



Legislation Text

File #: 20-1218, **Version:** 1

Resolution to Approve the Acquisition and Renovation of Lurie Terrace by the Ann Arbor Affordable Housing Corporation, an Affiliated Non-Profit Entity of the Ann Arbor Housing Commission, Approve 5 FTE's and appropriate funds (\$260,000) **(8 Votes Required)**

The non-profit entity Senior Citizen Housing of Ann Arbor (SCHAA), owns and manages Lurie Terrace, comprised of two separate buildings on the same site at 600 W. Huron Street. The Lurie Terrace tower portion is an 8-story, 132-unit apartment tower built in 1964. A 4-unit, 2-story building built in 1950 is adjacent to the tower for a total of 136 apartments reserved for senior households aged 62 years or older. The tower property was originally built and financed through a HUD Section 202 program for seniors. The property has continuously provided below market-rate rental housing for seniors since 1964, even though it is no longer restricted by a HUD use agreement. There are 84 efficiencies, 46 1-bedroom and six 2-bedroom apartments ranging from \$431/mo to \$1,246/mo.

The board of SCHAA reached out to the City of Ann Arbor and the Ann Arbor Housing Commission to purchase the property and continue to operate it as below-market rental housing for seniors. The Ann Arbor Housing Commission (AAHC), which manages and provides affordable housing for the City, created a new non-profit entity called the Ann Arbor Affordable Housing Corporation (AAAHC), to acquire and continue to manage the property as below-market rate rental housing for seniors aged 62 and older. The AAAHC Board met on July 28, 2020 and approved the purchase agreement to acquire Lurie Terrace. The City of Ann Arbor Code of Ordinances requires the City of Ann Arbor to approve all deeds, mortgages, contracts, leases, purchases or other agreements regarding real property which is or may be put under the control of the AAHC, or an affiliated entity.

Lurie Terrace has never had and does not currently have any regulatory requirements related to income or rent restrictions. The AAAHC will execute a deed restriction that does the following: limits the age of residents to 62 years or older, limits the income of new tenants (40% of all tenants will be limited to 60% of Area Median Income (AMI) or less and 60% of all tenants will be limited to 80% of AMI or less), and grandfathers in all existing tenants regardless of income. The AAHC will continue the tenancy of all residents upon acquisition at their current rent rates. Rents will be adjusted annually based on normal operational cost adjustments. The vast majority of tenants are on fixed incomes and their incomes are below 60% of AMI.

The parties agreed to a purchase price of \$4,050,000, based on the appraised value of an age- and income-restricted property. The market appraised value without any restrictions was \$7,800,000. The AAAHC is applying for a HUD-insured 223(f) loan for the maximum amount supported by the current rent revenues, which is estimated to be \$4,017,400. The total development cost is estimated to be \$5,336,400 based on the addition of soft costs such as legal, environmental testing, and reserves as well as approximately \$60,000 in renovations. The total development costs are dependent on the interest rate that gets locked in at the time that HUD approves the loan. If the interest rates continue to drop, the amount that can be borrowed will increase and the amount of grant funding needed will decrease. If the interest rates increase, then the borrowed amount will decrease and the amount of grant funding will increase. All leveraged grant funding must be committed/secured at the time of the

HUD application, and that is why the AAHC is requesting a cushion in funding from the City of Ann Arbor and the Ann Arbor Downtown Development Authority (DDA) in case the interest rate changes by the time HUD approves the loan. A small change in the interest rate can cause a several hundred thousand dollar change in the loan amount.

The gap between the loan amount of \$4,017,400 and the current estimated total development costs of \$5,336,400 is \$1,319,000. The FY21 City Council budget included an allocation to the AAHC of \$940,000 from the mental health millage, and within that \$940,000 the AAHC budgeted \$319,000 to acquire Lurie Terrace.

The AAHC is also requesting up to \$1 million from the Ann Arbor DDA to cover the balance of the grant funding needed. The DDA funding amount will be dependent on the interest rate that gets locked in at the time that HUD approves the loan. If the interest rates continue to drop, the amount that can be borrowed will increase and the amount of grant funding needed will decrease. If the interest rates increase, then the borrowed amount will decrease and the amount of grant funding will increase. All leveraged grant funding must be committed/secured at the time of the HUD application, and that is why the AAHC is requesting a cushion in funding from the City of Ann Arbor and the Ann Arbor DDA in case the interest rate changes by the time HUD approves the loan. A small change in the interest rate can cause a several hundred thousand dollar change in the loan amount.

The AAHC also secured \$31,950 from the Ann Arbor Area Community Foundation (AAACF) for pre-development due diligence.

The property currently receives a senior and disabled tax exemption where the State of Michigan pays the property taxes to the City of Ann Arbor. As long as the property continues to be owned by a non-profit entity and continues to exclusively house seniors aged 62 and older, it will continue to qualify for this tax exemption. The State of Michigan paid \$91,109.16 in property taxes to the City in 2019.

Lurie Terrace is the only property owned and managed by SCHAA. Lurie Terrace currently has 2 maintenance and 3 property management staff, who are the only staff employed by SCHAA. The AAHC has a need for these positions to take over management of the property. Accordingly, the AAHC is requesting approval of 5 FTEs by City Council in this resolution so that these positions can be hired in a timely manner, in order to start on the day the property is transferred. These positions will be posted in accordance with the normal HR and union processes. It is estimated that it will take 8-10 weeks from the time of this resolution for HUD to approve the loan and lock-in the rates, and it will take another 8-10 weeks to close on the loan after HUD approval.

To summarize, the Ann Arbor Housing Commission is requesting City Council approval for the Ann Arbor Affordable Housing Corporation, a non-profit subsidiary of the AAHC, to acquire Lurie Terrace for \$4,050,000 and approve 5 FTE's in the AAHC's FY21 budget to hire property management and maintenance staff for Lurie Terrace, and approve an increase in the General Fund Community Development expenditure budget in the amount of \$260,000 for those staffing costs in FY21.

Prepared by Jennifer Hall, Executive Director Ann Arbor Housing Commission

Reviewed by Kevin McDonald, Deputy City Attorney

Approved by Tom Crawford, Interim City Administrator

WHEREAS, Lurie Terrace consists of a 132-unit apartment tower and 4-unit, 2-story building and surrounding property located at 600 W. Huron Street that provides housing for seniors aged 62 and older;

WHEREAS, Lurie Terrace is owned by a non-profit, Senior Citizens Housing of Ann Arbor, Incorporated which approached the City and the Ann Arbor Housing Commission about selling the property;

WHEREAS, Lurie Terrace currently does not have any income or rent restrictions on the property, although a majority of residents have incomes below 60% of the Area Median Income (AMI) and rents are below market-rate;

WHEREAS, The City of Ann Arbor and the Ann Arbor Housing Commission desire to preserve the housing as below-market affordable housing for seniors aged 62 and older;

WHEREAS, The Ann Arbor Housing Commission created a special purpose nonprofit corporation called the Ann Arbor Affordable Housing Corporation to acquire Lurie Terrace;

WHEREAS, The Ann Arbor Affordable Housing Corporation's Board approved the Acquisition and Renovation of Lurie Terrace at its Board meeting on July 28, 2020;

WHEREAS, The purchase price of \$4,050,000 as determined by an independent appraisal plus soft costs, reserves and renovations required by HUD bring the total development costs to an estimated \$5,336,400;

WHEREAS, The Ann Arbor Affordable Housing Corporation is applying for a HUD-insured 223(f) loan, which has a low-interest rate, favorable underwriting standards, a 35-year term based on the AAHC committing to 40% of the units restricted to households at 60% of Area Median Income;

WHEREAS, The estimated loan amount is \$4,017,400 based on the current interest rate, but the rate will not be locked-in until HUD approves the loan, and therefore the current estimated gap in funding is \$1,319,000, but it may increase or decrease when the HUD interest rate is locked in;

WHEREAS, The Ann Arbor Housing Commission will allocate \$319,000 of the mental health millage funding approved by City Council in the FY21 budget toward the acquisition and renovation of Lurie Terrace;

WHEREAS, The Ann Arbor Housing Commission will be requesting up to \$1 million from the Ann Arbor Downtown Development Authority to cover the balance of the total development costs;

WHEREAS, The Ann Arbor Housing Commission also secured \$31,950 from the Ann Arbor Area Community Foundation, which has paid for pre-development due diligence items related to the acquisition including attorney's fees, environmental testing and other soft costs;

WHEREAS, The Ann Arbor Housing Commission will be the property manager for the Ann Arbor

Affordable Housing Corporation, which will not have any employees;

WHEREAS, The Ann Arbor Housing Commission will immediately need up to five property management and maintenance staff at time of transfer;

WHEREAS, Section 1:209 of Chapter 8 of Ann Arbor City Code requires the City of Ann Arbor to approve the acquisition of real property by the Ann Arbor Housing Commission or an affiliated entity; and

WHEREAS, The Ann Arbor Affordable Housing Corporation will execute a deed restriction at the time of transfer that does the following: limits the age of residents to 62 years or older, limits the income of new tenants, and grandfathers in all existing tenants regardless of income;

RESOLVED, That City Council approves the purchase of Lurie Terrace by the Ann Arbor Affordable Housing Corporation, a Michigan nonprofit corporation formed by the Ann Arbor Housing Commission, contingent on securing all necessary funding, which includes a 223(f) HUD-insured loan, \$319,000 in the Ann Arbor Housing Commission FY21 budget, and up to \$1 million from the Ann Arbor Downtown Development Authority;

RESOLVED, That City Council approve the Purchase and Sale Agreement for the sale of Lurie Terrace from Senior Citizens Housing of Ann Arbor, Incorporated to the Ann Arbor Housing Corporation, in substantial form of that attached, after approval as to substance by the City Administrator and approval as to form by the City Attorney;

RESOLVED, That City Council approve the Warranty Deed for the sale of Lurie Terrace, in substantial form of that attached as Exhibit E of the Purchase and Sale Agreement, after approval as to substance by the City Administrator and approval as to form by the City Attorney, upon the condition that a deed restriction is placed on the property at the time of sale that limits the age of residents to 62 years or older, limits the income of new tenants (40% of all tenants will be limited to 60% of AMI or less and 60% of all tenants will be limited to 80% of AMI or less), and grandfathers in all existing tenants regardless of income, after approval as to substance by the City Administrator and approval as to form by the City Attorney;

RESOLVED, That City Council authorize the addition of 5 FTE's for the Ann Arbor Housing Commission in the FY21 budget;

RESOLVED, That City Council approve an increase in the General Fund Community Development expenditure budget in the amount of \$260,000 for staffing costs in FY21 with the funding for this increase to be reimbursed by the Ann Arbor Housing Commission; and

RESOLVED, That the City Administrator be authorized to take all necessary actions to implement this resolution.

Sponsored by: Mayor Taylor and Councilmembers Hayner, Ackerman, Ramlawi, Griswold, Nelson, and Bannister