



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item Meeting of September 12, 2020

DATE: August 18, 2020

SUBJECT: Approval of an Intercreditor and Subordination Agreement between Arlington County and Community Housing Capital for Fort Henry Gardens Apartments, located at 2470 South Lowell Street, Arlington, VA 22206.

C. M. RECOMMENDATIONS:

1. Approve the Intercreditor and Subordination Agreement, between Arlington County and Community Housing Capital, in order for FHG Limited Partnership to refinance its first mortgage for Fort Henry Gardens Apartments.
2. Authorize and Direct the County Manager to execute, on behalf of the County Board, the attached Intercreditor and Subordination Agreement, subject to approval as to final form by the County Attorney.
3. Authorize the County Manager, with the concurrence of the County Attorney, to act as the County Board's representative in approving revisions to the attached Intercreditor and Subordination Agreement that are necessary to remove any ambiguity or inconsistency or which improve the County's financial security or position, and which revisions do not adversely affect the County financially, prior to the execution of the Subordination Agreement.

ISSUES: There are no known issues.

SUMMARY: Staff recommends approval of the Intercreditor and Subordination Agreement between Arlington County and Community Housing Capital in order for FHG Limited Partnership (**Borrower**) to refinance its first mortgage, which is due and payable on September 30, 2020, and establish a capital repair and debt service reserve for Fort Henry Gardens Apartments (**Property**). The \$6.2 million loan from Community Housing Capital is intended to be a bridge loan, in place while the Borrower redevelops the Property over the next four years.

County Manager:

County Attorney:

Staff: Marie Randall, CPHD - Housing

BACKGROUND: Fort Henry Gardens Apartments is a committed affordable (CAF) community constructed in 1944 and purchased in 1997 by FHG Limited Partnership. The property consists of 65 two-bedroom units restricted to households at 50% of Area Median Income (AMI) and 17 three-bedroom units restricted to households at 60% of AMI. The 82 apartments range in size from 728 to 1,092 square feet, and the three-bedroom units have a second bathroom. The property is located on South Lowell Street, off Shirlington Road, in the Green Valley neighborhood (please see the map in **Attachment I**). The Property has off-street parking, a leasing office, community center, on-site laundry facilities, metrobus access, and is walkable to Shirlington.

In July 2015, AHC purchased the ownership interests of the co-general partner and the investor limited partner of the FHG Limited Partnership (Borrower) and assumed management of the Property. Also at that time, AHC was able to repay over \$2.5M of the County’s outstanding loan balance and extend affordability for an additional 60 years.

DISCUSSION: As of September 12, 2020, the County loan will have a balance of \$2,820,820 with an interest rate of 2% and due in 2045. The Borrower is currently working towards submitting its final Site Plan filing to the County Planning and Zoning staff in order to redevelop the property and add additional affordable units. The site plan is anticipated to be considered by the County Board this January or February. Pending County Board approval, it is anticipated that the Borrower will return to the Board to restructure this loan during the redevelopment of the Property.

The Borrower will obtain a \$6.2 million loan from Community Housing Capital in order to pay off the existing first mortgage and establish a capital repair and debt service reserve. The loan is intended to be a bridge loan, in place until the property is redeveloped. The Intercreditor and Subordination Agreement is necessary for the Borrower to refinance its first mortgage which cannot be extended. The Freddie Mac first mortgage was due on August 1, 2020, and due to timing constraints, the Borrower used available Calvert Foundation acquisition funding to pay off the Freddie Mac loan. The Calvert Foundation funds must be repaid by September 30, 2020 to comply with signed Community Housing Capital commitment. The funds from Community Housing Capital will pay off the Calvert Foundation short-term loan and requires a new Intercreditor and Subordination Agreement with the County. Sources and Uses are as follows.

SOURCES	
Community Housing Capital (CHC)	\$6,200,000
Existing Replacement Reserve	\$74,040
Total Sources	\$6,274,040
USES	
Payoff Calvert Foundation first trust	\$5,519,335
Transaction Costs	\$232,357
Capital Repairs Reserve	\$169,308
Initial Replacement Reserve CHC	\$74,040
Mortgage Interest Reserve/Debt Service Reserve	\$279,000
Total Uses	\$6,274,040

PUBLIC ENGAGEMENT: On September 3, 2020, the Housing Commission will consider the proposed Intercreditor and Subordination Agreement. A separate letter will be sent to the County Board with the Commission's vote.

FISCAL IMPACT: No new County funds are required for the proposed Intercreditor and Subordination Agreement with Community Housing Capital and existing loan terms on the 2015 County Loan remain unchanged.

DRAFT

ATTACHMENT I
Fort Henry Gardens Apartments

