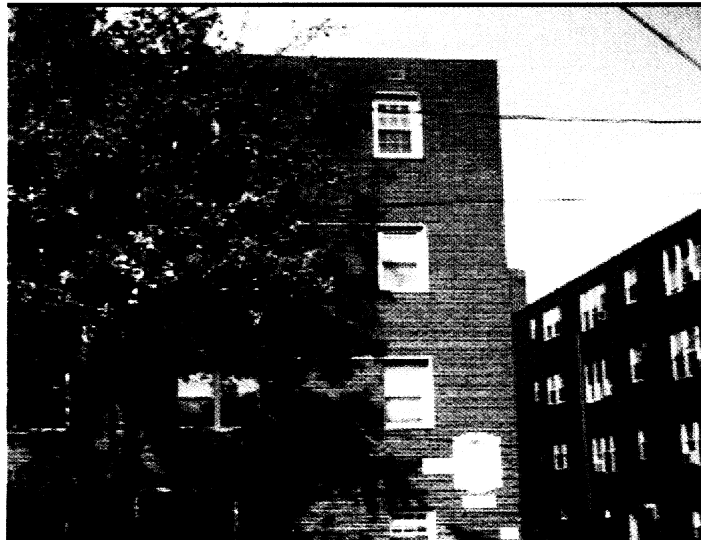


Project Design, Amenities, & Marketability

The primary **project design** proposed involves the rehabilitation of the existing properties. Aside from increased curb appeal improvements like driveway, parking lot and landscaping improvements, the roof will be replaced with a roof that has slope. The property will benefit from a new roof that is not flat (this will not only secure the property from potential leaks but will also contribute to the property's appearance).

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 (the windows are replacements, but they were not properly installed), upgraded plumbing and electrical systems and new boilers.

Arbelo 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 larger units and enhanced conditions in comparison to its immediate neighboring properties.



Funding Request and Project Financing

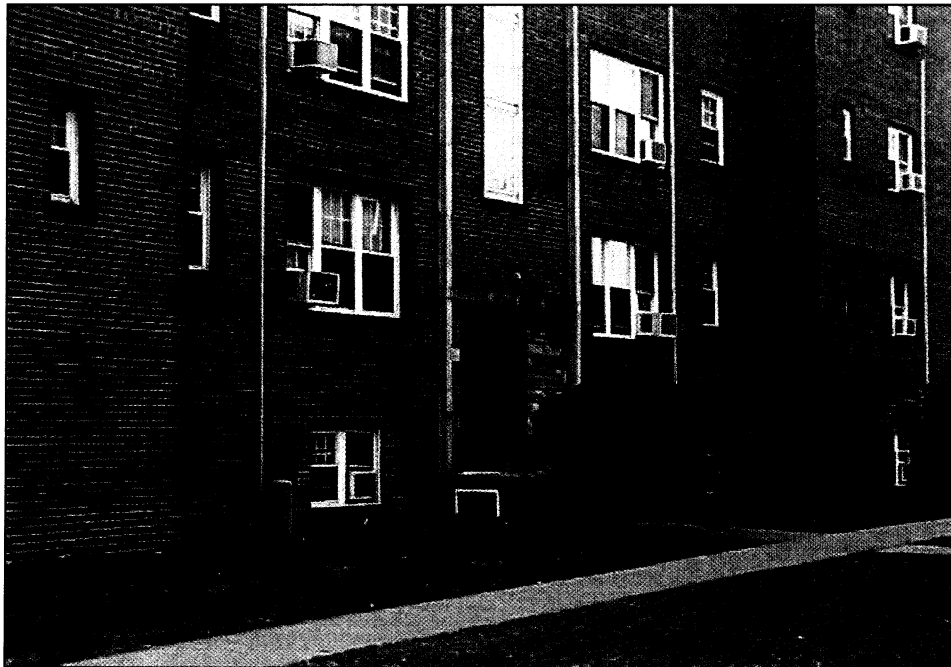
RPJ Housing is requesting **\$3,500,000** in Housing Opportunities Funds **for the acquisition of Arbelo Apartments** with acquisition to occur by May 2006. RPJ Housing has calculated that the property can carry \$2.5 million in debt that can be serviced without a rent increase. RPJ Housing is seeking the \$3,500,000 to bridge the gap between the market price of the Arbelo Apartments (\$6 million) and the amount of debt that the property will support at its current rents, \$2,500,000. That computes to \$102,941 per unit in acquisition assistance.

RPJ Housing plans to submit an application in VHDA's noncompetitive round of 9% LIHTC reservations on behalf of Arbelo 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 already issued a commitment to finance \$2,500,000.

At a future time, RPJ Housing may seek additional Housing Opportunities Funds for all or a portion of the costs of due diligence and settlement. Permanent financing will consist of tax-exempt bonds along with 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 it is **impossible** to estimate the costs of rehab as 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 Arbelo.

Arbelo Sources and Uses (for acquisition only*)

Sources

Mercantile Potomac	\$2,500,000
RPJ Housing	55,000
City of Alexandria	<u>3,500,000</u>
Total	\$6,055,000

Uses

Due Diligence	\$10,000
Sales Price	6,000,000
Settlement Costs	<u>45,000</u>
Total	\$6,055,000



Partnership Description

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

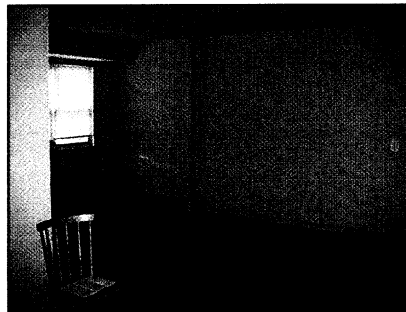
Arbelo Limited Partnership

General Partner:	Arbelo, 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.

Arbelo, 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.

RPJ Housing is also in the process of purchasing 2 other properties in the City. It may be of advantage to add these properties to the same Low Income Housing Tax Credit deal. If that is the case, the deal will generally look as described above, but there could be additional involvement by the Alexandria Housing Development Corporation and the timing might be affected.



Timeline

The following represents a **proposed timeline** for Arbelo (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.

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 (VA), two locations in Arlington County (VA) and two locations in Warren County (VA). In 2004, RPJ Housing purchased the 80 unit Fairfield/Lynn D Apartments in Front Royal, VA 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 11-unit apartment buildings in Arlington for affordable rentals.

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. As noted above, 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.

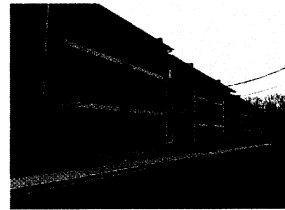
Attached to this application are copies of the last two independently audited balance sheet statements. Operating budgets for the current and prior fiscal year are also attached.



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. 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.