Gilliam Place

An Affordable Housing Case Study

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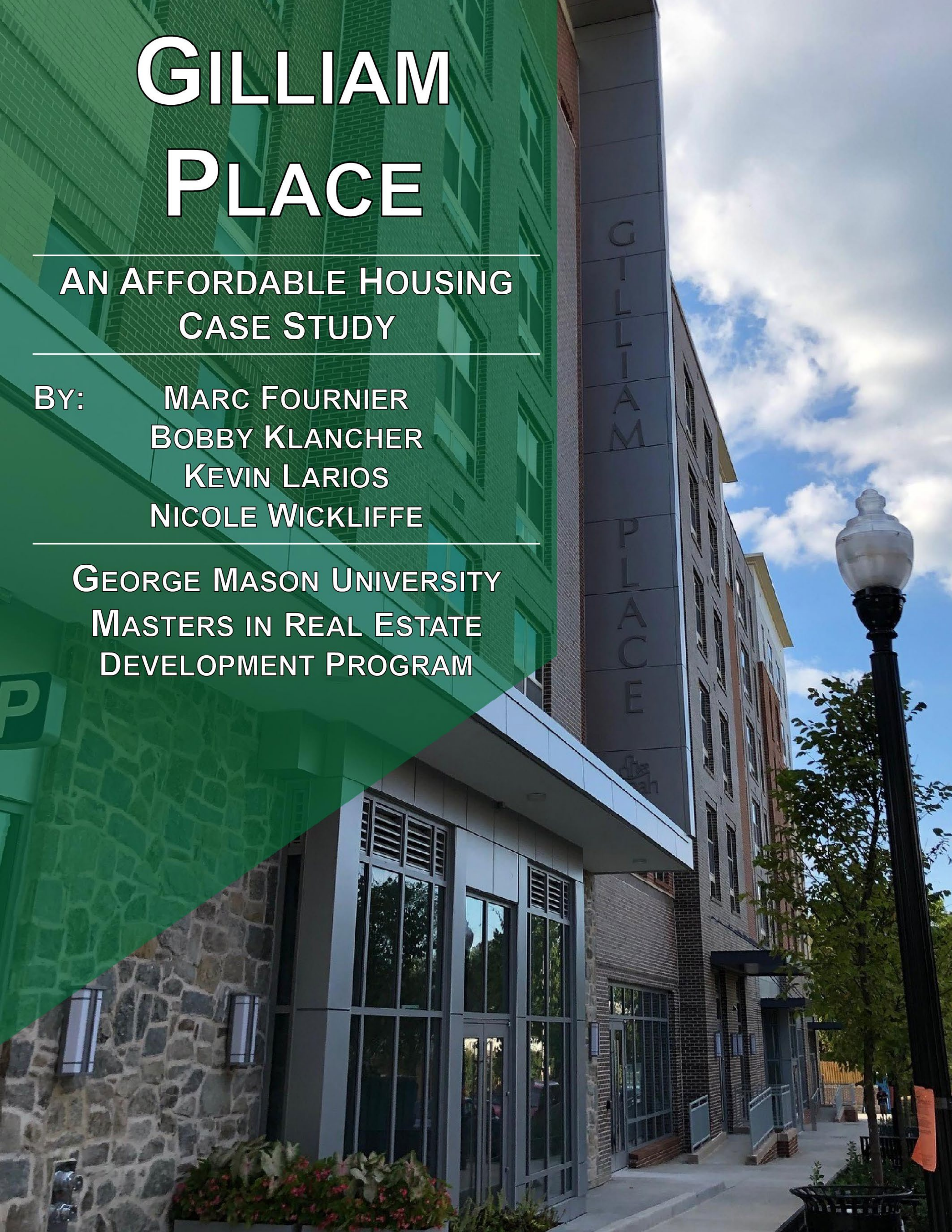

Before: Arlington Presbyterian Church

After: Gilliam Place

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This Case Study was written in November 2019 by Marc Fournier, Kevin Larios, and Nicole Wickliffe (Class of 2019), and Bobby Klancher (Class of 2020) of the George Mason University Masters in Real Estate Development Program (MRED). The students were assisted by Bob Wulff, MRED faculty, and Eric Maribojoc, Director of the George Mason Center for Real Estate Entrepreneurship (CREE).

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Executive Summary

An Affordable Housing Case Study

The Gilliam Place case study describes a mixed-used development consisting of 173 affordable rental units along with retail and civic space built on 1.23 acres of valuable urban land in Arlington County, Virginia. Like the rest of the Washington D.C. national capital region, Arlington suffers from a severe shortage of affordable housing. Over 7,500 families and individuals in Arlington do not have access to housing they can afford; and the trend is negative. Arlington County lost 13,500 affordable housing units from 2000 to 2013 through a combination of rental increases and a rapid increase in home prices.

Gilliam Place is a successful development because the Arlington Partnership for Affordable Housing (APAH), as non-profit developer, and the Arlington Presbyterian Church (APC), as land seller, forged a partnership that created a strategy to produce a below-market land price. The land cost reduction was a major reason for the project's deeply discounted rents and affordability.

Gilliam Place is selected as a case study for two reasons.

Affordable Housing is a Human and Economic Crisis

The real estate development problem Gilliam Place attacks is nothing short of a national crisis that impacts millions of individual families as well as the nation's future economic health. Home prices nationwide are rising at twice the rate of wage growth and nearly 11 million US workers spend more than half of their paycheck on rent. Beyond the family-focused crisis, cities are realizing that a shortage of affordable

LOCATION

- Arlington, Virginia

PROJECT TYPE

- Mixed-Use Affordable Housing

SITE SIZE

- 1.23 AC

PROJECT COST

- $70.9 Million

UNITS

- 173 Units

RETAIL/CIVIC AREA

- 8,500 SF

WEBSITE

- www.gilliamplace.com

COMMUNITY ADDRESS

- 918 South Lincoln Street, Arlington, VA 22204

DEVELOPER

- Arlington Partnership for Affordable Housing

housing can severely limit job growth and general financial health.

It takes a broad and diverse workforce with a variety of skill sets to keep an economy functioning. Occupations that support retail, hotels, restaurants and services depend on lower wage workers who require affordable housing near their employment base. Affordable housing is a necessary component of a vibrant economy as it allows for workforce diversity. The lack of affordable housing is a threat to the economic success of urban and suburban communities throughout the United States.

Replicable Lessons

The most valuable case studies are those that teach replicable lessons. Gilliam Place provides a replicable model for solving one of the greatest barriers to producing affordable housing: locating below-market priced land in high-priced urban areas where most low income families need to live to access employment. This case study will not only describe the Gilliam Place development but will also detail the replicable lessons real estate developers and faith based organizations can apply to create affordable housing in their markets.

Development Timeline

- ***1908*** *Arlington Presbyterian Church was chartered*
- ***1954*** *Arlington Presbyterian Church reaches more than 1,000 members*
- ***2009*** *Arlington Presbyterian Church declines to less than 100 members and congregation begins discussions of its future*
- ***2011*** *As a congregation, APC decides its church building and land is not best used as worship space due to severely declining congregation*
- ***2012 - 2013*** *APC approaches APAH as a partner to build affordable housing on current church site and continue negotiations on project details*
- ***2014 Jan.*** *Historical Affairs and Landmark Review Board (HALRB) determined the site was not historic which allowed APAH to proceed with vision for the site*
- ***2014 Dec.*** *Sale to APAH approved by church's regional governing body - National Capital Presbytery*
- ***2015 Dec.*** *Arlington County approves rezoning and use permits and allocates $8.5 M to APAH to be used for land purchase*
- ***2016 July*** *Land sale closes*
- ***2016 - 2017*** *APAH assembles 14 sources of financing required to fund Gilliam Place*
- ***2017 July*** *APAH breaks ground on Gilliam Place*
- ***2019 June*** *Building delivers*
- ***2019 Nov.*** *Lease up complete*

Developer/Development Team

Arlington Presbyterian Church: The Original Land Owner

Gilliam Place is built on a 1.23 acre site originally owned by the Arlington Presbyterian Church (APC) and occupied by their church building. APC was chartered in 1908. Through the early decades of the last century, the church thrived and participated in the social life of Arlington County. A new and larger church building was constructed in 1930 and APC's membership grew to peak of over 1,500 members in the 1950s.

Decline and Concern. During the 1960s, APC's congregation began to decline as the economy and demographics of Arlington County changed. By 2009, the active congregation had dwindled to under 20 members. The congregation became concerned for their future as they possessed no endowment, sustainable funding, or income stream to care for its large and aging building.

New Mission. Over several years of introspection (described in the next section, Developer Vision), the APC congregation decided to embrace a new mission to transform their church and land from a place of worship to housing that is perpetually affordable to Arlington County's low income population. Understanding the complexity of creating an affordable housing community, APC went in search of an affordable housing developer whose mission was aligned with the new APC mission.

APAH: The Developer

The developer APC found was the Arlington Partnership for Affordable Housing (APAH). APAH is responsible for the finance, construction, leasing and on-going management of the project as the owner of the land and building that is Gilliam Place. APAH was founded in 1989 by four Virginia families as a nonprofit developer of affordable housing. Since its inception, APAH has developed 15 affordable housing communities comprising more than 1,300 rental units in the DC Metro Region--mainly in Arlington County, Virginia. The majority of these units are affordable to households earning 60% or less of the area median income (AMI). APAH is a successful and award winning developer of affordable housing.

APAH's Housing Model. APAH's approach to affordable housing is based on three goals.

- Deep subsidy as APAH rents serve extremely low income households earning as low as 40% of AMI
- Long term affordability as all units are guaranteed affordable for 30-60 years
- Flexible community designs encompassing renovation and new construction, mid- and high-rise buildings and mixed income/use.

Major awards won by APAH

- ULI Washington Trends Award: Excellence in Affordable Housing (2019)
- The Alliance for Housing Solution: Ellen M. Bozman Award (2017)
- Charles L. Edson Tax Credit Excellence Award for Metropolitan/Urban Housing (2015)
- HAND's Developer of the Year (2014, 2011, 2008); Best Project – Northern Virginia (2009) Parc Rosslyn; Innovation Award (2009)

Beyond Housing. APAH provides services to the residents of their communities including "Stability Promoting Services" which promotes self-sufficiency of the residents within their communities. APAH has partnered with more than 20 organizations to deliver services like financial classes, wellness classes, and food insecurity assistance.

KGD: The Architects

Kishimoto Gordon Dalaya Architecture (KGD) designed Gilliam Place. Founded in McLean Virginia in 1995. They have successfully designed affordable housing communities in a variety of jurisdictions, including three other communities for APAH.

Additional Project Team Members

- Arlington County - Lender - Debt
- Virginia Housing Development Authority (VHDA) - Bond Issuer – Debt
- Capital One - Tax Credit Purchaser - Equity
- Enterprise Community Partners - Syndicator
- Donohoe Construction Company - Contractor
- SL Nusbaum - Third Party Management - Lease up

Developer Vision

Two Visions Dovetail

APC came into the Arlington housing market with a very well defined vision for their church land (APC uses "mission" instead of the word "vision" as will this case study). APC's choice of a developer would need to have a complementary mission of affordable housing, or there would be no land sale at a below-market price. Real estate projects with faith based organizations like a Presbyterian church are different because the church brings a mission into the transaction which must be aligned or adopted by the developer. In a typical market rate deal, there is only the developer's mission. The land seller brings no mission to the deal. Gilliam Place would not exist but for the dovetailing of APC's and APAH's missions for the development. Understanding exactly how APAH and APC negotiated their distinct missions into a common project mission is one of the most important lessons from the Gilliam Place case study. The remainder of this chapter will describe the dovetailing process.

Complicated Negotiations

New Direction - "For Whom Our Hearts Are Breaking". In 2009, members of the APC congregation participated in a visioning session to identify their mission for the next 20 years. Their intent was to define what was best for the neighborhood and community in keeping with the morals and values of the church. The church challenged itself to envision a future free of the "albatross of a building" they had to maintain, and all the good they could achieve with the money from its sale. In 2011, the church created a committee from members of the congregation to go out and listen to people to identify "for whom our hearts are breaking." It was through this series of interviews of members of the Arlington community which they discovered many people could no longer afford to live where they are working. They had found their new mission: affordable housing.

In Search for a Partner. APC decided to look for a partner to help them build affordable housing for their community to replace their church building as a better use for their land. The church wanted to maximize affordable housing in their community rather than profits gained from the sale of the land. The church met with multiple affordable housing developers, most of whom sought to maximize the profit for APC from the sale. Clearly, this was not aligned with APC's mission. APAH's proposal focused more on the quantity and quality of affordable housing for the community rather than the amount of profit to APC. It was APAH's willingness to listen and identify with APC's mission which led to their selection as developer. APC viewed APAH as aligned with their mission. APAH "met us where we were."

Dissention and Unrest. The entire congregation was not on board with the new affordable housing mission. Nonetheless, the majority of the congregation voted in favor of APAH's proposal. The division caused some church members to leave. One of the remaining members applied for a county historic designation for the church in hopes of delaying or ending the new mission. (See Planning and Entitlements)

Intense Collaboration

Lease or For Sale? During 2012-2013, APAH and APC engaged in negotiations to finalize land transfer, building architecture, interior plans, and other de-

velopment details. During this intense collaboration, APC realized their limits and decided to hire an experienced project manager (PM). With the guidance of their PM, the decision was reached to sell the property to APAH at 20% below market price. This was the steepest discount the local church could offer APAH based on rules set by the National Presbyterian Church.

Remaining on the Same Page. The church members and APAH met many times, over more than a year, to refine their shared mission. The congregation and APAH, with the advice of their PM, reviewed multiple iterations of the design of the building and interior space. The APC congregation debated their use of space on the new building. Initially, APC wanted to lease the entire ground floor. The Presbytery, an administrative body representing all the local congregations of a Presbyterian Church district, advised against leasing such a large space. Facing the limits of their reduced memberships, APC settled on leasing a smaller area of the building's first floor.

Road to a Sale. When APAH began the study period for the sale, they worked in tandem with APC to prepare a package to submit to the Administrative Commission on Congregational Property (ACCP), the ruling entity within the Presbytery in matters of land deals. The package provided financial information, a project narrative, and a proposed predevelopment agreement. The ACCP "enthusiastically endorsed" the project. In addition, the ACCP granted approval for the site to be sold as a fee simple sale at 20% below market/appraisal rate.

The Path Forward and Backward

At the end of 2014, the APC held another vote in favor of the fee simple sale. APC presented the Letter of Intent with APAH to the National Capital Presbytery, which gave the final approval for the sale on December 2014. But financing and entitlement details delayed the sale. As a result, APAH had to draft 4 amendments to the Purchase and Sale Agreement, and extend the feasibility period twice. Finally, the sale closed in July 2016.

Detailed Project Description & Site Plan

This $70.9 million mixed-use development was constructed in one phase as two separate projects within one building, separated by a common wall.

Building Components

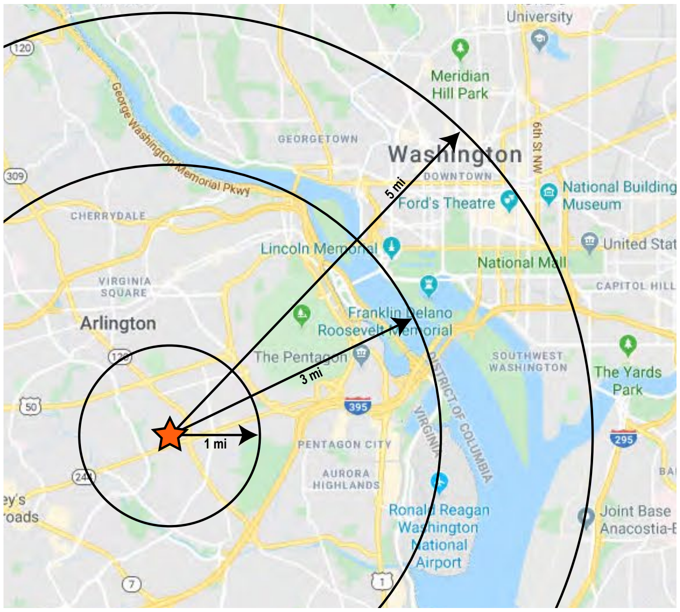
- Total building size is 257,550 square feet
- Six floors above grade and two floors below grade
- 83 residential units (East building)
- 90 residential units (West building)
- 8,500 square feet of ground floor retail/civic space
- 205 parking spaces (approximately 90,000 square feet)
- Private open space, approximately 6,400 square foot terrace & interior courtyard

Arlington Demographics

- Median Income - $112,138
- 74% of the population has a bachelor's degree or better
- Median Age: 34.4 years
- 64% Married
- 44.5% Home Ownership
- 8.16% Overall Poverty Rate
- 78% Labor Force Participation

Location

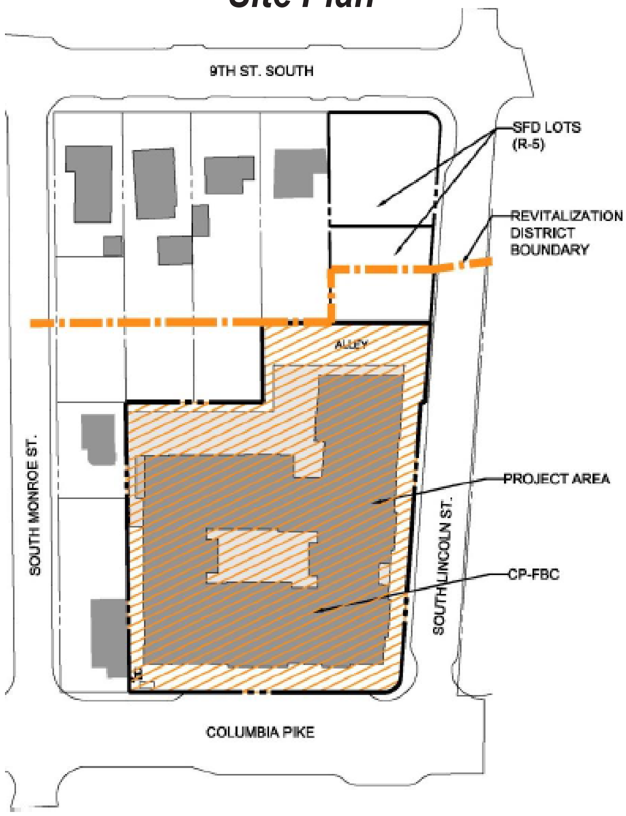
Arlington is an urban county located across the river from Washington DC and is part of the 6 million population that is the National Capital Region. Gilliam Place is approximately 5 miles from the United States Capitol Building. Arlington's population is highly educated and affluent. Arlington was selected by Amazon, Inc. for its new headquarters after a national search. Amazon's 25,000 new jobs will increase the demand for rental housing and further increase already high rents.



Site

The site is 1.23 acres located at the intersection of two high traffic streets, Columbia Pike and South Lincoln Street. It is well serviced by bus lines. It is near employers and retail. The site is well located in a desirable neighborhood and County.

Site Plan



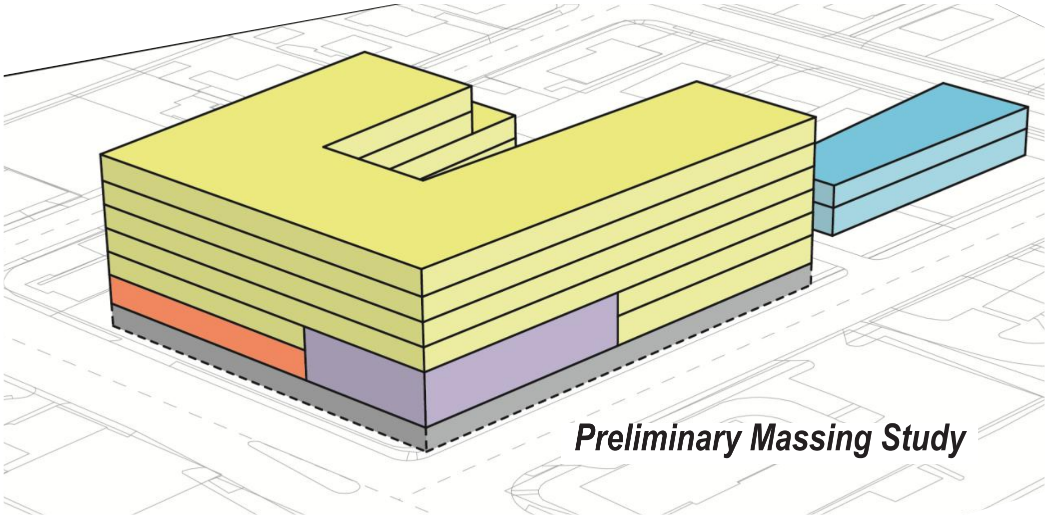
Building Uses

The 257,550 square foot building contains four uses: multifamily rental units, non-residential space for retail and civic uses, and parking.

- The 173 rental units are 100% affordable (tenants limited to 40%-60% of Area Median Income) with a unit mix of studio, 1, 2, and 3 bedrooms. See Rental Rate Comparison Chart below.
- Retail/Civic space has been leased to a non-profit group, La Cocina, for a bilingual culinary job training facility and a cafe (5,000 square feet) and the Arlington Presbyterian Church for flexible space for worship and other general civic uses (3,500 square feet).
- Parking space for 205 cars is provided within the building footprint to service both the residential and non-residential uses.
- Outdoor common areas that include an interior landscaped courtyard and a 6,000 square foot rear terrace.

Gilliam Place Rental Rate Comparison Chart

Unit Size	No. of Units	Gilliam Place Rent	Maximum LIHTC Rent	Market Rent
Studio	22	$825-$1,003	$850 - $1,062	$2,145
1 BR	83	$825-$1053	$910 -$1,365	$2,546
2 BR	49	$949 - $1,516	$1,092 - $1,707	$3,283
3 BR	19	$949 - $1,105	$1,262	$4,350
	173			



Preliminary Massing Study

Below Grade Floor
There is 66,200 square feet of garage parking containing 145 spaces accessed by a rear alley.

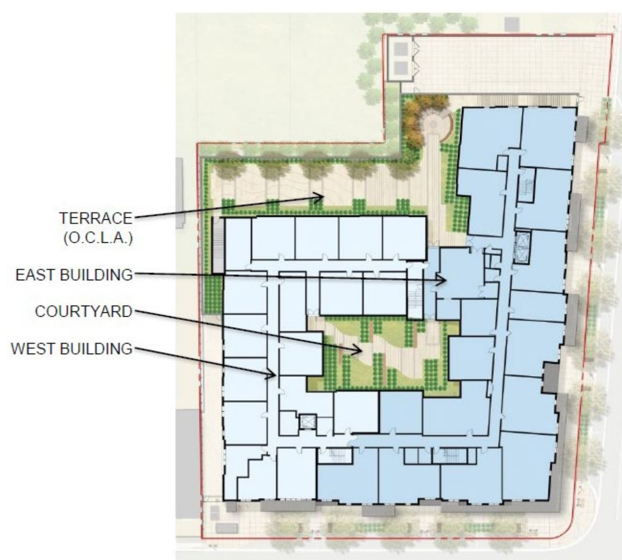
First Floor
The first floor includes the leasing office, community room, retail space, civic space, building support services, loading areas, 60 retail parking spaces, and the lobbies for each residential building.

Floors 2 through 6
There are 173 affordable rental units distributed through these 5 floors. The East and West division extends through all 5 upper floors as shown in the two different color shading on the Second Floor Plan View on this page. Sample floor plan units are located in Appendix D.

Building and Apartment Features

- Accessibility to mass transit and large employment hubs
- All units accessible, with 15 Type-A accessible including roll-in showers
- Underground parking and controlled-access bicycle storage
- Community Room, used for resident services programs
- Energy and water efficient building rated EarthCraft Multifamily Platinum
- Onsite property management
- Outdoor terrace with playground
- Onsite Resident Services staff focus on resident health/wellness, education, workforce development

First Floor Plan View



Second Floor Plan View

Market Analysis

Demand

There is an insatiable demand for affordable housing in Arlington County. Over 7,500 families and individuals in Arlington do not have access to housing they can afford; and the trend is negative. Arlington County lost 13,500 affordable housing units from 2000 to 2013 through a combination of rental increases and a rapid increase in home prices. As further evidence of the need for affordable housing in Arlington County, below is the APAH waiting list for Gilliam Place units illustrating almost 2,000 applications for the 173 units.

Gilliam Place Waitlist

Unit Size	Applications	Available Units
Studio	230	22
1 BR	617	83
2 BR	710	49
3BR	391	19
TOTAL	**1,948**	**173**

Supply Analysis

APAH commissioned a market study for Gilliam Place by Allen & Associates Consulting. The consultant's market analysis portrayed a local housing market that would reward a new affordable multifamily development. The study's major conclusions about the primary market area surrounding Gilliam Place site are summarized below.

- Moderate population and economic growth (study conducted before Amazon announcement selecting Arlington for their new headquarters).
- Access and visibility are both very good: Site is near major crossroads with excellent exposure to drive-by traffic.
- Supply of subsidized units is low (5 comparable properties) with high occupancy (99% occupied).
- Proforma rents are achievable: APAH's projected rents for Gilliam Place average $1,217 per month while the consultant projects achievable rents at $1,351.

Planning & Entitlements

Planning

Prior to submission of a rezoning and use permit request to allow for residential and retail uses on the site, APAH met with members of the community to discuss future development of the property.

During the meetings, it became clear that there was resistance growing against the project. A NIMBY group was forming to derail Gilliam Place. The NIMBY arguments were typical of those fighting affordable housing in their neighborhoods: school overcrowding and reduction of surrounding property values.

However, APAH was prepared for these arguments and had assembled convincing statistics and quantitative metrics to negate the NIMBY group's claims.

Historic Preservation Roadblock

In 2013, a historical significance application was submitted. This required a period of study by the Arlington County Historical Affairs and Landmark Review Board (HALRB).

In January 2014, after months of study, the HALRB voted to place no historic designation on the APC building. This was a contentious decision which resulted in a 8-3 vote as one can discern from Board Member Vincent's statement: "I… think it is unfortunate that the church believes that it can only accomplish its mission going forward by tearing down part of its history, by throwing away its historic walls, and the stories that live within the walls. It is unfortunate that the church has not brought itself where it could incorporate that building and its history moving forward". Mr. Vincent eventually voted in favor of no historic designation on the grounds that the owners of the property did not request the historic designation. This historic preservation roadblock resulted in an almost 6-month delay in the entitlement process. At completion of the building, APAH installed a plaque celebrating the history of the site.

Rezoning

The legislative review and approval process for Gilliam Place was quick – only 7 months from submission to approval. The expeditious entitlement process was driven by Arlington County's Columbia Pike-Form Based Code (CP-FBC), an alternative zoning district which regulates land development by setting careful and clear controls on building form, rather than focusing strictly on types of land use.

In May 2015, APAH filed an application for a rezoning to zone the Property from One-Family and Restricted Two-Family Dwelling District (R-5) to Columbia Pike-Form Based Code (CP-FBC). The application also included a Use Permit request for 173 affordable residential units and 8,500 square feet of retail and civic uses. The application was approved on December 12, 2015. In addition to unanimous approval of the rezoning, the Arlington County Board allocated $8,568,716 of Affordable Housing Investment Funds (AHIF) to assist acquisition financing of the site.

Building and Landscape Design

Building Design Constrained by Government Regulations

KGD, the Gilliam Place project architects, were constrained by government regulations. All architects' designs are properly subject to public regulations (building permits, site plans, occupancy permits, etc). However, with affordable housing, the building design constraints are more severe and come from unexpected sources: County zoning regulations (Gilliam Place's façade design) and Federal-State loan requirements (interior design).

Facade Design and Form Based Code (FBC)

Detailed building facade constraints on the architectural and civil plans were prescribed by Arlington's FBC which was described in the previous chapter. Unlike most zoning regulations which are building design agnostic, Arlington's FBC prescribes very specific building design elements for Gilliam Place:

- Six story height limit on two façades
- Three story height limits on 2 sides adjacent to single family lots
- Fenestration and architectural composition elements such as brick colors, fieldstone use (reused from the APC building) and lighter brick and cement panels on upper floors

Interior Design and VHDA-LIHTC

Unlike market rate multifamily lenders who are design agnostic, many affordable housing financiers require developers to compete for their scarce funds; and their competition criteria often impact interior building design in significant ways. This outside pressure on the project architect to master unfamiliar design constrains creativity. The interior design of Gilliam Place was impacted in two ways by two government finance entities.

Federal Low Income Housing Tax Credits (LIHTC). Nearly every affordable housing development relies on LIHTC to provide project equity. Program regulations forbid using 9% and 4% tax credits in the same project . However, in certain circumstances, like larger multifamily developments, combining both 9% and 4% credits in the same development can significantly increase the amount of equity available for the project and deepen the rent subsidy for low income tenants.

APAH found a way to use both the 9% and 4% credits to finance Gilliam Place by employing a strategy called twinning which sidesteps the rule by subdividing Gilliam Place into two separate projects, one financed with 4% credits and the other with 9%. Building two separate projects seemed impossible due to the small site and construction inefficiencies. This was solved creatively by designing one coherent building facade with the interior subdivided into distinct but attached multifamily developments labeled East and West, each with its own lobby.

VHDA Loans Require UD and Earthcraft certification. APAH successfully competed to receive low interest loans via VHDA bond proceeds to finance Gilliam Place. As a result, Gilliam Place's design was required to implement Universal Design (UD) guidelines for accessibility and Earthcraft's green building certification. Neither UD nor Earthcraft are widely utilized by developers and architects in the DC region. As a result, the project architect had to learn two foreign systems to achieve the required design.

EARTH CRAFT Multifamily ™

Sustainability and Landscape

The primary difference between the more widely-used LEED standards and Earthcraft is that LEED can be more expensive and is a score-based system; whereas Earthcraft takes a hands on approach and conducts field testing to determine the efficacy of the projects they are certifying. Among the many sustainability features included in the interior of the building are:

- Energy Star light fixtures to help reduce energy consumption
- Water Sense fixtures to reduce water usage
- The use of a hot water loop instead of a typical boiler
- Continuous exterior cavity insulation

The site also utilized a rain garden as a stormwater management system and best management practice device. The site further utilized tree pits and shrubs along the street frontage and in the private third story open space for the community.

Project Financing

Gilliam Place Total Cost

Gilliam Place total project costs were $70.9 million, which comprised of land at $10.2 million, hard construction costs at $39.3 million, and soft costs at $21.4 million. For more detail, see Appendix C.

Affordable Housing Finance Is A Complex Mix of Sources

Financing affordable multifamily housing is extremely complex when compared to market rate housing finance. The complexity is expressed in both the sheer number of sources and the creativity required to integrate a diverse set of funding sources.

Many Sources. The Gilliam Place developer assembled 14 sources of debt and equity from Federal, state and local programs as well as from private sector investors. The simple act of buying the land is a good example of this complexity. Even after APC discounted their land 20% in the sale to APAH, the developer was only able to assemble $10.2 million in land costs by attracting 4 sources. The Arlington Housing Investment Fund (AHIF) made a loan for most (84%) of the land costs. The final 16% was more difficult. APAH cobbled together several equity/grant investments. The Transit Oriented Affordable Housing Trust Fund (TOAH) provided a grant. APC provided a seller contribution. APAH sourced additional equity from the sale of single family lots outside the footprint of the multifamily building.

Integrating Diverse Sources. Coordinating and balancing the unique funding requirements of each source requires specialized knowledge. Further, several of the public sources only provide affordable housing loans/equity on competitive basis with strict timelines for application and narrow windows for funding. If the affordable housing developer misses a deadline or is not an awardee, they may have to wait up to 6 months to a year to reapply, arbitrarily resetting project start dates with all the inefficiency that creates.

Debt Financing. The debt portion made up 53% of the total project cost from eight sources. This means the developer must comply with the application, underwriting and design restrictions of each of these sources. Meanwhile market rate developers are working with one lienholder who requires only limited to zero specialized restrictions.

Sources of Funds

	Debt/Equity	East (9% Bldg.)	West (4% Bldg.)	Land	Total
Arlington Housing Investment Fund (AHIF)	Debt	$ 2,767,953	$ 6,799,795	$ 8,568,716	$ 18,136,464
APAH Sponsor Loan	Debt	$ 1,620,380	$ 1,674,007		$ 3,294,387
Imputed Construction Interest	Debt	$ 469,773	$ 136,676		$ 606,449
Permanent Tax Exempt Bonds	Debt		$ 1,500,000		$ 1,500,000
VHDA- REACH	Debt	$ 2,000,000	$ 2,000,000		$ 4,000,000
VHDA- SPARC	Debt	$ 1,494,000	$ 3,240,000		$ 4,734,000
VHDA- Taxable Bonds	Debt	$ 4,380,000			$ 4,380,000
Virginia Housing Trust Fund	Debt	$ 700,000			$ 700,000
Total of Debt		***$ 13,432,106***	***$ 15,350,478***	***$ 8,568,716***	***$ 37,351,300***
Arlington Presbyterian Church	Equity			$ 180,000	$ 180,000
Transit Oriented Affordable Housing Fund (TOAH)	Equity			$ 745,298	$ 745,298
Deferred Developer Fee	Equity		$ 837,410		$ 837,410
Proceeds from Sale of SF Lots	Equity			$ 693,087	$ 693,087
Tax Credit Equity	Equity	$ 21,885,333			$ 21,885,333
Tax Credit Equity	Equity		$ 9,253,367		$ 9,253,367
Total of Equity		***$ 21,885,333***	***$ 10,090,777***	***$ 1,618,385***	***$ 33,594,495***
TOTAL SOURCES (Debt + Equity)		**$ 35,317,439**	**$ 25,441,255**	**$ 10,187,101**	**$ 70,945,795**

Equity Financing. The equity portion made up 47% of the total project costs from six sources. The bulk of the equity financing was derived from tax credits. Tax credits are allocated by the Internal Revenue Service (IRS) to State Housing Finance Agencies (HFAs). HFAs are state-chartered authorities established to help meet the affordable housing needs of the residents of their states. Although they vary widely in characteristics such as their relationship to state governments, most HFAs are independent entities that operate under the direction of a board of directors appointed by each state's governor.

VHDA is the state of Virginia's HFA, appointed by the General Assembly. VHDA awards tax credits to developers based on the state's selective criteria. VHDA, through a competitive process, annually awards 9% tax credits to developers while 4% tax credits are on a non-competitive process with rolling application submittals. Upon APAH being awarded both 9% and 4% tax credits, they converted those tax credits to equity and sold them to Capital One Bank who will utilize them to reduce their tax liability. Enterprise Housing Credit Investments, a tax credit syndicator, worked closely alongside APAH in selling the credits to a private institution.

Creative Mixing, The Twinning Strategy. APAH has utilized an innovative strategy for maximizing equity by twinning or combining 4% and 9% tax credits in the same development.

Traditionally, LIHTC projects have used either 4% or 9% credits but not both because 4% credits are prohibited from being used in the same project with 9% credits. Innovative developers like APAH have recently been able to utilize both to fund one affordable development, like Gilliam Place, by splitting one project into two finance deals and architectural structures. Twinning increases the amount of tax credits one development can sell and this bonus equity can increase the number of affordable units and provide for a deeper rent subsidy (e.g. more 40% area median income (AMI) units).

- The East building secured 9% tax credits, which provided equity up to 70% of allowable total project costs.
- The West building secured 4% tax credits, which provided equity up to 30% of the allowable total construction costs.

Again, the twinning approach of the tax credit equity allowed the development to achieve 173 rental units with more than half of the units being deeply subsidized.

Retail/Civic Financing

The first floor of the East building consists of two separate units totaling 8,500 square feet of retail/civic space. The construction of the shell was a part of the East building financing shown in the Sources Chart. The designated retail/civic space was funded from the debt sources. The build out of each space will be funded and constructed by the prospective tenants.

Current Operational Issues

Lease Up Requirements for Affordable Housing

The only operations issue at Gilliam Place is lease up. Lease up is a complex process for affordable housing owners due to the tax credit program compliance requirements. All qualified applicants are required to be income qualified in accordance with the Unit Tiers chart in Appendix E.

Income qualifying requires verifying all income and assets stated within the household's application to ensure the family income qualifies to reside in the applicable unit. The chart in Appendix E defines the income limits for Gilliam Place.

Residential Lease Up Status

This complexity and resulting labor intensive leasing result in owners often hiring third party management companies. At Gilliam Place, APAH hired S.L. Nusbaum Realty Company, the property management company, to process applications for approval from APAH's extensive tenant waitlist (see Market Analysis chapter). Nusbaum has successfully leased Gilliam Place units at a rate of 35 units per month. This rate was above proforma and twice the projections of the third party market study.

Retail/Civic Space Leasing

The first floor contains 8,500 square feet of retail/civic space. This space will be occupied by APC in a space designed for a variety of church and community uses; and La Cocina, a non-profit that will open the Zero Barriers Training and Entrepreneurship Center. Both APC and La Cocina executed a triple net lease prior to the project completion at a below market rental rate.

Exit Strategy

APAH's business model as a non-profit affordable housing developer is to hold all their developments for the long term. Generally the main sources utilized in financing the project have affordability restrictions between 30 and 40 years. Although APAH is a long term owner, they will opportunistically explore repositioning options (such as refinancing), generally in years 10 to 15. The repositioning efforts allow APAH to take money out of the development to be used to maintain existing projects like Gilliam Place and create new affordable housing developments.

APAH will have the opportunity to exercise a right of first refusal in the 15th year that allows them to purchase their limited partners' interest, making APAH the 100 percent owner of the projects.

Innovation and Impact - Lessons Learned

1. Empty Churches can be an Important Source of Land for Affordable Housing

It is arguable that the principal barrier to building affordable housing in America is the availability of low-cost land in high cost urban/suburban areas where the demand for affordable housing is high and the supply is low. Finding a consistent source for below market priced land in urban areas would provide a valuable strategy for affordable housing developers. The AP-AH-APC collaboration at Gilliam Place provides a model for implementing just such a strategy.

The Burden of Buildings. Houses of worship tend to be well located. While churches thrived in the past, their current real estate may be underutilized as economic and social segregation occurs. In addition to surplus land, century old buildings can be burdened with high overhead, extraordinary deferred maintenance and financial despair. These organizations may be compelled to escape from their financial and infrastructure challenges by making their land available for a development partner if the intended use is aligned with the mission of the church. This land may even be offered at a discount which can be critical for affordable housing.

Replicable Lessons. The Gilliam Place model is an especially valuable because it is REPLICABLE, potentially repeatable by developers and churches throughout the United States. The Atlantic magazine has recently reported on “America’s epidemic of empty churches.” They estimate 6,000 to 10,000 churches die each year in America. Most are in urban areas and die for exactly the same reasons as APC in this case study.

2. Learn and Respect How Faith Based Organizations Make Decisions

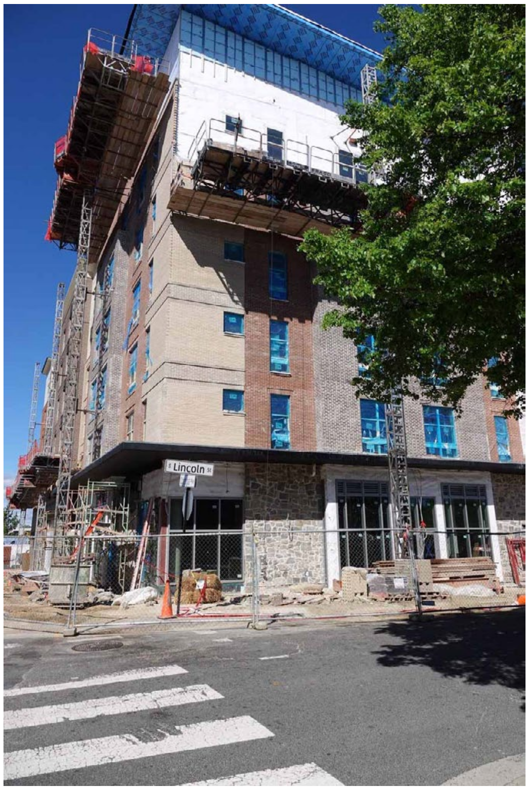
A land transaction with a faith based organization that is mission driven is qualitatively different from a land transaction with a traditional market based seller who is secular, private sector, and profit-oriented. Real estate developers normally work with the latter but must learn and respect the very different pace and purpose of faith based organizations if they want access to the well-located land they control.

Land Seller Role. An important difference between buying land from a market-rate seller and buying from a church is the motivation of the land seller. In a market-rate project, the land seller is motivated solely by profit and the transactional negotiation is relatively straightforward, needing only to resolve 3 key points: deposit, land price, and settlement date.

Seller and Partner. When negotiating with a church to purchase or ground lease land, the points of negotiation expand greatly to include: who is the appropriate buyer (or partner), what will be developed, will a sale occur, how will the church stay involved after sale, what will the church do with the proceeds, and how much of a price discount is appropriate. In the Gilliam Place transaction, APC is not only the land seller but is, functionally, a partner with APAH. This is typical and affordable housing developers must adjust their operational process accordingly.

Faith Based Decision Making. Faith based sellers may have a process that is unique and contemplative. There are typically three or four groups that make decisions and these groups can have very different perspectives on what is best for the congregation. While this can create a healthy dialogue, it can also lead to increased tension and time. In this case, there was a governing body (Presbytery) and a committee (congregation) who had to go through the decision process related to programming, sales price, and use. The decision making process is consensus driven and took over 18 months, where a typical project may take less than 6 months.

Consensus and Hierarchy. In most cases there may be two key components of the decision making process. The first decision level is the local congregation and is consensus driven. The congregation must be aligned before the second integral step of the process takes place at the hierarchical level. With Gilliam Place, the Presbytery made the final decision which was hierarchical in nature.



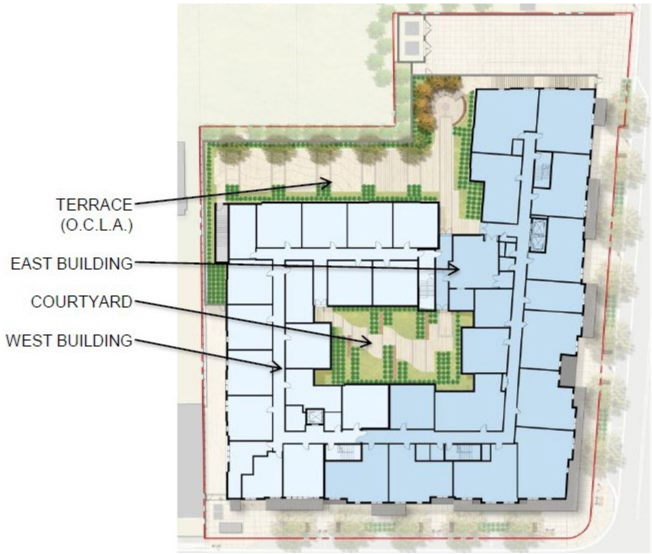
3. Affordable Housing Is The Most Difficult Asset Class To Finance

Financing and development can be complicated for this asset class. Below market rate rents generate an immediate project financing gap because project cash flow will not be sufficient to repay the debt required to build multifamily housing. The negative impact of this gap is easily illustrated. In an affordable housing project, the first mortgage loan rarely exceeds 25%-30% of project costs. Market rate housing projects typically receive first mortgage loans of 70%-80% of project costs. This very real financing gap forces affordable housing developers into a constant search for additional debt and equity.

The finance-starved condition endemic to affordable housing is very different from market rate housing development. The market rate developers generally require two to four sources of project financing. Two sources, debt and equity, are almost always required. It is common for developers to add a third source by borrowing some portion of the equity. Some deals require a secondary level of debt (usually called mezzanine) which adds a fourth source.

Gilliam Place financing required APAH to locate 14 sources of funds which is not unusual for an affordable housing development. Funding for affordable housing is more complex and diversified, requiring a higher level of creativity. The lesson from Gilliam Place is that the affordable housing developer must exhibit very different skills from those learned as a developer of market rate housing.

If financing a market rate apartment building is like learning the multiplication tables, the developers of Gilliam Place had to master algebra.



4. Form Follows Finance

It is a long-held truism in architecture that Form Follows Function. This means creating a building (form) to correspond to the needs of the occupants (function). For architects that work on affordable housing projects, achieving the form follows function goal can be difficult. In fact, the impact on Gilliam Place's architecture from certain project finance sources was substantial.

APAH employed an innovative financing strategy called twinning. To ensure the beneficial impact of twinning (more affordable units and deeper rent subsidies) and comply with LIHTC regulations, the architects were instructed to design two distinct apartment developments into one coherent building. Furthermore, the buildings were to be architecturally attractive, they were to look as one from the outside, but work efficiently as two on the inside.

VHDA also inserted themselves into the Gilliam Place design process with their regulations. VHDA required Universal Design (UD) and Earthcraft to set standards for building access and green designs, both of which are rarely used in the region. Typically, architects utilize ADA and LEED guidelines in specifying their designs.

Affordable housing lenders significantly impacted the architect's normal role at Gilliam Place. KGD was forced to learn two foreign systems for building accessibility and green design; and to redesign one building into two. For architects designing affordable housing the lesson is to prepare for a new truism: Form Follows Finance.

5. Prepare for the NIMBY Perspective

An affordable housing developer should be prepared for predictable NIMBY opposition. Typical arguments revolve around school overcrowding and reduced property values. Without rebuttal by the developer, NIMBYs can kill an affordable housing development.

NIMBYs typically make their case at a zoning or other public hearings. The best counter strategy is a written statement providing quantitative data demonstrating that earlier affordable housing developments have not created school overcrowding or property devaluation. APAH's successful actions at Gilliam Place provide excellent strategy lessons:

- Gather local supporting data from school boards and the realtor MLS
- Anticipate the NIMBY attack by proactively meeting with neighborhood groups prior to public hearings

6. Add a Year to your Pre-Development Timeline

For affordable housing developments with faith based land sellers, there are two reasons for the abnormally long pre-development periods:

- Faith based organization decision making and structure
- The competitive requirements of affordable housing financing sources (e.g. tax credits and state/local bond funding) which may result in immutable funding cycles out-of-sync with real estate development phasing.

As a result, affordable housing will take longer than a market rate multi-family project. Each development is unique. But adding one year to your initial project proformas is a good guestimate.

Appendices

Appendices

Appendix A - Sources

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Appendix B - Interview Sources

- Laura London - Associate Director of Real Estate Development, Arlington Partnership for Affordable Housing
- Becca Garman - Real Estate Associate, Arlington Partnership for Affordable Housing
- Matt Sislen- Co-founder and Partner, Audubon Enterprises
- Susan Etherton- Church Elder and President of the Church Corporation Arlington Presbyterian Church
- Christopher Gordon - Principal, KGD Architecture
- Jill Norcross - Principal, Jill Norcross Consulting

Appendices

Appendix C - Sources & Uses - 1 of 2

Sources & Uses

	9% LIHTC	4% LIHTC	Land	Total	Per Unit
Sources of Funds	58.0%	42.0%	APAH owned		
Permanent Tax Exempt Bonds		$ 1,500,000		$ 1,500,000	$ 8,671
VHDA Taxable	$ 4,380,000			$ 4,380,000	$ 25,318
Virginia Housing Trust Fund	$ 700,000	$ -		$ 700,000	$ 4,046
SPARC	$ 1,494,000	$ 3,240,000		$ 4,734,000	$ 27,364
REACH	$ 2,000,000	$ 2,000,000		$ 4,000,000	$ 23,121
AHIF	$ 2,767,953	$ 6,799,795	$ 8,568,716	$ 18,136,464	$ 104,835
Tax Credit Equity (9%)	$ 21,885,333			$ 21,885,333	$ 126,505
Tax Credit Equity (4%)		$ 9,253,367		$ 9,253,367	$ 53,488
3rd pty: TOAH (745,298) & APC (180,000)			$ 925,298	$ 925,298	$ 5,349
Deferred Developer Fee		$ 837,410		$ 837,410	$ 4,841
Imputed Construction Interest	$ 469,773	$ 136,676		$ 606,448	
APAH Sponsor Loan	$ 1,620,380	$ 1,674,007	$ -	$ 3,294,387	$ 19,043
Proceeds from sale of SF Lots	$ -		$ 693,087	$ 693,087	$ 4,006
Total Sources	**$ 35,317,438**	**$ 25,441,255**	**$ 10,187,101**	**$ 70,945,794**	**$ 410,091**
Per Unit	$ 425,511	$ 282,681	$ 58,885		
Over/(Under)	*$ (0.00)*	*$ 0.00*	*$ -*	*$ 0*	
Uses of Funds					
Acquisition Costs					
x Site Acquisition/Capitalized Lease Pmt	$ 500,000	$ -	$ 8,480,000	$ 8,980,000	$ 51,908
x settlement cost for construction closing	$ 197,615	$ 137,082	$ 33,493	$ 368,190	$ 2,128
x Settlement/Holding Costs from July 2016 closing			$ 177,610	$ 177,610	$ 1,027
Acquisition Subtotal	**$ 697,615**	**$ 137,082**	**$ 8,691,103**	**$ 9,525,800**	**$ 55,062**
Construction Costs					
x Structure	$ 18,032,446	$ 13,057,978	$ 47,320	$ 31,137,744	$ 179,987
x					$ -
x Site Work, Excavation & Utilities	$ 1,972,358	$ 1,428,259	$ 637,253	$ 4,037,870	$ 23,340
x General Conditions	$ 1,424,261	$ 1,031,362	$ 82,775	$ 2,538,398	$ 14,673
x					$ -
x Contractor's Profit	$ 876,463	$ 634,680	$ 30,808	$ 1,541,951	$ 8,913
x Other Construction Costs	$ 154,399	$ 111,806	$ 2,842	$ 269,047	$ 1,555
x Contractor's Contingency	$ 328,112	$ 237,598		$ 565,710	$ 3,270
					$ -
					$ -
					$ -
					$ -
					$ -
					$ -
					$ -
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					$ -
					$ -
					$ -
					$ -
Construction Subtotal	**$ 22,788,039**	**$ 16,501,683**	**$ 800,998**	**$ 40,090,720**	**$ 231,738**

Appendices

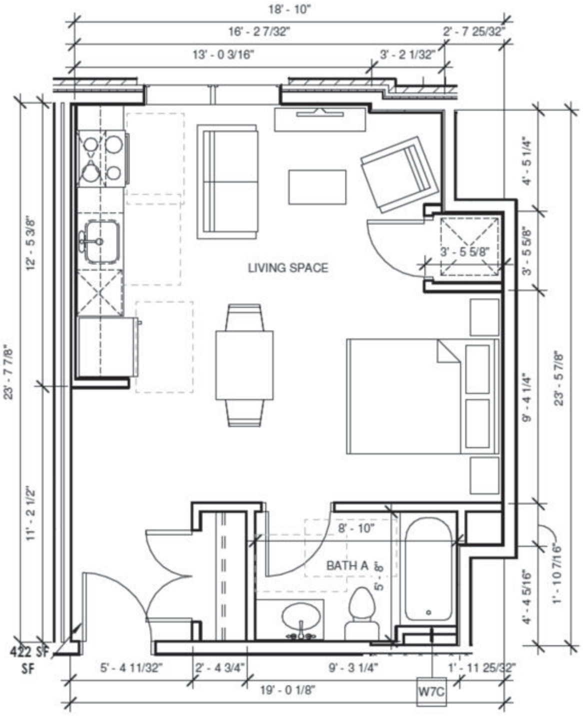
Appendix C - Sources & Uses - 2 of 2

Soft Costs					
Contruction Period Taxes	$ 185,867	$ 162,778		$ 348,645	$ 2,015
Architectural Design	$ 647,172	$ 462,849		$ 1,110,021	$ 6,416
Architectural Supervision	$ 219,318	$ 158,816		$ 378,134	$ 2,186
Third Parties and County Fees	$ 535,216	$ 387,719	$ -	$ 922,934	$ 5,335
Marketing	$ 10,000	$ 10,000		$ 20,000	$ 116
Market Study	$ 2,500	$ 2,500		$ 5,000	$ 29
Civil Engineering/Survey	$ 275,456	$ 199,544		$ 475,000	$ 2,746
Tax Credit Prep	$ 25,000	$ 7,500		$ 32,500	$ 188
Communications Systems	$ 115,981	$ 84,019		$ 200,000	$ 1,156
Construction Management	$ 411,734	$ 298,266		$ 710,000	$ 4,104
Construction Inspections	$ 130,479	$ 94,521		$ 225,000	$ 1,301
Soil Borings + Geotech	$ 6,959	$ 5,041		$ 12,000	$ 69
Environmental	$ 24,356	$ 17,644		$ 42,000	$ 243
Insurance - Liability, Umbrella, BR, Pollution	$ 231,963	$ 168,037	$ 25,000	$ 425,000	$ 2,457
Proffers	$ 41,753	$ 30,247		$ 72,000	$ 416
Accounting/Cost Cert	$ 30,000	$ 30,000		$ 60,000	$ 347
				$ -	$ -
Reimbursables	$ 78,287	$ 56,713		$ 135,000	$ 780
Soft Cost Contingency	$ 221,234	$ 160,266		$ 381,500	$ 2,205
Legal	$ 350,843	$ 254,157		$ 605,000	$ 3,497
Appraisal	$ 20,696	$ 14,304		$ 35,000	$ 202
	$ -	$ -		$ -	$ -
	$ -	$ -			$ -
Dry utiltlies design/engineering	$ 64,950	$ 47,050		$ 112,000	$ 647
EarthCraft	$ 40,130	$ 29,070		$ 69,200	$ 400
Submetering Equipment	$ 35,113	$ 25,437		$ 60,550	$ 350
Security System	$ 86,986	$ 63,014		$ 150,000	$ 867
Undergrounding Utilities	$ -	$ -	$ 175,000	$ 175,000	$ 1,012
Engineering Costs & Plan Review	$ 15,657	$ 11,343		$ 27,000	$ 156
TDM Fund Contribution	$ 35,558	$ 25,759		$ 61,317	$ 354
FF&E	$ 175,000	$ 25,000		$ 200,000	$ 1,156
Environmental Remediation - VRP related	$ -	$ -	$ 490,000	$ 490,000	$ 2,832
Historic Preservation Allowance	$ 8,699	$ 6,301		$ 15,000	$ 87
Interior Design	$ 24,356	$ 17,644		$ 42,000	$ 243
Hard Cost Contingency	$ 1,162,443	$ 842,093		$ 2,004,536	$ 11,587
HVAC Commissioning	$ 46,393	$ 33,607		$ 80,000	$ 462
Soft Cost Subtotal	**$ 5,260,099**	**$ 3,731,239**	**$ 690,000**	**$ 9,681,338**	**$ 55,961**
Financing Costs					
Permanent Origination Fees	$ 83,940	$ 108,600		$ 192,540	$ 1,113
Brokerage Fees	$ 57,991	$ 42,009		$ 100,000	$ 578
Capitalized Interest (Construction Loan)	$ 1,538,539	$ 548,777		$ 2,087,316	$ 12,065
Construction Loan Fees	$ 184,100	$ 148,600		$ 332,700	$ 1,923
Interest Rate Cap (9%) / LOC Fee (4%)	$ -	$ 100,000		$ 100,000	$ 578
Imputed Construction Interest	$ 469,773	$ 136,676		$ 606,448	
Tax Credit Fees	$ 142,500	$ 59,532		$ 202,032	$ 1,168
Commerical Lease Up Reserve	$ 56,138			$ 56,138	$ 324
Tenant Improvements Escrow	$ 454,774			$ 454,774	$ 2,629
Financing Cost Subtotal	**$ 2,987,754**	**$ 1,144,194**	**$ -**	**$ 4,131,948**	**$ 23,884**
Developer Fee and Reserves					
Debt Service & Operating Reserves	$ 580,420	$ 515,400		$ 1,095,820	$ 6,334
Lease Up Reserve	$ 85,600	$ 95,800		$ 181,400	$ 1,049
Limited Partner Asset Managmenet Reserve	$ 111,000	$ 113,333		$ 224,333	$ 1,297
Developer Fee	$ 2,776,661	$ 3,173,106		$ 5,949,767	$ 34,392
Working Capital/Additional Reserves	$ 30,250	$ 29,418	$ 5,000	$ 64,668	$ 374
Developer Fee and Reserves Subtotal	**$ 3,583,931**	**$ 3,927,057**	**$ 5,000**	**$ 7,515,988**	**$ 43,445**
Total Uses	**$ 35,317,438**	**$ 25,441,255**	**$ 10,187,101**	**$ 70,945,794**	**$ 410,091**

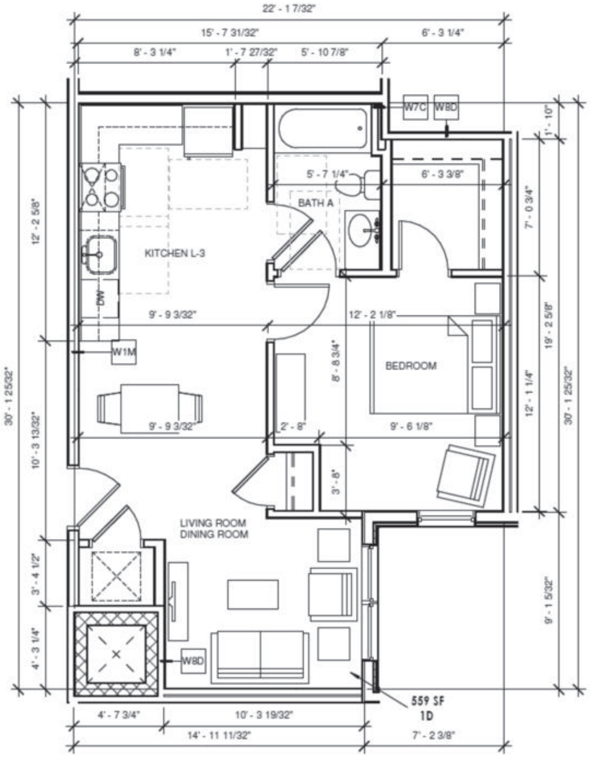
Appendices

Appendix D - Sample Unit Floor Plans

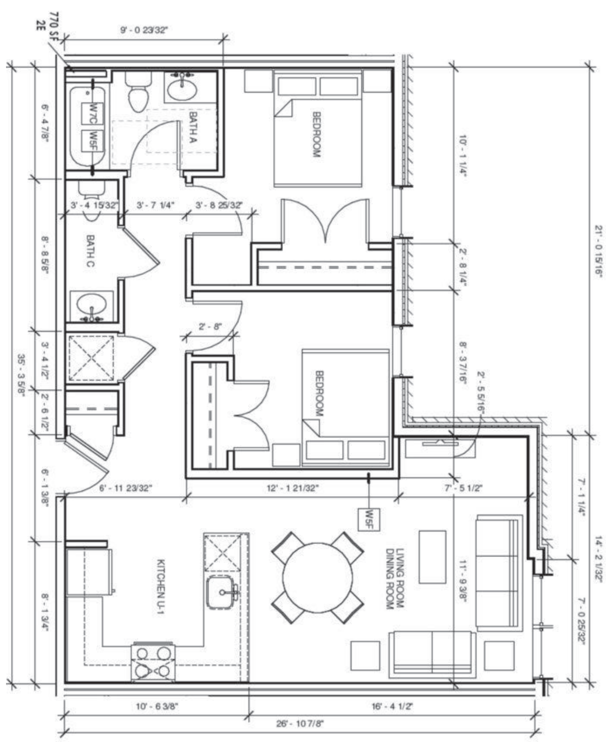
Studio Floor Plan



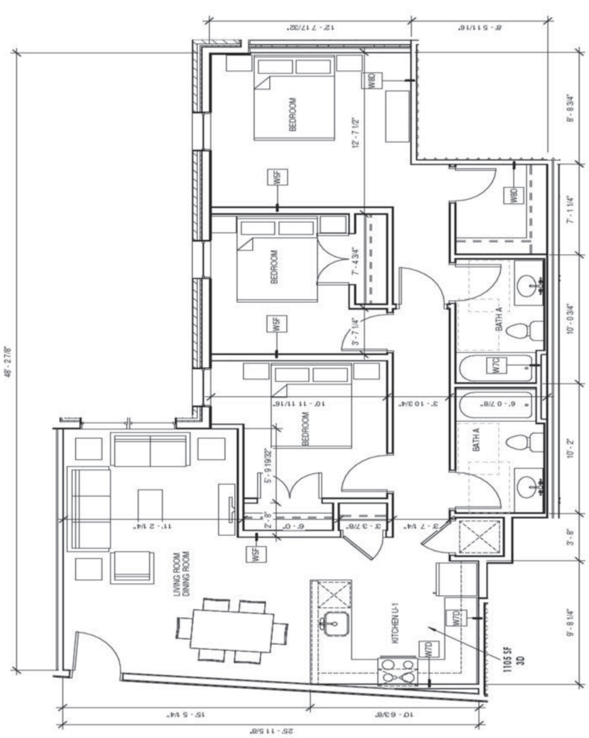
1 BDRM Floor Plan



2 BDRM Floor Plan



3 BDRM Floor Plan



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Appendix E - Income and Affordability Levels

Gilliam Place Unit Tiers				
Unit Size	40% AMI Units	50% AMI Units	60% AMI Units	Total
Studio	17	5	0	22
1 BR	73	1	9	83
2 BR	23	26	0	49
3 BR	19	0	0	19
Total	***132***	***32***	***9***	***173***

Gilliam Place Maximum Income Restrictions

	Number of Occupants						
Percentage	One	Two	Three	Four	Five	Six	Seven
40%	$34,000	$38,840	$43,680	$48,520	$52,440	$56,320	$60,200
50%	$42,500	$48,550	$54,600	$60,650	$65,550	$70,400	$75,250
60%	$51,000	$58,260	$65,520	$72,780	$78,660	$84,480	$90,300

*Income levels effective 4/24/2019