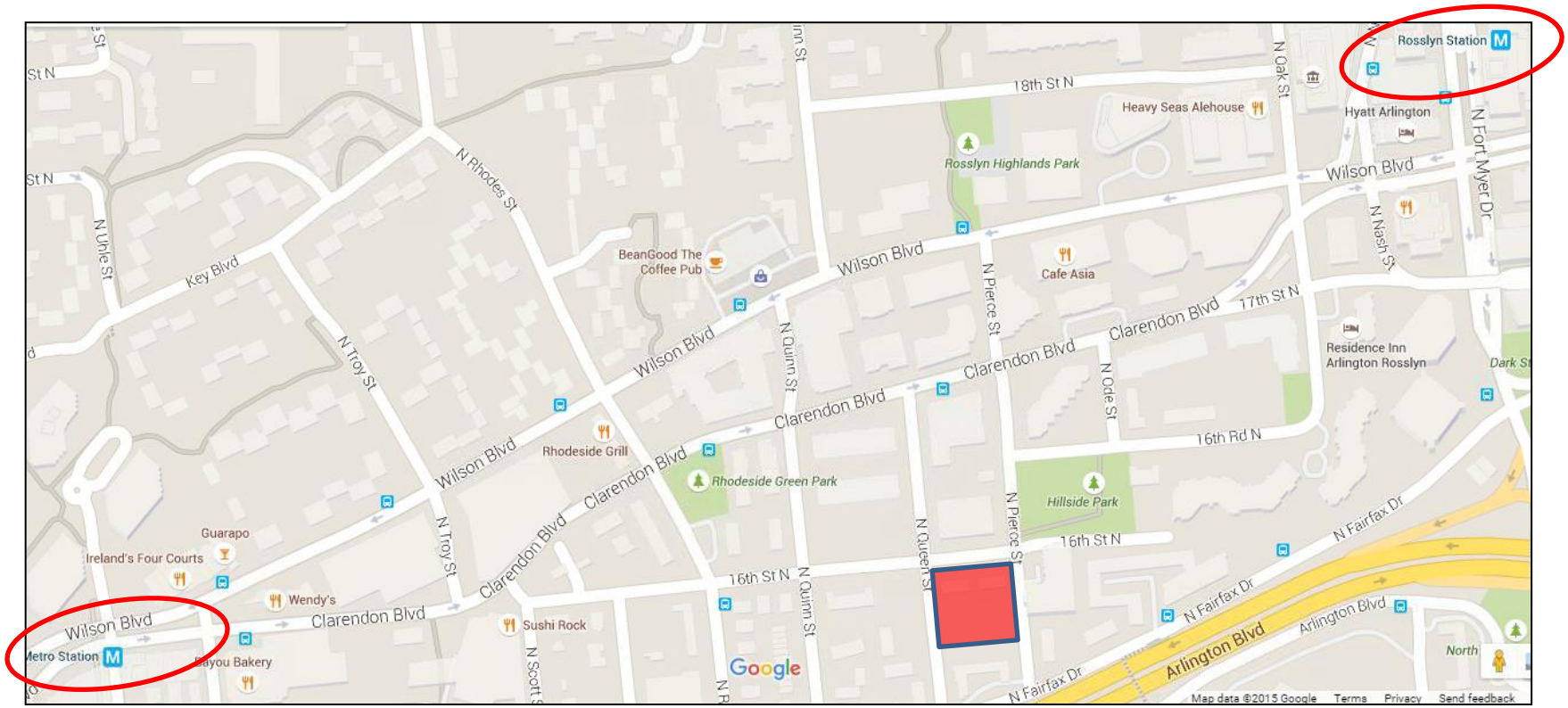
Mixed-Income Housing:  but It's Complicated

A public education event of the Alliance for Housing Solutions
Cosponsored by the Columbia Pike Revitalization Organization (CPRO)

Adapted from presentation by Paul Browne, Wesley Housing Development Corp.
September 16, 2015

- Built in 1942—5 buildings comprising 50 affordable units, mostly 1BR, on 50,000 sf of land
- Purchased by Wesley Housing Development Corp. with County assistance in 1992

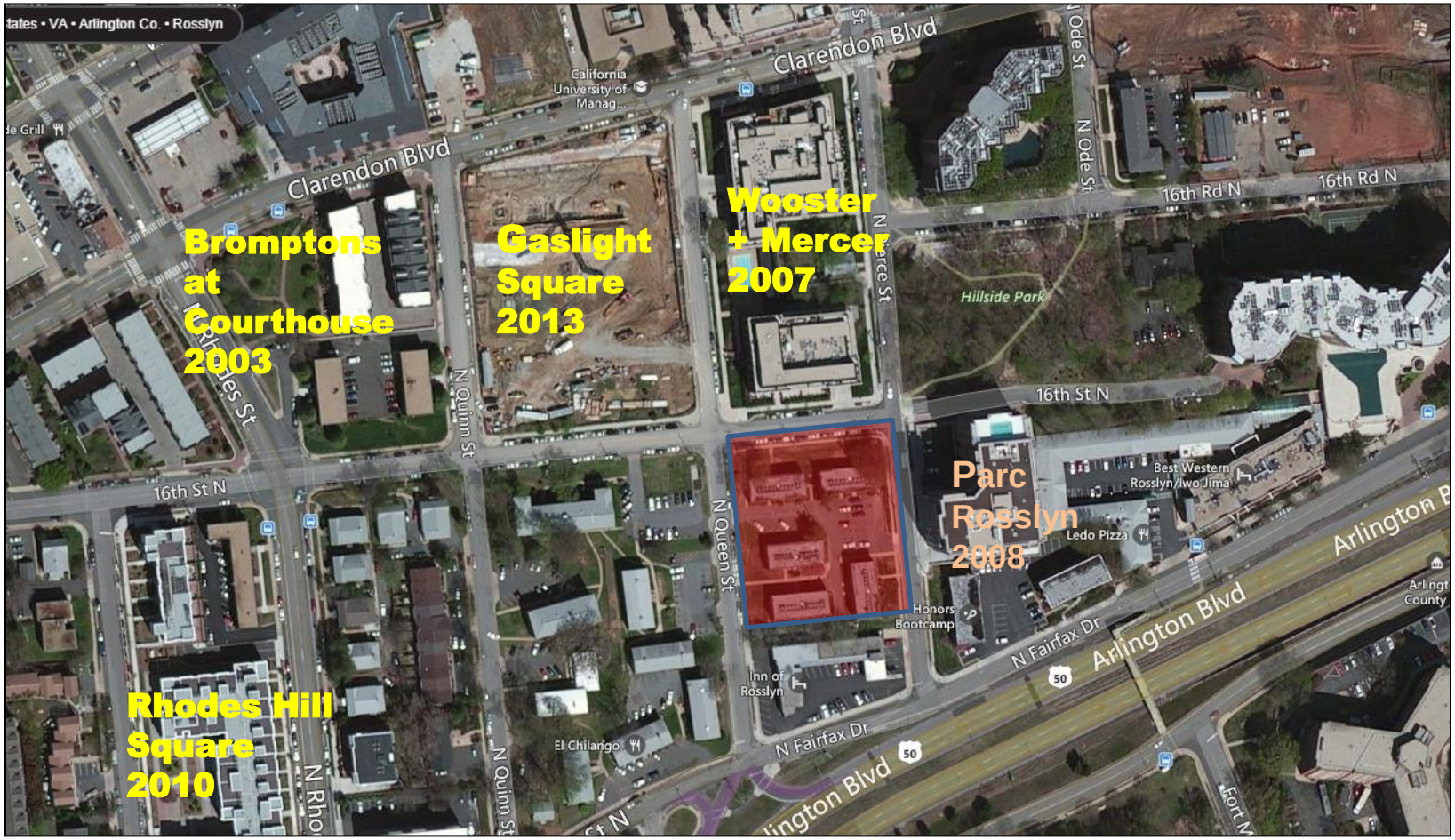
Transit access



Location . . . location . . . Location . . .

Walking distance to two Metro stations, “downhill both ways”

Neighborhood in transition



Pierce Queen site in red. Sites labeled in yellow are loft condos and luxury townhomes. Parc Rosslyn is an existing mixed-income site (low-rise 1940s garden apartments were demolished to make room).

Fit with neighborhood plan

- Pierce Queen part of a revitalization area eligible for redevelopment
- Under Fort Myer Heights North Plan* (2008), some areas preserved for "neighborhood character"
- If 2 of the 5 buildings are preserved, greater density permitted on remainder of site (200,000 sf in this case)

**Arlington encourages strong planning participation by its neighborhoods/ civic associations, which work with the County to develop and periodically revise land use and zoning patterns in a neighborhood plan.*

Opportunity . . .

Neighborhood Plan a mixed blessing—

- Achievable density suggested mixed-income
- Location could command luxury rents
- Preserving two buildings on 16th Street allowed Wesley to build 3BR units in low-rises—creating sense of family community
- . . . but because Wesley could only build on 60% of the site—
  - building would be taller (concrete construction—$$)
  - and garage had to be deeper ($$$)

. . . and challenge

Job 1

Find compatible partner with market-rate experience

The Bozzuto Group*

Job 2

Find financing . . . How could Wesley afford to build it?

Look to precedents→

**Bozzuto has many properties in Arlington (some of which include affordable units) and has a commitment to the community partner…* and *it also knows how to market luxury apartments.*

One precedent

Parc Rosslyn
(fka Rosslyn Ridge II)
approved
2004

238 units,
95 affordable
(40% AMI)

One precedent

How did nonprofit developer APAH do it?

- Government-provided support—tax credits, bonds, and County AHIF loan

APAH's mixed-income site was approved using a noncompetitive ***4% tax credit product.***

There are two types of federal housing tax credits, which require a certain percentage of affordable units and which are issued in Virginia by the Virginia Housing Development Authority, or VHDA.

The highly prized 9% tax credits are awarded annually, on a competitive *basis.*

One precedent

How did nonprofit developer APAH do it?

- Government-provided support—tax credits, bonds, and County AHIF loan

The Affordable Housing Investment Fund (AHIF) is a dedicated source of funding created by Arlington as a ***revolving loan fund*** *to assist in the construction of affordable housing. It is the County's primary tool for helping create affordable housing.*

One precedent

How did nonprofit developer APAH do it?

- Government-provided support— tax credits, bonds, and County AHIF loan
- The building was highly leveraged, and the ability to close the deal depended on:
  - Very low land cost: APAH owned a then-existing building on part of the site
  - APAH agreed to defer nearly 100% of its customary developer fee

What did Wesley learn?

In the right location, market-rate and tax credit-created affordable units can be **synergistic**—

- **Tax credit equity** helps construct the building . . .
- and **market rents** provide cash flow that can be leveraged to a greater extent.

What did Wesley learn? *continued*

Investors are **leery of mixed-income** projects—

- Tax-credit investors will want protection from risks of market rate units (i.e., the lack of a demand for luxury units at the desired rent rate)
- High construction and soft costs may make the yield too low for a market-rate investor.

The developers discussed investor "leerinesss" since the 2008 financial crisis. Market rate investors have a relative cushion that tax credit investors do not.

What did Wesley learn? *continued*

9% competitive tax credits are the driver

- Deal will need to be tailored to successfully compete

If a site is possible to do as an "all affordable" (and if it can get the proper level of tax credits), the deal could take on less subordinate debt. 100% affordable deals are easier to do.

Union on Queen (fka Pierce Queen)

193 units total
12 affordable 3BR units in low-rise
181 in 12-story tower

78 CAFs (40%)*
39 units @ 50% AMI
39 units @ 60% AMI
1:1 parking ratio

**About 40% affordable appeared to be the "sweet spot". The deal, which closed in 2014, preserves affordability for at least 60 years.*

Union on Queen (fka Pierce Queen)

Development budget

$77.2M Total Development Costs
Utility undergrounding/3 sides ($$$)
2.5-level parking garage ($$$)

Financing sources

$22.5M *Tax Credit Equity*
Capital One + Hudson Housing

$39.9M *Freddie Mac Loan*
serviced by Capital One

$5.6M *AHIF* Loan

$3.3M *Seller* Loan

$5.9M *Developer* Contributions

Unit costs were high, about $400,000/unit, but not out of line with areas like Arlington—especially with undergrounding of parking and utilities. It received the largest per-unit tax credit award in VHDA history.

What would it take to do it again?

- Free or cheap land
- Substantial financial support from the County
- High market rents relative to construction cost

What challenges would a deal face?

Risks inherent in new development—

- Entitlement and political risk
- Interest rate and financing risk
- Construction risk
- Market risk—both short- and long-term

Plus . . . tax credit allocation risk—more competition than ever for 9% awards