



**Date:** November 5, 2019

**To:** Thomas J. Bonfield, City Manager  
**Through:** Keith Chadwell, Deputy City Manager  
**From:** Reginald J. Johnson, Director  
**Subject:** Community Development Department  
Scrap Exchange – Reuse Arts District  
Letter of Intent for an Affordable Housing Development Option Agreement

### **Executive Summary**

The Scrap Exchange (SE) is a nonprofit organization with a mission to promote creativity, environmental awareness, and community through reuse. In 2016, with the help of community investment partners, SE purchased the northern end of the Lakewood Shopping Center and they established RAD Durham Owner I, LLC (RAD) to manage and develop this property. SE has begun a fundraising and planning campaign and seeks to transform this under-utilized shopping center into a national model for creative reuse and an inclusive neighborhood destination for creativity in Durham.

The Community Development Department (CDD) has consulted with SE and/or RAD and their development stakeholders and has identified a need and an opportunity to provide assistance to SE and/or RAD. The Department seeks to enter into an Affordable Housing Development Option Agreement that would help the entities address a \$660,000 financing gap in exchange for a development option and restrictive covenants to develop a minimum of 33 affordable housing units on the RAD property within the next ten years.

### **Recommendation**

It is recommended that City Council authorize the City Manager to execute a Letter of Intent (LOI) to Enter into an Affordable Housing Development Option Agreement in the amount of \$660,000 with RAD Durham Owner I, LLC and/or The Scrap Exchange, Inc., as their names may appear, and authorize the City Manager to negotiate and execute an Affordable Housing Development Option Agreement and Declaration of Covenants, Conditions, and Restrictions.

### **Background**

Twenty years ago, the Lakewood Shopping Center was the place to go and shop. But as recently as 2015, it was described as a forlorn, largely vacant shopping center. Today, the Lakewood neighborhood is making a comeback, and the resulting gentrification pressures threaten to displace long-term low income residents. The Scrap Exchange is seeking to redevelop the Lakewood Shopping Center to serve the families who live in the neighborhood.

As described by SE, this is a multi-year initiative and the first phase requires all commercial spaces be leased and pre-leased. After tenants are secured, SE will begin phase two by launching a fundraising campaign to secure the financial support required to transform this under-utilized shopping center into a national model for creative reuse and an inclusive neighborhood destination for creativity in Durham.

The Reuse Arts District will be a multi-faceted cultural, environmental, historical, recreational, and community-based destination. With The Scrap Exchange at its core, the Reuse Arts District will transform 12.5 acres in Durham's developing Lakewood neighborhood. Reuse arts programs will enliven a space that will offer amenities such as community gardens, a sculpture park, affordable housing, shipping container mall, basketball court, skateboard park, and adventure playground.

CDD has met with representatives of the Scrap Exchange and Self Help, their major funder, to discuss the feasibility of the City providing assistance for the Reuse Arts District project in return for the commitment to develop affordable housing. During this discussion, CDD articulated two guiding principles for any investment on the part of the City: 1) the overall project has to be financially viable to protect the City's investment, and 2) the investment has to make sense in terms of the affordable housing it will support.

SE has provided CDD with financial pro formas and an affordable housing development model. The City agrees that there is a viable financial model for building the proposed affordable housing. Under the terms of the agreement, SE and/or RAD agrees to develop a minimum of 33 units affordable at or below 60% AMI if rental or 80% AMI if for sale, within 10 years of the execution of a development option agreement and restrictive covenants in consideration of the amount of \$660,000. If SE is unable to deliver the affordable units within the prescribed time frame, the organization must repay the full \$660,000 to the City.

SE has indicated that their Reuse Arts District project is on a very tight timeline and they are seeking a commitment of City funds for the Reuse Arts District project by the end of November. This commitment would allow for immediate work on tenant improvements for the remaining space, in order to be able to fully lease up and have the rental stream they need to convert to permanent financing. In order to help meet this timeframe, CDD has prepared an LOI that defines the key terms of the agreement and seeks to authorize the City Manager to execute a contract consistent with these terms.

### **Issues and Analysis**

This agreement represents a non-traditional use of City Dedicated Housing Funds, and reflects an effort by the City and community partners to develop new tools to address the challenges facing neighborhoods like Lakewood where rising property values impact the continued availability of affordable residential options. By providing funding in return for a requirement to develop affordable housing in the future, the City is helping to ensure affordable housing development opportunities in a neighborhood that is experiencing rapid economic growth.

It is important to note that the City's current funding commitment is intended to secure property for future affordable housing development. The actual development of affordable units is expected to require additional subsidy, at least some of which may need to come from the City. The City has been clear in its communication with SE that the current LOI does not represent a commitment of future City funds for the construction of the affordable units. If additional City funding is required in the future, SE would need to apply for funding through CDD's regular application processes.

### **Alternatives**

The Scrap Exchange is trying to create a transformative development with limited financial resources. While there appears to be widespread community support for the Reuse Arts District concept, development resources are limited. There are no other financial alternatives to moving the RAD project forward while still addressing the always present gentrification issues.

**Financial Impact**

Dedicated Housing Funds of \$660,000 have been allocated for this purpose and are available for the project.

**Equal Business Opportunity Summary**

This item relates to an affordable housing grant and development agreement. It was not reviewed for compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting.

**Attachments**

Letter of Intent  
Survey Plan  
SE/RAD Proposal