



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of December 16, 2023

DRAFT

DATE: December 4, 2023

DRAFT

SUBJECT: Request for the County Board to: (i) Approve the Barcroft Apartments Program Wide Affordable Housing Financing Plan and associated documents describing the sitewide affordability and financing plan for Barcroft Apartments. (ii) Approve the Arlington County Affordable Housing Financing Commitment for the Rehabilitation and Renovation of the Barcroft Apartments First Renovation Phase (Alpha 1) (the "Financing Commitment Letter") and Barcroft Apartments First Renovation Phase (Alpha 1) Term Sheet to assist with the development and construction of Barcroft Apartments buildings #22-26 located within Section 3 of the overall apartment complex and containing 93 units (the "First Renovation Phase"). (iii) Ratify execution of the HUD Pathways to Removing Obstacles to Housing (PRO Housing) Grant Application.

C. M. RECOMMENDATION:

- 1. Approve the Barcroft Apartments Program Wide Affordable Housing Financing Plan and associated documents describing the sitewide affordability and financing plan for Barcroft Apartments.
2. Authorize and direct the County Manager to execute, on behalf of the County Board, the attached Arlington County Affordable Housing Financing Commitment for the Rehabilitation and Renovation of the Barcroft Apartments First Renovation Phase (Alpha 1) (the "Financing Commitment Letter") for the development and construction of the First Renovation Phase, subject to approval as to form by the County Attorney.
3. Approve the Barcroft Apartments First Renovation Phase (Alpha 1) Term Sheet which outlines the financing terms and details of the First Renovation Phase.
4. Authorize the County Manager, with the concurrence of the County Attorney, to act as the County Board's representative, in approving revisions to the attached Barcroft Apartments First Renovation Phase (Alpha 1) Term Sheet, the Financing Commitment Letter, and the Barcroft Apartments Program Wide Affordable Housing Financing Plan and associated documents (collectively the "Barcroft Financing Documents"), that are necessary to remove any ambiguity or inconsistency or which improve the County Board's financial security or financial position, and which revisions do not adversely affect the County financially, prior to or after execution of the Barcroft Financing Documents.

County Manager:

County Attorney:

Staff: Melissa Danowski, CPHD - Housing Division

5. Ratify the U.S. Department of Housing and Urban Development’s Pathways to Removing Obstacles to Housing (PRO Housing) Grant Application and associated assurances and certifications.

ISSUES: Part of the County Board actions includes a request to approve the proposed Barcroft Apartments Program Wide Affordable Housing Financing Plan. The County and Jair Lynch Real Estate Partners (JLREP) team are committed to addressing the deepening affordability needs at Barcroft Apartments through use of a variety of tools. In addition to rent stabilization, deepening affordability will be provided through the provision of at least 134 units across the property for residents who earn up to 30% of the [Area Median Income \(AMI\)](#), which is 10% of the total 1,335 committed affordable units (CAFs). Further support of residents with deep affordability needs will be provided through subsidy programs such as Housing Grants. JLREP will also provide up to 10% of the CAF units for [Permanent Supportive Housing \(PSH\)](#) clients upon turnover. Those are in addition to the 134 units committed at 30% AMI. Some members of the community have expressed concern about the affordability proposal, which they would like to include 255 units up to 30% AMI instead of the proposed 134 units. This approach impacts the financial feasibility of the project, and staff has further addressed this input in the Public Engagement section of this report.

SUMMARY: Staff recommends approval of the Barcroft Apartments Program Wide Affordable Housing Financing Plan and associated documents describing the sitewide affordability and financing plan for Barcroft Apartments, collectively the “Sitewide Affordability and Financing Plan.” The terms included in the Barcroft Apartments Program Wide Affordable Housing Financing Plan outline how the overall \$150 million County Acquisition Fund loan will be refinanced to separate County loans by phase as each phase is renovated and redeveloped. It also commits the County and JLREP to rent stabilization for current residents as well as the provision of at least 134 units up to 30% AMI across the property. This represents the largest commitment of 30% AMI units in the County’s portfolio to-date.

The County will explore opportunities to expand upon the commitment of at least 134 units up to 30% AMI if there are any changes or benefits to the financing from land-use tools for the site above and beyond JREP’s proposed Master Plan, and will be discussed as part of the upcoming public engagement in 2024. This includes any changes due to market rate development, additional density, adjustments to the Neighborhoods Form Based Code Conservation Areas, Transfer of Development Rights (TDR), or other items that dramatically impact the financing, while still meeting financing and lender commitments. Any amendments to the Barcroft Apartments Program Wide Affordable Housing Financing Plan will be brought forward as the land-use recommendations are considered by the County Board, anticipated for summer/fall 2024.

Staff also recommends approval of the attached Barcroft Apartments First Renovation Phase (Alpha 1) Term Sheet and the Financing Commitment Letter between the County Board and JLREP or its designated County-approved ownership affiliate (“Borrower”) to assist with the development and construction of the First Renovation Phase of Barcroft Apartments. The First Renovation Phase is located at 1416 S George Mason Drive at the corner of South George

Mason Drive and South Four Mile Run Drive. The Barcroft Apartments First Renovation Phase (Alpha 1) Term Sheet and Financing Commitment Letter are needed for the Borrower's Virginia Housing (VH) 4% low-income housing tax credit (LIHTC) application and tax-exempt bond issuance. The First Renovation Phase will provide affordable housing that will average up to 60% of the AMI and will include nine Permanent Supportive Housing (PSH) units upon turnover of current residents. As part of the renovations, 18 two-bedroom homes will be converted to 14 three-bedroom homes and 4 four-bedroom homes.

Lastly, staff is recommending ratification of the HUD PRO Housing grant application that was submitted on November 2, 2023. In partnership with Jair Lynch, the County applied to receive up to \$10M in funding to advance a centrally located renovation phase at Barcroft Apartments. The funding proposal includes rehabilitation of a future phase of Barcroft Apartments that would include 101 apartment homes (with an average of up to 60% AMI rents and a minimum of 10% of the units set aside for those earning up to 30% AMI), construction of a resident community and amenity center, and improvements to two primary streets.

BACKGROUND: The Barcroft Apartment community is a 60-acre site located on the Columbia Pike corridor in Arlington. It is comprised of 1,335 apartment homes across 59 buildings that were built in phases between 1939 and 1953. The First Renovation Phase is located at 1416 S George Mason Drive at the corner of South George Mason Drive and South Four Mile Run Drive (see Figure 1). The Use Permit for the First Renovation Phase was approved at the [July 2023 County Board meeting](#).

Figure 1: Location of Barcroft Apartments and First Renovation Phase with Building Numbers



Barcroft Apartments was placed on the market during the Fall of 2021. At the time it was the largest market rate affordable (MARK) housing community in Arlington and was at risk of being sold to developers wishing to demolish the existing units and build by-right luxury for-sale or

other market-rate product. Fortunately, following a highly competitive selection process, the previous owner selected Jair Lynch Real Estate Partners (JLREP) to purchase the property and JLREP indicated interest in preserving affordability at the site. JLREP reached out to Arlington County for support and a \$150M County Acquisition Fund loan was [approved by the County Board](#) in December 2021 to support the acquisition of Barcroft Apartments by JLREP. In addition, the Amazon Housing Equity Fund (HEF) provided approximately \$160M in support of the acquisition. To enable the County Acquisition Fund loan, the [County Board approved](#) a short-term line of credit. The acquisition was executed in December 2021, and all 1,335 units were committed to 99 years of affordability up to 60% AMI. The 99-year affordability period exceeds all other affordability periods in the County affordable housing portfolio (the longest affordability period prior to the Barcroft acquisition was 75 years).

The acquisition by JLREP, with assistance from Arlington County and Amazon prevented the displacement of approximately 1,100 existing resident families. Upon acquisition, JLREP made further commitments to the residents living at Barcroft Apartments. For all of 2022, rents were held at current rent levels. From 2023 on, rents for those residents will be capped at no more than a 3% increase per year, even after units are renovated and redeveloped. As part of the commitment to no resident displacement for those living at the property prior to the acquisition, the JLREP team is working with residents who cannot afford a rent increase on a case-by-case basis, to help connect them to financial resources and, in some cases, further reduce or limit rent increases to ensure individual affordability.

Barcroft Apartments is an aging garden-style apartment community in need of reinvestment. In October 2022, JLREP submitted a [Master Financing and Development Plan \(MFDP\)](#) which describes how Barcroft Apartments will be renovated and/or developed in the long term, and includes options to deepen existing affordability at the property and other community goals. Since the submittal of the MFDP, County staff and the JLREP team has been focused on review and analysis. This work also included resident engagement in 2022, at a variety of events and town halls, that focused on resident needs and desires for the community and associated feedback. The renovation and construction process for the entire Barcroft Apartments community is anticipated to be completed in 13 phases and take several years to complete. It is anticipated that no additional County funds will be requested for the renovations or redevelopment. In addition to renovation and redevelopment of all the affordable units on the property, JLREP will pursue market-rate residential development on the site to deliver a mixed-income community.

DISCUSSION:

Barcroft Apartments Program Wide Affordable Housing Financing Plan: The terms included in the Barcroft Apartments Program Wide Affordable Housing Financing Plan outline how the overall \$150 million County Acquisition Fund loan will refinance to separate County loans by phase as each phase is renovated and redeveloped. It also commits the County and JLREP to rent stabilization for current residents as well as the provision of at least 134 units up to 30% AMI across the property. This represents the largest commitment of 30% AMI units in the County's portfolio to-date. Further support of residents with deepening affordability needs

will be provided through County subsidy programs such as Housing Grants.. Together, providing at least 134 units up to 30% AMI, plus the County subsidy programs will help meet resident affordability needs and decrease resident rent burden.

Rent Stabilization: Current residents will not be displaced as a result of the renovations or redevelopment plans at Barcroft Apartments, and the JLREP and County teams are committed to **rent stabilization** for the current residents.

- As portions of Barcroft Apartments are renovated or redeveloped and refinanced with LIHTC financing, those residents earning at or below 80% of the AMI will be able to move back to a substantially renovated or new construction home, while maintaining their current rents, capped at 3% annual increases.
- Current residents who earn above 80% AMI and therefore are over-income for LIHTC-financed units will have the option to stay in an un-renovated home at Barcroft Apartments while maintaining their current rents, capped at 3% annual increases. In the future, when there are no more unrenovated homes available on-site, over-income residents would move to a newly built market-rate home while maintaining their current rents, capped at 3% annual increases.

All residents will receive a comparable sized home. Prior to the commencement of renovation or new construction work on any individual phase, a Tenant Relocation Plan will be reviewed and approved by the Tenant Landlord Commission. The Tenant Relocation Plan outlines the resident notification and the on-site transfer process, as well as the on-site moving assistance all residents will receive when their unit undergoes renovations or redevelopment.

Deepening Affordability: In addition to rent stabilization, deepening affordability will be provided through the provision of at least 134 units across the property for residents who earn up to 30% AMI, which is 10% of the total 1,335 affordable units. The actual percentage of 30% AMI units will vary across phases. Some phases may have more than 10% of the units up to 30% AMI and some may have less based on individual financing needs, but cumulatively the County and JLREP have committed to having at least 10% of units (134 units) for residents who earn up to 30% of the AMI.

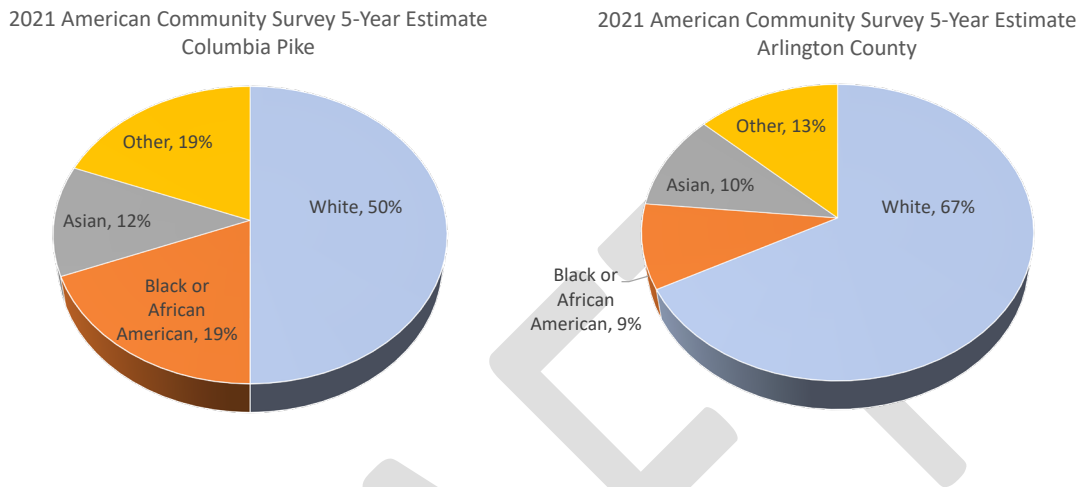
Further support of residents with deep affordability needs will be provided through subsidy programs such as Housing Grants. JLREP will also provide up to 10% of the CAF units for [Permanent Supportive Housing \(PSH\)](#) clients upon turnover. Those are in addition to the 134 units committed at 30% AMI.

Racial Equity: The County Board adopted an Equity Resolution in [September 2019](#). The resolution includes, in part, direction to apply a racial equity lens for every project. Specifically staff asks the following questions when considering racial impacts of County projects: 1) Who benefits?, 2) Who is burdened?, 3) Who is missing?, 4) How do we know?, and 5) What do/did we do?

Columbia Pike, where Barcroft Apartments is located, is the most diverse area of Arlington County. According to data from the 2021 American Community Survey 5-Year Estimates, there is a comparatively high Hispanic or Latino population along Columbia Pike (29%) as compared

to the County as a whole (16%). There is also over double the proportion of Black or African American populations along Columbia Pike (19%) as compared to the County as a whole (9%).

Figure 2: Racial Composition of Columbia Pike and Countywide
US Census Bureau; 2021 American Community Survey 5-Year Estimates



An initial resident engagement survey was conducted after JLREP acquired Barcroft Apartments. It specifically did not request race and ethnicity information to increase residents' comfort in completing the survey. While the County does not have specific demographic information for Barcroft Apartments, County staff and the JLREP team have observed that the racial composition of the residents at Barcroft does seem reflective of the diversity found along Columbia Pike. We know from the resident survey that Barcroft residents speak many languages including Spanish, Amharic Arabic, and Urdu. Though English is the predominant primary language, 11% of the residents who answered the survey indicated Spanish is their primary language. Amharic was the next predominant language (after English and Spanish) at 2.3%.

The proposed affordability plan will **benefit** and enable all Barcroft families to continue to live in a transit rich area of the County nearby other community amenities. However, residents who benefit may also be those who are **burdened**, as the FY 22 Annual Affordable Housing Plan Indicator Report indicates only 12.3% of Arlington's rental housing stock is affordable to households earning less than 60% of the AMI. Furthermore, the 2021 American Community Survey 5-year estimate for household incomes indicate that 38% of black households earn under \$50k per year, compared to almost 17% of households in the County as a whole. The commitment of at least 10% of the affordable units provided at up to 30% AMI in addition to County and Amazon subsidies will help serve the needs of these very low-income residents at the property.

Very low-income residents who may not be eligible for County subsidy programs may be **missing**. However, JLREP and the County have committed to rent stabilization for all current residents at Barcroft. In addition, at least 10% of the units across the property will be affordable up to 30% AMI. Part of the allocation process for the 30% AMI units includes prioritizing

residents within the renovation phase being undertaken (and prior phases) according to level of rent burden. The rent burden calculation is the monthly rent of the unit divided by the total monthly household income, which includes federal, state, and/ or local subsidy programs. Therefore, those who have a higher rent burden, and pay more of their income towards rent, will be prioritized for the 30% AMI units.

We **know** this information based on the census tract information for this geographic area as compared to the rest of the County as well as racial data for households earning under \$50,000 annually, as well as self-reported information we received from the JLREP resident survey that was undertaken shortly after acquisition. In terms of **what do we do**, the County has an opportunity to consider this Barcroft Apartments Program Wide Affordable Housing Financing Plan in light of these potential benefits and impacts.

Sitewide Development Budget and Financing Package:

JLREP provided sitewide financial modeling that shows a baseline scenario for the development and construction of the renovation and redevelopment projects that includes the utilization of a senior mortgage, 4% LIHTC, and the associated County and Amazon HEF gap financing.

The baseline sources and uses results in anticipated savings across the renovation and redevelopment phases from the original \$150M County Acquisition Fund loan. While JLREP has provided this baseline scenario, JLREP has committed to pursuing additional sources, such as 9% LIHTC, state historic tax credits, and other sources like Virginia Housing Trust Funds and Federal Home Loan Bank funds that may help generate further savings to the County.

Part of the financing plan is utilizing these potential savings to help pay down the County's debt while still meeting County goals. These anticipated savings are important due to the significant increase in the cost of capital to the County because interest rates have jumped dramatically since the 2021 acquisition. For example, debt service on the County's short-term \$150M line of credit is currently \$9 million annually (interest only). This is more than four times what was originally projected for FY2023 in 2021 and the increase is coming directly out of the County's annual Affordable Housing Investment Fund (AHIF) appropriation. This puts a strain on the County's AHIF budget and the ability for the County to undertake new affordable housing projects.

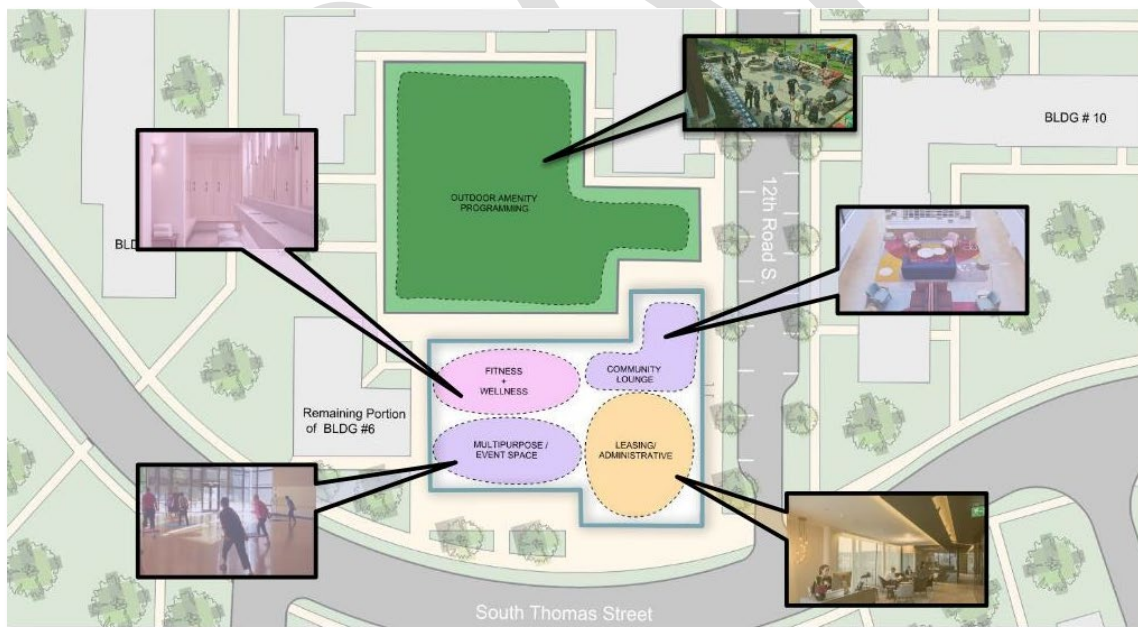
The associated deepening affordability proposal for at least 10% of the units up to 30% AMI strikes a balance between positioning the County to manage this debt (including by capping the County's loan at or below \$150 million) and meeting the County's and community goals for Barcroft. However, if market conditions improve and/or other sources are able to be obtained, County debt obligations are able to be reduced, and financing and lender commitments can still be met, County staff and JLREP will revisit this minimum commitment. On the other hand, if market conditions worsen, the JLREP and County teams will still be committed to at least 134 units for residents who earn up to 30% AMI.

Lastly, the baseline scenario includes a renovation and development program that represents JLREP's proposed Master Plan which will be further discussed as part of the land-use public engagement and discussion to occur in 2024. In total, their proposal includes about 413 new

construction CAFs and 922 renovated CAFs (totaling 1,335 CAFs). Any changes or benefits to the financing from land-use tools above and beyond JLREP’s proposed Master Plan, such as adjusting the Conservation Area, additional density, or other land use items will be further discussed as part of the engagement process.

Resident Community Center: As part of the renovation and redevelopment plans, JLREP has proposed a new, amenity-rich community center that will serve all 1,335 apartment homes at the entire Barcroft Apartments complex. This proposed 10,000-15,000 square foot community center would include a new leasing office, multipurpose rooms, business center, fitness, lounge, and outdoor amenities. Resident services programming and other resources will be offered at the center. In order to help finance the new community center, the County and JLREP teams submitted a HUD PRO Housing grant application on November 2, 2023. The County applied to receive up to \$10M in funding to advance a centrally-located renovation phase at Barcroft Apartments (Figure 3). The funding proposal includes rehabilitation of 101 apartment homes (with an average of up to 60% AMI rents and a minimum of 10% of the units set aside for those earning up to 30% AMI), construction of a resident amenity center, and improvements to two primary streets. If awarded the \$10M HUD PRO grant, the funds would be used to help cover the additional costs of the community center as well as associated street and landscaping improvements. This phase would also include at least 10% of the units affordable up to 30% AMI.

Figure 3: Resident Community Center – Proposed Location and Programming Concept



Phasing Plan: The renovation and development projects are projected to be completed over the next ten years in thirteen phases. This includes ten renovation phases and three new construction phases. The JLREP team has started with the renovation phases and obtained a use permit approval for the first renovation phase in July 2023. The JLREP team is also seeking County Board consideration of a use permit for the second renovation phase at the December 2023

meeting. Approximately two to three renovation projects per year are anticipated to begin thereafter. The first new construction project is anticipated to close on financing in 2025. The remaining two new construction projects are anticipated to be the last of the phased projects, and close on financing in six to eight years. This phasing approach may be adjusted as needed to maximize available funding sources for the project.

County Phasing Reserve Fund (CPRF): To help buffer market and financing risk, a CPRF is included in the Barcroft Apartments Program Wide Affordable Housing Financing Plan. Specifically, the County's up-front savings or "excess proceeds" that may be obtained after closing of individual phases would be held in a 3rd-party interest-bearing escrow account.

- The money in the CPRF would be used if shortfalls occur in future phases. In other words, the County loan will not exceed \$150M in aggregate, but some phases may have a larger financing gap than others.
- To solve any shortfalls, JLREP will first seek additional sources, such as 9% LIHTC, state historic tax credits, and other sources to fill the gap.
- However, if market conditions change or additional sources such as competitive 9% LIHTC are not able to be obtained, some phases may need funds beyond the pro-rata share of County loan for those phases.
- In that case, funds from the reserve, which would have come from savings from *prior* phases, would help fill that gap.
- Any project savings received as part of the Amazon HEF loan will be deposited into a separate Amazon Phasing Reserve Fund. Amazon may use these funds to augment their loan in future phases, to the extent it can meet their financing requirements.
- The Phasing Reserve Funds will help ensure delivery of all CAFs and overall financing sustainability, including a minimum of 10% of units up to 30% AMI. It serves as a protection if market conditions change midstream.

Portions of the CPRF would be released at certain points to the County, anticipated to occur after 2025 and as certain milestones are met during the following five to eight years. Though it will take a few years, these savings will be used to reduce the amount of the long-term County debt and associated annual debt service payments. This will ultimately help the County utilize scarce AHIF funds to create and sustain other affordable units within the County and continue to meet Affordable Housing Master Plan supply goals.

Financing Terms:

The County loan for each phase will have a term that is coterminous with the term of the senior permanent debt, which is typically 30 or 35 years if financed with Virginia Housing. The County loan will be a "cash flow" loan, meaning that payment comes from the cash flow remaining after payment of the operating expenses and debt service from the senior loan, Amazon HEF, and project related servicing fees. The County loans will carry an interest rate of 0.5% per annum, compounded annually. They will be secured by a deed of trust subordinated to the senior financing and Amazon HEF and repayable from the residual receipts. Given the limited cash flow and payments required on the senior and Amazon HEF loans, the majority of payments on the County loans will come via upfront savings and releases from the CPRF described earlier.

First Renovation Phase:

The First Renovation Phase is located at 1416 South George Mason Drive at the corner of South George Mason Drive and South Four Mile Run Drive and contains 93 units. As part of the proposal, the exterior renovations include replacing windows that have not previously been replaced, restoring brick walls, repairing or replacing roofs, and performing other necessary building repairs. Interior renovations will include updating bathrooms and kitchens and new in-unit laundry, as well as upgrading the HVAC and other systems. The Use Permit for the First Renovation Phase was approved at the [July 2023 County Board meeting](#). As part of the renovations 18 two-bedroom homes will be converted to 14 three-bedroom homes and 4 four-bedroom homes (see unit mix in Figure 4).

Figure 4: First Renovation Phase Unit Mix

Bedroom Size	Current Number of Units	Post-Renovation Number of Units
1	4	4
2	89	71
3	0	14
4	0	4

The 93 units will be affordable up to an average of 60% AMI. JLREP has committed to provide nine Permanent Supportive Housing upon turnover of current residents, which will help meet long-term deepening affordability needs for those at risk of homelessness. Rent stabilization will be provided for all current residents. Those residents earning at or below 80% of the AMI, and living at the property at the time of an approved Tenant Relocation Plan, will be able to move back to a substantially renovated home, while maintaining their current rents, capped at 3% annual increases. The LIHTC financing being utilized for the renovation/ redevelopment plans is only able to finance units occupied by residents earning up to 80% AMI, using income averaging. As a result, current residents who may earn above 80% AMI and living at the property at the time of an approved Tenant Relocation Plan will have the option to stay in an unrenovated home in another area of Barcroft Apartments while maintaining their current rents, capped at 3% annual increases. In the future, when there are no more unrenovated homes available on-site, over-income residents would move to a newly built market-rate home while maintaining their current rents, capped at 3% annual increases.

On-Site Tenant Relocation: As required by the County's relocation guidelines, the JLREP team will complete a Tenant Relocation Plan, which will be submitted to the Tenant Landlord Commission for review and recommendation to the County Manager for approval, before any planned renovation work. The Tenant Landlord Commission reviewed the plan as an information item on November 8, 2023 and will consider it as an action item at their December 13, 2023 meeting. On April 24, 2023 and again on October 16, 2023, the JLREP team hosted an in-person meeting with impacted residents living within the first renovation phase to provide an overview of the plans and answer questions. In-person, simultaneous translation was provided to residents. Information about the renovation plans has also been posted on JLREP's [BeBarcroft](#) website and

has been sent to residents through the online resident portal system. All details about the relocation plan and the renovation’s impact on existing residents will continue to be communicated to residents early, often, and in a variety of ways.

During the renovations impacted residents will need to be temporarily accommodated on the property while the work to renovate and upgrade their homes is completed. The renovation work will be phased, and not all apartments within the initial renovation project will be renovated at the same time. Residents who live in buildings slated for renovation will be offered comparable homes on the property. Relocation services will be provided by JLREP at no cost to the residents. In all cases, the Gates Hudson and JLREP team will ensure information is shared with residents to give them time to fully prepare for any disruption, including a 120-day notice of their planned relocation. They will also provide one-on-one consultations to address specific resident requests and concerns.

First Renovation Phase Development Budget and Financing:

JLREP plans to finance the development and construction of the First Renovation Phase with a senior mortgage from VH, 4% LIHTC, and refinancing of a portion of the Amazon HEF and County Acquisition Fund Loan to new loans for the First Renovation Phase. The projected sources and uses are as follows:

PROJECTED FIRST RENOVATION PHASE SOURCES AND USES*

Sources of Funds		Uses of Funds	
VH Perm Loan	\$14,482,286	Acquisition**	\$29,606,742
Arlington County Loan	\$9,832,510	Hard Cost	\$15,565,640
Amazon Loan	\$11,639,612	Financing Costs	\$3,138,504
LIHTC - 4%	\$18,450,106	Soft Costs	\$6,663,628
Deferred Developer Fee	\$1,500,000	Capital Reserve	\$930,000
Total Sources	\$55,904,514	Total Uses	\$55,904,514

*The sources and uses are projections only. The sources/uses will be finalized prior to County Board consideration of the loan documents anticipated for spring 2024.

**The acquisition costs include existing debt and predevelopment costs invested to date (\$318,352/unit)

The First Renovation Phase is projected to result in about \$1M in savings to the County that will be deposited into the CPRF to be used if shortfalls occur in future phases. The CPRF will help ensure delivery of all CAFs and overall financing sustainability.

The term of the County loan funds will be coterminous with the term of the VH permanent debt, anticipated to be 30 or 35 years. The County loan will be a cash flow loan that will carry an interest rate of 0.5% per annum, compounded annually. The County loan will be secured by a deed of trust subordinated to the senior financing and Amazon HEF and repayable from the residual receipts.

PUBLIC ENGAGEMENT:

Level of Engagement: The level of engagement was Communicate, Consult and Involve.

Outreach Methods: JLREP conducted a resident-first approach to engagement with the Barcroft Apartments community. The top priority in the first year of ownership was getting to know and hear from residents who were living at the property prior to the acquisition by JLREP. Beginning in December 2021, the JLREP team connected with residents in a variety of ways, including door-to-door introductions, a virtual meet-and-greet, Town Hall information sessions, an

Figure 4: Barcroft Apartments Resident Town Hall Meeting, October 2022



open house, a new resident portal, and one-on-one meetings. They also programmed and hosted resident events to recognize the diverse cultures and families living at Barcroft, and added a social hour to give residents an opportunity to voice concerns and share their experiences with the Gates Hudson property management team. In the first year alone, the JLREP team organized nearly 68 hours of resident engagement activities and events. The team has continued hosting resident events, as well as the monthly listening sessions with residents. The monthly listening sessions also provide a forum to update residents on future plans, and so they can ask any questions or raise concerns directly to the team.

Town Halls were held in the fall of 2022 and updates were provided at Town Hall meetings in October 2023. In addition to the Town Hall meetings for all interested Barcroft residents, meetings were held in April and October 2023 specifically for residents in the First Renovation Phase. Translation was provided at all meetings.

Broader community engagement on the Sitewide Financing and Affordability Plan included the November 2nd and December 7th 2023 Housing Commission meetings. Staff also attended a November 8, 2023 Housing Action Arlington meeting to discuss updates and receive feedback. A virtual community meeting was held on November 29th 2023 for interested residents, stakeholders, and community members. The Tenant Relocation Plan for the First Renovation Phase was considered by the Tenant Landlord Commission at their November 8, 2023 and December 13, 2023 meetings. Additionally, JLREP shared their initial MFDP submission in November and December 2022 community meetings. The meetings in November 2022 included a Housing Commission meeting, Tenant Landlord Commission meeting, and a joint Pikes

Presidents Group and Columbia Pike Partnership meeting. In December 2022, JLREP met with the FBC Advisory Working Group and held a community information session.

Resident and community feedback: Residents were asked their preferences for what outdoor amenities they would like to see as well as what amenities they would like to see in a community center at the “Summerfest” event held during the summer of 2022 that was attended by about 1,000 residents. The top selections for outdoor amenities included the desire for playgrounds and outdoor grills. The top community center amenity chosen by the residents was for a gym and game room. JLREP will work to provide the amenities preferred by the residents into their designs.

At the “End of Summer Bash” resident event held in 2022 and attended by about 500 residents, JLREP received feedback on what types of things residents would find most useful in their homes, as part of the renovations and redevelopment. Residents indicated that in-unit washer and dryers and kitchen upgrades were top choices. JLREP has already included this feedback into their plans for all renovations and redevelopment, including the First Renovation Phase. All renovations and redevelopment will include in-unit washer and dryers (which are currently not available at Barcroft) as well as kitchen upgrades including full sized-appliances.

Residents were also surveyed to help determine the need for wrap around services on the site. In response to the survey results, the JLREP team immediately started working with rental assistance programs, food and clothing distribution agencies, workforce employment organizations, disability agencies, and local Parent Teacher Associations to help meet the potential needs of Barcroft residents. Thus far, over 132 residents receive rental and food assistance from these various agencies.

Resident feedback at the various events and activities at the Town Hall and First Renovation Phase meetings focused primarily on the timing and logistics of on-site transfers as well as the income verification process.

Feedback from the broader (non-Barcroft) community included a desire for 255 units up to 30% AMI instead of the proposed 134 units. Given this number of deeply affordable units could impact the financial feasibility of the project, County staff proposes a variety of tools to meet the deep affordability demands.

- First the County and JLREP teams are committed to rent stabilization, meaning that residents will maintain their current rents, capped at 3% annual increases, when they move into a new or renovated unit. Those earning over 80% AMI will have the option to stay in an un-renovated home while maintaining their current rents, capped at 3% annual increases.
- The commitment of at least 134 CAFs exceeds any affordability commitment the County has elsewhere in the affordable housing portfolio. In addition to the proposed 134 units up to 30% AMI, County staff recommends that further support of residents with deep affordability needs be provided through subsidy programs such as Housing Grants. JLREP will also provide up to 10% of the CAF units for Permanent Supportive Housing (PSH) clients upon turnover. Those are in addition to the 134 units committed at 30% AMI.

- The allocation process for the 30% AMI units includes prioritizing residents within the renovation phase being undertaken (and prior phases) according to level of rent burden. The rent burden calculation is the monthly rent of the unit divided by the total monthly household income, which includes federal, state, and/ or local subsidy programs. Therefore, those who have a higher rent burden, and pay more of their income towards rent, will be prioritized for the 30% AMI units.

Below are other questions that have been received during the public engagement process along with staff responses.

Q: Why can't the County and JLREP commit to 255 units at this time?

A: JLREP's proposal seeks to provide a balanced approach to deepening affordability and ensuring a financially viable and sustainable project that can be delivered with an overall County loan of no more than \$150 million. Financing factors taken into consideration include:

- The project needs to generate enough cash flow to support financing needs. The County and JLREP team are committed to no displacement of current residents through rent stabilization. This will retain many of the units at the 45%-48% rent level with annual increases capped at 3%. Without this protection, some residents could see a \$400 or more jump in monthly rent. The trade-off for this commitment of rent stabilization is that it limits JLREP's ability to offset the impact 30% AMI units have on overall property revenue.
- Each phase needs to be financed so that it meets the financing requirements of all three parties, including JLREP, Amazon, and the County. The financing needs to ensure there is enough value in the property to pay back all the lenders at the end of the loan term, and that there are proceeds available for any necessary improvements that may be needed at that time. While an important part of the future of Barcroft Apartments, the inclusion of 30% AMI units has impacts to the associated value and ability to payoff the loans because it reduces the net operating income of the property.
- Furthermore, the inclusion of 30% AMI units diminishes the amount of other financing JLREP can bring to Barcroft. This increases the financing gap the County may need to cover now or in the future. It also has an impact on the competitiveness of tax-exempt bonds and tax credits which are necessary for the 4% LIHTC financing being used for renovations and redevelopment.

Q: Does "Income Averaging" help offset the financing impacts of 30% AMI units?

While income averaging is a valuable tool, its impact has limits at Barcroft given our commitment to rent stabilization, the number of available units, and the maximum rents the market can support for garden apartments in this area.

- The proposal includes the use of "income averaging," meaning LIHTC residents earning up to 80% AMI will be able to return to a renovated or new unit. However, these units will continue to be underwritten to current rents, which are about 45% to 48% AMI.
- There are a limited number of homes that can be set at a higher rent (up to 80% AMI), because of the commitment to rent stabilization, which limits opportunities to offset the 30% AMI rents.

- Furthermore, the current market does not support charging maximum 80% AMI rents for the renovated garden style apartments. The actual rents that the market is anticipated to support are in the 70% to 75% AMI range. This also limits the property's ability to fully offset 30% AMI rents.

Q: What if other sources, like 9% LIHTC, Historic Tax Credits, or other financing is provided? Can those sources increase the County and JLREP commitment to more than 134 units up to 30% AMI?

A: The baseline scenario proposed by Jair Lynch, with the commitment to 134 units up to 30% AMI, includes the utilization of a senior mortgage, 4% LIHTC, and the associated County and Amazon HEF gap financing. Part of the financing plan is identifying potential savings, that may result from additional sources like 9% LIHTC and historic tax credits, that can help pay down the County's original \$150 million loan while still meeting County goals.

Interest rates have jumped dramatically since the 2021 acquisition. For example, debt service on the \$150 million line of credit the County used to fund the original loan to JLREP currently carries \$9 million in annual debt service (interest only). This is more than four times what was originally projected for FY2023 in 2021. The difference is coming directly out of the County's annual AHIF appropriation. This puts a strain on the ability for the County to undertake new affordable housing projects. The deepening affordability proposal for Barcroft strikes a balance between positioning the County to manage this debt (including by capping the County's loan at or below \$150 million) and meeting the community goals for Barcroft.

Q: Can more than 134 units up to 30% AMI be provided at Barcroft Apartments if market conditions change or as the land use discussions take place?

A: The commitment to provide at least 134 units up to 30% AMI is based in current market and economic conditions. If these conditions improve and financing and lender commitments can still be met, County staff and JLREP will revisit this minimum commitment. In addition, the County will explore opportunities to expand upon this commitment if there are any changes or benefits to the financing from land-use tools for the site above and beyond JLREP's proposed Master Plan, which will continue public engagement in 2024. This includes any changes due to market rate development, Transfer of Development Rights (TDR), or other items that dramatically impact the financing, while still meeting financing and lender commitments. On the other hand, if market conditions worsen, the JLREP and County teams will still be committed to at least 134 units for residents who earn up to 30% AMI.

Q: Are there actually 255 residents earning up to 30% AMI at Barcroft Apartments?

A: The County and JLREP team are committed to supporting the needs of 30% AMI households at Barcroft. The 255 households earning up to 30% AMI was based on self-reported data from a survey by the JLREP team shortly after their acquisition. As units are refinanced with LIHTC financing, residents will need to go through an income verification process that is required as part of this federal low-income housing tax credit program. As each phase moves forward, better data will be obtained, including a preliminary income verification to better understand resident needs. At this time, County staff also will verify residents' eligibility for County subsidy

programs, including Housing Grants. Currently, there are about 40 current residents receiving a Housing Grants subsidy.

Housing Commission Feedback: The Housing Commission voted X in X of the staff recommendations at their December 7, 2023 meeting.

FISCAL IMPACT: There are no additional fiscal impacts at this time. The County loans used for the renovation and redevelopment of Barcroft Apartments will not exceed the \$150M County Acquisition Loan Fund loan.

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