

Revised



10400 Detrick Avenue
 Kensington, Maryland 20895
 240-627-9425

EXPANDED AGENDA
SPECIAL SESSION – JULY 2, 2021

YouTube Link: <https://youtu.be/0Lc5HRAqTwk>

In order to continue to implement recommended social distancing guidelines, HOC will conduct its meetings via an online platform and teleconference call until further notice

		Res #
12:00 p.m.	<u>SPECIAL SESSION MEETING</u>	
12:05 p.m. Page 3	I. <u>ITEMS REQUIRING DELIBERATION and/or ACTION</u> A. Westwood Tower: Approval to Pursue Opportunity Regarding a Change in Ownership - Presentation of Offers and Authorization for the Executive Director to Execute a Letter of Intent	21-65 (pg. 10)
1:30 p.m.	<u>ADJOURN</u>	

NOTES:

1. This Agenda is subject to change without notice.
2. Public participation is permitted on Agenda items in the same manner as if the Commission was holding a legislative-type Public Hearing.
3. *Times are approximate and may vary depending on length of discussion.*

If you require any aids or services to fully participate in this meeting, please call (240) 627-9425 or email commissioners@hocmc.org.

Deliberation

and/or

Action

Westwood Tower: Approval to Pursue Opportunity Regarding a Change In Ownership – Presentation of Offers; Authorization for the Executive Director to Execute a Letter of Intent; and Authorization for the Executive Director to Enter into a Purchase and Sale Agreement for the Disposition of the Property

BETHESDA



STACY L. SPANN, EXECUTIVE DIRECTOR

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BACKGROUND

- HOC received three (3) initial offers for the purchase of Westwood Tower Apartments and associated parcels (the “Property”). All of the best and final offers are higher than the appraised value of the Property (\$47,500,000) according to an appraisal performed by Metzbower, Watts, & Hulting on August 21, 2020.
- All offers commit to increasing the affordability at the Property from 58 affordable units (27%) to 64 affordable units (30%), and deepening the average affordability level for restricted units from 50% AMI to 48% AMI. The greater affordability would be achieved by changing all existing 80% AMI units to 60% AMI units and converting six (6) market rate units to 60% AMI. If a change in ownership is approved, an affordability covenant will be recorded in the land records and will survive with the Property for a term of 99 years, regardless of future changes in ownership.
- HOC Staff has vetted and evaluated the offerors (“Offerors”) and their respective offers based on the following criteria:
 - **Purchase price (and in turn, net proceeds to HOC);** and
 - **Certainty of execution.**
- Information regarding the Offerors’ proposed capital improvement, management, and tenant services plans is also provided in the subsequent slides.
- If a change in ownership is approved, staff recommends using the proceeds to 1) repay the existing debt on the Property, and 2) deposit remaining funds in the Opportunity Housing Reserve Fund (“OHRF”) to focus on HOC’s mission to expand or preserve affordable housing.

Existing Affordability Mix

Unit Mix	30% AMI	35% AMI	50% AMI	60% AMI	80% AMI	Market Rate	TOTAL UNITS	% Aff.
Studio	1	1	1	0	1	22	26	15.4%
1BR	4	1	14	0	2	73	94	22.3%
2BR	6	1	19	0	5	50	81	38.3%
3BR	0	0	2	0	0	7	9	22.2%
5BR	0	0	0	0	0	2	2	0.0%
TOTAL	11	3	36	0	8	154	212	27.4%

Proposed Affordability Mix

Unit Mix	30% AMI	35% AMI	50% AMI	60% AMI	80% AMI	Market Rate	TOTAL UNITS	% Aff.
Studio	1	1	1	1	0	22	26	15.4%
1BR	4	1	14	5	0	70	94	25.5%
2BR	6	1	19	8	0	47	81	42.0%
3BR	0	0	2	0	0	7	9	22.2%
5BR	0	0	0	0	0	2	2	0.0%
TOTAL	11	3	36	14	0	148	212	30.2%

KEY LOI TERMS

Terms	Offeror A	Offeror B	Offeror C
Purchase Price	\$51,050,000	\$51,050,001 (\$51M with an escalation clause up to \$51.5M)	\$49,500,000
Increase in Price	\$450,000	\$1,050,001	\$500,000
LOI Deposit** (Refundable)	\$50,000	\$2,000,000	\$1,000,000
PSA Deposit (Nonrefundable)	\$500,000	\$2,000,000 (LOI deposit goes hard)	\$1,000,000 (LOI deposit goes hard)
Study Period	30 days	0 days (waives study period; agrees to contingency-free PSA)	21 days
Closing Date*	Earliest: August 31, 2021 Latest: September 15, 2021	Earliest: August 23, 2021 Latest: September 7, 2021	Earliest: August 23, 2021 Latest: October 31, 2021
Certainty of Financing and Execution	Underwritten by equity and debt providers. Additional internal approval required.	Underwritten by equity and debt providers. All internal approvals obtained.	Underwritten by equity and debt providers. All internal approvals obtained.

*Dates if LOI is executed on July 2

**Offeror A and Offeror B do not require execution of an LOI

Staff received best and final offers from three (3) Offerors and received no new offers. Each Offeror has increased its offer price by an amount ranging from \$250,000 to \$1,050,001. As previously mentioned, all bids are higher than the appraised value of the Property (\$47,500,000) according to an appraisal performed by Metzbower, Watts, & Hulting on August 21, 2020.

Offer Highlights:

- **Offeror A** offers the **second highest** purchase price of \$51,050,000 with a **30-day study period**. This offer would result in the second highest net proceeds to HOC in the anticipated amount of \$29,130,000.
- **Offeror B** offers the **highest** purchase price of \$51,050,001 with **no study period**. This offer would result in the highest net proceeds to HOC in the anticipated amount of \$29,130,001.
- **Offeror C** offers the **lowest** purchase price of \$49,250,000 and a **21-day study period**. This offer would result in the lowest net proceeds to HOC in the anticipated amount of \$27,330,000.
- Given the upcoming maturity of the Property's financing, certainty of execution is a key evaluation factor. All Offerors have completed financing due diligence, have a track record of closing similar transactions and have demonstrated the ability to close. However, Offeror B's LOI agrees to waive the study period and enter into a contingency-free Purchase and Sale Agreement ("PSA").

CAPITAL IMPROVEMENT, MANAGEMENT AND TENANT SERVICES

Terms	Offeror A	Offeror B	Offeror C
Capital Improvement Plan	\$7,000,000 within three (3) years (specifics of the improvements and timing thereof within the three year period to-be-determined).	\$4,000,000 available at closing for capital improvements. Additional \$300,000 in capital improvements per year, escalated at 3% annually. Specific improvements were identified.	\$1,500,000 of improvements to be completed in Year 1. Specific improvements were identified.
Management Plan	Property management to be provided by third-party management agent. Management agent is to-be-determined, but will have experience managing affordable and LIHTC communities.	Property management to be provided by a management agent with a portfolio of 15,000 multifamily units, including three (3) properties in Montgomery County. 40 years of experience in the Mid-Atlantic region and experience with market rate, mixed-income and affordable communities.	Offeror would self manage the property. The offeror owns and manages a diverse multifamily portfolio, including one (1) property in Montgomery County. The Offeror's multifamily portfolio includes Class A high-rise luxury mixed-use assets and Class B+ assets.
Tenant Services Plan	Offeror commits to Resident Services staffing and programming at the Property. The exact nature of the services to be provided will be determined based on a Community Needs Assessment and is likely to include programs with an emphasis on housing stability, employment, food security, and healthy living. Offeror also has in-house staff who organize and oversee the services and programs, including a Director of Resident Services, three full-time Assistant Directors of Resident Services supervising DMV-area programs, and on-site implementation by Resident Services Managers and community partners.	Offeror commits to Resident Services programming at the Property. Resident services to be provided will be determined based on the unique needs of residents. Ownership and Management Agent will deploy regular resident events and services that create value and convenience to resident's lives, potentially including but not limited to: after school tutoring; personal finance/small business seminars; partnership with Boys and Girls Club of Greater Washington; back to school drive; and Martha's Table. Offeror also proposes resident financial support services including Till and prevailing rent relief programs, and discounts to community first responders, military, and teachers.	Offeror provided a customer satisfaction plan. No tenant services plan specific to a mixed-income community was provided.

In response to the Commission's request, Offerors have provided additional information regarding their capital improvement, management and tenant services plans for the Property.

All Offerors commit to implementing capital improvements upon acquisition or within the first few years of ownership. All Offerors commit to serving the population with the highest level of customer satisfaction. Additionally, Offerors A and B provided tenant services plan frameworks specific to the mixed-income community at the Property.

VALUATION METHODS

All offers received meet or exceed the valuation metrics of recent HOC acquisitions, particularly in terms of cap rate, Gross Potential Rent Multiple, and Effective Gross Rent Multiple.

The final bids received implies cap rates ranging from 4.77% to 4.91%, which are lower than the acquisition cap rates for Bradley Boulevard and Cider Mill—HOC’s two most recent family (non age-restricted) acquisitions—as well as the cap rate implied by the appraised value of the Property.

Looking solely at a top-line comparison, the final bids yield a multiple of the gross potential rent (i.e., the maximum potential rent collections at the property) of approximately 10 to 11 times. The multiple of effective gross rent (which includes vacancy and bad debt) using the final bids is approximately 11 to 12 times. These multiples fall in between those Cider Mill and Bradley Boulevard.

Valuation Comparisons			
		Final Offer	Initial Offer
Comparables	Affordability	GPR Multiple	GPR Multiple
Offeror A (WT)*	30% @ 48%**	10.73x	10.64x
Offeror B (WT)*	30% @ 48%**	10.73x	10.51x
Offeror C (WT)*	30% @ 48%**	10.41x	10.30x
Appraisal Value (WT)	27% @ 50%**	9.99x	
Bradley Boulevard	20% @ 50%	12.20x	
Cider Mill***	40% @ 60%	10.16x	
		Final Offer	Initial Offer
Comparables	Affordability	EGR Multiple	EGR Multiple
Offeror A (WT)*	30% @ 48%**	11.84x	11.73x
Offeror B (WT)*	30% @ 48%**	11.84x	11.59x
Offeror C (WT)*	30% @ 48%**	11.48x	11.36x
Appraisal Value (WT)	27% @ 50%**	11.01x	
Bradley Boulevard	20% @ 50%	13.00x	
Cider Mill***	40% @ 60%	11.05x	
		Final Offer	Initial Offer
Comparables	Affordability	Cap Rate	Cap Rate
Offeror A (WT)*	30% @ 48%**	4.77%	4.81%
Offeror B (WT)*	30% @ 48%**	4.77%	4.87%
Offeror C (WT)*	30% @ 48%**	4.91%	4.96%
Appraisal Value (WT)	27% @ 50%**	5.12%	
Bradley Boulevard	20% @ 50%	4.96%	
Cider Mill***	40% @ 60%	5.46%	
*Tax abatement applied.			
**Average of all aff. units.			
***Partial PILOT			

FUTURE USE OF PROCEEDS

Staff recommends the following future use of the proceeds if a change in ownership is approved:

1. Repay the existing debt on the property, which includes an outstanding mortgage in the amount of \$20.4M and previously obligated funds from the OHRF and Real Estate Working Capital Fund in the amount of \$420,000;
2. Deposit remaining funds in the Opportunity Housing Reserve Fund to focus on HOC's mission to expand or preserve affordable housing (approximately \$30M).
 - Based on HOC's investment in its Bradley Boulevard acquisition, HOC could preserve approximately 2,400 naturally occurring affordable housing units where no affordability restriction previously existed (including reserving approximately 480 of those units for 50% AMI households) with these proceeds.
 - Use of these proceeds for new construction would create more than 1,000 new units, of which at least 300 would be affordable.

SUMMARY AND RECOMMENDATIONS

Issues for Consideration

Does the Commission wish to:

1. Select one of the three Offerors presented and authorize the Executive Director to negotiate and execute a Letter of Intent (“LOI”) with its preferred Offeror, regarding a change in ownership of Westwood Tower Apartments?
 - Offeror B presents the most competitive offer when considering purchase price and certainty of execution.
2. Authorize the Executive Director to negotiate and execute a purchase and sale contract with the Commission’s desired Offeror for the sale of Westwood Tower with terms substantially the same as those contained in the Letter of Intent?
3. Authorize that the net proceeds from the sale of the Property are to be deposited and restricted to the Opportunity Housing Reserve Fund for future uses to be approved by the Commission?

Budget /Fiscal Impact

Authorization to sell Westwood Tower would reduce the anticipated asset management fees and cash flow to the Agency as budgeted in FY 2022 in the approximate amount of \$600,000. Net proceeds from the sale of the Property would increase the balance of the OHRF by approximately \$30M and would be restricted to future uses to be approved by the Commission.

Time Frame

For formal action at the special session of the Commission on July 2, 2021.

Staff Recommendation and Commission Action Needed

Staff recommends that the Commission:

1. Authorize the Executive Director to negotiate and execute an LOI with Offeror B regarding a change in ownership of Westwood Towers.
2. Authorize the Executive Director to negotiate and execute a purchase and sale contract with Offeror B for the sale of Westwood Tower with terms substantially the same as those contained in the Letter of Intent.
3. Authorize that the net proceeds from the sale of the Property are to be deposited and restricted to the Opportunity Housing Reserve Fund for future uses to be approved by the Commission.

RESOLUTION: 21-65

RE: Approval to Pursue Opportunity of a Change In Ownership of Westwood Tower Apartments; Authorization for the Executive Director to Execute a Letter of Intent; Authorization for the Executive Director to Enter into a Purchase and Sale Agreement for the Disposition of the Property

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC” or “Commission”), a public body corporate and politic duly created, organized, and existing under the laws of the State of Maryland, is authorized pursuant to the Housing Authorities Law, organized under Division II of the Housing and Community Development Article of the Annotated Code of Maryland, to carry out and effectuate the purpose of providing affordable housing;

WHEREAS, HOC is the owner of a multifamily building located at 5401 Westbard Avenue, Bethesda known as Westwood Tower Apartments (“Westwood Tower” or the “Property”); and

WHEREAS, HOC acquired Westwood Tower on December 14, 2017 by drawing on its line of credit and refinanced the draw with short-term acquisition financing (“Acquisition Financing”) on March 26, 2018; and

WHEREAS, the Acquisition Financing which matured on June 26, 2021 has been extended to no later than September 26, 2021; and

WHEREAS, HOC has received offers from three residential real estate operators (“Offerors”) to work with HOC for the purchase and preservation of the Property; and

WHEREAS, on June 18, 2021, the Commission authorized the Executive Director to evaluate offers, discuss terms exploring a change in ownership of the Property while preserving or increasing affordability, and present options to the Commission including potential proposals for use of proceeds; and

WHEREAS, staff has presented options to the Commission and the Commissions wishes to pursue the opportunity of a change in ownership of the Property.

NOW, THEREFORE, BE IT RESOLVED that the Housing Opportunities Commission of Montgomery County hereby authorizes the Executive Director to enter into a Letter of Intent with _____ regarding a change in ownership of Westwood Tower Apartments.

BE IT FURTHER RESOLVED that the Housing Opportunities Commission of Montgomery County hereby authorizes the Executive Director to negotiate and execute a Purchase and Sale contract with _____ for the sale of Westwood Tower with terms substantially the same as those contained in the Letter of Intent.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that net proceeds from the sale of Westwood Tower are to be deposited and restricted to the Opportunity Housing Reserve Fund for future uses to be approved by the Commission.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Housing Opportunities Commission of Montgomery County at an open meeting conducted on July 2, 2021.

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Patrice M. Birdsong
Special Assistant to the Commission