

EXPANDED AGENDA
SPECIAL SESSION – JUNE 18, 2021

YouTube Link: <https://youtu.be/MjKXD6vWvHA>

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. Approval to Explore Rebalancing of HOC's Multifamily Portfolio via Disposition of Select Assets	21-62 (pg. 6)
12:30 p.m. Page 13	<u>CLOSING STATEMENT</u>	
12:35 p.m.	<u>ADJOURN</u>	
12:45 p.m.	<u>CLOSED SESSION</u> <i>A closed session will be called to order pursuant to Section 3-305(b)(3) and 3-305(b)(13) of the General Provisions Article of the Annotated Code of Maryland</i>	

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

APPROVAL TO EXPLORE OPPORTUNITY TO REBALANCE HOC'S MULTIFAMILY PORTFOLIO VIA DISPOSITION OF SELECT ASSETS

JUNE 18, 2021

- HOC has received a non-binding proposal from ORLO for partnering with HOC for the purchase and preservation of several assets currently owned by HOC.
- As the Commission pursues new acquisition and development strategies across the County, staff views this as an opportunity to evaluate certain multifamily assets in the HOC portfolio and explore opportunities where HOC may divest itself of individual assets, but preserve the affordability in doing so.
- Staff herein requests approval to explore with ORLO, its interest in the purchase of Fairfax Court, Holiday Park, Montgomery Arms, and Willows of Gaithersburg. Staff does not recommend any action for Manchester Manor and Camp Hill Square, which were also included in ORLO's proposal.

MEMORANDUM

TO: Housing Opportunities Commission
VIA: Stacy L. Spann, Executive Director
FROM: Division: Real Estate
Staff: Kayrine Brown, Deputy Executive Director Ext. 9589
RE: Approval to Explore Opportunity to Rebalance HOC’s Multifamily Portfolio via Disposition of Select Assets
DATE: June 18, 2021

STATUS: Consent: Deliberation Status Report Future Action

The following properties are owned by the Housing Opportunities of Montgomery County (“HOC”) or and instrumentality thereof, and currently serve households of varying degrees of affordability.

Community	Address	City	Total Units	Total Affordable	% Affordable
Camp Hill Square	17825 Washing Grove Ln	Gaithersburg/Emory Grove	51	12	23%
Fairfax Court	One Fairfax Ct	Chevy Chase	18	4	22%
Holiday Park	4115 Garrett Park Rd	Silver Spring/Garrett Park	20	20	100%
Manchester Manor	8401 Manchester Rd	Silver Spring/Long Branch	53	50	94%
Montgomery Arms	8267 Fenton St	Silver Spring CBD	132	72	54%
The Willows of Gaithersburg	429 W. Diamond Ave	Gaithersburg	195	195	100%
Total			469	353	75%

HOC has received a proposal from ORLO for partnering with HOC to explore the purchase and preservation of several predominately affordable multifamily assets currently owned by HOC.

ORLO describes itself as a multi-million dollar real estate investment and management firm based in Laurel, MD. It further notes that its current portfolio of real estate assets includes affordable multifamily residential units, market rate multifamily residential units, student housing, senior housing, medical office, and retail. The vertically integrated company conducts business through its affiliated management, contracting, and security companies.

The firm reportedly has worked with Montgomery County Department of Housing and Community Affairs (“DHCA”) to preserve over 350 housing units, most of which are at or below 60% of the area median income (“AMI”) at Hampshire Towers in Takoma Park, Woodvale Apartments in Silver Spring, and Seneca Village in Gaithersburg.

While Camp Hill Square and Manchester Manor are not believed to be ideal candidates for disposition, because of the age, size and location of the other assets, staff requests approval, via a non-binding agreement, to explore partnering with ORLO on a preservation through disposition approach.

The principal/founder of ORLO, as well as his senior management team, are all residents of Montgomery County. He expressed his commitment to preserving affordable housing in the County.

ISSUES:

Does the Commission wish to authorize staff to explore the disposition of select assets to ORLO while working to preserve the affordability within the units?

BUDGET IMPACT:

There is no budget impact.

TIME FRAME:

For formal action at the Special Session open meeting of the Commission on June 18, 2021.

RECOMMENDATION:

Staff recommends that the Commission approve the exploration of the disposition of select assets to ORLO while working to preserve the affordability within the communities, and report its findings to the Commission at a future date, but that such exploration has no binding effect on the Commission.

RESOLUTION: 21-62

RE: Approval to Explore Opportunity to Rebalance HOC's Multifamily Portfolio via Disposition of Select Assets

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 has received a proposal from ORLO to work with HOC for the purchase and preservation of assets currently owned by HOC;

WHEREAS, the Commission continues to pursue new acquisition and development strategies across the County, and must from time-to-time evaluate certain multifamily assets in the HOC portfolio and explore areas where HOC may rebalance its portfolio while preserving the existing affordability; and

WHEREAS, the Commission may employ a variety of strategies one of which has been presented by ORLO in the form of working with the Commission for the purchase and preservation of assets currently owned by HOC, which staff wishes to explore.

NOW, THEREFORE, BE IT RESOLVED that the Housing Opportunities Commission of Montgomery County hereby authorizes staff to explore working with ORLO for the purchase and preservation of Fairfax Court, Holiday Park, Montgomery Arms, and Willows of Gaithersburg and to report their findings to the Commission at a future date, provided that such exploration shall impose no binding requirements on 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 June 18, 2021.

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Patrice M. Birdsong
Special Assistant to the Commission

APPROVAL TO EXPLORE OPPORTUNITY CONCERNING A CHANGE IN OWNERSHIP OF WESTWOOD TOWER

June 18, 2021

- HOC received three (3) offers for the purchase of Westwood Tower Apartments and associated parcels.
- HOC Staff performed preliminary vetting of the offerors (“Offerors”) and the offers.
- Staff recommends that the Commission authorize the Executive Director to evaluate the offers, negotiate terms, and enter into a Letter of Intent to explore a change in ownership of Westwood Tower Apartments, while preserving or increasing the affordability at the property.

MEMORANDUM

TO: Housing Opportunities Commission

VIA: Stacy L. Spann, Executive Director

FROM: Staff: Kayrine V. Brown, Deputy Executive Director Ext. 9589
Zachary Marks, Chief Real Estate Officer Ext. 9613

RE: Discussion of Potential Option Concerning Possession of Property

DATE: June 18, 2021

STATUS: Special Session Deliberation X

OVERALL GOAL & OBJECTIVE:

To discuss potential option concerning possession of Westwood Tower Apartments.

BACKGROUND:

Westwood Tower Apartments (“Westwood Tower” or the “Property”) is a 15-story, 212-unit high-rise apartment building located at 5401 Westbard Avenue in Bethesda, MD. At present, Westwood Tower features 58 affordable units (27%), supporting families who earn 30%, 35%, 50% and 80% of the Washington, Arlington-Alexandria, VA-MD-WV Statistical Area Median Income (“AMI”) and below, and 154 market-rate units.

HOC entered into a 99-year master lease (“Lease Agreement”) on Westwood Tower on March 14, 1997. Under the Lease Agreement, HOC had an option to purchase the Property during the 20th lease year. The initial lease was by and between Laszlo N. Tauber, M.D. & Associates and the Housing Opportunities Commission of Montgomery County (“HOC”). In 2013, Equity One acquired the Property and all rights and interests in the Lease Agreement. In 2017, Regency Centers acquired all of Equity One’s holdings, including Westwood Towers and all rights and interests in the Lease Agreement.

HOC completed the acquisition of the Property in accordance with the terms of the Lease Agreement on December 14, 2017 (the 20th lease year). On March 26, 2018, HOC refinanced the Property using a conventional bank loan with a three-year term (“Acquisition Loan”). On March 26, 2021, HOC extended the Acquisition Loan maturity date by 90 days, from March 26, 2021 to June 26, 2021. Recently, the bank has declined to extend the Acquisition Loan beyond the summer of 2021; consequently, staff is concerned for the financing.

On June 8, 2020, in preparation for the Acquisition Loan maturity, the Commission approved feasibility funding to conduct due diligence and feasibility study regarding the long-term financing (“Permanent Financing”) of Westwood Tower. Feasibility funding was used to hire third-party due diligence and feasibility reports and consultants, and determine immediate, short-term and long-term capital needs to establish adequate reserves to maintain and improve the physical health of the existing multifamily structure.

After receiving offers of interest for the purchase of the property and conducting preliminary vetting of

the soliciting parties and their respective offers, staff felt compelled to present these offers to the Commission for consideration. The attached report provides three offers to acquire the property but preserve the affordability levels.

ISSUES FOR CONSIDERATION:

Does the Commission wish to authorize the Executive Director explore a change in ownership of Westwood Tower Apartments while preserving or increasing the affordability?

PRINCIPALS:

Housing Opportunities Commission of Montgomery County (Maryland)

BUDGET IMPACT:

The execution of a Letter of Intent exploring a change in ownership of Westwood Tower Apartments will have no impact on the approved FY22 operating budget.

TIME FRAME:

For discussion at the June 18, 2021 Special Meeting of the Commission.

STAFF RECOMMENDATION:

Staff recommends that the Commission authorize the Executive Director to vet the offers; negotiate terms; and enter into a Letter of Intent to explore a change in ownership of Westwood Tower Apartments, while preserving or increasing the affordability at 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 matures on June 26, 2021 and the bank has declined to extend the financing beyond the summer of 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, the Commission continues to pursue new acquisition and development strategies across the County, and must from time-to-time evaluate certain multifamily assets in the HOC portfolio and explore areas where HOC may rebalance its portfolio while preserving the existing affordability; and

WHEREAS, the Commission may employ a variety of strategies one of which has been presented by the Offerors in the form of working with the Commission for the purchase and preservation of the Property, which staff wishes to explore.

NOW, THEREFORE, BE IT RESOLVED that the Housing Opportunities Commission of Montgomery County hereby authorizes staff to evaluate the offers presented by the Offerors, negotiate terms, and enter into a Letter of Intent to explore a change in ownership of Westwood Tower Apartments.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Housing Opportunities Commission of Montgomery County at an open meeting conducted on June 18, 2021.

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Patrice M. Birdsong
Special Assistant to the Commission

Westwood Tower: Preliminary Purchase Offer Analysis

BETHESDA



STACY L. SPANN, EXECUTIVE DIRECTOR

KAYRINE V. BROWN
ZACHARY MARKS

June 18, 2021

BACKGROUND

- HOC received three (3) offers for the purchase of Westwood Tower Apartments and associated parcels.
- HOC Staff performed preliminary vetting of the offerors and the offers.
- HOC staff conducted a basic comparative analysis using three valuation methods: gross potential rent multiple (“GPR Multiple”); effective gross rent multiple (“EGR Multiple”) and cap rate.
- The following report provides information on the offers received.

VALUATION METHODS

In preparation for the permanent financing of Westwood Tower, staff commissioned an as-is appraisal of the property. The Metzbower, Watts, & Hulting (“MW&H”) report of August 21, 2020, placed the value of Westwood Tower at \$47,500,000. In assessing the property, MW&H assumed full property taxes and existing affordability as shown in the table to the right.

The valuation supports the projected loan amount of \$40,782,900; as the 90% LTV limit is \$42,750,000. Proceeds from the projected loan

available for investment in other affordable housing developments are approximately \$5,750,000. The cap rate implied by the appraised value is 4.17% based on an underwriting NOI of \$1,979,966. With a taxes fully abated, the implied cap rate is 5.12%.

When compared to HOC’s two (2) most recent acquisitions – Cider Mill (Montgomery Village) and Bradley Boulevard (Bethesda CBD) – the appraised value yields a cap rate just above that of Bradley Boulevard of 4.96%. As Bradley Boulevard carries less affordability than does Westwood Tower, its slightly lower cap rate is mostly accounted for. Cider Mill’s discount was mostly driven by the lower market rate rents in Gaithersburg relative to the Bethesda submarket.

As cap rate analysis uses net operating income, variations in revenue and operating expenses influence the metric. Looking solely at a top-line comparison, the appraised value yields a multiple of the gross potential rent (i.e., the maximum potential rent collections at the property) of approximately 10 times. The multiple of effective gross rent (which includes vacancy and bad debt) using the appraised value is near 11 times. These multiples are very close to those of Cider Mill and at some discount to those of Bradley Boulevard.

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%

Recent HOC Acquisitions

Valuation Comparables	Bradley Boulevard	Appraised Value (WT)	Cider Mill **
Affordability	20% @ 50%	27% @ 50%*	40% @ 60%
GPR Multiple	12.20x	9.99x	10.16x
EGR Multiple	13.00x	11.01x	11.05x
Cap Rate	4.96%	5.12%	5.46%
*Average of all aff. units.			
**Partial PILOT			

Some of this discount is attributable to the higher level of affordability at Westwood Tower. However, these revenue-only metrics also imply far more efficient operations at Bradley Boulevard than at Westwood Tower at the time of its acquisition and near identical operating efficiency at Westwood Tower and Cider Mill, with the partial PILOT at Cider Mill accounting for the minor cap rate difference.

VALUATION METHODS

These offers from the private sector establish real-time market valuation, including a willingness to implement an affordability increase pushing the amount and average affordability level from 27% at 50% AMI to 30% at 48% AMI. The greater affordability can be achieved by changing all existing 80% AMI units to 60% AMI units and flipping six (6) market rate units to 60% AMI. None of the bidders have assumed tax abatement as part of underwriting. In the event some abatement is received, all organizations have committed to further negotiation of a split of that augmented value.

Despite the increased affordability requirement, three reputable organizations submitted initial offers, with all bids coming in higher than the appraised value. All organizations offered unconditional closing after the expiration of the study period. **Firm #2** gave and the fastest settlement path at 60 days from execution of the purchase and sale agreement.

Proposed Disposition Affordability Mix

Unit Mix	30%	35%	50%	60%	80%	Market	TOTAL	%
	AMI	AMI	AMI	AMI	AMI	Rate	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%

Bid Comparison

Key Details	Offer Price	Outside Closing Date*
Firm #1	\$50,600,000	105
Firm #2	\$49,000,000	60
Firm #3	\$50,000,000	81

*Inclusive of study period, closing period and extension period

VALUATION METHODS

The high bid offered by **Firm #1** implies a cap rate of 4.81% putting it lower than the cap rate for HOC's acquisition of Bradley Boulevard. All organizations have committed to the new affordability regime going forward. All organizations are planning capital reinvestment at closing.

Were the Commission to accept the high bid, HOC would receive \$30MM in excess proceeds to reinvest in other affordable housing preservation and new construction opportunities. With the affordable commitments of the bidders, affordability would be preserved and expanded at Westwood Tower. Based on HOC's investment in its Bradley Boulevard acquisition, HOC could preserve more than 2,400 naturally occurring affordable housing units (including reserving at least 480 of those units for 50% AMI households) with these sales proceeds. Use of these proceeds for new construction would create more than 1,000 new units, of which at least 300 would be affordable.

Valuation Comparisons		
Comparables	Affordability	GPR Multiple
High Bid (WT)*	30% @ 48%**	10.64x
Appraisal Value (WT)	27% @ 50%**	9.99x
Bradley Boulevard	20% @ 50%	12.20x
Cider Mill***	40% @ 60%	10.16x
Comparables	Affordability	EGR Multiple
High Bid (WT)*	30% @ 48%**	11.73x
Appraisal Value (WT)	27% @ 50%**	11.01x
Bradley Boulevard	20% @ 50%	13.00x
Cider Mill***	40% @ 60%	11.05x
Comparables	Affordability	Cap Rate
High Bid (WT)*	30% @ 48%**	4.81%
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		

Closing Statement

Written Statement for Closing a Meeting (“Closing Statement”)

Date: June 18, 2021

A. Pursuant to Section 3-305(b) and (d) of the General Provisions Article of the Annotated Code of Maryland, I move to adjourn this open session to a closed session only:

- 3. “To consider the acquisition of real property for a public purpose and matters directly related thereto;” and
- 13. “To comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter.”

B. For each provision checked above, the topic to be discussed and the reason for discussing that topic in closed session is provided below.

Statutory Citation	Topic	Reason for closed-session discussion
§3-305(b)(3)	The acquisition of real property located in Clarksburg, Maryland via a ground lease.	The meeting must be closed to the public in order to protect HOC’s ability to effectively negotiate terms. Public discussion of this item could result in less favorable acquisition terms or in HOC not being able to move forward with the acquisition.
§3-305(b)(13)	The confidential commercial and financial terms of the above referenced acquisition in Clarksburg, Maryland.	Section 4-335 of the Maryland Public Information Act prevents disclosure of confidential commercial or financial information obtained from a third-party. The meeting must be closed to the public in order to protect confidential commercial and financial information provided to HOC from private development partners. The information to be discussed is customarily and actually treated as private by the development partners and has been provided to HOC under an assurance of privacy.

C. This statement is made by Roy Priest, Chair.

D. Recorded vote to close the meeting:

- Date: June 18, 2021 Time: _____ Location: Zoom
- Motion to close meeting made by: _____
- Motion seconded by: _____
- Commissioners in favor: _____
- Commissioners opposed: _____
- Commissioners abstaining: _____
- Commissioners absent: _____

Officer’s Signature: _____

Closed Session