

Staff Report: Update on Chapel Hill Public Housing Master Plan: TRINITY COURT

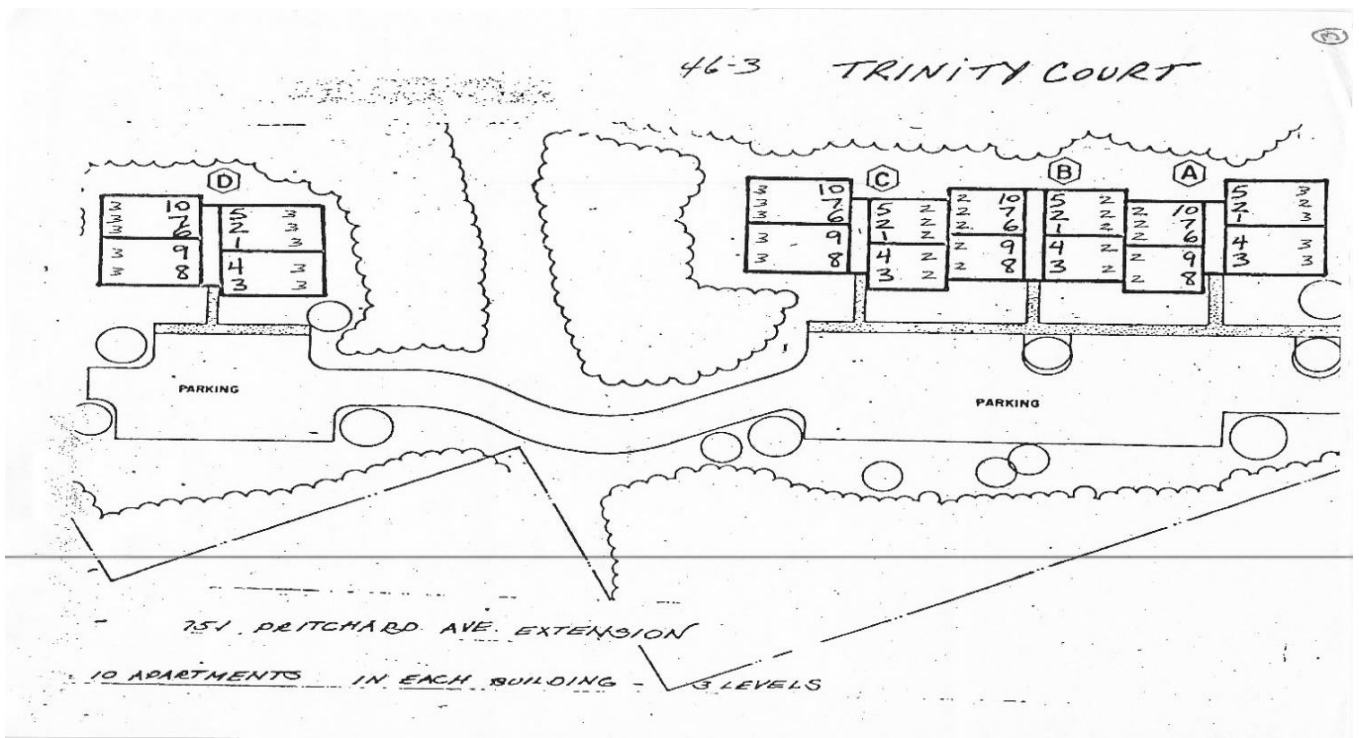
Introduction

The Town of Chapel Hill currently owns and operates 336 public housing units in 13 separate public housing neighborhoods. The number of units in each of the Town's public housing neighborhoods range from 9 to 44 units. Many of the sites are duplexes, which were built between 1967 and 1994.

In June 2018, a team of contracted inspectors from the Department of Housing and Urban Development (HUD) discovered several structural deficiencies and deterioration of the Trinity Court units. These families were relocated from Trinity Court to other public housing neighborhoods. The cost to repair the issues amounted to \$1.4M. At that point the Town began exploring other options for redevelopment of the site.

In December 2018, the Town applied for HUD's Rental Assistance Demonstration (RAD) program. This program gives public housing authorities a tool to preserve and improve public housing properties by converting them to Housing Choice Voucher (Section 8) housing. Under RAD, the Town could partner with a private or non-profit entity to own and manage the property and identify and secure funding to repair or redevelop the property.

During the April 2019 presentation to Council, the Council requested information on all development options as it pertains to Trinity Court. The purpose of this report is to provide an update on the Public Housing Master Plan and outline various options for Trinity Court.



Summary of Options for Trinity Court

Sell – What is the market value of the property?

According to an assessment completed by State-Certified Real Estate Appraiser David A. Smith on March 24, 2020, **the property located at 751 Trinity Court in Chapel Hill is valued at \$178,000**. This value is simply for the land and does not include any property or materials. The purpose of the appraisal was to develop an opinion of the market value, as defined, of the fee simple estate of the property if placed for sale on the open market. As stated previously, the cost to repair Trinity Court as it now stands would be \$6,316,214. The increase in cost is attributed to the continuing decline and deterioration of the property as well as the cost to mitigate all hazardous materials. If the units were habitable, the value of the property (land plus structures) would be \$4,100,000

- **Pros:** Selling the property may present an opportunity to obtain a developer interested in building affordable housing.
- **Cons:** Selling the site would remove the property from the Town's portfolio at a price much lower than anticipated due to the extensive renovations needed to make the property marketable.

Deconstruction – What would be the cost to tear down the existing units?

In their report, Summit Design and Engineering provided an estimate of the cost **to deconstruct Trinity Court to be \$1,019,000 with an additional \$800,000 for incidental cost** (engineers, architects, safety, permits, etc.). It is crucial to remove all asbestos prior to a demolition of any size. The inability to determine how much asbestos needs to be removed affects the actual estimate for demolition.

- **Pros:** Removal of the property from Housing's portfolio may allow development of new affordable housing structures that better meet the need of the community
- **Cons:** Removal from Housing's portfolio will mean a permanent decrease in HUD funding (40 units). An estimated subsidy of \$78,896 annually.

Would deconstruction remove the Trinity units from our HUD portfolio?

The contract between the Town and HUD requires us to promptly restore any damaged public housing property unless we obtain written approval from HUD. If the Town does not plan to restore the damaged public housing property, we would have to submit an application to HUD to complete the removal process and take it out of our portfolio.

Renovate – What would it cost to make Trinity habitable?

According to the Summit Design and Engineering report in April 2020, **the total estimated cost to correct deficiencies on the property, and inside the units is nearly \$7.5M** (which includes designer fees, hazardous material abatement and contractor overhead and profit) and far exceeds the property value based on the 2020 appraisal.

- **Pros** – This option would place Trinity Court back on our Portfolio and authorize continuing contributions from the Operating subsidy from HUD.
- **Cons** – This is the cost to rebuild Trinity exactly the way it was and not increase density, improve appearance, or re-design structures.

Rebuild - What are some of the redevelopment possibilities for Trinity Court?

The Town could continue to pursue RAD options to convert Trinity to a voucher property and partner with a development team to rebuild the site. Current zoning permits 40 units. Any additional units or changes to the existing configuration would require rezoning and/or Special Use Permit applications.

Summit Design and Engineering Services estimates that it would cost **\$6.1M at today’s construction prices to rebuild Trinity Court**. To account for general conditions and cost escalation, an additional \$1M should be assumed. The more the design deviates from the current footprint (same topography, with existing 40 units) the more the cost would increase.

- **Pros:** Rebuilding would allow the Town to work with a partner to develop housing consistent with the Council’s goals and the affordable housing needs of the community. This option would also create the possibility to increase the number of units on the site.
- **Cons:** The development review process is lengthy and very involved. To increase the density on the site, the Town could apply for a rezoning to Residential Special Standards-Conditional (RSS-C), a zoning district designed to facilitate the development of affordable housing. We could increase the density from 40-50 units by applying for the necessary rezoning.

Summary of Options	Estimated Income/Cost
Sell	+\$178,000
Deconstruct	\$1,819,000
Renovate	\$7,500,000

Rebuild	\$9,319,000 (deconstruct + redesign)
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Financing Options

If the Town pursues renovation or rebuilding, it will need to utilize a variety of funding sources to finance the work.

- **Financing:** Use HUD and local resources to cover rehabilitation costs and establish replacement reserves. The Town could also borrow funds to pay for the project and the Housing Fund (tenant rental income) could support the debt service.
- **FHA Financing:** A mortgage issued by an FHA-approved lender and insured by the FHA, with or without tax credits
- **Low Income Housing Tax Credits (LIHTC):** A financial incentive program used to attract private developers and investors to construct and rehabilitate low-income affordable rental housing. LIHTC offers investors a reduction in their federal tax liability in exchange for providing financing to develop affordable rental housing.
 - **4% LIHTC:** offers a 30% subsidy; must be combined with a tax-exempt bond that covers 50% of project funding; non-competitive for projects that score above established threshold score; works with rehab needs between \$20k and \$50k/unit.
 - **9% LIHTC:** Considered the best tool for new construction and substantial rehabilitation, offering a 70% subsidy; is highly competitive; requires an experienced development partner and the site must meet specific criteria as defined by the NC Housing Finance Agency; 100 units per phase or less.

Recommendations

Trinity Court has been vacant since 2018 and the cost to rehabilitate the structures continues to increase due to deteriorating structures and the passing of time.

Staff recommends the continued pursuit of the development resources presented in the RAD scenario which would include:

- Issuing a Request for Qualifications for development team to assist our efforts
- Completing the financial plan (outlining how we plan to develop the property) for HUD prior to September 30, 2020
- Selecting a development partner
- Explore increased density options
- Identifying funding sources
- Converting to a Section 8 voucher system