



# TACOMA HOUSING AUTHORITY

## RESOLUTION 2019-08-28 (5)

**Date:** August 28, 2019

**To:** THA Board of Commissioners

**From:** Michael Mirra  
Executive Director

**Re:** Real Estate Development Financial Advisors

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*This Resolution would authorize Tacoma Housing Authority's (THA) Executive Director to negotiate and execute a Letter of Intent with Inland/Horizon for the development of THA's Hilltop parcels.*

### Background

THA owns four parcels in the Hilltop that it wishes to redevelop (1124 Martin Luther King, 1120 S 11<sup>th</sup> Street, AJC parking lot & "bullpen"). THA selected Mithun to lead the A&E team (Resolution 2018-09-26(2)) and Walsh Construction to serve as GC/CM (Resolution 2018-12-12(7)). THA led a robust community engagement process during the first half of 2019 (#DesignTheHill).

The result of the early 2019 work resulted in a concept plan that includes 237 units of affordable housing with a mix of Studio, 1-, 2- and 3-bedrooms, approximately 48,000 sq. ft of commercial/retail/office space, and a fully activated alley between S. 10<sup>th</sup> and S. 12<sup>th</sup> Streets. The community engagement process identified the following priorities for the project:

- All housing units should be affordable to households earning up to 60% of AMI, with an emphasis on providing housing for minimum wage earners;
- Housing should be affordable for the long term;
- Provide housing for people experiencing homelessness;
- Prioritize current/displaced Hilltop residents for leasing units;
- Commitment for Section 3 and WMBE hires and contracting;
- Goal of 80% of the commercial/retail space to be filled with businesses owned by African Americans and people of color;

- Provide interior and exterior gathering spaces;
- Provide community gardens space;
- Alley activation to support small businesses, create safe multimodal transportation and create spaces for small events and community gathering spots; and,
- Community to provide input on the living and community spaces and exterior facades. The design should reflect the historic culture of the neighborhood.

Recently, THA received an unsolicited Letter of Intent from the Inland Group/Horizon Housing Alliance to enter into a public private partnership to redevelop the four parcels. Inland Group was formed in the late 1970s as a commercial general contractor operating in the greater Spokane area. It steadily increased in size and geographic reach as a third-party contractor. In the mid 2000's Inland began to develop affordable housing for its own portfolio. It currently develops affordable family, affordable senior and market rate senior housing communities. Inland has worked in 11 western states but its primary focus in Washington, particularly the I-5 corridor. Inland currently has 49 properties with approximately 9,100 units. They are relatively evenly split between affordable and market rate. More than half of its portfolio is in Washington state. As a vertically integrated company, it can develop projects more cost efficiently than THA.

Discussions with Inland have not begun in earnest. The LOI would not be binding on either party. Instead, it would contemplate further discussions leading to a binding contract.

Here are some elements of Inland's proposal:

- For its proposal to THA, Inland has partnered with Horizon Housing Alliance (HHA), a non-profit organization also based in Spokane. Horizon would develop the permanent supportive housing portion of the project. While Horizon Housing Alliance has not been the owner sponsor of affordable housing in Washington before, the agency is poised to become a strong developer and owner. HHA hired two staff members with experience in the public and nonprofit sectors that bring leadership, compliance, vision and affordable housing development experience to the agency. Horizon and Inland were recently selected to lead the redevelopment effort of the Together Center in Redmond, WA through a competitive process held by Together Center. Inland will serve as a consultant to Horizon Housing for the Hilltop project.
- Inland proposes that FPI, a 51-year old property management company based in California, would be the property manager for the development. It manages property located in 13 different states, including Washington. It has over 100,000 units in their portfolio. The company started with affordable housing. Its current portfolio is currently split approximately 40% affordable and 60% market rate. It is familiar with LIHTC, HUD, Section 8, bonds and all the typical affordable housing sources. In addition, it has experience with special needs housing including individuals experiencing homelessness and people with disabilities. Currently it has approximately 30-40 properties that serve special needs

populations. FPI has a 28-member compliance department. It uses an outside consultant for QA/QC on file reviews

- Inland proposes that Inland serve as the general partner with THA as a special limited partner for the affordable family housing to be developed on three of the four parcels THA owns. These include KeyBank, the Alberta Canada Parking lot and the THA bull pen. Inland is evaluating these sites for competitiveness for a 4% LIHTC application. For the Mr. Mac property, Horizon Housing would be the general partner with THA as the special limited partner. The Mr. Mac property would provide the permanent supportive housing. Horizon Housing would contract with a local service provider to provide and pay for the services needed to support the residents in the permanent supportive housing.
- Inland would be the general contractor for all phases of the proposed development. THA would retain ownership of the land and enter into ground leases with the tax credit partnerships.
- Inland and Horizon would agree to address the community priorities that the consultation effort identified.
- THA would be the primary liaison between Inland and the community to ensure the community goals, particularly leasing to residents of the Hilltop and minority owned businesses is achieved.

In preparation for the possibility of executing the Letter of Intent with Inland and Horizon Housing, THA has begun consulting with its community partners, including and especially those who participated in the consultation to date that identified the community priorities. The feedback thus far suggests that the primary concern with this proposal is how this deal would address those priorities. THA is continuing that consultation.

Although the LOI would not bind either party, it would denote that each party is serious enough about the proposal for further discussions to be worthwhile.

THA anticipates seeking the following elements in an LOI:

- Contractual assurances addressing the community priorities.
- THA would retain ownership of the land. We would execute a land lease with Inland/Horizon. The lease would be capitalized so the bulk of the land value is paid up front. It's possible that THA may need to accept a combination of a "down payment" and annual land lease payments to meet the full market value of the land. The land lease would include provisions that allow two things to occur:
- THA would have the right of first refusal to purchase the property at the end of the tax credit compliance period; and,
- THA would have the option to purchase.

- THA would be a “special limited partner”. RED is ascertaining exactly what rights this will give THA; however, the main point is that THA would have an ownership interest and have rights to reports on the performance of the property.
- THA would have approval over the exterior design and lead a community process for the exterior facades.
- THA would share in cash flow.
- THA would set development milestones for the project.
- Any binding agreement is subject to Board approval.

THA staff believe the LOI is worth pursuing for several reasons:

- THA would take 5 to 7 years to develop the four parcels. THA’s current pro forma reflects a \$25MM gap above and beyond the typical grants, loans, and equity including a THA contributions. In contrast, Inland would develop all four parcels simultaneously and get it done within 2 years. That speed would be a way to more speedily address the City’s dire need for this housing.
- Inland seems to be a very good developer with values compatible to THA’s.

If the negotiations result in a LOI, staff would then continue its community consultations and further negotiations for a binding agreement. Staff will seek to report back to the Board in September about those consultations and those further negotiations. If all that goes well, Staff may be able to present the Board with a proposed binding agreement.

### **Recommendation**

Approve Resolution 2019-08-28 (5) authorizing THA’s Executive Director to negotiate and execute a Letter of Intent with Inland/Horizon for the development of THA’s Hilltop parcels.





# TACOMA HOUSING AUTHORITY

## RESOLUTION 2019-08-28(5)

**(Authorizing the Executive Director to Negotiate a Letter of Intent with Inland/Horizon for the redevelopment of THA's Hilltop parcels)**

A **RESOLUTION** of the Board of Commissioners of the Housing Authority of the City of Tacoma

**WHEREAS**, THA desires to redevelop its four parcels on the Hilltop to create approximately 250 units of affordable housing; and

**WHEREAS**, THA has conducted a robust community engagement process and desires to honor the outcomes of that process; and

**WHEREAS**, THA would be a special limited partner in each of the partnerships, at minimum; and

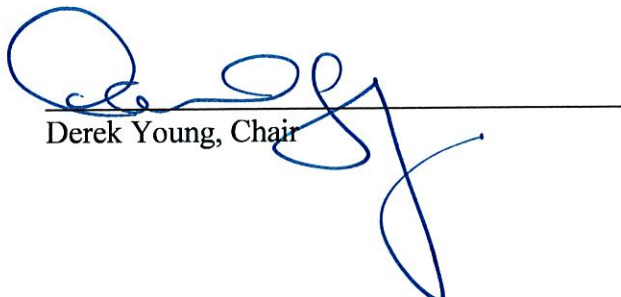
**WHEREAS**, One reason THA is considering entering into the public private partnership is to address the substantial gap in the project budget if THA were to develop the project alone; and

**WHEREAS**, THA received an unsolicited offer from Inland/Horizon to enter into a public private partnership to redevelop the parcels; now, therefore, be it

***Resolved by the Board of Commissioners of the Housing Authority of the City of Tacoma, Washington as follows:***

The Executive Director is authorized to negotiate, and if those negotiations are successful, to execute a nonbinding Letter of Intent (LOI) with Inland/Horizon to develop THA's four Hilltop properties (1124 Martin Luther King, 1120 S 11<sup>th</sup>, AJC parking lot & "bullpen"). The elements of the LOI will conform those set forth in the memorandum supporting this resolution. The Executive Director will also continue with the community consultation about this proposal.s

**Approved: August 28, 2019**

  
Derek Young, Chair