



HOUSEATL & ULI ATLANTA

CASE STUDY MERCY PARK

5124 Peachtree Road • Chamblee GA 30341



About ULI (Urban Land Institute)

As the preeminent, multidisciplinary real estate forum, The Urban Land Institute (ULI) is a nonprofit education and research group supported by its diverse, expert membership base. Our mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

ULI Atlanta

With over 1,400 members throughout the Atlanta District Council, ULI is one of the largest and most active ULI District Councils worldwide. ULI Atlanta's geography covers the entire state of Georgia, Alabama, and eastern Tennessee, and its members are dedicated to advancing the mission of ULI at the local level. ULI Atlanta brings together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs. We share knowledge through education, applied research, publishing, electronic media, technical assistance, programs and special initiatives that advance thought leadership around the responsible use of land and building thriving communities.

About HouseATL

HouseATL is a cross-sector group of civic leaders committed to building the political and community will for a comprehensive and coordinated housing affordability action plan in the City of Atlanta. HouseATL is an open taskforce – initiated through the convening power and resources of ULI Atlanta, The Arthur M. Blank Family Foundation, Central Atlanta Progress, Center for Civic Innovation, and Metro Atlanta Chamber of Commerce. These partners engaged more than 200 civic leaders to release 23 recommendations in September 2018 with an aspiration to invest \$1B in affordable housing over 8 – 10 years, producing and preserving 20,000 affordable units. Across all of HouseATL's 23 recommendations was the intention to work in more coordinated and collaborative ways – within sectors and across sectors.

The vision for HouseATL is for civic leadership in the City of Atlanta to have a shared, comprehensive set of policies and adequate funding to address housing affordability. One of the key barrier to achieve this vision is that affordable housing is a complicated subject matter, with a lack of knowledge and understanding. Case studies such as this have been developed to make it less complicated, to help real estate practitioners, policy makers, and other professionals better understand how affordable housing is developed and preserved. These case studies specifically highlight developments and models that warrant emulating.

HouseATL's recommendations were embraced by the City of Atlanta through the One Atlanta Housing Affordability Action Plan released in June 2019. HouseATL continues to advance the recommendations through four working groups – the Funders' Collective, Policy, Prioritizing Communities, and Education & Engagement.

In an effort to help regional leaders and real estate practitioners better understand how affordable housing development and preservation happens, these case studies were developed through a unique partnership with ULI Atlanta and GA Tech's Master's in Real Estate Development (MRED) program. The MRED graduate students acted as technical writers to research and develop these case studies. ULI Atlanta would like to provide a special thanks to ULI members Rick Porter and John Threadgill who lead the GA Tech MRED program and helped facilitate the partnership with the MRED graduate students as part of the program's coursework.

Quick Facts

Location	Chamblee, Georgia
Project Type	Mixed Use (Multifamily Rental Housing & Healthcare Clinic)
Site Size	1.6 acres
Land Uses	Residential & Commercial
Specifications	Heathcare Clinic - 45,000 sq ft Apartment Building - 79 units (987 sq ft - 1,143 sq ft)
Keywords/special features	Senior Housing, Clinic, Low- income, Affordable, Non-profit
Owners/developers	MHSE MERCY PARK LP (Mercy Housing Inc. & Saint Joseph's Mercy Care Services, Inc.)
Architect	Smith Dalia Architects, LLC
General Contractor	McShane Construction, LLC
Websites	www.mercyhousing.org www.mercyatlanta.org
Study Researchers	Georgia Tech, Masters in Real Estate Development students Jasmine Burnett Chris Carter Kresha Hogan



In the spirit of advancing HouseATL's recommendation to expand understanding of the affordable housing development process for real estate practitioners and public officials, HouseATL's Executive Committee identifies and selects projects in the metro Atlanta area that showcase an innovative and scalable approach to affordable housing development and preservation.

Mercy Park was selected because of its unique integration of healthcare and affordability, inclusion of senior housing and level of affordability of met, as well as location. Mercy Park is a transit-oriented development located near a MARTA stop, the Chamblee Rail Trail, and historic downtown Chamblee. The partnership between Mercy Care and Mercy Housing also demonstrates a creative approach to mission-based, non-for-profit development.

Mercy Care Background

Mercy Care is a nonprofit healthcare organization that has served the Atlanta area for over three decades. The system operates six free-standing clinics, many of which are often operating at capacity. The demand for affordable, comprehensive primary care for adults and children at its Brookhaven facility exceeds current building capacity, and the Buford Highway clinic is one of the system's busiest with a significantly large Hispanic population turning to the clinic for all basic and emergent medical services.

While geographic and/or individual facility expansion seems to make sense, Mercy Care maintains a keen focus on balancing any expansion opportunity with its mission to effectively serve clients at all current locations.

The benefits of an expansion, however, are numerous. A larger facility would help ensure all patients seeking services may be accommodated. Services could be expanded to include adult care, pediatric care, behavioral health, dental services, vision care, and radiology services. Community outreach could also be integrated into the clinics through the addition of clinic classrooms for patient and community education opportunities.

The Partnership

For nearly two years, the team at Mercy Care had been exploring an expansion into Chamblee, Georgia. Of the 25 different sites the team considered for expansion, a four-acre site at 5124 Peachtree Road proved most promising and, given its size, provided an interesting opportunity for a potential partnership with Mercy Housing, a separate, but complementary service provider.

Mercy Housing is a nonprofit organization with a mission of providing service enriched affordable housing to low-income families and seniors across the United States. While, Mercy Housing provides some on-site wellness services and health-related classes, the Mercy Housing staff often need to seek referrals to provide suitable and affordable healthcare for their residents.

Since its inception, Mercy Care has provided healthcare services to the homeless populations in the communities in which its clinics are located. In this environment, understanding and helping to address the housing needs of Mercy Care patients has become an important aspect of the continuum of care Mercy Care

provides. Over the years, Mercy Care has frequently worked with community partners to provide transitional and permanent housing for patients.

The partnership between Mercy Care and Mercy Housing represents the recognition of the interdependence and critical importance of the link between health and housing. Housing is foundational to other social determinants of health and creating stable communities for the most vulnerable. While both Mercy Care and Mercy Housing can point to their origins within the Sisters of Mercy, a Catholic service organization, the two nonprofits have long been separate, independent organizations.

A combination of these two services – Mercy Care healthcare services and Mercy Housing residential services – could positively impact the Chamblee community by reducing chronic homelessness and better connecting newly housed persons to much-needed primary care and behavioral health services.

A partnership between these two entities at the 5124 Peachtree Road site made sense. The result is Mercy Park.

The Site

The four-acre site on Peachtree Road sat vacant for years, and the community was interested in and welcoming of new development here.

While the site was not large enough to accommodate multiple apartment buildings, family housing amenities such as a playground, or related and required additional parking, it did appear to be well-suited for a health and senior-centered housing development. The site was zoned as TOD (Transit Oriented Development), which allows for up to 100 residential apartment units, an ideal size for a senior housing development. Additionally, the proximity of the Chamblee MARTA transit station allowed the developer to obtain a variance from the City of Chamblee on associated parking requirements.

Today, to the north on the site, Mercy Park features a sustainably built, state-of-the art 45,000 square foot Mercy Care clinic. The addition of this clinic to the Mercy Care system increases the system's capacity by 40% and provides additional system expansion opportunities within the Mercy Park footprint.

On the southern end of the site, Mercy Housing built a 79-unit apartment building for seniors age 62 or older and earning at or below 50% to 60% of the Area Median Income (AMI).

Construction

The development team, specifically those from Mercy Housing, launched its search for a general contractor early in the development process. McShane Construction Company was eventually awarded the contract and began work quickly as the development was pursuing LEED certification and early planning and interventions are key to successful certification.



Mercy Park site plan.

For projects operating with funding from Georgia's Department of Community Affairs (DCA) Low Income Tax Credits (LIHTC) and HOME, there are specific requirements that the construction team must meet early in the process to ensure an efficient project delivery. In the case of Mercy Park, environmental certification (LEED or EarthCraft), heating, ventilation, and air-conditioning (HVAC) systems requirements came into play early in the process. McShane had experience with and was aware of the specific DCA requirements in these matters and thus helped the development team address the requirements early and efficiently.

The HVAC system scenario is of particular interest. Typically, a hard/non-flex pipe is used to bring combustion/make-up air into the utility room of a residential unit for distribution throughout the unit. This scenario works well for units where the air-conditioning system runs frequently. In the case of a senior housing development, however, where older residents typically prefer a warmer environment (and thus do not use air-conditioning as often), mold may begin to grow as the air is frequently still. McShane was well aware of this potential issue and installed fresh air valves in every unit, which circulates in fresh air, carries out stale air, and thus reduces the risk of mold.

Financing Considerations

The capital used to finance the residential building at Mercy Park included construction and permanent financing through Truist Bank and a 9% LIHTC. DCA allocates LIHTCs through a competitive process where developers score points based on meeting priorities set by the agency each year through the Qualified Allocation Plan (QAP), which sets the state's priorities and eligibility criteria for awarding these federal tax credits. The equity syndicator of the tax credits was the National Equity Fund (NEF), an affiliate of Local Initiatives Support Corporation (LISC).

In determining what could be affordably built at the site, the development team paid close attention to the mix of grants and tax credits they could leverage to build Mercy Park. The Healthy Futures Fund, for example, is tailored to projects with co-location of affordable housing with healthcare facilities. These funds were braided with the QAP from DCA and helped determine the development direction. According to Robyn Zurfluh at Smith Dalia Architects, "It was easier to check boxes with the QAP for a senior development," since it included other facilities like wellness and medical services alongside affordable housing.

Under the provisions of the QAP's annual core plan, the 9% federal tax credit is awarded on a competitive basis and based on a point system relating to QAP objectives. At its filing in 2015, the Mercy Park tax credit application met two primary objectives: transit-oriented development and the Healthy Housing Initiative (HHI) as outlined by the QAP. Ronit Hoffer, Mercy Housing project developer, stated, "The partnership came together at the right time in terms of the scoring priorities in the QAP that year."

The Mercy Park application was awarded points for locating its development near public transportation, and points were likewise awarded for teaming with a local health department, hospital, or academic institution to bring health-related services to residents.

In addition to the tax credit funding, the Residences at Mercy Park was awarded an Affordable Housing Program (AHP) grant of \$500,000 from the Federal Home Loan Bank - Atlanta, \$2,000,000 in HOME loan funds from the state, and \$250,000 in HOME loan funds from DeKalb County. The HOME program funnels federal dollars through HUD and is allocated to states and other participating jurisdictions (i.e. DeKalb County) to provide low interest loans for the development of low-income housing.

The funding from AHP and DeKalb County HOME came after closing on all the other financing which allowed the team to use the additional funds for other upgrades to the building such as solar panels.

Permanent Sources		Total	Per Unit
First Mortgage	DCA HOME	\$2,000,000	25,316
Second Mortgage	DeKalb HOME	\$250,000	\$3,165
Other Grant/loan	FHLB - AHP	\$500,000	\$6,329
LIHTC Equity (9%)-Fed	Fed LIHTC Inv.	\$7,802,247	\$98,763
LIHTC Equity (9%)-GA	GA LIHTC Inv.	\$4,801,382	\$60,777
Deferred Developer Fee	Developer	\$511,641	\$6,476
Total Permanent Sources		\$15,865,370	\$200,828

Uses	Total	Per Unit
Acquisition-land	\$1,392,469	\$17,626
Construction Hard Costs	\$10,402,982	\$131,683
Financing, Equity, Gov't & DCA costs	\$1,274,853	\$16,137
Legal & Other Professional Fees	\$477,800	\$6,048
Pre-development & Entitlement Costs	\$76,668	\$971
Start Up and Reserve Fees	\$640,530	\$8,108
Development Fee	\$1,450,500	\$18,361
Other (green cert, owner rep)	\$149,568	\$1,893
Total Uses	\$15,865,370	\$200,828

Challenges

The Mercy Park team encountered two significant challenges during the development process: compliance with brownfield remediation regulations; and the County's moratorium on sewage connections.

Brownfield Remediation

The site required brownfield remediation, which was completed by the previous owner, General Electric Company (GE), prior to Mercy Care's acquisition of the site. As part of the remediation, covenants were attached to the site prohibiting residential units on the ground floor of any building on the site without further, likely costly, brownfield interventions. Consequently, the development team considered a master plan that located the medical clinic on the first two floors of the building with residential uses on the top three floors.

Financing guidelines and restrictions, particularly with respect to LIHTCs, indicated a strong preference for separation between the clinic operations of Mercy Care and the residential Mercy Housing development. Because of this, the development team was forced to again revise the plan, this time separating the uses into two distinct and separate buildings.

To address the issue of the restrictive covenant, the developer approached GE and negotiated a modification of the covenants to allow for residential units on the ground floor. This accommodation came with an additional requirement for the developer in the form of a new ground-level vapor barrier that needed to be installed below the first-floor residential units to protect residents from any lingering brownfield contaminants. According to Paul Howard, McShane Construction project manager, the Geo-Seal composite barrier required for this installation was 90 millimeters thick, instead of the typical 10 millimeter variety, which added a \$4 per square foot installation cost and delayed the project several days due to the time to install, inspect, and test. The barrier testing process is rife with issues as the process can be inconsistent, testing requirements often change over time, and one testing team could confirm vapor barrier compliance while yet another team might require different evidence of successful sealing. While the development team was



Mercy Housing at Mercy Park.



Mercy Park primary entrance.

able to maintain its 13-month building schedule, the extra time needed to conduct and analyze multiple vapor barrier tests postponed the release of the final equity installment, which in turn delayed the payoff of the construction loan, resulting in additional interest expense.

Sewer Connections

The second challenge faced by the development team at closing was a moratorium on new sewer connections for developments in DeKalb County. The County would not allow any additional pressure on the system, would not issue a permit, and instead mandated the installation by the developer of a \$400,000 underground sewage tank. The development team applied for and was awarded additional funding from DeKalb County for the installation. At the same time, however, Tom Andrews, the CEO of Mercy Care and its parent St. Joseph's Health System, was advocating on behalf of nonprofit organizations, suggesting such organizations be issued waivers and allowed connections to the County sewer system. Following a month of negotiations, the parties agreed to a municipal sewer connection in exchange for additional amenities on the property.

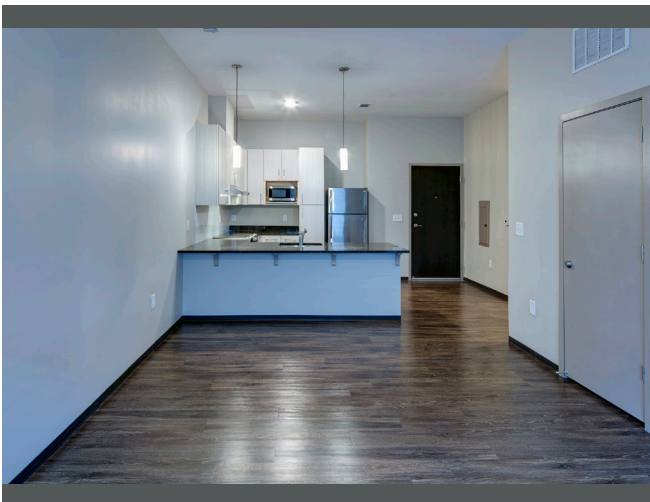
These infrastructure challenges – the additional vapor barrier and the sewer connection – arose over the course of development, affected the project timeline, and caused temporary funding concerns. Yet the development team was able to adapt quickly, navigating environmental tests and negotiating patiently and in good faith with the County, to ultimately overcome these barriers to completion.

Conclusion

In April 2018, the ribbon was cut on the Senior Residences at Mercy Park, 5124 Peachtree Road. The 79-unit complex is exclusively for residents age 62 and older and offers one- and two-bedroom residential options as well as nearly 4,000 square feet of amenities, including exercise space, computers, and places for social gathering. Built for residents living at or below 50-60% of the AMI, monthly rental rates range from \$559 to \$681 per month for one-bedroom units and \$630 to \$787 per month for two-bedroom units. Eight units are reserved for military veterans, and six units reserved for residents with disabilities.

According to the new residents at Mercy Park, the co-location of their residence with their healthcare, the proximity to MARTA, and the walkability of the area has helped residents maintain a sense of independence and quality of life.

The masterful partnership between Mercy Care and Mercy Housing demonstrates a creative approach to mission-based, not-for-profit development. By sharing the land, infrastructure, and development costs, the two organizations have illustrated an innovative path toward affordable housing development. Mercy Park has become an essential part of the Chamblee community and will provide vital services for years to come.



(top) A combined kitchen and living area. (above) A common sitting room in the Senior Residences at Mercy Park



Walking paths can be found throughout the property, connecting residents to nature and the other buildings.