



Date: January 3, 2023

To: Wanda S. Page, City Manager
Through: Bertha T. Johnson, Deputy City Manager
From: Robert D. Morales, Senior Grants Manager
Subject: American Rescue Plan Act (ARPA) Project - Multifamily Acquisition Support & Supply (MASS)

Executive Summary

On November 3, 2021, Durham Community Land Trustees, Inc. submitted proposal “Multifamily Acquisition Support & Supply (MASS)” requesting \$1,000,000 from the American Rescue Plan Act (ARPA) funds to expand the financial capability of non-profit affordable housing providers to acquire multifamily rental properties and preserve them for affordable housing. On May 18, 2022, City Council approved \$700,000 funding for this entity. Staff has reviewed the revised proposal and recommends funding.

Motion

To authorize the City Manager to execute an ARPA subrecipient grant agreement with Durham Community Land Trustees, Inc. in an amount not to exceed \$700,000 to implement the Multifamily Acquisition Support & Supply program.

Background

The original proposal from Durham Community Land Trustees, Inc. requested \$1,000,000 from the ARPA funds, under core category of Negative Economic Impacts. MASS funding is an acquisition grant that will allow non-profit affordable housing providers the opportunity to compete for multifamily properties.

Preservation of naturally occurring affordable housing is crucial in all neighborhoods within Durham, but today’s real estate market makes this task difficult for non-profits and working people. Durham’s real estate market is very competitive and over 75% of apartments are owned by out-of-state entities. Non-profit providers are competing for commercial properties against cash offers, investors, investment trusts, and other groups. The real estate market is moving faster than providers can, leaving acquisition to investors that can close faster and pay market-rate for properties. Investors then maximize rents and push them beyond the range of affordability. The result for residents can be displacement from the unit upon lease renewal or becoming cost-burdened (paying more than 30 percent of income on housing costs) to secure a home.

Although acquisition is one of the quickest ways to increase or preserve affordable rental housing, securing financing is exceedingly difficult. Loans can be 75-90% loan-to-value; having the equity of 10- 25% of the purchase price plus other acquisition costs is a major barrier. MASS would act as a grant program to bridge these gaps and allow affordable housing providers the ability to acquire existing multifamily properties or land for development of multifamily rentals. Prior to acquisition, DCLT will perform due diligence on the property or properties

(environmental assessments, financial proformas (includes risk assessment), property condition/Capital needs assessments, site visits, necessary appraisals, and lender loan review). MASS will act as an additional source of funding in the capital stack for the acquisition. Eligible uses for funds would be acquisition, due diligence costs, legal, and new construction (if purchasing vacant land). No subawards will be given to other nonprofits. DCLT would utilize the total award amount. MASS funding could be used for acquisition costs, equity, due diligence costs (surveys, environmental assessments, consultants), land costs, construction costs, or design fees for multifamily construction. MASS properties would be permanently affordable with no sunset on affordability.

Issues and Analysis

The Triangle metropolitan region is experiencing population and job creation growth. High demand, low inventory of for sale homes, and heavy in-migration from higher cost markets are greatly affecting the rental market in Durham. During the pandemic, rents rose in Durham even as major cities experienced temporary declines. High occupancy levels and year-over-year rent growth is driving the demand for larger multifamily acquisitions. Apartments are viewed as the safest asset class for real estate investment and Durham has become increasingly attractive to investors. Tech companies Google and Apple announced plans to establish major campuses in the area and this news is also fueling investor interest. Since January 2020, 11,000 new jobs have been announced for the metro area which will keep competition for properties high. All these developments are creating a very positive long-term outlook for Durham's multifamily market. According to the City of Durham, 16,000 new units of affordable housing were needed prior to the pandemic. Additionally, 31% of households were cost burdened (paying more than 30% of income on housing). Durham's competitive real estate market escalated since the beginning of COVID. WRAL recently reported on the Zumper National Rent Report finding 1-bedroom rents in Durham jumped 21% between March 2020 and October 2021. Two-bedroom rentals rose 22% during the same time period. The Triangle Multiple Listing Service reports that median home sale prices are up 16.8% from 2020. Median sales price is \$335,000 in Durham County (September 2021 year-to-date). High home prices continue to force more people to remain in the rental market. The acquisition of multifamily properties for affordable housing is necessary to preserve rental housing for low to moderate income households.

The target population served by Durham Community Land Trustees, Inc. are Durham renters with area median incomes of 80% or below. Mixed-income properties with a range of Area Median Income would be permissible. The rental mix for each MASS property would be determined on a case-by-case basis in the property's rental business plan (dependent upon factors such as unit mix, number of units, capital expenditure, financial analysis, etc). The affordability rental mix will be determined via the property that is selected for acquisition. The preferred affordability mix will be governed by the rental business plan, with preference for at least 50% affordable units for each property (could be higher in some instances). DCLT will use the annual HOME rents issued by the US Department of Housing and Urban Development for the Durham Metro Area. Affordable units will be income restricted based on the Area Median Income of HOME Rents and applicable utility allowance deductions. DCLT is a non-profit housing provider that is committed to housing affordability. The deed would contain covenants running with the purchased property/properties to ensure the period of affordability of 25 years (in which the affordable units will be certified annually by the City Durham). The MASS program can give priority to acquisitions within qualified census tracts. However, due to the nature of commercial multifamily disposition cycles and their locations across the city, funding would be open to potential acquisitions city-wide.

Preservation of affordable housing is crucial in all neighborhoods within Durham. The real estate market is moving faster than providers can, leaving acquisition to investors that can close faster and pay market-rate for properties. Investors then maximize rents and push them beyond the range of affordability. The result is that residents can be displacement from the unit upon lease renewal or becoming cost-burdened (paying more than 30 percent of income on housing costs) to secure housing. While financing to cover acquisition can be secured, several issues make it difficult to achieve. Loans can be 75-90% loan-to-value. Having the equity of 10- 25% of the purchase price plus other acquisition costs is a major barrier. Non-profits have difficulty competing for these multi-million-dollar properties.

Durham Community Land Trustees would administer and report on key indicators for the implementation of MASS proposal funds. Durham Communities Land Trustees, Inc. will monitor progress and measure the program's impact via the following metrics:

- The number of additional affordable units preserved via purchase or land purchased for construction.
- Additional affordable units planned (if land is purchased for construction).

Alternatives

The City Council can choose not to accept the staff recommendation.

Financial Impact

\$700,000 is available for this purpose from the funding source of the ARPA federal funds. The City of Durham received \$51,881,733 in two distributions; the first distribution was received on June 1, 2021 in the amount of \$25,940,866.50; the remaining amount was received May 2022. The City will have until December 2024 to obligate the funds. Recipients have until December 2026 to spend the funds.

Equal Business Opportunity Summary

Due to the nature of this agenda item, a review by the Finance Department was not required.

Contractor Workforce Diversity & Hiring Practices

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

Attachments

Durham Community Land Trustees, Inc. Agreement