

## Information Item

**Date:** October 11, 2022

**To:** Mayor, Mayor Pro Tempore, and Members of the City Council

**From:** Patrice Y. Toney, Assistant City Manager  
Marla Y. Newman, Community Development Director

**Subject:**

Information on Subordination of Existing Debt for The Heights Single Room Occupancy Building, and Permanent Financing for the Development of Twelve Units of Workforce Housing in The Heights.

**Strategic Focus Area:** Livable Neighborhoods

**Strategic Objective:** No

**Strategic Plan Action Item:** No

**Key Work Item:** No



The SECU Commons, located at 1430 Felicity Lane, is a 17-acre campus consisting of 17 condominium units, 20 efficiency units within a two-story single-room occupancy building (SRO), and two single-family homes rehabilitated by the North Carolina Housing Foundation (NCHF) to provide transitional housing for high-functioning adults on the autism spectrum, youth aging out of foster care, and homeless families with minor children. The City provided \$400,000 toward a \$5 million capital campaign, which was used to rehab the SRO building. The City's loan to The Commons of Forsyth County, Inc. ("the Commons"), an NCHF affiliate, was a 0%, deferred loan that will be forgiven after 20 years, provided the Commons complied with the loan terms. The loan was secured by a Subordinate Deed of Trust and covers the entire 17-acre campus. The City also placed Restrictive Covenants on the property to ensure that the SRO parcel was used in accordance with the City's funds, and those Restrictive Covenants will also expire after 20 years. The State Employees Credit Union provided a \$1,000,000 leadership grant. The SRO units have been vacant since the project was completed in 2016.

In 2020, NCHF engaged Infill Delicate, LLC (hereinafter "Developer") to purchase and redevelop the site. To accomplish the redevelopment, NCHF and the Developer sought to replat the property and restructure the debt on the property by extinguishing the City's subordinate lien position on the entire property and creating a first lien position on a parcel containing the SRO building. On January 4, 2021 the City Council approved the debt restructuring and consented to the Developer conducting a feasibility study of the SRO building. The purchase and debt restructuring closed on June 21, 2021. The City has since released the lien from its deed of trust and restrictive covenants from all of the property except for the parcel containing the SRO building.

The Developer has submitted proposals for redevelopment of two parcels comprising the property, now renamed The Heights – one for the SRO building and one to redevelop the two single-family homes into twelve rental units to be known as Joy Way Cottages.

### SRO Building

The Developer proposes to convert the 20 units of single-room occupancy into ten apartment units, including seven studio, two one-bedroom, and one two-bedroom units. Unit size ranges from 300 square feet (sf) for the smallest studio to 625 sf for the two-bedroom unit. Unit amenities include an ultra-efficient kitchen and lighting and updated bathroom. Community amenities include a courtyard featuring a meditation garden, raised bed gardening options and outdoor seating as well as a health clinic and early childhood center on The Heights property. Proposed rents range from \$611 for the smallest studio to \$1,560 for a two-bedroom unit. Four units will be targeted as affordable with the remaining six as market rate, as follows:

<b>Unit Count by Area Median Income</b>			
<b>50-60%</b>	<b>80-120%</b>	<b>&gt;120%</b>	<b>Total Units</b>
2	2	6	10

The total project cost for the SRO building is projected at \$936,775. Proposed financing for the development consists of construction and permanent loans and equity capital. The Developer is not requesting funding from the City to complete construction; however, the Developer is requesting that the City subordinate its \$400,000 existing debt to the construction and permanent loans. The City's Restrictive Covenants will reflect the new use and use period of the SRO parcel. Since the Developer is committing to hold the project until completion of The Heights campus, the City subordinate debt could also be subordinate to financing obtained by a subsequent purchaser.

### Joy Way Cottages

The Developer proposes to build twelve rental cottages on the parcel currently containing the two single-family homes. One of the homes will be converted to a cottage, and one will be divided into two cottages. The nine new rental units will consist of one- and two-bedroom units and use a cottage footprint and modern shed roof style. Unit amenities include high ceilings with abundant natural light, an energy efficient sustainable design, and quality finishes such as quartz countertops. Community amenities include a common area with fire pit and picnic/recreation space and on-site secure laundry and tenant storage. Unit size ranges from 576 sf for a one-bedroom to 1,081 sf for a three-bedroom. Proposed rents range from \$796 for the Housing Choice Voucher units to \$2,419 for a two-bedroom unit. Units will be targeted as follows:

<b>Unit Count by Area Median Income</b>			
<b>Section 8</b>	<b>80% AMI</b>	<b>120% AMI</b>	<b>Total Units</b>
2	5	5	12

The total project cost for the Joy Way Cottages is projected at \$2,528,525. Proposed financing for the development consists of construction and permanent loans, equity capital, and financing from

the City. The Developer is requesting \$290,000 from the City for the project in the form of a 0%, deferred loan that will be forgiven after 20 years, provided the borrower complied with the loan terms. The City loan would be subordinate to the construction and permanent loans. The City's Restrictive Covenants will reflect the use and use period of the parcel. Since the Developer is committing to hold the project until completion of The Heights campus, the City subordinate debt could also be subordinate to financing obtained by a subsequent purchaser.