



## ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item  
Meeting of October 13, 2007**

**DATE:** September 21, 2007

**SUBJECT:** Modification of an Affordable Housing Investment Fund (AHIF) Loan Term to Buckingham M.I. Apartments L.P. (BMILP) for the Buckingham Villages 1 Apartment complex.

**RECOMMENDATION:**

Approve an increase in the subordination of the AHIF loan to BMILP, or its designated County-approved ownership affiliate, during the period of construction of the Buckingham Villages 1 Apartment complex in order to accommodate additional construction loan financing.

**ISSUE:** Should the County allow its AHIF loan to be subordinate to BMILP's total construction financing that is greater than originally approved?

**SUMMARY:** BMILP, Inc is requesting that the County subordinate its AHIF loan to additional financing during the construction phase of the development. BMILP, Inc. is preparing to close on its financing and has been approved for a construction loan of approximately \$35,700,000 by a commercial bank for the entire 234-unit project (the County's AHIF loan is for the affordable 100-unit portion of the 234-unit project). The construction lender, as a requirement for making the loan, is requiring a senior lien position to the partner loans and to the AHIF loan. Consequently, during the construction period, the County's effective subordination level would increase by approximately \$24,000,000 over the amount of \$18,000,000 in permanent loan subordination structure that the County Board had previously approved. Collateralizing the increase in the subordination level would be the balance of the purchase price for the 134 market units that would be secured by a guarantee by a creditworthy entity of Paradigm and UBS.

**BACKGROUND:** On June 9, 2007, the County Board approved an AHIF/HOME loan of up to \$7,000,000 to BMILP for the development of the Buckingham Villages 1 Apartments. The project involves the demolition of existing units and the construction of a 234-unit, mixed income apartment building. The County's \$7 million AHIF loan provides a capital subsidy needed to make 100 of the 234 units affordable to households earning less than 60% of the Area Median Income (AMI), or approximately \$57,000 for a four-person household. Term #3 of the June 9, 2007 Board Report describes the subordination of the County's loan to other financing.

County Manager: \_\_\_\_\_

County Attorney: \_\_\_\_\_

Staff: David Cristeal and Marie Randall, DCPHD  
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**DISCUSSION:** When the Board approved the AHIF loan on June 9, 2007, it was anticipated that the AHIF loan be subordinate to construction, partner loans and any permanent financing not to exceed \$18,000,000. However, this original analysis included only construction financing for the affordable portion of the apartment building, and not the overall 234 market-rate units. Since approval of the County AHIF loan, BMILP's construction lender will provide only a consolidated construction loan for the entire building and is requiring subordination to the entire amount of construction financing (\$35.7 million) effectively increasing the overall senior lien positions to approximately \$42 million, including the \$6 million in partner loans.

Offsetting this increase in the subordination total of \$24 million (\$42mm - \$18mm) is the balance of the purchase price (\$24 million) for the market rate units which is secured by a guarantee by a creditworthy entity with Paradigm and UBS in favor of the construction lender. The County's increased subordination position would only be during the construction period of 24 months. At the end of the construction period, the 134 market rate units will be purchased by an affiliate of Paradigm. The construction loan will then be repaid from the balance of the proceeds from the sale of the market rate units (\$24 million), permanent loan proceeds (\$8.8 million) and the Low Income Housing Tax Credit equity installment (approximately \$3 million). This repayment will effectively return the County's AHIF loan to the originally contemplated subordination level for the permanent financing. The original Loan Term #3 as approved by the County Board on June 9, 2007 and proposed change in terms reflecting the increase in subordination during the construction phase is reflected below.

### **Original Loan Term (#3)**

This financing assistance would be in the form of a subordinated residual receipts loan, secured by a deed of trust, and repayable from the cash flow of the property. This loan will be made at an interest rate of 3.5% compounded, annually, over a term of 30 years and will be subordinate to BMILP's primary financing, construction financing and partnership loans, in aggregate, up to \$18,000,000.

### **Proposed Term (#3)**

This financing assistance would be in the form of a subordinated residual receipts loan, secured by a deed of trust, and repayable from the cash flow of the property. This loan will be made at an interest rate of 3.5% compounded, annually, over a term of 30 years. *During the construction period, the loan shall be subordinate to the construction lenders first trust and a partnership loan, taken together, up to \$42,000,000. Upon completion of construction, the loan will be subordinate to BMILP's first trust permanent primary financing and partnership loan, in aggregate, up to \$18,000,000.*

**FISCAL IMPACT:** None.