



Albemarle County

Legislation Text

File #: 17-514, **Version:** 1

AGENDA DATE: 9/6/2017

TITLE:

Brookdale Affordable Housing Development

SUBJECT/PROPOSAL/REQUEST: Approval of Performance Agreement for the Brookdale Affordable Housing Development

ITEM TYPE: Regular Action Item

STAFF CONTACT(S): Walker, Kamptner, Letteri, White

PRESENTER (S): Ron White

LEGAL REVIEW: Yes

REVIEWED BY: Douglas C. Walker

BACKGROUND: Over the past seventeen years, Albemarle County provided various types of support for a number of multifamily developments. A number of these included support for the owner's application for Low-Income Housing Tax Credits (LIHTC) and mixed-income financing. Several have received financial support from the County including the renovation of the former Whitewood Village Apartments (now Park's Edge Apartments), renovation of The Meadowlands, and the construction of Wood's Edge Senior Apartments and Treesdale Apartments. The County provided financial support to nonprofit partners for each of these developments.

In March 2017, William Park with Pinnacle Construction approached the County to request financial support for the development of a proposed 96-unit multifamily rental property located on Mountainwood Road to be owned by Bluestone Land LLC. The proposed project is called Brookdale. The property is zoned R-15 allowing for the proposed ninety-six units utilizing a density bonus. The Albemarle County Economic Development Authority (EDA) induced the issuance of \$11 million in tax-exempt bonds for the development. Use of tax-exempt bonds also provides for an allocation of LIHTC to provide equity for the project. It should be noted that LIHTC supports about 90% of new affordable housing units across the country. Receiving LIHTC allows the developer to raise private equity to construct and/or renovate multifamily properties requiring that rents be restricted and occupants have incomes that do not exceed allowable income levels. Brookdale must rent to households with incomes at or below sixty percent (60%) of the area median income for a period of thirty (30) years.

STRATEGIC PLAN: Thriving Development Areas: Attract quality employment, commercial, and high density residential uses into development areas by providing services and infrastructure that encourage redevelopment and private investment while protecting the quality of neighborhoods

DISCUSSION: Bluestone Land LLC is requesting that the County provide financial support equal to the annual real estate taxes on the improvements to the property for a period of fifteen (15) years with an additional phase-out period of five (5) years. The estimated annual incentive currently is \$71,000. Assuming

an annual increase in real estate assessments of 2.5%, the total support would be approximately \$1.5 million over the twenty-year period. On a per unit basis this would equate to \$796 per year for each unit over the twenty-year period or \$530 per year over the thirty-year period of occupancy/rent restrictions. The annual financial support will be governed by a Performance Agreement (Attachment A) between the County, the EDA, and the developer/owner. The County would assess taxes, the owner would pay the taxes to the County, and the County would appropriate funds to the EDA in the amount of taxes related to the improvements. The EDA would provide the annual incentive to the owner only after the County/EDA had determined that the property is in compliance with the Performance Agreement's occupancy and rent requirements.

The request for local financial support is being made due to changes in the pricing of tax credits resulting in less private equity available to support the development that has created a financing gap. Late last summer when the EDA was approached to provide tax-exempt bonds the development was financially feasible. Investors were willing to pay a premium for LIHTC of over \$1 per credit. After the November 2016 election, investors reduced their offers by as much as ten percent due to talk of tax reform and the increase in interest rates. This reduction directly impacts the feasibility for developments like the proposed Brookdale.

The market value of LIHTC are but one of a number of factors impacting the feasibility of this project. The cost of debt financing, allowable rental rates by HUD, construction costs, project expenses, to name a few, are all subject to change and affect the feasibility of the project. The proposed extent of local support is based on conditions as they are today, but those conditions could change over time. Staff has consulted with our financial advisors who are presently unaware of any imminent changes in the political or financial markets that could materially change the feasibility of the project or the amount of local support required at this time.

To assess the need for additional affordable rental units, it is important to look at trends and projections of the population and households in the County, as well as the current supply of tax credit-supported properties and other apartment developments in the price range of the proposed Brookdale. The following includes information taken from a market analysis conducted in October 2016 by S. Patz and Associates approved by the Virginia Housing Development Authority. Since the analysis is area-wide, it includes the City of Charlottesville.

- Weldon Cooper Center for Public Service estimated the population for 2016 in Charlottesville at 49,160 and Albemarle at 106,270 for a total of 155,430. An adjustment was made for those in "group quarters", primarily students, resulting in a total estimate of 145,730.
- The Center projects the adjusted population in 2019 to grow to 151,800.
- Renter households are projected to grow from 26,080 (2016) to 27,410 (2019). The percentage of renters is projected to remain stable at 42.6%. The percentage of renters has remained in a range of 42.1% to 42.8% since 2000.
- 14.3 percent of renters (3,730) were within the income category eligible for Brookdale in 2016 growing to a projected 14.5% or 3,910 in 2019. The annual income range used in the analysis was \$40,000 to \$54,500.
- The number of persons per household has remained stable at 2.38 since 2000 and is projected to drop

to 2.37 in 2019.

While projected growth will have a moderate impact on need, the forecast is not as good when it comes to the supply of affordable housing. There are nine (9) tax credit properties in Albemarle County with a total of 914 units. Four of the properties (287 units) are restricted to elderly households leaving 627 income-restricted units in five properties for the general population. Over the next nine years, three of these properties (443 units) will end their compliance period for affordability. There are currently no affordable housing proposals, with the exception of Brookdale, for adding to or replacing existing affordable units. Two developments approved and underway have a twenty percent (20%) requirement for affordable units but that will only replace approximately ten percent (10%) of the affordable units that will no longer need to comply with the affordable guidelines over the next decade.

In addition to the tax credit properties located in the County, an area analysis should also include tax credit-supported apartment communities in the City and non-assisted apartment communities that have competitive market rates with Brookdale. The addition of these properties brings the total number of affordable units to 1,457, still well below the projected number of rental households. **More importantly, in October 2016 there were only 10 vacant units out of the 1,457 identified affordable units.** This is consistent with past market data and well below the five to seven (5% to 7%) vacancy rate used in underwriting. A one to two percent vacancy rate is generally associated with normal turnover and, otherwise, considered fully leased.

The County's Comprehensive Plan adopted on June 10, 2015 identifies affordable housing as a component of the Housing chapter, as well as the Economic Development chapter. Strategy 1d in the Economic Development chapter states:

- "Jobs and housing have a strong relationship in a community".
- "Workers need to be able to find housing at prices, sizes, and locations that enable them to live in the area in which they work".

Strategy 2c in the Economic Development chapter further states that "Workers in support jobs often have greater needs for affordable housing, day, care, and transportation than workers in professional positions. The County's efforts should include helping address barriers to education, housing, day care, and transportation."

The Housing chapter of the Comprehensive Plan, Objective 6 states *"Provide affordable housing options for low-to-moderate income residents of Albemarle County and those persons who work within Albemarle County who wish to reside in Albemarle County"*.

BUDGET IMPACT: Funding for the proposed contributions will come from incremental property tax revenues derived from the increased value of the project's improvements. However, since property tax revenues from the project are committed, staff reasonably expects there will be a negative impact to the budget due to government/school services required to support residents of the project.

RECOMMENDATION:

Staff recommends that the Board adopt the attached Resolution (Attachment B) to approve the Performance Agreement.

ATTACHMENTS:

A - Performance Agreement

B - Resolution