



MEMORANDUM

TO: Board of Commissioners
The Housing Authority of the City of Atlanta, Georgia

FROM: Brandon Riddick-Seals
Interim President and Chief Executive Officer

DATE: January 30, 2019

SUBJECT: RESOLUTION REG-2 (Development Business Terms for the Redevelopment of Madison Reynoldstown)

EXECUTIVE SUMMARY

The Housing Authority of the City of Atlanta, Georgia (“AH”) is seeking AH Board of Commissioners authorization to take all actions necessary to complete the following for Madison Reynoldstown (“Project”), the redevelopment of 1.247 acres located at 890 Memorial Drive, Atlanta GA 30316 (“Site”):

- 1) Finalize the negotiated terms provided herein between AH and Rea Ventures Group, LLC (“Rea Ventures” or “Co-Developer”) in the form of an executed Development Agreement;
- 2) Issue a HomeFlex subsidy commitment for 46 of the 116 total units (40% of the total units) for an initial 15-year term with a 5-year renewal option;
- 3) Provide a second priority loan in an amount up to \$8,400,000 for a term of 40 years, fully amortized over 40 years at an interest rate of 3.0%, \$2,300,000 of which will be dispersed for construction financing at an interest rate of 1.0% for a 2 year term;
- 4) Execute a ground lease for a term up to 65 years for the Site at a lease rate of \$10,000 per year;
- 5) Allow a one-time exception to AH’s Deconcentration Policy set forth in the Amended and Restated Statement of Corporate Policies increasing the affordability allowance from 40% to 100%; and
- 6) Submission of the Development Plan and Mixed-Finance Application to the United States Department of Housing & Urban Development (HUD) and complete the financial closing.

BACKGROUND

On June 16, 2017, a Memorandum of Understanding was approved by AH's Board of Commissioners outlining a \$30,000,000 co-investment fund in partnership between Atlanta BeltLine, Inc. (ABI) and AH for the future development of net new affordable housing units in proximity to the Atlanta BeltLine corridor. AH and ABI executed a non-binding Letter of Interest (LOI) on December 19, 2017 for AH to acquire the Site for a purchase price of \$1,000,000. The Board approved the acquisition and early preliminary development plan on January 24, 2018 and reaffirmed on November 28, 2018 the decision with the Mayor of the City of Atlanta's support of the redevelopment project. Additionally, the Board approved AH staff to submit a sole source waiver request to HUD for Rea Ventures, whom ABI had previously competitively vetted and awarded as developer, to act as AH's co-development partner on the Project.

The refined proposed development plan includes 116 multifamily rental units, with 100% of the units being affordable to low-income families using income-averaging to 60% of Area Median Income (AMI), and +/-2,700 square feet of retail and commercial space. The total development cost for all units will be funded by (1) an anticipated 4% Low-Income Housing Tax Credits (LIHTC) award and tax-exempt bond financing; (2) HomeFlex rent subsidy for 46 units from AH; (3) a \$2,000,000 grant from the BeltLine Affordable Housing Trust Fund (BAHTF) pending approval from Invest Atlanta (IA); (4) a \$2,100,000 first priority permanent loan from Enterprise Community Loan Fund (ECLF); and (5) a \$8,400,000 second priority loan from AH utilizing eligible federal funds. \$2,300,000 of the AH permanent loan will be made available for construction financing.

**Resolution REG-2
Business Terms for the Redevelopment of Madison Reynoldstown**

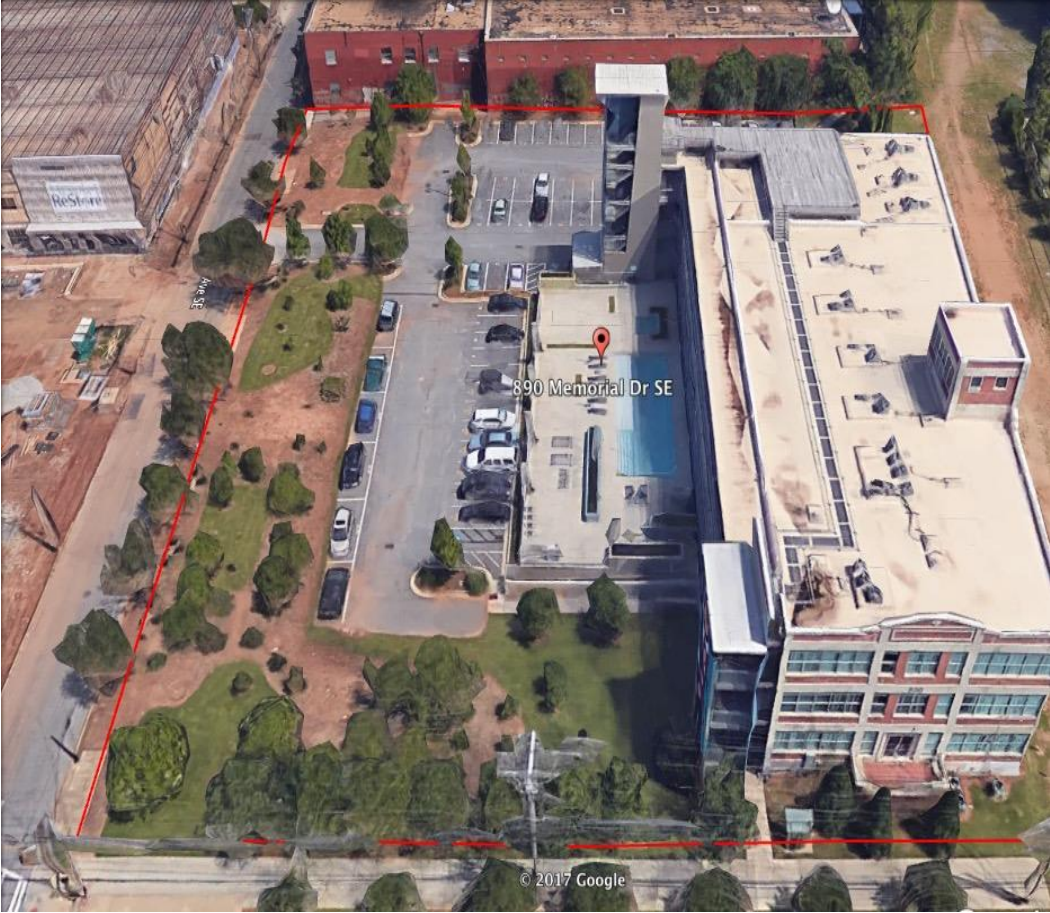


Figure 1: Lofts at Reynoldstown Crossing condominium, parking lot and future Site for Madison Reynoldstown Photo credit: Google Earth

Justification for 100% Affordability

AH's Amended and Restated Statement of Corporate Policies includes a Deconcentration Policy which allows for multifamily mixed-income communities to include a maximum of 40% affordable rental units, with senior and supportive housing allowing for 100% of the rental units to be reserved for low-income tenants. Madison Reynoldstown is a model example of equitable access to an economically diverse, amenity-rich location with great proximity to job centers, transportation, grocery and healthcare. The Atlanta BeltLine project has been a significant economic catalyst spurring an estimated \$4.1 billion¹ in private redevelopment, largely concentrated along the eastside trail. The Reynoldstown neighborhood, and more specifically, the Memorial Drive corridor is experiencing unprecedented investment in mixed use developments with a multifamily component.

As quoted from CoStar's *Multi-Family Submarket Report, Eastside Market* "The Eastside Submarket is one of the most dynamic in the Atlanta metro, with a wave of luxury new construction going up in rapidly gentrifying neighborhoods. The submarket leads the metro in supply growth, with over 18% of the existing inventory currently under construction. The submarket has already seen explosive growth this cycle, expanding by more than 45% in just the past five years. Rents, now currently averaging \$1,750 per unit, fall just behind the perennial leaders of Midtown and Buckhead" (p. 2).

There are currently 1,640 market rate units² under construction along Memorial Drive between Moreland Avenue and Capitol Avenue, which spans approximately 2 miles. In alignment with the City of Atlanta's "One Atlanta" vision for a more equitable city and the collective mission of AH and ABI to create net new quality, healthy and well-designed affordable housing, the Project proposes for 100% LIHTC units, and 40% of the units also receiving HomeFlex rent subsidies. As the Project's 116 affordable units would represent 15% affordable of total new rental units in the neighborhood, AH staff supports an exception being made to the AH Deconcentration Policy is appropriate.

The Project will have a significant impact to hundreds of families over the next 15 years by providing access to the Atlanta BeltLine and all the amenities typically limited to Atlanta's higher income residents.

¹ Source: BeltLine.org, "A Catalyst for Economic Growth and Renewal", <https://beltline.org/progress/progress/economic-development-real-estate>

² Source: Costar, *Multi-Family Submarket Report, Eastside Market* (p. 19)

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Figure 2: Direct access to the Atlanta BeltLine from the northeastern corner of the Site



Figure 3: Construction of the Atlanta BeltLine Eastside Trail Southern Extension abutting the Site. Estimated completion February 2019.

Business Terms

Below are the proposed business terms AH staff and Rea Ventures have preliminarily agreed to for the Project:

Site	Address: 890 Memorial Drive, Atlanta GA 30316 Parcel ID: 14-00130008C02 1.247 acres
Project Name	Madison Reynoldstown 2 Buildings Building A: 3-story building Building B: 5-story building 116 affordable, multifamily units +/- 2,700 sf commercial or retail space 160 structured parking spaces, and 8 dedicated surface parking spaces
Zoning	MRC-3-C BeltLine TAD
General Partner & Managing Member	RVG Reynoldstown Partner, LLC

Ownership Interest 25% AH
 75% Rea Ventures

Cash Flow Split 49% AH
 51% Rea Ventures

Developer Fee Split 25% AH
 75% Rea Ventures

Management Gateway Management

Unit Mix

	1 Bedroom	2 Bedroom	3 Bedroom	Total
Total	71	36	9	116

46 HomeFlex Units
 116 LIHTC Units

Tenancy Family

Section 3 35% participation goal for MBE/WBE/SBE/Section 3-owned businesses. The hiring plan will be included as an exhibit to the Development Agreement.

Other Subsidy \$2,000,000.00 grant from The Beltline Affordable Trust Fund (“BAHTF”), pending approval of Invest Atlanta Board of Directors

Construction Loan A disbursement of \$2,300,000.00 from the total \$8,400,000 second priority permanent AH loan at an interest rate of 1% t for a 24-month term. Interest will be paid up front at closing of the construction loan, with deferred principal payments during the term.

First Priority Permanent Loan \$2,100,000.00 loan from The Enterprise Community Loan Fund (“ECLF”), fully amortizing, 16-year term, at an interest rate of 5.25%.

Second Priority Permanent Loan Up to \$8,400,000.00 loan from AH, fully amortizing, 40-year term, at an interest rate of 3.00%.

Ground Lease \$ 10,000 per year for a term of up to 65 years paid to AH

Redevelopment Budget

CONSTRUCTION SOURCES		
Tax Exempt Bonds	\$ 15,655,000	59%
AH-Construction Loan ³	\$ 2,300,000	9%
Federal Tax Credit equity	\$ 4,009,792	15%
State Tax Credit equity	\$ 2,454,975	9%
BAHTF	\$ 2,000,000	8%
Total Construction Financing	\$ 26,419,767	

PERMANENT SOURCES		
Enterprise Community Loan	\$ 2,100,000	8%
AH Loan	\$ 8,400,000	32%
Beltline Affordable Housing Trust Fund Grant	\$ 2,000,000	8%
Low Income Housing Tax Credit Equity	\$ 12,929,535	49%
Deferred Developer Fees	\$ 1,123,473	4%
Total Permanent Financing	\$ 26,553,007	

APPLICATION OF FUNDS ⁴		
Hard Costs		
<i>Site Improvements</i>	\$ 1,790,000	7%
<i>Residential Units</i>	\$ 11,738,959	44%
<i>Structured Parking</i>	\$ 3,200,000	12%
<i>General Conditions/Overhead/Profit</i>	\$ 2,342,054	9%
Total Hard costs	\$ 19,071,013	
Hard Cost Contingency	\$ 833,948	3%
Soft Costs	\$ 3,666,856	14%
Reserves	\$ 581,190	2%
Developer Fees	\$ 2,400,000	9%
Total Application of Funds	\$ 26,553,007	
Hard Cost per Unit	\$ 171,594	
Total Cost per Unit	\$ 228,905	

³ The AH \$2,300,000 construction loan will be dispersed from the AH \$8,400,000 second priority permanent loan.

⁴ The \$1,000,000 acquisition of the site is solely AH, and is not reflected in the redevelopment budget above.

RISK MITIGATION STRATEGY

As a significant investor in this development, AH has proposed to receive 49% of expected cash flows after waterfall payments. The proposed partnership structure was designed to ensure that AH remains an active partner. Rea Ventures and AH have agreed to a proposed ownership structure with a 75% and 25% General Partnership share, respectively.

Based on rigorous due diligence and conservative underwriting assumptions, the following funding sources mitigate AH's risk, and ensures the Project's success:

1. AH has deemed the proposed financing structure feasible with a minimum Debt Service Coverage Ratio (DSCR), of 1.20.
2. The Total Development Cost (TDC) limits does not exceed HUD's 2018 TDC maximums.
3. Based on the HUD TDC analysis, AH's public housing capital assistance of \$9,400,000, including acquisition costs, is within the HUD TDC limit.
4. The Project was underwritten assuming affordable rents average at <60% AMI, including proposed tax credit units, and AH HomeFlex units.
5. With consideration to fluctuating construction costs, the Project has been underwritten with a hard cost contingency of 4.37%.
6. The Enterprise Community Loan Fund will disburse up to \$4,000,000, which provides an overall contingency of more than 14% of the total construction hard costs.
7. AH will enter into a ground lease agreement with the development partners for an affordability period up to 65 years.

RECOMMENDATION

AH recommends the Board of Commissioners make an exception to the AH Deconcentration Policy and allow for 100% affordability for Madison Reynoldstown, and authorize AH Staff to take all actions necessary and execute all related documents to (1) finalize the development deal terms with Rea Ventures; (2) to issue construction and permanent financing up to \$8,400,000, including but not limited to, loan documents and submission of the Development Plan and Mixed-Finance Proposal to HUD; (3) provide a HomeFlex commitment for 40% of the units; and (4) enter into a ground lease up to 65 years for the redevelopment of Madison Reynoldstown with Rea Ventures.

RESOLUTION REG-2

THE HOUSING AUTHORITY OF THE CITY OF ATLANTA, GEORGIA SEEKS AUTHORIZATION TO ENTER INTO A DEVELOPMENT AGREEMENT WITH UPDATED DEVELOPMENT TERMS FOR THE “MADISON REYNOLDSTOWN” PROPERTY LOCATED ON MEMORIAL DRIVE SE ATLANTA, GEORGIA

RESOLUTION

WHEREAS, on June 16, 2017, the Board of Commissioners (the “Board”) of The Housing Authority of the City of Atlanta, Georgia (“AH”) approved a Memorandum of Understanding aligning AH with Atlanta BeltLine, Inc., (“ABI”) an affiliate of The Atlanta Development Authority d/b/a Invest Atlanta, to develop affordable housing on sites along the Atlanta BeltLine;

WHEREAS, on January 24, 2018, AH obtained Board approval to: (i) acquire approximately 1.2 acres located on Memorial Drive SE, Atlanta, Georgia (the “Site”) owned by Chester Avenue Lofts, LLC, whose sole member is ABI; (ii) to expend funds related to the acquisition of the Site for due diligence investigation, remediation, site preparation, ongoing maintenance and other related expenses; (iii) to execute or accept assignment of a purchase and sale agreement for the purchase of the Site; and (iv) to take all actions necessary to obtain approval from the U.S. Department of Housing and Urban Development (“HUD”) to acquire and develop the Site;

WHEREAS, the development on the Site will be known as “Madison Reynoldstown”;

WHEREAS, AH has not yet executed a purchase and sale agreement, finalized due diligence, or submitted an application to HUD for acquisition and development for the Site;

WHEREAS, Chester Avenue Lofts, LLC, via ABI, previously selected a developer for the Site, Rea Ventures Group, LLC, through a thorough procurement and selection process;

WHEREAS, AH reviewed and found ABI’s procurement process to be systematic, meticulous and aligned with AH’s usual processes for developer selection, and AH therefore desires to adopt Rea Ventures Group, LLC as its single-source developer for the Site;

WHEREAS, on April 25, 2018, the Board gave AH authority to take all actions necessary to enter into a Development Agreement with Rea Ventures Group, LLC for the Site in order to begin pre-development functions and approval of initial business terms for the Development Agreement;

WHEREAS, AH now seeks authority from the Board to all actions necessary, including obtaining HUD permission to procure a sole-source developer, to enter into a Development Agreement with Rea Ventures Group, LLC, using the updated business terms set forth in Exhibit REG-2 attached hereto;

WHEREAS, in addition, because of the large number of market rate units under construction in the Reynoldstown neighborhood, and the opportunity that the Madison Reynoldstown development presents to create housing that is affordable along the Eastside BeltLine Trail, AH desires to develop one-hundred percent (100%) of the rental units at the Site as affordable or workforce housing;

WHEREAS, AH therefore requests Board approval to waive AH's Deconcentration Policy for the Madison Reynoldstown development in order to allow development of one-hundred percent (100%) of the rental units as affordable or workforce housing;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY OF THE CITY OF ATLANTA, GEORGIA ("AH") THAT:

1. AH, or one of its affiliates, is hereby authorized to: (i) take all actions necessary, including obtaining HUD permission to procure a sole-source developer, to enter into a Development Agreement with Rea Ventures Group, LLC, with the updated business terms set forth in Exhibit REG-2 attached hereto for approximately 1.2 acres located on Memorial Drive SE, to be known as "Madison Reynoldstown", which AH may acquire from Chester Avenue Lofts, LLC, whose sole member is Atlanta BeltLine, Inc.; provided that, AH shall seek additional Board approval should any terms outlined in Exhibit REG-2 change that will increase the amount or term of any loans, grants or other payments to be made by AH, or reduce any loan payments, cash-flow distributions, fees or other amounts to be paid to AH over the term of the ground lease; and (ii) to develop one-hundred percent (100%) of the units at Madison Reynoldstown as affordable or workforce housing units.
2. The President and Chief Executive Officer of AH and any person or persons designated and authorized to so act by the President and Chief Executive Officer are hereby authorized to do or perform, or cause to be done or performed, in the name of and on behalf of AH or otherwise, such acts, and to execute and deliver, or cause to be executed and delivered, such loan agreements, leases, development agreements, management agreements, project based rental assistance agreements, notices, regulatory and operating agreements, requests, releases, deeds, demands, directions, consents, approvals, orders, waivers, acceptances, appointments, applications, certificates, opinions, affidavits, undertakings, indemnifications, supplements, amendments, further assurances or other agreements, instruments or communications, in the name of and on behalf of AH or otherwise, as they, or any of them, may deem to be necessary or advisable in order to carry into effect the intent of this resolution or to comply with the requirements of the instruments approved or authorized by this resolution.

[Signatures Located on the Following Page]

ADOPTED, by the Board of Commissioners of The Housing Authority of the City of Atlanta, Georgia and signed in authentication of its passage, 30th day of January 2019.

ATTEST:

APPROVAL:

Brandon Riddick-Seals
Interim President and Chief Executive Officer

Christopher R. Edwards, M.D.
Chair

APPROVAL FOR FORM AND LEGAL SUFFICENCY:

Terri A. Thompson
General Counsel

EXHIBIT REG-2

PROPERTY INFORMATION AND BUSINESS TERMS

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 Parcel ID: 14-00130008C02
 1.247 acres

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