Housing Opportunities Commission

Development & Finance Committee

November 20, 2020

10:00 a.m. – via Zoom

Discussion Items

Discussion/Action Items

M E M O R A N D U M

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

VIA: Stacy L. Spann, Executive Director

FROM: Division: Real Estate
Staff: Kayrine V. Brown, Chief Investment & Real Estate Officer Ext. 9589
Zachary Marks, Director of Real Estate Ext. 9613
Jay Shepherd, Senior Financial Analyst Ext. 9762

RE: HOC Headquarters: Approval for the Executive Director to Execute Task Order to Engage Lerch, Early and Brewer for Legal Services

DATE: November 20, 2020

STATUS: Consent ____ Deliberation __X__ Status Report___ Future Action____

OVERALL GOAL & OBJECTIVE:
To approve legal consulting task order to Lerch, Early and Brewer ("LEB"), to provide land use and development entitlement services for the HOC Headquarters development through completion.

BACKGROUND:
The proposed HOC Headquarters development is located in downtown Silver Spring next to the Elizabeth Square developments in the Arts and Entertainment District. This development provides a rare opportunity to leverage in-place assets already operating in the community to enhance the experience of HOC's staff, its partners, and customers.

On February 8, 2019, HOC issued RFQ #2150 for Real Estate Legal Services and received 13 responses. On April 3, 2019, the Commission approved the pool of legal counsel consisting of 12 firms. The attorneys in the pool would assist HOC's staff to navigate legal issues pertaining to its real estate development and financing concerns and to ensure that the Commission successfully executes transactions while complying with complex regulatory and contractual obligations. The pool was created in lieu of adding full time staff to handle the legal workload. Legal counsel is engaged as needed under Task Orders. If services were rendered during the development phase of a project, expenses would be funded from the project's development budget, which would be approved by the Commission through its normal review and approval process. If services were rendered before a development budget is approved, expenses would be funded from the revolving Real Estate Working Capital Operating Fund ("RE Fund"), which includes a $350,000 budget for legal services. Once a development budget is approved, any funds used from the RE Fund would be repaid. Therefore, such expenditures are not expected to have an adverse financial impact on the Commission's operating budget.

For the proposed new HOC headquarters building located at Second Avenue and Fenwick Lane in Silver Spring, which will be entitled via the Mandatory Referral process, staff proceeded under a two-step engagement process for this project. The first involved a limited investigation around the issue of whether

HOC may proceed with entitlement using Mandatory Referral. Very few projects can utilize the Mandatory Referral process for obtaining necessary development approvals prior to receiving building permits and even fewer firms with specialized legal expertise were available to determine this course of action. LEB is uniquely qualified to assess the option and make a recommendation for advancement. Due to the firm's involvement, LEB was determined to be the best value for the second step, the actual filing and processing of the project, based on the Mandatory Referral process that was to be used.

The task order(s) for LEB under its pool contract will exceed $250,000 and as such, in accordance with HOC's Procurement Policy adopted on June 7, 2017, the Commission must approve the Task Order. LEB has estimated the cost to complete the associate land use work for the new HQ building to be approximately $365,000, but Staff is requesting that the Commission approve an amount up to $400,000 to include a contingency for any unforeseen issues that could arise before the project is approved.

On May 6, 2019, the Commission approved a revised predevelopment budget of $2,650,150, up from $2,116,000 previously approved in 2018, to account for the legal, application and permit fees associated with Entitlement during the predevelopment phase and affirm the funding of the budget from the PNC $60MM LOC.

Given the importance of the HOC HQ development, the Executive Director requests that the Commission approve up to $400,000 for task order with LEB to ensure sustained working knowledge and timely completion of the project.

ISSUES FOR CONSIDERATION:

Will the Development & Finance Committee join staff's recommendation to the Commission to approve a Task Order for Lerch Early Brewer to provide legal land use service for the entitlement of the HOC HQ development and for the Executive Director to execute the Task Order?

BUDGET/FISCAL IMPACT:

The Lerch, Early and Brewer task order will be funded by the HOC HQ (Second & Fenwick) predevelopment budget, previously approved by the Commission for consulting services.

The estimated total cost of the task order plus work through completion is $400,000, which includes a contingency of $15,000.

PRINCIPALS:

Lerch, Early and Brewer
Housing Opportunities Commission of Montgomery County

TIME FRAME:

For formal action at the December 9, 2020 meeting of the Commission.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

Staff recommends that Commission approve a Task Order under the current pool contract with Lerch, Early and Brewer for approximately $400,000 to provide legal land use services for the entitlement of the HOC HQ development, including authorization for the Executive Director to execute said Task Order.

Final Development Plan

Stewartown Homes

Stacy L. Spann, Executive Director

Kayrine Brown
Zachary Marks
Gio Kaviladze

November 20, 2020

Table of Contents

Previous Commission Approvals

Resolution 17-23 - Approval to Advance Funds from the Opportunity Housing Reserve Fund (OHRF) to Fund Predevelopment Expenses for Bauer Park, Town Center, and Stewartown Homes through the Submission of Low Income Housing Tax Credit Applications

Resolution 18-52 - Approval to Withdraw from the PNC Bank, N.A. Real Estate Revolving Line of Credit (RELOC) to Prepay Existing Mortgages for Georgian Court Apartments, Shady Grove Apartments, Stewartown Homes, and the Willows.

Resolution 18-29 - Approval of Preliminary Development Plans and Predevelopment Funding for Georgian Court Apartments, Shady Grove Apartments, and Stewartown Homes.

Resolution 20-07 - Authorization to Select General Contractor for the Renovation of Stewartown Homes in Accordance with RFQ #2121 and RFP #2121-01; Approval to Freeze Leasing to Facilitate Renovation; and Approval of Request for Additional Predevelopment Funds

Resolution 20-30: - Authorization to Select Low Income Housing Tax Credit Syndicator for the Renovation of Stewartown Homes and Authorization for the Executive Director to Negotiate an Operating Agreement

Executive Summary

- Stewartown Homes ("Property") was constructed in 1977 in Gaithersburg. The property contains 94 townhome units within 12 structures. Stewartown has not undergone any major renovation since 2000, other than replacements at failure and scheduled capital improvements.
- The Property has reached the end of its initial 15-year LIHTC compliance period. The project team is currently preparing for the upcoming LIHTC re-syndication and comprehensive renovation. The transaction is currently projected to close in the February or March of 2021, with renovation to start soon after. Previous tax credit investor exit process has been concluded and the Property is now fully owned by HOC.
- In 2019, staff obtained 19 project based vouchers under Component 2 of the RAD program. In September 2019, staff obtained additional funding for project based vouchers for up to 35 units under the Low Vacancy Voucher (LVV) program. Resident certification for the LVV program is currently in progress and will result in ~15 project based vouchers for the Property.
- Since 2017, the Commission has approved several actions for the re-syndication and renovation of the Property. In January 2020 the Commission approved the selection of Harkins Builders as the General Contractor for the renovation. At the same time, the Commission authorized the property to freeze leasing and hold any upcoming vacancies, up to 16 vacant units required for each phase of renovation, for the duration of the renovation. In March 2020 the Commission approved the selection of Boston Capital as the tax credit syndicator for the renovation. The LOI with Boston Capital was finalized in July 2020.
- The projected Total Development Cost is approximately $38.2 million, to be funded with HOC-issued tax-exempt bonds and FHA Risk Share mortgage (~$11.75 million), HOC-issued short-term tax-exempt bonds ($4.16 million), HOC seller note (~$11.8 million), and 4% Low Income Housing Tax Credit ("LIHTC") equity (~$8.4 million).
- The property currently has approximately $4.1 million existing debt, consisting of $1.5 million senior mortgage, $2.1 million County HIF loan, and $0.5 million HOC loan. The senior mortgage will be repaid prior to closing. Staff is seeking subordination and assignment of the County HIF and HOC loans to the new owner entity upon re-syndication, which will be included with the request to approve the financing plan.
- The renovation is scheduled to begin in March 2021 and will proceed in seven phases, with each phase consisting of 11-14 units and taking approximately 60 days to complete. As each phase delivers after renovation, tenants will move into new renovated unit. The renovation includes the conversion of five (5) units into UFAS accessible units.
- Renovation is projected to be 14-16 months in duration. The general contractor has given consideration to COVID-related issues and potential delays when developing the construction schedule.

Project Summary

Project Name	Stewartown Homes	**Units**	94	**Expected Closing Date**	Q3 FY2021
Location	Gaithersburg, MD	**Average Unit Size (SF)**	972	**Stabilization Date**	Q4 FY2022
Product Type	Townhomes	**Occupancy (11/2020)**	96%	**Recapitalization Strategy**	Rehabilitation
Year Built	1977	**Total Rentable Sqft**	91,324	**Funding Strategy**	4% LIHTC/Bonds

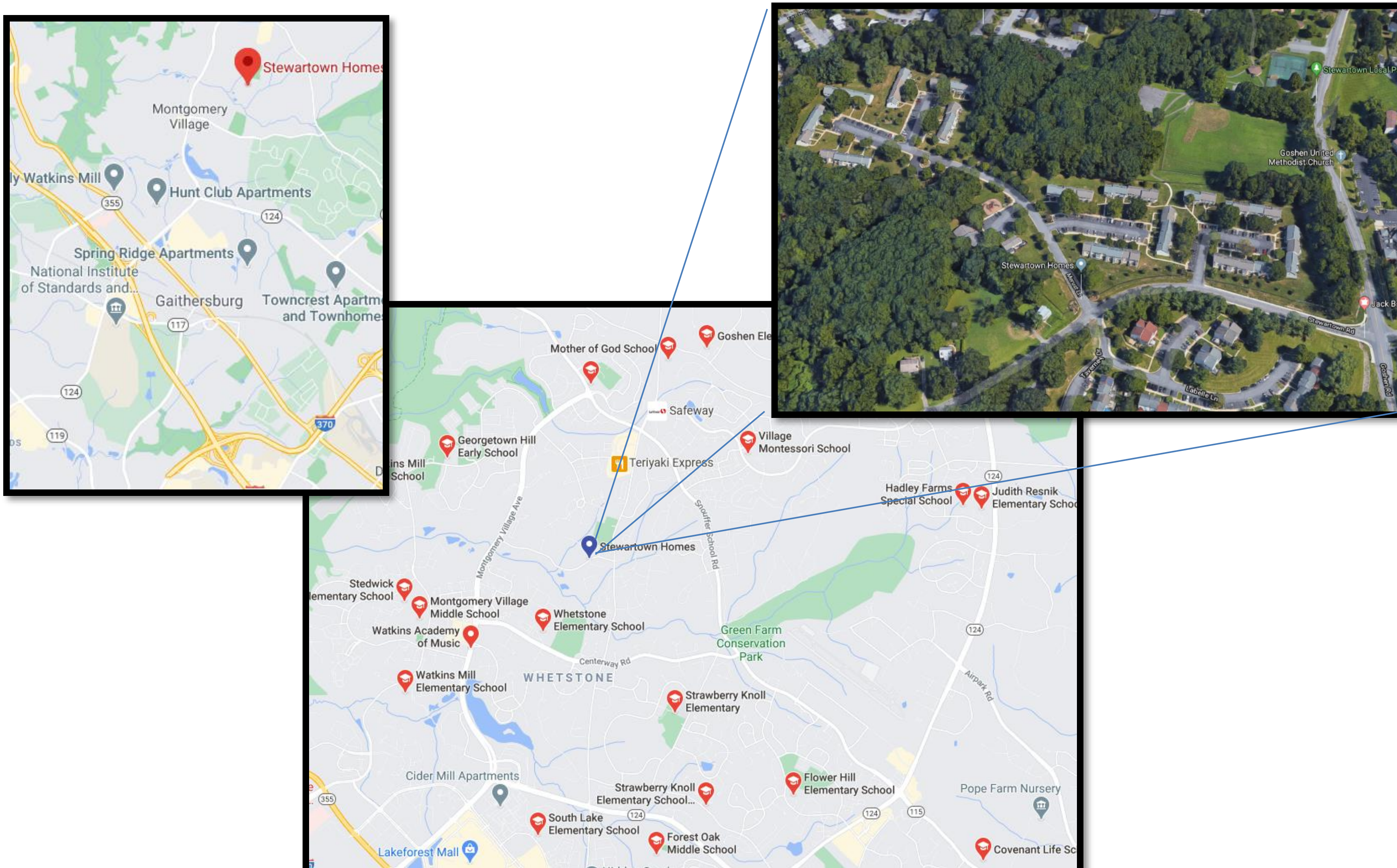
Stewartown ("Property") was constructed in 1977 in Gaithersburg. The property contains 94 townhome units within 12 structures. A community room/leasing is located on site. Units are outfitted with the typical amenities, all of which would be upgraded during the renovation. As a result of renovation, the property will see improvements to energy efficiency, the common areas and exterior grounds will be enhanced, and residents' units will be modernized.

Circa 2001

Stewartown has not undergone any major renovation, other than replacements at failure and scheduled capital improvements, since 2000, when HOC acquired and renovated the Property. Staff has developed a renovation scope that includes the following:

- Upgrading of interior kitchen and bathroom, including but not limited to energy efficient appliances, new cabinets, countertops, fixtures, flooring, painting, and lighting.
- Installation of modern HVAC units and electric hot water heaters.
- Conversion of half baths in four bedroom units to full baths.
- Replacement of roofs, siding, gutters, windows, and doors.
- Addition of five UFAS units to conform with LIHTC requirements.
- Improvements to the site including paving, site lighting, landscaping, a new playground, and signage.

Location Map



Development Plan – Transaction Rationale

HOC Benefits

- Brings the Property in line with the new HOC standard of high quality, well designed, energy efficient affordable housing
- Meets Agency's mission for maintaining affordable housing
- Ensures properties are financially sustainable and competitive within the rental marketplace

Serving our Residents

- Provides a much improved living standard at modest rental increases
- Lowers utility expenses by upgrading to energy efficient systems
- Improves amenities and overall community through capital investment.
- Reduces ongoing maintenance costs to the Property

Public Purpose

- Offers residents a low-density setting within a stable, attractive homeownership corridor. The neighboring community provides a quiet and community-oriented setting that appeals to both single persons as well as small and large families.
- The availability of two-story townhouse units addresses the housing needs of larger families with children.
- All 94 units will serve households earning up to 60 percent of the Area Median Income.

	RAD2 PBV Units	RAD2 PBV Rents	RAD LVV Units	RAD LVV Rents
2 Bedrooms	4	$1,513	4	$1,382
3 Bedrooms	10	$1,749	9	$1,585
4 Bedrooms	5	$1,926	2	$1,776
Total	**19**	**$1,746**	**15**	**$1,556**

	# of UFAS Units	# of Other Units	Unit Size	Existing Net Rents	Utility Allowances	Existing Gross Rents	Max Supportable Tax Credit Rents	Market Rents
1 Bedrooms	2	0	854	NA	NA	NA	$1,234	$1,600
2 Bedrooms	2	4	854	$1,218	$131	$1,349	$1,507	$1,700
3 Bedrooms	1	45	948	$1,384	$164	$1,548	$1,729	$1,900
4 Bedrooms	0	6	1200	$1,536	$186	$1,722	$1,926	$2,150
Total	**5**	**55**	**972**	**$1,382**	**$162**	**$1,544**	**$1,725**	**$1,907**

* Utility Allowances for converted 1 bedroom units will be based on the HUD utility allowance amounts at the time these units are placed in service.

Development Plan – Renovation Scope

Staff has developed a renovation scope that includes the following:

- Upgrading of interior kitchen and bathroom, including but not limited to energy efficient appliances, washers and dryers, new cabinets, countertops, fixtures, flooring, painting, and lighting.
- Installation of modern HVAC units and electric hot water heaters.
- Conversion of half baths in four-bedroom units to full baths.
- Replacement of roofs not yet replaced by scheduled capital improvements.
- Replacement of siding, gutters, windows, and doors.
- Conversion of five (5) existing units to UFAS accessible units.
- Improvements to the site including paving, site lighting, landscaping, a new playground, and signage.

These improvements will not only address curb appeal but also – and more importantly – increase energy efficiency, extend the property's useful life, and allow the property to better compete in the marketplace.

Photos on this page represent conceptual design elements and examples of a finished unit showing the standard energy efficient appliance package.

Development Plan – Development Team

Architect

Founded in Frederick, MD in 2003, ZA+D, LLC is a full-service architectural firm of professionals whose diversity and experience enables them to handle the most complex and challenging projects. Because of their focus is on agency-intensive and community-oriented projects, most of their clientele includes non-profit entities, schools, and local government authorities. The firm possesses expertise with new construction as well as the renovation, rehabilitation, and adaptive re-use of existing structures.

Property Management

Edgewood Management offers a full suite of real estate management services and specialize in developing innovative solutions and repositioning troubled assets in all areas: operations, administrative, financial and physical. They have been managing properties for 40 years and have expanded to service 14 states, including the District of Columbia. Edgewood Management Corporation is recognized as the 8th largest manager of Affordable Housing by the National Affordable Housing Management Association (NAHMA) and the 50th largest manager by the National Multi-Housing Council (NMHC).

General Contractor

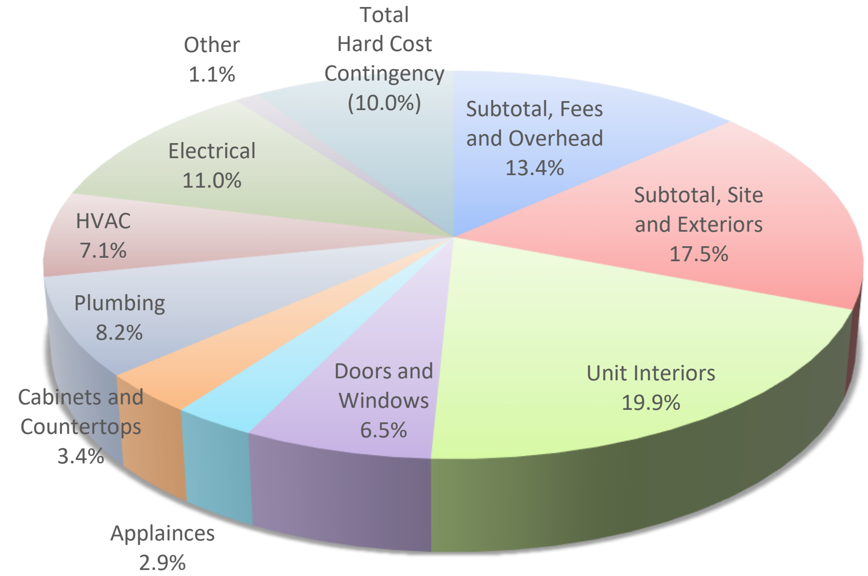
Founded in 1965, Harkins is an employee-owned construction company serving clients engaged in the development of multifamily, commercial, and government projects. Harkins has been ranked as one of the top 25 largest builders by the National Multifamily Housing Council and has 250 employees and supports $400 million annual volume. Harkins has extensive experience in LIHTC funded multifamily townhome and garden apartment renovation projects.

LIHTC Investor

Founded in 1974, Boston Capital is a multifamily housing investment company focused on providing equity and debt financing for the development, acquisition and preservation of apartment communities for people from all walks of life. Boston Capital has invested in nearly 232,000 apartments in more than 2,220 communities nationwide. Today, Boston Capital is one of the largest owners of apartment properties in the United States. Boston Capital is currently in the process of being acquired by Boston Financial Investment Management.

Development Plan – Construction Costs

Construction Costs	Total	Per Unit
General Requirements	$649,200	$6,906
Bonds and Insurance	$243,345	$2,589
Builder's Profit	$359,388	$3,823
Overhead	$179,694	$1,912
Subtotal, Fees and Overhead	**$1,431,627**	**$15,230**
Site Work and Amenities	$782,033	$8,320
Roof Replacement	$465,575	$4,953
Siding Replacement	$622,658	$6,624
Subtotal, Site and Exteriors	**$1,870,266**	**$19,896**
Unit Interiors	$2,124,665	$22,603
Doors and Windows	$694,105	$7,384
Applainces	$305,967	$3,255
Cabinets and Countertops	$365,416	$3,887
Plumbing	$876,614	$9,326
HVAC	$758,139	$8,065
Electrical	$1,172,617	$12,475
Other	$117,535	$1,250
Subtotal, Units	**$6,415,058**	**$68,245**
Hard Cost Contingency (10.0%)	$971,695	$10,337
Grand Total Construction Costs	**$10,688,646**	**$113,709**

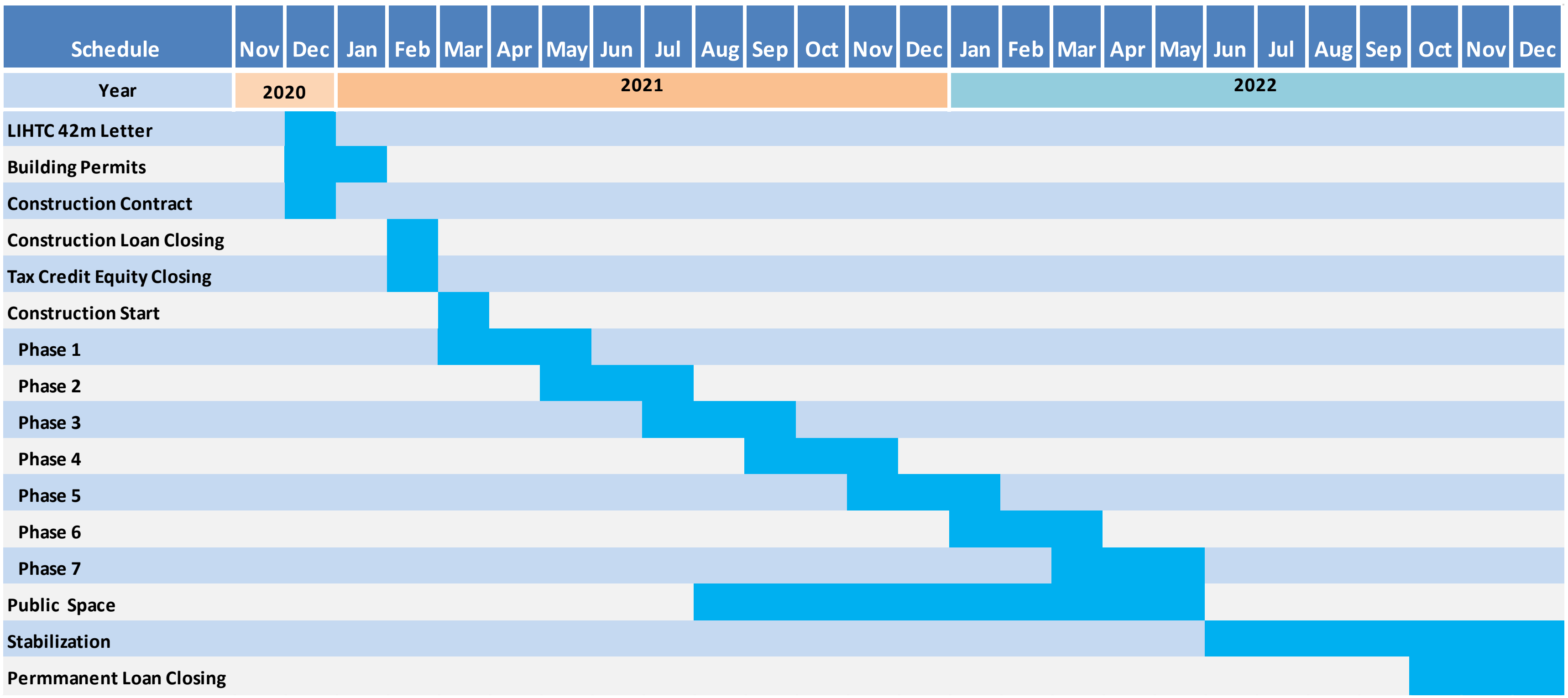


Development Plan – Renovation Phases

Development Plan – Relocation Plan

- As Stewartown Homes undergoes renovation, construction activities will follow current recommended best practices based on what is currently known about the COVID-19 (Coronavirus) disease. As this issue progresses, staff will implement new/revised best practices to protect the safety and health of residents, staff and employees.
- Due to the heightened concerns resulting from the COVID-19 pandemic, additional detailed plans have been developed to address the resident population as a whole and to accommodate each resident specifically during the renovation, as their needs are identified.
- Phased renovation approach will ensure that the workers will be isolated from the residents and there will be minimize possible pathways for COVID transmission.
- In consultation with staff of the Resident Services Division, staff will provide ongoing counseling support to the residents during the renovation.
- From information gathered from the residents, staff has determined that the best strategy is to fully vacate buildings undergoing renovation by temporarily relocating the residents of these buildings/units to other on- and off-site HOC units. This approach will be most effective for protecting tenants from the known pathways of COVID-19 transmission and will enable the contractor to complete the renovation on the least amount of time.
- Ownership is holding vacant units to accommodate the renovation and relocation needs of the each phase. There are currently four (4) vacant units at the property. Therefore, to accommodate each phase of renovation, the remaining 7-10 households in each phase will have to be relocated to off-site units. Affected residents will be provided a comparable unit at the property, to the extent possible. These vacant units are in good, tenant move-in condition and will be extensively cleaned and sanitized at each turnover, to ensure incoming residents have a clean, safe and sanitary unit to occupy during their stay.
- Residents with special needs will be given priority for relocation to other on-site buildings during construction.
- Residents with children will also be given priority for on-site relocation, to the extent possible after residents with special needs have been accommodated.
- Staff and the contractors have developed Site Specific Safety Plans to combat the spread of COVID-19. Prior to occupancy by residents, temporary units will be thoroughly disinfected. Additionally, cleaning crews will be dedicated at wipe down all common hard surfaces.
- The relocation plan lays out and informs residents of their right to counseling and our duty to assist each with their individual needs. The plan also provides residents with the options for their future with us and for their permanent relocation.

Development Plan – Timeline



Development Plan - Ownership Structure

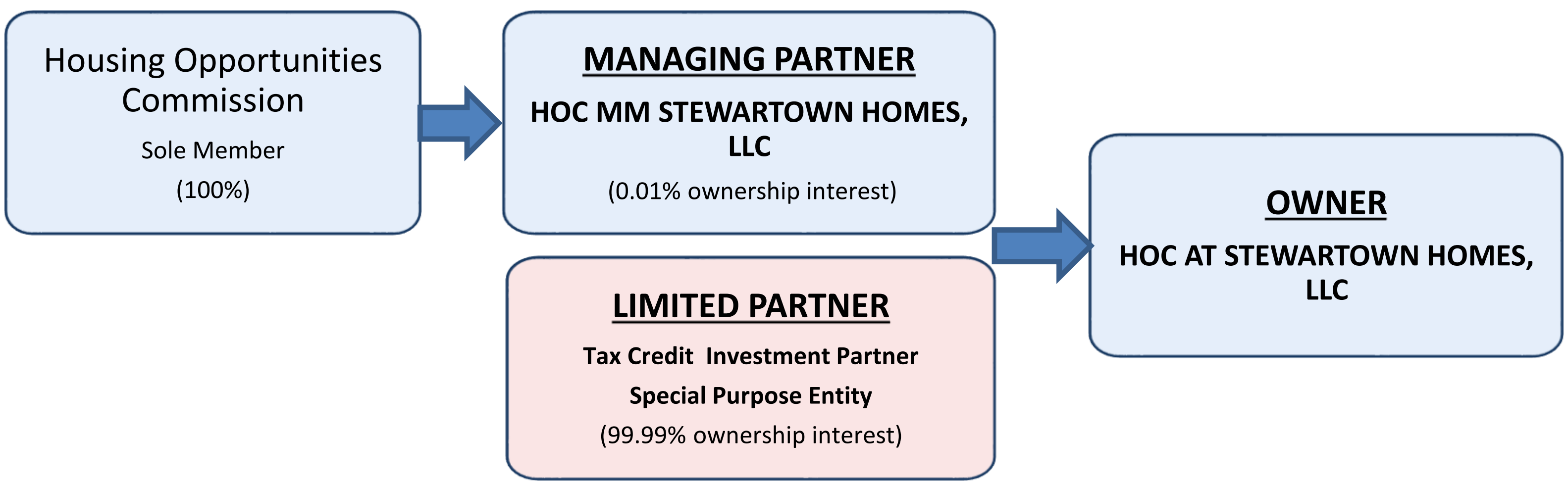
- HOC controlled single purpose entity, HOC MM Stewartown Homes, LLC, together with tax credit investment partner/syndicator’s single purpose entity, will form the property owner limited liability corporation, HOC at Stewartown Homes, LLC.

- HOC MM Stewartown Homes, LLC will be the General Partner of the HOC at Stewartown Homes, LLC.

- HOC at Stewartown Homes, LLC will be the single purpose entity that will own Stewartown Homes.

- Three-tiered ownership structure is needed for disaffiliating HOC from the property owner Limited Partnership and therefore making the seller note, deferred developer fee, and potentially other loans extended by HOC to the limited partnership non-recourse liabilities.

- This structure will allow the tax credit investor/limited partner to maximize future tax deductions related to loan interest costs and therefore enhance investor yield. Without such disaffiliation, investor yield on the transaction, and consequently tax credit equity price, would be lower.



Sources and Uses of Funds

- Tax credit investor will pay $0.965 per dollar of tax credit, which will result in approximately $8.4 million tax credit equity contribution for the renovation.

USES OF FUNDS	AMOUNT	PER UNIT
Construction Costs	$10,688,646	$113,709
Fees Related To Construction Costs	$1,064,655	$11,326
Financing Fees and Charges	$2,078,032	$22,107
Acquisition Costs - Senior Debt Repayment	$1,480,510	$15,750
Acquisition Costs - MCO HIF Loan Repaym	$2,107,503	$22,420
Acquisition Costs - HOC Loan Repayment	$0	$0
Acquisition Costs - Seller Proceeds	$11,811,987	$125,659
Acquisition Costs Other	$329,000	$3,500
Developer's Fees	$3,061,003	$32,564
Syndication Costs	$177,500	$1,888
Guarantees and Reserves	$1,220,897	$12,988
Tax-Exempt Bonds (Short-Term)	$4,159,970	$44,255
TOTAL	**$38,179,703**	**$406,167**

SOURCES OF FUNDS	AMOUNT	PER UNIT
Tax-Exempt Bonds	$11,750,025	$125,000
Tax-Exempt Bonds (Short-Term)	$4,159,970	$44,255
LIHTC Equity	$8,359,978	$88,936
County HIF Loan	$2,107,503	$22,420
Interim Income	$0	$0
Seller Note	$11,802,227	$125,556
Property Cash	$0	$0
Deferred Developer's Fee	$0	$0
Funding Gap / (Surplus)	**$0**	**$0**
TOTAL	**$38,179,703**	**$406,167**

- $4.16 million short-term bonds are needed to meet the 50% test.
- The development budget includes $490K soft and financing cost contingencies.
- At current interest rates the Property's NOI can support senior permanent debt of up to $14.6 million, or $155K per unit. If the transaction were to be underwritten at this level, the need for short-term tax-exempt bonds needed to meet the 50% test would be minimized, and the size of the HOC seller note would be reduced to $8.7 million.
- However, Fannie Mae, the tax credit investor in this transaction, has a $125K per unit limit on the senior debt. This limit reduces the permanent senior debt size to $11.75 million, increases the amount of short-term bonds to $4.16 million, and increases HOC seller note size from $8.7 million to $11.8 million.
- This underwriting scenario assumes that the existing $2.1 million County HIF loan will be assigned to the new property owner entity and subordinated to the new senior debt.

Developer Fee Schedule	Date	Amount
Construction Closing*	Feb-21	$612,201
Substantial Completion*	Aug-22	$612,201
Rental Achievement / State Designation	Feb-23	$1,836,602
Total		**$3,061,003**

Existing Debt	11/1/2020
HOC Note	$565,994
County Loan	$2,107,503
Mortgage	$1,480,510
TOTAL	**$4,154,007**

	Property Value
As Is, Restricted	$15,400,000
As Renovated, Restricted	$18,400,000
As Renovated, Unrestricted	$21,800,000

Operating Proforma

OPERATING PERFORMANCE	Year 1	PER UNIT
RENTAL INCOME		
Rental Income	$1,664,605	$17,709
Other Income	$4,125	$44
Less: Vacancy Loss/Bad Debt	($116,811)	($1,243)
NET RENTAL INCOME	**$1,551,919**	**$16,510**
TOTAL OPERATING EXPENSES		
Admin & Operating Expenses	$286,663	$3,050
Maintenance Expenses	$312,765	$3,327
Contract Management Fee	$44,964	$478
Utility Expenses	$109,023	$1,160
Taxes & Insurance	$20,850	$222
Replacement Reserve Contribution	$32,900	$350
TOTAL EXPENSES	**$807,165**	**$8,587**
NET OPERATING INCOME	**$744,754**	**$7,923**
Debt Service Payments	$647,485	$6,888
NET CASH FLOW	**$97,269**	**$1,035**
DSCR	1.15	

- Due to the current multifamily rental market uncertainties, tax credit investor's preference is to underwrite the transaction at 7% vacancy rate, which is significantly higher than the historical ~2% vacancy rate at the property.
- Rent and expense growth rates at 2% and 3%, respectively. The actual rent increases going forward will be based on the annual DHCA guidelines.
- Projected rental income includes additional revenue from 19 project based vouchers obtained by the staff under Component 2 of the RAD program in February 2019 and 15 low vacancy project based vouchers also obtained by the staff in 2019.
- Replacement reserves will be funded at $1,200 per unit at closing, plus $350 per unit per year escalating at 3% annually.
- The property's current annual operating expenses are approximately $940,000 (almost $10,000 per unit). This represents about 62% operating expense ratio, which is very high for any multifamily property. Typical operating expense ratios for multifamily properties ranges between 35% and 50%, depending on the age and condition.

- CDA underwriting guidelines require that per unit operating expenses for LIHTC properties should be between $4,000 and $7,000.
- As the property's current expenses significantly exceed this threshold, HOC Asset Management, Budget, Real Estate Development and other department staff are working to develop a plan to gradually, over the next two years, reduce the operating expense to conform to CDA guidelines and to make the property operation more sustainable in the long-term.

Summary and Recommendations

ISSUES FOR CONSIDERATION

Will the Development and Finance Committee join staff's recommendation to the Commission to approve:

- The final development plan for the renovation of Stewartown Homes;
- Ratification of the formation of wholly-owned special purpose entities to serve as the new Property owner and managing member entities for the transaction;
- Authorization for the Executive Director to sign a purchase and sale agreement between the current Property owner entity and the new Property owner entity and to complete the closing of the purchase and sale of the Property;
- Authorization for the Executive Director to enter into a limited partnership agreement with the tax credit investor and permission to admit a tax credit investor as a 99.99% limited partner of the new Property owner entity;
    - While the LIHTC investor has been selected and approved by the Commission, no binding agreement has been executed. The syndicator has expressed to HOC that we may continue to explore more advantageous LIHTC pricing for the transaction. Should that occur, staff will return to the Commission for a new equity investor approval and a revised final development plan.
- Authorization for the Executive Director to sign the general contractor contract with Harkins Builders for an amount not to exceed $9.6MM.

TIME FRAME

For formal action at the December 9, 2020 meeting of the Commission.

Summary and Recommendations

BUDGET / FISCAL IMPACT

There is no adverse impact for the Agency's FY2021 or FY2022 budgets.

The transaction will raise approximately $8.4 million of tax credit equity for the renovation of Stewartown Homes. The Commission will earn Development Fee of $3.06 million and Commitment Fee of $318,200; 60% of which will be paid to the OHRF and 40% to the General Fund when received. The first installment of the Development Fee in the amount of $612,201 (20% of the total) is projected to be received by the Commission in third quarter of FY2021. The Commitment Fee is also projected to be received by the Commission in Q3 of FY2021. Predevelopment expenses of up to $700,000 will be repaid to OHRF at the financial closing, also in the third quarter of FY2021.

During the 24 months of construction period, the project will continue to maintain 80% occupancy rate to ensure the project does not fall into an operating deficit. The debt service interest payments during the construction period will be capitalized and paid from the development budget.

STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

Staff requests that Development and Finance Committee join its recommendation to the Commission to approve:

- The final development plan for the renovation of Stewartown Homes;
- Ratification of the formation of wholly-owned special purpose entities to serve as the new Property owner and managing member entities for the transaction;
- Authorization for the Executive Director to sign a purchase and sale agreement between the current Property owner entity and the new Property owner entity and to complete the closing of the purchase and sale of the Property;
- Authorization for the Executive Director to enter into a limited partnership agreement with the tax credit investor and permission to admit a tax credit investor as a 99.99% limited partner of the new Property owner entity;
    - While the LIHTC investor has been selected and approved by the Commission, no binding agreement has been executed. The syndicator has expressed to HOC that we may continue to explore more advantageous LIHTC pricing for the transaction. Should that occur, staff will return to the Commission for a new equity investor approval and a revised final development plan.
- Authorization for the Executive Director to sign the general contractor contract with Harkins Builders for an amount not to exceed $9.6MM.

APPROVAL OF A FINAL DEVELOPMENT TO AUTHORIZE THE EXECUTIVE DIRECTOR TO EXECUTE A GUARANTEED MAXIMUM PRICE (GMP) CONTRACT WITH BOZZUTO CONSTRUCTION COMPANY, ACCEPT THE ASSIGNMENT OF THIRD-PARTY CONTRACTS FOR THE DEVELOPMENT; AUTHORIZE FORMATION OF ADDITIONAL LEGAL ENTITIES; AND ACCEPT A MONTGOMERY COUNTY HOUSING INITIATIVE FUND (HIF) SHORT TERM BRIDGE LOAN

PHASE II AT SHADY GROVE

STACY L. SPANN, EXECUTIVE DIRECTOR

KAYRINE BROWN
ZACHARY MARKS
MARCUS ERVIN
GIO KAVILADZE

November 20, 2020

Table of Contents

Executive Summary

West Side Shady Grove Apartments ("WSSG" or the "Property") will be a 268-unit mixed-income, mixed-use residential rental community located in Rockville, Maryland, steps from a Washington Metropolitan Area Transit Authority ("WMATA") Red Line Station. The Property will feature a 30% affordable component, including 25% of its units (or 67 units) set aside for households earning no more than 50% of the AMI and 5% of its units (or 13 units) set aside for households earning no more than 65% AMI. The remaining 188 units will be market rate.

Building on the success of The Daley at Shady Grove, WSSG marks the second multifamily phase in the dramatic 90-acre master-planned redevelopment of Montgomery County's County Service Park. This transit-oriented site is proximate to thousands of life sciences jobs and offers convenient multimodal access to Gaithersburg, Rockville, Bethesda, downtown DC, and other regional employment and entertainment hubs. The venture between Bozzuto, EYA, and HOC will ensure that Phase II at Shady Grove will stand out among the DC Metro's suburban projects as a unique, price competitive, transit-oriented, urban-style community.

The Commission closed on the land on December 18, 2019, with a modified development concept that resulted in a reduction in residential units from the originally proposed 270-units after discussions with EYA, Bozzuto to ensure a balanced unit distribution and affordability mix to incorporate 3-bedroom units, a combined 19 UFAS and Audio Visual units, and the Up County HOC Service Center.

The development is slated to close begin construction in January 2020 with a 23-month construction schedule concluding in November 2022, lease-up for a period of 16 months following the first unit delivery in September 2022, and stabilization in January 2024.

Staff requests the Development and Finance Committee join staff's recommendation to the Commission that the Commission approve The Final Development Plan for the development of Phase II at Shady Grove. Additionally, staff seeks authorization for the Executive Director to execute a Guaranteed Maximum Price ("GMP") contract with Bozzuto Construction company not to exceed $76.1MM; authorization for the Executive Director to accept the assignment of third-party contracts for the development that were in-place when the project was brought to HOC; authorization for the Executive Director to form additional legal entities where necessary; and authorization for the Executive Director to accept a Montgomery County Housing Initiative Fund ("HIF") short-term bridge loan of up to $15MM.

Previous Commission Approvals

Date	Res.	Description
September 4, 2019	19-92AS	Approval to Assume all Rights and Obligations Under the Terms of the Purchase and Sale Agreement for the Acquisition of the Underlying County Land Currently Under Contract by EYA/CSP Associates, LLC, an EYA Affiliate; Approval to Complete the Acquisition and Fund the Predevelopment Expenditures; and Authorization to Establish a Single Asset Entity to Own the Development.
December 5, 2019	19-110AS	Approval to Enter into a Joint Pre-Development Agreement and Agreement to Assign with EYA/CSP Associates LLC and EYA BA/SGS Mf D, LLC for the Development of the West Side Shady Grove Multifamily Development known as Building D.
January 8, 2020	20-09	Approval of a Resolution Declaring the Official Intent of the Housing Opportunities Commission of Montgomery County to Reimburse itself with the Proceeds of a Future Tax-Exempt Borrowing for Certain Capital Expenditures to be Undertaken in Connection with the Acquisition and Development of the Property.
July 1, 2020	20-59AS	Authorization to Approve Additional Pre-Development Funding ($1.07 million) from the County Revolving Opportunity Housing Development Fund.
July 1, 2020	20-56	Adoption of an Authorizing Resolution for the Selection of PNC Bank, National Association, as the Lender of a Tax-Exempt Obligation for the Purpose of Financing West Side Shady Grove.

Development Overview

Development Summary

- **Highlights**
  - Number of Units……………………………………………………268
  - Gross Square Feet…………………………………………………. 300,223 SF
  - Amenity Space……………………………………………………. 10,830 SF
  - Retail Space………………………………………………………. 30,438 (includes 7,268 SF HOC Service Center)
  - **Subtotal GSF……………………………………………………. 341,491 SF**
  - **Parking Garage…………………………………………………. 165,485 SF**
  - **Grand Total SF…………………………………………………. 506,976 SF**
  - **Est Total Project Costs………………………………………. $118.91MM (incl. HOC Financing Fee, Includes Davis Bacon, HOC Service Center Buildout, & Construction Cost increases)**
  - **Total Construction Contract……………………………. $76,173,038**

Development Timeline

- **Milestones**
  - Construction Start…………………………………………………. January – 2021
  - No. of Months in Const. Period……………………………. 23 Months
  - First Unit Delivery (prior to completion)…………………. September - 2022
  - Const. Period End…………………………………………………. November - 2022
  - Lease-up - # of Units per Month…………………………. 18 units
  - Stabilized Year - Rents…………………………………………. January - 2024
  - Stabilized Year – Expenses………………………………….. January - 2024

Development Overview

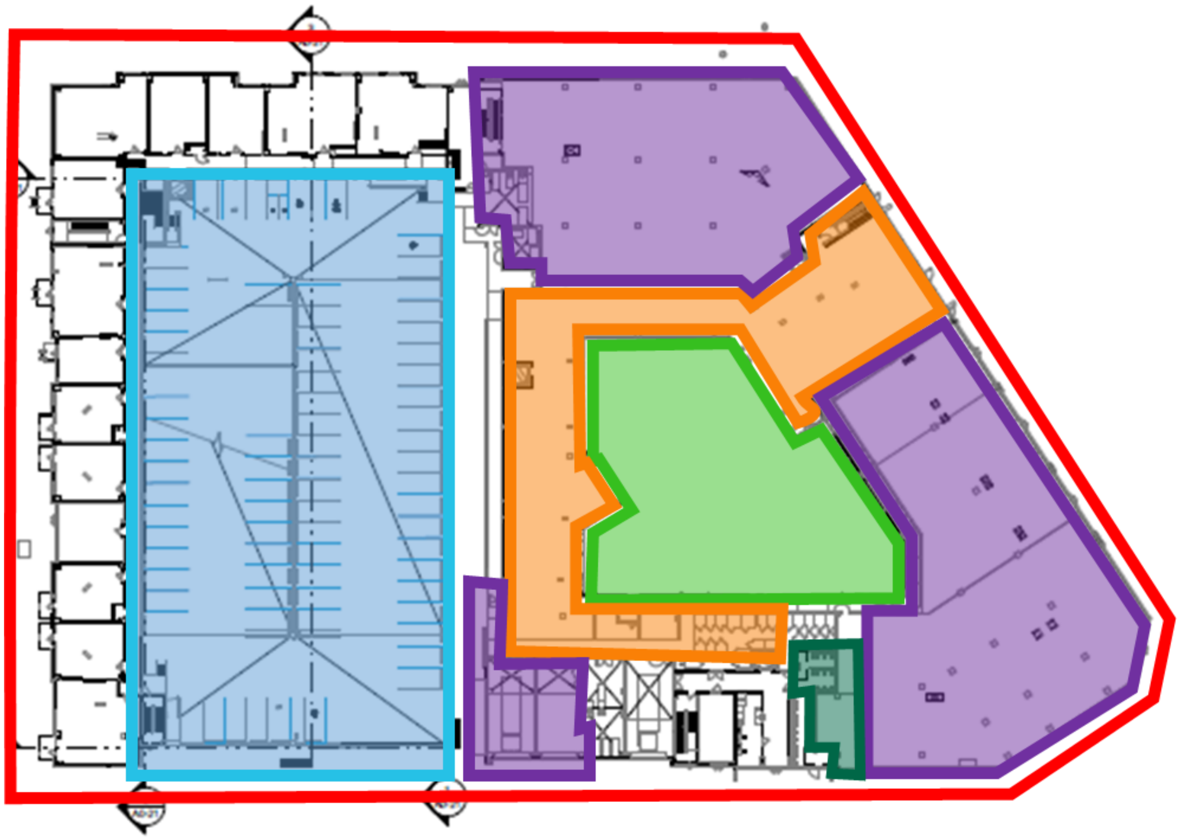
Development History: A Storied History, A Bright Future

- The vision to dramatically create a vibrant, transit-oriented community in Shady Grove, MD, can be traced back to the creation of the Shady Grove Sector Plan, in which EYA played a central role.
- In 2010, EYA and Montgomery County executed a Master Planning and Real Estate Purchase Agreement granting EYA the exclusive right to purchase and redevelop the western side of Crabbs Branch Way. This opportunity accounts for almost two-thirds of the residential density, with EYA serving as the master planner for the entire 90-acre site.
- Since that time, Bozzuto and EYA have worked to secure the necessary entitlements to make the dream of a modern, livable community in Shady Grove a reality.
- Montgomery County has committed to invest approximately $24 million in public infrastructure improvements. This investment has resulted in reconstructing Crabbs Branch Way into an urban boulevard, as well as utility and pedestrian upgrades, all of which will serve the future residents of the Project and the community at large for years to come.

Master Development Plan

- The Westside master development includes 45 acres of land, totaling approximately 1,014 multifamily units, 100 for-sale condominiums, 406 townhomes, up to 82,000 square feet of retail, and a public library.
- Bozzuto was selected by EYA to be co-developer of the first multifamily phases, which includes The Daley (completed in 2017) and Phase II at Shady Grove.
- Phase II will build upon the success of The Daley and will be a critical component in the transformation of the master-planned community.
- In 2019, EYA completed the 148 townhomes in Phase I and sold the remaining townhome and condominium ground to Stanley Martin and Lennar, both of which opened for sales in the first half of 2020.

Development Plan – Site Plan



Residential
- 268 wood-framed residential units
- Includes 13 workforce housing and 67 MPDU units

Entrance, Leasing Office, and Amenity
- 10,830 SF of ground-floor amenity space including fitness club, e-lounge, pet spa, entertainment kitchen and more.

Retail
- 23,045 SF of retail space

HOC Office Space
- 7,393 SF office space to be leased by HOC, including an at-grade lobby and second floor space

Courtyard
- 9,600 SF first floor outdoor space
- Includes pool, grilling area, and lounge

Garage
- 6-story above-grade parking garage
- 476 automobile spaces and 9 motorcycle spaces

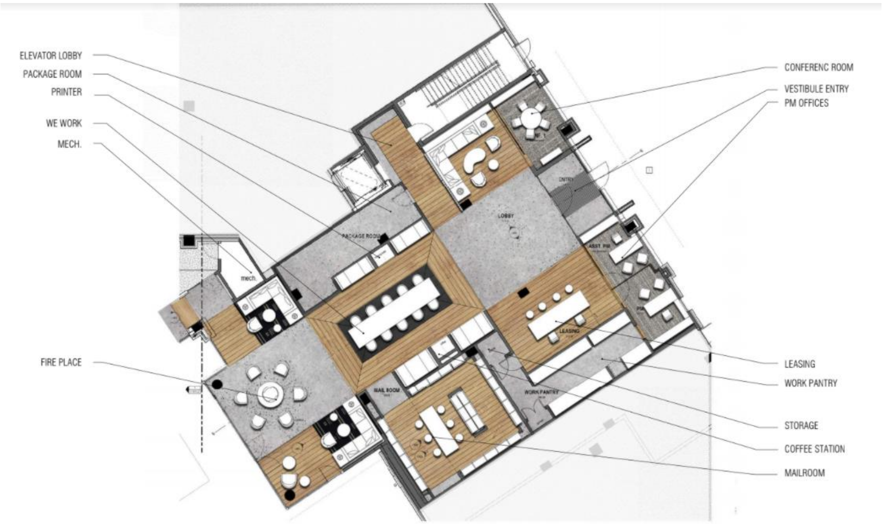
Development Plan – Transaction Rationale

Public-Private Partnership

- The Development will involve a public-private partnership between EYA and Bozzuto, two of the region's top real-estate developers, and the Housing Opportunities Commission of Montgomery County ("HOC"), a public agency that develops, administers, and owns mixed-income multifamily housing in Montgomery County. The property builds upon a track record of successful past partnerships among all three firms.
- In addition to the ground floor retail slated for the Development, HOC will operate its regional Customer Service Center on the second floor of the Property.

The HOC Approach

- HOC leverages every opportunity and resource to improve housing quality and create community-connected, amenity-rich, transit-oriented, mixed-income communities at a range of affordability levels.
- Over the course of the last ten years, HOC's economic impact has resulted in over three billion in economic activity, 19k+ jobs supported or created, one million in labor income and over $51MM in County tax revenue. In the coming years, HOC plans to invest and create additional new construction housing opportunities throughout Montgomery County similar to the Phase II at West Side Shade Grove development.



Unit Mix

- The Project will deliver 268 units, including 13 workforce units (5% of the total unit count), which will be targeted to residents between 65% of AMI, and 67 Moderately Priced Dwelling Units ("MPDUs"), which will target residents at or below 50% of AMI. The MPDUs include 10 three-bedroom units, and the balance will be a mix of one- and two-bedroom units.

Affordable Housing Demand

- Montgomery County, like much of the region, is experiencing a significant shortage of affordable housing, creating a significant demand for high-quality affordable units. In particular, there is a need for family-sized affordable units, and the Project's dedicated affordable units include 10 three-bedroom units.

Development Plan – Interior Renderings

LEASING LOBBY

LEASING LOBBY

LOBBY LOUNGE

THEATRE

Development Plan – Development Team

Phase II at Shady Grove is being managed by a highly-experienced development team that combines an extensive multifamily and mixed-use development track record. The additional third-party contracts that the Commission will assume were team members previously procured by the Development team prior to HOC's involvement.

Co-Developer: EYA, co-developer is one of the largest and most successful residential infill developers in the DC region, delivering over 5,000 high-quality townhomes, condominiums and apartments since its founding in 1992. Over 25 years EYA has earned an excellent reputation for creating high-quality neighborhoods that deliver the brand promise of "life within walking distance." EYA has built second to none relationships with elected officials, planning staffs, and community groups through thoughtful planning, high-quality execution, and fair business dealings. It has been honored with over 300 local and national awards, including America's Best Builder from Builder Magazine in 2000 and 2009, the ULI Award of Excellence, Professional Builders' 2015 National Housing Quality Gold Award, and Smart Growth America's Locus 2018 Company of the Year Award.

Co-Developer, Property Manager, and General Contractor: Established in 1988, The Bozzuto Group consists of integrated real estate companies that are active in development, management, homebuilding, and construction. While The Bozzuto Group's operations are focused geographically in the Mid-Atlantic and Northeast regions, its companies and its principals have won the nation's highest honors, including the National Association of Home Builders ("NAHB") Pillars of the Industry Multifamily Development Firm of the Year (2016 and 2003), Property Management Company of the Year (2017, 2009 and 2000), and Builder of the Year (1998) awards.

Architect: KTGY Architecture + Planning is a leading international full-service architecture design and planning firm delivering innovation, artistry and attention to detail across multiple offices and studios, ensuring that its clients and communities get the best they have to offer no matter the building type or location. KTGY's architects and planners combine big picture opportunities, modern sustainable practices and impeccable design standards to help create developments of enduring value. KTGY designed the Daley at Shady Grove, Bozzuto's Anthem House in Baltimore, and HOC's most recent mixed-income & mixed-use development Fenton Silver Spring.

Development Plan – Sources & Uses

USES OF FUNDS	CONSTRUCTION	PER UNIT	% OF TOTAL	PERMANENT
Acquisition Costs	$2,338,156	$8,724	1.97%	$2,338,156
Construction Costs	$76,173,038	$284,228	64.06%	$76,173,038
Costs Related to Construction	$21,301,996	$79,485	17.91%	$21,551,996
Financing Costs	$6,727,041	$25,101	5.66%	$6,799,374
Construction Period Interest (Senior Loan)	$4,736,305	$17,673	3.98%	$4,736,305
Construction Period Negative Arbitrage Costs	$2,440,567	$9,107	2.05%	$2,440,567
Third Party Financing Costs	$0	$0	0.00%	$2,411,105
Guarantees and Reserves	$500,000	$1,866	0.42%	$2,082,432
Developer's Fee	$4,694,601	$17,517	3.95%	$4,694,601
TOTAL USES OF FUNDS	**$118,911,704**	**$443,700**	**100%**	**$123,227,575**
	TRUE			TRUE

SOURCES OF FUNDS	CONSTRUCTION	PER UNIT	% OF TOTAL	PERMANENT
Senior Debt	$96,161,019	$358,809.77	80.87%	$96,161,019
Developer Equity	$7,722,244	$28,814	6.49%	$7,722,244
County Development Loan (HPF / HIF)	$15,028,441	$56,076	12.64%	$0
County Permanent Loan (HIF)	$0	$0	0.00%	$0
Mezzanine Loan / Private Equity	$0	$0	0.00%	$19,344,312
TOTAL SOURCES OF FUNDS	**$118,911,704**	**$443,700**	**100%**	**$123,227,575**
	TRUE			TRUE

The Sources & Uses assume the following:

Use of Funds:

- The construction costs and related fees represent a market shift in both the construction and financial sectors necessary to complete the Development.

Sources of Funds

- The financing assumes a Tax Exempt construction to permanent FHA Risk Share mortgage for no more than $100m; developer equity in the amount of $7.7m; and a HIF loan from DHCA during construction in the an approximate amount of $15m.

Development Plan – Amenities & Unit Mix

Unit Features

- Quartz countertops, tiled kitchen backsplashes, and full-size stainless steel kitchen appliances.
- Premium wood-like vinyl plank flooring in living areas and ceramic tile bathroom floors.

Community Amenities

- 10,830 SF of premium amenity space including:
  - State-of-the-art fitness center with indoor/outdoor yoga studio
  - Club/game room with TV, kitchen, and dining spaces
  - Library and conference areas with Wi-Fi connectivity, providing work-from-home capability
  - Outdoor courtyard containing a pool, fire pit, lounge areas, and grilling stations allowing for group activities

Retail

- Approximately 23,000 SF of ground floor retail space including:
  - 9,700 SF leased to a national pharmacy.
  - Four to five small-format retail spaces, which are anticipated to include restaurant, fitness, and retail uses, totaling approximately 13,469 SF.

Construction

- The Development will feature a five-story wood-frame residential building over a concrete podium and a five-story above-grade parking structure.
- Featuring open and inviting spaces from the entrance and throughout the common areas, The Development seeks to maximize the resident experience through its superior design.
- The community is being designed to National Green Building Standards and will contain a variety of environmentally sustainable features with the goal of minimizing the Development's environmental impact and cutting down on operating expenses.

UNIT SIZE	UNIT COUNT	% OF TOTAL	UNIT SIZE	TOTAL SQFT	TENANT RENT
Studio	9	3.4%	510	4,590	$1,575
JR 1BR	40	14.9%	606	24,252	$1,381
1BR	102	38.1%	677	69,042	$1,647
1BR+DEN	17	6.3%	840	14,280	$1,995
2BR	76	28.4%	1,045	79,445	$2,050
2BR TERRACE	3	1.1%	1,292	3,876	$2,500
2BR+DEN	10	3.7%	1,303	13,030	$2,700
3BR	10	3.7%	1,594	15,940	$1,459
2BR+DEN TERRACE	1	0.4%	1,486	1,486	$2,925
	268	**100%**	**843**	**225,941**	**$1,788**
	TRUE	TRUE	TRUE	TRUE	TRUE

UNIT TYPE	UNIT COUNT	% OF TOTAL	UNIT SIZE	TOTAL SQFT	TENANT RENT
MPDU	67	25.0%	884	59,211	$1,172
WORKFORCE	13	4.9%	809	10,512	$1,380
MARKET	188	70.1%	831	156,218	$2,035
NA	0	0.0%	0	0	$0
NA	0	0.0%	0	0	$0
NA	0	0.0%	0	0	$0
	268	**100%**	**843**	**225,941**	**$1,788**
	TRUE	TRUE	TRUE	TRUE	TRUE

AMI TARGET	UNIT COUNT	% OF TOTAL	UNIT SIZE	TOTAL SQFT	TENANT RENT
30%	0	0.0%	0	0	$0
50%	67	25.0%	884	59,211	$1,172
60%	0	0.0%	0	0	$0
65%	13	4.9%	809	10,512	$1,380
80%	0	0.0%	0	0	$0
MKT	188	70.1%	831	156,218	$2,035
	268	**100%**	**843**	**225,941**	**$1,788**
	TRUE	TRUE	TRUE	TRUE	TRUE

Development Plan – Operating Proforma

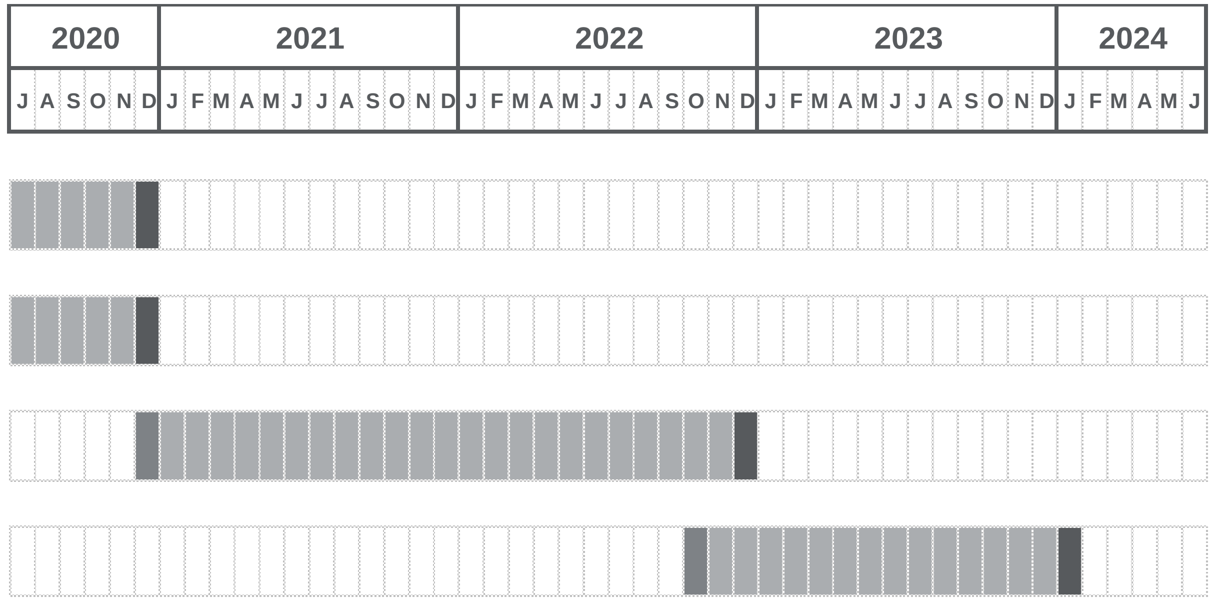
Year					2024
					1
Market Residential Revenue Escalation				3.00%	1.16
Affordable Residential Revenue Escalation				2.00%	1.10
Other Revenue Escalation				2.50%	1.13
Operating Expense Escalation				3.00%	1.16
RENTAL INCOME	**% of RP**	**Per SQFT**	**PUPM**	**5/1/2020**	**2024**
Rental Potential (Market)			$2,035	$4,592,040	5,307,619
Rental Potential (Affordable)			$1,206	$1,157,520	1,274,898
Less: Stabilized Vacancy			($162)	($287,478)	(329,126)
Less: Concessions				$0	0
Other Res Income Potential				$1,642,933	1,853,713
Less: Stabilized Vacancy				($82,147)	(92,686)
NET RENTAL INCOME				**$7,022,868**	**$8,014,418**
OPERATING EXPENSES	**% of NRI**	**Per SQFT**	**Per Unit**	**8/1/2020**	**2024**
Rental Expense	1.62%	$0.50	$425	$113,900	(131,649)
Salary Expense	7.09%	$2.20	$1,858	$497,944	(575,539)
Administrative Expenses	1.41%	$0.44	$369	$98,892	(114,302)
Maintenance Expense	2.61%	$0.81	$683	$183,044	(211,568)
Management Fee	2.75%	$0.85	$720.63	$193,129	(220,397)
Retail Expense	3.47%	$1.08	$908.96	$243,600	(281,560)
Utilities	2.11%	$0.66	$553	$148,204	(171,299)
Taxes	10.25%	$3.19	$2,687	$720,116	(832,332)
Insurance	1.20%	$0.37	$315	$84,420	(97,575)
Master HOA	0.11%	$0.03	$28	$7,504	(8,673)
HOC Overhead Fee	4.08%	$1.27	$1,068	$286,224	(330,826)
Replacement Reserve/Unit	0.95%	$0.30	$250	$67,000	(77,441)
TOTAL EXPENSES	**37.65%**	**$11.70**	**$9,866**	**$2,643,977**	**(3,053,161)**
PILOT (100.%)	10.25%	$3.19	$2,687.00	$720,116	832,332
NET OPERATING INCOME				**$5,099,007**	**$5,793,589**
Debt Service Payments				**($5,036,900)**	**($5,036,900)**
NET CASH FLOW				**$756,689**	**$756,689**
DSCR				1.15	1.15
DEBT YIELD				6.02%	6.02%
Operating Expense Ratio				38.10%	38.10%
Operating Expenses Per Unit				$11,392	$11,392

The current proforma assumes the following:

- Blended Rent growth of 2.5% (3% increase on Market Rate Units & 2% increase on Affordable Units) and Operating Expense growth of 3%.
- 5% stabilized vacancy rate.
- Operating Expense Ratio of 38.10% or $11,392/unit.
- Stabilized Occupancy of 95% by November 2023 with the permanent mortgage conversion occurring by February 2024.
- The Property will benefit from a State and County Property Tax Exemption for the non-commercial components of the Development.

Development Plan – Schedule

	Completion
Pre-Development	Dec-20
Financing	Dec-20
Construction	Dec-22
Lease-Up(1)	Jan-24



(1) Assumes lease-up pace of 18 units/month.

Summary and Recommendations

ISSUES FOR CONSIDERATION

Will the Development and Finance Committee join staff's recommendation to the Commission that the Commission approve:

- The Final Development Plan for the development of Phase II at Shady Grove;
- Authorization for the Executive Director to execute a Guaranteed Maximum Price (GMP) contract with Bozzuto Construction Company in an amount not to exceed $76.1MM;
- Authorization for the Executive Director to accept the assignment of third-party contracts for the development;
- Authorization for the Executive Director to form additional legal entities where necessary; and
- Authorization for the Executive Director to accept a Montgomery County Housing Initiative Fund short-term bridge loan of up to $15MM.

TIME FRAME

For formal action at the December 9, 2020 meeting of the Commission.

BUDGET / FISCAL IMPACT

There is no adverse impact for the Agency's FY2021 or FY2022 budgets.

The Commission will earn a total Development Fee of $938,920 million and Financing Fees of $1,923,220. The first installment of the Development Fee in the amount of $281,676 (30% of the total) is projected to be received by the Commission in the first quarter of calendar year 2021. The Commitment Fee is also projected to be received by the Commission in the first quarter of calendar year 2021. HOC sources from the OHRF will repay predevelopment expenses of up to $6,070,000 in the first quarter of calendar year 2021.

Summary and Recommendations

STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

Staff requests that Development and Finance Committee join its recommendation to the Commission to approve:

- The Final Development Plan for the development of Phase II at Shady Grove;
- Authorization for the Executive Director to execute a Guaranteed Maximum Price (GMP) contract with Bozzuto Construction Company in an amount not to exceed $76.1MM;
- Authorization for the Executive Director to accept the assignment of third-party contracts for the development;
- Authorization for the Executive Director to form additional legal entities where necessary; and
- Authorization for the Executive Director to accept a Montgomery County Housing Initiative Fund short-term bridge loan of up to $15MM.

FINANCING PLAN, FEASIBILITY, PUBLIC PURPOSE AND BOND AUTHORIZING RESOLUTION FOR WEST SIDE SHADY GROVE APARTMENTS; ISSUANCE OF A COMMITMENT AND LOAN TO HOC AT WESTSIDE SHADY GROVE, LLC FOR DEVELOPMENT AND PERMANENT FINANCING; AND, BORROWER ACCEPTANCE OF LOAN IN ACCORDANCE WITH THE FINANCE PLAN

PHASE II AT SHADY GROVE

STACY L. SPANN, EXECUTIVE DIRECTOR

KAYRINE BROWN
JENNIFER ARRINGTON
VICTORIA DIXON

November 20, 2020

Table of Contents

EXECUTIVE SUMMARY

West Side Shady Grove Apartments ("WSSG" or the "Property") will be a 268-unit mixed-income, mixed-use residential rental community located in Rockville, Maryland, steps from a Washington Metropolitan Area Transit Authority ("WMATA") Red Line Station. The Property will feature a 30% affordable component, including 25% of its units (or 67 units) set aside for households earning no more than 50% of the Area Median Income ("AMI") and 5% of its units (or 13 units) set aside for households earning no more than 65% AMI. The remaining 188 units will be market rate. Building on the success of The Daley at Shady Grove, WSSG marks the second multifamily phase in the dramatic 90-acre master-planned redevelopment of Montgomery County's County Service Park.

Since September 2019, the Commission has approved several actions and adopted resolutions to purchase the underlying land for the Property by HOC at Westside Shady Grove, LLC (the "Borrower")(a single-asset entity controlled by the Commission) and fund predevelopment expenses of approximately $6.07 million to complete the entitlement, design, and permitting of the property. These expenses were funded from various sources available to the Commission, which shall all be repaid from proceeds at the financial closing.

While WSSG qualifies for four (4) percent Low Income Housing Tax Credits ("LIHTC"), the financing strategy did not include LIHTC equity, which would require the use of a new allocation of Private Activity Bonds ("PABs") and volume cap, a very limited resource. However, the Housing and Economic Recovery Act of 2008 ("HERA") and provisions of the Code, which governs the issuance of PABs, allows the recycling of multifamily volume cap into new multifamily transactions to preserve volume cap. Completing the recycling of multifamily volume cap achieves three (3) core project financing goals: obtaining the lowest possible interest rate with private participation in the permanent phase without the use of new volume cap.

On July 1, 2020, the Commission adopted a Bond Authorizing Resolution for the issuance of a tax-exempt loan facility with PNC Bank, N.A. for up to $100 million (the "PNC Recycling Facility") for the purpose of preserving the volume cap for the financing of WSSG. The volume cap for this transaction is being provided from the recycling of multifamily private activity volume cap from short-term bonds and a loan issued in 2018 and

2019 by Maryland Community Development Administration ("CDA") and HOC, respectively. As of November 2, 2020, CDA and HOC completed the recycling of private activity volume cap via draws on the PNC Recycling Facility, and the $100 million in recycled repayments associated with CDA's and HOC's tax-exempt bonds and/or loan have been placed in a Guaranteed Investment Contract held by TD Bank.

With the entitlement process ending and permitting for construction underway, on December 2, 2020, staff will present a Final Development Plan to the Commission for an estimated total cost of $123 million to develop, finance and construct the Property.

To execute the Final Development Plan, staff proposes the following Financing Plan, which includes the issuance of up to $100 million in tax-exempt refunding bonds under the 1996 Multifamily Housing Development Bond Resolution (the "1996 Indenture) to fund a tax-exempt construction to permanent mortgage loan in the same amount, insured under the FHA Risk Sharing Program (the "Mortgage Loan"); HOC equity in the amount of $5.5 million to be provided from the Opportunity Housing Reserve Fund ("OHRF"); developer equity in the approximate amount of $2.2 million; a County development bridge loan from the Housing Initiative Fund ("HIF") for approximately $15 million, which will be taken out during construction with funding from the County's Housing Production Fund ("HPF"); and, a mezzanine loan to be sourced during construction in the approximate amount of $19 million, which will retire the County's HPF loan. The construction and lease up period will be approximately 40 months with the Property achieving stabilized operations on or about April 2024. Upon conversion, the 40-year amortization of the permanent, tax-exempt FHA Risk Sharing loan will commence.

Staff has completed its underwriting and recommends the following actions of the Commission:

1) Approval of WSSG's Financing Plan totaling $123 million that includes the following sources: a) tax-exempt construction to permanent loan, credit enhanced by FHA Risk Share; b) developer equity; c) a County HIF bridge loan, which will be taken out by a County HPF loan, during construction; and, d) a mezzanine loan, sourced during construction, to take out the County HPF loan at permanent loan conversion.
2) Approval of the feasibility and public purpose for WSSG, and the use of up to $100 million in recycled volume cap for the transaction.
3) Approval of a Bond Authorizing Resolution for the issuance and delivery of tax-exempt refunding bonds in an amount not to exceed $100 million under the 1996 Indenture.
4) Authorization for HOC to Issue a Financing Commitment to the Borrower for an FHA Risk Share construction to permanent mortgage loan in an amount of up to $100 million.
5) Approval for HOC to provide credit enhancement via FHA Risk Share Mortgage Insurance, pursuant to the Risk Sharing Agreement between HOC and HUD, for HOC to assume 50% of the risk and HUD to assume 50%, for the transaction.
6) Approval for HOC to provide equity for the transaction in amount of no more than $5.5 million from the OHRF.
7) Approval for the Borrower to accept the Mortgage Loan, County HIF and HPF loans, and a mezzanine loan.

EXECUTIVE SUMMARY

Borrower	HOC at Westside Shady Grove, LLC	
Units/Affordability	268 Units 30% Affordable	
	67 13 188	≤ 50% AMI ≤ 65% AMI Market
Volume Cap / Tax-Exempt Financing (up to)	$100,000,000 1996 Multifamily Housing Development Bond Resolution	
First Mortgage / Permanent Loan (up to)	$100,000,000 FHA Risk Share Mortgage	
Permanent Mortgage Interest Rate*	4.22%	
Mortgage Insurance	FHA Risk Share - 50% HOC / 50% FHA	
Permanent Loan Amortization / Term (up to)	40 Years / 34 Years (incl. 3-yr construction period)	
Debt Service Coverage Ratio	1.15	
County Participation	PILOT - at stabilization County HIF/HPF Loans - $15,000,000 (est.)	
Mezzanine Loan (up to)	$19,000,000 (source to be identified during construction)	

*includes - 2.52% bond coupon, 0.35% issuer fee, 0.25% Mortgage Insurance Premium, 1.10% cushion

FINANCING SCHEDULE

Dec 2020
- Bond Authorizing Resolution (Commission Meeting)
- Submit FHA Risk Share Application

Jan 2021
- FHA Risk Share Approval
- Close on Bond Financing, Real Estate

Feb 2021
- Begin Construction – 23 months

Nov 2022
- Construction Complete

April 2024
- Achieve Stabilization
- Permanent Loan Conversion

PROPERTY OVERVIEW

Location	8005 Gramercy Blvd, Rockville, MD 20855
Owner	HOC at Westside Shady Grove, LLC
Property Manager	The Bozzuto Group
Total Units	268

Unit Mix

Studio	9
1 BR/1BA - Jr.	40
1BR/1BA	102
1BR/1BA+Den	17
2BR/2BA	76
2BR/2BA Terrace	3
2BR/2BA+Den	10
2BR/2BA+Den Terrace	1
3BR/2BA	10

Public Purpose 30% affordable

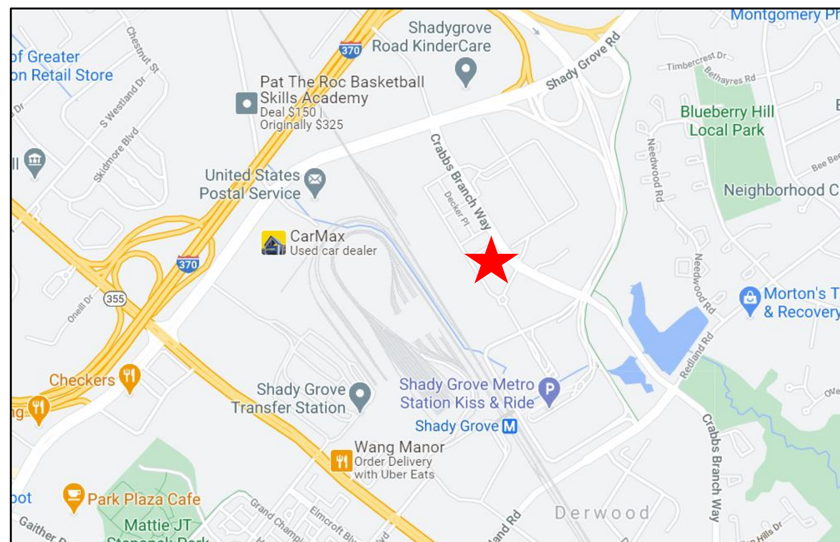
- 25% (or 67 units) ≤ 50% AMI
- 5% (or 13 units) ≤ 65% AMI

Amenities

Approximately 11,000 square feet of community amenities including state-of-the-art fitness center with indoor/outdoor yoga studio; club/game room with TV, kitchen, and dining spaces; library and conference areas with Wi-Fi connectivity, providing work-from-home capability; and, an outdoor courtyard containing a pool, fire pit, lounge areas, and grilling stations allowing for group activities. Also, approximately 23,000 square feet of ground floor retail space to include a CVS Pharmacy anchor tenant.

Planned Construction

A five-story, wood-frame residential building over a concrete podium and a five-story, above-grade parking structure. The units will include Quartz countertops, tiled kitchen backsplashes, full-size stainless steel kitchen appliances, premium wood-like vinyl plank flooring in living areas and ceramic tile bathroom floors. The community is being designed to National Green Building Standards and will contain a variety of environmentally sustainable features.



TRANSACTION HIGHLIGHTS

Public Purpose	The mixed-income project of 268 units, will feature a 30% affordable component, including 25% of its units (67 units) set aside for households earning no more than 50% of the AMI and 5% of its units (13 units) set aside for households earning no more than 65% AMI. It is noteworthy that all 10 of the three-bedroom units at the property will be available to households with incomes at or below 50% of the AMI.
County Interest	The real estate tax exemption from the County for 268 residential units is estimated to be valued at $832,322 at stabilization (CY 2024). The County will also provide a development bridge loan from its HIF Program, which will be taken out with the County's HPF for approximately $15 million during construction. The County HPF funding will be retired at the conversion to the permanent loan.
Volume Cap Allocation	Of the 2020 County housing volume cap allocated, only $13,125,691 remains; therefore, volume cap for this transaction is provided from the recycling of multifamily private activity volume cap from short-term bonds and a loan issued in 2018 and 2019 by Maryland Community Development Administration ("CDA") and HOC, respectively. HOC completed the recycling of private activity volume cap in the amount of $100 million, as of November 2, 2020, via draws on the PNC Recycling Facility.
Bond Financing	Up to $100 million – Proceeds from the publicly sold tax-exempt refunding bonds will redeem the outstanding PNC Recycling Facility, and the recycled repayments from CDA and HOC will fund the construction to permanent mortgage loan for up to $100 million, which will be insured under the FHA Risk Sharing Program. The Mortgage Loan will have an interest rate estimated at 4.22% and will mature at 34 years. Post the construction/lease-up period of approximately 40 months, the Mortgage Loan will begin a 40-year amortization.
Credit Enhancement	The Mortgage Loan will be enhanced with FHA Risk Share mortgage insurance. HOC will assume 50% of the risk for the transaction and FHA 50%. This level of risk is required by FHA due to the balloon feature of the FHA loan.
Developer Equity	The developer will provide approximately $7.7 million in equity.
Mezzanine Loan	A mezzanine loan in the approximate amount of $19 million will be secured in advance of permanent conversion to take out the County's funds.
Developer Fee	A developer fee of $4.7 million will be earned with HOC earning 20% ($938,920) and the co-developers earning 80% ($3,755,681).
Development Team	**Owner/Borrower:** HOC at Westside Shady Grove, LLC **Developers:** HOC / EYA / The Bozzuto Group **General Contractor:** The Bozzuto Group **Architect:** KTGY Architecture + Planning **Property Management:** The Bozzuto Group

FINANCING PLAN

The WSSG Financing Plan includes a tax-exempt construction to permanent FHA Risk Share mortgage loan for no more than $100 million; developer equity in the approximate amount of $7.7 million; a County development bridge loan from the HIF for approximately $15 million, which will be taken out during construction with funding from the County's HPF; and, a mezzanine loan to be sourced during construction in the approximate amount of $19 million, which will retire the County's HPF loan.

	Sources	Construction	$/Unit	Permanent	$/Unit
a)	FHA Risk Share Mortgage Loan	$96,161,019	$358,810	$96,161,019	$358,810
b)	Developer Equity	$7,722,244	$28,814	$7,722,244	$28,814
c)	County Development Loan (HIF/HPF)	$15,028,441	$56,076	$0	$0
d)	Mezzanine Loan	$0	$0	$19,344,312	$72,180
	TOTAL SOURCES	**$118,911,704**	**$443,700**	**$123,227,575**	**$459,804**
	Uses	**Construction**	**$/Unit**	**Permanent**	**$/Unit**
	Acquisition	$2,338,156	$8,724	$2,338,156	$8,724
	Construction Costs	$76,173,038	$284,228	$76,173,038	$284,228
	Costs Related to Construction	$19,746,799	$73,682	$22,157,904	$82,679
	Design and Engineering	$4,438,728	$16,562	$4,438,728	$16,562
	Financing and Legal Costs	$6,727,042	$25,101	$6,799,375	$25,371
	Guarantees and Reserves	$500,000	$1,866	$2,082,432	$7,770
	Developer Costs	$4,201,127	$15,676	$4,451,127	$16,609
	Capitalized Operating Costs	$92,214	$344	$92,214	$344
	Developer Fee	$4,694,601	$17,517	$4,694,601	$17,517
	TOTAL USES	**$118,911,704**	**$443,700**	**$123,227,575**	**$459,804**

a) To fund the Mortgage Loan, up to $100 million in proceeds from publicly sold tax-exempt refunding bonds (the "Bonds") will redeem the outstanding PNC Recycling Facility, and the recycled tax-exempt repayments from CDA and HOC that are invested in a Guaranteed Investment Contract will fund the Mortgage Loan. Current sizing is based on an estimated interest rate of 4.22%, including MIP and LMF, and a DSCR of 1.15. The Bonds and underlying Mortgage Loan will be issued under the 1996 Indenture. See page 13 for details on the structure of the Bonds.

b) The developer will provide approximately $7.7 million in equity with HOC and EYA/Bozzuto providing approximately $5.5 million and $2.2 million, respectively. HOC's equity will be provided at financial closing via a draw from the OHRF.

c) The County HIF bridge loan of approximately $15 million is anticipated to be a one-year term, interest only loan at 5% interest, and its interest cost is included in the permanent uses. The County's HPF loan, which is estimated to be a two-year term, interest only loan also at 5% interest, will be secured during construction and take out the HIF bridge loan.

d) A mezzanine loan in the approximate amount of $19 million will be secured in advance of permanent conversion to take out the County HPF loan.

STABILIZED PRO FORMA

Stabilized Proforma	CY 2024	Per Unit
Gross Residential Revenue	$6,582,517	$24,562
Gross Retail Revenue	$1,853,713	$6,917
Vacancy, Concessions, Bad Debt	($421,811)	($1,574)
Effective Gross Income (EGI)	**$8,014,419**	**$29,905**
Operating Expenses	$2,143,389	$7,998
Replacement Reserves	$77,441	$289
Net Operating Income (NOI)	**$5,793,589**	**$21,618**
Debt Service	$5,036,900	$18,794
Cash Flow Before Distributions	**$756,689**	**$2,823**
Debt Service Coverage Ratio (DSCR)	1.15	

- Post construction, the Property is expected to reach 93% occupancy by winter of 2023 with the Mortgage Loan converting to permanent by April 2024.
- Rent and expense annual growth rates are projected at 2.5% and 3%, respectively, while vacancy is underwritten at 5%.
- Initial replacement reserves will be established at $1,000 per unit from capital sources.
- The Property will benefit from a Payment In Lieu of Taxes agreement.
- Operating Expenses include Retail Expenses of $281,560.

- Current debt sizing is based on an estimated all-in interest rate of 4.22% (including MIP, HOC’s Loan Management Fee (“LMF”), and a 1.10% cushion). Subject to interest rate movements, staff anticipates that the Property will support a loan of approximately $96 million with a DSCR of 1.15:1.00.
- The CY 2024 Cash Flow Before Distributions in the amount of $756,689 will be impacted by future mezzanine debt payments, which will likely be due in advance of any ownership distribution. Staff will present to the Commission mezzanine debt financing options along with recommendation prior to the end of the construction period.

VOLUME CAP & BOND STRUCTURE

Volume Cap: While WSSG qualifies for four (4) percent LIHTC, the financing strategy does not include LIHTC equity, which would require the use of a new allocation of PABs and volume cap, a very limited resource, as only $13,125,691 remains of the County's 2020 allocated volume cap. However, the Housing and Economic Recovery Act of 2008 ("HERA") and provisions of the Code, which governs the issuance of PABs, allows the recycling of multifamily volume cap into new multifamily transactions; WSSG qualifies under this IRC provision.

In addition, HERA requires that the recycling refunding bonds be issued before maturity or redemption of the currently outstanding original bonds (refunded bonds) and that the recycling refunding bonds be issued (i) within six (6) months of repayment of the initial loan and that a new loan of the repayment be made within that six (6) month period to fund a new multifamily project, (ii) not later than four (4) years after the issuance of the refunded bonds, and (iii) with the latest maturity of the recycling refunding bonds not exceeding 34 years from the issue date of the refunded bonds. Refunded bonds have to be redeemed within 90 days of the issuance of refunding bonds.

On July 1, 2020, the Commission adopted a Bond Authorizing Resolution for the issuance of a tax-exempt loan facility with PNC Bank, N.A. for up to $100 million (the "PNC Recycling Facility") for the purpose of preserving the volume cap for the financing of WSSG. The volume cap for this transaction is being provided from the recycling of multifamily private activity volume cap from short-term bonds and a loan issued in 2018 and 2019 by Maryland Community Development Administration ("CDA") and HOC, respectively.

As of November 2, 2020, CDA and HOC completed the recycling of private activity volume cap in the amount of $100 million via draws on the PNC Recycling Facility, and the $100 million in recycled repayments associated with CDA's and HOC's tax-exempt bonds and/or loan have been placed in a Guaranteed Investment Contract held by TD Bank, as security for the tax-exempt facility with PNC Bank.

Bond Structure: The Bonds for WSSG will be issued under a Risk Share Pass-Through Bond structure, whereby the amount of mortgage principal and interest on the bonds will be paid monthly ("pass-through") in lieu of semi-annually, as in typical bond structures. The Bonds will have a stated maturity and a par amount with no serials, terms, sinking funds or other predetermined bond amortization schedule. The Bonds will be rated based upon the FHA Risk Share credit enhancement on the underlying mortgage plus a reserve fund.

VOLUME CAP & BOND STRUCTURE

Because of the structure, the Bonds will be separately secured under the 1996 Indenture, such that bondholders will only look to payments on the WSSG mortgage for payment of the bonds and not other mortgage assets under the Indenture. This structure is being used to attract investors of other multifamily bonds that are structured as pass-through securities, including buyers of Fannie Mae guaranteed Mortgage Back Securities ("MBS") as Tax-Exempt Bond Collateral ("M-TEBs"). These buyers have been willing to accept a lower bond yield than buyers of traditionally structured multifamily bonds (currently estimated at 40 bps lower). The current market dynamics favor this structure versus serials and terms, as pricing for agency paper in the commercial MBS market is very tight.

Amount (up to)	$100,000,000
Distribute Preliminary Official Statement	1/04/2021
Bond Sale Date	1/13/2021
Bond Closing Date	1/28/2021
Final Bond Maturity	7/01/2052
Optional Redemption	1/01/2031
Bond Rating	Aaa – Moody's
Parity or Standalone	Standalone; separately secured under a Supplemental Indenture
Unique Disclosures	The community is being designed to National Green Building Standards.
Senior Manager	Wells Fargo Securities
Co-Senior Manager	PNC Capital Markets, LLC
Mortgage Loan Structure	3 years construction, 40 year amortization, balloon 1/1/2052
Credit Enhancement	FHA Risk Sharing (construction and permanent)

SUMMARY OF BOND AUTHORIZING RESOLUTION

The Bond Authorizing Resolution prepared by the Commission's Bond Counsel, Barclay Damon, LLP, outlines key elements of the transaction, which the Commission must authorize to enable the financing to proceed. A summary of the main approvals is outlined below:

1. Issuance of stand-alone, tax-exempt bonds in one or more series, as applicable (the "Tax-Exempt Indebtedness"), to make moneys available for the refunding of the PNC Recycling Facility in order to use the transferred proceeds thereof to fund an acquisition, construction and permanent mortgage loan to the Borrower in an amount not to exceed $100,000,000.
2. Execution and delivery of a trust indenture, funding loan agreement or other document(s) securing the Tax-Exempt Indebtedness.
3. Execution of any documents related to the issuance and delivery of the Tax-Exempt Indebtedness, the security for the Tax-Exempt Indebtedness, and the construction of the project, including, without limitation, purchase documents, investment documents, disclosure agreements, if any, real estate documents and related tax documents.
4. Approval for Chairman, Vice Chairman, Chairman Pro Tem, and Executive Director, or one or more of their designees, to proceed with the issuance and delivery of the Tax-Exempt Indebtedness.
5. Establishment of terms relating to the Tax-Exempt Indebtedness and the security therefor and authority for the Executive Director or his designee to make ongoing determinations relating thereto including dates, maturities, interest payment dates, denominations, terms of redemption, and other terms of the Tax-Exempt Indebtedness.
6. Selection of Trustee or Fiscal Agent (if any), Financial Advisor and Bond Counsel.
7. Acknowledgment of future plan for the Commission to secure FHA Risk Share insurance.

SUMMARY & RECOMMENDATIONS

ISSUES FOR CONSIDERATION

Will the Development and Finance Committee join staff's recommendation to the Commission to approve:

1) WSSG's Financing Plan totaling $123 million that includes the following sources: a) tax-exempt construction to permanent loan, credit enhanced by FHA Risk Share; b) Borrower and developer equity; c) a County HIF bridge loan, which will be taken out by a County HPF loan, during construction; and, d) a mezzanine loan sourced during construction to take out the County HPF loan at permanent loan conversion?
2) The feasibility and public purpose for WSSG, and the use of up to $100 million in recycled volume cap for the transaction?
3) A Bond Authorizing Resolution for the issuance and delivery of tax-exempt refunding bonds in an amount not to exceed $100 million under the 1996 Indenture?
4) HOC's issuance of a Financing Commitment to the Borrower for an FHA Risk Share construction to permanent mortgage loan in an amount of up to $100 million?
5) HOC providing credit enhancement via FHA Risk Share Mortgage Insurance, pursuant to the Risk Sharing Agreement between HOC and HUD, for HOC to assume 50% of the risk and HUD to assume 50%, for the transaction?
6) HOC providing equity for the transaction in amount of no more than $5.5 million from the OHRF?
7) The Borrower acceptance of the Mortgage Loan, County HIF and HPF loans, and a mezzanine loan?

TIME FRAME

For formal action at the December 9, 2020 meeting of the Commission.

SUMMARY & RECOMMENDATIONS

BUDGET/FISCAL IMPACT

- In the 3rd quarter of FY 2021, the Commission will earn a Commitment Fee of approximately $2 million, which was not included in the FY 2021 budget and, therefore, is a net positive to the Agency operating budget.
- The Commission will also earn a share of the Developer Fee of approximately $281,000 during the 3rd quarter of FY 2021, which is approximately $60,000 more than anticipated for FY 2021. This is a net positive to the Agency operating budget.
- As is customary, the Commission's Commitment Fee and HOC's share of the Developer Fee will be divided, 40% to the Commission's General Fund and 60% to the OHRF.
- The transaction will return all predevelopment funds provided from various sources available to the Commission in an approximate amount of $6.07 million.
- The balance of the OHRF, as of December 2020, will be $6.955 million, which is sufficient to provide HOC's equity for the transaction.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED

Staff requests that Development and Finance Committee join its recommendation to the Commission on the following:

1) Approval of WSSG's Financing Plan totaling $123 million that includes the following sources: a) tax-exempt construction to permanent loan, credit enhanced by FHA Risk Share; b) Borrower and developer equity; c) a County HIF bridge loan, which will be taken out by a County HPF loan, during construction; and, d) a mezzanine loan, sourced during construction, to take out the County HPF loan at permanent loan conversion.
2) Approval of the feasibility and public purpose for WSSG, and the use of up to $100 million in recycled volume cap for the transaction.
3) Approval of a Bond Authorizing Resolution for the issuance and delivery of tax-exempt refunding bonds in an amount not to exceed $100 million under the 1996 Indenture.
4) Authorization for HOC to Issue a Financing Commitment to the Borrower for an FHA Risk Share construction to permanent mortgage loan in an amount of up to $100 million.
5) Approval for HOC to provide credit enhancement via FHA Risk Share Mortgage Insurance, pursuant to the Risk Sharing Agreement between HOC and HUD, for HOC to assume 50% of the risk and HUD to assume 50%, for the transaction.
6) Approval for HOC to provide equity for the transaction in an amount of no more than $5.5 million from the OHRF.
7) Approval for the Borrower to accept the Mortgage Loan, County HIF and HPF loans, and a mezzanine loan.