

DANISH VILLAGE

150-Unit Affordable Elderly Community in Rochester Hills, MI



REDWOOD

City of Rochester Hills PILOT Memorandum
March 2024

OVERVIEW

DV Limited Dividend Housing Association, Limited Partnership (the “Proposed Owner”), an affiliate of Redwood Housing (“Redwood”), is pleased to submit this PILOT memorandum in support of the preservation of Danish Village (the “Project”). The Proposed Owner is under contract to purchase the Project with closing anticipated in Q2 2024 and requests an amendment to Section 30-32 of the Rochester Hills Code of Ordinances that would allow the existing service charge in lieu of taxes agreement (the “Ordinance”) to remain in place post transfer. An amendment to the Ordinance is needed to support the planned comprehensive rehabilitation that will preserve the Project as high quality, senior affordable housing for decades to come.

Redwood is a mission-driven organization that strives to make an impact in the communities we serve. Since inception, Redwood and our affiliates have sponsored more than \$2 billion of impact development and investment activities with a particular focus on the preservation and rehabilitation of affordable senior housing communities. To date, Redwood has served more than 50,000 residents across hundreds of properties throughout 15 states. Irrespective of geography or complexity, we have a strong track record of dedicating resources and developing partnerships to ensure successful outcomes.

Danish Village is a 150-unit affordable elderly-designated community located at 2566 Walton Boulevard in Rochester Hills. Originally constructed in 1981, the Project consists of one four-story building that features 150 one-bedroom apartments, 100% of which are assisted by a project-based Section 8 Housing Assistance Payment (“HAP”) contract. In 2007, the Project underwent a rehabilitation financed by tax exempt bonds and 4% low-income housing tax credits (“LIHTC”) issued by the Michigan State Housing Development Authority (“MSHDA”). The MSHDA debt is anticipated to be repaid at closing; however, the income restrictions that govern eligible tenancy outlined in the MSHDA Regulatory Agreement will remain in place until 2037.

While the Project is in fair condition, the 2007 LIHTC rehabilitation represents its last major renovation. As such, many building components and systems are beyond their useful lives and the Project is in need of meaningful capital investment and upgrades. The Proposed Owner plans to renew the existing HAP contract and finance a comprehensive renovation with a HUD-insured FHA 223(f) loan. The Proposed Owner anticipates spending approximately 7mm to renovate the Project, which will result in meaningfully improved living conditions for its elderly residents and the preservation of a critical community asset in Rochester Hills. A detailed summary of the proposed scope of work is included herein.

Given that the Project is assisted by a HAP contract and remains subject to the 2007 MSHDA Regulatory Agreement, the proposed HUD-insured FHA 223(f) loan will constitute a federally aided mortgage as defined in Section 30-26 of the City of Rochester Hills Code of Ordinances. Further, it is anticipated that 100% of the Project’s low-income residents will remain in place through the acquisition and rehabilitation. Therefore, the Proposed Owner requests approval for an amendment to the Ordinance that will allow the current annual service charge in lieu of taxes equal to four percent of annual shelter rents to remain in effect for the Project. Importantly, this will result in a significant increase in tax revenues for the City of Rochester Hills. A proposed service charge/tax analysis and redline of the existing Ordinance is included herein.

PROPOSED RENOVATION

The Proposed Owner has worked in partnership with a G. Fisher Construction Company and Schneider and Smith, respectively the proposed general contractor and architect, to develop a comprehensive scope of work to benefit the Project's residents and allow them to age in place for years to come. The Proposed Owner's planned rehabilitation will include upgrades to the Project's interior, exterior, and grounds. Interior unit renovations will include accessibility upgrades, new kitchen cabinets, countertops, appliances, vanities, fixtures, flooring, and lighting. Additional improvements include a new generator, new electrical panels, water efficiency sensors, and repairs and upgrades to the central electrical distribution. Improvements to the common areas include accessibility upgrades, upgrades to the community kitchen, library, office, game room, laundry room, salon/craft room and restrooms. The Project's exterior and ground improvements include parking lot upgrades, roof repairs, landscaping upgrades, including modernization of the courtyard, BBQ and outdoor gaming area, new site lighting and building envelop improvements.

SERVICE CHARGE/TAX ANALYSIS

As a result of the planned renovation and HAP contract renewal, the Project's gross potential rent is expected to increase at closing. Importantly, the resident portion of rent post-closing will not change. Based on projected year 1 shelter rents, the Project's total service charge in lieu of tax payment is anticipated to increase nearly 3x on an annualized basis and is projected to grow from that significantly higher base over time. This will result in significantly higher revenue for the City of Rochester Hills. Below is the pro forma service charge/tax analysis:

	Projections																			
	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035	12/31/2036	12/31/2037	12/31/2038	12/31/2039	12/31/2040	
Service Charge Calculation																				
Gross Potential Rent			\$3,411,000	\$3,479,220	\$3,548,804	\$3,619,780	\$3,692,176	\$3,766,020	\$3,841,340	\$3,918,167	\$3,996,530	\$4,076,461	\$4,157,990	\$4,241,150	\$4,325,973	\$4,412,492	\$4,500,742	\$4,590,757	\$4,682,572	
Vacancy (-)			(68,220)	(69,584)	(70,976)	(72,396)	(73,844)	(75,320)	(76,827)	(78,363)	(79,931)	(81,529)	(83,160)	(84,823)	(86,519)	(88,250)	(90,015)	(91,815)	(93,651)	
Net Rent	1,315,178	1,307,887	3,342,780	3,409,636	3,477,828	3,547,385	3,618,333	3,690,699	3,764,513	3,839,803	3,916,600	3,994,932	4,074,830	4,156,327	4,239,453	4,324,242	4,410,727	4,498,942	4,588,921	
Utilities (-)	(205,403)	(224,245)	(218,980)	(225,549)	(232,315)	(239,285)	(246,463)	(253,857)	(261,473)	(269,317)	(277,397)	(285,719)	(294,290)	(303,119)	(312,212)	(321,579)	(331,226)	(341,163)	(351,398)	
Shelter Rent	1,109,775	1,083,642	3,123,800	3,184,087	3,245,513	3,308,100	3,371,869	3,436,842	3,503,040	3,570,486	3,639,203	3,709,213	3,780,540	3,853,208	3,927,241	4,002,664	4,079,501	4,157,779	4,237,523	
% Low Income Tenancy	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Service Charge Shelter Rent	1,109,775	1,083,642	3,123,800	3,184,087	3,245,513	3,308,100	3,371,869	3,436,842	3,503,040	3,570,486	3,639,203	3,709,213	3,780,540	3,853,208	3,927,241	4,002,664	4,079,501	4,157,779	4,237,523	
% Service Charge	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	
Service Charge	\$44,391	\$43,346	\$124,952	\$127,363	\$129,821	\$132,324	\$134,875	\$137,474	\$140,122	\$142,819	\$145,568	\$148,369	\$151,222	\$154,128	\$157,090	\$160,107	\$163,180	\$166,311	\$169,501	
% Growth	1.49%	-2.35%	188.27%	1.93%	1.93%	1.93%	1.93%	1.93%	1.93%	1.93%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	

	Projections																		
	Year 18 12/31/2041	Year 19 12/31/2042	Year 20 12/31/2043	Year 21 12/31/2044	Year 22 12/31/2045	Year 23 12/31/2046	Year 24 12/31/2047	Year 25 12/31/2048	Year 26 12/31/2049	Year 27 12/31/2050	Year 28 12/31/2051	Year 29 12/31/2052	Year 30 12/31/2053	Year 31 12/31/2054	Year 32 12/31/2055	Year 33 12/31/2056	Year 34 12/31/2057	Year 35 12/31/2058	
Service Charge Calculation																			
Gross Potential Rent	\$4,776,223	\$4,871,748	\$4,969,183	\$5,068,567	\$5,169,938	\$5,273,337	\$5,378,803	\$5,486,379	\$5,596,107	\$5,708,029	\$5,822,190	\$5,938,634	\$6,057,406	\$6,178,554	\$6,302,125	\$6,428,168	\$6,556,731	\$6,687,866	
Vacancy (-)	(95,524)	(97,435)	(99,384)	(101,371)	(103,399)	(105,467)	(107,576)	(109,728)	(111,922)	(114,161)	(116,444)	(118,773)	(121,148)	(123,571)	(126,043)	(128,563)	(131,135)	(133,757)	
Net Rent	4,680,699	4,774,313	4,869,799	4,967,195	5,066,539	5,167,870	5,271,227	5,376,652	5,484,185	5,593,869	5,705,746	5,819,861	5,936,258	6,054,983	6,176,083	6,299,605	6,425,597	6,554,109	
Utilities (-)	(361,940)	(372,798)	(383,982)	(395,501)	(407,366)	(419,587)	(432,175)	(445,140)	(458,494)	(472,249)	(486,417)	(501,009)	(516,040)	(531,521)	(547,466)	(563,890)	(580,807)	(598,231)	
Shelter Rent	4,318,759	4,401,515	4,485,817	4,571,694	4,659,173	4,748,283	4,839,052	4,931,512	5,025,690	5,121,619	5,219,329	5,318,852	5,420,219	5,523,463	5,628,617	5,735,714	5,844,790	5,955,877	
% Low Income Tenancy	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Service Charge Shelter Rent	4,318,759	4,401,515	4,485,817	4,571,694	4,659,173	4,748,283	4,839,052	4,931,512	5,025,690	5,121,619	5,219,329	5,318,852	5,420,219	5,523,463	5,628,617	5,735,714	5,844,790	5,955,877	
% Service Charge	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	
Service Charge	\$172,750	\$176,061	\$179,433	\$182,868	\$186,367	\$189,931	\$193,562	\$197,260	\$201,028	\$204,865	\$208,773	\$212,754	\$216,809	\$220,939	\$225,145	\$229,429	\$233,792	\$238,235	
% Growth	1.92%	1.92%	1.92%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.90%	1.90%	1.90%	1.90%	1.90%	

Note: Year 1 Gross Potential Rent to be pro rated based on closing date

PROPOSED ORDINANCE

Below is the proposed redline with minor requested changes to the existing ordinance:

Rochester Hills, MI Code of Ordinances

Sec. 30-32. - Danish Village.

(a)
Generally. On December 31 of the year in which a completed affidavit form certified by the authority has been filed with the city assessor, as provided in Section 15a(1) of the Act, MCL125.1415a(1), the housing development known as Danish Village (Parcel No. 70-15-08-376-016) and the property on which it is located is determined to be a housing development qualifying for tax exemption and shall be exempt from all property taxes. This section is intended to evidence and constitute a contract between the city and ~~Danish Village Limited Dividend Housing Association Limited Partnership, doing business as Samaritas Affordable Living of Rochester Hills~~DV Limited Dividend Housing Association, Limited Partnership, with the authority as third party beneficiary, to provide tax exemption and accept service charges in lieu of taxes, as set forth in this section.

(b)
Service charge imposed. An annual service charge in lieu of taxes shall be charged, which shall be equal to four percent of the annual shelter rents. If ~~Samaritas Affordable Living of Rochester Hills-DV Limited Dividend Housing Association, Limited Partnership~~ fails to achieve 80 percent low income tenancy for any given tax year, an additional service charge shall be paid each year in lieu of taxes for that portion of the housing development in excess of 20 percent that is occupied by other than low income persons or families in order that the service charge paid for that portion shall be equal to the full amount of taxes that would be paid on the portion of the development if the development were not tax exempt. For purposes of computing the annual service charge, annual shelter rents and the percentage of low-income persons or families shall be determined as of December 31 of the preceding year.

(c)
Payment of service charge. The service charge in lieu of taxes shall be payable in the same manner as general property taxes are payable to the city, except that the annual payment shall be paid on or before December 1 of each year.

(d)
Duration. The provisions for Danish Village shall remain in effect as long as the federally aided or authority-aided mortgage or advance or grant from the authority remains outstanding, or the authority has any legal interest in the housing development, but not beyond the duration permitted under the Act, MCL 125.1415a(3).

(Ord. No. 501, § 1, 8-24-2005; Ord. No. 620, § 1, 5-18-2020)

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