



**Date:** December 7, 2021

**To:** Wanda S. Page, City Manager  
**Through:** Keith Chadwell, Deputy City Manager  
**From:** Reginald J. Johnson, Director, Community Development Department  
**Subject:** Option Contract with Southside Revitalization Phase III LP for the Third Phase of Development at the Lofts @ Southside

### **Executive Summary**

In mid-January 2022, Southside Revitalization Phase III LP intends to submit a pre-application to the North Carolina Housing Finance Agency (NCHFA) for 9% Low Income Housing Tax Credits (LIHTC) and other financing to undertake the third and final phase of multifamily rental development on the former Rolling Hills site, now known as the Lofts @ Southside. The vacant parcels to be developed are located at 230 St. Joseph Street and 217 Memphis Street.

One of the pre-application submittal requirements is evidence of site control of the currently City-owned parcels, which can be demonstrated through a valid option contract. The Community Development Department desires to enter into this Option Contract with Southside Revitalization Phase III LP for the development of the subject parcel.

### **Motion**

To authorize the City Manager to execute an Option Contract with Southside Revitalization Phase III LP for the purchase of up to approximately six acres on the former Rolling Hills site for the sum of One and No/100 Dollars (\$1.00) subject to conditions outlined in the Option Contract.

### **Background**

Through a Request for Qualifications process, McCormack Baron Salazar, Inc. (MBS) was selected and approved by City Council as the preferred developer for the redevelopment effort on the former Rolling Hills site, now known as the Lofts @ Southside. The City and MBS entered into a Master Development Agreement, dated June, 20, 2012, which contemplates three phases of development and obligates the City to enter into an option contract for the second and third phases for the purposes of NCHFA applications.

As part of the three phased development effort, in August of 2011, MBS was awarded 9% LIHTC for the construction of 132 multi-family units with 80 of the units being affordable to households earning 60% or below of the Area Median Income (AMI). In August of 2015, MBS was awarded a second round of 9% LIHTC for the construction of 85 mixed income rental units to be constructed on the second phase site, with 53 of the units being affordable to households earning 60% or below of the AMI. Both completed phases currently have a vacancy rate of less than 5%.

As construction neared completion of phase II in December of 2017, discussions were being held with the Durham Housing Authority (DHA) in support of their Rental Assistance Demonstration (RAD) program and applying for 9% LIHTC in support of their redevelopment efforts. Assuming competitive applications, the Durham community can expect to be awarded at most one 9%

LIHTC project in any given year. The decision was made to delay the phase III development effort at the Lofts @ Southside and support DHA and its RAD program.

Earlier this year, DHA informed the City that that its preliminary 2022 LIHTC applications which are due January 21, 2022 will focus on 4% LIHTC versus the 9% LIHTC. To ensure that the Durham community has a competitive 2022 9% LIHTC application, the Community Development Department has requested that the MBS development team begin the preliminary design and application process for the third phase of development for the Lofts @ Southside. As MBS is early in the design process for the phase III site, the current plan will include a minimum of 86 LIHTC units serving households at 60% or below AMI, along with the required amenities as part of the LIHTC preliminary application.

### **Issues and Analysis**

The third phase of multifamily rental development proposed by MBS will contain approximately 86 units, with 64 of the units being affordable to households with incomes at or below 60% of AMI, and the remaining 22 units affordable to households with incomes at or below 30% AMI. Additionally, per NCHFA guidelines, all projects are required to target 10% of the total tax credit units to persons with disabilities or homeless populations.

Based on the projected development costs for the phase III development and previous LIHTC developments supported by the City, 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).

There is no guarantee that the proposed project will receive an allocation of tax credits. If tax credits were not allocated to the development effort, staff would not move forward with execution of the option contract for the remaining parcel at the Lofts @ Southside.

### **Alternatives**

Evidence of site control is a LIHTC submittal requirement. If the City chooses not to grant an option to acquire the remaining parcel of the former Rolling Hills site, Southside Revitalization Phase III LP would be ineligible to submit an application for LIHTC in the 2022 funding round.

### **Financial Impact**

Although granting the option will have no direct financial impact on the general fund, land cost plays a significant factor in the development of affordable housing. Based on preliminary 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 current fair market value of the two parcels is approximately \$1.5 million per the Durham County Tax Assessors office.

The 9% application process has two phases: a pre-application phase in January which results in a site score, and a full application phase in May, with awards announced in August of the application year. Projects must typically receive a perfect site score in the pre-application phase to be competitive in the full application phase. Based on the previous perfect site scores for the phase I and II development, staff would anticipate a perfect site score for the third phase of development.

If the City Council approves the option agreement, staff will return to City Council in April of 2022 with a detailed development plan and budget requesting a commitment of funding for the third

phase of development. MBS is early in the design process. Typically LIHTC projects, even after the award of LIHTCs, require additional subsidy to close the construction financing gap.

**Equal Business Opportunity Summary**

This is an option contract that was not reviewed for compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting. If the application for LIHTC is deemed successful, then participation goals will be assessed by the Department of Equity and Inclusion for the construction activities.

**Contractor Workforce Diversity & Hiring Practices**

Due to the nature of this agenda item, obtaining Contractor Workforce Diversity & Hiring Practices information is not applicable.

**Attachments**

Phase III Site Survey  
Phase I and II Photos