



**Date:** May 16, 2022

**To:** Wanda S. Page, City Manager  
**Through:** Keith Chadwell, Deputy City Manager  
**From:** Reginald J. Johnson, Director, Community Development Department  
**Subject:** JFK Towers – JFK Towers NC TC, LP Development Loan Commitment

### **Executive Summary**

The City of Durham issued a Request for Proposals in December 2021 to fund affordable housing developments under the Forever Home, Durham program. Forever Home, Durham is a \$160 million program to create an affordable, livable, inclusive community for low-to-moderate income residents.

One of the recommended projects, proposed by the JFK Towers NC TC, LP, is the redevelopment and rehabilitation of 177 units at JFK Towers. JFK Towers is an existing apartment community located at 4900 Old Farm Road (also known as 4900 North Roxboro Street) in Durham, NC. The property contains one 7-story building with three elevators and 177 one-bedroom apartment units on 5.73 acres. The building was originally constructed in 1981. The property has a 100% project-based Section 8 Housing Assistance Payments (HAP) contract awarded that will be renewed beyond its original 20-year period. The project serves extremely low-income elderly and disabled households with incomes at 30% or below Area Median Income (AMI).

Millennia Housing Development, Ltd.'s (MHD), is the managing member of JFK Towers NC TP, LP and the project developer of JFK Towers. They have requested City support in the amount of \$1,500,000 for this development. The proposed terms of the agreement contemplate \$1,500,000 soft loan of non-federal funds, 1% interest rate, amortizing for a 20-year term, annual payments of interest and principal out of 25% of available surplus cash flow, as determined by HUD's annual cash flow certification. The loan will be secured with affordability restrictive covenants that will be for a term of 30 years.

The Community Development Department (CDD) is recommending that the City of Durham make a commitment of \$1,500,000 to the project sponsor, JFK Towers NC TC, LP for the rehabilitation of 177 units at the JFK Towers Apartments in order to pay down debt associated with the acquisition and rehabilitation of the project, thereby reducing debt and interest carry costs and ensuring the long-term preservation and operation of the low-income property.

### **Motion**

To authorize the City Manager to issue to JFK Towers NC TC, LP or its designated affiliate approved by the City, a conditional binding commitment of permanent financing in an amount up to \$1,500,000 in Affordable Housing Bond Funds for the rehabilitation of 177 affordable rental units at 4900 Old Farm Road (AKA also known as 4900 North Roxboro Street) in Durham, NC, known as JFK Towers; and

To authorize the City Manager to execute any and all documents and instruments, necessary, reasonable and appropriate in order to carry out the purpose and intent of this conditional binding commitment of permanent financing; and

To authorize the City Manager to make necessary and sundry changes to the conditional binding commitment of permanent financing and associated documents so long as the changes do not increase the financial obligations of the City, and the changes taken as a whole, are not less favorable to the City.

### **Background**

Forever Home, Durham (FHD) is a \$160 million program to create an affordable, livable, inclusive communities for low-to-moderate income residents. The City of Durham works with the Durham Housing Authority and many other partners to address the urgent need for affordable housing by building new residential units, upgrading rental properties, and providing essential services.

The goals of FHD include activities to:

- Build 1,600 new affordable rental homes
- Preserve 800 affordable rental homes

Forever Home, Durham is expanding affordable housing throughout the City. Public and private funds are being used to build homes, renovate properties, and provide helpful services for renters and homeowners with low-to-moderate incomes. The City's investments in affordable housing are creating jobs and economic benefits for all.

In December 2021, CDD issued a Request for Proposals (RFP) under the FHD program to provide gap financing for affordable housing developments utilizing Low Income Housing Tax Credits (LIHTCs) to further the goals of the FHD program.

A total of nine proposals were received for affordable housing projects with an aggregate amount requested of approximately \$40 million for approximately 1200 units. Of the nine proposals received, the Community Development Department is able to only fund four projects totaling \$16,785,000.

Millennia Housing Development, Ltd.'s (MHD), JFK Towers NC TC, LP (JFK) ranked in the top four (4) proposals according to the RFP criteria and was forwarded to the CDD underwriting team for review. Upon completion of the underwriting process, JFK Towers NC TC, LP is now being recommended for issuance of a commitment in an amount not to exceed \$1,500,000.

### **Issues and Analysis**

JFK submitted an application for 2021 tax exempt bond financing from the NCHFA. Their City request is for a commitment of financing in support of the final tax credit project to North Carolina Housing Finance Agency. This project is utilizing 2021 4% tax credits and Millennia has indicated that NCHFA approved their tax credit application in January 2022. (It should be noted that in July of 2019, the City of Durham supported and approved the release and transfer of the Use Agreement at JFK Towers.)

The total development costs (TDC) is \$35,352,245. JFK is requesting a gap financing subsidy from the City in the amount of \$1,500,000 that will be leveraged with a First Mortgage, Limited Partner Equity, Seller Note, expected Construction period income, General Partner Capital Contribution, and Deferred Developer Fees. Per unit subsidy from the City is \$8,475.

Attached is the estimated development budget, the site plans, and building plans that were submitted as part of the RFP. The table below outlines the sources and uses for the development effort.

**JFK Towers NC TC, LP**  
**JFK Towers**

**Sources of Funds**

<b>Sources of Funds</b>	<b>Amount</b>	<b>Comment</b>
First Mortgage Loan	17,460,000	Berkadia Comm1 Mtg
Amortizing Second Mortgage Loan		
Deferred Developer Fee	1,338,229	48.5% deferred
Developer Cash Investment	425,000	Gen Partner Capital
Tax Credit Equity (proposed amount)	10,141,891	Aegon Capital
Amount of City Funds	1,500,000	
Other Source 1	1,880,458	Construction Prd Income
Other Source 2	2,606,667	SellerNote+capitalize int
<b>Total</b>	<b>35,352,245</b>	

**Uses of Funds (TDC)**

<b>Uses of Funds</b>	<b>Amount</b>	<b>Comment</b>
Acquisition Costs	16,500,000	
Site Work Costs	100,000	
Construction / Rehabilitation Costs	9,827,133	
Architectural / Engineering Costs	427,177	
Other Owner Costs	1,167,713	
Construction Interest	1,164,000	
Other Interim Financing Costs	516,117	constr + bond fin fees
Permanent Financing Costs	138,450	
Developer's Fee	2,700,000	capped per NCHFA
Initial Project Reserves	1,850,434	captize int, tx, ins, op
Project Management Costs	961,221	Legal, title, due dilig
<b>Total</b>	<b>35,352,245</b>	

The property contains one 7-story building with three elevators and 177 one-bedroom apartment units on 5.73 acres. All units are affordable to low income elderly and disabled at 30% or below Area Median Income.

JFK Towers will undergo a substantial rehabilitation, with construction costs estimated at \$9,930,000, approximately \$56,100 per unit. The proposed scope of work will make the necessary exterior and interior improvements, replacing outdated the mechanical systems, upgrading interior rooms and fixtures. Interior upgrades will include replacing all units' kitchens and baths, installing new HVAC units in all apartments and replacing appliances and lighting. New paint and flooring will be provided as well as door replacements with hardware so that there will be uniformity of design on interior finishes.

The proposed terms of the agreement contemplate \$1,500,000 soft loan of non-federal funds, 1% interest rate, amortizing for a 20-year term, annual payments of interest and principal out of 25% of available surplus cash flow, as determined by HUD's annual cash flow certification. The loan will be secured with affordability restrictive covenants that will be for a term of 30 years. The period of affordability shall be for 30 years with 20% of the units affordable to households at or below 30% AMI and the balance of the units affordable to household at or below 60% AMI.

### **Alternatives**

The City Council could elect not to approve the commitment of financing for the development effort, however, without the City's support, and given the large gap inherent in the development of JFK Towers, this affordable multifamily rental redevelopment would be in a risky financial position, and in effect, undo the proposed financing structure and significantly impair Millennia's ability to preserve affordable housing units in the City of Durham.

The objective of affordable housing preservation in this case is to allow the developer to pay down debt associated with the acquisition and rehabilitation of the project, thereby reducing debt and interest carry costs and ensuring the long-term preservation and operation of this important low income property.

### **Financial Impact**

Forever Home, Durham represents a \$160 million investment in affordable housing and services for low income Durham residents. Funding sources include: \$95 million affordable housing bond approved by voters in November 2019 and \$65 million in existing and anticipated revenue from City and federal sources (the latter from the U.S. Department of Housing and Urban Development, or HUD).

The funding commitment will be conditioned on the closing on JFK's low income housing tax credits. The source of funding in an amount up to \$1,500,000 is projected to come from the FY22-23 Affordable Housing Bond.

The funding for this activity is approved and included in the FHD program.

### **Equal Business Opportunity Summary**

This is a Loan Commitment for funding 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**