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CITY OF DURHAM | NORTH CAROLINA

Date: September 27, 2017
To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Proposed Jackson/Pettigrew Street Development Update

Executive Summary

At the June 5, 2017 City Council meeting, City Council approved a predevelopment agreement with Self Help Ventures Fund and DHIC, Inc. in an amount not to exceed $199,500. The agreement would allow the development team to begin the process of developing a project vision, conceptual drawings and preliminary cost estimates associated with the development of the Jackson/Pettigrew Street parcel.

Recommendation

The Department of Community Development and the Office of Economic and Workforce Development recommends that City Council receive the staff presentation and provide comments and direction of the preferred design concept for development of the Jackson/Pettigrew Street site.

Background

The proposed Jackson/Pettigrew Street Development site is located on the east side of Willard Street (400 block) and the north side of Jackson Street (100 and 200 blocks) immediately adjacent to DSTC. The parcel is L-shaped and consists of approximately 1.9 acres with an appraised value of $2,850,000 At the June 5, 2017 City Council meeting, City Council approved that the Manager could execute a predevelopment agreement with the Joint Venture (JV) between Self-Help Ventures Fund (Self-Help) and DHIC, Inc. (DHIC) in the amount not to exceed $199,500. City Council directed staff to work with the JV in the development of two design concepts for the site, one that met the requirements in the Request for Qualifications (RFQ) that was issued in October of 2016 and a second design concept that demonstrated the development's team best professional opinion of developing the site to its full potential, which would include a minimum of 80 affordable housing units targeted to households earning 60% or below the Area Median Income.

Issues/Analysis

Known and unknown site conditions have the potential to impact development of the subject site. While the conditions may not prevent development of the site, such conditions have the potential to add additional cost to the overall development effort. As the predevelopment process moves forward, if conditions are identified that will have a negative financial impact on the development effort, staff will update City Council accordingly.

Alternatives
Financial Impacts reported by staff herein include an estimated financial request of the City to date, which includes sale of the proposed development site for $1.00 which is currently appraised at $2,850,000, an estimated subsidy need for the affordable units ranging from $2,800,000 to $6,400,000 depending upon the concept selected, and potential costs associated with public infrastructure improvements which are yet to be determined. City Council could elect to move forward to the next stage of the development process with the prospective development team, or choose to pursue other development options on the site.

Financial Impact
The following narrative descriptions summarize the sources and uses attributable to four development concepts for the site, and match the accompanying financial summary tables. Each concept assumes the development of 80 affordable units, structured parking, and ground level retail that meets the requirements of the UDO. The North Carolina Housing Finance Agency's (NCHFA) Qualified Allocation Plan (QAP) has scoring criteria that control the number of affordable units that can be competitive for tax credit awards. In the draft 2018 QAP, the maximum number of affordable units that is likely to be competitive is restricted to approximately 80 units. The 2018 QAP has not been finalized, which means some scoring criteria is subject to change but major revisions are not expected. The final QAP will be released prior to any chosen design returning to City Council by year-end 2017. Additional detail for each design concept will be provided at the City Council work session presentation.

Each concept shows the potential impact of including project based vouchers to be provided by the Durham Housing Authority (DHA). Staff has met with DHA representatives to confirm that DHA is interested in providing these vouchers.

Concept A1: 101-Unit Mixed Income Residential + Retail
This table summarizes the development costs associated with a concept plan that most closely mirrors the general direction provided by the 2016 RFQ. It represents a 101-unit mixed income residential building built on top of a single-story parking podium, which would be wrapped with ground level retail. The residential is composed of 80 affordable units (<60% AMI) and 21 market rate units. It is important to note that the market rate units would not have the same finish level or amenities as the luxury apartments that are predominant in downtown Durham and would thus be unable to charge equivalent top of the market rents. The sources include conventional debt and equity from tax credits.

Concept A2: 80-Unit Affordable Only Residential + Retail
This table summarizes the development costs of the 2016 RFQ model (i.e., Concept A1) without the 21 market rate units. The other significant difference between Concept A1 and Concept A2 is that the total retail space and parking costs are reduced due to a slightly smaller parking podium with less available retail space.

Concept B1: 101-Unit Mixed Income Residential + Retail + Office

This table summarizes the development costs if 54,000 square feet of Class A office space and a second level of parking is added to Concept A1. The office/retail portion of this concept results in a surplus of funds that would be available to subsidize the affordable residential portion of the development, reducing local subsidy needs. This is represented as the Office/Retail Contribution on the financial summary table.

Concept B2: 80-Unit Affordable Residential + Retail + Office

This table summarizes the development costs if 62,000 square feet of Class A office space and a second level of parking is added to Concept A2. The same logic regarding retail space and parking costs applies as described in Concept B1, but this model eliminates the market rate units. This reduces the overall financial gap on the residential component and allows for a larger office building, which results in an increase in the Office/Retail Contribution and a reduction in the overall gap.

In both Concepts A1 and B1, the addition of market rate units results in an additional financial gap on the residential component. This is due to the combination of the high construction costs associated with structured parking, and the lower rents anticipated on the market rate units because the finish levels would be below typical luxury apartments in the area. As a result, the market rate units do not generate enough rent to cover their construction costs. Unless a revenue source outside of City funding is identified, these scenarios appear to be financially infeasible.

UBE Summary

N/A