



Date: April 16, 2019

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Community Development Department
Subject: Construction/Permanent Financing Loan Documents with Willard Street, LLC for the Construction of the Willard Street Apartments

Executive Summary

On May 7, 2018 City Council voted to authorize the City Manager to issue a commitment letter to the joint venture of Self Help Ventures Fund and DHIC, Inc. (JV) to provide up to \$3,600,000.00 in construction/permanent financing for the construction of the Willard Street Apartments. The commitment letter was included as part of a Low Income Housing Tax Credit (LIHTC) application to the North Carolina Housing Finance Agency for 2018 federal housing tax credits. As a result of the application process, the JV was awarded an allocation of tax credits in August of 2018.

Since the May 7, 2018 City Council approval and the allocation of credits, the Limited Liability Partnership for the development has been established and the ownership entity is now known as Willard Street, LLC. This agenda item seeks approval of the loan documents associated with the earlier commitment of financing approved by City Council.

Recommendation

The Community Development Department recommends that City Council:

1. Authorize the expenditure of up to \$3,600,000.00 in Dedicated Housing Funds (DHF) for vertical construction activities for the Willard Street Apartments,
2. Authorize the City Manager to execute a Construction/Permanent Loan Agreement with the Willard Street, LLC in an amount up to \$3,600,000.00,
3. Authorize the City Manager to execute a deed for the conveyance of Lot 3 to Willard Street LLC,
4. Authorize the City Manager to negotiate and execute all necessary easements and other ancillary property interests required for completion of the affordable housing project; and
5. Authorize the City Manager to modify the loan agreements and to execute such other related legal documents as necessary and as required by other lenders and the investor so long as they do not change the structure of the deal, increase the dollar amount or lessen the obligations of Willard Street, LLC to the City.

Background

On August 9, 2018, the North Carolina Housing Finance Agency announced the allocation of 2018 Low Income Housing Tax Credits which included an award to Willard Street Apartments. The Willard Street development will include 82 units of affordable rental housing for household

earning 60% or below the area median income, ground floor retail and structured parking. Twenty of these units will be targeted to households at or below 30% AMI, with support from project-based vouchers provided by the Durham Housing Authority.

Since the award of the tax credits, the development team has continued to move the project forward. Engagement has continued with the architects, engineers and the general contractor for the project, along with the selection of a construction lender and equity partner for the development effort. A site plan has been submitted and approved along with other required documents to begin construction on the site. A June 2019 closing date is anticipated with site preparation and construction to begin shortly thereafter, in an effort to ensure completion by the required placed in service date of December 31, 2020.

Issues and Analysis

In August 2018, Willard Street, LLC was awarded an allocation of tax credits for the development of the Willard Street Apartments. The award of tax credits establishes a completion or “placed in service” date of December 31, 2020. The 82 units must be issued a certificate of occupancy from the City/County Building Inspections department by this placed in service date. To ensure that the deadline is met and that activities continue, the loan documents require execution between the City and the Willard Street, LLC. This will allow site preparation and construction to begin upon closing on all associated loan documents.

Alternatives

City Council has previously approved the funding amount through an approved commitment letter associated with the submittal of the final tax credit application. This agenda item seeks approval of the loan documents associated with the City’s financial commitment to the development effort, as well as authority for the City Manager to deed the site to the developer and execute associated legal documents.

Financial Impact

The total cost of the 82 unit multi-family development is estimated at \$20,744,098.00. The table below provides a summary of the development sources and uses for the Willard Street Apartments. A brief explanation of each funding source is below the included table.

Willard Street Development Summary – Sources and Uses		
Development Source	Permanent	Per Unit
1st Mortgage: Prudential Real Estate Finance	\$4,190,000.00	\$51,098.00
2nd Mortgage: City of Durham	\$3,600,000.00	\$43,902.00
Tax Credit Equity: RBC Capital Products	\$9,149,085.00	\$111,574.00
Condo Purchase Agreement (Retail Space and P1 Parking)	\$3,651,718.00	\$44,533.00
Deferred Developer Fee	\$153,295.00	\$1,870.00
Total Sources	\$20,744,098.00	\$252,977.00
Development Use		
Construction:	\$16,326,511.00	\$199,104.00
Contingencies: 5% hard construction cost	\$816,326.00	\$9,955.00
Architect and Engineering:	\$798,908.00	\$9,743.00
Financing: Includes loan fees, construction interest, LIHTC fees	\$542,366.00	\$6,614.00
Impact Fees: Includes water/sewer, open space, street, parks and rec	\$156,022.00	\$1,903.00
Other Soft Costs: Includes legal, predevelopment cost, insurance, etc.	\$689,111.00	\$8,404.00
Reserves: Operating and Lease-up reserve	\$348,854.00	\$4,254.00
Developer Fee	\$1,066,000.00	\$13,000.00
Total Development Cost	\$20,744,098.00	\$252,977.00

Prudential Real Estate Finance will provide a first mortgage for the development in the amount of \$4,190,000.00.

In second position, the City will provide a construction/permanent loan to Willard Street, LLC in an amount up to \$3,600,000.00, in addition to providing the land without charge. Funding is available in the City's Dedicated Housing Fund and was approved by City Council at their May 7, 2018 meeting. Repayment of the City loan will be deferred for 30 years with a balloon payment due in year 31.

Based on the allocation of credits to Willard Street, LLC, RBC Capital will provide federal credit pricing in the amount of \$0.915 per credit for an equity yield of \$9,149,085 for the construction of the 82 units.

As previously discussed and approved as part of the Development Agreement with Self Help Ventures Fund and DHIC, Inc., parking will be constructed for the Phase I development effort and a potential Phase II development, along with the required retail space. The identified Condo Purchase Agreement source in an estimated amount of \$3,651,717.00 will include funding from Duke University and the A.J. Fletcher Foundation in the amount of \$2,500,000.00, along with an equity investment from Self Help Venture Fund to purchase from Willard Street, LLC the retail space, as well as the parking associated with the second phase of development.

To close the remaining gap of required funding, the developer will defer \$153,295.00 of their fee which will be repaid from cash flow from the residential units over a 10 year period.

Equal Business Opportunity Summary

This is a loan that was not reviewed for compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting. However, the Department of Equal Opportunity/Equity Assurance staff met with Community Development, Self Help Ventures Fund and DHIC, Inc. Joint Venture and Weaver Cooke, the General Contractor for the project. At the meeting, the City of Durham goals of 11% MUBE and 7% WUBE were adopted for the construction of the Willard Street Apartments. Weaver Cooke has a company MWBE Solicitation Plan with a plan specific to the Willard Street Apartments (attached). They also indicate that they will utilize the services of the Department of Equal Opportunity/Equity Assurance to assist them in achieving/exceeding the UBE participation goals.