



December 19, 2023

Laurie Taylor
Director of Assessing
City of Rochester Hills
1000 Rochester Hills Drive
Rochester Hills, MI 48309

Re: Payment-in-Lieu-of-Taxes (“PILOT”) Updated Proposal
Avon Towers – 435 South Livernois Road, Rochester Hills, MI

Dear Ms. Taylor,

On behalf of Related Affordable, we are pleased to present for your review the following updated PILOT Proposal for an existing affordable senior housing property in Rochester Hills named Avon Towers (the “Property”).

Avon Towers is a 125-unit multifamily residential apartment complex located at 435 South Livernois Road. It currently operates as an income-restricted affordable housing property serving senior residents with amenities such as a community room, library and picnic area. More specifically, it operates under a project-based Section 8 Housing Assistance Payments (“HAP”) contract with the Department of Housing and Urban Development (“HUD”), which covers all 125 apartments at the Property and ensures that tenants pay no more than 30% of their household incomes on rent. However, the Property’s HAP contract expires in October of 2024, which means the current affordability designation of the property is at risk in the very near future if not preserved and extended.

Related Affordable currently has a purchase option to acquire the property and is seeking to recapitalize the Property, preserve and extend its affordability all while completing an extensive renovation of at least \$5,000,000 of hard costs (approximately \$40,000 per unit). The Property was constructed in 1979 and many of the site’s existing components are nearing obsolescence if they are not repaired or replaced soon. We believe that our proposed rehabilitation will significantly improve the aesthetic and curb appeal of the property, extend the useful life of critical building systems and improve the lives of residents.

We are planning to finance the proposed redevelopment of Avon Towers with new tax-exempt bonds (issued by the Michigan State Housing Development Authority) and equity from the sale of 4% Low Income Housing Tax Credits (“LIHTC”). As a requirement of the federal LIHTC program, and in the spirit of Related Affordable’s mission to acquire and protect the nation’s existing affordable housing stock, we would enter into brand new long-term regulatory agreements that would restrict 100% of the Property’s units at 60% of Area Median Income (“AMI”) for the

next 30 years. We would also extend the existing HAP contract for a period of 20 years from closing, the longest term allowed by HUD. ***By virtue of extending the HAP contract and entering into new tax-exempt bond and LIHTC regulatory agreements, our proposed project will ensure that this at-risk senior housing resource remains affordable for at least the next 30 years while also receiving significant capital upgrades.***

As you may imagine, the current environment of rapidly increasing construction costs and rising interest rates poses significant challenges in financing improvements for existing affordable housing. Entering into an agreement that provides for predictable and manageable future property tax payments would go a long way towards making this project financially feasible. Without such an agreement, we will not be able to successfully finance, renovate and stabilize the redevelopment. Therefore, we are proposing to enter into a new PILOT Agreement with the City of Rochester Hills with the following key attributes:

- A fixed annual PILOT set at 6% of net annual shelter rent, with the initial payment estimated to be approximately \$134,205;
- A 30-year term, matching the term of the LIHTC regulatory agreement which would be entered into with the Michigan State Housing Development Authority.

Additional details about the planned renovations, including a preliminary scope of work, is attached as *Exhibit A*. Projected real estate tax payments under the PILOT over the proposed 30-year term are attached as *Exhibit B*.

By providing confidence in this area, we can obtain all of the financing required to accomplish our renovation goals and truly transform Avon Towers while preserving and extending affordability for this critical housing resource for the elderly. As long-term owners of affordable housing across the country, we are hopeful that the City of Rochester Hills and Related Affordable can establish an agreement for the future benefit of the Property, its residents and the surrounding community.

We look forward to the opportunity of meeting with you and answering any questions you may have about the Property and our proposal. We can be reached by email at Zack.Simmons@Related.com or by phone at 212-401-7658.

Sincerely,

Zack Simmons
Senior Vice President
Related Affordable

EXHIBIT A – RENOVATION DETAILS & DRAFT SCOPE OF WORK

The preliminary rehabilitation scope of work includes an investment of approximately \$40,000 per unit, or approximately \$5,000,000 million in total construction hard costs. The preliminary proposed scope of work includes renovation to 100% of units to include bathroom vanities, showers, toilets, kitchen cabinets, counters, sinks, painting, flooring, entry doors, windows, and lighting. The proposed scope of work also includes building and site improvements, such as community room and patio area enhancements, elevator upgrades, roofing, boiler upgrades, landscaping, exterior lighting, new signage, and parking lot and sidewalk repairs. Additionally, seven units will be made fully ADA compliant. Finally, the renovation scope includes the installation of water- and energy-efficient fixtures and appliances.

It is anticipated that the renovation work would take approximately 12 months to complete. The building is currently occupied and would remain livable throughout the construction project. There will be no permanent displacement of residents. It is anticipated that residents will need to be out of their apartments only temporarily while their apartment is under renovation. If needed, management will work with residents to identify accommodations for residents while their apartment is under renovation, such as a nearby hotel rooms or on-site hotel units if available, and any and all temporary relocation costs will be covered by the new owner.

PROJECTED REAL ESTATE TAX PAYMENTS - 6% PILOT

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Real Estate Taxes	\$134,205	\$136,808	\$139,460	\$142,163	\$144,918	\$147,725	\$150,585	\$153,500	\$156,470	\$159,496	\$162,580	\$165,723	\$168,925	\$172,187	\$175,512
	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
	\$178,899	\$182,350	\$185,867	\$189,450	\$193,101	\$196,820	\$200,610	\$204,471	\$208,405	\$212,412	\$216,495	\$220,655	\$224,893	\$229,210	\$233,609

30-Year Total	\$5,387,504
----------------------	-------------