AGENDA ITEM
BUDGET & ECONOMIC DEVELOPMENT COMMITTEE
MEETING OF MAY 8, 2012

To: J. Russell Allen, City Manager

From: Michele Grant, Community Development Director

Subject: Joint Venture Rental Recommendations

Date: May 1, 2012

What is requested:

A. APPROVAL to fund the following affordable housing proposal that will benefit 20 individuals or families earning less than 30% Area Median Income (AMI)[1], 12 earning less than 50% AMI and 48 earning less than 60% Area Median Income:

1. Brighton Pointe Place — 80 Family Units — $1,360,000

B. APPROVAL to transfer $273,361 from HOME funds previously reserved for MeadowCreek, $206,639 from HOME Match funds previously reserved to MeadowCreek, $800,000 from HOME Rental FY 09/10, $14,639 from HOME Rehab FY 09/10, $65,361 from HOME Rental Match to a separate expenditure account named Brighton Pointe Place.

C. DENY funding for the following affordable housing proposal:

4. Camden Glen — 48 Family Units — $700,000

Background:

Program Description: The Joint Venture Rental Program is one of several City housing programs. The purpose of the program is to provide developers of affordable multi-family housing low interest loans in order to build or purchase and rehabilitate privately owned and managed rental units. City funds are leveraged with federal low-income housing tax credits,

[1]

Family Size	1	2	3	4	5	6
30%	$16,800	$19,200	$21,600	$23,950	$25,900	$27,800
50%	$28,000	$32,000	$36,000	$39,950	$43,150	$46,350
60%	$33,600	$38,400	$43,200	$47,940	$51,780	$55,620

conventional financing and/or other public funding sources. This program has been operating since 1988 and has provided funding for over a thousand affordable units.

Fund Availability: City bond and U.S. Department of Housing and Urban Development HOME and CHDO funds are available to fund these projects. .

Evaluation Process: In response to an RFP the Community Development Department issued in the winter of 2011, two proposals were submitted to the City of Raleigh requesting funds for affordable housing projects. All proposals were scored according to criteria listed in the Request for Proposals.

Evaluation Criteria

1. **Financial Feasibility of Project – 20 points**. Developer should have site control. The project should be economically feasible with reasonable project costs. Developer's fee must meet the North Carolina Housing Finance Agency requirements.
2. **Location – 20 points**. Proposals for projects located in areas where there is a low-concentration of subsidized units will receive a priority (per Scattered Site Policy). Also, sites that have a high noise level or are near nuisances will receive lower priority. Priority will be given to rehab projects in areas where redevelopment by the City is currently taking place.
3. **Special Needs – 10 points**. Units for families or persons with special needs such as with homeless shelters or transitional housing will receive extra points.
4. **Development Quality – 15 points**. Projects will be rated on the quality of the project design, material selections and architectural appeal and site considerations and suitability. The design compatibility with the surrounding environment/neighborhood will also be a consideration.
5. **Development and Management Team – 15 points**. The capacity and experience of the development and management team will be considered. They must demonstrate prior successful experience with comparable size and type projects. The financial capacity of the developer to complete the project will be looked at along with the property management experience of the management team.
6. **Rehabilitation vs New Construction – 10 points**. Projects that are requesting rehabilitation as opposed to new construction will receive 10 points.
7. **Energy Star Standards – 10 points.** Up to ten bonus points will be given to developments that commit to meeting Energy Star standards and above.

DESCRIPTION OF PROJECTS

1. **Brighton Pointe Place**: Carolina Project Equities and NRP Group request $1,360,000 in construction-to-permanent financing from the City of Raleigh to enable them to construct an 80-unit development for low-income families located in the City's Priority Area One. The City would be in a second lien position. The project will provide 56 2BR/2BA units and 24 3BR/2BA units with 20 of the apartments targeting individuals at or below 30% of the AMI, 12 at or below 50% and 48 at or below 60%. The City's funds would be used for construction-to-permanent financing for the project. Carolina Project Equities intends to meet Energy Star 2.0 building standards.

Location: The site is located at 3100 Forestville Road. This is in the City's highest priority for affordable housing. The development is located within walking distance of a shopping center that includes a grocery store, pharmacy and restaurants. The site also scored the maximum number of points through the Housing Finance Agency's site scoring system which will experience a highly competitive round for tax credits this year.

Funding: The permanent funding for the project can be summarized as follows:

Funding	Total	Per Unit	% of Total Costs
Bank of America (7.25%)	$1,765,000	$ 22,062	14.01
City of Raleigh (2%)	$1,360,000	$ 17,000	10.80
NCHFA (2%)	$750,000	$ 9,375	5.96
Tax Credit Equity	$8,642,773	$108,035	68.64
Deferred Dev Fee	$74,018	$ 925	0.59
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TOTAL COST	$12,591,791	$157,397	100.00

Units	Number	Rents	Utilities	Affordability
2 BR	14	$448	$91	30% Area Median Income
3 BR	6	$510	$113	30% Area Median Income
2 BR	8	$575	$91	50% Area Median Income
3 BR	4	$675	$113	50% Area Median Income
2 BR	34	$625	$91	60% Area Median Income
3 BR	14	$725	$113	60% Area Median Income

Underwriting:

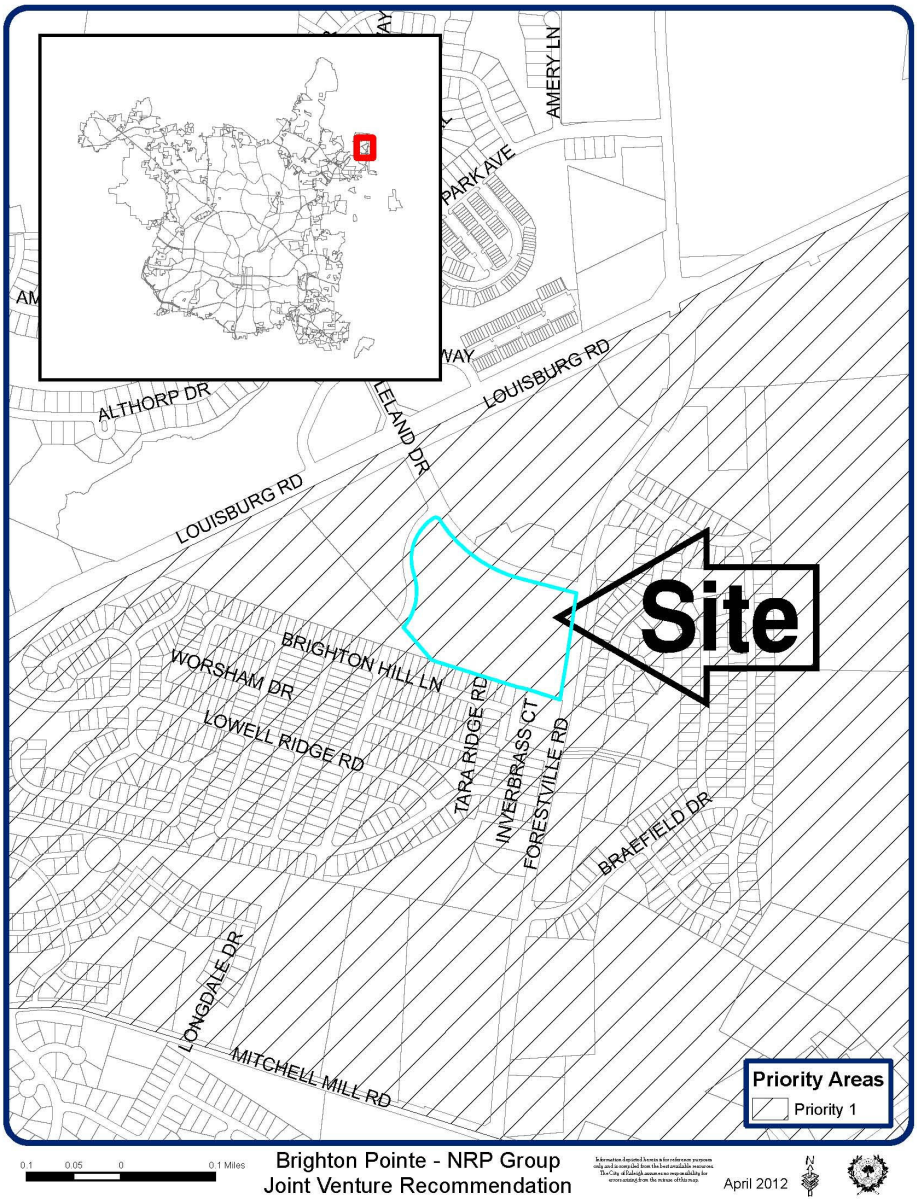
Loan to Value Ratio: Loan commitment will be pending receipt of an adequate appraisal in which the loan to value is at most 95%.

Debt Coverage Ratio: 1.15 (Minimum debt coverage ratio = 1.15)

Developer Experience/Financial Strength: Developer has the experience and financial capacity to manage such a project. NRP has completed one major project with the City (Gateway Park) and multiple projects within the State. The loan is current and property is well-maintained. The City of Raleigh had a positive development experience with NRP.

Loan Terms: Loan for construction-to-permanent financing in the amount of $1,360,000 at 2% interest with annual payments varying based on anticipated project cash flow.

Recommendation: Staff recommends approval of maximum loan amount of $1,360,000 at 2% interest with monthly payments based on the projected annual amounts to include the City's requested funds. Staff recommends construction-to-permanent financing. This project received the maximum points on the Housing Finance Agency's site scoring system, making it more likely to be awarded tax credits than Camden Glen.



2. **Camden Glen**: DHIC requests $700,000 in funds from the City of Raleigh for the construction of a 48 unit development for low-income families located in the City's Priority Area Two. The City would be in a second lien position. The project would provide 12 1BR units, 28 2BR units, and 8 3BR units with 12 apartments targeting individuals at or below 30% AMI, 13 apartments targeting 50% of AMI and 23 targeting 60% AMI.

Location: The site is located at 2904 Tryon Road. Under the Scattered Site Policy, the development receives an acceptable ranking in a Priority Two area. It is close to a bus line and shopping. Unfortunately, this project only scored 42 out of 60 points according to the NC Housing Finance Agency's criteria making it unlikely to be awarded tax credits.

Funding: The funding for the project was proposed as follows:

Funding	Total	Per Unit	% of Total Costs
Bank Loan (7%)	$600,000	$ 12,500	8.94
City of Raleigh (2%)	$700,000	$ 14,583	10.43
RPP Loan (2%)	$625,000	$ 13,021	9.31
Tax Credit Loan (0%)	$633,239	$ 13,192	9.44
Federal Tax Credits	$4,098,422	$ 85,384	61.07
Def Developer Fee	$53,939	$ 1,124	0.81
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TOTAL COST	$6,710,600	$139,804	100.00

Units	Number	Rents	Utilities	Affordability
1 BR	3	$360	$81	30% Area Median Income
1 BR	2	$500	$81	50% Area Median Income
1 BR	7	$570	$81	60% Area Median Income
2 BR	8	$435	$100	30% Area Median Income
2 BR	8	$630	$100	50% Area Median Income
2 BR	12	$670	$100	60% Area Median Income
3 BR	1	$495	$100	30% Area Median Income
3 BR	3	$740	$100	50% Area Median Income
3 BR	4	$770	$100	60% Area Median Income

Underwriting**:**
Loan to Value Ratio: Proposed to be at most 95%.
Debt Coverage Ratio: 1.15 (Minimum debt coverage ratio = 1.15)
Developer Experience/Financial Strength: The City of Raleigh and Wake County both have positive development experience with DHIC. All properties are well-maintained and all loans are current.
Loan Terms: Permanent loan of $700,000 at 2% with a 30 year term, with varying annual payments $20,426 and $9,600 based on estimated available cash flow.
Recommendation: DHIC works well with the City and has consistently provided quality affordable housing. The property is located in our 2nd priority area for affordable housing and received an acceptable ranking on our scattered site policy evaluation.

Unfortunately, given the poor score that Camden Glen received by the NCHFA and the competing projects in the Metro district this year, it looks unlikely that the project will be able to score high enough to obtain tax credits.