



Board of Commissioners
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Executive Director
Stephen J. Norman

TO: Board of Commissioners

FROM: Tim Walter

DATE: April 10, 2014

RE: **Resolution No. 5463:** Execution of a Purchase and Sale Agreement and Commitment of Earnest Money for Acquisition of Gilman Square Apartments

KCHA is seeking Board approval to execute a purchase agreement for the Gilman Square Apartments and to commit \$750,000 in non-refundable earnest money for the acquisition of the development.

The Gilman Square Apartments has been identified as a high priority acquisition for KCHA. At the beginning of 2013, the property's 25-year affordability covenant with the Washington State Housing Finance Commission expired which had required a portion of the units be made available for low-income households. Since the expiration of this long running covenant, the ownership of the property has significantly increased rents on turnover and thus has stopped making these units available for low-income households. The property is located in a high opportunity community with access to high quality schools, services and jobs in the local service and retail sector. The City of Issaquah has identified the need for affordable housing as a priority within its comprehensive plan. The loss of this affordable housing in Issaquah also means a corresponding loss of access by low income households to high quality schools with close proximity to local service, retail and other blue collar jobs available in the city. To address the need for and to mitigate the loss of this affordable housing, in November, 2013 the Board adopted Resolution No. 5450 which authorized the Executive Director to pursue the acquisition of the Gilman Square Apartments by negotiated sale in lieu of condemnation.

Gilman Square is a 125 unit apartment complex located in Issaquah at 360 NW Dogwood St. The property was built in 1987 and consists of 124 two bedroom apartment homes and one three bedroom house. The property was originally built in 1987 and financed with the proceeds of tax-exempt bonds issued by the Washington State Housing Finance Commission. As a condition of the financing,

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the ownership was required to restrict 20% of the units to households at or below 50% of the area median income (25 units) for a period of 25 years. This covenant expired January 1, 2013. Since January, management has been increasing rents upon turnover of these units by an average of 20%.

KCHA has been negotiating the acquisition of the property with the owner since late November 2013 and has completed its due diligence of the property which included completion of a Phase I environment assessment, completion of a survey of the property and receipt of an ALTA extended title policy commitment from Chicago Title, review and analysis of the financial operations of the property and physical inspection of the site by both KCHA construction staff and a third party consultant to assess the physical condition of the property (the physical assessment included a visual inspection of approximately 40% of the units at the property). KCHA's due diligence investigation of the property determined the property to be in average to good condition. The property has had a history of strong operating performance and there were no noted concerns associated with any environmental hazards or impediments identified by the survey.

Because of restrictions associated with the owner's existing financing, the owner cannot prepay its loan without a significant defeasance obligation. Fortunately, and after lengthy negotiations, the owner has recently decided to pay at its sole expense all costs associated with defeasing the loan which will permit the sale of the property to KCHA, since KCHA is effectively barred from assuming the existing loan. This will allow the property to be transferred to KCHA free and clear of any underlying lien or encumbrances.

In order for the owner to call the loan and commence the pre-payment of the note, the owner has required KCHA to waive any contingencies associated with its acquisition of the property and commit \$750,000 in earnest money in exchange for the owner's agreement to sell the property to KCHA. Commitment of the earnest money provides assurance to the seller of KCHA's obligation to close as the earnest money is non-refundable in the event the sale does not close for any reason other than a default on the part of the seller. Since KCHA has completed its due diligence of the property, staff believes this is a reasonable condition of the sale.

KCHA is also in the process of securing a line of credit with Bank of America to finance the acquisition. The terms of the Bank of America financing facility are expected to be brought to the Board at its regular meeting in April. If, in the unlikely event the Bank of America facility fails to come to fruition with the Bank, KCHA would either pursue adding Gilman Square to the KeyBank financing facility or use its reserves to provide bridge financing until an alternative interim financing facility is established or the permanent financing structure has been put in place. KCHA has proposed to the owner a closing date for the transfer of the property to be on or around the end of May, 2014.

Gilman Square Apartments has been identified by KCHA's Board of Commissioners as a high priority acquisition in order to preserve affordable housing in Issaquah. In addition, KCHA's due diligence has identified no material deficiencies in the condition or the operations of the property. Furthermore, the current owner has agreed to pay the full cost of defeasance of the underlying loan to facilitate the sale of the property to KCHA. For these reasons, staff recommends passage of the resolution.

THE HOUSING AUTHORITY OF THE COUNTY OF KING

RESOLUTION NO. 5463

**A RESOLUTION AUTHORIZING ENTERING INTO A
CONTRACT TO ACQUIRE THE GILMAN SQUARE
APARTMENTS THROUGH A NEGOTIATED SALE IN LIEU OF
CONDEMNATION**

WHEREAS, on November 18, 2013, the Board of Commissioners authorized the acquisition of the Gilman Square Apartments (the “Property”) by condemnation or by purchase in lieu of condemnation by its Resolution No. 5450; and

WHEREAS, Resolution No. 5450 vested the Executive Director with the authority to make a final determination after reviewing the results of inspection of the Property as to whether to proceed to acquire the Property; and

WHEREAS, the Executive Director is satisfied with the results of his investigation and his decision to proceed to acquire the Property; and

WHEREAS, the Housing Authority subsequently made an offer to purchase the Property for the sum of \$23,000,000; and

WHEREAS, the owner of the Property has expressed its willingness to sell the Property to the Housing Authority, and the parties are in the final stages of negotiating the terms and conditions of a Purchase and Sale Agreement to effect such sale.

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

SECTION 1: The Executive Director is hereby authorized to sign a Purchase and Sale Agreement providing for the acquisition of the Gilman Square Apartments Property by the King County Housing Authority for the sum of \$23,000,000, containing such

terms and conditions as are customary in such transactions and as are deemed by the Executive Director to be in the best interests of the Housing Authority.

SECTION 2: The Executive Director is hereby authorized to pay the sum of \$750,000 into the purchase escrow as an earnest money deposit for the purchase of the Property under terms that would permit the earnest money to be forfeited to the seller as liquidated damages if the sale fails to close through no fault of the seller.

SECTION 3: The Executive Director is hereby authorized to arrange interim and permanent financing for the acquisition of the Property, provided that the terms of such financing shall be subject to final prior approval of the Board of Commissioners at a later meeting to be subsequently scheduled.

ADOPTED BY THE BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY OF THE COUNTY OF KING AT THIS SPECIAL MEETING HELD THIS 10th DAY OF April, 2014.

**THE HOUSING AUTHORITY OF THE
COUNTY OF KING, WASHINGTON**

DOUGLAS J. BARNES, Chair
Board of Commissioners

Attest:

STEPHEN J. NORMAN
Secretary