



KING COUNTY HOUSING AUTHORITY

MEETING OF THE BOARD OF COMMISSIONERS

September 16, 2013

8:30 am

KCHA Administrative Offices
700 Andover Park West
Tukwila, WA

I. Call to Order

II. Roll Call

III. Public Comment

IV. Resolution for Discussion

Resolution No. 5441: Authorization to Purchase a Portfolio
of Section 8 Assisted Properties

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V. Executive Session

VI. Adjournment

Next Meeting
Special Board of Commissioners' Meeting
Monday, September 23, 2013, 8:30 am
700 Andover Park West
Tukwila, Washington



KING COUNTY HOUSING AUTHORITY

TO: Board of Commissioners

FROM: Tim Walter

DATE: September 12, 2013

RE: **Resolution No. 5441**– Authorization to purchase a portfolio of Section 8 assisted properties

As discussed at prior board meetings, KCHA has been working with the housing authorities of Grays Harbor, Yakima, Bremerton and Chelan County on the acquisition of a portfolio of a nine Section 8-assisted apartment buildings located in 5 different counties in the State of Washington. Four of the properties are located in King County (147 units), one property is in Hoquiam (24 units), one in Yakima (51 units), one in Bremerton (30 units) and two in Wenatchee (85 total units). All of the buildings are senior housing communities, with the exception of two family properties in King County.

Because the related seller entities were unwilling to split up the portfolio, KCHA is acting as lead purchaser under nine interrelated purchase and sale agreements. Prior to signing the agreements, KCHA entered into Cooperation Agreements with each of the four housing authorities in whose jurisdictions the five Non King County properties are located. The intent of the housing authorities is for KCHA to assign its interest in these five Non King County properties to the local authorities at or after the closing date.

Under the terms of each purchase and sale agreement, there is a contingency period for due diligence that will expire on September 20, 2013. If KCHA waives this contingency, it will deposit additional earnest money of \$292,000 (to be added to the initial deposit at contract signing, for a total amount of \$584,000), and then have through November 30 to close on the King County properties and until March 31, 2014 to close on the Non King County properties. Upon the closing of the King County properties, earnest money will increase to a total of \$1 million in order to assure the sellers that King County will complete the closing of the remaining properties in the portfolio.

Over the last three months, KCHA and the other housing authorities have completed extensive due diligence on the properties, including appraisals, physical needs assessments, environmental reports, ALTA surveys and tenant file reviews, as well as property-specific reviews of mechanical systems, roof and building envelope, lead and asbestos sampling, seismic reports, elevator evaluation and pest inspection. Based on the results of this due diligence work, KCHA is negotiating with the sellers regarding reductions in the purchase price of certain of the properties which will be documented over the next several days.

In addition, lender commitments for financing in amounts that, when combined with the Housing Trust Fund allocations, are sufficient to allow purchase of each non King County property are either being obtained or are under review for each property.

An Executive Session will be held to review real estate purchase prices and ongoing negotiations with the sellers.

The attached resolution authorizes the executive director or his designee to waive the due diligence contingency and proceed with the acquisition of the properties.

HOUSING AUTHORITY OF THE COUNTY OF KING

RESOLUTION NO. 5441

AUTHORIZING THE PURCHASE OF A PORTFOLIO OF NINE SECTION 8- ASSISTED PROPERTIES

WHEREAS, the Housing Authority of the County of King (the “Authority”) seeks to encourage the provision of long-term housing for low-income persons residing within King County, Washington.

WHEREAS, RCW 35.82.070(2) provides that a housing authority may “prepare, carry out, acquire, lease and operate housing projects; to provide for the construction, reconstruction, improvement, alteration or repair of any housing project or any part thereof...”; and

WHEREAS, RCW 35.82.100 provides that “any two or more authorities may join or cooperate with one another in the exercise of any or all of the powers conferred hereby for the purpose of financing, planning, undertaking, constructing or operating housing project or projects located within the area of operation of any one or more of said authorities”; and

WHEREAS, there is an increasingly serious shortage of affordable housing in King County as well as in other counties and cities across the State of Washington; and

WHEREAS, the Authority has entered into nine interrelated contracts (collectively the “Contracts”) in order to investigate the possible acquisition of a portfolio of nine separate project-based Section 8-assisted housing projects currently serving low income persons (the “Chaussee Properties”), which are described and located as follows:

King County Properties

<u>Project Name</u>	<u>Location</u>	<u>Units</u>	<u>Asking Sale Price</u>
Bellevue Manor	Bellevue	66	\$10,000,000
Patricia Harris Manor	Redmond	41	\$5,800,000
Vashon Terrace	Vashon Island	16	\$1,500,000
Northwood Square	Auburn	24	\$2,150,000

Properties not in King County

<u>Project Name</u>	<u>Location</u>	<u>Units</u>	<u>Asking Sale Price</u>
Harbor Manor	Hoquiam	24	\$850,000

Charter House	Bremerton	30	\$1,875,000
Emerson Manor	Wenatchee	35	\$1,900,000
Wenatchee House	Wenatchee	50	\$2,875,000
Naches House	Yakima	51	\$2,250,000

WHEREAS, the group of related owners holding title to the Chaussee Properties has elected to sell all nine projects to a single buyer, as a portfolio deal, to reduce their administrative efforts and costs of sale, but as a result thereof, the failure of a buyer to close the purchase of any one project will result in the failure of the purchase transaction as to all nine of the projects; and

WHEREAS, the Authority has forged written Cooperation Agreements with the Housing Authority of Grays Harbor, the Bremerton Housing Authority, the Yakima Housing Authority and the Housing Authority of Chelan County and the City of Wenatchee (each of which has one or more of the Chaussee Properties within its jurisdictional borders), pursuant to which those housing authorities have each expressed interest in purchasing and operating the Chaussee Properties located within its area of operation, and in which it has agreed, in the alternative, that if it is unable to close the purchase of such property, the Authority may do so and operate such property until such time as a suitable substitute buyer and operator can be secured; and

WHEREAS, the Authority, in cooperation with the other local housing authorities, has completed extensive due diligence on each of the Chaussee Properties and assessed the associated known risks and has obtained commitments and proposals for the financing of acquisition and critical property improvements; and

WHEREAS, the contingency period under the Contracts is due to expire on September 20, 2013; and

WHEREAS, in order to preserve the nine low-income Chaussee Properties for the Washington State inventory of low income and affordable housing, the Authority, with the support of the other local housing authorities, has determined it is necessary to acquire the Chaussee Properties, and therefore, when all investigation has been concluded to the Authority's satisfaction, the Authority is prepared to waive the due diligence contingency under the nine Contracts and to proceed to acquire the Chaussee Properties; and

WHEREAS, the Authority has the power of eminent domain to acquire property within its area of operation for purposes of providing low income and affordable housing.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY OF THE COUNTY OF KING:

Section 1: Waiver of Contingency and Approval of Acquisition of King County Properties. The Executive Director of the Authority is authorized, at such time as in his judgment, all conditions have been resolved to his satisfaction on terms reasonably favorable to the Authority, to amend the Contracts, waive the due diligence contingency, and take all other action necessary under the Contracts in order to acquire, at prices not to exceed the respective Asking Sale Prices listed above and on terms consistent with, or more favorable to the Authority than, the terms agreed in the Contracts, the four Chaussee Properties located in King County. The Executive Director of the Authority is further authorized to complete such acquisition by exercise of the Authority's power of eminent domain if the Authority is unsuccessful in acquiring such properties on satisfactory terms through negotiation and purchase in lieu of condemnation.

Section 2: Waiver of Contingency and Approval of Acquisition and/or Assignment of Non King County Properties. The Executive Director of the Authority is authorized, at such time as in his judgment, all conditions have been resolved to his satisfaction on terms reasonably favorable to the Authority, to amend the Contracts, waive the due diligence contingency, and take all other action necessary under the Contracts in order to acquire, at prices not to exceed the respective Asking Sale Prices listed above and on terms consistent with, or more favorable to the Authority than, the terms agreed in the Contracts, the five Chaussee Properties not located in King County. The Executive Director of the Authority is further authorized, at or after closing, to assign all of the Authority's interest in one or more of the five Chaussee Properties not located in King County to the local housing authorities operating in those communities; provided that if any such local housing authority is unwilling or unable to purchase a property within its jurisdiction, then the Board authorizes the Authority to acquire and operate such property in accordance with the terms of the applicable Cooperation Agreement until a suitable substitute buyer can be located who will preserve the housing in question for persons of low income.

Section 3: Government Filings; Other Agreements. The Board of Commissioners hereby authorizes the Executive Director of the Authority to execute, deliver and, if applicable, file (or cause to be executed, delivered and, if applicable, filed), on behalf of the Authority or the local housing authorities, any applications, agreements, certifications, government forms, notices,

affidavits, documents and instruments that he determines to be necessary or advisable (i) to obtain all or part of any interim or permanent financing for the Chaussee Properties, and (ii) to give effect to this resolution and consummate the transactions contemplated herein, including but not limited to management agreements, closing and title documents, and notices to the U.S. Department of Housing and Urban Development.

Section 4: Expenditures. The Authority is authorized to expend such funds as are necessary to pay for all due diligence reports, financing and application fees, and other costs relating to the actions authorized by this resolution.

Section 5: Acting Officers Authorized. Any action required by this resolution to be taken by the Executive Director of the Authority may, in his absence, be taken by a Deputy Executive Director of the Authority.

Section 6: Ratification and Confirmation. Any actions of the Authority or its officers prior to the date hereof and consistent with the terms of this resolution, including but not limited to the execution of the nine Contracts for the Chaussee Properties each dated July 8, 2013, are hereby ratified and confirmed.

Section 7: Effective Date. This resolution shall be in full force and effect from and after its adoption and approval.

ADOPTED BY THE BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY OF THE COUNTY OF KING AT A PUBLIC MEETING THIS 16TH DAY OF SEPTEMBER, 2013.

HOUSING AUTHORITY OF THE COUNTY OF
KING

DOUGLAS J. BARNES, CHAIR

ATTEST:

STEPHEN J. NORMAN, SECRETARY

Chaussee Project Summary

KCHA has entered into nine purchase and sale agreements with a combined asking price of \$29.2 million for the acquisition of nine separate multifamily apartment buildings. The purchase and sale agreements are subject to one contingency period for due diligence that is set to expire on Friday, September 20, 2013. KCHA would like to acquire and operate four of these properties, Bellevue Manor, Patricia Harris Apartments, Northwood Apartments and Vashon Terrace, which are located within King County ("King County Properties"). KCHA is acting as lead purchaser on behalf of other local housing authorities for the other five properties (Harbor Manor, Charter House, Naches House, Emerson Manor and Wenatchee House), all located outside King County ("Non King County Properties"). Although separate purchase agreements have been signed for each site, all nine properties are being sold as a single portfolio: if KCHA does not waive the due diligence contingency for any one property, none of the related transactions will close. Pursuant to prior Board authorization (Resolution 5427 dated March 18, 2013), KCHA signed Cooperation Agreements with the Housing Authority of Grays Harbor Housing (HAGH), Bremerton Housing Authority (BHA), Yakima Housing Authority (YHA) and the Chelan County and Wenatchee Housing Authority (CCWHA), each of whom expressed interest in acquiring the Non King County Properties located within its jurisdiction. The parties' intent is for the local PHA to accept an assignment from KCHA at closing of KCHA's right to purchase the property and to acquire the properties directly from the sellers. However, under the Cooperation Agreements, the other housing authorities are not obligated to acquire the properties.

Each property is described in further detail on Attachment A. Seven properties (including all the Non King County Properties) are housing communities for seniors and disabled individuals; the remaining two King County sites are family properties. As a group, the properties comprise 337 units (147 units located within King County and the remaining 190 units outside King County), all of which are Section 8-assisted.

KCHA, with the other authorities, is currently completing extensive due diligence on the properties, including title and physical condition of the buildings, and KCHA is helping the local housing authorities to coordinate financing and grant applications for acquisition and required site improvements. KCHA is seeking approval authority from the Board to acquire four or more of the properties, assuming satisfactory conclusion to due diligence, price negotiations with the seller (which result in purchase prices that are reasonably supported by the underlying property values), and the availability of sufficient financing and grants for each site.

With respect to the King County Properties, the primary source of financing for acquisition is anticipated to be a portion of a new general tax-exempt master pool facility from KeyBank. Financing for the Non King County Properties are discussed below. The amount of the necessary equity investment by KCHA, if any, in this transaction will not be known until each housing authority fully commits to closing on its portion of the acquisition in accordance with the terms of the respective Cooperation Agreement.

Purchase Status and Due Diligence

KCHA has submitted a successful offer for this portfolio and entered into purchase and sale agreements for each of the following nine properties: Bellevue Manor, Patricia Harris Apartments, Northwood Apartments and Vashon Terrace (all in King County) and Harbor Manor, Charter House, Naches House, Emerson Manor and Wenatchee House (located outside of King County). The properties are owned by separate partnerships, all of which have one common partner in Carol Chaussee who is the widow of Dean Chaussee, the original developer of the sites. The form of the agreements for the four King County Properties are identical and require that the closings occur simultaneously on or before November 30, 2013. The form of the

agreements for the five Non King County Properties are also identical and allow for closings on separate dates, provided that all the Non King County Properties must close on or before March 31, 2014.

Each purchase agreement required an earnest money deposit upon signing equal to one percent of the \$29.2 million purchase price (i.e., \$292,000), with an additional one percent to be paid upon KCHA's approval of due diligence, at which time the aggregate earnest money (\$584,000) becomes non-refundable. At the closing of the King County Properties, the earnest money for the Non King County Properties must be increased to the lesser of \$1 million or the aggregate sale prices of the Non King Properties that have not yet closed.

KCHA, together with the other housing authorities, has completed extensive due diligence on the nine properties, including review of title, surveys that will allow the buyers to obtain extended coverage title insurance, review of tenant rental history, reviews of third party contracts, environmental inspections and assessments of physical building condition. This work is being performed by local companies with whom the housing authorities are comfortable and on whom they can rely later for follow up work if needed. Property inspections at each site have included physical needs assessment (covering 75 to 100 percent of the unit interiors and, at some sites, the roof and building envelope and mechanical and building systems), environmental testing and, where applicable, elevator reports and pest inspection. The initial 60 day due diligence period under the purchase agreements was extended for 2 weeks and will now expire on September 20, 2013, at which time additional information will be available.

The properties are currently managed by Westwood Management which is owned and managed by a relative of Carol Chaussee (who is the common owner among the nine seller entities). As a condition of each sale agreement, KCHA has agreed to retain Westwood Management as property manager at the sites for a period of at least one year after the last property closes. The terms of the management agreement are under negotiation. The purchase agreements require that the existing management fee remain unchanged but the management agreements must otherwise be on commercially reasonable terms and must take into account regulatory requirements to which the buyer may be subject.

KCHA Roles

At the King County Properties, KCHA is entering into all necessary agreements for property acquisition, is obtaining financing and will be purchasing and operating the properties. KCHA will complete any required property improvements. HUD has already received notice that the current Section 8 contracts at two of the properties will terminate, and KCHA intends to opt of the remaining contracts when they expire in the fall of 2014 and 2015. After termination of the contracts, KCHA will issue and administer Section 8 vouchers at these properties under the KCHA Section 8 Project-Based HAP contract.

At the Non King County Properties, KCHA is collaborating with the four other housing authorities to insure necessary arrangements are in place for property acquisition. With regard to the three Eastern Washington properties, KCHA, at the request of the Wenatchee and Yakima housing authorities, has been taking the lead in the due diligence work and is heavily involved in the arrangement of acquisition financing. KCHA has been supporting HAGH with financing and due diligence and, in Bremerton, BHA has taken the primary lead in this work. KCHA is advancing and tracking the costs of pre-closing work performed for the other authorities (e.g., costs of appraisal, inspections, title, loan application and legal work) and, under the terms of the Cooperation Agreement, will be reimbursed as a part of each housing authority's closing costs for expenses related to each property acquired.

Property Description & Building Condition

All nine properties were built between the mid to late '70s. The design and style of each of the seven senior properties are similar, consisting of a multifamily building with one-bedroom units and common areas, located on a parcel with mature landscaping and surface parking. [See Attachment A for more detail.] The wood frame buildings are two or three-story, with painted wood or stucco siding or cedar siding. All of the senior buildings are serviced by elevators. The roofs are pitched with composite or cedar shingles. The buildings provide secured entrances, common laundry facilities and extra storage for the tenants. All of the buildings have a community room with kitchenette and an exit to a common outdoor garden, patio or terrace area for resident gatherings. Patricia Harris Apartments in Redmond has a second building on site with approximately 6000 sf of commercial space, half of which is currently occupied by Westwood Management and the remainder of which is leased, month to month, to a handful of small commercial tenants.

Of the two family properties, Vashon Manor is a smaller multi-family building with 16 two-bedroom units. It is located in the main town center in a generally rural community with a pedestrian-friendly feel. There are very limited development opportunities on Vashon Island so this sale represents a rare opportunity to cost-effectively preserve affordable housing on the island. The other family property, Northwood Square in Auburn, consists of four rectangular-shaped two-story buildings with a mix of 2 and 3-bedroom units of a flat or townhouse design. The development is located along the northern boundary of the city limits and has a basketball court and picnic area.

KCHA has retained third party inspectors to perform due diligence at the King County Properties and, working in cooperation with YHA and WHA, at the three Eastern Washington properties. BHA and HAGH have retained third party inspectors for due diligence at the properties in Bremerton and Hoquiam, respectively. Initial input from the inspections confirms that these 35-year-old buildings have generally been maintained and are structurally sound, with expected levels of deferred maintenance. Unit interiors at all the properties appear to be clean and in good condition, however all appliances and casework are generally beyond their useful lives. Given the prioritization of repairs over the last many years, cosmetic upgrades, appliance replacement and similar type improvements can be expected at all the properties.

Unit Configuration

The unit mix of each property is shown in Attachment A. Vacancy rates are generally in the expected range of 3-6%, except at Naches House where two units are off-line due to a roof leak. The ownership of Naches House will be replacing the roof prior to closing. All units are occupied by eligible Section 8 tenants under a HUD multifamily HAP contract.

Neighborhood Description

The King County Properties are all located in good to excellent neighborhoods in or near the main town center. Residents have direct access to public transportation with nearby shopping and other downtown amenities. In general, residential development in these neighborhoods (and particularly on Vashon Island and in downtown Redmond and Bellevue) is either restricted or highly sought after, making the preservation of the Chaussee properties in these locations especially important. Vashon Terrace is located adjacent to an additional multifamily property owned by the Chaussee family and known as 'Vashon Manor.' Vashon Manor is financed under a program with the USDA Rural Development, rather than HUD's Section 8 program, and is not included in the present portfolio sale. However, the Chaussee family has signaled its intent to put this property on the market in the near future and KCHA will be monitoring the opportunity to possibly acquire this additional site as well.

The Non King County Properties are also located in good to excellent neighborhoods, with the possible exception of Harbor Manor which is located in an average neighborhood. Harbor Manor is located in close vicinity to a similar senior property owned by HAGH, allowing for economies of scale in the operation of these two sites.

Financing

King County Properties:

KCHA anticipates acquiring and renovating the four King County Properties with proceeds from a new \$85 million tax exempt facility which KCHA is currently negotiating with KeyBank. This debt facility with KeyBank will be for a fixed term of 10 years with a 20 year amortization. KCHA intends to bring the resolution to authorize this financing facility to the Board on September 23.

KCHA will project base KCHA Section 8 rental assistance in all of the housing units it acquires as the existing rental subsidy contracts expire, which will allow tenants to continue paying 30% of their income for rent while permitting KCHA to receive market rate rents for the units.

Non King County Properties:

Each of the five Non King County Properties will have separate financing plans which are further described below. However, all five benefit from the \$4,500,000 appropriation from the state legislature this past summer. KCHA was one of the primary advocates for these funds and will be assisting with the preparation of documentation necessary to the Department of Commerce in collaboration with HAGH, BHA, YHA and CCWHA to secure these funds. To date, the preservation of low income housing for seniors and the statewide impact of any loss of these Chaussee properties have allowed the state legislature to prioritize funding for this project in a time of extremely tight budgets. Because these funds have been specifically appropriated and designated for these properties, KCHA does not anticipate any risk in securing these funds

Naches House (Yakima): YHA anticipates using traditional tax-exempt bond financing to acquire Naches House in addition to the \$1.065 million in HTF allocation for this property. YHA has also applied for \$400,000 in grant funding from the Federal Home Loan Bank of Seattle.

Emerson Manor and Wenatchee House (Wenatchee): CCWHA anticipates using traditional tax-exempt bond financing to acquire Emerson Manor and Wenatchee House and letters of interest have been received from two local banks. This debt would be supplemented by the \$829,000 HTF allocation for Emerson Manor and the \$1.173 million HTF allocation for Wenatchee House.

Charter House (Bremerton): BHA believes they have the ability to acquire Charter House through either a combination of their cash reserves and the \$777,000 HTF allocation, or through a tax-exempt bond financing supplemented by the HTF allocation.

Harbor Manor (Hoquiam): HAGH anticipates using traditional tax-exempt bond financing to acquire Harbor Manor, together with the \$656,000 of HTF allocation for Harbor Manor. HAGH has received a letter of interest from a local bank in connection with their private placement.