



Date: December 5, 2017

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Option Contract and Commitment of Subordinate Financing for the Jackson /Pettigrew Street Development with Self-Help Ventures Fund and DHIC, Inc.

Executive Summary

In mid-January 2018, Self-Help Ventures Fund and DHIC, Inc. intend to submit a pre-application to the North Carolina Housing Finance Agency (NCHFA) for Low Income Housing Tax Credits (LIHTC) for the Jackson/Pettigrew Street redevelopment effort. A requirement of the pre-application submittal is that the applicant must provide evidence of site control which can be demonstrated through a valid Option Contract.

Additionally, in support of the pre-application, staff is recommending the addition of a resolution from the City committing to subordinate financing in support of the development. Submittal of the resolution and letter showing the City's support of the development will be included as part of the pre-application package to the NCHFA.

Recommendation

It is recommended that City Council:

1. Adopt the Resolution in Support of the Jackson/Pettigrew Street Development and to Exercise Power Granted to Municipal Housing Authorities pursuant to G.S. 160A-456(b);
2. Authorize the City Manager to execute an Option Contract with Self-Help Ventures Fund and DHIC, Inc. for the purchase of approximately 2 acres of land at the Durham Station Transportation Center for the sum of One and No/100 Dollars (\$1.00) subject to conditions in the Option Contract; and
3. Authorize the City Manager to issue to Self-Help Ventures Fund and DHIC, Inc., a letter supporting the Jackson/Pettigrew Street Development through subordinate financing to fill a project financial gap, which gap is currently estimated to be \$3,516,111.

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 Durham Station Transportation Center. The parcel is L-shaped and consists of approximately 2 acres with an appraised value of \$2,850,000.

At the direction of City Council, the Department of Community Development and the Office of Workforce and Economic Development issued a Request for Qualifications (RFQ) on October 9, 2016 with the goal of soliciting a development partner that is a leader in the real estate industry with a proven track record of developing, marketing, and managing mid to high density residential and mixed-use projects, to include affordable and mixed-income housing units.

On February 9, 2017, staff provided an update to Council, outlining the single response received to the RFQ from Self-Help Ventures Fund and DHIC, Inc., as a proposed Joint Venture. Based upon a lower than anticipated number of RFQ responses, staff identified and presented City Council with three alternative courses of action related to the proposed project and the RFQ process.

At the conclusion of the February 9, 2017 work session, City Council directed staff to move forward in the RFQ process with the identified development team, to develop a project vision, conceptual drawings, preliminary cost estimates, and a draft predevelopment agreement for consideration by City Council, to include desired changes to the requirements within the RFQ (if any). The financial impact of the selected alternative was to be determined.

At the June 5, 2017 City Council meeting, City Council approved a predevelopment agreement with the Joint Venture (JV) in the amount of \$199,500, directed staff to work with the JV in the development of two design concepts for the site, one that met the requirements in the RFQ that was issued in October of 2016 and a second design concept that demonstrated the development team’s 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.

City Council, at the October 17, 2017 meeting, approved a design concept that would include 80 affordable rental units serving households at 60% or below Area Median Income along with a commercial office component. Since the October Work Session, the JV has refined the proposed design to include 82 affordable rental units, which will include 1 and 2 bedroom units. The table below outlines the unit mix and the projected rents for the individual residential units. Note that rents are subject to change based on a future market study and final cost estimates.

Unit Mix and Projected Rents

| Unit Type | AMI Target | Square Footage | # of Units | Monthly Rent |
|-----------|------------|----------------|------------|--------------|
| 1BR/1BA | 60% | 675 | 28 | \$675 |
| 1BR/1BA | 30% | 675 | 11 | \$302 |
| | | | | |
| 2BR/1BA | 60% | 950 | 15 | \$775 |
| 2BR/1BA | 30% | 950 | 5 | \$325 |
| | | | | |
| 2BR/2BA | 60% | 950 | 3 | \$825 |
| 2BR/2BA | 30% | 950 | 1 | \$345 |
| | | | | |
| 2BR/2BA | 60% | 983 | 3 | \$825 |
| 2BR/2BA | 30% | 983 | 1 | \$345 |

| | | | | |
|---------|-----|------|----|-------|
| | | | | |
| 2BR/2BA | 60% | 1044 | 12 | \$825 |
| 2BR/2BA | 30% | 1044 | 3 | \$345 |

In addition, the development will include approximately 63,000 square footage of office space and 10,000 square foot of retail space developed and managed by Self-Help. A schematic design is attached for review to include the office and residential concept.

Issues/Analysis

Based on projected development costs, the project cannot support debt service associated with land acquisition. Therefore, the option purchase price associated with the land conveyance is the sum of One and No/100 Dollars (\$1.00). The transfer of the property is contingent on the Joint Venture receiving an allocation of 2018 tax credits from the North Carolina Housing Finance Agency.

As the development will include a commercial office component, to transfer the property for the purpose of affordable housing, the office component will be required to provide a financial subsidy to support the construction of the affordable residential units. The estimated amount of the subsidy from the office component is currently estimated to be \$917,155.

Alternatives

Evidence of site control is a requirement by the North Carolina Housing Finance Agency for the submittal of a tax credit application. If the City chooses not to grant an option to acquire the parcel of land, the Joint Venture will not be eligible to submit an application for Low Income Housing Tax Credits in the 2018 funding round.

Financial Impact

Based on the updated development budget and financial analysis submitted by the Joint Venture and reviewed by City staff, the project currently indicates a required subsidy or construction financing gap of an estimated \$3.6 million.

In October of 2017, the JV presented a financial analysis to City Council that estimated the subsidy gap to be \$2.8 million. As additional time has allowed for more detailed schematic drawings for a pricing exercise, the following has contributed to a cost increase for the development of the residential component. Construction cost increased, which would also increase the cost for the general requirements, overhead and profit, architectural and engineering and financing budgeted line items in the development budget. Additionally, a cost escalation of 7% was added to the overall construction budget for future cost increase as construction would not begin on the project until spring-summer of 2019.

To mitigate the cost increase, the development team has increased projected tax credit equity pricing from \$0.89 to \$0.91 based on a survey of current market conditions and the fact that the recently released Qualified Allocation Plan (QAP) from the North Carolina Housing Finance Agency allows for additional tax credits per unit. In addition, the development team intends to seek an exemption from property taxes under G.S. 105-278.6(a)(8), which allows for real and personal property tax exemption for affordable housing developments owned by non-profits. This exemption, however, would only be applied to the affordable housing portion of the proposed development and would not include any of the real or commercial portions of the development. With the above effort to lessen the cost increase, the current subsidy gap is an estimated \$700,000 higher than was presented to

City Council in October of 2017. The development team will continue to refine cost in an effort to minimize the subsidy request prior to the construction start date.

The Department of Community Development (DCD) proposes to use Dedicated Housing Fund (DHF) dollars to fund the estimated \$3,600,000 in gap financing required. This will include the remaining \$2,632,506 million of DHF fund balance, and \$967,494 of the \$2,500,000 currently programmed for the Durham Housing Authority (DHA), which will not be needed in FY18 because of delays in DHA's construction program.

In FY19, the DCD will need to replace \$967,494 of DHA funds being reprogrammed to Jackson Street in order to support DHA's ongoing development work. This will reduce the overall amount of funding DCD has available in FY19 for other affordable housing efforts, including multifamily preservation, production and preservation of small scale (1-4 unit) rental and homeownership units, and owner-occupied rehab and repair programs.

Staff will return to City Council in April/May of 2018 to present a Developers Agreement along with loan documents which will identify the final financial commitment from the City and detail the financial structure of the development effort. The loan documents will identify the amount of funding from each source to include the Dedicated Housing Fund and Program Income. The Development Agreement will set forth the roles and responsibilities of the City and the Joint Venture for the development of the Jackson/Pettigrew Street site.

UBE Summary

Should the application for LIHTC be successful, applicable UBE participation goals will be set by the Office of Equal Opportunity and Equity Assurance for the construction activities.