



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of November 14, 2009**

DATE: November 5, 2009

SUBJECT: Allocation of Fiscal Year (FY) 2010 Affordable Housing Investment Fund (AHIF)/HOME funds as a loan to the Arlington Partnership for Affordable Housing (APAH) to assist with the acquisition of Buchanan Gardens Apartments.

C. M. RECOMMENDATIONS:

1. Allocate up to \$7,100,000 in FY 2010 AHIF/HOME funds (101.495130.91102) to the Arlington Partnership for Affordable Housing (APAH) Inc. (101.456300.91102), or its designated County-approved ownership affiliate (Buchanan Gardens II, LLC), to assist with the acquisition of Buchanan Gardens Apartments. The financing assistance is in the form of a subordinated, residual receipts loan, subject to the terms and conditions outlined in this report.
2. Authorize the County Manager to execute the required documents for a loan for up to \$7,100,000 to APAH or its designated County-approved ownership affiliate, and authorize and direct the trustees for the County's Deed of Trust to execute the required loan and subordination documents subject to approval by the County Attorney.
3. Authorize the County Manager, with the concurrence of the County Attorney, to act as the County Board's representative in approving financing or program revisions that are necessary to remove any ambiguity or inconsistency or which improve the County's financial security or financial position, and which changes do not adversely affect the County financially, prior to or after execution of the County's financing documents.

ISSUE: This is a request for Affordable Housing Investment Fund (AHIF)/HOME funds by APAH to assist with the acquisition of Buchanan Gardens Apartments.

SUMMARY: APAH is requesting up to \$7,100,000 in Affordable Housing Investment Fund (AHIF)/HOME funds to assist in acquiring the 111-unit apartment complex, Buchanan Gardens. The plan is to acquire the property for the long-term preservation of affordable units using a "buy and hold" approach for a period of up to five years. During the "buy and hold" period, APAH

County Manager: BWD/maA

County Attorney: SAM

Staff: David Cristeal and Marie Randall, DCPHD

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will secure additional funding for the refinancing and renovation of the property. It is anticipated that at that time, APAH will return to the County Board to request additional AHIF funds.

BACKGROUND: In March 2009, APAH executed a purchase contract on Buchanan Gardens Apartments. Since that time, APAH has completed its due diligence including inspection of all the units, inspection of the mechanical and electrical systems on the property, review of tenant leases and rent rolls, completion of the Phase I environmental review, and negotiation with the owner to extend the purchase contract until the end of its due diligence period which is December 18, 2009.

The property consists of 11 colonial style, walk-up garden apartment buildings and is located on Buchanan Street, one-half block north of Columbia Pike and within the boundaries of the Barcroft School and Civic League (see attached map). Currently, the property includes 81 one-bedroom units, 29 two-bedroom units, and one three-bedroom unit. Rents are affordable to households at approximately 50% to 60% of the Area Median Income (AMI) with monthly rents (including utilities) for one-bedroom units between \$835 and \$1,015, \$925 to \$1,325 for two-bedroom units and \$1,395 for the three-bedroom unit.

At its meeting on October 24, 2009, the County Board approved a text amendment to the Arlington County Zoning Ordinance that allows, by use permit approval, additions to and expansion of existing nonconforming buildings or uses, and modification of regulations for those buildings and uses in "RA" districts where the building is proposed to be used for the provision of low- or moderate-income housing. Buchanan Gardens applied for a use permit under this provision which is also being heard by the County Board at this meeting.

DISCUSSION: This project is an opportunity to purchase a multi-family rental property in the Columbia Pike corridor and preserve 111 committed affordable units. APAH's acquisition furthers the County's goal within the Columbia Pike Land Use and Housing Study of preserving affordable housing in the Columbia Pike corridor.

"Buy and Hold" Phase: During the first phase, APAH would acquire the property and complete routine repairs and maintenance on an as-needed basis to maintain a safe and sanitary property. APAH anticipates replacing nonworking appliances, painting stairwells, replacing light fixtures in the stairwells, repairing sidewalks, repairing and maintaining the original boilers for the property and other miscellaneous items that arise during this time.

"Buy and Hold" Affordable Housing Plan: Under the terms of the recommended loan, APAH would restrict 60% of the units (or 66 units) to households with incomes at or below 60% of the Area Median Income (AMI) for their Affordable Housing Plan for this phase of the project. According to their Relocation Plan, to minimize any displacement, APAH will utilize a six-month period to phase in the income restrictions that will be put into place after the acquisition of the property. After the six month period and throughout the remainder of this phase, APAH would be required, through attrition, to convert the remaining 45 units to households earning incomes at or below 60% of AMI. If there are current qualified tenants in good standing living in Buchanan Gardens whose incomes are above 60% of AMI who wish to remain living in their units, APAH shall retain those units as non income-restricted units until the tenants choose to

leave or until a permanent financing program using Low Income Housing Tax Credits requires the units to be income restricted.

Unit Size	Income Restricted 60% AMI	Income Restricted 60% Rents	Non Income-Restricted Units	Rents for Non Income-Restricted Units
1-Bedroom	48 units	\$995	33 units	\$1,025
2-Bedroom	17 units	\$1,325	12 units	\$1,350
3-Bedroom	1 unit	\$1,425		
Total	66 units		45 units	

Permanent Financing Plan: APAH anticipates closing on the property in December 2009, and will begin the process of securing financing for the renovation and stabilization of the project. While APAH is planning to apply for Low Income Housing Tax Credits during the 2010 application round through the Virginia Housing Development Authority (VHDA), the Qualified Allocation Plan (QAP) for the tax credit program is in the process of being revised and will not be approved by the VHDA Board until December 2, 2009. At this time, APAH and County staff are uncertain as to whether the QAP would establish renovation projects such as Buchanan Gardens as a priority and therefore competitive to receive credits during the 2010 application round.

However, based on the QAP approved by the VHDA Board, if Buchanan Gardens would be a competitive application, APAH will submit an application for the 2010 tax credit round. APAH would also return to the County Board in February, 2010, to request additional funding for the renovation portion of the property. Assuming current interest rates and tax credit pricing, APAH estimates that they would need up to an additional \$3 million in AHIF funds. The total AHIF loan, combined with a first mortgage, tax credit equity, interim income from the property and the deferred developer fee total approximately \$30 million, which is the currently estimated total development cost for the project. However, the amount of AHIF to be requested would depend on the first mortgage loan terms and conditions, the amount of tax credits that are committed to the project, and the pricing of the credits. Any additional AHIF funds also will be contingent upon APAH being awarded 9% tax credits.

If APAH determines that Buchanan Gardens would not be competitive in the 2010 tax credit application round, or if Buchanan Gardens does apply and is not awarded credits, then APAH and County staff are assuming that the property would be held for up to five years while other sources of financing and funding opportunities are evaluated.

Permanent Affordable Housing Plan: Once financing has been secured for the renovation and stabilization phase of the project, APAH intends to create more family-sized units, including 55 1-bedroom units, 49 2-bedroom units, and seven 3-bedroom units with bump-outs to increase the number of bedrooms and the size of the units. The renovation would also include the modernization of all of the systems and finishes and the creation of new office and community space.

Unit Size	60% AMI	Rents after Renovations* (before utility allowance is subtracted)
1-Bedroom	55 units	\$1,155
2-Bedroom	49 units	\$1,386
3-Bedroom	7 unit	\$1,602
Total	111 units	

* These are the 2009 maximum allowable rents for 60% AMI units, before the utility allowance is subtracted. These rents will be adjusted to reflect any changes to the Area Median Income (AMI).

“Buy and Hold” County Funding Request: APAH is requesting up to \$7,100,000 in AHIF/HOME funds for the “Buy and Hold” phase of the project. The proposed loan would have a 35-year term at a 3 % interest rate and would be secured by a subordinated Deed of Trust and payable from cash flow from the project. Beginning in 2012, if renovation financing has not been secured, seventy-five percent (75%) of the cash flow will go to APAH to pay its deferred developer fee while 25 percent (25%) will go to the County as a residual receipt payment. In addition, during this phase of the project, the County would require that APAH place \$500 per unit per year in replacement and predevelopment reserves, and APAH will need County approval to utilize the funds in the reserves account for capital repairs. If there is not enough cash flow available to place \$500 per unit per year in replacement and predevelopment reserves because of lower than expected net operating income, then APAH can request that the County review its income and expense statements and waive this loan term. If there are any remaining funds in the replacement and predevelopment reserves account at the time of renovation, APAH may access those funds to assist with financing the second phase of this project.

Acquisition Financing Sources and Uses

SOURCES OF FUNDS		USES OF FUNDS	
Source	Amount	Use	Amount
First Mortgage	\$6,220,306	Purchase Price	\$12,300,000
AHIF Loan	\$7,100,000	Capital Reserves & FFE	\$289,000
Deferred Developer Fee	\$300,000	Other Soft Costs	\$731,306
		Developer Fee	\$300,000
TOTAL SOURCES	\$13,620,306	TOTAL USES	\$13,620,306

Accessible Units: The property currently does not have any accessible units. During the “Buy and Hold” phase, accessible units will not be added due to the grade of the property and the inaccessible configurations of the entrances to the buildings and the units themselves. In the context of the rehabilitation work, APAH proposes that 12 units will be accessible to persons with disabilities with mobility impairments including three which will be accessible to persons with disabilities with visual and hearing impairments.

Affordable Housing Goals and Targets: The project meets the following Housing Goals and Targets:

- Repairs during the “Buy and Hold” phase will eliminate major code violations and safety hazards; the subsequent rehabilitation work would bring the property into compliance with current building codes; (Goal 2/Target 2A)
- Provides 111 units of committed affordable housing (Goal 3/Target 3C);
- Initially provides 17 two-bedroom and 1 three-bedroom unit for a total of 18 family-sized units. This will be increased to 49 two-bedroom and seven three-bedroom units during the Permanent Financing phase, increasing the amount of family-sized units by 36 units (Goal 5/Target 5A).

Civic Association/Community Process: At their meeting on May 7, 2009, the Barcroft School and Civic League (BSCL) adopted a resolution in support of the purchase of Buchanan Gardens by APAH and their application to the County for financing for the project. In the resolution, the BSCL also noted that previous BSCL neighborhood conservation plans have identified concerns about the poor state of the property and recommended improvements. The purchase and renovation of Buchanan Gardens would address the recommended improvements in their neighborhood conservation plans.

Tenant Relocation Plan/Tenant Landlord Commission: The Buchanan Gardens Relocation Plan was reviewed and tentatively approved by the Tenant Landlord Commission at their meeting on September 16, 2009. To minimize any displacement, APAH will utilize a six-month period to phase in the affordability restrictions that will be put into place after the acquisition of the property.

Schools Impact After Renovations: During the “Buy and Hold” phase, there will not be an impact on schools. After renovations, Arlington Public Schools (APS) projects the impact on schools as an increase of 5 students. As such, the proposed renovation should have minimal impact on any one school. APS estimates the current mix as 50% elementary (Barcroft Elementary School, 37 students), 20% middle (Kenmore Middle School, 15 students) and 30% high school (Wakefield High School, 22 students).

Housing Commission: APAH will meet with the Citizens Advisory Commission on Housing (HC) on November 5, 2009. The Housing Commission will send a separate letter to the County Board with its recommendation for this project.

Loan Terms and Conditions: Staff recommends that the County allocate up to \$7,100,000 in AHIF/HOME funds to assist with the acquisition of the Buchanan Gardens Apartments, subject to the following terms and conditions:

1. The applicant shall execute a generally standard AHIF/HOME Program Agreement and loan instruments for the County loan in a form acceptable to the County Manager and the County Attorney.
2. The County financing assistance will be in the form of a subordinated residual receipts loan, secured by the property, and repayable from the cash flow from the property. This

loan will be made at an interest rate of 3%, compounded annually, over a term of 35 years. This loan will be subordinate to the primary mortgage of up to \$6,500,000. The applicant must secure a commitment for the first mortgage prior to disbursement of any funds from the County.

3. If Buchanan Gardens has adequate cash flow from its net operating income, the applicant will place \$500 per unit per year in replacement and predevelopment reserves and the use of these funds for capital repairs and other predevelopment expenses will require County approval.
4. Beginning in 2012, if renovation financing has not been secured, seventy-five percent (75%) of the cash flow will go to the applicant to pay its deferred developer fee while twenty-five percent (25%) will go to the County as a residual receipts payment.
5. The applicant must comply with the affordable housing set-aside for the rental units as follows: Within the first six months after acquisition, sixty-six (66) of the rental units will be restricted to households earning up to 60% of the AMI; and the remaining 45 units will remain non-income-restricted, as set forth in the chart on page 3 of this report. Through attrition, the applicant shall convert the remaining 45 units to households earning incomes at or below 60% of AMI. If there are current qualified tenants in good standing living in Buchanan Gardens whose incomes are above 60% of AMI who wish to remain living in their units, APAH shall retain those units as non income-restricted units until the tenants choose to leave or until a permanent financing program using Low Income Housing Tax Credits requires the units to be income restricted.

The applicant will agree that the affordable rents shall be established in accordance with HUD rent limits set for Arlington County. Rents shall not exceed the established affordability level for the unit size, minus a utility allowance (if applicable) as per the schedule annually approved by HUD for Arlington's Section 8 Housing Choice Voucher Program.

6. The term of affordability shall be 60 years. However, if at any time in year 35 or later (but prior to the end of the full 60-year commitment period), APAH desires to refinance the property and is unable to refinance because the units are income-restricted, APAH may return to the County Board with a request to consider a recommendation to allow the units (or a portion thereof) to be rented at levels necessary for the financial feasibility of the refinance.
7. The applicant, its designated ownership entity, heirs or assigns shall provide a purchase option including a right of first refusal to the County or its designee, if the developer decides to sell the property any time prior to or at the end of the 35-year affordability term, wherein the County or its designee shall have the right, but not the obligation, for a period of up to 180 days, to purchase the property at 90 percent of its then-appraised fair market value. If the owner's appraiser and County's appraiser do not concur on the fair market value of the property, the two appraisers shall select a third appraiser using the industry-standard three appraiser method to determine the fair market value.

FISCAL IMPACT: The current FY2010 balance of AHIF/HOME funds is \$11,929,436. Approval of the staff recommendation to allocate up to \$7,100,000 in AHIF funds for the Buchanan Gardens project will result in a remaining FY 2010 balance of \$4,829,436.

Buchanan Gardens Apartments
926 S. Buchanan St.
(buildings within cross-hatched parcels #1 & #2)

