Date: December 14, 2018

ATTACHMENT C

To: Rebecca Buzzard and the Carrboro Affordable Housing Commission
From: Robert Dowling, Executive Director

Re: **Funding request of $50,000 for the Landings**

Background: Community Home Trust (CHT) acquired the Landings at Winmore, an affordable housing development, on December 29, 2017. The Landings was developed by Crosland as a Low-Income Housing Tax Credit (LIHTC) development in early 2011. It consists of 58 apartments in four buildings within the Winmore development in Carrboro. Fifteen of the apartments are affordable to households at or below 30% of AMI; 21 of the units are affordable to households at or below 50% of AMI and 22 units are affordable to households at or below 60% AMI.

The Landings continued to be owned by Crosland and managed by a property management company based in Florida, until we took ownership. CHT had a Right of First Refusal to purchase the Landings, which was offered to us in late 2016. After about a year of due diligence and organizational discussion, CHT agreed to acquire the Landings. We learned a great deal during our due diligence, including the fact that the property manager was incompetent. We also learned that the property was not well maintained and that it had lost money in 2015 and 2016. It would subsequently lose money in both 2017, prior to our ownership and 2018, during our ownership. I should mention that we hired a new property manager, Partnership Property Management (PPM), which manages more than 100 affordable housing complexes throughout the state.

Need for Funding: Four years of operating losses have led us to this request for funding from the Town of Carrboro. All LIHTC developments are required to maintain operating reserves, which cannot be used unless approved by the NC Housing Finance Agency (NCHFA). Operating reserves at the Landings were initially set at $188,000, which is about $3,240 per unit. When we took ownership, the operating reserves were down to about $82,000. As of November 30th, the operating reserve was $49,910. Our property manager expects the operating reserve to decline further - to about $25,000 by June 30, 2019, which is just $431 per unit. That is clearly inadequate in our opinion.

Why is the Landings losing money? There are three principal reasons why the Landings has been losing money:

1. **Deferred maintenance** – as stated previously, the property was not well maintained by the prior owner or property manager. Basic maintenance, both inside individual apartments and exterior maintenance, was neglected for several years. As a result, the property, though only seven years old, was falling into disrepair, when we took ownership. PPM has instituted more regular apartment inspections to identify and manage maintenance problems before they become too dire. However, catching up on years of deferred maintenance is expensive.

2. **Vacancies** – When we acquired the Landings, there were 6 vacancies. Considering the severe shortage of affordable rental housing in Chapel Hill and Carrboro, its hard to understand why six apartments would be vacant. But those vacancies resulted in lost revenue of $4,000 to $5,000 per month. Vacancies peaked out at 8 in the late spring when PPM began evicting tenants for non-payment of rent or other lease violations. As of today, there are three vacancies. Although vacancies have declined, we know it should be lower still. We hope to stabilize the property by the end of the fiscal year; vacancies should be down to just one (perhaps sometimes two). That will result in increased revenue that can be used to maintain the property and build up replacement reserves.

3. **Extraordinary damages to apartments** – Related to deferred maintenance, the costs associated with tenants who cause extraordinary damages are absolutely prohibitive. I have inspected two apartments that were vacated by former tenants. Both apartments were unfit for human habitation and required thousands of dollars to bring them back up to a reasonable standard. Both apartments also remained vacant for several months while repairs were being made. Hence, on these two units, the property was not earning revenue, while we were spending thousands of dollars.

As I have said, we expect all these challenges to be greatly improved (though not eliminated) by June 30, 2019. If that is the case, the causes of the property's losses will be greatly reduced. However, the financial condition of the property will be severely weakened by June 30th, leaving little room for error.

We believe that a $50,000 injection of capital, which will increase operating reserves to about $75,000, is essential to the future well-being of the Landings and its residents. It will provide a level of reserves that should be adequate if the property is stabilized, which means generating sufficient income to maintain the buildings and re-build the reserves.

There is one other challenge that warrants mentioning. CHT will also be asking for $50,000 of funding from Orange County to allow the property to catch-up on its financial obligations and to bolster replacement reserves. Replacement reserves are the funds necessary to replace appliances, HVAC systems, roofs, hot water heaters, etc. These reserves totaled just $78,000 on November 30, 2018, which is inadequate.

If the County is willing to provide $50,000 of funding, the property will be able to get caught up on about $26,000 of accounts payable and replenish replacement reserves to a healthier level.

I am very grateful that the Town of Carrboro has been willing to invest in affordable housing. I hope the Commission will agree that a $50,000 investment in the Landings is warranted and well worth the cost of about $862 per unit.