Successful Mixed Finance Project = Parkside at Mechanicsville

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AHA's Mixed-Income Model

- Market quality development with seamless affordable housing component
- Mix of income levels and unit types that "float" and are not tied to specific units
- HOPE VI/PHA development funds leverage private debt, equity and other sources
- PH residents have access to quality amenities and services (e.g., quality schools)
- Public/private partnership owns the improvements
- Model first created at Centennial Place in 1996
- 49 phases since then; $375MM in AHA funds have leveraged $1.5B in investment (4 times) on AHA land, involving PBRA or off-site investment
- National model for mixed-income, mixed-finance revitalization

Principles of AHA Rental Investment

- Provided as loans to maximize tax credit basis
- Provided as “soft” subordinated loans subject to cashflow to meet 1st lender requirements - repaid through agreed distributions of net cashflow
- Once required to be at Applicable Federal Rate (AFR) but law changed in 2008 (HERA Act), allowing loans to be at nominal rates
- Provided for term of ground lease (50+ years)
- Most principal reduction occurs in later years after 1st mortgage is paid off
- Tax code requires that these be “real” loans that can be paid off within term (important to both investors and AHA auditors)
- Balance AHA returns with goal of providing sustainable mixed income community
- Make units affordable to target income groups
- Not all development costs can be passed on because of restricted rents

AHA Roles and Approach to Mixed-Income Development

- Selects private sector development partner
- Intergovernmental liaison with HUD, City, State and County
- Resident relocation and demolition of site
- Site remediation and grading
- Assists in relationships with community groups
- Strategic relationships with other entities
- Helps secure tax credit allocations
- Helps secure public infrastructure funding (may involve "bridging" of funds)
- Serves as sponsor, investor, ground lessor, lender, co-developer, asset manager
- AHA provides no guarantees

“Typical” AHA Multifamily Deal

- 1st Mortgage (Private Funds) – usually 30-40 year term – often requires subordinate loans to be “soft” without fixed payments
- 2nd Mortgage (AHA Funds – limited by HUD TDC limits) for term of ground lease – usually at a nominal interest rate
- Equity from Federal and State tax credits (from tax credit investor(s))
- May also sometimes have a third “soft” funding source such as HOME or FHLB AHP
- Sometimes AHA may make a 2nd and 3rd
- AHA typically limits the percent of subsidized units to 40% in multifamily communities

Deal Example

- Parkside @ Mechanicsville (Mechanicsville 6, MF)

Development Participants

- Development Partners: McDaniel Glenn Revitalization, LLC:
  - Columbia Residential
  - RHA Housing, Inc.
  - SUMMECH CDC
- Developer: Affordable Housing Partnership, Inc.
- Contractor: Capstone Building Corporation
- Property Manager: New Columbia Residential Property Management, Inc.

Parkside @ Mechanicsville (Mechanicsville 6)

- Phase of McDaniel Glenn HOPE VI Revitalization
- Mix of Unit Types:
  - 23 PH/TC Units @ 60% AMI (15%)
  - 24 PH/TC Units @ 50% AMI (15%)
  - 32 PBRA/TC Units (20%)
  - 53 TC Only Units (35%)
  - 24 MR Units (15%) *
- 156 units Total

  * AHA made an exception and agreed to fewer MR units due to Investor market concerns.

Parkside @ Mechanicsville

- Ground Lease for 52 years at nominal rates – at end of term land and improvements revert to AHA
- AHA’s affiliate has NO interest in Limited Partnership or general partnership
- Closed in January 2011
- Received CO’s in December 2012
- Currently in operation
- Received LEED Silver designation

Parkside @ Mechanicsville Sources

Construction Sources

- Private loan of $7MM (JP Morgan Chase)
- AHA loan of $5.17MM for 24 months using Replacement Housing Factor funds
- Tax Credit Equity of $3.1MM (AEGON)
- Total sources = $15.3MM

Permanent Sources

- Private loan of $3.9MM (JP Morgan Chase)
- AHA loan of $5.17MM for 50 years using Replacement Housing Factor funds
- Tax Credit Equity of $8.6MM (AEGON)
- Deferred Developer fee of $644K
- Total Sources = $18.4MM

AHA Returns

- Transaction Fees and Expenses of $407K
- Co-Developer Fee of $489K
- Asset Management Services Fee of 1% of rents collected
- 50% of Net Cashflow – Sufficient to Pay Off the AHA Loan

Sustainability

- LEED Silver Certified project featuring:
  - FSC Tropical wood for framing,
  - All low or dual flow plumbing fixtures,
  - High performance heating and cooling systems for improved air quality,
  - Mold resistant drywall,
  - Zero-VOC paint,
  - Recycled carpet that uses material and dyes, and
  - Environmentally friendly graywater reuse systems for landscaping irrigation on the property.


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