ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of May 14, 2011

DATE: April 19, 2011

SUBJECT: Allocation of Fiscal Year (FY) 2011 Affordable Housing Investment Fund (AHIF)/HOME funds as a loan to the Arlington Partnership for Affordable Housing (APAH) to assist with the acquisition of Marbella Apartments.

RECOMMENDATIONS:

1. Allocate up to $4,031,000 in FY 2011 AHIF/HOME funds (101.495130.91102), contingent upon APAH receiving a funding commitment from the Virginia Housing Development Authority (VHDA) and of which any funds not used for closing will be placed in a County-held contingency account for one year following the closing date and shall be drawn subject to the approval of the County Manager, to Arlington Partnership for Affordable Housing (APAH) (101.456300.91102), or its designated County-approved ownership affiliate, to assist with the acquisition of Marbella 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 $4,031,000 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 Marbella Apartments.

SUMMARY: APAH is requesting AHIF/HOME funds to help it acquire the 134-unit Marbella apartment complex from Briarcliff Manor Associates, L.P. (Briarcliff). The property, located in

County Manager: BMD kma

County Attorney:

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Staff: David Cristeal and Anne Venezia, DCPHD the Radnor/Ft. Myer Heights neighborhood, consists of 120 committed affordable units (CAFs) and 14 market-rate units (see attached map). Staff recommends APAH's purchase in order to both convert the market-rate units to CAFs and to attain a new 60-year affordability term. The total cost of this acquisition is estimated at $14,302,825. APAH would secure the balance of funds from the Virginia Housing Development Authority (VHDA) financing and its own equity.

BACKGROUND: In 1998, Briarcliff purchased and renovated Marbella Apartments (formerly Briarcliff Manor) with tax-exempt bonds, 4% Low Income Housing Tax Credit (LIHTC) equity, and a $1,468,829 AHIF loan. While the 1998 renovation allowed Briarcliff to add bump-outs and create family-sized units, the majority of the units (78 percent) are 1-bedroom units. The current tenant population is predominantly households earning less than 60% of AMI and turnover rates are low.

The property consists of twelve two-story brick, walk-up garden apartment buildings and spans three blocks (approximately 3.5 acres), bordered by Arlington Boulevard, North Quinn Street, and North Ode Street and within the boundaries of the Radnor/Ft. Myer Heights Civic Association (see attached map). Currently, the property includes 2 efficiencies, 105 one-bedroom units, 20 two-bedroom units, and 7 three-bedroom units.

Located just south of Arlington Boulevard, Marbella Apartments provides the County's CAF portfolio with 120 income-restricted units within 1-mile of two metro stations. Current tax-credit provisions require unit affordability at the 60% of area median income (AMI) level on 120 units until 2029. The County deepened affordability restrictions on a portion of these units by requiring affordability at the 50% of AMI level for 26 units and affordability at the 40% of AMI level for 14 units until 2018. In November 2018, rents on the 40% and 50% of AMI units would increase to 60% of AMI levels upon expiration of the County affordability period. However, the County has a 2-year "option period" that starts June 30, 2017 during which the County may exercise its purchase option and acquire the property. Briarcliff has paid off all accrued interest and some of the original principal on its AHIF loan – the current outstanding balance is approximately $1.3 million. Based on a 2010 appraisal, Briarcliff agreed to sell Marbella to APAH for $13.0 million, which is about $800,000 below the 2011 assessed value and $500,000 below a recent appraised value.

DISCUSSION: With the proposed purchase price of $13.0 million and related transaction costs, the total development costs of this acquisition are estimated to be $14,302,825. To acquire Marbella Apartments, APAH is applying to VHDA for financing of approximately $10.1 million and agreed to contribute $200,000 toward the purchase price, leaving a gap of approximately $4.0 million. Staff recommends that the County supplements Briarcliff's payoff amount (approximately $1.3 million assuming a June 17 settlement date) with up to $2.7 million of new funds to provide APAH with a loan of up to $4,031,000 to assist with the acquisition, contingent upon APAH receiving a funding commitment from the VHDA. Of this amount, staff recommends placing any funds not used for closing in a County-held contingency account until acquisition and related costs, including VHDA interest rates, are finalized and APAH operates the property for one year to allow for unforeseen major repairs. Staff also recommends using the maximum allowable amount of uncommitted federal HOME funds as part of this allocation so that we may meet commitment and expenditure deadlines for these dollars.

Because the County will be asked to subordinate to a greater amount of primary financing (approximately $7.1 million in 1998 compared to approximately $10.1 million today), the County anticipates a reduced cash flow and residual receipt payments under this acquisition. Prepayment restrictions on the VHDA bond financing preclude APAH's ability to renovate existing buildings or to add new units for ten years, so this acquisition would be a buy-and-hold strategy. Upon expiration of this lock-out period (estimated to occur in 2021), the County anticipates APAH will pursue a tax credit deal to add new units and substantially renovate existing units, potentially paying off a more substantial portion of the County's debt at that time (if the Board approves this allocation, the estimated County loan balance in 2021 would be approximately $4.6 million).

Proposal Elements: Major elements of APAH's proposal are as follows:

- An APAH ownership affiliate would acquire Marbella Apartments from Briarcliff for $13.0 million. The total development budget for this acquisition is approximately $14.3 million (or $106,738/unit). See Table 1 below.

Table 1: Marbella Apartments Acquisition Sources and Uses of Funds

SOURCES	**Total**	**Per Unit**
VHDA	$10,072,208	$75,166
Arlington County AHIF/HOME Loan	$4,030,617	$30,079
APAH Equity Contribution	$200,000	$1,493
Total Sources	**$14,302,825**	**$106,738**
USES	**Total**	**Per Unit**
Acquisition	$13,000,000	$97,015
Construction Costs (FFE)	$12,000	$90
Due Diligence Costs	$19,775	$148
Financing Costs	$277,447	$2,071
Reserves, Soft Costs, and Fees	$993,603	$7,415
Total Uses	**$14,302,825**	**$106,738**

- APAH intends to keep the current unit mix during the buy-and-hold phase and will commit the 14 market units as income-restricted units at the 80% of AMI level, without requiring involuntary displacement (market rents are affordable at 60% - 80% of AMI now). As attrition occurs or as households qualify in these 14 units, APAH will convert these units to income-restricted units at the 60% AMI level. APAH estimates that approximately eight of the families in the now market-rate units currently earn less than 60% of AMI, so APAH may be able to convert some of these units to 60% of AMI units immediately upon purchase. The proposed unit and affordability mix is as follows:

Table 2: Marbella Affordability and Unit Mix

	40%	50%	60%	*80%	Total
Efficiency	0	0	2	0	**2**
1BR	12	19	66	8	**105**
2BR	2	5	8	5	**20**
3BR	0	2	4	1	**7**
Total	**14**	**26**	**80**	**14**	**134**

*APAH intends to convert the 80% units to units affordable at 60% of AMI through attrition and/or as families qualify.

- APAH will provide 60-year affordability restrictions. In light of existing AHIF and tax credit affordability commitments, this would preserve the 40% and 50% of AMI units for an additional 53 years and preserve the 60% of AMI units for an additional 42 years.

- APAH is requesting that the County recommit the current AHIF loan balance of approximately $1.3 million and allocate an additional $2.7 million to help fill the financing gap. The new AHIF loan of approximately $4.0 million would be 1) contingent upon APAH receiving funding from VHDA and 2) subordinate to this new senior financing of up to $10.5 million.

- APAH is working with the County's Department of Human Services (DHS) to reserve a portion of Marbella's units for supportive housing clients. DHS is reviewing resources now to determine the number of designated units they could support in forthcoming years.

- To support the acquisition, APAH intends to contribute $200,000 toward the transaction cost and is proposing a development fee that equals 2.4% of the project's total development budget.

- APAH's proposal does not require tenant relocation or create any additional impact on County schools.

- APAH has confirmed with Arlington County planning staff that the Marbella site has unused density that would allow APAH to add more affordable housing units as part of a future redevelopment. Specifically, the site is currently zoned RA6-15 which would allow APAH to add 35 units by-right and up to 78 units through the site plan process with a 25 percent affordable housing bonus.

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

- Preserves 120 committed affordable units and creates 14 new committed affordable units without involuntary displacement of existing residents (Goal 5/Targets 5B and 5D);

- Preserves 120 committed affordable units and creates 14 new committed affordable units in Neighborhood Service Area E (Goal 8/Target 8A), which helps further the County's Target of locating 60% of new committed affordable units in Neighborhood Service Areas D, E, F.

In addition, if APAH is able to create a supportive housing program in consultation with DHS staff, this project will also help meet the County's overall goal of increasing supportive housing to 425 units by FY 2015 (Goal 2/Target 2C).

Civic Association/Community Process: APAH met with the Radnor/Ft. Myer Heights Civic Association (RAFOM) in March 2011 and a representative from RAFOM attended the April 7 Citizens Advisory Commission on Housing (Housing Commission) meeting. RAFOM supports APAH's acquisition of Marbella Apartments as a long-term preservation strategy of affordable units. Please see the attached letter.

Housing Commission: APAH will meet with the Housing Commission on May 5, 2011. 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 Board allocate up to $4,031,000 in AHIF/HOME funds, contingent upon APAH receiving funding from the VHDA and of which any funds not used for closing will be placed in a County-held contingency account for one year following the closing date and shall be drawn subject to the approval of the County Manager, to assist with the acquisition of the Marbella Apartments, subject to the following terms and conditions:

1. The applicant shall execute a generally standard AHIF and 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's 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 2.5%, compounded annually, over a term of 30 years. This loan will be subordinate to VHDA's senior financing of up to $10.5 million.

3. The County shall receive 50% of residual cash flow until the County loan is paid in full.

4. The applicant must comply with the affordable housing set-aside for the rental units as follows: fourteen (14) of the rental units will be restricted to households earning up to 80% of AMI, *without requiring involuntary displacement of existing tenants*; eighty (80) of the rental units will be restricted to households earning up to 60% of AMI; twenty-six (26) of the rental units will be restricted to households earning up to 50% of AMI; and fourteen (14) of the rental units will be restricted to households earning up to 40% of AMI per *Table 2: Marbella Affordability and Unit Mix*. APAH will convert the fourteen (14) units affordable at 80% of AMI to income-restricted units at the 60% AMI level as attrition occurs and/or as households qualify so long as VHDA's underwriting requirements are upheld.

The applicant agrees that the affordable rents shall be established in accordance with HUD rent limits set for Arlington County. Contract rents shall not exceed the established affordability level for the gross rents, as published by HUD, minus a utility allowance as per the Utility Allowance Schedule annually approved by HUD for the Arlington County, VA Section 8 Housing Certificate/Voucher Program or other manner as permitted by applicable federal regulations and approved by the County. Rent increases for tenants continuing in occupancy shall be based on area median income increases as published by HUD.

5. The term for the affordability restrictions stated in Loan Term and Condition #4 above shall be 60 years, commencing upon the date of purchase.

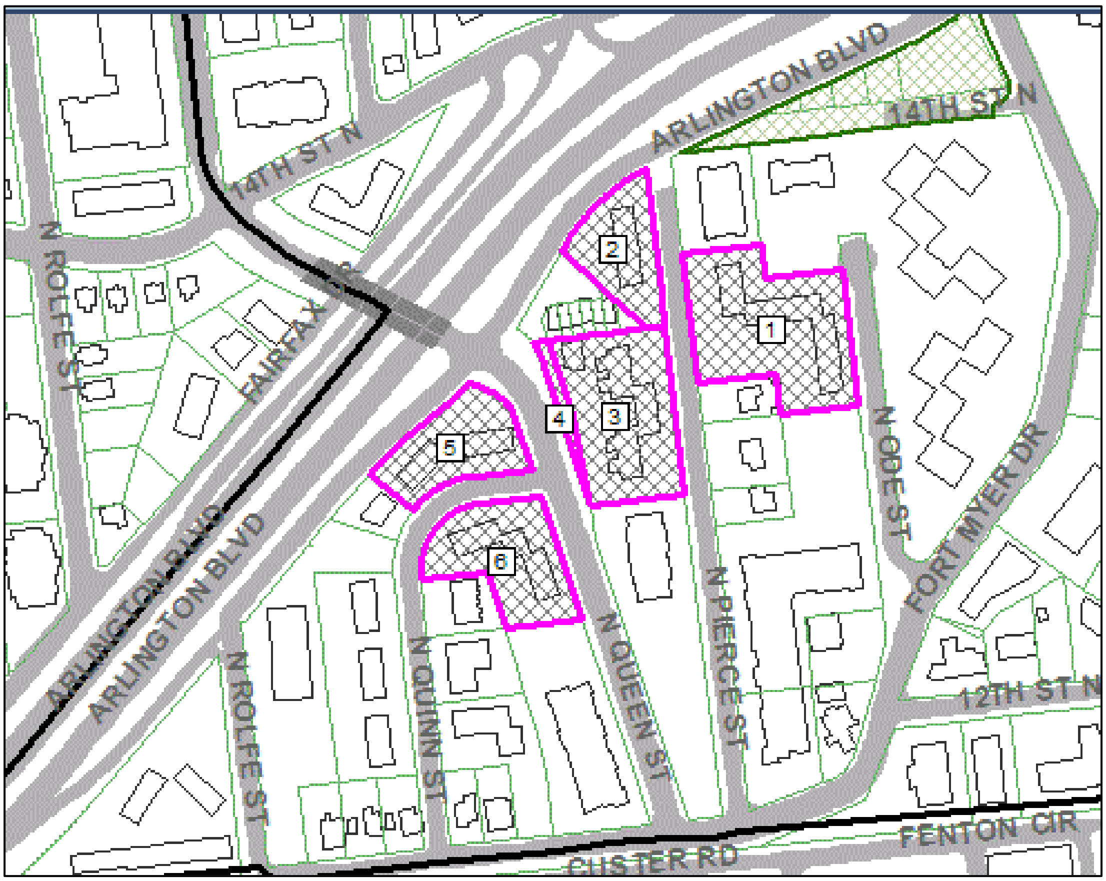
6. The applicant, its designated ownership entity, heirs or assigns shall provide a purchase option including a right of first refusal to the County or its designee, if the developer decides to sell the property to an unrelated third-party purchaser any time prior to or at the end of the 60-year affordability 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 balance of FY2011 AHIF/HOME funds is $10,177,321. Approval of the staff recommendation to allocate up to $4,031,000 in AHIF/HOME funds for the acquisition of Marbella Apartments will result in a remaining FY 2011 balance of $6,146,321. (Upon sale of Marbella Apartments, Briarcliff will repay the outstanding balance on the 1998 County loan of approximately $1.3 million, making the net amount of AHIF/HOME funds used for this project approximately $2.7 million.)

Marbella Apartments

1301 North Queen Street

(Buildings within cross-hatched parcels #1, #2, #3, #4, #5, & #6)



1510 N. 12th Street, #701
Arlington, VA 22209
April 13, 2011

Nina Janopaul
President/CEO
Arlington Partnership for Affordable Housing
2704 N. Pershing Drive
Arlington, VA 22201

Dear Nina,

The RAFOM Board appreciated meeting with you and APAH recently on your plans to purchase the Marbella affordable housing apartments on N. Queen, Pierce and Quinn Streets in Radnor Heights. It was helpful to hear the details of the proposed purchase and what it would mean to the current residents.

We are pleased to support your plans for Marbella. We understand that APAH would extend the term of the affordable housing commitment and the rents beyond what it would be if the purchase would not take effect. We understand further that APAH has no plans or intention to make significant changes in the existing structures which would adversely impact its residents.

It is no secret that RAFOM has long felt strongly about the need to preserve as much of existing affordable housing in its area as possible and the diversity it represents, and APAH's plan for Marbella would be a major step in meeting this RAFOM priority.

We intend to make our positive position known to the Arlington County Board when the matter comes before it for approval.

Sincerely,

Stan

Stanley G. Karson
President
Radnor/Ft. Myer Heights Civic Assn.
(RAFOM)