



**City of Racine, Wisconsin**  
**AGENDA BRIEFING MEMORADUM**

<b>AGENDA DATE:</b>	November 30, 2017
<b>SUBJECT:</b>	HOME request by Lutheran Social Services/ J. Jeffers Co. - Gold Medal Lofts
<b>PREPARED BY:</b>	Laura Detert, Manager of Housing and Community Development
<b>EXECUTIVE SUMMARY:</b>	<p>Department of City Development - Division of Housing and Community Development requests that the Community Development Committee approve a resolution authorizing a \$300,000 HOME loan to Gold Medal Lofts for conversion of 1701 Packard Ave to housing units ("Gold Medal Lofts").</p>
<b>BACKGROUND &amp; ANALYSIS:</b>	<p><b><u>Project Summary: Gold Medal Lofts</u></b></p> <p>Lutheran Social Services (LSS) and J. Jeffers &amp; Co plan to co-develop "Gold Medal Lofts", a conversion of the former Gold Medal Furniture Building, located at 1701 Packard Avenue, into seventy-nine one-, two-, and three-bedroom apartments. LSS has requested a \$300,000 HOME loan from the Community Development Committee for HOME-eligible costs.</p> <ul style="list-style-type: none"><li>• Based on underwriting and program requirements, staff recommends a \$300,000 loan at 2.0% interest over 30 years contingent on cash flow.</li><li>• Payment on staff recommended loan would be \$14,333 annually unless no annual surplus cash flow. All loan principal with accrued interest would be paid back to the city by year 30.</li><li>• Loan would be with the Gold Medal Lofts ownership entity for HOME-eligible constructions costs.</li><li>• If project does not have excess cash at the end of the fiscal year (as documented in annual audit), any remaining principal and interest would be due by the end of 30 years.</li><li>• Property taxes are projected at \$64,500 annually.</li><li>• Tenant management is planned through Horizon Management Services, Inc.</li><li>• Units will be mixed-income (market-rate, 60%, 50%, and 30% AMI).</li><li>• The building entrances, common areas and elevator will be handicap accessible.</li><li>• The project will achieve a minimum 150 points under the Wisconsin Green Built guidelines</li><li>• 5 HOME units would be created per HUD HOME guidelines with a 20 year affordability period.</li><li>• The project fits goals outlined in the Uptown Strategic Plan, the Greater Uptown Neighborhood Revitalization Plan (NRSA), and meets overall housing development needs within the City of Racine.</li></ul>

**Project Details**

The former Gold Medal Furniture Building at 1701 Packard will be converted to 79 housing units. State and Federal historic tax credits will be used to preserve the character of the building.



The unit makeup will be:

% of Median Income	Studio	One Bdrm	Two Bdrm	Three Bdrm	Four Bdrm	Total Units /Beds
30%		9	7			16
50%		6	14	12		32
60%		9	10			19
Market Rate Units		12				12
<b>Total Units</b>	0	36	31	12	0	79

On-site parking will be provided along with a community room and an exterior courtyard/garden space in the existing open-air space running east-to-west through the building.

All units will be constructed incorporating “visitability standards”, or the ability for a unit to be lived in or visited by people who have trouble with steps or who use wheelchairs or walkers. (Zero-step entrances, 32” entrance and bathroom doorways, and one main floor bathroom.)

### **Developer and Management Capacity**

Lutheran Social Services (Co-Developer and Sponsor): Based in Wisconsin, Lutheran Social Services has 26 years of housing development experience, and has developed more than 450 residential units within 22 projects.

J. Jeffers & Co. (Co-Developer): J. Jeffers & Co. was founded in 2011 by Joshua Jeffers and now owns interests in 26 properties. The firm focuses on historic preservation, market rate and affordable housing, and neighborhood revitalization. The firm recently completed a \$22.7 million historic rehabilitation of the Mackie Building and Mitchell Building in Milwaukee.

Horizon Management Services (Management Company): Horizon Management Services, Inc. (Horizon) has over thirty years of property management experience with over 2,500 units under management. Horizon will have a regional manager oversee this property and will have a management staff person onsite. Maintenance will either be handled by an onsite maintenance tech or a roving tech. 24 hour emergency maintenance will be available.

### **Program Background**

HOME provides formula grants to states and localities that communities use - often in partnership with local nonprofit groups - to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. It is the largest Federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

A Notice of Funding Availability (NOFA) for HOME funding was issued on September 22, 2017 for \$300,000.

### **Staff Loan Recommendation**

Based on project underwriting, City Development staff recommend a \$300,000 loan to Gold Medal Lofts at 2% interest with a 30 year term. All funds returned to the City will be considered Program Income and would be secured with a mortgage and note as well as HOME contract and 30-year land use restriction agreement.

Final commitment of the HOME funds will be contingent on additional financing obtained in early 2018.

### **Market Study**

The market study for Gold Medal Lofts was performed by Baker Tilly in October, 2017.

The market study shows that the multifamily rental market in Racine is strong with an overall vacancy rate of 2.6%. The absorption period for the project, or the time needed from construction to stable occupancy, is projected at 8-9 months. The number of qualified households in the Racine area needed for occupancy ("capture rate") is 1.2%.

### **Uptown Neighborhood Revitalization Strategy Area**

The Department of City Development, with multiple community partners, is actively working on implementing the Uptown Neighborhood Strategic Development Plan.

- Housing and Community Development, within City Development, is specifically working to implement housing work within the Uptown Neighborhood Revitalization Strategy Area (NRSA).
- Technical assistance from the Center for Community Progress will help us deal with dilapidated, tax-delinquent, and abandoned properties in the neighborhood. We are planning on increasing the quality and homeownership rates in single-family houses and duplexes in Uptown.
- Rental housing within the NRSA is old and not high-quality, safe housing. Rental development like Gold Metal Lofts should serve the rental market instead of single-family housing that is difficult to manage and often a source of crime and building code issues.
- A recent Stanford Business School study (November, 2016) shows that in low-income neighborhoods, affordable rental housing development increases the value of neighborhood house prices by 6.5%, lowers crime rates, and attracts racially and income diverse populations. Quality rental housing revitalizes low-income communities and can help with ongoing neighborhood revitalization in Uptown.

### **BUDGETARY IMPACT:**

\$300,000 of HOME funds would be loaned at 2% interest with a 30 year term. Annual payments would be contingent on demonstrated surplus cash flow and all accrued principle and interest due after 30 years. The funds would be secured with a mortgage and note.

There are sufficient HOME funds to make the loan.

### **RECOMMENDED ACTION:**

Staff recommends that the Community Development Committee approve a resolution to loan Gold Medal Lofts \$300,000 of HOME funds at 2% interest with a 30 year term. Annual payment will be contingent on surplus cash flow with all accrued principal and interest due at the end of the financing term. Mortgage, note, and HOME agreement to be signed at closing and after demonstrating full project financing.