



Development and Finance Committee

September 1, 2023

10:00 a.m.

Livestream: <https://youtube.com/live/F4BHpnAvY?feature=share>

HOC's offices are now open to the public. The public is invited to attend HOC's September 1, 2023 Development and Finance Committee meeting in-person. HOC's Board of Commissioners and staff will continue to participate through a hybrid model (a combination of in-person online participation).

Approval of Minutes:

| Title | Page # |
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| 1. Minutes: Approval of Development and Finance Committee Minutes May 26, 2023 | 3 |

Discussion/Action Items:

| Title | Page # |
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| 1. 8800 Brookville: Approval to Execute a Letter of Intent ("LOI"), Negotiate and Execute a Purchase and Sale Agreement with the Donohoe Companies, Inc. for the Sale of 8800 Brookville Road | 6 |
| 2. Hillendale Gateway: Approval of the Final Development Plan, including Approval to Negotiate and Execute a Guaranteed Maximum Price Amendment with CBG Building Company; Approval of the Transaction Structure, including Authorization to Create a Condominium Regime; Approval to Create New Tax Credit Entities; Approval to Negotiate and Execute Letters of Intent and Operating Agreements with Wells Fargo as the Tax Credit Investor in the Tax Credit Entities; and Approval to Accept Construction Financing Sources | 13 |
| 3. Leggett: Approval to Draw on the PNC Bank, N.A. Line of Credit to Replenish the Contingency for the South County Regional Recreation and Aquatic Center and to Draw on the PNC Bank, N.A. Real Estate Line of Credit to Replenish the Contingency for the Leggett | 28 |

Minutes

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY

10400 Detrick Avenue
Kensington, Maryland 20895
(240) 627-9425

Development and Finance Committee Minutes

May 26, 2023

For the official record of the Housing Opportunities Commission of Montgomery County, an open meeting of the Development and Finance Committee was conducted via a hybrid model on May 26, 2023, with some participating by online platform/teleconference, and others participating in-person at 10400 Detrick Avenue, Kensington, Maryland beginning at 10:03 a.m., available for viewing [here](#). Those in attendance were:

Present

Jackie Simon, Chair – Development and Finance Committee
Jeffrey Merkowitz – Commissioner
Richard Y. Nelson, Jr. – Commissioner

Also Attending

Chelsea Andrews, Executive Director
Aisha Memon, General Counsel
Zachary Marks
Ellen Goff
Richard Congo
Jeremiah Battle
Daejuana Donahue

Jay Shepherd
Marcus Ervin
Paige Gentry
John Wilhoit
Monte Stanford
Jay Shepherd

Attending via Zoom

Niketa Patel
Ellen Goff
Paulette Dudley
Fred Swan

Sewavi Agbodjan
Timothy Goetzinger
Eugenia Pascal

IT Support

Irma Rodriguez
Aries Cruz
Genio Etienne

Commission Support

Jocelyn Koon, Senior Executive Assistant

Commissioner Simon opened the meeting with a welcome and introduction of the Commissioners participating on the Committee.

APPROVAL OF MINUTES

The minutes of the April 21, 2023 Development and Finance Committee meeting was approved upon a motion by Commissioner Nelson and seconded by Commissioner Merkowitz. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

DISCUSSION ITEMS

- 1. Scattered Site: Approval of a Refinancing Plan, Selection of Jeffries as Underwriter, Cost of Issuance Budget and Funding, and Adoption of a Bond Authorizing Resolution for the Issuance of Taxable and Tax-exempt Bonds to Refund Existing PNC Bank Mortgage Loans for Select Scattered Site Properties**

Chelsea Andrews, Executive Director, provided an overview of presentation and introduced Monte Stanford, Director of Mortgage Finance and Jeremiah Battle, Senior Multifamily Underwriter, who provided the presentation. Staff answered questions of the Committee.

A motion was made by Commissioner Merkowitz, and seconded by Commissioner Nelson, to recommend to the full Commission for approval. Affirmative votes were cast by Commissioners Simon, Nelson and Merkowitz.

Based upon this report and there being no further business to come before this session of the Development and Finance Committee, the Committee adjourned the meeting at 10:56 a.m.

Respectfully submitted,

Chelsea Andrews
Secretary-Treasurer

/pmb

Discussion Items

8800 BROOKVILLE ROAD: APPROVAL TO EXECUTE A LETTER OF INTENT (“LOI”), NEGOTIATE AND EXECUTE A PURCHASE AND SALE AGREEMENT WITH THE DONOHOE COMPANIES, INC. FOR THE SALE OF 8800 BROOKVILLE ROAD

DISPOSITION OF AN HOC ASSET



CHELSEA J. ANDREWS, EXECUTIVE DIRECTOR

**Zachary Marks, Chief Real Estate Officer
Marcus Ervin, Director of Development
Gio Kaviladze, Senior Financial Analyst**

September 1, 2023

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Executive Summary

DETAILS OF THE POTENTIAL TRANSACTION

This potential transaction involves the acquisition by The Donohoe Companies, of fee simple interest in the approximately 10-acre industrial parcel that is owned by the Housing Opportunities Commission of Montgomery County (“HOC”), known as 8744-8800 Brookville Road (“8800 Brookville”), and situated Silver Spring, MD. This property is also identified by tax accounts 00952366 and 03858123. **The property's proposed purchase price, including all improvements on-site and associated density rights, is \$14.5 million.**

UNSOLICITED LETTER OF INTENT FROM THE DONOHOE COMPANIES

HOC has received an unsolicited Letter of Intent from a reputable Montgomery County-based developer and contractor, The Donohoe Companies (“Donohoe”), expressing its interest in purchasing 8800 Brookville.

EXPERTISE OF THE DONOHOE COMPANIES

As the oldest full-service real estate company in the Washington area, Donohoe, headquartered in Montgomery County, specializes in various aspects of real estate, including the development, construction, leasing, management, and maintenance of properties across different sectors such as multifamily, retail, hotel, office, and industrial properties. **Their extensive experience also encompasses projects like the WWDC Industrial Park – 8810 Brookville Rd, which abuts the subject property on three (3) sides.**

COMPREHENSIVE OFFER BASED ON SITE UNDERSTANDING

The letter of intent presents an offer backed by a comprehensive understanding of the site and is a premium price over its original offer. Donohoe has diligently reviewed the due diligence materials provided by HOC, including those on broadcast tower easements, other easements, environmental considerations, geotechnical assessments, title issues, existing tenancies, and zoning concerns. Following this thorough evaluation, it has established its confidence in the property's viability as an investment for its portfolio with a contract-to-close period of nine (9) months

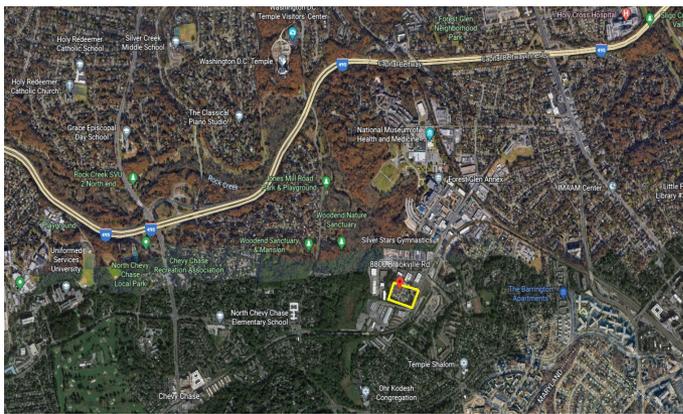
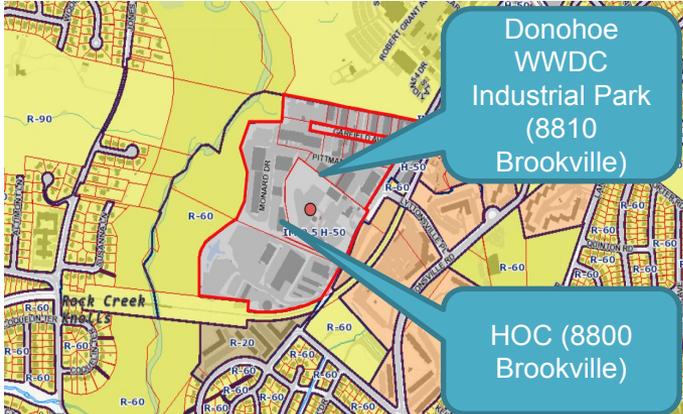
REDEVELOPMENT PROPOSAL BY DONOHOE

In the event of a successful transaction, Donohoe proposes to redevelop 8800 Brookville to incorporate additional industrial uses similar to its adjacent holdings, which align with the industrial-zoned properties existing within Lyttonsville. With an established track record of successful development projects within Montgomery County, Donohoe has previously achieved preliminary and site plans, contributing to its standing as a reliable and capable developer.

RECOMMENDATION

Staff recommends authorization for the Executive Director to execute a Letter of Intent with the Donohoe Companies, Inc. and proceed with negotiating and executing a Purchase and Sale Agreement.

September 1, 2023



Executive Summary

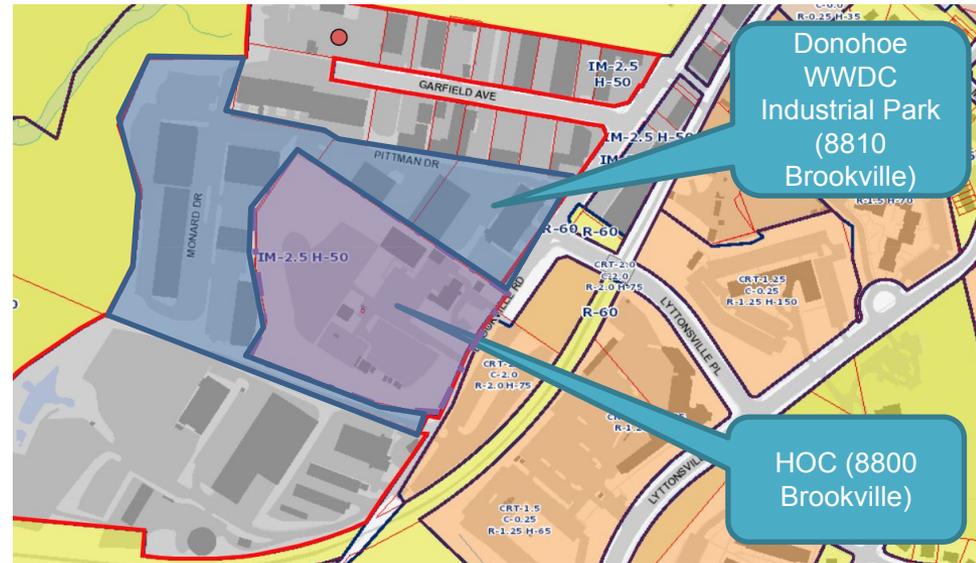
Property Considerations and Financial Analysis

1) Site's History

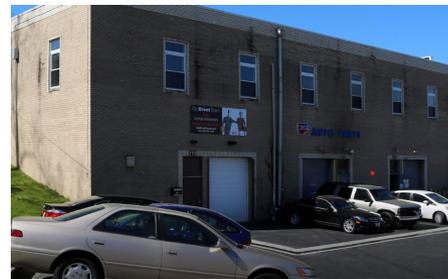
- **Acquisition and Intent:** The parcel was initially acquired in December 2018 for \$10MM with future redevelopment in mind to align with the Lyttonsville Sector Plan objectives.
- **Exploration of Land Swap:** In 2021, staff explored a land swap with WSSC for the larger redevelopment project, but plans did not materialize.
- **Disposition Consideration:** Given the unique by-right industrial use and zoning, Donohoe's adjacent holdings, rising interest rates, reduced sales activity, and current property values, an opportunity exists to capitalize by selling the parcel to an experienced owner/developer.

2) Financial | Operating Deficit | Advantages of Selling Now

- **Current Status:** The PNC Bank N.A. Line of Credit (\$60M) now generates a \$400K annual deficit (interest cost > tenant lease revenue, a result of recent rate hikes by the U.S. Treasury).
- **Cash Balance:** Current \$800K cash balance from higher lease revenues and low interest cost in the early years can cover two years of interest cost deficits.
- **Value of Selling Quickly:** An early sale preserves \$800K cash for other uses, avoids future interest expense drain, negates broker commission costs of nearly 4% or ~\$600k, and provides estimated net proceeds of ~\$3.8M that can be set aside for future HOC uses and programs.
- **Unsolicited Offer:** Donohoe's interest in purchasing for \$14.5M is a competitive offer with a 9-month contract to close duration.
- **Market Activity:** Rising interest rates and reduced sales activities further support the disposition price, the median value among the last two appraisals.
- **Advantageous Terms:** Donohoe offers a \$14.5M premium with no commissions reducing the marketing timeframe, mitigates price variance, and realizes the property's value in a shorter duration.
- **Timelines & Opportunity Cost:** Donohoe proposes a 90-day LOI to the Purchase and Sale Agreement, and closing in nine (9) months. The brokerage process could take longer, missing out on Donohoe's proposed terms. As discussed, Donohoe plans to develop the site into future industrial uses with its adjacent holdings.



Aerial Map – HOC's site adjacent to Donohoe's WWDC Industrial Park



Donohoe's WWDC Industrial Park

Letter of Intent (“LOI”) Summary

| Terms | Description |
|--|---|
| Price | \$14,500,000 |
| Deposit | \$100,000; Returned before 120 days if contract is terminated. Forfeited after 120 if contract is terminated. |
| Closing | A mutually agreeable date within 9-months of execution of the Purchase and Sale Agreement (“PSA”). Purchaser may opt to close earlier in its sole discretion. (Approximately June-2024) |
| Due Diligence Period | During the 30-day Due Diligence period, triggered by the mutual execution of the LOI, the Purchaser has the exclusive right to conduct feasibility studies at its expense. This involves on-site assessments subject to access agreements and collaboration with planning staff to refine redevelopment plans. The Seller commits to providing acceptable tenant estoppels and affirming pre-existing approvals for disposition. The Purchaser can withdraw based on their due diligence findings within this period. |
| Negotiation of PSA | 90 days from LOI execution to negotiate mutually acceptable Purchase and Sale Agreement. |
| Seller Cooperation | Seller cooperates in approvals and assignments; no new leases or modifications without Purchaser concurrence. |
| Brokerage Commission | No involvement of brokers in the transaction. |
| Exclusivity During Negotiation period | Parties agree to negotiate in good faith for 90 days, am mutually acceptable PSA, after the execution of the LOI, during which time the seller will not solicit or negotiate proposals or enter into any other agreements for sale |
| Confidentiality | Confidential and shall not be disclosed other than 1) as to Seller, HOC Commissioners, staff and consultants, 2) as to Purchaser employees, consultants and others assisting with the due diligence review or equity investment. |
| Non-binding | Except with respect to exclusivity and confidentiality |

Prior Commission Actions

8800 Brookville Road (Formerly known as the Vertical Bridge Site):

RESOLUTION No. 18-94AS¹– On November 7, 2018, the Commission approved to Accept Assignment of Purchase Contract for the Acquisition of the Vertical Bridge Site; Approval to Acquire the Vertical Bridge Site by Drawing up to \$10.2 million on the PNC Bank, N.A. Line of Credit (“\$60 million LOC”); and Approval of a Predevelopment Loan from the Opportunity Housing Reserve Fund.

RESOLUTION No. 18-94AS²– On November 7, 2018, the Commission authorized to Draw up to \$10.85MM from \$60MM PNC Bank, N.A. Line of Credit to Complete the Acquisition of Vertical Bridge Site.

Summary and Recommendations

ISSUES FOR CONSIDERATION

Does the Development & Finance Committee wish to join staff's recommendation that the Commission authorize the Executive Director to execute a Letter of Intent with the Donohoe Companies, Inc. and proceed with negotiating and executing a Purchase and Sale Agreement on materially the same terms of the LOI for the sale of the 8800 Brookville Road site?

BUDGET FISCAL/IMPACT

Selling the Property frees up \$10M in General Obligation capacity for HOC. The FY24 Commission budget is unaffected as it already accounted for the Property and debt coverage until June 2024.

TIME FRAME

For deliberation at the September 1, 2023 meeting of the Development and Finance Committee, and formal action of the Commission at its monthly meeting on September 13, 2023.

STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

Staff recommends that the Development & Finance Committee join staff's recommendation to the Commission to authorize the Executive Director to execute a Letter of Intent with the Donohoe Companies, Inc. and proceed with negotiating and executing a Purchase and Sale Agreement on materially the same terms of the LOI for the sale of the 8800 Brookville Road site.

HILLANDALE GATEWAY: APPROVAL OF THE FINAL DEVELOPMENT PLAN, INCLUDING APPROVAL TO NEGOTIATE AND EXECUTE A GUARANTEED MAXIMUM PRICE AMENDMENT WITH CBG BUILDING COMPANY, AND APPROVAL OF AN INTERIOR DESIGNER AND FF&E BUDGET; AND APPROVAL OF THE TRANSACTION STRUCTURE, INCLUDING AUTHORIZATION TO CREATE A CONDOMINIUM REGIME, APPROVAL TO CREATE NEW TAX CREDIT ENTITIES, APPROVAL TO NEGOTIATE AND EXECUTE LETTERS OF INTENT AND OPERATING AGREEMENTS WITH WELLS FARGO AS THE TAX CREDIT INVESTOR IN THE TAX CREDIT ENTITIES, AND APPROVAL TO ACCEPT CONSTRUCTION FINANCING SOURCES.

SILVER SPRING, MD



CHELSEA J. ANDREWS, EXECUTIVE DIRECTOR

**Zachary Marks, Chief Real Estate Officer
Marcus Ervin, Director of Real Estate
Kathryn Hollister, Housing Acquisition Manager**

September 1, 2023

September 1, 2023

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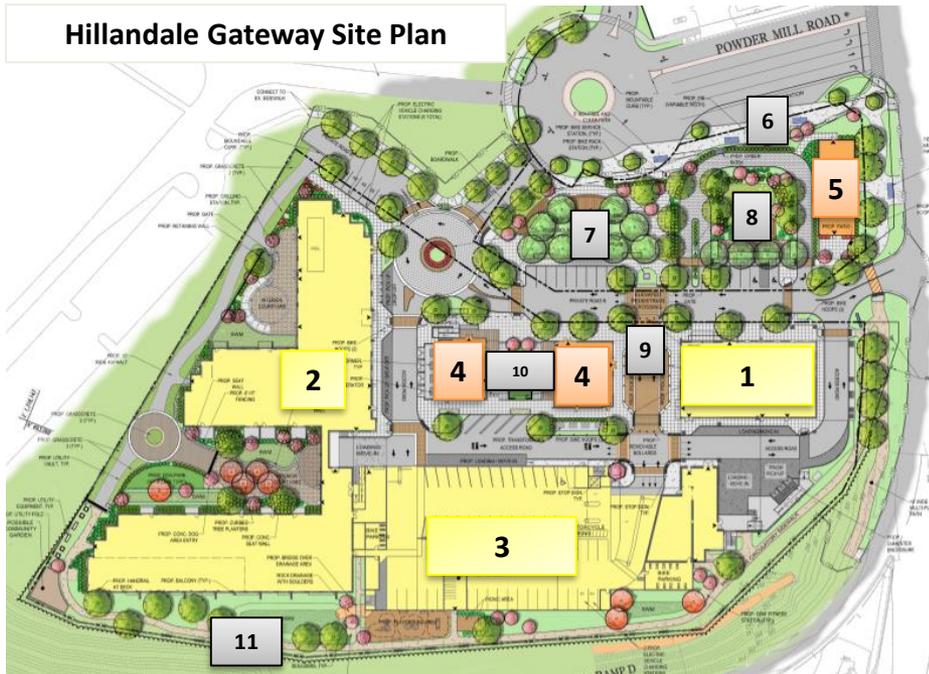
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Executive Summary

Hillandale Gateway will be a **visionary mixed-use, mixed-income, multigenerational community** located at 10100, 10110, 10120 and 10140 New Hampshire Avenue in Silver Spring, MD, on the site of Holly Hall Apartments, a former 96-unit Public Housing community. Hillandale Gateway **will be the first major multifamily investment in the East County** in decades and will create its first destination mixed-use community. Hillandale Gateway will also set the bar for innovation and energy efficiency in residential development in the mid-Atlantic.

Hillandale Gateway **will include a total of 463 residential units**. The development will comprise **two residential buildings – one, a 155-unit Net Zero Energy, age-restricted (age 62+) senior building (“AR Building”); the other, a 308-unit Passive House, non-age restricted general occupancy multifamily building (“NAR Building”)**. In addition to residential units, the site will have a drive-thru coffee shop, above-ground parking garage, commercial/retail/restaurant space, and public and private green space.

As the development team prepares for a full construction closing in December 2023, staff is recommending approval of the final development plan for Hillandale Gateway and approval of the transaction structure. The final development plan includes the approval to negotiate and execute a Guaranteed Maximum Price amendment (“GMP Amendment”) with CBG Building Company, the general contractor for Hillandale Gateway, and approval of an interior designer and FF&E budget. Approval of the transaction structure includes authorization to create a condominium regime, approval to create new tax credit entities that will own portions of the condominium regime, approval to negotiate and execute letters of intent and operating agreements with Wells Fargo Community Lending and Investment as the tax credit investor in the tax credit entities, and approval to accept construction financing sources, among other items.



- KEY**
- Buildings:**
1. 155-unit Senior Building “AR”
 2. 308-unit Multifamily Building “NAR”
 3. Parking Garage
 4. Retail Pads
 5. Drive-thru Coffee Shop
- Site:**
6. Transit station
 7. Open green with amphitheater/ event stage
 8. Urban plaza and natural area
 9. Festival street with removable bollards
 10. Flexible lawn space and dining terraces
 11. Perimeter loop path

Development Plan | Development Highlights

- **Affordability:** Hillandale Gateway will be a contemporary, amenity-rich mixed-income development in a location with convenient access to major arterials, services, recreational activities and amenities. Hillandale Gateway will provide a full spectrum of affordability, not only site-wide, but in the AR and NAR Buildings individually.
- **Economic Development:** Hillandale Gateway will bring worthy new amenities and improvements to the Hillandale neighborhood and eastern Montgomery County, and is intended to be the catalyst for achieving broader transformations in Hillandale, attracting the new restaurants, new shops, new residents, new businesses, and new jobs that the White Oak Science Gateway Master Plan specifically seeks to encourage.
- **Sustainability:** Hillandale Gateway will incorporate a variety of methodologies in an effort to set new benchmarks for sustainability and high-performance development in Montgomery County. By using Passive House construction methodologies, the energy consumption of the buildings will be significantly reduced. At the same time, the site will include a renewable energy system (in the form of rooftop solar on both the senior and multifamily building and on the parking garage), which the Development Team anticipates will be sufficient to allow the AR building to become a Zero-Net Energy (“ZNE”) building – producing as much energy as it consumes. The NAR Building will be ZNE-Ready.
- **Resiliency:** During periods of grid outage, Hillandale Gateway will be used to provide a resiliency center for residents and the surrounding neighborhood. Resiliency hubs are designed to provide emergency heating and cooling capability; refrigeration of temperature sensitive medications; plug power for charging of cell phones, computer batteries, and certain durable medical equipment; and emergency lighting.
- **Public Open Space:** At the entrance of Hillandale Gateway will be a centralized green space (“Central Green”), usable by the public as well as residents, consisting of approximately 17,000 square feet of contiguous open space. This public open space will include an amphitheater and will be a centerpiece and foreground for the development, establishing a focal point for the multi-building project. The site will provide additional open space, walkable sidewalks, a "loop path", streetscaping, a programmable “Festival Street”, landscaping and other site improvements, all of which will be dispersed throughout the entirety of the site.
- **Transportation:** The Development Team intends to design and construct more than \$1.5 million in Local Area Transportation Improvement Program (“LATIP”) improvements along the frontage of the site on Powder Mill Road. The Development Team has worked closely with MCDOT to design a new bus transit center featuring a pedestrian-friendly drop-off area, bus shelters, restroom facilities for bus drivers, and other related infrastructure improvements. Another transportation feature is that the site will provide 75 electric vehicle (“EV”) charging stations within the structured parking garage, with the ability to electrify the entire garage in the future.
- **Digital Equity:** HOC is partnering with the County to provide MoCoNet (free internet service) to residents in the AR Building.



Development Plan | Team Assembly



Development Plan | By the Numbers

Project Numbers

463 Residential Units

308 General Occupancy Units

155 Senior Units

248 Affordable Units

215 Market Units

~10,000 SF of Retail

634-Space Parking Garage

Affordability

| SITEWIDE AFFORDABILITY | | |
|------------------------|------------|---------------|
| 30% | 25 | 5.40% |
| 40% | 25 | 5.40% |
| 50% | 67 | 14.47% |
| 60% | 50 | 10.80% |
| 70% | 25 | 5.40% |
| 80% | 56 | 12.10% |
| Market | 215 | 46.44% |
| TOTAL | 463 | 100.0% |

| NAR Building | | |
|--------------|------------|---------------|
| 30% | 10 | 3.2% |
| 40% | 10 | 3.2% |
| 50% | 42 | 13.6% |
| 60% | 0 | 0.0% |
| 70% | 0 | 0.0% |
| 80% | 31 | 10.1% |
| Market | 215 | 69.8% |
| TOTAL | 308 | 100.0% |
| AR Building | | |
| 30% | 15 | 9.7% |
| 40% | 15 | 9.7% |
| 50% | 25 | 16.1% |
| 60% | 50 | 32.3% |
| 70% | 25 | 16.1% |
| 80% | 25 | 16.1% |
| Market | 0 | 0.0% |
| TOTAL | 155 | 100.0% |

Sustainability/Resiliency

1.2MW Solar Facility

1 Resiliency Hub

1 Zero Net Energy Building

75 Electric Vehicle Charging Stations

2 Passive House Buildings

Development Plan | Construction Budget

At the January 11, 2023 meeting of the Commission, staff recommended a two-phase contract with Hillandale Gateway’s general contractor (“GC”), CBG Building Group (“CBG”), for the construction of Hillandale Gateway. The first phase (the “Early Start” phase) would allow for a limited scope of construction to proceed prior to the full construction closing, and the second phase (the “Vertical Construction” phase) would establish the Guaranteed Maximum Price (“GMP”) of the GC contract (through a “GMP Amendment”) and authorize a notice to proceed for the remainder of the project’s construction. At that meeting, the Commission authorized the execution of a contract with CBG for an amount not to exceed \$11.5MM and to provide a limited notice to proceed for the Early Start phase. The Early Start construction phase is underway currently, and is anticipated to be completed on or under budget.

The GMP Amendment reflects the total construction contract cost of the project, including the Early Start and Vertical phases of construction. Specifically, it includes all hard costs to construct the residential buildings, parking garage, site improvements, and transportation improvements. Retail construction costs are carried under “Additional Construction Costs” on the table on slide 13 of this presentation. The GMP Amendment budget, as of August 14, 2023 (“August 2023 GMP Budget”), totals \$180M, or \$388K per unit.

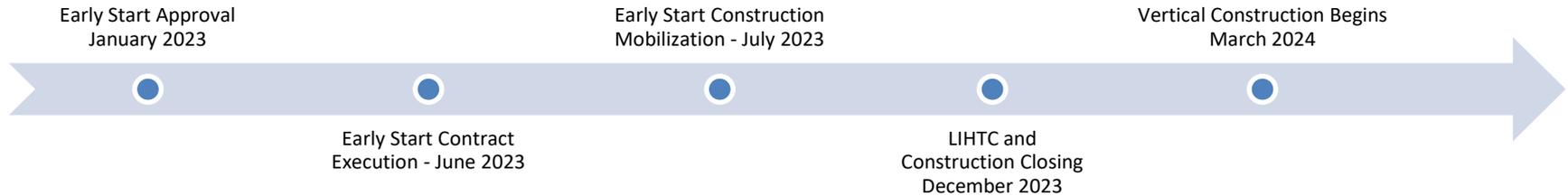
The August 2023 GMP Budget represents \$650K in savings from the GMP budget in September 2022 (“September 2022 GMP Budget”), when the Commission approved changing Hillandale Gateway’s structural system from Prescient, a proprietary light-gauge steel structural system, to a generic concrete structure. This switch to concrete resulted in approximately a \$5MM savings in the structural systems of the buildings, well beyond the \$3.5MM staff anticipated. However, due to continued inflation in a number of keys trades (notably, electrical, mechanical and exterior siding), the overall GMP savings were reduced to \$650K. Had Hillandale’s structural system remained Prescient, staff believes the August 2023 GMP Budget would have been significantly higher than the September 2022 GMP Budget.

Staff recommends that the Commission authorize the Executive Director to negotiate and execute a GMP Amendment in an amount not to exceed \$189M, which provides a 5% contingency over the 2023 August GMP Budget amount of \$180M, in the event cost increases or scope changes occur between now and full construction closing.

| GMP Amendment Budget | Total | Per Unit Cost |
|--------------------------------------|----------------------|------------------|
| General Conditions | \$9,002,291 | \$19,443 |
| Excavation / Demolition | \$2,323,001 | \$5,017 |
| Site Utilities | \$3,110,000 | \$6,717 |
| Dry Utilities | \$1,451,176 | \$3,134 |
| Site Paving and Concrete | \$2,413,116 | \$5,212 |
| Hardscape / Pavers | \$123,989 | \$268 |
| Landscaping / Site Improvements | \$2,207,742 | \$4,768 |
| Concrete | \$35,198,200 | \$76,022 |
| Precast Structure | \$691,500 | \$1,494 |
| Masonry | \$892,000 | \$1,927 |
| Struct Steel / Misc Metals | \$7,482,812 | \$16,162 |
| Rough Carpentry / Framing | \$330,000 | \$713 |
| Finish Carpentry / Millwork | \$2,652,942 | \$5,730 |
| Waterproofing / Fireproofing | \$613,000 | \$1,324 |
| Roofing | \$3,981,950 | \$8,600 |
| Siding & EIFS | \$8,144,821 | \$17,591 |
| Doors, Frames & HW | \$2,672,670 | \$5,773 |
| Glass & Glazing | \$6,915,077 | \$14,935 |
| Drywall / Metal Stds | \$12,818,333 | \$27,685 |
| Tile | \$1,253,699 | \$2,708 |
| Flooring | \$1,791,328 | \$3,869 |
| Hardware, T&B | \$1,242,641 | \$2,684 |
| Painting | \$2,344,000 | \$5,063 |
| Specialties | \$175,000 | \$378 |
| Special Equipment / Owner Allowances | \$585,000 | \$1,263 |
| Residential Casework / Countertops | \$2,567,144 | \$5,545 |
| Appliances | \$2,463,694 | \$5,321 |
| Special Construction | \$550,216 | \$1,188 |
| Elevators | \$2,174,560 | \$4,697 |
| Fire Protection | \$2,017,896 | \$4,358 |
| Plumbing | \$7,666,900 | \$16,559 |
| Mechanical | \$9,987,910 | \$21,572 |
| Electrical | \$23,211,001 | \$50,132 |
| Solar Panel and roof racking | \$2,765,800 | \$5,974 |
| General Requirements | \$3,332,475 | \$7,198 |
| General & Excess Liability | \$2,173,001 | \$4,693 |
| Fee | \$7,331,915 | \$15,836 |
| Subcontractor Default Insurance | \$1,642,445 | \$3,547 |
| Payment and Performance Bond | \$1,253,581 | \$2,708 |
| Contractor + Design Contingency | \$209,128 | \$452 |
| GC Bond | \$83,651 | \$181 |
| GRAND TOTAL | \$179,847,605 | \$388,440 |

Development Plan | Construction Schedule

Early Start Development Milestones



Construction Timeline

- Building Permits Approved – August 2023
- Execution of GMP Amendment – December 2023
- Vertical Construction Start – March 2024
- Substantial Completion – August, 2026
- Final Completion – November 2026

| Activity ID | Activity Name | Orig Dur | Rem Dur | Start | Finish |
|--|--|----------|---------|-------------|------------|
| HILLDALE GATEWAY - EARLY START & VERTICAL SCHEDULE_WC | | 936 | 879 | 01-Sep-22 A | 06-Nov-26 |
| MILESTONES | | 865 | 865 | 09-Jun-23 | 06-Nov-26 |
| EARLY START PACKAGE MILESTONES (ESA) | | 323 | 323 | 09-Jun-23 | 16-Sep-24 |
| MILE-ES1100 | Early Start Limited Notice To Proceed Issued (To Allow Procurement Activities) | 0 | 0 | 09-Jun-23 | |
| MILE-ES1200 | Full Early Start Notice To Proceed Issued (To Begin Onsite Work Activities) | 0 | 0 | 14-Jul-23 | |
| MILE-ES1250 | Mobilize on Site for E/S Installations (ESA) | 0 | 0 | 14-Jul-23 | |
| MILE-ES1400 | Powder Mill Road Commenced | 0 | 0 | 06-Oct-23 | |
| MILE-ES1800 | Powder Mill Road Base Paving Completion | 0 | 0 | | 01-Mar-24 |
| MILE-ES1700 | Powder Mill Road Completion | 0 | 0 | | 21-Mar-24 |
| MILE-ES1600 | Early Start Utility Completion | 0 | 0 | | 30-May-24 |
| MILE-ES2000 | PEPCO Poles Removed | 0 | 0 | | 30-May-24 |
| MILE-ES1900 | Early Start Substantial Completion | 0 | 0 | | 16-Sep-24* |
| VERTICAL CONSTRUCTION PACKAGE MILESTONES | | 817 | 817 | 17-Aug-23 | 06-Nov-26 |
| MILE-V1000 | Building Permit Approval | 0 | 0 | 17-Aug-23 | |
| MILE-V1500 | IFC Drawings Issued | 0 | 0 | | 03-Oct-23 |
| MILE-V1600 | Vertical Work Package GMP Amendment Notice To Proceed (Procurement) | 0 | 0 | 15-Dec-23 | |
| MILE-V1100 | Vertical Work Package GMP Amendment Notice To Proceed (Work On Site) | 0 | 0 | 21-Mar-24 | |
| MILE-V1400 | Base Paving Complete | 0 | 0 | | 22-Nov-24 |
| MILE-V1200 | Project-Wide Substantial Completion | 0 | 0 | | 13-Aug-26 |
| MILE-V1300 | Project-Wide Final Completion | 0 | 0 | | 06-Nov-26 |

Development Plan | Interior Designer

HOC’s Procurement Office issued a Request for Proposal (RFP #2382) for interior design and furniture, fixture and equipment acquisition (“FF&E”) services for Hillandale Gateway in accordance with HOC’s Procurement Policy. RFP #2382 was released on June 7, 2023 with a due date of July 10, 2023. The RFP was posted to HOC’s website and distributed to more than 180 vendors registered in the Montgomery County Central Vendor Registration System (“CVRS”). The applicable vendors receive a notification via the system that there is a solicitation for their review and potential response. A pre-proposal meeting and conference was held virtually on June 14, 2023. HOC received responsive proposals from three (3) firms (“Respondents”): Market 9 Design (“Market 9”), KGD Architecture (“KGD”), and MOYA Design Partners (“Moya”).

The scope of work outlined in RFP #2382 included 1) interior design services (e.g. finalization of interior design construction drawings, specifications and selections), 2) construction administration services (e.g. oversight of the construction of interior design elements), and 3) FF&E acquisition services (e.g. selecting, storing and installation of FF&E within the approved owner’s hard cost FF&E budget). A scoring team consisting of Real Estate and Risk Management staff held virtual interviews with each Respondent and scored their proposals on the following: five (5) evaluation criteria. The maximum points a proposal could receive is 100.

| Background and Related Experience (Maximum 40 Points) | Management Plan and Methodology (Maximum 20 Points) | Price (Maximum 30 Points) | Excess MFD Participation (Maximum 10 Points) |
|--|--|--|--|
| Respondent’s demonstrated experience and background in performing interior design and FF&E services for properties similar in scope and size including working with Housing Authorities in the Baltimore – Washington Metropolitan area with a preference for Montgomery County. | Respondent’s plan for staffing assignments, roles and responsibilities to complete the work outlined in the RFP. | Price and Fees for performing the services described in the RFP. | Respondent’s commitment to Minority, Female and Disabled (“MFD”) participation through direct and indirect MFD associated efforts. |

Market 9 received the highest score of the three Respondents. Market 9 demonstrated substantial experience with providing the requested services for projects of similar size, and provided a detailed and attentive management plan that aligned with the overall project schedule. Market 9 demonstrated a commitment to MFD participation and is a certified MFD firm. Finally, Market 9 provided competitive pricing and was the lowest bidder.

Staff recommends selecting Market 9 to provide interior design and FF&E services for Hillandale Gateway and to authorize the Executive Director to negotiate a contract with Market 9 in an amount up to \$253,000, which includes an HOC-held contingency in the event additional services are required. HOC will award the contract in the amount of the Market 9’s bid; however, Commission approval of an interior design budget of \$253,000 allows the contract to increase up to \$253,000 in the event there are necessary change orders.

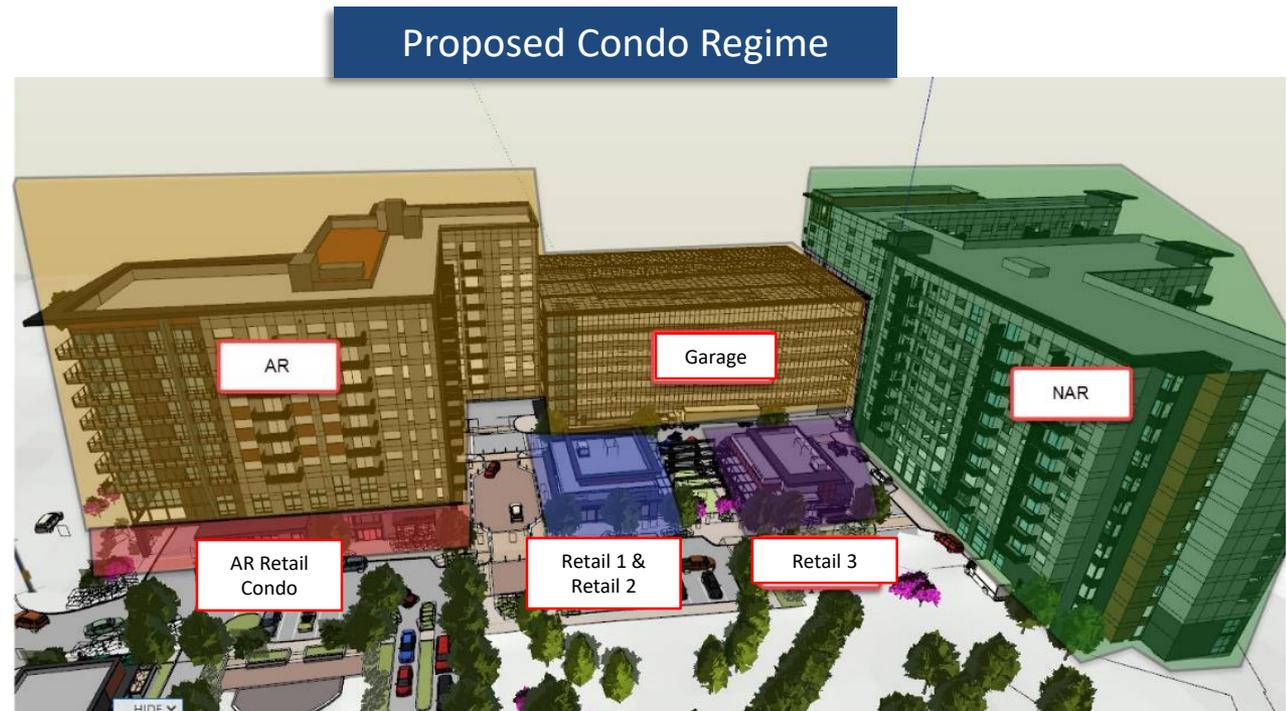
Staff additionally recommends approving a hard cost FF&E budget for Hillandale Gateway in the total amount of \$2.5M (“Hard Cost FF&E Budget”), which is the hard cost of the furniture, fixtures and equipment that will be installed within all residential amenity spaces (indoor and outdoor) within the AR and NAR Buildings. This budget establishes the not-to-exceed amount that the interior designer must work within as it is recommends, and ultimately acquires, furniture, fixtures and equipment for the entire project. These costs are included in the “Additional Construction Costs” line item on the table on Slide 13.

Transaction Structure | Ownership Structure

Given the mixed-use, mixed-income, multi-generational nature of the development, and to optimize financing strategies, staff recommends the creation of a condominium regime for the Hillandale Gateway development. This is a common ownership and financing strategy that HOC utilizes in many of its developments (for example, Alexander House, Fenton Silver Spring, and The Leggett).

Currently, HOC controls the Hillandale Gateway development site through a 99-year ground lease (“Ground Lease”) between a Duffie-affiliated LLC (“Landowner”) and Hillandale Gateway, LLC (“Tenant”), a venture between HOC, Duffie and PS Ventures, which is majority owned and controlled by HOC. The Ground Lease contemplates that the Landowner, on behalf of Tenant, will create separate land condominium units for the property. Furthermore, the AR Building and NAR Building would be subject to vertical condos distinguishing the AR LIHTC units from the AR ground floor retail space, and the NAR LIHTC Units from the NAR Market Units. Under the Ground Lease, each individual condo unit can be subleased to the ultimate owner/operator of each unit. Staff recommends that three (3) Maryland limited liability companies (“LLCs”) lease (or sublease), own and operate the following condo units.

1. A to-be-created LLC (“HOC at Hillandale AR, LLC”), which will sublease and own a condo consisting of 155 age-restricted LIHTC units within the AR Building;
2. A to-be-created LLC (“HOC at Hillandale NAR, LLC”), which will sublease and own a condo consisting of 93 LIHTC units within the NAR Building; and
3. Hillandale Gateway, LLC, which will own the remaining condos in the development, including: a condo consisting of 215 market-rate units within the NAR Building and four (4) retail condos (“AR Retail Condo”, “Retail 1”, “Retail 2” and “Retail 3”)

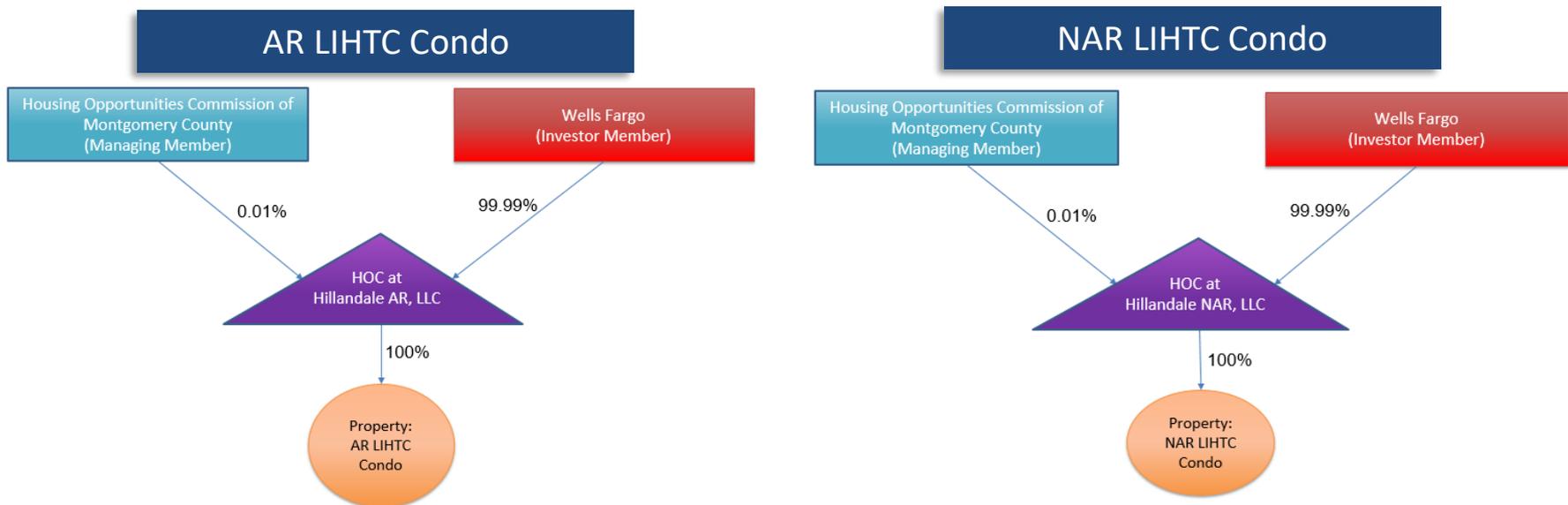


Transaction Structure | Tax Credit Investor

Perhaps the most important benefit of the proposed condo regime is that it enables the development to utilize Low Income Housing Tax Credits (“LIHTC”) and Investment Tax Credits (“ITC”, together with LIHTC, “Tax Credits”) for the construction and permanent financing of the affordable units in the AR and NAR Building. Staff solicited proposals from Tax Credit investors in May 2023, and recommends the selection of Wells Fargo Community Lending and Investment (“Wells Fargo”) as the Tax Credit investor for both the AR and NAR LIHTC Condos. Not only did Wells Fargo provide the highest Tax Credit equity pricing of \$0.93, it provided LOIs for both the AR LIHTC and NAR LIHTC condos. Having the same investor on both LIHTC transactions is hugely beneficial to streamlining this complex transaction and reducing transactional costs. Wells Fargo has been the investor on a number of previous HOC developments, including Residences on the Lane, Fenton Silver Spring and MetroPointe.

To facilitate the Tax Credit transactions, staff proposes that the Commission authorize 1) the creation of two LIHTC LLCs (“HOC at Hillandale AR, LLC” and “HOC at Hillandale NAR, LLC”); 2) the Executive Director to negotiate and execute letters of intent (LOIs) and operating agreements with Wells Fargo regarding the two LIHTC LLCs; and 3) the admission of Wells Fargo into the two LIHTC LLCs to facilitate the contribution of tax credit equity. Staff proposes the following ownership structure for the LIHTC LLCs, which is HOC’s standard ownership structure for LIHTC transactions.

Furthermore, staff proposes that the Commission authorize the assignment and assumption of agreements, contracts and portions of contracts, as necessary, between Hillandale Gateway, LLC, HOC at Hillandale Gateway AR, LLC and HOC at Hillandale Gateway NAR, LLC in order to carry out the construction and financing of the development. These contracts include but are not limited to the GC Contract and Architect Contract.



Transaction Structure | Operating Proforma

| RENTAL INCOME | | PUPM | Baseline | Year 1 Stabilized Operations |
|--|-----------------|------------------|----------------------|-------------------------------------|
| Rental Potential | | \$2,124 | \$11,798,600 | \$14,300,870 |
| Less: Stabilized Vacancy and Concessions | | (\$106) | (\$670,401) | (\$817,642) |
| Other Res Income Potential | | \$189 | \$1,048,008 | \$1,276,332 |
| Retail and Parking Income | | N/A | \$437,676 | \$494,251 |
| NET RENTAL INCOME | | | \$12,613,884 | \$15,253,811 |
| OPERATING EXPENSES | | | | |
| | % of NRI | Per Unit | Baseline | Year 1 Stabilized Operations |
| Rental, Salary and Administrative Expenses | 10.22% | (\$2,785) | (\$1,289,621) | (\$1,547,469) |
| Maintenance Expense | 3.78% | (\$1,029) | (\$476,402) | (\$571,654) |
| Utilities | 1.47% | (\$400) | (\$185,200) | (\$216,837) |
| Insurance, Taxes and Governmental Fees | 1.96% | (\$464) | (\$247,238) | (\$291,643) |
| CAM and Parking Expenses | 4.90% | (\$1,133) | (\$618,162) | (\$741,758) |
| Management Fee | 3.09% | (\$843) | (\$390,302) | (\$471,036) |
| Replacement Reserve | 1.28% | (\$350) | (\$162,050) | (\$194,450) |
| TOTAL EXPENSES | 26.71% | (\$7,276) | (\$3,368,975) | (\$4,034,847) |
| NET OPERATING INCOME 1 | | | | |
| | | | \$9,244,909 | \$11,218,964 |

The table above represents the combined stabilized operations for the overall transaction. Income is generated from residential rent, other residential income (e.g. application and pet fees), parking revenue, and retail rent. Expenses include salary expenses, administrative expenses, maintenance, utilities, management fees, and insurance, taxes and other governmental fees. Maintenance expenses related to shared site elements (such as snow removal, parking garage maintenance, grounds keeping, etc.) are included under the Common Area Maintenance (“CAM”) and Parking expense line item. Total operating expenses are in line with CDA’s LIHTC underwriting guidelines. The proforma also assumes a \$350 annual per unit replacement reserve contribution as part of operating expenses. Affordable and Market residential rents are trended at 2% and 4%, respectively, from baseline assumptions with all other income trended at 2%. Expenses are trended at 3% annually.

Transaction Structure | Sources and Uses

The table to the right details the sources and uses for the construction of the overall development. Uses for the transaction includes all hard costs, soft costs and financing fees related to the development. Sources for the transaction include senior financing from Citi, HOC equity, tax credit equity, County HIF, HPF, and Montgomery County Green Bank financing.

Staff solicited proposals from lenders in May 2023, and received multiple LOIs. Citi Community Capital “Citi” provided the most beneficial terms for the overall transaction resulting in the lowest overall construction-period interest costs. Citi was also the only lender to provide LOIs for all components of the transaction. Having the same lender across the entire transaction has the added benefit of streamlining this complex structure and reducing transactional costs. Staff is finalizing details on the optimal loan structure with Citi and will present those details as part of Hillandale Gateway’s Final Financing Plan, which will be presented to the Commission in October 2023.

Summary of Proposed Financing Sources:

- 1) Senior loans from Citi Community Capital to HOC at Hillandale Gateway AR, LLC, HOC at Hillandale Gateway NAR, LLC, and Hillandale Gateway, LLC (together, the “Owner Entities”) in an amount up to 80% loan-to-cost. Currently staff projects a senior construction loan need of ~\$194M.
- 2) HOC equity in the total amount up to \$10,950,100. To date, the Commission has loaned approximately \$14.2M in predevelopment funding for Hillandale Gateway, which will be repaid at construction closing. Staff recommends recycling \$10,950,100 of this \$14.2M repayment for the construction and permanent financing of Hillandale Gateway. Staff proposes the OHRF as the source for this equity.
- 3) Subordinate Montgomery County Housing Initiative Fund (“HIF”) loans in the total amount of \$16M, which has been approved by DHCA’s loan committee. Currently staff projects a need of ~\$6M during construction.
- 4) Subordinate Housing Production Fund (“HOF”) loan in the total amount of \$35M. The Commission previously authorized \$14.5M in HPF for Early Start work at the January 2023 Commission meeting; the increase to \$35M represents the additional \$20.5M in HPF funding needed for the vertical phase of construction.
- 5) Subordinate financing from Montgomery County Green Bank in an amount up to \$7.5M.
- 6) A bridge loan in an amount not to exceed \$43M, which represents the anticipated bridge loan need of \$38M plus a \$5M contingency. Bridge loans are typical in a LIHTC transaction in order to bridge construction costs in between LIHTC equity installments, as the majority of the LIHTC equity is not contributed until construction completion and/or stabilization. Staff proposes using the PNC Bank, N.A. Real Estate Line of Credit (“RELOC”) as the source for the bridge.

| | USES OF FUNDS - DEVELOPMENT | AMOUNT | PER UNIT | % OF TOTAL |
|--|---|----------------------|------------------|-------------|
| | Construction Contract (Inc. 5% Contingency) | \$189,000,000 | \$408,207 | 62.54% |
| | Additional Construction Costs | \$14,179,874 | \$30,626 | 4.69% |
| | Additional Construction Contingency | \$2,763,249 | \$5,968 | 0.91% |
| | Design & Engineering | \$9,222,504 | \$19,919 | 3.05% |
| | Developers Costs | \$10,823,113 | \$23,376 | 3.58% |
| | Financing Fees, Charges and Issuance Costs | \$13,540,118 | \$29,244 | 4.48% |
| | Construction Period Interest: Senior Loan | \$28,733,871 | \$62,060 | 9.51% |
| | Construction Period Interest: Other Loans | \$9,568,091 | \$20,665 | 3.17% |
| | Capitalized Operating Costs | \$1,779,177 | \$3,843 | 0.59% |
| | Guarantees & Reserves | \$1,500,000 | \$3,240 | 0.50% |
| | Developer Fee | \$21,116,240 | \$45,607 | 6.99% |
| | TOTAL USES OF FUNDS | \$302,226,237 | \$652,756 | 100% |

| | SOURCES OF FUNDS - DEVELOPMENT | AMOUNT | PER UNIT | % OF TOTAL |
|-----|----------------------------------|----------------------|------------------|-------------|
| (1) | Senior Construction Loan | \$194,051,924 | \$419,119 | 64.21% |
| (2) | HOC Equity | \$10,950,100 | \$23,650 | 3.62% |
| | Tax Credit Equity | \$49,003,427 | \$105,839 | 16.21% |
| (3) | Construction: HIF Loan | \$5,720,786 | \$12,356 | 1.89% |
| (4) | Construction: HPF Loan | \$35,000,000 | \$75,594 | 11.58% |
| (5) | Construction: MC Green Bank Loan | \$7,500,000 | \$16,199 | 2.48% |
| | Funding Gap / (Surplus) | \$0 | \$0 | 0% |
| | TOTAL SOURCES OF FUNDS | \$302,226,237 | \$652,756 | 100% |

Summary & Recommendations

ISSUES FOR CONSIDERATION

Does the Development & Finance Committee wish to join staff's recommendation that the Commission:

1. Authorize the Executive Director to negotiate and execute a GMP Amendment with CBG in an amount not to exceed \$189M?
2. Authorize the Executive Director to negotiate and execute a contract with Market 9 Design in an amount not to exceed \$253,000 for interior design and FF&E services?
3. Approve a Hard Cost FF&E Budget for Hillandale Gateway in the total amount of \$2.5M, and authorization for Market 9 Design to acquire FF&E in an amount not to exceed the Hard Cost FF&E Budget?
4. Authorize the creation of HOC at Hillandale AR, LLC to sublease and own a condo consisting of 155 age-restricted LIHTC units within the AR Building?
5. Authorize the creation of HOC at Hillandale NAR, LLC to sublease and own a condo consisting of 93 LIHTC units within the NAR Building?
6. Authorize Hillandale Gateway, LLC to own the remaining condos in the development, including: a condo consisting of 215 market-rate units within the NAR Building and four (4) retail condos (AR Retail Condo, Retail 1, Retail 2 and Retail 3)?
7. Authorize the Executive Director to negotiate and execute letters of intent and operating agreements with Wells Fargo Community Lending and Investment regarding the provision of tax credit equity for the HOC at Hillandale AR, LLC and HOC at Hillandale NAR, LLC transactions, and to admit Wells Fargo Community Lending and Investment as the investor member into HOC at Hillandale AR, LLC and HOC at Hillandale NAR, LLC to facilitate the contribution of tax credit equity?
8. Authorize the assignment and assumption of agreements, contracts and portions of contracts, as necessary, between Hillandale Gateway, LLC, HOC at Hillandale Gateway AR, LLC and HOC at Hillandale Gateway NAR, LLC to carry out the construction and financing of the overall development?
9. Authorize HOC at Hillandale Gateway AR, LLC, HOC at Hillandale Gateway NAR, LLC, and Hillandale Gateway, LLC (together, the "Owner Entities") to accept senior loans from Citi Community Capital in an amount up to 80% loan-to-cost?
10. Approve the contribution of HOC equity in the total amount of \$10,950,100 from the OHRF to the overall transaction?
11. Authorize the Owner Entities to accept subordinate HIF loans from Montgomery County in an amount up to \$16M?
12. Authorize the Owner Entities to accept subordinate financing from Montgomery County Green Bank in an amount up to \$7.5M?
13. Authorize an increase to the HPF loan amount for the overall transaction from \$14.5M to \$35M and to subordinate the HPF Loan?
14. Approve a bridge loan in an amount not to exceed \$43M, which represents the anticipated bridge loan amount of \$38M plus a \$5M contingency?

Summary & Recommendations

BUDGET/FISCAL IMPACT

Approval of the final development plan would have a positive fiscal impact to the agency. Predevelopment funding previously loaned to the development would be repaid at construction closing, plus accrued interest in an amount of approximately \$1M. HOC would also earn a developer fee in an amount of approximately \$8.5M, a portion of which could be used as a permanent financing source (deferred fee) for the transaction.

TIME FRAME

For deliberation at the September 1, 2023 meeting of the Development and Finance Committee, and formal action of the Commission at its monthly meeting on September 13, 2023.

STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

Staff recommends that the Development and Finance Committee join its recommendation to the Commission of the following actions:

1. Authorize the Executive Director to negotiate and execute a GMP Amendment with CBG in an amount not to exceed \$189M.
2. Authorize the Executive Director to negotiate and execute a contract with Market 9 Design in an amount not to exceed \$253,000 for interior design and FF&E services.
3. Approve a Hard Cost FF&E Budget for Hillandale Gateway in the total amount of \$2.5M, and authorization for Market 9 Design to acquire FF&E in an amount not to exceed the Hard Cost FF&E Budget.
4. Authorize the creation of HOC at Hillandale AR, LLC to sublease and own a condo consisting of 155 age-restricted LIHTC units within the AR Building.
5. Authorize the creation of HOC at Hillandale NAR, LLC to sublease and own a condo consisting of 93 LIHTC units within the NAR Building.
6. Authorize Hillandale Gateway, LLC to own the remaining condos in the development, including: a condo consisting of 215 market-rate units within the NAR Building and four (4) retail condos (AR Retail Condo, Retail 1, Retail 2 and Retail 3).
7. Authorize the Executive Director to negotiate and execute letters of intent and operating agreements with Wells Fargo Community Lending and Investment regarding the provision of tax credit equity for the HOC at Hillandale AR, LLC and HOC at Hillandale NAR, LLC transactions, and to admit Wells Fargo Community Lending and Investment as the investor member into HOC at Hillandale AR, LLC and HOC at Hillandale NAR, LLC to facilitate the contribution of tax credit equity.
8. Authorize the assignment and assumption of agreements, contracts and portions of contracts, as necessary, between Hillandale Gateway, LLC, HOC at Hillandale Gateway AR, LLC and HOC at Hillandale Gateway NAR, LLC to carry out the construction and financing of the overall development.
9. Authorize HOC at Hillandale Gateway AR, LLC, HOC at Hillandale Gateway NAR, LLC, and Hillandale Gateway, LLC (together, the "Owner Entities") to accept senior loans from Citi Community Capital in an amount up to 80% loan-to-cost. Currently staff projects a senior construction loan need of ~\$194M.
10. Approve the contribution of HOC equity in the total amount of \$10,950,100 from the OHRF to the overall transaction.
11. Authorize the Owner Entities to accept subordinate HIF loans from Montgomery County in an amount up to \$16M. Currently staff projects a need of ~\$6M during construction.
12. Authorize the Owner Entities to accept subordinate financing from Montgomery County Green Bank in an amount up to \$7.5M.
13. Authorize an increase to the HPF loan amount for the overall transaction from \$14.5M to \$35M and to subordinate the HPF Loan.
14. Approve a bridge loan in an amount not to exceed \$43M, which represents the anticipated bridge loan amount of \$38M plus a \$5M contingency.

MEMORANDUM

TO: Housing Opportunities Commission
Development and Finance Committee

VIA: Chelsea J. Andrews, Executive Director

FROM: Division: Real Estate
Staff: Zachary Marks, Chief Real Estate Officer Ext. 9613
Marcus Ervin, Director of Development Ext. 9752
Gio Kaviladze, Senior Financial Analyst Ext. 9437

RE: Approval to Draw on the PNC Bank, N.A. Line of Credit to Replenish the Contingency for the South County Regional Recreation and Aquatic Center and to Draw on the PNC Bank, N.A. Real Estate Line of Credit to Replenish the Contingency for the Leggett

DATE: September 1, 2023

STATUS: Consent: ___ Deliberation X Status Report _____ Future Action _____

OVERALL GOAL & OBJECTIVE:

To obtain approval from the Housing Opportunities Commission of Montgomery County (“HOC” or “Commission”) to draw up to \$3MM on the PNC Bank, N.A. Line of Credit (“PNC LOC”) to replenish the contingency for the South County Regional Recreational Aquatic Center (“SCRRAC”) and to draw up to \$2MM on the PNC Bank, N.A. Real Estate Line of Credit (“PNC RELOC”) to bridge receipt of LIHTC funds for the Construction of The Leggett (formerly Elizabeth House III). If the Commission approves these requests, the draws on the PNC LOC and PNC RELOC will allow HOC staff, Montgomery County’s Department of General Services (“DGS”), and the project’s general contractor to close out the construction of the Leggett and complete the SCRRAC by year-end 2023.

BACKGROUND:

The Leggett (“EH III” or the “Property”) is a 267-unit, age-restricted apartment community located in downtown Silver Spring, Maryland and serves as a significant component of the Elizabeth Square Master Development Plan. HOC, through the Elizabeth House III Limited Partnership (the “Owner” or “Borrower”), holds ownership and operational responsibilities over the Leggett.

The Leggett will provide critical relocation housing for 106 senior households via the Rental Assistance Demonstration (“RAD”) program from the adjacent Elizabeth House Apartments. The Property was financed through with 4% Low-Income Housing Tax Credits (“LIHTC”) equity proceeds.

THE PROJECT “Complex, Inclusive, and Vibrantly Mixed-Use”:

The Leggett was built concurrently with the SCRRAC – a vast 120,000 square foot facility alongside a 7,500 square foot Senior Resource Center/Primary Care Facility, to be operated by Holy Cross Hospital (“SRC/PCF”). Collectively, these components constitute the “Master Development”. HOC, in its capacity as the “Master Developer”, oversees the site's construction, with support from its consultants. This site

is under the ownership of Acorn Storage No.1, LLC, a subsidiary of Lee Development Group (“Acorn”) and is governed by a space lease (“Master Space Lease”). The SCRRAC and SRC/PCF will be owned under a condominium structure by the EH III Recreational Center, LLC. These facilities will be subsequently leased to the County and an affiliate of Holy Cross Hospital.

PROJECT FINANCING: “Pioneering Investments and a Model for Mixed-Finance”

The financing for the project totals \$124.35 million and includes the following funding sources approved by the Commission in June 2019:

- **Tax-exempt bonds** – both long-term and short-term – wherein proceeds are directed towards a loan (“Mortgage Loan”) designated to finance the acquisition, construction, and equipping operations (\$55 million).
- **A short-term taxable loan** (“Construction Loan”) from PNC Bank N.A. (“PNC”) amounting to \$55 million. This will be funneled into a Cash Collateral Account and upon the Mortgage Loan’s permanent conversion, the accumulated resources within the Cash Collateral Account will be mobilized to repay the short-term bonds and the Construction Loan.
- **Bridge funding** during the construction phase, facilitated by draws on the Commission’s PNC Bank, N.A. Real Estate Line of Credit (“PNC RELOC”) or “Bridge Loan” (\$24 million).
- **LIHTC equity**, facilitated by selecting R4 Capital as the LIHTC Syndicator (\$35.2 million).
- **Subordinate loans** from the County’s Housing Initiative Fund (“HIF”) (\$8 million).
- **A subordinate loan** extended by HOC (“HOC Loan”) (\$22.2 million).
- **Deferred Developer Fee** (\$2.1 million).
- **Interim operating income** (\$.66 million).

The transaction closed in October 2019. The Property’s construction was projected to span 32 months, with completion in May 2022 and stabilization originally expected by May 2023. This would have paved the way for converting to the permanent mortgage by September 2023. Stabilization is currently projected for the first half of 2024.

THE PROJECT: PRESENT DAY

The Leggett achieved substantial completion in March of 2023. Tenants began occupying the property in May of 2023.

The Leggett Lease-Up Status (August 21, 2023):

- Total Units Leased: 143 (53.56% of total units)
- Current Occupancy: 85 units (31.84% of total units)

For the SCRRAC, the focus is on completing the project and opening to the public by year-end 2023. Noteworthy progress has been made in several segments of the center: the gymnasium and common areas now stand largely completed. However, construction efforts remain underway on the detailed features of the complex, including the various recreation and competition pools, the building’s distinctive exterior metal panels, and the expansive courtyard plaza areas.

As with most construction projects that spanned the pandemic, The Leggett and the SCRRAC experienced completion delays. The Leggett’s delivery date shifted from its initial projected date in March 2022 to March 2023. This marked the beginning of relocating fifty-two elderly households from the existing Elizabeth House. By August 2023, Elizabeth House was fully vacated. The SCRRAC’s delivery

timing saw even greater revision and will finish eight months after the Leggett.

With project completion nearing, the final change orders are under review and cost certification will commence. Most of the remaining change orders are for the SCRRAC. HOC and DGS are working toward a satisfactory split of responsibilities for these costs. Both parties recognize the importance of addressing and reconciling design intricacies for the benefit of the project.

Until the final costs are fully known, no representations around final permanent proceeds needs can be made. This current request involves only interim proceeds and more specifically the bridge loan amounts required for funding additional costs prior to the completion of all project components and a full cost reconciliation can be made.

Outstanding change orders are likely to raise the final project cost of the SCRRAC by approximately \$3.5MM and are likely to raise the final project cost for the Leggett not to exceed \$2.0MM. For the Leggett, there are several other areas such as line item savings, adjustments to the project's LIHTC equity amount, and actual lease-up rents that may add to the final project and offset the up-to-\$2.0MM increase, or add to available sources of funding to offset the up-to-\$2.0MM increase.

To keep construction work moving, to provide time for final cost reconciliation, and to allow time for the allocation of cost responsibilities to be determined; staff requests the Commission's authorization to draw up to \$3.0MM from the PNC LOC to replenish the contingency for the SCRRAC and to draw up to \$2.0MM from the PNC RELOC to replenish the contingency for the Leggett.

Staff will return by the end of 2023 with an update on progress toward final reconciliation and identification of additional permanent funding sources wherever necessary. The PNC LOC currently has an unobligated balance of \$11.9MM, and the PNC RELOC currently has an unobligated balance of \$13.3MM as of August 16, 2023.

ISSUES FOR CONSIDERATION:

Will the Development and Finance Committee join staff's recommendation to draw up to \$3.0MM from the PNC LOC to replenish the contingency for the SCRRAC and to draw up to \$2.0MM from the PNC RELOC to replenish the contingency for the Leggett?

Draws on both the PNC LOC and the PNC RELOC will be taxable and at the contractual rate provided for in the financing documents.

BUDGET/FISCAL IMPACT:

There is no impact to the HOC FY24 budget as interest associated with the increased draws on the PNC LOC and PNC RELOC will be reimbursed by permanent project funds to be identified by the end of 2023.

TIME FRAME:

For discussion at the September 1, 2023, Development and Finance Committee meeting and formal action at the September 13, 2023, meeting of the Commission.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

Staff recommends that the Commission authorize staff to draw up to \$3.0MM from the PNC LOC to replenish the contingency for the SCRRAC and to draw up to \$2.0MM from the PNC RELOC to replenish the contingency for the Leggett.

Staff further recommends approval to borrow funds at the taxable contractual rates for the PNC LOC and PNC RELOC facilities while outstanding and that repayment will be from permanent project funds to be identified by the end of 2023.

Closing Statement

Written Statement for Closing a Meeting (“Closing Statement”)

Date: September 1, 2023

A. Pursuant to Section 3-305(b) and (d) of the General Provisions Article of the Annotated Code of Maryland, I move to adjourn this open session to a closed session only:

3. “To consider the acquisition of real property for a public purpose and matters directly related thereto”;
7. “To consult with counsel to obtain legal advice”;
8. “To consult with staff, consultants, or other individuals about pending or potential litigation”;
13. “To comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter.”

Adjourn

Closed Session