

**Item Title:** Project Update and Additional Funds for Southeast Raleigh Promise Scattered-Site Rentals

**Specific Action Requested:**

**That the Board of Commissioners approves:**

- 1. A reduction from 27 to 25 units for the Southeast Raleigh Promise scattered-site rental project in downtown Raleigh, NC, and;**
- 2. Providing an additional \$200,000 to support the project with cost increases that have occurred since initial approval.**

**All funding commitments are subject to terms and conditions acceptable to the County Attorney. In addition, all awards are contingent upon the development receiving local approvals including site plan approval and all necessary permits from the local municipality. All awards are contingent upon the basic terms as identified in the project descriptions, including funding commitments from the financial partners as identified.**

**Item Summary:**

**Purpose:** The Board of Commissioners approves all Wake County real estate transactions, including recommended funding commitments for low-income housing tax credit and non-tax credit applications.

**Background:** In August 2022, the Board of Commissioners approved a loan of up to \$1,000,000 to Southeast Raleigh Promise (SERP), a non-profit organization, to develop 27 affordable rental units on scattered-site plots owned by the City of Raleigh. The original approval was for a 0.5% interest, 30-year loan with variable annual payments and a balloon at the end of the term. The development has received a \$3.3 million commitment from the City of Raleigh, and SERP will lease the lots from the City, which will preserve affordability for 75 years. As initially approved, the development would offer 27 single-family, duplex, townhome, and accessory dwelling unit (ADU) units to serve households earning up to 30%, 60%, and 80% of the area median income (AMI).

An environmental report on one of the lots, 902 Edenton, revealed higher than acceptable levels of solvents in the soil, requiring remediation. This action removes this one site from the project scope, reducing number of new units by two, for a new total of 25 units. This requested action would also require an additional \$200,000 for this project to reflect increased construction costs.

Strategic Plan: This action supports Community Health and Wellbeing Goal 1: Create and preserve 2,500 affordable housing units by 2029.

Fiscal Impact: The Board previously appropriated funds for Affordable Housing Development Program proposals in the Housing Affordability and Community Revitalization Special Revenue Fund and the Affordable Housing CIP Fund. The Board also appropriated funds for proposals in the American Rescue Plan Fund, with the most recent appropriation on October 17, 2022. Sufficient funding remains available.

### **Additional Information:**

An environmental report on one of the lots, 902 Edenton, revealed higher than acceptable levels of solvents in the soil, requiring remediation. This specific site was proposed to be develop with two units, a three-bedroom single-family home and a one-bedroom ADU. The developers determined that the remediation would make development of the site financially infeasible, and the City of Raleigh did not have another lot that could be used to replace it. As a result, SERP has abandoned this site, and if approved, the development will move forward with 25 total units. The property will continue to serve households earning up to 30%, 60%, and 80% of the AML. Housing staff recommend approving continued support for the project at this reduced unit count.

Additionally, construction costs have increased over \$1.1 million since the application was originally approved, even with the removal of two units. SERP has leveraged a larger commitment from the City of Raleigh as well as a grant from the Low-Income Investment Fund (LIIF), in addition to investing their own equity to manage cost increases. SERP has requested \$350,000 to further support the project; Housing staff recommend providing up to \$200,000 in additional funds to the project, which will support its long-term feasibility and allow SERP to reinvest funds into activities that benefit residents of this proposed development as well as their broader service area. Loan terms would remain 0.5% interest for 30 years with variable annual payments and a balloon at the end of the term. If approved, SERP is ready to close on financing and begin construction in summer 2024.

SERP's development proposal includes a variety of unit types. The table below summarizes the proposed locations and distributions of units. The originally-approved 902 Edenton Lot has been removed.

### **Locations and Unit Types**

Site Address	# Units	Unit Types
111 E. Lee Street	3	Duplex, ADU
116 E. Lee Street	3	Duplex, ADU
1102 S. Person Street	1	Single-Family Home
Gregg Street Cluster	12	Duplex (4), ADU (4)
1000 Gregg Street	4	Townhome
911 Edenton	2	Duplex

The following tables illustrate the unit income distribution at the proposed project, as originally approved in 2022 and as currently being recommended. As currently

recommended, more than one-third of the units will serve households earning up to 30% AMI, consistent with the original approved proposal.

**Income Distribution by Unit Size – 2022 Approval**

Unit Size	30% AMI	60% AMI	80% AMI	Total	% of Total
1BR	7	0	0	7	26%
2BR	3	4	7	14	52%
3BR	0	0	6	6	22%
Total Units	10	4	13	27	100%
% of Total	37%	15%	48%	100%	

**Income Distribution by Unit Size – Current Recommendation**

Unit Size	30% AMI	60% AMI	80% AMI	Total	% of Total
1BR	6	0	0	6	24%
2BR	3	4	7	14	56%
3BR	0	0	5	5	20%
Total Units	9	4	12	25	100%
% of Total	36%	16%	48%	100%	

The following table illustrates the originally approved funding sources, and the updated funding sources for the project.

<b>SERP Financing Summary</b>	<b>Original Amount</b>	<b>Proposed Amount</b>
First Mortgage	\$ 3,311,932	\$ 3,350,449
City of Raleigh	\$ 2,000,000	\$ 3,300,000
<b>Wake County (staff recommended)</b>	<b>\$ 1,000,000</b>	<b>\$ 1,200,000</b>
Subordinate Loan – LIIF PBC Fund	\$ 500,000	\$ 500,000
LIIF Grant		\$ 360,000
Sponsor Equity		\$ 25,000
Deferred Developer Fee	\$ 405,400	\$ 237,004
<b>Total</b>	<b>\$ 7,217,332</b>	<b>\$ 8,972,453</b>

Decreasing the amount of deferred developer fee allows SERP to address additional costs that may occur during construction that contingency may not cover. As underwritten, the project maintains at least a 1.15 debt service coverage ratio over the life of the loan. Overall, the project remains responsive to the County's Affordable Housing Development Program criteria and will be a viable project that provides affordable housing units serving very low-income households.

**Attachments:**

None.