

**APPENDIX I**  
**PROJECT NARRATIVE**  
**THE SEVERNA:**  
**REDEVELOPMENT OF GOLDEN RULE CENTER**  
*1<sup>st</sup> and K Streets NW*  
*Washington, DC 20001*

**Background**

Golden Rule Apartments, Inc. plans to redevelop its former Golden Rule Center site under current zoning into **The SeVerna**: a 100% affordable 60-unit rental development in the first phase of development at First and K Streets, NW. The 1.63 acre site is located in the Northwest One/Sursum Corda Superblock, a highly visible and significant New Communities planning area for Washington, DC.

Golden Rule Apartments, Inc. is seeking \$995,000 in 9% tax credits from the DC Department of Housing and Community Development (DHCD) for the project if completed under current market conditions. Golden Rule Apartments, Inc. has also prepared another scenario reflecting grants in lieu of tax credits as proposed under Section 1602 of the American Recovery and Reinvestment Act of 2009. This budget shows credit pricing of \$.85 and results in a reduced request of \$842,824 in 9% tax credits. GRA is open to pursuing either funding option in order to proceed with development.

The Bible Way Church, located at New Jersey and New York Avenues in Northwest, DC, is the sponsor of this project through its wholly owned affiliate, Golden Rule Apartments, Inc. (GRA). GRA, a District of Columbia 501(c)3 non-profit, has been in existence since 1965. It was formed by Bible Way Church to be the developer of the Golden Rule Center project as well as the Golden Rule Apartments, which is a nearby 183 unit residential project developed in 1973.

GRA's mission is to provide for the development and operation of affordable housing and other community-oriented assets in Mt. Vernon Square in downtown Washington, DC. GRA is directed by a very active board which serves on a volunteer basis; GRA staff and other limited operational needs are supported solely by Bible Way Church. GRA also owns Golden Rule Apartments at 901 New Jersey Avenue NW, which completed a full rehabilitation in 2008. Additionally, another Bible Way affiliate, Golden Rule Plaza, Inc., successfully completed the Golden Rule Plaza project, 119-unit senior affordable housing development, located just two blocks away from the Golden Rule Center site. This project closed on financing in 2002 and was completed in 2003.

GRA developed Golden Rule Center in 1973. The project encompassed a 15,000 square foot grocery store, 20 one-bedroom units on the roof of the grocery store and 20 townhouse units. The project was constructed with HUD 236 financing and provided housing for families making 80% or less than the area median income.

In 2003, the buildings were in declining condition with significant structural deterioration that could not be readily repaired. As a result of the project condition, the property failed a scheduled REAC inspection. Subsequently, HUD moved the project to its enforcement division. Out of lengthy discussions with HUD, and after a full review of property conditions, GRA chose to opt

out of the Section 8 contract and prepay its Section 236 mortgage in order to fully redevelop the site.

In May 2007, GRA completed the process of relocating the 27 residents that were residing at Golden Rule Center with the assistance of a McKinney Loan from DCHFA. Residents were eligible for housing choice vouchers through the DC Housing Authority. Relocation services were provided by Housing Opportunities Unlimited and included counseling, identification and coverage for moving services, and assistance with utility disconnects and hook-ups. GRA is staying in touch with relocated residents and giving them periodic updates on the project. GRA will give previous residents the first opportunity to move back to the redeveloped site, subject to established re-entry criteria.

In December 2007, GRA paid off the HUD 236 mortgage at Golden Rule Center. Self-Help, a community development lender, now holds the first mortgage in the amount of approximately \$1,025,000. GRA also closed on a \$950,000 DHCD predevelopment loan in December 2007 which is secured by a second mortgage on the site. The \$350,000 DCHFA McKinney loan is in the third lien position. The site has an approximate value of \$8.525 million based upon an appraisal completed by M & B Appraisal Group in November 2007.

As part of the HUD mortgage pay-off, GRA executed two agreements with HUD: a Use Agreement that ensures the 40 low-income (<80% AMI) units at the site would be replaced, and a Trust Agreement that requires GRA to reinvest any sales proceeds from the transfer of the property to a limited partnership for redevelopment back into affordable housing development in the District. Please see Exhibit W for further information.

GRA plans to redevelop the Golden Rule Center site in alignment with the District's overall New Communities Northwest One Redevelopment Plan, and has met extensively with the Deputy Mayor for Planning and Economic Development, the Office of Planning team, and the Department of Transportation to finalize the development program. While the original plan called for the buildout of a low-rise building along L Street and a high rise along K Street, GRA is now proposing a phased approach to the project. In the near term, GRA is focusing solely on bringing affordable rental housing to the site along L Street, as the current market is already saturated for market rate apartments in the immediate area.

GRA is seeking to leave open the opportunity to bring a mixed income high rise to the site along K Street in the future when the market permits, but is committed to its core mission of providing affordable housing and allowing previously relocated residents the right to return to the new housing development at the earliest possible time. To that end, the phase one development will be developed under current zoning.

GRA has engaged the development team of MissionFirst Development and The Henson Development Company to redevelop the site into The SeVerna. GRA previously worked with this team for the successful redevelopment of Golden Rule Apartments. GRA currently proposes to construct 60 units at the site under a 9% tax credit financing structure, with subordinate DMPED New Communities financing. GRA has received DC Housing Authority Local Rent Supplement Program Funding (LRSP) for the project, and plans that one half of the apartments, or 30 units, will be set aside for very low income individuals and families (<30% AMI). The other 30 units will be affordable at < 60% AMI.

The SeVerna will consist of a five story building along First Street, connecting to two-over-two townhouses along L Street. The townhouses will contain larger three and four bedroom units in an environment more suited to families, while the mid rise will have studio, one, two, and three bedroom units. A community room will be located on the ground floor of the building. Surface parking is planned for this phase, while the design will enable the future incorporation of an underground parking garage. The elevator will descend one level below grade to prepare for a future underground garage connection.

### **Sponsorship**

Bible Way Church was established in Northwest Washington in 1927 by Bishop Smallwood E. Williams. Affordable housing is one of the oldest and most important ministries of the Church. It reflects the firm belief of the Founder that the Church must address both the spiritual and the material needs of the people. The "Golden Rule Society" was founded in the 1930s, with a goal of helping those in need. It maintained the Golden Rule Resale Shop in a Shaw storefront until the mid-60s. Following a modest beginning in the 1940s with small neighborhood rooming houses, the Church welcomed the opportunity to provide substantially more and better quality housing through the US Department of Housing and Urban Development's low and moderate income housing initiatives which took shape in the late 1960s.

Including Golden Rule Center, the church has sponsored three major affordable housing projects beginning with the 183-unit Golden Rule Apartments, at 901 New Jersey Avenue, NW, dedicated in 1973. This project-based Section 8 development recently completed a successful full rehabilitation that has preserved its affordability in the face of rapid gentrification in the area. The Church is especially proud of the award-winning 119-unit seven-story senior housing development, Golden Rule Plaza, located at 1050 New Jersey Avenue, NW. This building opened in 2003.

Please see Exhibit Q for further information on GRA and Bible Way.

### **Financial Position**

GRA is the majority owner of the general partnership that now owns Golden Rule Apartments, the recently renovated 183-unit high rise located across K Street from the Golden Rule Center site. GRA has received over \$688,000 in developer fee from the Golden Rule Apartments project, and expects an additional \$40,000 in fee, as well as a long-term income stream from the development.

By the time The SeVerna is completed, GRA will have worked on this site's redevelopment for almost 10 years. GRA commenced redevelopment efforts prior to the initiation of the City's New Communities plan. At the request of the District, GRA put its efforts on hold while the City completed its plan for the area. As a result, GRA suffered several years of operating losses at Golden Rule Center.

Please see Exhibit O for Financial Statements.

## **Neighborhood Description**

The former Golden Rule Center site is located in the rapidly gentrifying area of the Mount Vernon Triangle/Northwest One. Several major market rate condos and rental units have been recently completed, as development has spread from downtown and Gallery Place to this area. Further description of these developments can be found in the Market Overview section.

The Northwest One/Sursum Corda area has had a concentration of low-income housing since the 1970's. Crime has been and continues to be a major issue in the neighborhood. The City's New Communities Initiative is an effort to confront social and economic issues associated with the concentration of low income housing in the District of Columbia. Officials seek to transform this and several other target areas into vibrant mixed income neighborhoods with economic opportunities, coupled with social services provided to current residents under a Human Capital Plan. The Sursum Corda/Northwest One area is slated to be one of the first of several neighborhoods redeveloped under this initiative. The Northwest One Comprehensive Plan encompasses 28-acres that is sandwiched between the Mount Vernon Triangle and NoMa and bounded by K Street to the south, New York Avenue to the north, I-395 to the west and North Capitol Street to the east.

The Northwest One Plan also includes a development incentive that allows higher density than what is permitted under current zoning along North Capitol and K Streets. Under the Plan, a maximum building height of 110 feet is allowed along the east side of North Capitol Street to the south of M Street and a maximum building height of 130 feet is allowed to the north of M Street. A maximum building height of 90 feet is allowed along the west side of North Capitol Street.

The District of Columbia selected One Vision Development Partners to redevelop several sites in Northwest One, including the adjacent former Temple Courts site. The GRA team has met with One Vision and will continue to coordinate development efforts, particularly as it relates to infrastructure. Most recently, GRA has learned that One Vision's development plans along K Street are on hold due to the current economic climate.

School changes proposed within the Plan include a new 100,000 square foot K-8 school to replace Walker-Jones Elementary and R. H. Terrell Intermediate schools. These schools are currently under construction and are slated to be finished by fall 2009. Additionally the plan includes the new construction of 100,000 square feet of retail space, a 10,000 square foot health clinic and a new 5,000 square foot library to replace the Sursum Corda community library on New York Avenue.

## **Site Description**

The former Golden Rule Center site is a 71,030 square foot vacant and unimproved property located at the Northeast corner of 1<sup>st</sup> and K Streets NW.

The site is bordered by 1<sup>st</sup> Terrace NW to the east, L Street (which has the appearance of an alley) to the north, 1<sup>st</sup> Street NW to the west, and K Street NW to the south. The site is very visible in the community. In terms of adjacent neighbors, the site is bordered by Turnkey Apartments (a DCHA property) to the northeast and by the former Temple Courts (a City-owned property) to the east across 1<sup>st</sup> Terrace NW. Across 1<sup>st</sup> Street to the west is the Walker-Jones

Elementary School, and to the northwest the new school is under construction. Row houses and the JB Johnson Nursing Home are located across K Street to the south. Golden Rule Apartments, also owned by GRA, is located across K Street to the southwest.

## **Development Team**

Please find the development team members below. The development team has successfully worked together on significant affordable housing developments in the District, including Golden Rule Apartments. Three of the major development team members – developer, architect, and construction manager – are DC-certified CBEs.

### *Developers*

GRA has partnered with MissionFirst Development and The Henson Development Company for The SeVerna. MissionFirst and Henson have previously worked with GRA to complete the successful redevelopment of Golden Rule Apartments. MissionFirst also worked with the Bible Way affiliate Golden Rule Plaza, Inc. to complete the high rise senior Golden Rule Plaza development.

Since 1997, MissionFirst has helped its nonprofit partners to build or preserve over 1,900 units of high quality affordable housing around the nation, with a total development cost of \$260 million. The current pipeline includes over 300 units with a total development cost of \$85 million. MissionFirst's clients are mission-driven nonprofit organizations and city governments that seek to provide decent and safe affordable housing. MissionFirst is a DC CBE firm.

MissionFirst is committed to the provision of affordable housing in the District of Columbia, where demand is far outpacing supply in the face of the recent real estate boom. To date, MissionFirst has completed ten major affordable housing projects in DC, with a total of 1,026 units and a total development cost of \$175 million. These include two downtown Washington, DC projects: Golden Rule Apartments (183 units) and Golden Rule Plaza (119 units); three Anacostia projects: J.W. King Seniors Center (74 units), Stanton Park Apartments (61 units), and Douglas Knoll (182 units); one Fort Lincoln project: Wesley House (127 units); and two Columbia Heights projects: Haven House (29 units) and Meridian Manor (34 units).

The Henson Development Company was established by Dan Henson in 1991. The company specializes in the revitalization of low-income and public housing developments. It is an integrated real estate development company with a long history of redeveloping distressed communities. Mr. Henson is sought after as a leading expert on planning and implementing Hope VI projects of Housing Agencies across the country. He previously served for Baltimore City as the Commissioner of the Department of Housing and Community Development as well as the Executive Director of the Housing Authority. Mr. Henson has been at the forefront of creating mixed income communities, particularly in conjunction with his work in the Hope VI programs. DC projects completed under by The Henson Development Company include Capitol Gateway and Eastgate.

### *General Contractor*

The general contractor proposed for The SeVerna is Hamel Builders, Inc. Headquartered in Elkridge, MD, Hamel has been constructing multifamily and commercial buildings in the Baltimore-Washington Area since 1998. Much of Hamel's value is obtained through

negotiations. When brought into the process early, Hamel's staff contributes their knowledge to value engineer the project so it will ultimately be built within the disciplines established by the development program. Hamel has worked with MissionFirst on several of their affordable housing developments, including Golden Rule Apartments and Wesley House. Please see the attached resume (Exhibit L) for more information.

#### *Architect*

Envision Design, a Washington, DC-based CBE firm will serve as project architect. Envision is widely regarded as one of the best green design firms in the District of Columbia, and will be working to include LEED elements into the design of The SeVerna. All of Envision's design professionals are LEED certified. Envision has worked with MissionFirst on several projects, including Golden Rule Apartments and Golden Rule Plaza, both of which received design awards from the DC Housing Finance Agency. Please see the attached firm resume (Exhibit M) for more details.

#### *Property Management*

CIH Properties, Inc. is the proposed property manager for the project. CIH has managed over 3,600 apartments in the past 3 years in the Washington, DC area. Site-level employees for their affordable housing developments are provided special training in low income housing tax credit certifications and other programs through HUD. CIH has been engaged in multiple cases to assist owners with troubled properties and has been recommended by HUD for its successes. GRA has had positive experiences with CIH managing its developments: it currently manages Golden Rule Plaza and Golden Rule Apartments. Please see their attached firm resume (Exhibit N).

#### *Construction Manager*

JDC Construction is a Washington, DC-based CBE firm providing construction and project management services for the construction and renovation of community development projects. JDC managed the construction of Golden Rule Plaza and the renovation of Golden Rule Apartments, and has proved an invaluable asset to completing developments on-time and on-budget. Please see attached firm resume (Exhibit P) for more details.

### **Supportive Services**

As part of the New Communities Initiative, the City has offered human capital / social services to residents of the Northwest One Community. Further information on these services is included in Exhibit S.

GRA will align The SeVerna with the New Communities goals related to supportive services. New Communities criteria identify ways the City seeks to encourage beneficial redevelopment efforts for all stakeholders, including small businesses, service providers and development partners. Some of the criteria include:

- 1 Developers should link existing residents to apprenticeship and job opportunities related to site redevelopment (construction, property management and site supervisory positions).
- 2 New and improved human and social services shall be provided for existing residents.

- 3 City-funded case managers should work directly with the developers to ensure their compliance to several human capital standards, i.e. employment benchmarks.
- 4 The developer should clearly market the redevelopment as a mixed income site. The developer should also host a resident orientation and spell out resident expectations.

## **Market Overview**

A 2007 appraisal by M& B Appraisers (November 30, 2007) provided a market overview of the proposed redevelopment site:

Located at the confluence of 1<sup>st</sup> and K Streets, the former Golden Rule Center site benefits from its location at the center of two emerging markets, NoMa and Mount Vernon Triangle. The site is also part of the city's long-term urban redevelopment plan. The near term outlook for the area is *improvement* due to potential for demand to overflow into the subject area over the long term given the level of development activity occurring in the immediate areas within Mount Vernon Triangle and the NoMa corridor.

### *Access and Transportation*

Major roadways and expressways that provide access to the subject area include New York Avenue (Route 50), Massachusetts Avenue, H Street, North Capitol Street, Florida Avenue and Interstate 395. New York Avenue is a six-lane roadway located about two blocks north of the subject that provides a link to Baltimore Washington Parkway Route 50 (about six miles to the east) and Interstate 395 (approximately four blocks to the northwest).

The Washington Metrorail system is a major benefit to this area, providing convenient subway access for residents and employees to points throughout the City and the suburbs. The closest Metrorail stations are Union Station (0.40 miles to the southeast) Mount Vernon Square/Convention Center station (approximately 0.55 miles northwest) and Judiciary Square (approximately 0.50 miles southwest). As a further complement to the Metrorail system, numerous Metrobus lines service the area.

### *Area Characteristics / Surrounding Land Uses*

Within the immediate environs of the subject site, there is a mix of residential, office, and light industrial uses. The NoMa area has a concentration of telecommunications and technology firms located in renovated warehouses. Recent redevelopment plans for the Capital City Market, located several blocks to the northeast, include a mix of residential condominiums, retail, hotel, and office within a project to be known as New Town at Capital City Market.

Within the last five years, there has been a growing interest in developing new office space proximate to New York Avenue. Several reasons for this increased interest include: 1) the sizable inventory of developable lots; 2) various incentive packages; 3) proximity to major road networks; 4) recently completed New York Avenue Metrorail station; 5) location proximate to the East End, Central Business District, and Capitol Hill; 6) rising rents in premier locations, and 7) well-developed technology infrastructure. Ongoing office construction is present within 1 mile to the east, west, and south of the Golden Rule Center site.

Subsidized housing within this area is comprised of a mix of townhouse-style homes and mid- and high-rise apartment buildings oriented to North Capitol Street. Due to unprecedented levels of demand, a substantial number of new high density residential developments consisting primarily of condominium units have recently been delivered or are under construction in the Mount Vernon Triangle area (i.e. City Vista, Madrigal, Sonata).

One of the most prominent high density residential developments near the site is Yale Steam Laundry, which is located about 0.25 miles east of the subject at the terminus of Interstate 395 at New York and New Jersey Avenues, NW. This 320 unit condominium development was completed in late 2007 and represents the redevelopment and renovation of the historic landmark Yale Steam Laundry building and an existing three-story building, plus the construction of a new 12-story building.

The \$200 million mixed-use project known as City Vista, 4 blocks west of the site, consists of 685 dwelling units, a 55,000 square foot Safeway grocery store with a Starbucks coffee shop, Bergmann's Dry Cleaner, various restaurants and services, and 800+ underground parking spaces. The residential component is comprised of three high-rise buildings: The L Condominium (149 units); The K Condominium (292 units); and The V Apartments (244 units), with 20% of all the residences designated as affordable dwelling units. Construction began in October 2005 and was completed in 2008.

The most notable retail development in the general market area is Gallery Place, which is a 550,000 square foot retail, office, residential and entertainment complex located between the Verizon Center and Chinatown's Friendship Archway at 7<sup>th</sup> and H Streets, NW. Since the development of the Verizon Center in 1997, this area has witnessed significant revitalization that included the redevelopment of a number of older retail storefronts into new high-end restaurants and shops along 7<sup>th</sup> Street. Today, this area is considered a major entertainment destination.

## **Project Financing**

### *Acquisition and Predevelopment*

Golden Rule Apartments Inc. has owned the Golden Rule Center property since the 1970s. The buildings were originally developed with a HUD 236 loan in 1973. The HUD loan was paid off in December 2007 with a loan from Self-Help; the buildings were not permitted to be demolished while the HUD mortgage remained on the property. A HUD Use Agreement was recorded on the property at payoff which requires that the original 40 low-income (<80% AMI) units be replaced during redevelopment (see Exhibit W for further information).

All buildings at the site were demolished in early 2009 by New Systems Demolition and Excavation, a local CBE contractor.

### *Construction, Permanent Financing, and Equity/Subsidy*

The SeVerna is planned to be developed as a 9% tax credit deal with subordinate DMPED New Communities financing. GRA has solicited a number of syndicators and direct investors for tax credit equity and has received a good deal of interest for the deal (see Exhibit W). The SeVerna meets the current desires of the tax credit marketplace, which focuses on 100% affordable projects in strong markets and a development team with a strong track record. Subordinate financing from DMPED New Communities is proposed in the amount of \$1.9 million (see



Exhibit W for DMPED gap funding letter). Private financing from Bank of America is planned for the construction and permanent debt, providing a specialty product for 9% tax credit deals. The \$500,000 in demolition financing from the DHCD predevelopment loan is proposed to stay in the deal, with the remaining \$450,000 repaid at construction loan closing. The \$500,000 in DHCD funds will be repaid through cashflow during building operation.

Based upon current market pricing, GRA is requesting \$995,000 in 9% tax credits, and can utilize 2008, 2009, or 2010 tax credits (or any combination thereof) for the project. GRA has also prepared a Form 202 reflecting grants in lieu of tax credits as proposed under Section 1602 of the American Recovery and Reinvestment Act of 2009. This budget shows credit pricing of \$.85 and results in a reduced request of \$842,824 in 9% tax credits. GRA is open to pursuing either funding option in order to proceed with development. Under the grant option, GRA commits to meeting all LIHTC obligations under the IRS code.

GRA seeks to be in construction in the first quarter of 2010, and has assembled an experienced team to achieve this goal. MissionFirst and GRA will jointly provide the construction completion guarantee. GRA, the project sponsor, will provide any additional guarantees including but not limited to the operating deficit guarantee.

DC Housing Authority Local Rent Supplement Program (LRSP) funds are planned to be used to support 30 very low income units affordable at < 30% AMI. The LRSP subsidy will allow the units to be underwritten at 60% AMI. Further information on this program is included as Attachment X.

### **Development Budget and Pro-forma Assumptions**

Please see Exhibit A, Form 202, for The SeVerna budget. The development budget assumes a first mortgage of \$4.8 million at a 7% interest rate with a 30 year amortization term. Residential vacancy is assumed at 5%. Rents are escalated at 2% per year, and expenses are inflated at 3% per year. Replacement reserves will be maintained at \$300 per unit.

The \$8.6 million hard cost construction project incorporates Davis Bacon requirements.

### **Project Risk**

The need for affordable housing in the District of Columbia is high, and the prime location and quality construction of the SeVerna will make it a highly desirable location for low income residents. The family size units and handicap accessibility will be especially attractive. Half of the units will be set aside for those making 30% or less than the area median income, currently a population with limited options for quality affordable housing.

Construction risk is low because we are contemplating new construction with a proven team. There is a 5% construction contingency, which is standard for new construction projects and the contractor will be fully bonded. Tax credit compliance will be overseen by an experienced management company, with third party file review by Quadel. Finally, the long history of supportive services and community outreach by GRA will insure the project is integrated into the community.

## Collateral Position

The Golden Rule Center property was appraised in November 2007 at \$8,525,000. Current outstanding notes include the 1<sup>st</sup> mortgage of approximately \$1,025,000 held by Self-Help, a \$950,000 DHCD note in second lien position, and a \$350,000 DCHFA note in third position. Bible Way Church additionally has approximately \$700,000 in unsecured notes on the property.

Including the Bible Way notes, the property currently has a loan to value ratio of approximately 35%, providing good collateral positions for the lien holders. All existing notes will be paid off or refinanced at construction loan closing for The SeVerna.

DHCD will have a subordinate lien on The SeVerna, along with an assignment of architectural and construction contracts.

## Project Timeline

The project's timeline will hinge primarily on the award of 9% tax credits. The timeline below is based on an award of 9% tax credits in July 2009.

Event	Date
Secure Predevelopment Funding	December 2007
Complete Demolition	February 2009
9% Tax Credit Award	July 2009
Schematic Design Complete	July 2009
Design Development	Summer/Fall 2009
Permit Submission	November 2009
Financing Commitments	December 2009
Permit Approval (third party review)	December 2009
Closing on Construction Financing	January 2010
Begin Construction	January 2010
Construction Complete	February 2011
Lease-Up Complete/Sustained Occupancy	May 2011

## Importance

This project will be the first of many New Communities projects planned for the City and its success will be an important testament to the City's commitment to provide physical and social services to some of its most disadvantaged residents. For GRA, this will continue to carry on their mission of providing affordable housing, more important than ever in a neighborhood that has become one of the most rapidly gentrifying in the District. GRA is committed to ensuring that low-income individuals and families are able to enjoy the many amenities coming to the Mount Vernon Triangle area.