



Legislation Text

File #: 20-1145, **Version:** 1

Resolution to Approve up to \$375,000 for the Acquisition & Renovation of Lurie Terrace by the Ann Arbor Affordable Housing Corporation, an Affiliated Non-profit Entity of the Ann Arbor Housing Commission, and Approve a Property Management Agreement

The non-profit entity Senior Citizen Housing of Ann Arbor (SCHAA), owns and manages Lurie Terrace, comprised of 2 separate buildings on the same site. 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. There are 84 efficiencies, 46 1-bdr and six 2-bdr 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), as the affordable housing entity 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.

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, limit the income of new tenants (40% of all tenants will be limited to 60% of Area Median Income or less and 60% of all tenants will be limited to 80% of Area Median Income or less), and grandfather in all existing tenants regardless of income. The AAHC will continue the tenancy of all the 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.

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 AAHC secured \$31,950 from the Ann Arbor Area Community Foundation (AAACF) to pay for pre-development costs. 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 intended on utilizing \$319,000 to acquire Lurie Terrace and \$136,000 for activities related to the development of city-owned properties. The AAHC will allocate \$56,000 from the \$136,000 budget for the development of city-owned projects toward the Lurie Terrace acquisition for a total of \$375,000 in the AAHC's budget if needed for the acquisition of Lurie Terrace, which would leave \$80,000 for activities related to the development of city-owned properties.

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 and the staff who work at Lurie Terrace are the only staff SCHAA has. At the time the property transfers ownership to the AAAHC, the SCHAA staff will be terminated as employees of SCHAA. The goal is to have the property management and maintenance staff hired prior to the transfer of ownership with a start date on the day the property is transferred, so that there is a seamless transition for staff and tenants. Lurie Terrace currently has 2 maintenance and 3 property management staff. The AAHC will work with the City Human Resources Department to determine how the positions fit into the Ann Arbor Housing Commission's current staffing structure and City job descriptions. Then those 5 positions will be posted by HR following normal and customary processes. Union positions must be posted internally for 1 week prior to posting the positions externally, if there are no internal candidates. The AAAHC will not have any employees and will contract with the AAHC for staffing and property management. The AAHC is requesting approval of 5 FTE's 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. 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.

Prepared and Approved by Jennifer Hall, Executive Director Ann Arbor Housing Commission
WHEREAS, Lurie Terrace is a 136-unit apartment complex that provides housing for seniors aged 62 and older; and

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

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 and rents are below market-rate; and

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; and

WHEREAS, The Ann Arbor Housing Commission created a wholly-owned subsidiary non-profit called the Ann Arbor Affordable Housing Corporation to acquire Lurie Terrace; and

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; and

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 AAAHC committing to 40% of the units restricted to households at 60% of Area Median Income; and

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; and

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

WHEREAS, The Ann Arbor Affordable Housing Corporation is requesting up to \$1 million from the Ann Arbor Downtown Development Authority at their September 2, 2020 meeting to cover the balance of the total development costs; and

WHEREAS, The Ann Arbor Housing Commission will be the property manager for the Ann Arbor Affordable Housing Corporation, which will not have any employees; and

WHEREAS, The Ann Arbor Housing Commission staff are City of Ann Arbor employees and the property currently has 5 property management and maintenance staff that will be terminated by the SCHAA at the time of property transfer and property management and maintenance staff will immediately be needed by the Ann Arbor Housing Commission at time of transfer; 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, limit the income of new tenants (40% of all tenants will be limited to 60% of Area Median Income or less and 60% of all tenants will be limited to 80% of Area Median Income or less), and grandfather in all existing tenants regardless of income;

RESOLVED, The Ann Arbor Housing Commission will allocate up to \$375,000 of the mental health millage funding approved by City Council in the FY21 budget toward the acquisition and renovation of Lurie Terrace by the Ann Arbor Affordable Housing Corporation; and

RESOLVED, The Ann Arbor Housing Commission will contract with the Ann Arbor Affordable Housing Corporation to provide property management services and will sign a Property Management and Maintenance Agreement.