

NEW CITY DC WASHINGTON, D.C. HUD SECTION 108 FINANCING APPLICATION



Applicant: District of Columbia Department of Housing and
Community Development, under the direction of the
Deputy Mayor for Planning and Economic Development

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GOVERNMENT OF THE
DISTRICT OF COLUMBIA
MURIEL BOWSER, MAYOR

1. Executive Summary

The District of Columbia's (the District or DC) Department of Housing and Community Development ("DHCD"), in partnership with the Deputy Mayor for Planning Economic Development (DMPED), is applying for a Section 108 loan¹ guarantee (Section 108) in the amount of \$38,500,000 to provide a third-party loan to Douglas Development LLC (Douglas Development) to support a 16-acre New City DC mixed use economic development project at the intersections of New York Avenue NE, Montana Avenue NE, and Bladensburg Road NE (the "Project"). The project address is 1901 New York Ave NE, Washington DC 20002. Currently, the Project area is an almost entirely empty tract of land and lacks the infrastructure necessary to attract businesses, create jobs, and provide opportunities for the surrounding communities.

The gateway to the nation's capital at New York Avenue NE is ripe for a large-scale catalytic development that can bring the kind of resurgence to the surrounding neighborhood that revitalization efforts in downtown DC have accomplished.

The scale of this proposed 1.59 million gross square foot (GSF) mixed-use economic development project will have substantial impact across much of the northeastern portion of the District through the creation of a new grocery option, jobs, retail, infrastructure, and affordable housing. The Project consists of nine buildings including a new 150,300 GSF destination grocery store serving a neighborhood with limited grocery options, a new 210-room hotel, a new 45,600 GSF office building, 149,740 GSF of retail, and 859 housing units, with 20% of the housing units designated as affordable units for low² and very low-income³ households. This will enable more Washingtonians to afford to live in the city where they work.

This \$460 million economic development project will create 573 new permanent jobs and 2,726 construction jobs. New City DC will be an attractive workplace for beltway businesses looking to participate in the urban feel that their employees desire.

Greeting commuters and visitors alike arriving from the north and east, New City DC will represent our Nation's capital and market this world-renowned city as a great place to live and work. The Project will become a new economic engine and a local destination in the District of Columbia. New City DC will improve the experiences of residents, workers, and shoppers alike, lower the costs of services to current residents, and increase revenues to the District.

In order to develop the site into a mixed-use, mixed income development that will best serve the District, the Project requires financial assistance from the HUD Section 108 loan guarantee

¹ Section 108 Loan Guarantee Program, simply referred to as "Section 108". The program is authorized under Section 108 of the Housing and Community Development Act of 1974 as the loan guarantee component of the Community Development Block Grant (CDBG) Program.

² "Low-income household" means a household consisting of one or more persons with a total household income that is more than 30% and less than or equal to 50% of the area median income.

³ "Very low-income household" means a household consisting of one or more persons with total household income less than or equal to 30% of the area median income.

program to fund Douglas Development’s land acquisition on the site. The HUD Section 108 loan is necessary for the Project to proceed and generate the economic development needed in this area of the District. There have been multiple developers of the site in the past, however none of these projects came to fruition due to a lack of available financial assistance and the significant site preparation that is required to be constructed to bring public streets, utilities, open green space, sidewalks, bike lanes and other traffic safety measures to the site.

The HUD Section 108 loan guarantee program will now make New City DC a reality. New City DC has the potential to become a new commercial and residential destination that marks the entry into the District from the northeast, but the Project will not be able to succeed without the financing assistance requested in this application.

2. Description and Eligibility of Proposed Activities

The \$38,500,000 in Section 108 loan guarantee funding, representing approximately 8.0% of the overall economic development costs, will be loaned from the District to Douglas Development and will be used for land acquisition of the site along New York Avenue NE that is financially infeasible without the support of the Section 108 loan guarantee.

The Project will not displace any economic activity as the immediately surrounding area and greater submarket lacks the economic drivers (retail centers, office complexes, hotels, etc.) that drive such activity. With respect to commercial development, there are no active businesses in the surrounding vicinity that will be shuttered or in any way negatively impacted by the Project. In fact, area businesses on and around New York Avenue, NE will benefit from the new grocer, increased population and retail opportunities. The additional retail and grocery that is anticipated to be built at the site will drive activity in and around the site.

3. Fulfillment of CDBG National Objectives

The Project satisfies the following Community Development Block Grant (“CDBG”) national objectives⁴:

- Benefit to low- and moderate- income (LMI) persons
 - LMI Area
 - LMI Jobs

LMI Area

The Project benefits low/moderate income persons as defined by HUD regulations (24 CFR 570.208(a)(1), or “area benefit activities”). The Project Area, defined in Appendix B (the “Project Area”), has a higher percentage of low-income citizens than the District as a whole (approximately 52 percent—versus 31 percent for the District as a whole). The poverty rate is 20%, the

⁴ https://www.hud.gov/sites/documents/DOC_16472.PDF

unemployment rate is 15.20% and the median income is 80% AMI. At completion of Phase One the New City DC development will deliver hundreds of residential units designated for low-median income individuals, as well as 149,740 gross square feet of commercial retail.

LMI Jobs

Additionally, the Project benefits low/moderate income persons through 24 CFR 570.208(a)(4), or “job creation or retention activities”. Of all full-time equivalent (FTE) permanent jobs created in Phase One, 51% of the FTE permanent jobs will be made available to Low-Moderate Income (LMI) persons. The businesses established within the New City DC development will collaborate with stakeholders such as the District Department of Employment Services (DOES), the Executive Office of the Mayor (EOM), Advisory Neighborhood Commission (ANC) 5C and Ward 5 Councilmember Kenyan McDuffie’s office to organize continual job fairs to meet this requirement. Douglas Development has worked in conjunction with DOES and other local non-profits that focus on job training to interview and eventually hire residents in the Ward 5 community to successfully fulfill similar job needs on other economic development projects.

Douglas Development will satisfy all cross-cutting federal regulations throughout the development of the project.

4. Fulfillment of DHCD Consolidated Plan Objectives

The Project satisfies the following objectives in the District’s Consolidated Plan⁵:

1. Establish and maintain a suitable living environment

The Section 108 loan is essential to ensure the development of a currently 16-acre vacant lot. The Project consists of nine buildings including a new 150,300 GSF destination grocery store serving a neighborhood with limited grocery options, a new 210-room hotel, a new 45,600 GSF office building, 149,740 GSF of retail, and 859 housing units. This mixed-use economic development project will deliver new neighborhood amenities for the surrounding communities such as neighborhood serving grocery store, retail, hospitality venues, open green space, and new public space improvements including landscaping, sidewalks, bike lanes and installation of traffic safety measures. Each of the buildings in the New City development will comply with the District’s green building and sustainability practices, and follow Leadership in Energy and Environmental Design for Building Design and Construction (LEED BD+C) framework to achieve individual performance scores of LEED Certified or LEED Silver.

2. Create economic opportunities

As a result of the construction and development of Phase One of New City DC, approximately 573 permanent, full-time equivalent jobs and 2,726 temporary construction jobs will be created. 51% of all jobs created will be made available to Low to Moderate Income (LMI) persons. In

⁵ <https://dhcd.dc.gov/service/about-dhcd>

accordance with DHCD's goal to foster small and local business development, 35% of the total Phase One construction spend will be contracted with District of Columbia Certified Business Entities (CBE).

3. Provide decent housing

New City will accomplish DHCD's goal to expand affordable housing stock for LMI individuals. The Project will also create 859 units of housing, a portion of which will be designated as affordable housing for low income households. Specifically, 20% will be designated as affordable housing. At least 25% of the affordable housing units constructed in the Project shall be housing for which a very low-income household will pay no more than 30% of its income toward housing costs, and the remainder of the affordable units shall be housing for which a low-income household will pay no more than 30% of its income toward housing costs. Douglas Development will ensure that the New City DC housing stock is safe, healthy and accessible for all residents.

The tables below provide additional details on the job creation opportunities enabled by the first phase of the development.

Table 1: Jobs from Phase I of NewCity Project

| | Full-Time Equivalents and Income ¹ | | | | |
|---|---|---------------------|---------------------|--------------|-------------------|
| | Permanent Jobs | Annual Compensation | Income per Employee | Annual Wages | Wage per Employee |
| Apartment Management: | | | | | |
| Direct impacts | 30 | \$891,309 | \$29,377 | \$775,376 | \$25,556 |
| Indirect impacts | 6 | \$625,686 | \$107,138 | - | - |
| Retail: | | | | | |
| Direct impacts | 222 | \$11,450,984 | \$51,666 | \$9,552,697 | \$43,101 |
| Indirect impacts | 47 | \$4,466,453 | \$94,348 | - | - |
| Office: | | | | | |
| Direct impacts | 117 | \$14,078,951 | \$120,560 | \$12,131,262 | \$103,881 |
| Indirect impacts | 78 | \$6,103,530 | \$78,644 | - | - |
| Hotel: | | | | | |
| Direct impacts | 50 | \$3,510,233 | \$69,725 | \$3,059,878 | \$60,780 |
| Indirect impacts | 14 | \$1,171,427 | \$84,948 | - | - |
| Grocer: | | | | | |
| Direct impacts | 154 | \$6,685,686 | \$43,502 | \$5,425,121 | \$35,300 |
| Indirect impacts | 26 | \$2,283,710 | \$88,276 | - | - |
| Total direct impacts (full-time equivalents) | 573 | \$36,617,162 | - | \$30,944,334 | - |
| Total indirect and induced impacts | 170 | \$14,650,806 | - | - | - |
| Total annual compensation | | \$51,267,968 | | | |

Table 2: Temporary Jobs from Phase I Construction

| <i>Temporary Construction Employment Impacts</i> | Full-Time Equivalents and Income ² | | | | |
|--|---|---------------------|---------------------|---------------|-------------------|
| | Temporary Jobs | Annual Compensation | Income per Employee | Annual Wages | Wage per Employee |
| Temporary: | | | | | |
| Direct impacts (full-time equivalents) | 2,726 | \$183,911,140 | \$67,466 | \$156,239,747 | \$57,315 |
| Indirect and induced impacts | 406 | \$36,542,697 | \$90,093 | - | - |

¹Represents the estimated increase in total full-time equivalent jobs and income from development at NewCity. Jobs shown are at full buildout.²Temporary jobs reflect total full-time equivalent temporary jobs created through full development buildout. Temporary jobs assume a one-year duration.

5. Loan Information

DHCD is requesting a 20-year loan with six (6) years of interest only payments.

Loan Information

| | |
|---------------------------------|--------------|
| Gross Section 108 Loan proceeds | \$38,500,000 |
| Fees: | |
| Origination fee ¹ | \$770,000 |

¹Assumes a 2.00% origination fee, to be amortized into Section 108 loan. Source: *Section 108 Loan Guarantee Program: Announcement of Fee To Cover Credit Subsidy Costs for FY 2020, subject to change*

6. Sources and Uses

The table below shows the detailed assumptions related to the Phase One budget and Section 108 loan eligible costs.

| Budget Items ¹ | Phase I Total Costs ¹ |
|---------------------------------------|----------------------------------|
| Land acquisition: | |
| Section 108 loan eligible | \$38,500,000 |
| Other costs | \$21,670,185 |
| Infrastructure and site improvements: | \$37,353,694 |
| Misc. offsite | |
| Mass grading | |
| Utilities | |
| Roadways | |
| Building site improvements | |
| Government & permitting | \$4,284,162 |
| Buildings | \$292,304,695 |
| Construction outside base | \$4,343,533 |
| Financing and related fees | \$14,209,280 |
| Consultants & soft costs | \$12,953,759 |
| Leasing & tenant improvements | \$32,483,895 |
| Soft cost, contingency & other | \$3,729,136 |
| Total Phase I costs | <u>\$461,832,340</u> |

¹Source: Douglas Development.

7. Guidelines and Objectives for Evaluating Project Costs and Financial Requirements

a) Reasonableness of Proposed Project Costs

Douglas Development is a District-based real estate development company with over twenty-five years of extensive experience implementing successful place-making investment strategies in downtown Washington, DC and along the Northeast corridor of New York Avenue. Notable projects include:

- **Chinatown Row** - The adaptive re-use of historic buildings in the Chinatown and Penn Quarter areas along 7th Street NW, 9th Street NW, G Street NW, and F Street NW
- **AC Hotel** – 601 K Street NW: A new 14-story, 234-room hotel in Mt. Vernon Square
- **Moxy Hotel** – 1015 K Street NW: A new 13-story, 200-room boutique, Marriot-brand hotel
- **655 New York Avenue NW**: An assembly of 19 historic buildings and new construction of a 756,000 GSF mixed-use building - 678,000 GSF office, 79,000 GSF of retail - on a triangle shaped block between New York Avenue, 7th and L Streets in Mt. Vernon Square adjacent to the Washington Convention Center.
- **Hecht Warehouse redevelopment**: A 3-phased mixed-use development of the former Hecht Company Warehouse distribution center. The project includes 1,000-space parking garage, 300 apartments and 125,000+ GSF of retail and restaurant space. Nike, MOM's, Petco, and Target anchor the site.

Douglas Development has a proven track record of not only executing place-making strategies to positively impact the communities it builds in but also estimating accurate and efficient budgets. Value engineering is a continuous process for Douglas Development in order to minimize and reduce costs, enhance the Project, and create value to stakeholders.

b) Commitment of all Sources of Funds

The tables below show the sources of funds available to finance Phase One of the Project, the status and commitment of those sources of funds, and identification of those sources by cost.

| Sources | Phase I Amount | Status of Financing |
|-----------------------|----------------|------------------------------|
| Equity | \$169,322,340 | Borrower Funded |
| Private loan | \$254,010,000 | CBRE Engaged to Procure |
| Section 108 loan | \$38,500,000 | Application Underway |
| Other | \$0 | Possible Mezzanine Financing |
| Total Phase I sources | \$461,832,340 | |

| Total Uses | Phase I Amount | Percent of Total |
|---------------------------------------|-----------------------|-------------------------|
| Public improvements/publicly funded | \$38,500,000 | 8% |
| Private improvements/privately funded | \$423,332,340 | 92% |
| Total Phase I uses | \$461,832,340 | 100% |

c) Substitution of Public Funds for Private Sources

Public funds are not being substituted for private funds in this project. There have been multiple developers and development plans for this site in the past, all of which estimated prohibitively low returns making the site unable to be developed without public assistance. New City DC requires a significant amount of infrastructure and site work prior to any vertical construction, and to make this feasible in the current market, Douglas Development must significantly reduce costs or increase rents to generate increased cash flow to obtain needed private funding. For this Project, costs cannot be further reduced and rents cannot be increased. As a result, the Project cannot attract the additional private financing necessary to cover the costs. The Section 108 loan guarantee program is a critical mechanism to deliver affordable financing for an otherwise infeasible economic development project.

d) Project Feasibility

It is expected that New City DC will generate significant economic activity. Currently, the Project Area is an almost entirely empty tract of land in a frequently travelled area along New York Avenue NE and Bladensburg Road NE. Upon completion of Phase One, New City DC will consist of a variety of different commercial and residential uses, resulting in significant tax revenues, jobs (including positions available to at least 51% LMI persons), housing opportunities to all levels of income, and needed retail to the area.

e) Check for Reasonable Return on Owner's Equity

Douglas Development is committed to working with necessary parties to demonstrate that but for the 108 HUD loan, the Project is unable to obtain an adequate return that would warrant investment in the Project.

f) Disbursement of Section 108 Funds and Loan Details

The \$38,500,000 in Section 108 loan guarantee funding will be loaned to Douglas Development for land acquisition for the northwest corner of the site along New York Avenue NE. The Project is not financially feasible without the support of the Section 108 loan. Additional site work will be completed as part of the initial construction of the Project including the addition of new roads and sewers, utilities, and site improvements such as environmental site remediation that are necessary for the future development of the site.

Acquisition of the site is necessary to allow for the additional site work, create pad ready sites, and create the vertical development. The Section 108 loan will assist with providing the up-front financing to allow the Project to proceed.

The District is requesting a 20-year loan with an initial 6-year interest only repayment schedule. As recipient of the third-party loan, Douglas Development pledges project revenue as repayment for the loan.

8. Additional Collateral

Douglas Development is committed to working together with DHCD to ensure any additional security as requested through the 108 loan application process is provided such that the standards of both HUD and DHCD are met.

9. Pledge of CDBG Grant Funds as Loan Guarantees

The District fully understands that it must pledge its CDBG line of credit as guarantee on the requested Section 108 loan. The District does not intend to utilize CDBG funds to repay the Section 108 Loan.

10. Contact Information

The Department of Housing and Community Development serves as the administering agent for the District of Columbia's Community Development Block Grant Program and will serve as the principal contact for this application. Please direct questions regarding this application to:

| | |
|----------|------------------------|
| Contact: | Polly Donaldson |
| Phone: | 202-412-4180 |
| Email: | polly.donaldson@dc.gov |

APPENDIX A – New City Site Plan



APPENDIX B – Low/Moderate Area

| Tract | Blckgrp | Lowmod | Lowmoduniv |
|-------|-----------------------|--------------|---------------|
| 8802 | 1 | 270 | 495 |
| 8802 | 2 | 925 | 1455 |
| 8802 | 3 | 690 | 1425 |
| 8802 | 4 | 650 | 1210 |
| 8803 | 1 | 800 | 1005 |
| 8804 | 1 | 460 | 930 |
| 8804 | 2 | 1120 | 1485 |
| 8903 | 1 | 1465 | 2355 |
| 8903 | 2 | 1035 | 1110 |
| 8904 | 1 | 1545 | 1880 |
| 8904 | 2 | 745 | 1165 |
| 9000 | 1 | 720 | 1565 |
| 9000 | 2 | 1050 | 1485 |
| 9102 | 1 | 415 | 915 |
| 9102 | 2 | 1505 | 2350 |
| 9102 | 3 | 1605 | 1970 |
| 9301 | 1 | 140 | 680 |
| 9301 | 2 | 195 | 750 |
| 9301 | 3 | 195 | 945 |
| 9301 | 4 | 440 | 720 |
| 9302 | 1 | 435 | 1045 |
| 9400 | 2 | 730 | 1405 |
| 9400 | 3 | 615 | 1730 |
| 11100 | 1 | 750 | 1675 |
| 11100 | 2 | 860 | 2205 |
| 11100 | 3 | 540 | 910 |
| | TOTAL | 19900 | 34865 |
| | LMA Percentage | | 57.08% |

APPENDIX B – Low/Moderate Area (continued)

The area shaded blue is the Project Area, and the red star indicates the project location at 1901 New York Ave NE, Washington DC, 20002,

