THE CITY OF ASHEVILLE

Staff Report

Council Meeting Date: April 25, 2023

Subject: FY 2023 Housing Trust Fund (HTF) Applications

Staff Resources: Sasha Vrtunski, Affordable Housing Officer
Kevin Lynn, Affordable Housing Specialist

Action Requested: Review of five (5) HTF applications, $5,255,850 in total requests; and adoption of a resolution to approve four (4) applications for a total HTF loan amount award of $4,387,850 with additional direction for staff to continue negotiations with the developer of Oak Hill Cottages and conduct community engagement for potential development options of the Oak Hill site.

Background:

- The City opened an application process for the HTF in December, 2022 and applications were due on February 10, 2023.
- Six applications were received for this funding round and one application was deemed ineligible.
- Total funding request for the five eligible applications is $5,255,850.
- The Housing and Community Development Committee reviewed them on April 18.
- Staff has provided a brief summary of each project in the staff report for Council review.

Review:

- Three multifamily rental developments (Redwood Commons, Reimagining Deaverview, and Fairhaven Summit) will utilize LIHTC syndication equity.
- All three multifamily rental developments have already received their LIHTC allocations from NCHFA.
- The remaining two HTF applicants include homeownership: Stewart Street Cottages will all be for sale units while Oak Hill Cottages is a combination of rental (26 out of 42) and for-sale (16 out of 42) units
- These HTF applications will potentially leverage $56,000,000 sourced outside of Asheville and assist in developing 281 units of affordable housing

Name	# units	HTF request	TDC*	HTF % of TDC*	Type of Project	Targeted % of Area Median Income (AMI)
(1) Redwood Commons	70	$1,800,000	$18,298,001	9.8%	MF Rental Apts	30%, 50%, 60%, and 80%
(2) Reimagining Deaverview	82	$2,500,000	$21,467,955	11.65%	MF Rental Apts	30%, 50%, 60%, and 80%
(3) Fairhaven Summit	77	$500,000	$22,677,808	2.2%	MF Rental Apts	30%, 50%, 70%, and 80%
(4) Stewart St. Cottages	10	$1,052,850	$2,425,000	57%	Home Ownership	60% and 80%
(5) Oak Hill Cottages	42	$868,000	$9,299,794	9.3%	Rental and Home Ownership	60% and 80%

*__T__otal __D__evelopment __C__osts

(1) REDWOOD COMMONS

21 Governors View Road, East Asheville

Background

- Redwood Commons is a Low Income Housing Tax Credit project that was awarded 9% tax credits in 2022.
- The project will have 70 units of senior housing and serve households at 30%, 50%, and 60% AMI.
- There will be a mix of 1 and 2 bedroom units.
- The developer is applying to the NC Brownfields program, and the project will remediate a small amount of contamination, and fully encapsulate and protect the partially encapsulated stream onsite.
- This project was approved by the City Council as a Conditional Zoning project in May 2022.

Proposal

- Buckeye Community Hope Foundation (BCHF) of Columbus, OH has requested **$1,800,000** in HTF financing for **Redwood Commons**, which will have **70 affordable units**.
- HTF loan terms: loan amount $1,800,000; 20-year maturity; payments deferred, 2% interest compounds annually.
- The City will be in 4th lien position with $2,674,705 due at maturity.
- The project will be affordable for 30 years.

Redwood Commons Financing Sources	70	Units		
HTF Request	$1,800,000			
HTF Request per unit	$25,714			
			of TDC	per unit
Riverhills Bank		1,425,000	7.79%	20,357
NCHFA RPP		800,000	4.37%	11,429
Buncombe County AHSP (loan)		3,304,454	18.07%	47,206
Asheville HTF		1,800,000	9.84%	25,714
Buckeye Community Hope Foundation		520,591	2.85%	7,437
LIHTC Equity: CAHEC		10,438,956	57.08%	149,128
	TDC	$18,289,001	100.00%	
	TDC per Unit	$261,271		

Housing Trust Fund Policy Compliance

- The proposal conforms to the Housing Trust Fund policy; the request is under the 10% cap in the policy and the per unit subsidy is $25,714.
- Balloon payment amount and maturity date will be spelled out in the loan agreement.

Pro(s):

- This funding will support the construction of 70 new affordable apartments for seniors.
- The affordability period will be 30 years.
- The subsidy per unit in this request is $ 25,714 per unit, which is a good value given the incomes served by the development.
- The project is located on a brownfield and will remediate the site, making good use of land close to amenities, services and transit.
- This redevelopment aligns with the City of Asheville's Consolidated Plan goals of prioritizing rental housing affordable to 60% AMI and below.

- The development is located in a corridor with access to transit and will build a new transit shelter.
- The 20-year term will allow for the initial LIHTC compliance period to expire while motivating the developer to apply for new LIHTCs to update the property and refinance the debt.

Con(s):

- The low AMI targeting necessitates having two superordinate lenders with lower development funding amounts than the HTF. It is possible to request that NCHFA move to 4th lien position with Buncombe County AHSP moving to second lien position and Asheville HTF moving to third lien.
- The request to Buncombe County is above the 10% cap of total costs in the County's policy. Pending the outcome of that request, there may still be a gap in the capital stack, but it is not clear at this time.

Staff Recommendation:

- Staff recommends approval of the loan of $1,800,000 with a 20-year maturity; payments deferred, 2% interest compounds annually; the City will be in 4th lien position; $2,674,705 due at maturity.

(2) REIMAGINING DEAVERVIEW

275 Deaverview Road, West Asheville

Background

- The Reimagining Deaverview project will have **82 total units** affordable to families at 30%, 50%, 60%, and 80% of AMI.
- In May, 2022, City Council approved the Conditional Zoning for this project.
- In 2022, City Council also approved a $1,465,000 grant from Bond funds to this project.
- The project is being located on vacant land but on the same property as Deaverview Apartments, which allows residents to move into the new building without being displaced during construction.
- Buncombe County and Dogwood Health Trust are also being asked for grants.
- Buncombe County's policy does not allow for a grant, and County staff has recommended a loan for the $1,564,714 request.
- Dogwood Health Trust's decision will be announced in late June or early July as a part of its funding cycle for Affordable Housing.

Proposal

- The Housing Authority of the City of Asheville (HACA) has applied for **$1,035,000** in the form of a grant with no repayment.
- This would total $2.5 Million in City funds to the project.
- Staff would favor either a soft loan (no annual payments) either a 2% interest rate compounded annually or a 0% interest rate, both with a balloon payment at the end of the term.

Reimagining Deaverview Sources	82	units		
1st HTF Request	$1,465,000			
2nd HTF Request	$1,035,000			
Total HTF Request	$2,500,000			
			of TDC	per unit
Centrant Community Capital		3,600,000	16.77%	43,902
NCHFA RPP		1,450,000	6.75%	17,683
Total Asheville HTF		2,500,000	11.65%	30,488
Buncombe County		2,500,000	11.65%	30,488
Dogwood Health Trust		2,500,000	11.65%	30,488
HACA		2,500,000	11.65%	30,488
LIHTC Equity: CAHEC		5,802,955	27.03%	70,768
Deferred Developer Fee		615,000	2.86%	7,500
		$21,467,955	100.00%	
	TDC per Unit	$261,804		

Housing Trust Fund Policy Compliance

- Overall the project generally complies with the Housing Trust Fund policy with the exception of the terms.
- The total request of $2.5 million equals 11% of the total development cost, slightly higher than the policy cap of 10%.
- The per unit subsidy is reasonable given current construction costs.
- A grant is not allowed under the current Housing Trust Fund policy, although Council has the ability to override this limitation.

Pro(s):

- This funding will support the construction of 82 affordable apartments for families.
- The project will have permanent affordability.
- The subsidy per unit in this request is $30,488 per unit, which is a good value given the population being served by the project.
- The project will allow for the relocation of existing Deaverview residents without displacement during construction.
- This redevelopment aligns with the City of Asheville's Consolidated Plan goals of prioritizing rental housing affordable to 60% AMI and below.
- The development is located in a corridor with access to transit.
- A loan with a 20-year term will allow for the initial LIHTC compliance period to expire while motivating the developer to apply for new LIHTCs to update the property and refinance the debt.

Con(s):

- A grant from the City removes the ability for the City to have recourse if the project fails.
- The total requested, $2.5 M is above the policy limit of 10% of the total development cost.
- A loan will help ensure proactive asset management of the property; encouraging a property rehab in 20 years.

Staff Recommendation:

Several options for the loan terms.

- Option #1: Loan HACA $1,035,000 with terms according to the HTF policy. This would be a 20-year maturity with payments deferred, 2% interest compounding annually. Third lien position; $1,537,955 due at maturity.
- Option #2: Loan HACA $1,035,000 with a 20-year maturity, with 0% interest and no payments until maturity.
- Option #3: Grant the $1,035,000 as requested. (not recommended).

Buncombe County staff is recommending its potential $1,564,714 loan for this project be provided with a 20-year term with a balloon payment at the end of the term, and payments made out of cash flow.

Staff is not recommending a grant of funds. The $1,465,000 already allocated to HACA for this project was granted in May 2022.

(3) FAIRHAVEN SUMMIT

3124 Sweeten Creek Road, South Asheville

Background

- Commonwealth Development Corporation is developing Fairhaven Summit, a Low Income Housing Tax Credit (LIHTC) project that was awarded 9% tax credits in 2022.
- The project will have 77 total units affordable to families at 30%, 50%, 70%, and 80% of AMI.
- The will be a mix of 1, 2 and 3 bedroom units.
- Commonwealth is also pursuing a LUIG for this project which would be an additional $1 million of City of Asheville resources over 21 years towards the project, with a per unit subsidy of $13,222.
- HOME funds in the amount of $400,000 were approved in 2022.
- This project was approved by the City Council as a Conditional Zoning project in June 2022.

Proposal

- Commonwealth Development Corporation (CDC) of Middleton, WI has requested $500,000 in HTF financing for Fairhaven Summit, which will have 77 affordable units.
- HTF loan terms: loan amount $500,000; 20-year maturity; payments deferred, 2% interest compounds annually.
- The City will be in 3rd lien position with $742,973 due at maturity.
- The project will be affordable for 30 years.

Fairhaven Summit Financing Sources	77	units		
HTF Request	$500,000			
HTF Request per unit	$6,494			
			of TDC	per unit
Bank of America		10,100,000	44.22%	131,169
Buncombe County		1,535,000	6.72%	19,935
Asheville HTF		500,000	2.19%	6,494
Asheville HOME		400,000	1.75%	5,195
Refund Rate Lock Deposit		217,150	0.95%	2,820
LIHTC Equity: Richman Group		9,962,594	43.62%	129,384
Deferred Developer Fee		126,521	0.55%	1,643
	TDC	$22,841,265	100.00%	
	TDC per Unit	$296,640		

Note: If a LUIG is approved for this project, the total subsidy per unit would be $19,716. The total subsidy would equal $1,518,132 or 6.6% of the total development cost.

Housing Trust Fund Policy Compliance

- The total request of $500,000 equals 2.19% of the total development cost, which is under the policy cap of 10% of total development costs.
- Both superordinate lenders are providing more funding than HTF.
- Balloon payment amount and maturity date will be spelled out in the loan agreement.

Pro(s):

- This funding will support the construction of 77 affordable apartments for families.
- The affordability period will be 30 years.
- The subsidy per unit in this request is $6,494 per unit, which is quite low. If the LUIG funding is granted, this would have a total subsidy of $19,716 per unit, which is still very reasonable.
- This redevelopment aligns with the City of Asheville's Consolidated Plan goals of prioritizing rental housing affordable to 60% AMI and below.
- The development is located near a corridor with access to transit.
- The 20-year term will allow for the initial LIHTC compliance period to expire while motivating the developer to apply for new LIHTCs to update the property and refinance the debt.

Con(s):

- None noted

Staff Recommendation:

- Staff recommends approval of the loan of $500,000 with a 20-year maturity; payments deferred, 2% interest compounds annually; 4th lien position; $2,674,705 due at maturity.

(4) STEWART STREET COTTAGES

Stewart Street, West Asheville (Addresses to be determined)

Background

- The project will have 10 for-sale homes, affordable to households at or below 100% of AMI: 2 for 60% AMI, 6 for 80% AMI and 2 for 100% AMI.
- Developer has extensive experience building more than 100 homes inside Asheville city limits; a mix of standalone homes, duplexes, homes with ADU's, and detached ADU's mixed home ownership and rental homes.

Proposal

- Reasonable Development, LLC has requested **$1,052,850** in HTF for **Stewart Street Cottages**. Most of the potential homeowners will be participants in HACA's homeownership preparation program.
- Two homes will be set aside for city public safety department employees to purchase (details still need to be worked out for this component).
- After construction of the homes, $500,000 would then be used for down payment assistance.
- Purchasers of homes with Down Payment Assistance will have a 21 year restriction on affordability.
- Housing Trust Fund terms: loan amount $1,052,850; 3-year term, 2% compounding annually, 2nd lien position; a portion of HTF will be repaid from home sale proceeds, another portion of HTF to be used as down payment assistance.
- The project will be affordable for 20 years.

Stewart Street Cottages	10	units	
HTF Request	$1,052,850		
HTF Request per unit	$105,285		
		% of TDC	per Unit
First Citizens	$1,272,150	53%	$127,215
Asheville HTF	$1,052,850	43%	$105,285
Developer equity	$100,000	4%	$10,000
TDC	$2,425,000		
TDC per Unit	$242,500		

Housing Trust Fund Policy Compliance

- The project complies with the Housing Trust Fund policy overall, and utilizes funds for both a construction loan and down payment assistance.
- The 10% limit for projects is a policy that relates more to rental projects. With close to half of the funding going to down payment assistance, and a portion of the loan being paid back for construction, the proposal complies with the intent of the policy.

Pro(s):

- Opportunity to create a Asheville-based model for future affordable homeownership
- $552,000 of the loan would be repaid within three years after homes are sold.
- The Housing Trust Fund is not often used for Down-Payment Assistance, and this could be a replicable model for smaller developers.
- Experienced local developer who has built more than 100 homes in the city limits.

Con(s):

- DPA terms will need to be determined for the project.
- Each individual house will require a separate closing

Staff Recommendation:

- Staff is recommending approval of this project with the requested terms. The down payment assistance component will have to be worked out in the details of the loan agreement.

(5) OAK HILL COTTAGES

29 Oak Hill Drive, West Asheville

Background

- Reasonable Development, LLC has proposed Oak Hill Cottages, which will have **20 units** (of 42 total units) affordable to households at 80% and 60% of AMI. There will be 8 more units at 100% AMI, which is defined as affordable for homeownership under the policy.
- There will be 26 rental and 16 for-sale homes. This project has not submitted for zoning approval at this time (cannot submit without City permission).
- This project is being proposed on City-owned land, and does not follow the process outlined in the City-owned land for Affordable Housing Policy. The developer has not been granted site control by the City of Asheville.

Proposal

- Reasonable Development, LLC has requested **$868,000** in HTF for Oak Hill Cottages,
- HTF terms: loan amount $868,000; 3-year term, 2% compounding annually, 2nd lien position; a portion of HTF to be repaid from home sale proceeds, another portion of HTF to be used as downpayment assistance, a third HTF portion will be paid back from rental unit operations.

- As currently proposed, the developer is asking for the land to be sold for $50,000. The city paid $450,000 for the land in 2018, so the developer would benefit in the amount of $400,000 (shown below) which would equal an additional $14,286 per affordable unit. A new appraisal for the land should be obtained to have a more complete financial model for the project.

Oak Hill Cottages	42	units	
	28	affordable units	
HTF Request	$868,000		
Land Request Subsidy	$400,000	(based on 2017 appraisal)	
Total Request	$1,268,000		
Total Request per affordable unit	$45,286		
		% of TDC	per Unit
First Citizens	$3,478,980	78%	$124,249.29
Asheville HTF	**$868,000**	**20%**	$31,000.00
Developer equity	$100,000	2%	$3,571.43
TDC	$4,446,980		
TDC per Unit	$105,880		

Housing Trust Fund Policy Compliance

- If this project was further along in the planning process, it would likely conform to the Housing Trust Fund policy. The proposed uses for funds generally comply and estimates seem reasonable.
- The current policy does not require that applicants have site control of their proposed sites, which allowed this application to go through the process.

Pro(s):

- Opportunity to create a Asheville-based model for future affordable homeownership.
- Experienced local developer who has built more than 100 homes in the city limits.

Con(s):

- There are questions about whether the current sewer service is adequate, or if there are upgrades needed for this level of development.
- The proposal needs further development and staff review for zoning compliance.
- Proposal is outside of the City's Policy for Affordable Housing on City Owned Land, adopted by City Council in 2019.
- No community input on future development for this site has been gathered.

Staff Recommendation:

- Staff is not recommending this proposal at this time. Because it is so conceptual, and limited planning has been done, the estimates for development may change significantly for this site that has challenges.
- This project also does not follow the Policy for Disposition of City Owned Land for Affordable Housing approved by Council in 2019.
- The community has not been consulted, other ideas for the land have not been studied, and other developers' proposals have not been considered.

If approved, this project will add appreciable work tasks to staff's work plan as selling a piece of land takes significant time.

Several options are available to Council for consideration:

- Option #1: Direct staff to release an RFP for the site this year, including community input processing and exploration of different development scenarios for Council consideration (staff recommendation).
- Option #2: Direct staff to proceed in negotiations with the developer to more fully develop the plans and deal point (land price, DPA terms, etc) and to return to HCD and Council at a later date. The future vote would consider both the land sale and HTF request together (not recommended).
    - If Council approves this option, staff will move forward with an appraisal, additional due diligence and community engagement as well as working with the developer over the next few months to arrive at a package deal for the site.
- Option #3: Approve the current request (not recommended).

Recommendations Summary

Development	No. of units	HTF request	TDC	% of TDC*	Staff Recommended Terms	HCD Recommendation
(1) Redwood Commons*	70	$1,800,000	$18,298,001	9.8%	20-year maturity; payments deferred, 2% interest compounds annually	Staff Recommendation 3-0
(2) Reimagining Deaverview*	82	$1,035,000	$22,502,955	4.6%	20-year maturity; payments deferred, 2% interest compounds annually	Recommended a Grant for project 2-1
(3) Fairhaven Summit*	77	$500,000	$22,677,808	2.2%	20-year maturity; payments deferred, 2% interest compounds annually	Staff Recommendation 3-0
(4) Stewart Street Cottages	10	$1,052,850	$2,425,000	57%	3-year term for portion of loan, remaining is used for DPA, 20 Year Affordability Period.	Staff Recommendation 3-0
(5) Oak Hill Cottages	42	$868,000	$9,299,794		Staff did not recommend approval Terms would be: 3-year term for portion of loan, remaining is used for DPA, 20 Year Affordability Period	Recommend Council to direct further with developer and community engagement and come back to HCD and City Council for approval.
Total of recommended projects	**239**	**$4,387,850**	**$65,903,764**	**6.6%**	*Note: Overall subsidy is $18,359 per aff. unit*	
Total of all 5 projects	**281**	**$5,255,850**	**$74,335,558**	**7%**		

Council Goal(s):

- Quality Affordable Housing
- An Equitable and Diverse Community

Committees:

- The Housing and Community Development Committee reviewed this item on April 18, 2023 (1) Redwood Commons, Fairhaven Summit and Stewart Street Cottages unanimously approved (3-0) to move to City Council; (2) Reimagining Deaverview was approved 2-1 to move to City Council as a grant; and (2) Staff to continue negotiations with Oak Hill Cottages and conduct community engagement on potential development options prior to coming back to HCD at a later date.

Fiscal Impact

- Staff estimates that the current available balance in the Housing Trust Fund is approximately $7.65 million. If the City Council approves this $4,387,859 allocation there will be an estimated available balance of approximately $3,262,141.

Suggested Motion:

- Motion to approve the recommended Housing Trust Fund allocations in the amount of $4,387,850 for four development projects which will produce 239 units in affordable housing and direct the City Manager to continue negotiations with Oak Hill Cottages and conduct community engagement on potential development options for the Oak Hill site.

Attachments:

- Application Materials
- Resolution

RESOLUTION NO. 23-_____

RESOLUTION APPROVING THE HOUSING TRUST FUND LOAN AWARDS FOR THE RECOMMENDED PROJECTS FOR THE FISCAL YEAR 2023 FUNDING CYCLE

WHEREAS, pursuant to N.C.G.S. 160D-1316, the City is authorized to appropriate and expend funds for residential housing construction, for sale or rental, to persons and families of low and moderate income; and

WHEREAS, on September 2, 2000, the City Council of the City of Asheville first appropriated funds and adopted policies and detailed program guidelines for administering a Housing Trust Fund to assist in the development and preservation of affordable housing in the City; and

WHEREAS, on December 13, 2022, Asheville City Council allocated $6 million from the affordable housing bond fund to the Housing Trust Fund for the development of affordable housing projects; and

WHEREAS, the City opened the process for applications to the Housing Trust Fund cycle for 2023-2024 in December 2022, with a total of approximately $7.65 million in available funds; and and for the first time, with a set application period (December 2022 to February 10, 2023) designed to coordinate with Buncombe County's affordable housing application process; and

WHEREAS, the Affordable Housing Staff has determined that the recommended affordable housing development projects qualify for a Housing Trust Fund Loan under the current policy; and

WHEREAS, all the projects will be secured with a Deed of Trust and possibly additional enforcement mechanisms (i.e. affordable housing deed restriction); and

WHEREAS, each project will be subject to the Housing Trust Fund policies for underwriting and repayment; and

WHEREAS, the City Council's Housing and Community Development Committee reviewed the requests for Housing Trust Fund loans at its April 18, 2023 meeting, and recommended that City Council approve the loan requests as outlined herein:

Development	**No. of units**	**HTF request**	**Incomes served**	**Affordability Term**	**Funding Terms**
(1) Buckeye Community Hope Foundation - Redwood Commons	70	$1,800,000	30%,50%, 60% and 80% AMI	30 years	20-year maturity; payments deferred, 2% interest compounds annually.
(2) Housing Authority of the City of Asheville - Reimagining Deaverview	82	$1,035,000	30%,50%, 60% and 80% AMI	In perpetuity	20-year maturity, with 0% interest and no payments until maturity.

(3) Commonwealth Development Corp. - Fairhaven Summit	77	$500,000	30%, 50%, 70%, and 80% AMI	30 years	20-year maturity; payments deferred, 2% interest compounds annually.
(4) Reasonable Development LLC - Stewart St. Cottages	10	$1,052,850	60%, 80% and 100%	20 years	3-year term for portion of loan, remaining is used for DPA. 20 Year affordability period.
Total of recommended projects	**239**	**$4,387,850**			

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF ASHEVILLE THAT:

Housing Trust Fund loans in the amount of $4,387,850 in accordance with the above table be made with their respective loan terms; and the City Manager is hereby authorized to negotiate and execute any and all documents necessary to give effect to this approval.

Read, approved and adopted this 25th day of April, 2023.

_____ _____

City Clerk Mayor

Approved as to form:

_____

City Attorney