DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

TO: Mayor Laurel Lunt Prussing

FROM: Elizabeth H. Tyler, FAICP, Director

DATE: October 13, 2010

SUBJECT: Kerr Avenue Project Status Update

Background

The purpose of this memorandum is to update City Council of the status of the Kerr Avenue Project. The City acquired the 3.19 acre property on Kerr Avenue, between Cunningham Avenue and Division Street, in 2004 as a potential site for future housing development. The Kerr Avenue Project is a response to various goals and strategies from City Council, the 2005-2009 Consolidated Plan, and the 2005 Comprehensive Plan. In the fall of 2005, the Urbana City Council adopted a common goal to "develop a nationally recognized, model neighborhood that is affordable and uses a fraction of standard energy consumption".

Phase I of the project began in 2006 with a request for proposals for a design concept. Farr Associates of Chicago was selected as the design consultant, and a design charrette was held in the summer of 2007. The outcome of Phase I was a report that presented two site design concepts and provided several recommendations regarding architectural and sustainable practices proposed to be employed in the project. The report was included as part of a RFQ/RFP that was issued in May of 2008. In response to the RFQ/RFP, Ecological Construction Laboratory (*e-co lab*) submitted a proposal to the City to serve as a development team leader, CHDO, and designer for development of the Kerr site. The development proposal submitted by *e-co lab* calls for 48 ultra energy-efficient dwelling units: ten single-family homes, 18 townhouse units, four four-plexes and four apartment units. The site plan and building elevation concepts submitted by *e-co lab* in its proposal are incorporated into the Kerr Avenue Certified Passive House Development Project Summary (attached).

Since that time, staff has been working with *e-co lab* to identify a development partner to undertake the project. Due to the softening of the housing and loan markets, the developers who initially expressed interest in Kerr Avenue have been reluctant to commit to the project.

Recent Request

In September, staff met with *e-co lab* and Tom DiGiovanni of Newhouse Development Co., an Atlanta, GA based developer who is interested in working with *e-co lab* and the City on the Kerr Avenue Project. Newhouse proposes utilizing Low Income Housing Tax Credits (LIHTC) to create a rent-to-own development that would allow low-income renters to purchase units in the development after the 15 year tax credit compliance period expires. A project outline is attached to this memo for Council reference in addition to Mr. DiGiovanni's bio, and descriptions of two similar projects that have been undertaken in Nebraska and Cleveland, Ohio.

One element of the tax credit application is for the developer to have site control. To accomplish this, Newhouse is requesting that the City and *e-co lab* enter a binding option agreement on the property this fall, as soon as possible. The City would also be asked to provide additional financial assistance in the form of fee waivers as well as federal HOME and/or CDBG grant funding.

Currently, the City has $61,317 in CDBG funds and $67,211 in HOME funds set aside for Kerr Avenue. In the upcoming Annual Action Plan for FY 2011-2102, the City can allocate additional CDBG and HOME funding to the project. Since *e-co lab* is a certified CHDO of the Urbana HOME Consortium, it is possible that some of the required 15 percent CHDO set-aside of HOME funds for affordable housing projects may be allocated by the Consortium to *e-co lab* for Kerr Avenue.

In coming weeks, staff will continue to work with *e-co lab* to move the Kerr Avenue project forward, including providing information and letters of support in addition to requesting any formal Council action needed for the tax-credit application.

Memorandum Prepared By:

John A. Schneider, Manger
Grants Management Division

Attachments:

1. Kerr Avenue Certified Passive House Development Project Summary
2. Tom DiGiovanni Biography – Newhouse Development Company
3. NIFA Credits-to-Own Program (CROWN)
4. Cleveland Lease Purchase Program Article

Kerr Avenue Certified Passive House Development
Project Summary
Building a National Model for efficiency and a "Path to Homeownership"

Prepared for:

Urbana City Council

October 18, 2010

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Kerr Avenue Certified Passive House Development
Project Summary
Total Units: 48
Total Square Footage: 55,500
100% of Units reserved for residents at or below 60% AMI
100% of Units participating in "Path to Homeownership" Lease-Purchase Program

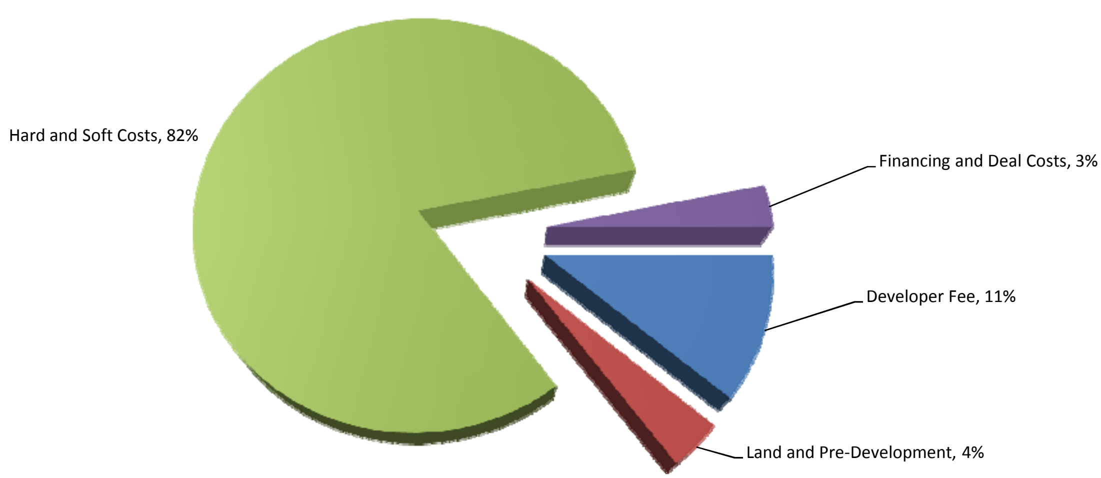
Unit Breakdown:	Single Family Detached [4 bedroom, 2 Bath; 1,400 sq ft]	4 Units
	Single Family Attached [4 bedroom, 2 Bath; 1,400 sq ft]	2 Units
	Single Family Attached [3 bedroom, 2 Bath; 1,280 sq ft]	4 Units
	Townhomes [3 bedroom, 2 Bath; 1,360 sq ft]	18 Units
	4Plex Apartments [2 bedroom, 1.5 Bath; 860 sq ft]	16 Units
	2Plex Apartments [2 bedroom, 1.5 Bath; 934 sq ft]	4 Units

Estimated Building Cost/Sq Ft: $127 per square foot (hard/soft costs only)
$161 per square foot (total costs)

Estimated Total Project Cost: $9,005,000

Estimated Capital Structure:	63% - 67%	Low Income Housing Tax Credit - Federal
	20% - 30%	Bank Financing (Traditional)
	5% - 10%	City of Urbana (HOME, CDBG, Other)
	0% - 5%	Other Gov't Sources
	0% - 1%	Other Grant Sources (Corporate)
	0% - 3%	Deferred Developer Fees

Projected Spend by Category



Projected Deal Structure:	General Partner:	e-co lab
	Developer(s):	e-co lab and Newhouse Development Company
	Owner:	e-co lab (units will be sold to tenants at end of compliance period)
	Limited Partners:	TBD (terms will be based on tax credit syndication and final capital structure)

Kerr Avenue Certified Passive House Development
Project Summary
Building a National Model for efficiency and a "Path to Homeownership"

Four different Building Styles:

3 Bedroom Single Family

4 Bedroom Single Family

2 Bedroom Apartments

3 Bedroom Townhomes

Kerr Avenue Certified Passive House Development
Project Summary
Building a National Model for efficiency and a "Path to Homeownership"

Site Plan:

1 New development: Crystal View Townhomes
2 Bike path will connect each community
3 Existing neighborhood conditions - mostly single family
4 Potential wind power generation (pending funding)
5 Bio Swales and rain gardens will line the permeable pavement to absorb rainwater and prevent run-off
6 Community gardens provide a food source, a community component, educational opportunity, carbon emissions reductions, and beauty
7 Ponds collect rainwater and wildlife

Townhouse
Gatehouse
Apartment
Single Family
Quadplex

First Built Phase
Second Built Phase

TOM DIGIOVANNI, CPA

Professional Bio

After graduating from Rochester Institute of Technology with a degree in Accounting (and a minor in Economics), Tom DiGiovanni began his business career with a “Big 4” accounting firm, working up to 100 hours per week on financial and operational audits for a diverse group of business clients that included technology firms, banks, hospitals, government agencies and multinational conglomerates. He passed all four parts of the CPA exam on the same try, and a short time later was recruited into private industry as the National Finance Manager for the Laird Group, plc. At the age of 25, Tom was promoted and became the youngest Controller in the history of that company, helping to oversee 3 different acquisitions, more than 60% sales growth and the creation of a national brand in a two year period.

Mr. DiGiovanni then moved on to head up Finance and Operations at Bensussen Deutsch & Associates (BD&A), a Seattle based branding, marketing and merchandising firm. Over a six year period as Senior Vice President and Chief Financial Officer, he helped that company manage explosive 1,700% growth to more than $125 million in annual sales. The company became a leader and innovator within its industry and was twice recognized by Inc. magazine as one of the 500 fastest growing companies in the US.

Tom next took on the role of Chief Operating Officer for Teradius, a Seattle based high tech start up, where he led the successful effort to secure a launch client and raise over one million dollars in seed funding. Shortly thereafter, he acquired an equity stake in Zebra Hill Marketing, another brand marketing firm. Tom assumed the role of CFO, and subsequently President of Zebra Hill, and over the next two years he guided the company to profitable growth of more than 70%, before ultimately helping to negotiate its sale to a larger competitor.

In 2003, Tom founded Newhouse Development Co. With an emphasis on smart, sustainable building projects, he quickly built the company into an early leader in “green” development in the Seattle marketplace. At the same time, he maintained a consulting practice that focused on the business, tax and complex accounting issues related to "fast growth" companies, including sales growth, infrastructure needs, internal controls, enterprise risks and cash flow strategies.

In 2008, Tom relocated to the Atlanta area where for two years he devoted a large portion of his time to public service as the Chief Financial Officer for the Atlanta Development Authority (ADA). In his role at ADA, Tom oversaw finance and operations for more than 40 different related business entities which together held a combined commercial real estate portfolio worth more than $650 million and generated more than $1 billion per year in development related deal flow.

Tom specializes in the development and financing of affordable housing projects and he has a strong belief in the need for more energy efficient, healthy and sustainable buildings. He recently completed the training needed to become a Certified Passive House Consultant and is actively supporting the Certified Passive House building standard. In addition, Tom is currently a member of the board of directors for the Georgia State University CFO Council, a member of the advisory board for the Georgia State University Executive Master’s Degree in Finance program and is a licensed CPA in the states of Washington and Georgia.

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Credits-To-Own Program (CROWN)

CROWN (Credits-to-Own) is a lease-to-own housing program, utilizing the Low-Income Housing Tax Credit (LIHTC) program, to bring home ownership within reach of very low-income households while assisting local governments in revitalizing their neighborhoods.

CROWN accommodates scattered site development, as well as Planned Unit Developments when blended with owner occupied homes, and creates long term neighborhood residents who, because they know they can realize the dream of owning the home they currently lease, take pride in maintaining the property as their own.

A CROWN project owner selects residents who qualify under the CROWN program guidelines and earns less than 60% of the area median income. The leasing phase of the program is for a period of 15 years, which is the project owner's tax credit compliance period. Leases are for one-year renewable terms and require tenants to assume most of the property maintenance responsibility just as a homeowner would. The property manager retains control and responsibility of major maintenance concerns during the project's compliance period.

During the leasing phase, tenants are provided supportive services and education to work toward homeownership. At the beginning of the leasing phase, residents sign a letter of understanding describing their opportunity to purchase the home upon expiration of the compliance/rental period. The conditions and terms of sale of a CROWN unit are outlined in the CROWN Land Use Restriction Agreement (CROWN-LURA).

Upon satisfaction of the tax credit period, the home is sold to the tenant for a sales price determined by the regulations and guidelines of the LIHTC program. The tenant homebuyer will receive accumulated equity in the property, which may be required to be repaid if the home is re-sold within a certain period of time.

During the leasing period, a Homeownership Assistance Fund is used to provide the tenant a means of regular savings to prepare for unexpected repairs or maintenance, or to accumulate funds for a down payment for purchase of the home at the end of the rental period.

An alternative within the program is to use the CROWN unit as a platform from which the tenant moves into homeownership through the purchase of a different unit after completion of an education process that may take as little as six months, depending on the income and credit standing of the tenant.

For more information see www.nifa.org or call (402) 434-3900 or (800) 204-6432.

Affordable
Financing
for First-time
Homebuyers

Turning Renters Into Homeowners

Cleveland's Lease-Purchase Program

Cleveland Housing Network (CHN) is helping low-income households purchase homes originally produced with Low Income Housing Tax Credits.

This pioneer action comes to fruition as the nation's oldest Low-Income Housing Tax Credit projects have reached or are approaching the end of their 15-year compliance period, and are at risk of conversion from affordable apartments to other uses. The first credit projects opened in 1987, before the IRS extended the restrictive use period to a total of 30 years.

CHN's lease-purchase program, now in its 20th year with more than 2,000 homes produced, is designed to insure that participating renters can eventually afford homeownership. According to CHN Executive Director Rob Curry, 90 percent of the residents of the first 52 homes took title in 2003 and the remaining 50 homes are being offered for sale to tenants in 2004. [1]

About one-third of the buyers are the original residents, Curry noted. "If the family's total housing payment, after they take title, is less than or equal to their total housing payment before," says Curry, "they should be able to succeed." This so-called "equivalency principle" shapes the financial structure of CHN's lease-purchase developments.

According to Curry, the first group of homes ranged in market value from $55,000 to $85,000, while the sale price to the tenants averaged about $8,000. This large gap between market value and sale price presents residents with a substantial amount of equity in their home. "That was the whole intent," explains Curry. "How do people fight their way out of poverty? It comes down to increased income and increased assets. The Lease Purchase program is an asset accumulation strategy."

Factors for Success

The success of CHN's Lease-Purchase program depends on three key ingredients:

- Reduced development costs;

- Below-market sales prices for the homes; and,
- Educational opportunities for residents in homeownership skills and financial management.

To reduce development costs, CHN minimizes its acquisition cost for properties and obtains favorable financing. Curry said the 102 homes in the first two conversion projects were vacant, existing single-family homes, mostly FHA-insured foreclosures.[1]

Curry indicated that CHN has also reduced its development costs for Lease-Purchase units by obtaining soft funds from the city and state. The city typically provides a zero-interest deferred payment loan of federal HOME funds, and it often also provides a short-term below-market interest construction loan funded by federal Community Development Block Grant (CDBG) dollars. In addition, the city generally provides property tax relief on the homes during the lease period and it "writes off" part of each HOME loan at the end of 15 years.

Below-Market Sales Price, Financing

The sales price for each Lease-Purchase home is spelled out in an "option agreement" between CHN and the resident which is usually signed years before the end of the 15th year of the credit compliance period.

This agreement gives the resident the option to buy the home for a specified guaranteed maximum price, contingent upon CHN's acquisition of title to the property from the limited partnership that owns it. This guaranteed maximum price is determined by a formula, and includes such items as the underlying costs of the property (e.g., the pro rata share of outstanding debt) and the exit taxes of the limited partner (i.e., tax credit) investors (if any), reduced by a "residency credit." This credit is equal to $1,000 for each year that the current renter household has been a resident of the lease-purchase home.

There were no exit taxes for the nine corporate investors that were the limited partners in Cleveland Housing Network Partnership III, Greg Griffin and John Brandenburg of the Enterprise Social Investment Corporation (ESIC), told The Tax Credit Advisor in an interview in July 2003. Griffin, senior asset manager at ESIC, a tax credit syndicator, said there were no exit taxes because the amount of losses allocated to the investors over the years didn't exceed the amount of their capital contributions. The partnership dissolved in April 2003, he noted, after selling the homes to CHN for roughly $800,000 (reflecting the outstanding balance on the debt secured by the properties). CHN, in turn, has sold the homes to the families who had been renting them.

The residents buying their homes are financing their purchase with a small first mortgage. No down payment is required because the loan-to-value ratio is so low. Curry said almost all residents so far have obtained mortgages from local lenders with a typical mortgage size of about $10,000 and amortization period of 10 or 15 years. Closing costs, minimal in amount, are financed as part of the loan.

Curry indicated that the new homeowners shouldn't have to make any major home repairs in the near future because extensive capital improvements were made between the 11th and 15th years. "We generally step in and do capital improvements," he noted, "so that the families are not stepping into a lot of immediate maintenance needs."

Resident, City Reaction

The first Lease-Purchase conversions by CHN have been met with a positive response from residents and the city. Cleveland city official Bill Resseger describes CHN's lease-purchase program as a "great success" that has benefited local families and the city. He notes the program is a "good fit" for a city where the predominant housing type is one- and two-family homes, many of which are in poor shape, often vacant, and "creating problems in the neighborhood." Says Resseger: "It's been a program that meets both the immediate needs to deal with problem houses and provide affordable rental housing, and the long-term goal of making homeownership a realistic goal for very low-income families."

Future Plans, Differences

John Brandenburg with ESIC's asset management department said it's unlikely that many housing credit projects not originally structured as Lease-Purchase will convert to homeownership. Most LIHTC projects have been multifamily developments which don't lend themselves to homeownership.

Curry said CHN's lease-purchase programs today are a little different from the first ones. "We do a bit more renovation now than we did in the early years," he notes. "And we've also added single-family new construction to our annual portfolio. We've been much more intentional about setting aside funds for capital improvements in years 11 through 15. And we've migrated away from two-family homes to almost exclusively one-family homes. What hasn't changed," adds Curry, "is our core commitment to sell the homes to the families at the lowest possible price – all remaining debt plus exit taxes."

For more information about Cleveland Housing Network and its lease-purchase program, visit: www.chnnet.com.

Reproduced with permission from The Tax Credit Advisor newsletter, August 2003, www.housingonline.com. (To view documents related to the Cleveland program, go to: www.housingonline.com/tca/august2003.html.) — Glenn Petherick, Editor

[1] *Denotes updated information for this reproduction of the article.*