



City of Raleigh
North Carolina

Memorandum

To: Ruffin Hall, City Manager

From: Larry M. Jarvis, AICP *LJ*
Director, Housing and Neighborhoods Department

Subject: Funding Recommendation: Passage Home - Brown Birch
City Council Agenda June 7, 2016

Date: May 23, 2016

WHAT IS REQUESTED:

Authorize staff to extend a commitment of funds up to \$225,000 to Passage Home for the acquisition of a 4-unit building in the apartment community known as Brown Birch and authorize the City Manager to execute the associated loan documents.

BACKGROUND:

Program: Affordable Rental Preservation/Creation is one of the new programmatic offerings outlined in the 2016-2020 Affordable Housing Improvement Plan that was adopted by Council at its meeting on October 20, 2015. This Program is subject to an “open” application schedule because of the need to respond quickly to opportunities or because of project complexity. The purpose of the program is twofold: When affordability can be maintained through preservation of existing units, funds are made available to non-profit or for-profit developers for the acquisition and rehabilitation/preservation of existing rental units for mixed-income occupancy. When affordability can be maintained only through redevelopment because the existing units have become functionally obsolete, funds are made available for the acquisition of existing units for the purpose of future redevelopment. Passage Home’s request fits the latter purpose of this program. Since the units are existing, the property is exempt from the City’s Affordable Housing Location Policy.

Project: Passage Home requests up to \$225,000 from the City of Raleigh for the acquisition of a four-unit residential property in Brown Birch. The acquisition will allow Passage Home to increase its majority ownership interest in the community from 61% to 72%, thus advancing one step closer to the shared vision of singular ownership and eventual redevelopment of the entire site in partnership with the City.

The site is bordered by Garner Road, Bragg and McMakin Streets and located in the Garner Road Redevelopment Area and the South Central CAC district. Brown Birch was completed in 1985 and consisted of 21 residential buildings (92 units) that provided both ownership and investment opportunities. Over the years, Brown Birch has experienced a number of challenges including code violations, lack of maintenance of common areas, dysfunctional HOA, crime and multiple owners with no shared vision. Additional background information is provided in the attached letter from Passage Home.

Passage Home has methodically increased its ownership share in Brown Birch from four properties purchased in 2000 to its current holdings of 14 properties. This purchase would enable Passage Home to increase its holdings to 15 properties on which 12 buildings remain (three were demolished) and decrease the number of remaining owners to four, including Passage Home. Passage Home will inherit and honor the lease agreements in place. Through attrition of current leases, the building will become vacant and will ultimately be demolished.

PRIOR COUNCIL ACTION:

1. 2000 – Council authorized staff to provide two loans totaling \$585,000 to Passage Home to rehabilitate four apartment buildings (16 units) that were acquired with private funds.
2. August 6, 2002 – Garner Road Area Redevelopment Plan adopted by Council – the Plan recommends that Brown Birch be assembled under single ownership and redeveloped.
3. January 18, 2011 – Council authorized staff to grant \$200,000 to Passage Home to acquire an additional three buildings (12 units). Funds were leveraged with private and other public funds.

RECOMMENDATION:

Staff recommends extending a commitment of funds up to \$225,000 to Passage Home and that Council authorizes the City Manager to execute the corresponding loan documents.



Mr. Larry Jarvis
City of Raleigh Housing and Neighborhoods Department
PO Box 590
Raleigh NC 27602

April 14, 2016

Dear Mr. Jarvis,

Passage Home appreciates this opportunity to request another strategic investment by the City in the Brown Birch complex, a 7 acre site located along Garner Road and the Greenway within a mile of the city's skyline. Originally zoned R-20, there were 91 rental units, 21 buildings/lots and 20 owners on this site.

The purpose for this request is to enable Passage Home to purchase another building and support the strategy that we increase our majority ownership as buildings become available for sale. With 61% ownership, this request for funding will enable Passage Home to acquire another building, and give us 72% control. In addition to increasing our ownership control, this acquisition will decrease the number of owners from five to four (including Passage Home). The purpose for increasing control and reducing the number of owners is to enable this site to become fully redeveloped. Its proximity to downtown, its location along the Garner Road gateway corridor and the City's Greenway gives rise to a vision for redevelopment that will create high impact and a catalyst for positive change along this corridor south of downtown.

At this time, Passage Home has negotiated a contract for sale with an owner with an expectation of being able to close by the end of June, 2016. As we have negotiated this contract we will continue to approach other owners to purchase their buildings. This effort has been a slow and intentional strategy. As stated, initially, this complex had 20 separate and different owners. Originally, the Home Owners' Association was structured with no "common" areas, and all property lines were drawn to meet at each property owner's adjacent property. The street inside the complex is identified as a private drive and actually is drawn as an easement over private property, with no common area agreements. Historically it was difficult to make any changes to the HOA structure because the by-laws required 75-90% agreement (depending on the proposed change); given the number of owners holding differing and sometimes opposing interests, agreements on direction and vision were not possible.

The original construction was an early "modular" model with a design that replicated a mansard roof style dwelling, which in this case had the roof extending nearly to the ground. The aesthetics of the buildings suggest a barn like look that from the beginning did not have high positive curbside appeal. The buildings all had plumbing problems because of the

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polybutylene piping that was used at that time. When the owners experienced major leakages, they were not prepared to manage the repairs, financially and otherwise. From the onset, the buildings suffered from poor construction details, challenged by an onerous and dysfunctional home ownership structure and multiple building ownerships where common agreement on management has been difficult to achieve. Over time the complex suffered a downturn that has not been able to be reversed through traditional rehabilitation.

Early on, with Passage Home having an ownership interest in the project, we began working closely with the City and the Garner Road Redevelopment Task Force to consider the ways and means for positive change in this corridor. The Garner Road Redevelopment Plan called for redevelopment of the site and this plan was supported by, and with, strong community representation. It was reviewed by the City Council, and had early support of the Southeast Raleigh Assembly who created the Task Force that convened meetings and recommendations that resulted in the Garner Road Redevelopment Plan. This request to purchase another building, moves us toward more singular ownership and supports another incremental step toward achieving a community vision for this corridor. The proposed funding request supports another step toward this plan and is one that Passage Home has been working toward achieving

Initially Passage Home purchased buildings in this complex, and rehabilitated them with city funding and support, believing we would be able to work within the existing home owners' association to improve the overall housing quality and maintain affordable housing. At one point, after much review, legal deliberation and discussion with owners and the City, we arrived at an alternate home owner's association structure that would allow "common areas" and a more traditional operating structure. At the time, Passage Home was the only owner (with insufficient votes, as each lot allowed for one vote) to vote in favor of the changes. Unfortunately we found that not all owners had the same care and concern as Passage Home has had, and many other owners have not supported the homeowners' association or attempts we have made, along with the City, to make changes to the association to support better management. We continue today to work toward a singular ownership plan that would enable us to redevelop the site. The complex, as it is today, with its downward trend, is untenable and creates a blight on the area.

That said, we have been diligent and have tried as best we could to maintain our buildings for affordable housing until such a time that redevelopment could occur in partnership with the City. Passage Home and the City have discussed this strategy toward singular ownership and redevelopment over many years and we have worked diligently and patiently toward this goal. This is the next step toward realizing this vision. We feel, along with many others who have expressed this perspective, that the impact of this as a redeveloped site, on the southern side of Martin Luther King Blvd, along Garner Road, near other city owned property, would be highly impactful and would encourage other private and public investment.

Redeveloping Brown Birch would be a catalyst for positive change in a neighborhood near downtown where investment has been limited. The key barrier for redevelopment at Brown Birch is the challenge of multiple simultaneous owners who have not shared a vision for maintaining this complex in a more positive manner. The strategic goal for redevelopment is to bring this site under one owner's control toward which Passage Home has been working, with continued investment by the city along with other public and private investment.

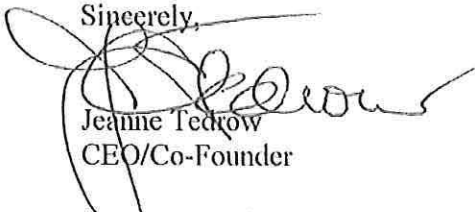


This request for a \$225,000 deferred 0% loan will enable Passage Home to make this purchase and move closer toward the shared vision of singular ownership and full redevelopment. Of this request, \$207,000 will be used to acquire the building, at a contract price of \$200,000 using up to \$7,000 toward the seller's closing cost (including HOA dues in arrears). In addition, the balance of funds would enable Passage Home to secure the site and by attrition of the current leases work toward the building becoming vacated and demolished for future redevelopment. The building is in poor condition and does not warrant a deeper investment for rehabilitation.

In summary, this proposal builds on prior investment by the City. It has, in the past, assisted Passage Home in the purchase and rehabilitation of five buildings as an interim effort to stabilize as best we could this complex; and Passage Home has secured private financing as well as NSP funds for the acquisition of others and demolition of the three buildings along the Greenway.

We are excited by the opportunity this investment offers to the community. It supports a plan that will make a way for redevelopment of a site that has, for some time, been in need of significant investment. We appreciate your consideration of our request and look forward to this opportunity to work with you. Please be in touch with me if you are in need of any additional information and advise us of next steps in this process.

Sincerely,



Jeanne Tedrow
CEO/Co-Founder

See map attached. Passage Home owns 14 of 21 and with support of this proposal will own 15/21.

Three other owners have the following:

- One owns 4 buildings/lots (4 of 21)
- One owns one (1) building (1 of 21)
- Another owns one (1) building (1 of 21)

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Brown Birch



Legend

- Proposed Acquisition
- Passage Home Properties
- Non-Passage Home Properties