10400 Detrick Avenue
Kensington, MD 20895-2484
(240) 627-9425

DEVELOPMENT AND FINANCE COMMITTEE

December 1, 2023
10:00 a.m.

Livestream: https://www.youtube.com/watch?v=__1VKQAno9g

HOC's offices are now open to the public. The public is invited to attend HOC's December 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:

Action Items:

Minutes

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY
10400 Detrick Avenue
Kensington, Maryland 20895
(240) 627-9425

Development and Finance Committee Minutes

October 27, 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 platform (a combination of in-person and online platform/teleconference) on October 27, 2023 with moderator functions occurring at 10400 Detrick Avenue, Kensington, Maryland beginning at 10:10 a.m. There was a livestream of the meeting held on YouTube, available for viewing here. Those in attendance were:

Present

Jeffrey Merkowitz - Chair
Richard Y. Nelson, Jr. - Commissioner
Robin Salomon - Commissioner

Also Attending

Chelsea Andrews, President/ Executive Director
Aisha Memon, SVP Legal Affairs
Monte Stanford
Alex Laurens
Paulette Dudley
Kathryn Hollister
Kayrine Brown, Senior Executive Vice President
John Wilhoit
Zachary Marks
Victoria Dixon
Richard Congo
Morgan Tucker

Via Zoom

Jay Shepherd
Kai Hsieh
John Broullire
Ellen Goff
Alex Torton
Matt Husman
Timothy Goetzinger
Claudia Wilson
Terri Fowler
Paul Vinciguerra
Contessa Webster

IT Support

Aries Cruz, IT Support

Commission Support

Alicia Black, Temp Assistant – Executive

APPROVAL OF MINUTES

The minutes of the September 22, 2023 Development and Finance Committee meeting were approved upon a motion by Commissioner Nelson and seconded by Commissioners Salomon. Affirmative votes were cast by Commissioners Salomon, Merkowitz, and Nelson.

DISCUSSION/ACTION ITEMS

1. **Hillandale: Approval of the Financing Plan, Feasibility and Public Purpose; Authorization to Issue Loans to Hillandale Gateway, LLC, HOC at Hillandale AR, LLC and HOC at Hillandale NAR, LLC for Acquisition and Construction Financing; Authorization to Issue a Commitment for Permanent Financing; and Authorization for the Borrows to Accept Loans in Accordance with the Finance Plan.**

Chelsea Andrews, Executive Director, provided an overview and introduced Monte Stanford, Director of Mortgage Finance, and he introduced Senior Multifamily Underwriter, Victoria Dixon, who provided the presentation. Staff recommended the Development and Finance Committee join in recommending that the Commission take the following actions for the non-age restricted (NAR) building:

1) Approval of the Financing Plan for the Hillandale NAR building totaling approximately $211.6 million.

2) Approval of the feasibility and public purpose of the NAR building for the allocation of up to $30,000,000 in volume cap for the transaction, as subject to available volume cap.

3) Approval of a Bond Authorizing Resolution for the issuance and delivery of short-term and long-term, tax-exempt, fixed and variable, indebtedness equal to: (a) up to $30,000,000 of 2023 Series B Bonds under the 1996 Indenture and (b) up to $30,000,000 of taxable indebtedness to fund the taxable portion of the Citi NAR Construction Loans, and (c) up to $120,000,000 to fund the tax-exempt governmental portion of the Citi NAR Construction Loans).

4) Approval for HOC to enter into a guaranty of completion, up to 25% repayment, debt service and carry, and standard carveouts for environmental issues, fraud, misrepresentation, and bankruptcy.

5) Authorization for HOC to issue Financing Commitments for the NAR Risk Share Permanent Loan, which proceeds will repay the Citi NAR Construction Loans, with balloon payment at or before year 25, in an amount up to $30,000,000 to HOC at Hillandale NAR, LLC and $105,000,000 to Hillandale Gateway, LLC, to be funded from proceeds of the 2023 Series B Bonds and future issuance of variable rate NAR Governmental Bonds.

6) Approval for HOC to provide credit enhancement for the NAR Risk Share Permanent Loan via FHA Risk Share Mortgage Insurance, pursuant to the Risk Sharing Agreement between HOC and HUD, and for HOC and HUD to assume, respectively, 50% and 50% of the risk for the transaction.

7) Approval for the Executive Director to enter into one or more interest rate hedges with qualified counter parties on and immediate and/or forward starting basis to manage interest rate risk of the Citi NAR Construction Loans, Bridge Loan, and NAR Governmental Bonds.

8) Approval to increase the HOC proceeds of the Opportunity Housing Reserve Fund to the borrower(s) from $6 million up to $9.2 million, which may be partially repaid upon receipt of energy efficiency rebates/grants and other loans.

9) Approval to negotiate and for HOC at Hillandale NAR, LLC to accept a subordinate loan from the County Green Bank.

10) Approval for the NAR Borrower and HOC, as appropriate to negotiate, make, and accept conduit loans made from the proceeds of the Citi NAR Construction Loans, the NAR Risk Share Permanent Loan, Bridge Loan, HOC Loans and various other subordinate loans as described herein.

Staff recommended the Development and Finance Committee join in recommending that the Commission take the following actions for the age-restricted (AR) building:

1) Approval of the Financing Plan for the Hillandale AR building totaling approximately $109.3 million.

2) Approval of the feasibility and public purpose for the AR Building with the allocation of up to $47,000,000 in volume cap for the transaction, as subject to available volume cap.

3) Approval of a Bond Authorizing Resolution for the issuance and delivery of the Citi AR Funding Loan in an amount not to exceed $47,000,000, to fund the Citi AR Borrower Loan.

4) Approval for the AR Borrower and HOC, as appropriate, to negotiate and accept the Wells AR Construction Loans in an amount up to $47,000,000, with HOC acting as conduit lender.

5) Approval for HOC to enter into a guaranty of completion, up to 25% repayment, loan balancing, and standard carveouts for environmental issues, fraud, misrepresentation, and bankruptcy.

6) Approval for HOC to negotiate and accept a forward-lock agreement for the permanent Citi AR Funding Loan and the Citi AR Borrower Loan, with such permanent loan to have a balloon at or before year 25, in an amount up to $47,000,000, with HOC acting as conduit lender.

7) Approval for the Executive Director to enter into one or more interest rate hedge agreements with qualified counter parties to manage variable interest rate risk of the Wells AR Construction Loan, Bridge Loan, Citi AR Funding Loan, and the Citi AR Borrower Loan.

8) Approval to increase the HOC Loan from proceeds of the Opportunity Housing Reserve Fund to the borrower from $6 million to $15 million which may be partially repaid upon receipt of energy efficiency rebates/grants and other loans. 9) Approval for the Borrower to accept the proposed Wells AR Construction Loan, Citi AR Borrower Loan, HOC Loan, and County Loans.

Staff addressed Commissioners' questions. A motion was made by Commissioner Merkowitz to accept staff's recommendations. Commissioner Salomon seconded the motion. Affirmative votes were cast by Commissioners Salomon, Nelson, and Merkowitz.

2. Procurement: Approval to Create an Architectural Services Pool, Pursuant to RFQ 2383.

Chelsea Andrews, Executive Director, provided an overview and introduced Paul Vinciguerra, Construction Manager, who provided the presentation. Staff requested that the Development & Finance Committee join it in recommending to the Commission approval to:

1. Select the following architectural firms to create a pool of 14 Architects and Accessibility consultants:

Firm Name	Firm Name	Firm Name
Axis Architects	Design Collective	Moya Design
Bennett Frank McCarthy Architects, Inc.	Karl Riedel Architecture, P.C.	Sorg & Associates
BKV Group	KGD Architecture	Torti Gallas and Partners
Collimore Architects	Miner Feinstein Architects, LLC	Zavos Architecture and Design, LLC
Cunningham Quill Architects	Moseley Architects	

2. Approve the ability to retain an architect from this pool for all phases of a transaction under the same terms of the pool contract to maintain continuity and provide for more timely completion of tasks.

3. Authorize the Executive Director to execute zero-dollar contracts with each member of the pool for an annual aggregate cap of $2,500,000.

Staff addressed Commissioners' questions. A motion was made by Commissioner Nelson and seconded by Commissioners Salomon to recommend to the full Commission to support staff's recommendation. Affirmative votes were cast by Commissioners Merkowitz, Salomon and Nelson.

3. Procurement: Approval to Create a Development & Finance Consulting Pool.

Chelsea Andrews, Executive Director, provided an overview and introduced Alex Laurens, Housing Acquisition Manager. Staff requested that the Development & Finance Committee join in recommending to the Commission approval of the formation of a pool of development and financing consultants consisting of twenty-two (22) firms selected from the respondents to RFQ# 2386. Firms in the pool would be placed under zero-dollar contracts.

Staff addressed Commissioners' questions. A motion was made by Commissioner Salomon and seconded by Commissioner Nelson to recommend to support staff's recommendation to the full Commission. Affirmative votes were cast by Commissioners Merkowitz, Salomon, and Nelson.

4. **Procurement: Approval to Select a General Contractor for Renovations on Various Scattered Site Properties. Pursuant to IFB 2424; Approval of Executive Director to enter into contract negotiations.**

Chelsea Andrews, Executive Director, provided an overview and introduced Zachary Marks, Chief Real Estate Officer and Paul Vinciguerra, Construction Manager, who provided the presentation. Staff recommended that the Development and Finance Committee join its recommendation to the Commission to:

1. Select Community Investment and Remodelers Inc. as the general contractor for the renovation of ten (10) scattered site units pursuant to IFB #2424; and
2. Authorize the Executive Director to negotiate execute a contract with Community Investment and Remodelers Inc. for $1,400.000.

Staff addressed Commissioners' questions. A motion was made by Commissioner Saloman and seconded by Commissioner Nelson, to recommend to support staff's recommendation to the full Commission. Affirmative votes were cast by Commissioners Merkowitz, Salomon, and Nelson.

5. **MetroPointe: Authorization of Payment of Deferred Developer Fee for MetroPointe.**

Chelsea Andrews, Executive Director, provided an overview and introduced Zachary Marks, Chief Real Estate Officer, who provided the presentation. Staff requested that the Development & Finance Committee join its recommendation to the Commission to approve funding the $750,000 in deferred development fee due to Bozzuto per the Development Agreement from the Opportunity Housing Reserve Fund.

Staff addressed Commissioners' questions. A motion was made by Commissioner Salomon and seconded by Commissioner Nelson, to recommend to support staff's recommendation to the full Commission. Affirmative votes were cast by Commissioners Merkowitz, Salomon, and Nelson. Commissioner Nelson asked for more detailed information to be provided before the full Commission meeting.

6. MPP: Approval of New Participating Lender for Single Family Mortgage Purchase Program.

Chelsea Andrews, Executive Director, provided an overview and introduced Monte Stanford, Director of Mortgage Finance and Paulette Dudley, Program Specialist III, who provided the presentation. Staff recommends that the Development and Finance Committee join its recommendation that the Commission approve NewRez, LLC for participation in the Single Family Mortgage Purchase Program.

Staff addressed Commissioners' questions. A motion was made by Commissioner Salomon and seconded by Commissioner Nelson, to recommend to support staff's recommendation to the full Commission. Affirmative votes were cast by Commissioners Merkowitz, Salomon, and Nelson.

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 11:51 a.m.

Respectfully submitted,

Chelsea Andrews
Secretary-Treasurer

/amb

Emergency Procurement
Approval Request

WESTWOOD TOWER

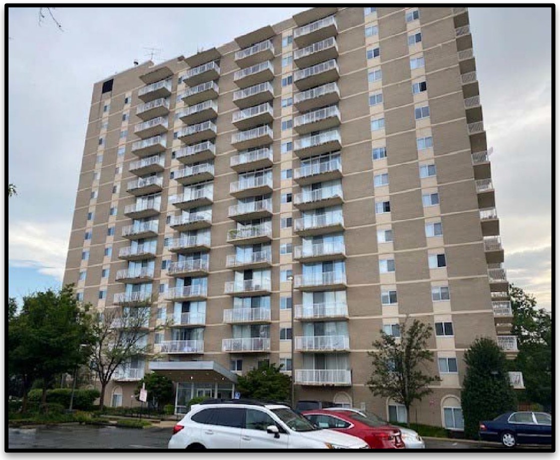
EMERGENCY FIRE PANEL APPROVAL

Chelsea Andrews, President

John Wilhoit, Vice President, Asset Management
Zachary Marks, Senior Vice President, Real Estate

Development & FInance Committee
December 1, 2023

Executive Summary - Overview



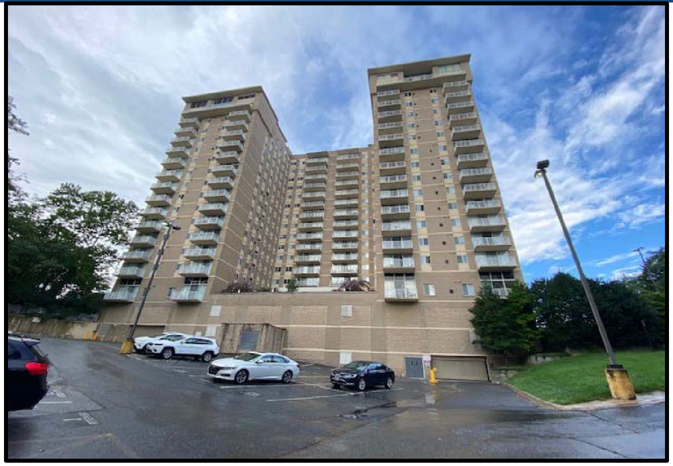
Built in 1968, Westwood Tower in Bethesda, MD, is a 15-story multifamily building with 212 units, and a current occupancy rate of 96%. It offers a diverse range of living options, including 94 one-bedroom units, 72 two-bedroom units, 18 three-bedroom units, 26 studios, and two five-bedroom penthouses, and caters to individuals, couples, and families. The property comprises a diverse affordability mix, including 154 market-rate units, 11 units set at 30% Area Median Income (AMI), three (3) units designated at 40% AMI, 36 units at 50% AMI, and eight (8) units at 80% AMI. The consistently high occupancy rate highlights the desirability of Westwood Tower, indicating resident satisfaction with the varied unit options and the quality amenities that foster a strong sense of community. Comprehensive renovation of the property was last completed more than a decade ago. Staff built a scope of comprehensive renovation in 2021, but the work has been delayed for legal reasons.

PURPOSE: Westwood Towers (the "Property") requires emergency replacement of the building's fire panel and associated system infrastructure. This request is for the President/Executive Director to be authorized to execute a contract with Summit Fire & Security for $470,570 for the replacement of the fire panel at the Property. The request is being advanced under the emergency provisions of the Procurement Policy, Section 5.6 to expedite ordering, permitting, and other start up costs.

BACKGROUND: The fire panel for the Property has reached end of its useful life, is inoperable, and cannot be repaired. The Fire Marshal has determined that the building cannot continue to be operated without full repair of the system and that fire watch must be placed until then. With concurrence from the Fire Marshal, HOC's Vice President of Property Management is installing 24-hour fire watch as of November 21, 2023.

Fire watch entails HOC's hiring specialized temporary staff with an estimated cost of **$6,000 per week**. The operational impact will be significant. The fire panel work was previously scheduled in 2022. The selected vendor, once awarded, presented change orders that increased the price by $150,000. The work did not proceed at that time..

Westwood Tower-Fire Panel



Westwood Towers requires emergency replacement of the building's fire panel and associated system infrastructure. The fire panel is the brain or central processing unit of the fire system. It accepts the signals from the fire alarm components (e.g., pull stations, smoke detectors, heat detectors, etc.) and then activates the alarms (audible-horns, alarm bells, voice alarms, and visual-strobes). It also contacts the monitoring company via connected phone line.

Due to the age of the system and the recent problems with the voice system, replacing all obsolete equipment with the latest model and technology available is required. This includes all fire panel components, voice controls, amplifiers, and XPP boards located in remote transponders. Smoke detectors, notably the ionization type, will also be replaced due to age and discontinuance. The system is no longer operational and has unrepairable trouble faults. There are frequent false alarms, which are disruptive to residents. These are signs of impending failure, which the Fire Marshal has cited in his determination of non-operability. Materials needed for repairs are no longer available for the existing system; so, a replacement system will be required.

Fire Panel Replacement Schedule

Below is a conservative estimate on scheduling and progression of the project:

- 8 weeks submittals
- 4 weeks review/permits
- 14 weeks on-site work

Total Estimated Duration To Complete: 26 weeks

HOC's Property Management staff requested refreshed bids in recent weeks, including commentary on the timeline to complete the installation. Work will begin within five to ten working days of when the contract is awarded. The total expenditure for replacement of the fire panel, from two recent bids are as follows:

Summit Fire & Security - $470,570
VSC Fire and Security - $471,700

A bid from a third firm was solicited, but it declined to submit.

Summary and Recommendations

ISSUES FOR CONSIDERATION

Does the Development & Finance Committee support the recommendation of staff for the Commission to:

1. Approve to enact the emergency procedures of Section 5.6 of the procurement policy to replace the fire panel at Westwood Tower?
2. Authorize the President/Executive Director to negotiate and execute a contract with **Summit Fire & Security** to complete the full scope replacement of the fire panel at Westwood Tower at a cost of $470,570?

BUDGET IMPACT

The fire panel is an essential component to life safety operations at Westwood Tower. To that end, impact to the Westwood Tower Capital Budget is significant at $470,570, or an increase of $420,570, which is proposed to be funded from the property's replacement reserve account. The balance as of November 1, 2023 is $694,624.

The impact to the Operating Budget is an increase of approximately $160,000 for firewatch for the duration of the installation. To offset the impact to HOC's operating budget, the contribution to the Debt Service Account can be reduced to cover this unexpected expenditure.

A budget amendment will be presented to the BF&A Committee for approval by the Commission at its meeting in January 2024.

TIME FRAME

For discussion at the Development & Finance Committee meeting on December 1, 2023, and formal action by the Commission on December 13, 2023.

STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

Staff recommends that the Development & Finance Committee support its recommendation to the Commission to:

1. Approve the enactment of the emergency procedures of Section 5.6 of the procurement policy to replace the fire panel at Westwood Tower; and
2. Authorize the President/Executive Director to negotiate and execute a contract with Summit Fire & Security to complete the full scope replacement of the fire panel at Westwood Tower at a cost of $470,570.

M E M O R A N D U M

TO: Housing Opportunities Commission of Montgomery County
Development and Finance Committee

VIA: Chelsea J. Andrews, President/Executive Director

FROM: Division: Real Estate
Staff: Zachary Marks, Senior Vice President, Real Estate
Gio Kaviladze, Senior Financial Analyst

RE: **Garnkirk Farms Apartments**: Approval to Submit a 9% Low Income Housing Tax Credit ("LIHTC") Application for Garnkirk Farms Apartments

DATE: December 1, 2023

STATUS: Consent_____ Deliberation __ X _ Status _____ Report _____ Future Action _____

OVERALL GOAL & OBJECTIVE:
To authorize staff to submit a 9% LIHTC application for Garnkirk Farms Apartments in Clarksburg, MD.

BACKGROUND:

Garnkirk Farms Apartments ("Garnkirk") is a 184-unit family rental development located at Garnkirk Square at Shawnee Lane and Observation Drive in Clarksburg. HOC staff introduced the development opportunity to the Commission on February 3, 2021. It was subsequently approved by the Commission on March 3, 2021. As multifamily rental development opportunities are limited in Clarksburg and community opposition can be strong, the already entitled project by the owner of the property, the Duffie Companies ("Duffie"), allowed HOC to enter into the transaction having avoided that political and entitlement risk.

The Commission formally closed on the 99-year Ground Lease on September 17, 2021, and subsequently approved a predevelopment budget and funding at the November 3, 2021 meeting of the Commission, for $5,344,731, using the PNC Bank, N.A. Real Estate Line of Credit ("RELOC") as the funding source. Repayment of the RELOC will occur at the closing of the construction loan financing in approximately Q4 CY2024 to-Q1 2025. Execution of the Ground Lease permitted HOC and RJD Real Estate Advisors, LLC ("RJD"), a Duffie affiliate, to enter into a Predevelopment Services Agreement to allow RJD to continue to provide vertical design management consulting services during the predevelopment period.

Garnkirk Square is a community of 392 residential dwelling units (including a minimum of 12 5 MPDUs) consisting of 18 single family detached units, 190 townhouses, and 184 multifamily units in Clarksburg, Montgomery County, Maryland. The multifamily component of the community is the final phase of the development.

As the arrival point to the community, Garnkirk will complement the classic and current architecture of the Clarksburg Square community while introducing modern elements and amenities. Among the designers' guiding principles is a prevailing theme of connection, sustainability, and the creation of long-term value.

Unit Mix

The property will be comprised of studio, one-, two- and three-bedroom units. Of the total 184 units, 53 (29% of total units) will be three-bedrooms and 51 (28%) will be two-bedrooms, each having two bathrooms that are more suitable for family occupancy. The development will include a 301-space parking structure, including at least 19 parking spaces for electric vehicles.

Design and Sustainability

The property is designed to meet LEED Platinum and Energy Star Indoor Air Quality Plus certifications. The Garnkirk team has focused on creating a highly efficient property without sacrificing comfort or value. Rather than building to "code minimum" and pushing investments in sustainability down the road, the Garnkirk design team is performing the analysis from the onset to optimize construction and maximize long-term value.

At the leading edge of sustainability, the Garnkirk project is conceived as a fully electric Net Zero Energy Ready development and meet many of the goals outlined in Thrive Montgomery 2050 (Montgomery County's draft update to its General Plan, which is the blueprint and guiding policy document for future growth and development in the County). Early energy modeling by Jay Hall and Associates and photovoltaic design by Aurora Energy confirm the project's viability to be among the largest Net Zero Energy multifamily projects in Montgomery County and the broader DC Metro area.

The project's accessibility consulting team serves as an impartial reviewer of accessibility compliance. While the Americans with Disabilities Act ("ADA") and Federal Fair Housing Act ("FFHA") are more than 25 years old, accessibility compliance remains a challenging prospect for many property owners. The project team understands that the project's function must go hand in hand with its form.

An early focus on the elements of Universal Design and accessibility will position Garnkirk as a project designed for equitable enjoyment by all residents. In addition to lifelong accessibility needs, sudden accidents or the long term effects of illness can create mobility problems, visual and auditory impairments, or cognitive decline. The Garnkirk designers hope to limit the impacts of these challenges. Examples of Universal Design elements incorporated into the project include, but are not limited to, elevator access to all levels, enlarged door widths, enlarged hallway and travel paths, in wall blocking for grab rails and seats, and solid rollable flooring surfaces.

Services to Residents

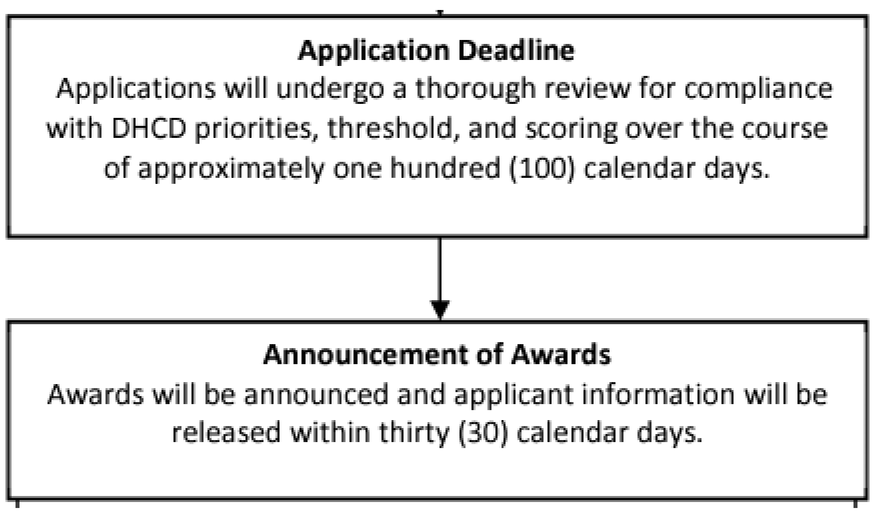
In addition, staff is working with Family Residences & Essential Enterprises (FREE) to potentially offer supportive housing opportunities for underserved target populations with special housing needs. Since 1977 FREE has served underserved populations in Suffolk County, Nassau County, and New York City. FREE's programs are designed to support people with traumatic brain injury, mental health, behavioral health, and/or substance abuse issues, in addition to intellectual and/or developmental disabilities (ID/DD). FREE currently serves over 4,000 individuals annually with a total workforce exceeding 2,600 employees at more than 25 programs and over 150 sites throughout the Long Island and New York City Region. FREE offers an array of services including: housing, recovery services, transition to work, employment, community and family services, financial intermediary and self-direction services, health care, and advocacy programs.

Staff continues to work with the design and development team to progress through schematic design, building programming, and sustainability goals. The development team is finalizing the Building design process and has started site and building permit submission and review processes. Building permit approval and construction closing are expected in the second half of CY2024 or first half of CY2025.

LIHTC Self Scoring/Competitive Project
Staff believes that the property's unique combination of unit mix, design characteristics, sustainability, accessibility characteristics and features, and additional supportive unit features and services offers it a competitive mix of features for a successful 9% LIHTC application.

Applicant Self-Scoring	**Maximum Possible Points**	**Garnkirk Farms Applicant Self- Score (Est)**
4.1 Capacity of Development Team	**74**	74
4.2 Community Context	**16**	16
4.3 Transit Oriented Development	**8**	2
4.4 Public Purpose	47	39
4.5 Leveraging and Cost-Effectiveness	25	25
4.6 Development Quality	33	33
Total	**203**	**189**

LIHTC Application Schedule
Application deadline is December 15, 2023. Awards will be announced in Q2 of CY2024.



ISSUES FOR CONSIDERATION:
Will the Development and Finance Committee join in the staff's recommendation to the Commission to authorize staff to submit a 9% LIHTC Application for Garnkirk Farms Apartments?

BUDGET/FISCAL IMPACT:
There is no impact on the Commission's FY 2024 operating budget. The application submission will be funded by the previously approved Predevelopment budget and funding from the PNC Bank, N.A. Real Estate Line of Credit ("RELOC").

PRINCIPALS:
HOC at Garnkirk Farms, LLC.

TIME FRAME:
For consideration by the Development and Finance Committee on December 1, 2023, and formal Commission action on December 13, 2023.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:
Staff recommends that the Development and Finance Committee join staff's recommendation to the Commission to authorize staff to submit a 9% LIHTC Application for Garnkirk Farms Apartments.

Springvale Terrace: Approval to Submit Faircloth-to-RAD Application for Springvale Terrace

Use of HOC's Faircloth Capacity to Create New Project Based Section 8 Units

CHELSEA ANDREWS, President/Executive Director

ZACHARY MARKS, Senior Vice President, Real Estate

Development & Finance Committee
December 1, 2023

Table of Contents

Executive Summary

Enterprise Community Development ("ECD") has partnered with Seabury Resources for Aging ("Seabury") to redevelop Springvale Terrace, an existing senior community that has been unable to achieve stabilized occupancy for many years. The existing Springvale Terrace is a 100% affordable assisted living community that provides independent living and all three levels of assisted living.

The County's Department of Housing & Community Affairs ("DHCA") has provided significant financial support over the years to try to rectify operations at the property. However, the combination of very small unit sizes (averaging 280 SF) and the challenges of the affordable assisted living model ultimately proved too difficult to overcome for the property.

The redevelopment plan replaces the existing Springvale Terrace with more than 230 units – all affordable, all restricted to residents 62 years of age or older. The new Springvale Terrace will be an active adult community with no medical services provided.

Recently, ECD approached HOC to discuss placing up to 48 units of Project Based Section 8 assistance at the new Springvale Terrace via HUD's Faircloth-to-RAD program ("F2R"), which allows HOC to access its unbuilt capacity within the Public Housing program to create new subsidized units via immediate conversion under the RAD program. Given HOC has nearly 700 units of capacity under this program, staff recommends deploying these vouchers as a means to more efficiently bring this subsidy into service for County residents.

Springvale Terrace

F2R Placement Overview

Subsidized units created via the Faircloth-to-RAD program have similarly lower payment standards to those of existing Public Housing converted under RAD. For HOC's RAD conversions, the payment standard was usually between 35%-38% of the area median income ("AMI") (as compared to a typical voucher that pays at or above 60% AMI). This shortfall in payment standard created a larger-than-normal gap in the construction financing stack and required HOC equity contributions and County cash flow contingent financing.

Unit Type	*Median Income*	*Number of Units*
1 BR	30%	40
1 BR	50%	74
1 BR	60%	67
1 BR	80%	44
2 BR	30%	4
2 BR	50%	3
2 BR	60%	3
2 BR	80%	2

The introduction of these F2R units to the existing financing for the new Springvale Terrace may decrease net operating income available to service senior debt, even with affordability already ranging from 30% AMI to 80% AMI. Fortunately, DHCA has committed to providing the additional HIF needed to offset a loss in senior debt proceeds (currently estimated to be no more than $1.7MM). Staff is not recommending any HOC support other than the provision of the F2R units.

HUD has recently made changes to further streamline the F2R process and to support the successful inclusion of F2R units in developments, as detailed in Notice H-2023-08. Two key new tools provided by the notice are a $250 per unit per month ("PUPM") rent supplement for any new construction placement of F2R units and the ability of Housing Authorities to use their reserves to further increase the payment standard. Staff is not recommending the use of reserves here.

Enterprise

Enterprise has over 35 years of excellence in building, preserving and operating affordable homes to uplift residents and communities. Enterprise has numerous business channels including real estate development, LIHTC equity syndication, lending, policy, and philanthropy. Enterprise houses more than 21,000 residents in its extensive owned property portfolio.

Seabury Resources for Aging® 1924 Celebrating 100 Years 2024

Founded in 1924, Seabury provides personalized, affordable services and housing options to help older adults live with independence and dignity. Programs include: age in place services, care management, management, transportation, & social programs. Seabury owns 3 DC-area properties, including Springvale Terrace.

Previous PBS8 Placements

Victory Crossing

- Senior, active adult.
- 100% affordable (LIHTC)
- Developed by Victory Housing
- HOC has 21% ownership of the general partner.

Units at the Property:
105

PBV via RAD:
49

Victory Haven

- Senior, active adult.
- 100% affordable (LIHTC)
- Developed by Victory Housing
- HOC has 21% ownership of the general partner.

Units at the Property:
72

PBV via RAD:
30

Park View at Aspen Hill

- Senior, active adult.
- 100% affordable (LIHTC)
- Developed by Pennrose
- HOC has 21% ownership of the general partner.

Units at the Property:
120

PBV via HOTMA:
26

Summary and Recommendations

ISSUES FOR CONSIDERATION

Does the Development & Finance Committee join staff's recommendation to the Commission to authorize the submission of an application to the Faircloth-to-RAD program for up to 48 units to be placed at Springvale Terrace?

BUDGET/FISCAL IMPACT

There is no direct impact on the Agency's FY24 operating budget from this action and there is no fiscal impact.

TIME FRAME

For consideration by the Development and Finance Committee on December 1, 2023, and formal Commission action on December 13, 2023.

STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

At 700 units of capacity, and low payment standards relative to typical vouchers, subsidy remaining under the Faircloth limit will be slow to deploy. Partnering with affordable housing developers already in progress on entitling new communities will expedite the creation of more subsidized units for households with the greatest rental assistance needs.

Staff asks the Development & Finance Committee to join staff's recommendation to the Commission to authorize the submission of an application to the Faircloth-to-RAD program for up to 48 units to be placed at Springvale Terrace.

HOC's Scattered Site Portfolio: Strategic Update

A Sustainable Approach to Capital Expenditures & Operations

Chelsea Andrews, President

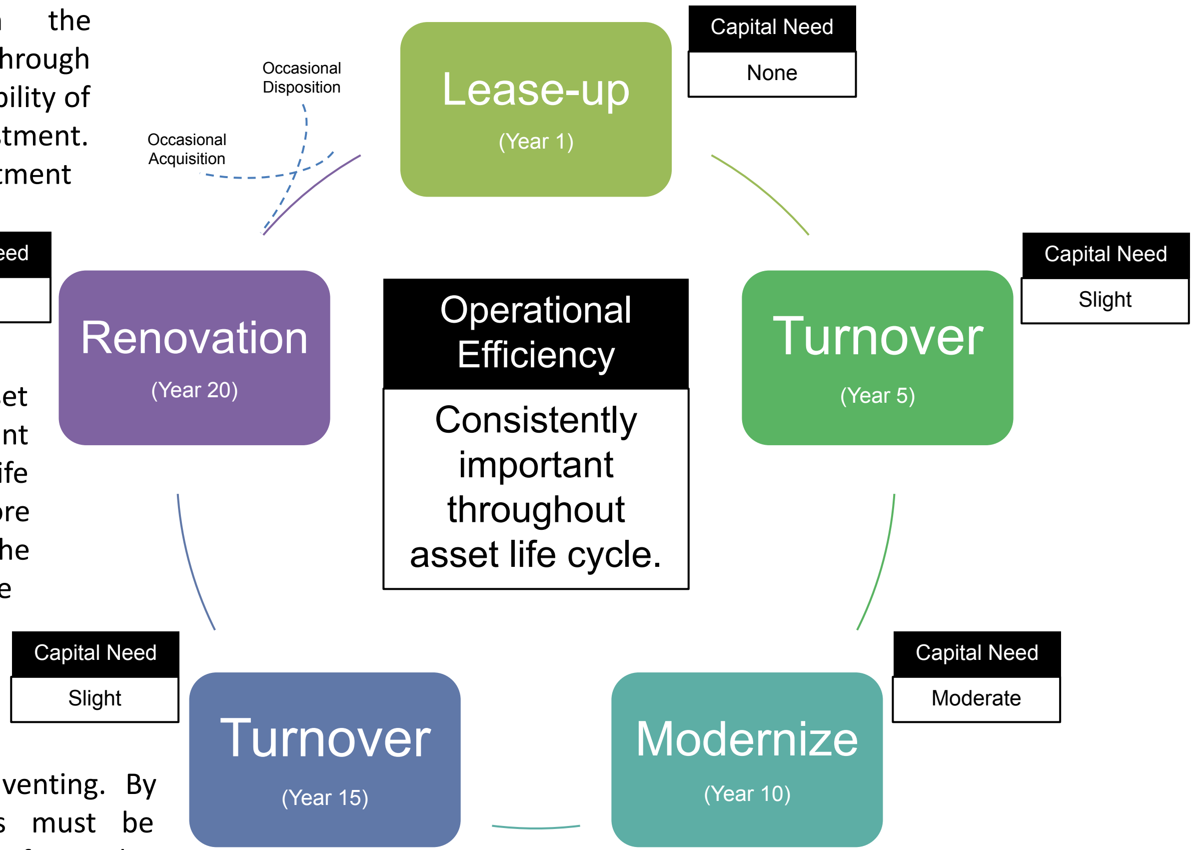
Zachary Marks, Senior Vice President, Real Estate
John Wilhoit, Vice President, Asset Management
Ali Ozair, Vice President, Property Management
Sean Asberry, Vice President, Maintenance

December 1, 2023

Executive Summary

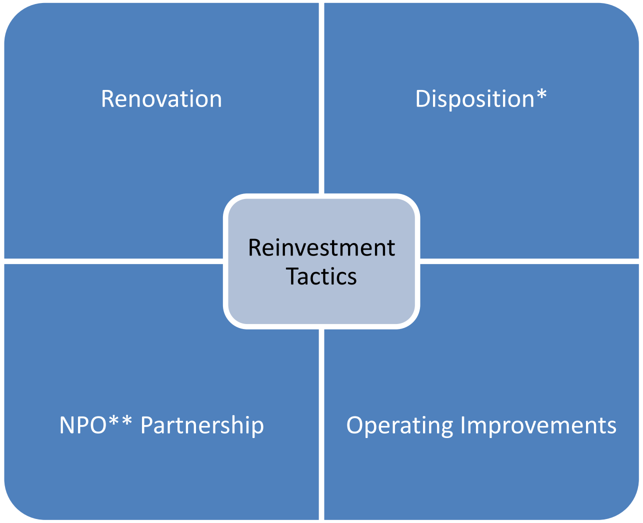
Asset management focuses on the maximization of cash flows through operational efficiency and on the durability of cash flows through capital reinvestment. Certainly, at the point at which reinvestment is most recent, there are opportunities to improve upon the previous operating history.

Generally, though, efficient asset operations are consistently important throughout the twenty-year asset life cycle. Capital needs are much more volatile with a moderate peak near the tenth year and a major peak around the twentieth year.



The tenth-year peak is driven by the replacement of items like appliances gutters, exterior painting, ceilings and venting. By the twentieth year, major systems must be replaced. Even with appropriate levels of annual capital reserves contributions, need in the twentieth year often requires significant reinvestment. This key moment is easier to meet for a multifamily asset. For individual single-family homes, options are more limited. Staff will describe the best four from those options: operational improvement (allowing for greater net cash flows or increased supportable debt proceeds), renovation, replacement (i.e., select unit disposition offset by acquisition of new unit), and partnership with non-profit organizations (to augment renovation bandwidth and increase access to grant and other favorable funding).

Executive Summary



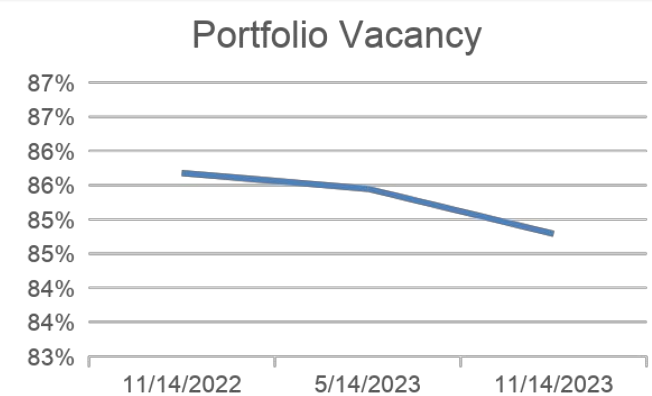
* Should the Commission wish to maintain the existing portfolio size, staff would pair an acquisition framework with this tactic.
**Non-profit Organization.

To meet the reinvestment needs of HOC's 1733 scattered site units ("Scattered Sites"), staff is recommending a four-pronged strategy:

- **<u>Renovation</u>**: Priority on younger units with lower capital needs in desirable locations (e.g., areas of high opportunity, neighborhoods with limited HOC inventory.
- **<u>Disposition</u>**: Priority on older units with high capital needs in areas where either HOC has an abundance of inventory or has ample opportunity to acquire new MPDUs.
- **<u>NPO Partnership</u>**: Direct a portion of units for renovation, disposition, or both through NPO partners; which will augment annual capacity for portfolio renovation and utilize grants and other capital available to those NPOs.
- **<u>Operating Improvements</u>**: Staff is placing a renewed focus on increasing occupancy, improving revenue, and reducing operating expenses. Increased net operating income would allow for the generation of some debt proceeds.***

Staff has already identified the vacancy rate for the Scattered Sites as a core issue to be remedied. The portfolio itself has largely hovered around 85% occupied. Though the occupancy is not evenly distributed across the 27 different ownership entities, Property Management staff is implementing changes designed to improve leasing and retention across the Scattered Sites. This will primarily be accomplished through the reunification of Scattered Site management, which will both provide customers with a more consistent experience and allow for better performance of application and leasing processing. The centralized approach to the Scattered Sites will also create the opportunity to develop a new marketing strategy and prospective resident interface.

Operational Need



***Or increased contributions to capital reserves.

Executive Summary

Keys to Effective Asset Management

Ownership and Operations:

- **Property Management**: Responsible for day-to-day operations, tenant relations, maintenance, and rent collection.
- **Asset Management performs Financial Performance Monitoring**: Tracks key financial metrics such as occupancy rates, rental income, and operating expenses.

Capital Expenditures (CapEx) and Renovation:

- **Maintenance Planning**: Develop a proactive maintenance plan to preserve property value.
- **Renovation and Upgrades**: Evaluate the need for and impact of renovations or upgrades on the property's overall performance. Use PNAs as prudent or necessary.

Financing and Refinancing:

- **Debt Management**: use of low leverage loans and explore refinancing when advantageous.

Portfolio Optimization through proactive asset management:

- **Performance Monitoring**: Consistently evaluate the portfolio revenue and opex.
- **Performance Reporting**: Regularly provide reports on the financial and operational performance of the portfolio.

Dispositions:

- **Consider selling underperforming assets**: those over a certain age, or those that no longer fit with portfolio strategy.
- **Dispositions Timing**: Determine the optimal time to sell individual assets based on market conditions and portfolio objectives. Develop a strategy for the disposition of assets, including marketing and sales approaches.

Acquisitions (Only relevant as Dispositions are considered and replacement units are needed):

- **Due Diligence**: Evaluate the property's physical condition, market conditions, financing (if any) and geographic dispersion.
- **Financial Analysis**: Assess the property's potential rental revenue rate as an affordable asset, cash flow, and overall financial viability.

Executive Summary

Key Element: Clarity of Business Model

- Rebrand the scattered site assets within the HOC portfolio as a business unit represented as a valuable asset base with public purpose.
- Represent the business unit as a stellar representation of how to deploy affordable housing throughout our region.
- Retain the best of these assets, and redeploy capital for improvement and replacement as an essential strategy to maintaining sustainability.

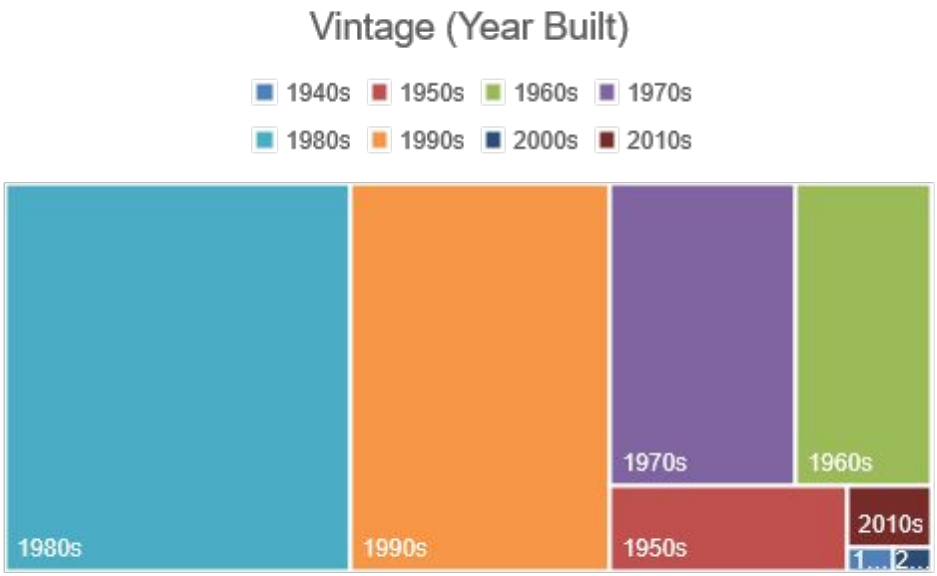
Key Element: Sustainability

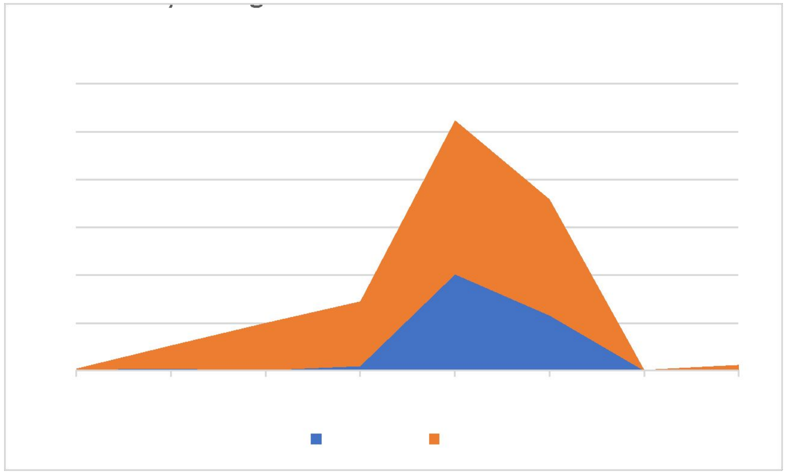
- Cash flow enhancement from proactive Property Management (retaining high occupancy)
- Appropriate reinvestment via rolling redevelopment (CAPEX)
- Performance Management (Revenue and OPEX monitoring)
- Financing Structure: operate in a high DSC environment (low leverage)
- Selective dispositions of vintage assets replaced with newer stock (improving average age)
- Continued geographic dispersion

Portfolio Vintage

HOC's portfolio of scattered site units was acquired over five decades – from 1977 through 2016 – largely via HOC's right to purchase units as part of the County's moderately priced dwelling unit ("MPDU") program. Chapter 25A of the Montgomery County Code affords HOC the right to purchase one-third of the MPDUs made available in developments of 20 or more units. Scattered site acquisition was one of HOC's primary channels for expanding its inventory until the 1990s.

In particular, the advent of the Low Income Housing Tax Credit ("LIHTC") program created an ample equity source for acquisition (with much of the portfolio prior to the LIHTC program coming from the Public Housing program. Other sources included State Partnership Rental Housing Program funds and McHome funds.





The units were built between the 1940s and the 2010s – the vast majority are between 30 and 50 years old. Nearly the entirety of the portfolio that has not yet been renovated is due for comprehensive renovation. The age of the portfolio sits at the center of the discussion of strategic direction. A meaningful component of vacancy is related to units being offline for renovation need. Operating expenses and capital reserve deposits escalate as existing structural and mechanical systems age. Marketability declines.

Many of the sources for funding that had originally been available for these properties are no longer. Meeting the deferred capital need through other means is thus a major part of this strategic discussion.

Property Types & Notable Characteristics

Nearly three-quarters of the Scattered Sites are townhomes. This is reflective of townhomes' being the most common for-sale property type constructed over the past few decades, and HOC simply taking its one-third share of the associated MPDU offerings. This will continue to be the case for any new MPDU acquisitions HOC may make in the future.

HOC typically views the Scattered Sites as serving families with children. This is generally supported by the product type itself – as nearly 70% of Scattered Sites are two- or three-bedroom townhomes. Anecdotally, a frequent comment from residents is that access to a backyard was the chief draw to the Scattered Sites.

Staff also often hears that a chief deficiency of the Scattered Sites is the paucity of bathrooms – usually only one full and one half bathroom. While smaller than comparable for-sale townhomes – the smaller size driven by the MPDU program allowances – the Scattered Sites are generally larger than comparable rental apartments.

As the Commission reevaluates its strategy for the Scattered Sites, staff recommends that future acquisitions prioritize units with at least two full bathrooms.

Property Types

Unit Type	*SFD*	*Townhome*	*Walk-up*	*Highrise*
0	0	0	12	0
1	0	41	19	35
2	1	172	154	0
3	44	927	42	0
4	90	60	0	0
5	5	0	0	0

Unit Type	*SFD*	*Townhome*	*Walk-up*	*Highrise*
0	0%	0%	1%	0%
1	0%	3%	1%	2%
2	0%	11%	10%	0%
3	3%	58%	3%	0%
4	6%	4%	0%	0%
5	0%	0%	0%	0%

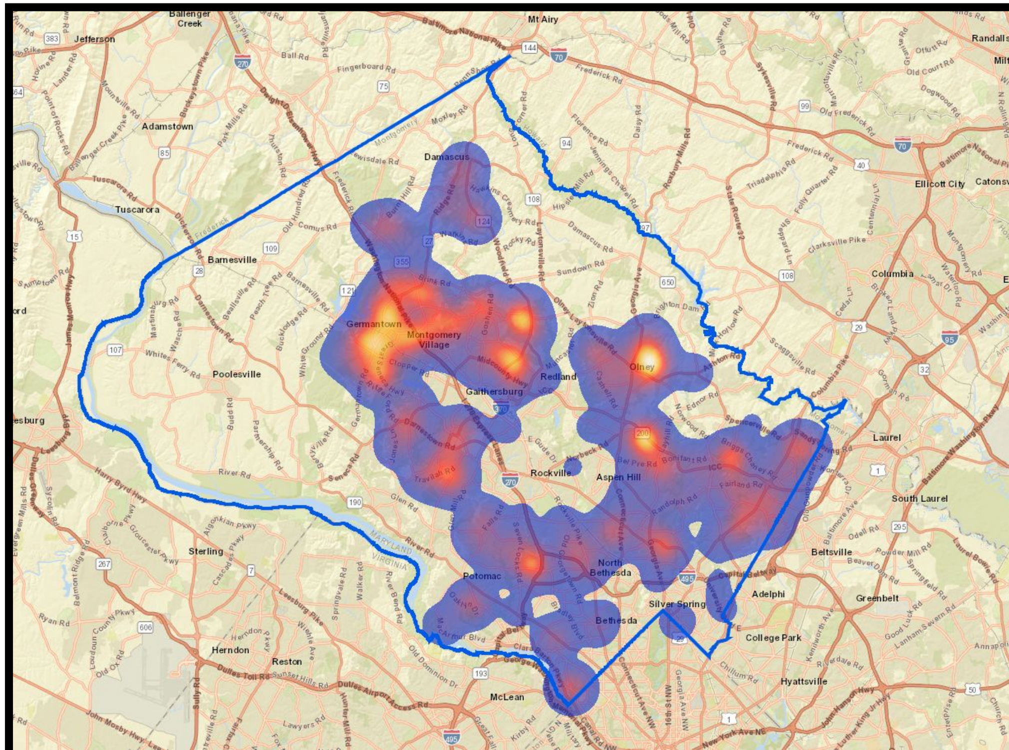
Bathrooms & Unit Size

Unit Type	*Unit Count*	*Bathrooms*	*Square Feet*
0	12	1.0	170
1	95	1.0	777
2	327	1.6	1,046
3	1,142	1.9	1,185
4	150	2.1	1,289
5	5	2.5	1,862

Geographic Dispersion

HOC's Scattered Sites are predominantly located in along an arc that stretches from Germantown, through Gaithersburg and Montgomery Village, to Olney and Layhill. Just as with property type, these locations were driven by where for-sale new construction was most active during the decades HOC was purchasing MPDUs. Despite these concentrations, the Scattered Sites do have very wide reach with units in affluent, highly desirable parts of the County. In addition, the Scattered Sites are extremely effective at providing geographical choice to HOC families.

The locational density of HOC's multifamily properties is in many ways the inverse of that of the Scattered Sites, but this is mostly just an outcome produced by the geographical bias of Montgomery County's zoning and that of the more already urbanized parts of the County.



Should HOC resume its acquisition of MPDUs, it would likely see opportunities relatively consistent with the same distribution implied by the map above. It is possible that mid-County and downcounty for-sale development will be less than that implied by the map above and upper County development more than implied by the map above. Most likely, given the dwindling parcels suitable for for-sale development in the County, there will simply be fewer for-sale communities produced as a whole (and thus fewer MPDU purchase opportunities). In any event, they will likely continue to be in the upper County.

Staff's recommendation is that while there have been previous concerns regarding "overconcentration" that disposition and acquisition opportunities should be made based on other fundamentals (as described on previous slides) as the volume of new MPDUs available to HOC for purchase will not be large enough to engender any significant Scattered Site portfolio growth.

Original Financing & Cont. Restrictions

The preponderance of the original acquisition of the Scattered Sites was completed using Public Housing funds and LIHTC equity. Neither of those sources is available to the Scattered Sites today. Staff will work to identify other feasible sources including CDBG, HOME, FHLB, and State Rental Housing Partnership. However, the core weakness of the Scattered Sites remains their ability to raise grants, governmental loans, and third-party equity.

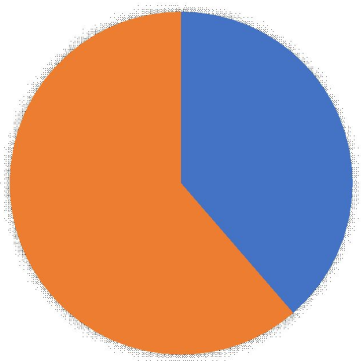
As discussed later in this packet, disposition is likely to have to play a significant role in offloading deferred need and creating additional proceeds for unrenovated units remaining in the portfolio. One major obstacle to disposition for much of the portfolio is that most of the Scattered Sites have existing use restrictions from the original financing. These restrictions are often extremely lengthy and inconsistent with the useful life of the physical structures. As these properties age, they become unable to generate sufficient income to cover both expenses and significant reinvestment. With improved operations, raising additional debt is a possibility, but one that must be balanced with other obligations of increased net cash flow.

Property Name	Units	Ownership	Affordability	Restrictions	Ext. Use Exp.
617 Olney-Sandy Spring	1	HOC	NOAH	None	None
Avondale	38	HOC	NOAH	None	None
Brooke Park	17	HOC	40%-60% AMI	HOME/HIF Funding	
CDBG	3	HOC	50% AMI		
Chelsea Towers	21	HOC	80% AMI	HUD PBRA	
Holiday Park	20	HOC	10% @ 50%; 10% @ 80%		
Jubilee	12	HOC	50% AMI	HIF Funding	
King Farm	1	HOC	Market	None	None
McHome	38	HOC	50% AMI	HIF Funding	
McKendree	13	HOC	Market		
MHLP VII	35	HOC	60% AMI	LIHTC	15 years; 2022
MHLP VIII	49	HOC	60% AMI	LIHTC	30 years; 2039
MHLP IX - MPDU	76	LP	60% AMI	LIHTC	84 years; 2094
MHLP IX - Pond Ridge	40	LP	40%-60% AMI	HOME/LIHTC	
MHLP X	75	LP	60% AMI	LIHTC	15 years; 2026
MPDU 2007 - Phase II	6	HOC	50% AMI		
MPDU I (64)	64	HOC	50% AMI		
MPDU II - TPM Dev. Corp.	59	DC	30% @ 50% AMI		
MPDU III - Sligo Dev. Corp.	23	DC	22% @ 50% AMI		
NCI 1	14	HOC	50% AMI		
NSP 1	7	HOC	50% AMI		
Paint Branch	14	HOC	80% AMI	HUD PBRA	
Pomander	24	HOC	60% AMI/Market		
SS1 Dev. Corp.	190	DC	12% @ 50%; 54% @ 60%		2041/2052/2053
SS2 Dev. Corp.	54	DC	13% @ 40%; 57% @ 50%		
SRHP (Combined)	196	HOC	50% AMI	State RHP	
VPC 1	399	DC	15% @ 50%; 83% @ 80%	HUD Extended Use	
VPC 2	280	DC	27% @ 50%; 74% @ 80%	HUD Extended Use	
	1,769				

Staff will be committing resources to negotiating the release of as many existing regulatory restrictions as possible. No changes in affordability will be made without Commission approval even if restrictions are released.

Reinvestment Framework

Capital Need



Unrenovated: 1,063 | Renovated: 670

About 39% of the Scattered Sites have been renovated since acquisition. All renovations were performed as part of the Section 18 disposition that took place between 2011-2017.

Low End
@ $50,000/unit
$53,150,000

High End
@ $100,000/unit
$106,300,000

Since then, HOC has faced numerous obstacles in reconstituting its ability to comprehensively renovate the balance of the portfolio. Many of the general contractors that had previously been interested in the work became much busier in succeeding years and instead focused on multifamily construction. Then cost inflation doubled the projected cost of scattered site unit renovations, which staff then paused to confront. Ultimately, staff came back to the Commission with a recommendation to do smaller batches of renovations and to use smaller contractors. For the renovations completed between 2011-2017, batches were often 50-100 units per contractor. In the first new batch since 2017 approved by the Commission on November 15, 2023, ten units were awarded. The smaller batch size has allowed for improved prospects of minority, female, and disabled ("MFD") selection. In fact, the ten units just awarded to an MFD-certified firm.

Given the size and scattered nature of the Scattered Sites, it is very difficult to maintain a true estimate of outstanding need. Staff instead recommends placing all units on a twenty-year reinvestment cycle and projects a long-term renovation need of approximately $50,000. As many of the 1,063 unrenovated units have had no meaningful reinvestment since being originally constructed, the first average cost of the first renovation may be higher.

Reinvestment Cycle

- Twenty years

Renovations per Year

- 87 Units

Projected Cost per Year

- $4,350,000 ($50,000/unit)

Strategic Outline

Annual Trackable Metrics

Capital

Units Renovated
Number of units comprehensively renovated per year.

Cost per Unit Renovated
Cost per unit for those renovated per year.

Average Portfolio Age
Age of all units in the portfolio with renovations and acquisitions reducing age.

Operations

Vacancy Rate
Portfolio-wide vacancy rate as compared to the previous year.

Revenue over Budget
Actual revenue over amount budgeted for the year.

Expenses below Budget
Actual expenses under amount budgeted for the year.

Compliance

Recertifications
Average time to complete resident recertification.

Move-ins Processed
Average time to complete move-in document process.

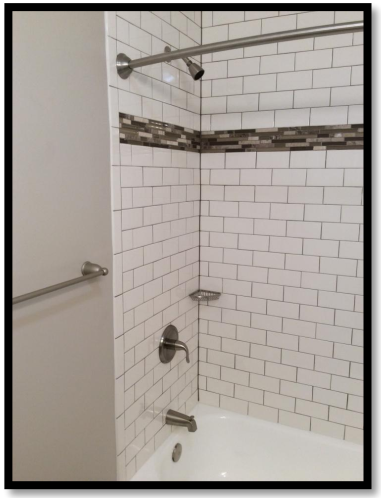
Audit Pass Rate
Compliance audit passage rate for files evaluated per year.

The above-identified metrics should provide the Commission a consistent and cogent view of the Scattered Sites' status. Consistent capital reinvestment and improved compliance-related functions should both feed into demonstrably improved operations.

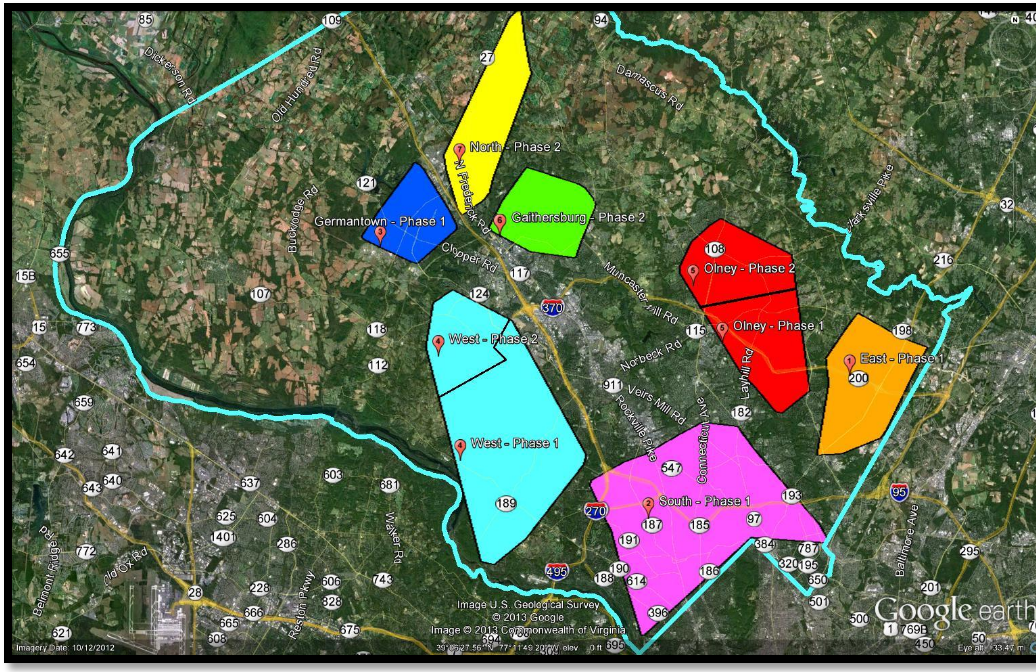
Renovation Package

COMPREHENSIVE SCOPE COMPONENTS

- Exterior: roof, gutters, siding
- Accessibility: numerous site and unit improvements
- Windows: new dual-pane, Low-E
- Systems: new high-efficiency HVAC
- Kitchens: new cabinetry, new fixtures
- Bathrooms: new toilet, new sink/tub, new fixtures
- Finishes: new floors, fresh paint
- Lighting: modern fixtures, LED bulbs, overhead light
- Appliances: all new, Energy Star



Renovation Capacity



Between 2014 and 2017, HOC renovated 670 of its scattered site units that were converting from Public Housing to be owned by HOC via VPC One and VPC Two development corporations. When HOC issued a request for qualifications in 2013 (RFQ #1867) to form a pool of contractors for the renovation of those scattered site units, it received 27 responses. HOC selected five firms to assign seven geographically concentrated batches. Construction began in 2014 and concluded by 2017, averaging 167 completions per year. Units were renovated both vacant and occupied (i.e., residents in place).

While the scope of renovations was comprehensive, it often left certain exterior items out if there wasn't near-term need. It did so as that work would have been too invasive for in-place, occupied renovation. Once the renovations were complete, HOC ceased accessing this pool. In successive years, changes in the marketplace caused some of the contractors from that pool to lose interest in scattered site renovation. HOC was also confronted with substantially higher pricing from those still willing to bid.

With the award on November 15, 2023, of the first scattered site renovation contract since demobilization in 2017, HOC began to execute on a new staffing model for this work. Smaller batch sizes are being used to attract smaller contractors. The Real Estate Development division also added and filled a new Project Manager work year in construction. This addition was primarily to HOC's in-house construction team to perform scope-building walks and to inspect work progress for scattered site renovations.

As the remaining 60% of the portfolio that has never been comprehensively renovated is served, future renovations can also be accomplished in tandem between the Real Estate Development and Maintenance divisions.

Projected Need & Funding Capacity

Placing the portfolio on a rolling twenty-year cycle takes into account both a typical capital expenditures timeline and the practical reality that renovation work on the portfolio will be continuous. Assuming per-unit need of $50,000, the 87 units renovated per year would require $4.3MM in funding. At $100,000, the annual need is $8.7MM. Despite an actual cost of $140,000 per units on the 10 recently awarded units, those units were selected for their notably high need.

Twenty-year Cycle	
Total Portfolio	1,733
Renovating 5% per Annum	87
Cost per Annum @ $50K per Units	$4,332,500
Cost per Annum @ $100K per Units	$8,665,000

Continual

Annual County CIP

$1,250,000

Capitalized

Property Capital Reserves

$6,283,992

Accrued County CIP

$4,883,120

The remaining 1,063 units that have never been renovated may need between $50,000-$100,000 in work. Staff will provide ongoing updates on revised projections as each annual batch is priced. Ultimately, $50,000 will be closer to the need for successive renovations. HOC's primary sources for renovation are the annual funding from the County CIP and property capital reserves. Staff also expects to generate greater net cash flow from these properties through better operational management and making the overdue reinvestment in the portfolio. The accrued County CIP funding must be spent in the near term; so, the current fiscal year and much of the next will largely be covered by County CIP.

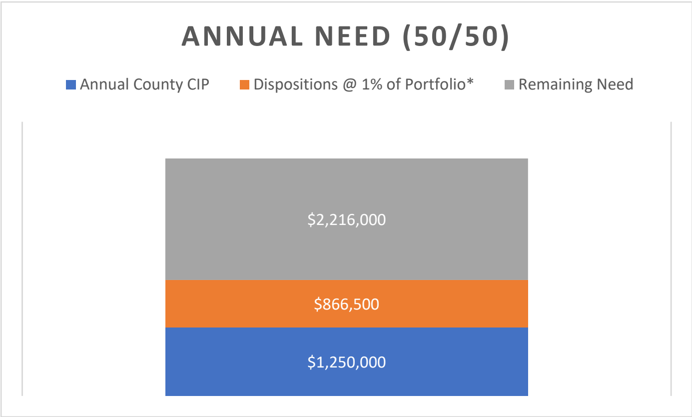
By FY26, however, HOC will need to have in place a sustainable annual funding strategy. At that point, HOC will have competed first comprehensive renovations on approximately half the portfolio (i.e., the original 670 plus two years of 87 units each). The Commission should anticipate ten additional years of elevated costs without any portfolio dispositions.

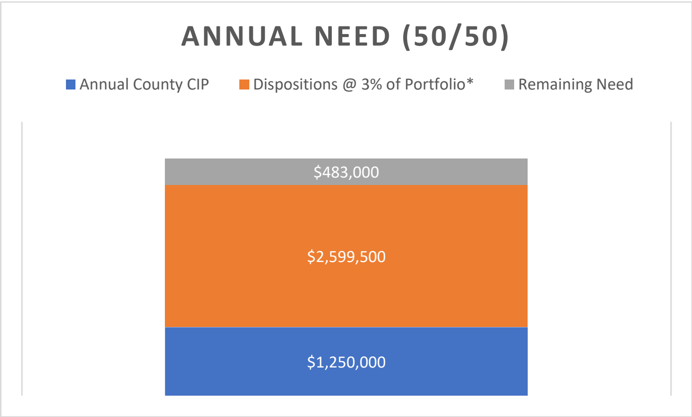
After the second decade, future renovations should stabilize at about half the average of that of the initial twenty years of renovations. It is further likely that HOC will have been able to bring renovations in house between FY26 and FY36 as future renovations benefit from better existing equipment, resolved original construction defects, and more standardization of equipment.

Disposition as a Central Strategy

Staff recommends targeted annual disposition of units as the core portfolio management strategy that best positions HOC to move through the remaining initial renovations and reach sustainable levels of need, funding, acquisition, and disposition that allow HOC to maintain the current unit count of the Scattered Site without exposing the Commission to elevated risk.

To demonstrate the importance of disposition, the exhibits below show the excess need above the annual County CIP support and annual disposition. The first scenario puts per-unit need of units to be renovated in a given year at $50,000 and per-unit need shed through annual dispositions at $50,000. This perspective is useful both in showing the likely stabilized scenario and in moderating the impact of offloading capital need.





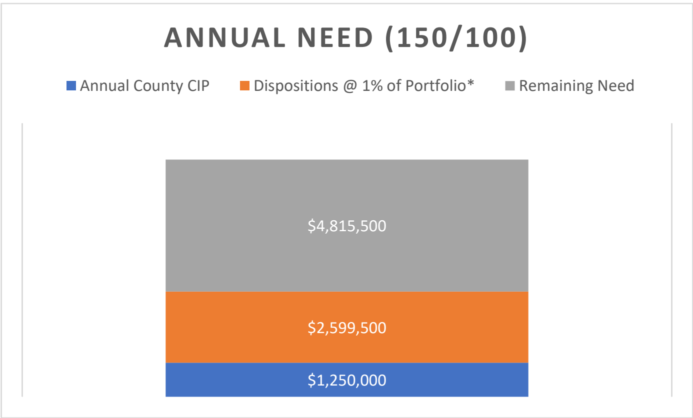
Increasing annual dispositions under this scenario from 1% of the portfolio annually (18 units) to 3% annually (52 units) reduces the excess need from $2.2MM to $463,000. At 3.6% annually (63 units), the excess need is totally eliminated. The value of this approach is in reducing the load on HOC's resources – both capital and capacity – where only 25%-30% of annual units up for renovation are actually being renovated in house.

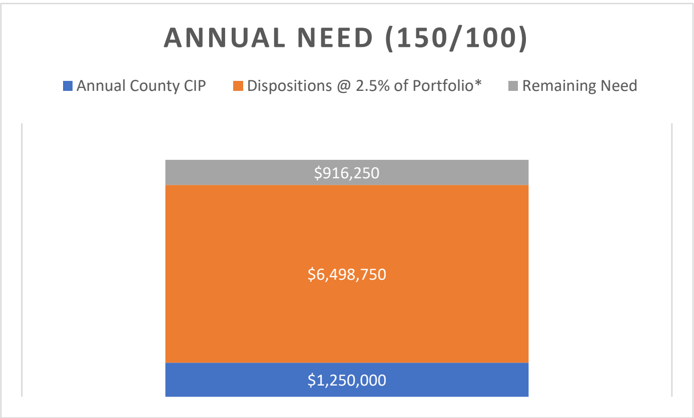
HOC would have the option to "meet need" for up to 75% of each annual group of units through disposing of that need. Staff would build and price the scope of work for all units in each annual group and could increase or decrease the number of units disposed based on that information. It could both prioritize the sale of units with relatively higher need (>$50,000) and prioritize the retention of units with relatively lower need (<$50,000).

*Assumes $50,000 in eliminated capital need via disposition.

Disposition as a Central Strategy

The second scenario puts per-unit need of units to be renovated in a given year at $100,000 and per-unit need shed through annual dispositions at $150,000. This perspective is useful both in taking a more conservative view of finishing out the 1,063 initial renovations and in demonstrating the impact of offloading capital need where need is more acute.





Higher average need across the portfolio diminishes the offset of the annual County CIP and puts greater importance on identifying additional sources of meeting and reducing need to be met. However, disposition remains a resilient strategy in this more acute cost scenario. Increasing annual dispositions under this scenario from 1% of the portfolio annually (18 units) to 2.5% annually (44 units) reduces the excess need from $4.8MM to $916,000. At 2.9% annually (51 units), the excess need is totally eliminated.

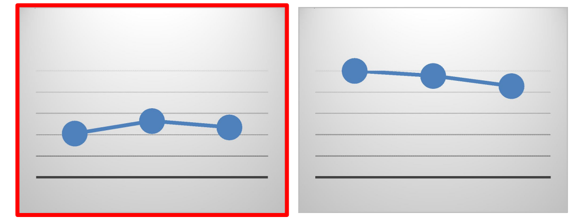
Staff is preparing to recommend several different disposition ideas that will further mission through supporting affordable homeownership, wealth-building, and capital raising. The likely first staff will bring is an arrangement with Habitat for Humanity Metro Maryland to begin buying 10 units per year (could grow to 20 per year) from HOC with a commitment to up to $150K in renovations and 30%-80% AMI restrictions on homeowners. HOC is also in conversations with other non-profits for similar agreements.

Staff will also bring forward a framework for acquisition of new units to offset dispositions. Beyond simply resuming purchasing its MPDU allotments, HOC could also target homes in areas already or likely to be upzoned. Missing middle housing could also be an additional channel for replacement.

*Assumes $150,000 in eliminated capital need via disposition.

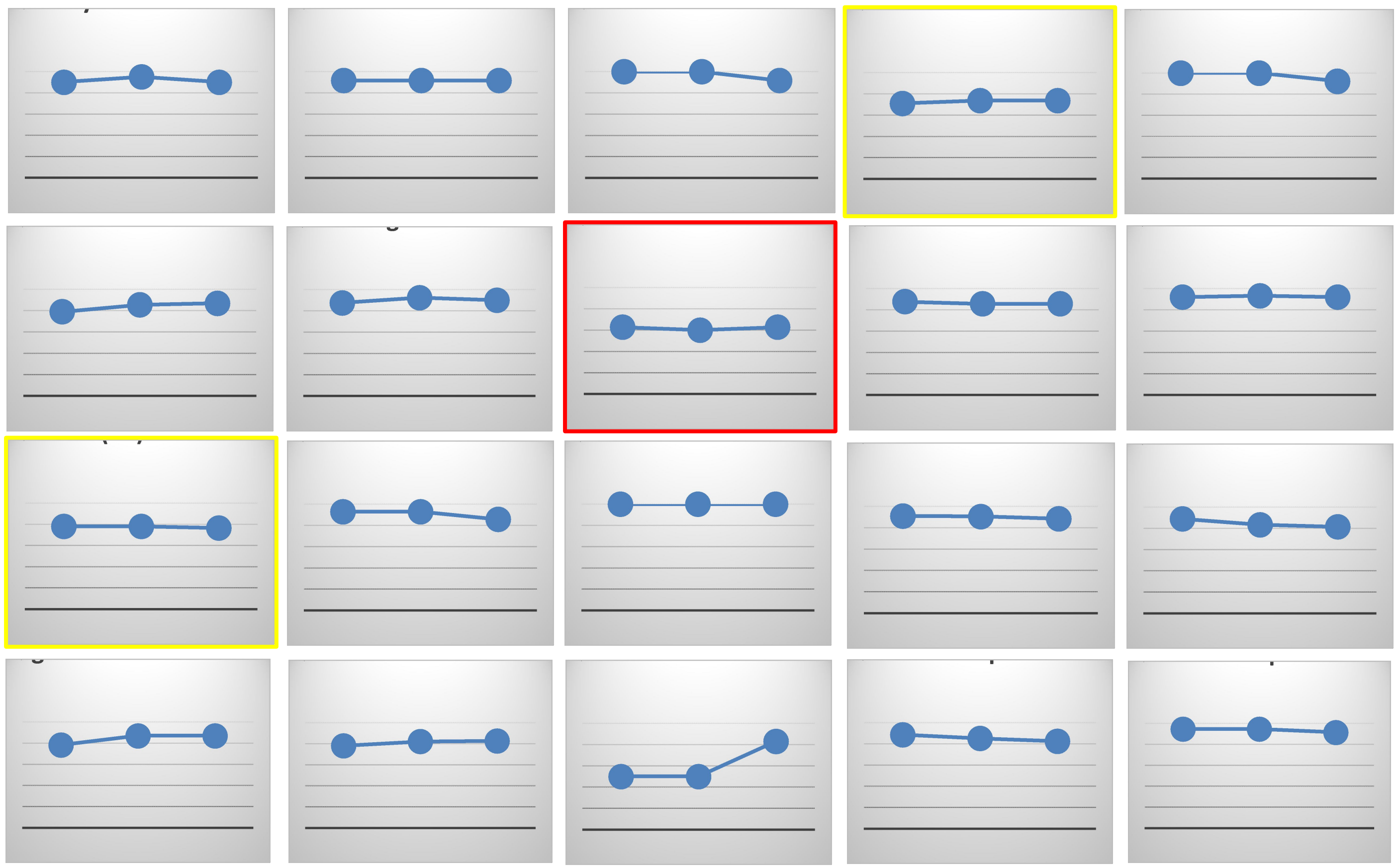
Occupancy Trends

While at levels that must be improved upon, the occupancy at the Scattered Sites has been mostly stable, as can be seen at a glance across the ownership entities. The data points show occupancy at 2Q23, 4Q23, and 2Q24. Most of the weakness in occupancy is broadly spread with most it being driven by a number of ownership entities sitting in the mid-80s. Two entities are below 70% occupancy and two entities are below 80% occupancy, but these entities own small numbers of units.



Staff is confident that organizational changes, operational modifications, and compliance process improvements currently being undertaken will resolve the legacy vacancy issue.

Staff will continue to provide both aggregate and discrete updates on performance; but on occupancy, there does not appear to be an issue specific to any particular ownership entity.



Property Management Org. Structure

Prior Structure

Property management, particularly around the Scattered Sites, has been reorganized a number of times. The most recent organization took the approach of creating five independent teams with the Scattered Sites allocated among them. Each team was led by a Property Manager. A Regional Property Manager provided the management and supervision. Residents would contact the team associated with that resident's unit for any need. All functions – certification, leasing, touring, rent posting, etc. – were self-contained within each team.

This structure had numerous practical issues including requiring a single Regional Property Manager to supervise 17 employees, a complicated work responsibilities for most employees with each team being responsible for all associated functions, and a poor customer service experience for residents.

New Structure

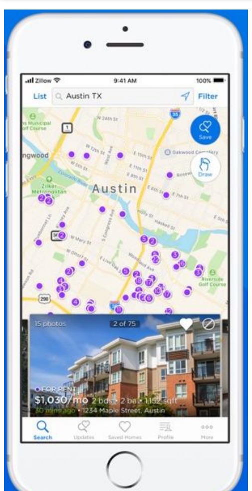
The new Property Management organizational structure resolves those issues by dividing teams functionally. This simplifies employees' work responsibilities, creates smaller teams with reduced management responsibilities for the Regional Property Manager. The Regional Property Manager's team is more narrowly focused on the resident (both prospective and existing) experience. The new Finance Manager position and team will emphasize accuracy of data (including rent and security deposit posting). The Housing Specialists will be moved under the new Leasing & Occupancy Manager position with the priority being timely processing of leases and resident certifications.

Revised Leasing & Marketing Strategies

Unified Point of Contact

The revised Property Management organizational structure creates a unified point of contact for residents. Previously, prospective residents had to wait to be connected with the correct team based on the ownership entity in which the desired unit resided, and existing residents had to call the phone number associated with the correct team based on the ownership entity in which the leased unit resided. Now, residents have a unified point of contact. All of the residents' needs are met through function teams handling narrower, simplified tasks.

Improved Interface



Staff is also looking into modernizing the way in which prospective residents can be connected with available opportunities within the Scattered Sites. Without a central office to visit, an internet and mobile presence becomes all the more important. Restructuring to form a division focused on leasing is also helpful in rolling out any new methods of marketing and lead gathering.

Independent Brand

HOC

The unique nature of the Scattered Sites relative to that of the rest of the portfolio warrants evaluating whether HOC should create an independent brand for them. HOC's multifamily properties will typically be individually named, branded, and marketed. Staff recommends developing a recognizable marketing brand for the Scattered Sites that both complements improvements in the resident interface experience and evokes the property characteristics not found in multifamily units that we so often hear from our residents as why they sought out our Scattered Sites properties.

Backyard

NEIGHBORHOOD

PORCHLIGHT

Adjourn