

Memorandum



CITY OF DALLAS

DATE February 17, 2021

TO Housing and Homelessness Solutions Committee

SUBJECT **Westmoreland Station 4% HTC Application Briefing**

This memorandum is to inform the Housing and Homelessness Solutions Council Committee of an upcoming agenda item on February 24, 2021 to (1) authorize the adoption of a Resolution of No Objection for Generation Housing Partners, LLC and/or Texas Westmoreland 2020, Ltd. or its affiliates (Applicant), related to its application to the Texas Department of Housing and Community Affairs for 4% Low Income Housing Tax Credits for the development of Westmoreland Station; and (2) a development loan agreement with the Applicant not to exceed \$3,000,000 in CDBG funds and \$5,000,000 in HOME funds. A third-party underwrite of Westmoreland Station was completed and confirmed the funding gap associated with the development.

Background:

Generation Housing Partners, LLC. and/or Texas Westmoreland 2020, Ltd., or its affiliates (Applicant) submitted a pre-application to the Texas Department of Housing and Community Affairs (TDHCA) for 2021 4% Non-Competitive Housing Tax Credits (4% Housing Tax Credits) for the development of Westmoreland Station, a ground-up development of a 248-unit mixed-income multifamily complex located at 2700 S. Westmoreland Drive, Dallas, TX. Generation Housing Partners, LLC subsequently submitted an application for City subsidy through the standing Notice of Funding Availability (NOFA) application process in the amount of \$8,000,000.00 to provide gap financing for the Westmoreland Station project.

Generation Housing Partners, LLC creates affordable housing developments that serve the local workforce while also providing options for market rate rental units within each community. Established in 2002, the full-service real estate development firm owns and manages more than 4,000 affordable housing units in Texas. The proposed property manager is Alpha Barnes Real Estate Services II, LLC (Alpha Barnes). Alpha Barnes currently manages over 24,000 units in Texas Oklahoma, and Arkansas.

The Applicant proposes to develop 248 units distributed between three contiguous, 4-story buildings on the 7.2-acre site. The 248 units will be comprised of fifty-nine (59) 1-bedroom, one-hundred thirty-nine (139) 2-bedroom, and fifty (50) 3-bedrooms units. The site itself is .2 miles to the Westmoreland DART station thus characterizing this project as a transit-oriented development (TOD). As a TOD, the Westmoreland Station site provides future residents with ready access to amenities and employment opportunities in the Dallas metro area. The development of Westmoreland Station is congruent with the

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*forward*Dallas! Initiative and provides high-end features and amenities consistent with high-quality housing options located throughout the City.

Total development costs are anticipated to be approximately \$52,564,106.00 which includes the \$3,000,000.00 acquisition price for the land. The anticipated sources and uses are as follows:

Financing Sources	Amount
Conventional Loan/USDA	\$ 28,000,000.00
City of Dallas CDBG	\$ 3,000,000.00
City of Dallas HOME	\$ 5,000,000.00
LIHTC Equity	\$ 14,961,446.00
Deferred Developer Fee	\$ 1,602,660.00
	\$ 52,564,106.00
Proposed Uses	Costs
Acquisition	\$ 3,000,000.00
Construction Costs	\$ 33,466,398.00
Soft Costs & Financing Fees	\$ 8,789,987.00
Developer Fees	\$ 5,921,000.00
Reserves	\$ 1,386,721.00
	\$ 52,564,106.00

After the development is complete, 63 of the 248 units will be made available to households at 50% of Area Median Income (AMI), 160 of the 248 units will be made available to households at 60% of AMI, and the remaining 25 of the 248 units will be made available at market rates.

50% AMI: 63 Units (25%)
60% AMI: 160 Units (65%)
Non-Income Restricted: 25 Units (10%)

The property will provide onsite resident services including:

- After-school K12 programming
- Career & job placement services
- Computer literacy classes
- Health and wellness classes
- Financial literacy classes
- Community events
- Exercise classes
- Nutrition and diet seminars
- ADA-compliant units for special-needs residents
- Transportation coordination

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The 7.2-acre site is located at 2700 S. Westmoreland Road. The development has excellent access to services and amenities including a DART rail station and a full-scale grocery store easily walkable within .2 miles from the site. Although Downtown Dallas is 8.5 miles away, it is easily accessible by transit. The property will also include 3,000 to 4,000 square feet of co-working space for residents and the community to foster economic development and provide start-ups/entrepreneurs access to offices/conference space. The co-working space will also include space for conferences and seminars to provide additional training and education opportunities to future residents and community. The site requires a zoning change and an application has been submitted to the City.

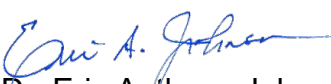
The Westmoreland Station project receives a staff recommendation for a Resolution of Support as it is a CHP priority housing needs development in addition to meeting all the applicable requirements in the CHP's LIHTC policy. Westmoreland Station qualifies as a priority housing needs development because it is in a census tract with a poverty rate below 20% (17.9% per the 2019 American Community Survey).

Additionally, as substantiated by the 3rd party underwriting report, the Westmoreland Station project has a funding gap of at least \$7,050,000.00. Total recommended development subsidy of \$8,000,000.00 represents increases in construction costs related to community feedback and recommended changes to the development's design. The City's CDBG investment in the development is vital to meeting CDBG timeliness test deadline in the summer of 2021. The third-party underwriting report is attached for review.

Timeline:

The item will be briefed to the Housing and Homelessness Solutions Committee on February 22, 2021.

Should you have any questions or require any additional information, please contact me or David Noguera, Director, Department of Housing & Neighborhood Revitalization at David.Noguera@DallasCityHall.com or 214-670-3619.



Dr. Eric Anthony Johnson
Chief of Economic Development & Neighborhood Services

- c: Honorable Mayor and City Council
- T.C. Broadnax, City Council
- Chris Caso, City Attorney
- Mark Swann, City Auditor
- Biliera Johnson, City Secretary
- Preston Robinson, Administrative Judge
- Kimberly Bizer Tolbert, Chief of Staff to the City Manager
- Majed A. Al-Ghafry, Assistant City Manager
- Jon Fortune, Assistant City Manager
- Joey Zapata, Assistant City Manager
- M. Elizabeth Reich, Chief Financial Officer
- M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
- Directors and Assistant Directors



Date: January 29, 2021

To: David Noguera, City of Dallas

Cc: T. Daniel Kalubi, City of Dallas

Re: Art House Lofts Preliminary Underwriting

From: NDC Underwriter: David Nahas

EXECUTIVE SUMMARY

In its review of the application materials, NDC has summarized the salient issues below:

1. NDC recommends the City of Dallas provide a second lien position residual receipts loan per CHP of \$7,050,000 to TX Westmoreland 2020, Ltd. (“Owner”), an affiliate of Generation Housing Development and Hill Tide Partners (“Sponsor”). The proposed project is Art House Lofts (“Project”), a new construction affordable family rental community at the Westmoreland DART transit stop.
2. The Project will create 248 units ranging in size from 1BR to 3BR and will include 223 affordable units targeting household incomes at 50% and 60% AMI, and 25 non-restricted market rate units. The development is envisioned to provide affordable transit oriented rental housing to serve working families, some of whom may be engaged in entrepreneurial “arts focused” careers. A portion of the site will include working studio and art gallery space suitable for residents to complete and market their works of art.
3. Units will be income restricted for a minimum of 15-years.
4. The Project site was previously used for industrial purposes and is located in the Westmoreland Concept Plan area, a targeted redevelopment focus area for the City. The site is vacant land and is under contract for a purchase price of \$3,000,000.
5. The average cost per unit is \$220,746. This appears reasonable and is comparable to the typical cost of new construction in the Dallas market area and other projects receiving City financial assistance. The loan per unit exceeds the CHP maximum however, due to time limitations restricting the Project’s ability to seek 9% Low-Income Housing Tax Credits, an exception is recommended.
6. The application does not contemplate the use of rental subsidies due to its focus on 50% - 60% AMI households.
7. The Applicant’s assumptions around construction and completion timelines are reasonable. The applicant projects a construction period of 18 months followed by a lease-up period of 12 months.
8. The Sponsor has previously developed projects of this type, size, and scope in the Dallas metro area and has demonstrated adequate management and financial capacity to complete the project.
9. There are several recommended additional due diligence steps to be monitored and completed by City staff prior to loan funding (see detailed Recommendations below.)

PURPOSE: The City of Dallas has retained NDC to underwrite applications made for public assistance. This report is delivered as a check on underwriting and assumptions for projects that have been designated as potential awardees of assistance. The project under review has been assessed for the following: viability and readiness; the developer's capacity to start and complete the project; and the developer's experience, and financial capacity. Additionally, a project financial analysis has been conducted to assess the feasibility of the developer's assumptions, the project financing structure, and confirm whether the size of the requested City financial assistance is reasonable.

PROJECT REVIEW: The Applicant applied for funding under the City of Dallas Notice of Funding Available published in August 2020. In addition to the application itself, the package contained copies of a market study, civil engineering feasibility assessment, Phase I ESA, information on the Art House Lofts facility/programming/population, executed Purchase Agreement, Site Plan/Building Plans/Renderings, budget, Term Sheets for construction, permanent, and tax credit financing, a description of the zoning status, Developer information (financials, resumes, etc.) and extensive information regarding the planned operations and property management (policy manuals and staffing position descriptions).

The Project qualifies for funding under the CHP based on the fact that it is 1) with the City of Dallas, 2) going to be multi-family property of 5 or more units, and 3) is new construction.

The CHP limits the amount of loan per unit to 9% of the HUD 234 limit. This would limit the loan to \$14,488 for the studios and \$16,609 for the one-bedroom units. On average, based on the \$7M of assistance, the amount would be \$28,378 per unit. As a 4% LIHTC/bond deal, the lower amount of equity (compared to the 9% LIHTC) requires more City assistance and an exception is recommended.

PROJECT SUMMARY: Art House Lofts is the proposed new construction of a 248-unit affordable multifamily rental development located on a 7.2 acre site at 2700 S. Westmoreland Road, Dallas, TX 75233. This is a transit-oriented development adjacent to the Westmoreland DART station, which is the terminus of the West Oak Cliff DART light rail line. This location will provide its residents with ready access to amenities and employment opportunities throughout the Dallas metro area. The site is located within the Westmoreland Concept Plan area and is reasonably proximate to a variety of community services and amenities. This area is the target of focused redevelopment effort by the City including the anticipated adoption of a Planned Development District as part of the *forwardDallas!* initiative. The developer is presently working with Heritage Oak Cliff, a local community organization, to obtain community design and programming feedback and build community support for the project.

Upon completion, the development will include three contiguous 4-story buildings with adjacent surface parking for 392 vehicles and outdoor common areas. The community will contain 59-1BR units of approximately 729 Sq. Ft., 139-2BR units of 1,021 Sq. Ft., and 50-3BR units of 1,326 Sq. Ft. The design also includes 2,000 sq. ft. of ground floor commercial space that will serve as an art studio and gallery for residents of the property. No revenue from the operation of the art studio space is included in the financing plan.

Units target a range of very-low and low-income households including 63 units at 50% AMI, 150 units at 60% AMI, and 25 market rate units. The target population is general low-income households. Thirteen units will be fully ADA accessible, with four units reserved for persons with disabilities. While a variety of resident services (art and exercise classes, literacy and wellness classes, etc.) are anticipated, the property is not designed with a particular focus on special needs or permanent supportive housing.

The project financing plan assumes construction and permanent financing using tax-exempt bonds accompanied by 4% low-income housing tax credits. The current timeline assumes site acquisition and financing closing in June 2021, construction start in July 2021, completion of construction by end of 2022, and full-lease up to stabilized occupancy by end of 2023 with permanent loan funding in May 2024.

The proposed owner entity is TX Westmoreland 2020, Ltd., a limited partnership. This entity will be comprised of 3 partners: an LLC controlled by Dallas Housing Finance Corporation will serve as the managing general partner, an LLC owned by Generation Housing Partners, LLC and Hill Tide Partners, LLC will serve as special limited partner, and a tax credit investor will serve as the investor limited partner. Generation Housing and Hill Tide will serve as co-developers and asset manager, with continuing operational responsibility for the completed development. DHFC will serve as the general contractor and tax-exempt bond issuer. DHFC will also maintain long-term control of the property and is expected to acquire the site and lease it to the owner partnership for a 99-year term.

I. GENERAL CONSIDERATIONS

City funds are requested to complete the financing source requirement for this new construction project. The City may choose to utilize CDBG or HOME funds for this purpose. The required City gap funding is reasonable on a per unit basis and other funding source provide good leverage. Upon the award of City funds the project should be able to proceed promptly to start construction after the state approves an allocation of tax-exempt bond volume cap and 4% LIHTC.

II. PROJECT FEASIBILITY AND READINESS

- a. **Market Demand:** The application includes excerpts from a recently completed market study prepared by Apartment Market Data, a Texas-based market analytics firm. The study found strong demand in the sub-market area for affordable housing at a wide band of AMI levels ranging from 20% to 70%, and a project capture rate of approximately 2.9%. Further, it notes that due to the anticipated redevelopment of the market area, rapid gentrification could reduce access to affordable housing opportunities in this community in the near future. *It should be noted that the portions of the study provided do not include an overall recommendation for project lease-up to stabilization. Also, the unit mix analyzed does not match the current development program so the market study should be updated to confirm that the development's 12-month lease-up timeline remains reasonable.*
- b. **Environmental Assessment:** A Phase 1 Environmental Assessment has been completed and recommends no further investigation. However, underground storage tanks for diesel fuel previously existing on the property, which was used as a plastic and resin manufacturing plant. When these tanks were removed in 1991 there was evidence of soil contamination. However, the extent of contamination could not be verified due to the existing buildings. The Texas Commission on Environmental Quality issued a No Further Action letter in 1993 with the proviso that TCEQ must be consulted if the existing building was even demolished so that further verification of site conditions for redevelopment could be verified. The existing buildings were demolished in 2019 and the developer's environmental consultant is handling the notification to TCEQ. *Confirmation of suitability for residential development or any further remediation requirements must be obtained prior to proceeding with the proposed new construction.*

- c. Architectural Design: HEDK Architects has completed initial site development feasibility analysis and will serve as project architect. The proposed design has been reviewed for consistency with City of Dallas design criteria.
- d. Entitlements and permits: The site's existing zoning is IM (Industrial Manufacturing). The developer has retained an entitlement consultant who is working with City staff responsible for adoption of the Planned Development District NO. 595, South Dallas/Fair Park. *Adoption of this new plan will be a required prerequisite to allow development of the site for the proposed residential use.*
- e. Site Control: A copy of the contract to purchase and evidence of earnest money deposit was provided.
- f. Dallas Policy Compliance: Increasing the supply of quality affordable housing and housing with access to public transportation are goals of the City's housing policy. This project will provide 248 new affordable TOD housing units.

III. DEVELOPMENT TEAM

- a. Developer Experience and Management Capacity – The development team includes Generation Housing Development as the lead developer and Hill Tide Development as co-developer. Alpha Barnes Real Estate Services, an experienced affordable housing management firm unrelated to the developers, will be retained as the property management agent.
- b. Generation Housing Development was founded in 2002 and is a Dallas-based developer, owner, and asset manager of Class A multifamily properties located throughout the southwest. The firm’s partners have been involved in development, construction, and management of over 4,000 units serving families and seniors, including new construction, rehabilitation, and adaptive reuse. The firm has previously developed new construction LIHTC properties of this size, including the 264 unit Estates at Shiloh, Dallas, 172 unit Heritage Heights, Austin, and 296 unit Reserve at Quebec, Fort Worth. The company’s principals are Chris Applequist and Adrian Iglesias.
- c. Hill Tide Partners is a real estate investment company whose principals have lengthy careers in the low-income housing tax credit industry. Hill Tide’s role in the proposed project relates primarily to financial planning, debt and equity placement, and to serve as a financial guarantor for the developer’s obligations. The company’s principals are Dan Winters and Bob Long.
- d. Monarch Private Investments, LLC is the proposed tax credit equity investor. Monarch is a regional investment firm based in Atlanta, GA with prior experience in the syndication of renewable energy and low-income housing tax credits. The market for LIHTC investment is liquid and it should not be difficult to find an alternative investor if Monarch should, for some reason, not proceed with the proposed investment.
- e. The development team is proposing to partner with the Dallas Housing Finance Corporation to achieve several financing benefits for the project:
 - i. DHFC’s role as nonprofit general partner will enable the completed project to be exempt from payment of real property taxes. This reduction in property operating expenses helps to maximize the permanent loan size and reduce the amount of required direct gap funding investment by the City.
 - ii. To assure long term affordability, DHFC will acquire the site and enter into a 99-year ground lease with the partnership. This arrangement will not entail a cost to DHFC, as DHFC will be paid at lease inception for the full site acquisition cost. Thereafter, a nominal annual lease payment of \$1 will be paid annually. DHFC will obtain sole ownership of the improvements when the lease expires in 99 years, thus ensuring the property remains an affordable housing asset in perpetuity.
 - iii. DHFC will serve as the tax-exempt bond issuer and will earn a bond issuer fee for this role.
 - iv. DHFC will serve as the general contractor of record for the project in order to obtain exemption from payment of sales tax on the construction materials. DHFC will retain Maker Bros, an experienced general contractor, as its sole sub-contractor for the project, and Maker Bros will perform the full range of typical general contractor responsibilities in this delegated relationship.
 - v. As compensation for its general partner role, DHFC will be paid 25% of the developer fee and 25% of the annual surplus cashflow during the first 15 years of operation.

f. Borrower Financial Capacity

Generation Housing Partners, LLC provided internally prepared financial statements including a balance sheet at March 31, 2020 and a profit and loss statement for the period January 1, 2020 through September 17, 2020. The balance sheet indicates assets of \$3,386,303, liabilities of \$3,126,3367, and net worth of \$259,936. During the 9-month reporting period in 2020, the firm generated net income of \$344,596.

Hill Tide Development, LLC provided a CPA-prepared compilation report for 2018 and 2019. As of 12/31/19, the statements show assets of \$6,382,984, liabilities of \$5,014,333, and positive net worth of \$1,368,651. 2019 total revenue was \$7,757,493 with expenses of \$2,347,225 and net income of 5,016,308.

While there is nothing unfavorable evident in the development team financials, their combined liquidity and net worth is low for a project of this size and scope. Confirmation from the project lenders and equity investor that they have reviewed the developer and guarantor financial capacity and found it acceptable should be obtained at an early stage of the loan closing process.

IV. PROJECT FINANCIAL ANALYSIS

- a. Financial resources committed: The applicant has submitted term sheets from OZK Bank for the required construction loan, from Bellwether Enterprise for a proposed Freddie Mac permanent loan, and from Monarch Private Investments for the proposed tax credit syndication. These three sources complete the required project financing, with exception of the City loan and award of bonds and tax credits. The application assumptions are reasonable and in accordance with current market conditions. *However, due to the post-application increase in proposed unit AMI targets this underwriting review assumes materially larger construction and permanent loans than those described in the application supporting documents. The underwriter's assumptions must be confirmed with the lender and investor.*
- b. Development Budget: Total development costs are estimated at \$54,745,001 including a developer fee of \$5,921,000 (\$23,875/unit, 11.5% of total development cost). As a percentage of total development costs, the fee is below the 15% maximum established by City policy. Hard construction costs for building and site work are estimated at \$36,915,000 including a typical 5% cost contingency. The budget appears reasonable and includes the line items typically expected for a project of this size and scope.
- c. Property rents appear within market parameters based on the market study, demand for units appears strong, and operating expense assumptions appear reasonable.

d. Sources and Uses (Construction Phase):

SOURCES OF FUNDS	AMOUNT		PER UNIT
CONSTRUCTION LOAN – OZK BANK	\$38,594,806	70%	\$ 155,624
CITY OF DALLAS	7,037,675	13%	28,378
LIHTC EQUITY INVESTOR	2,881,099	5%	11,617
DEVELOPER FEE DEFERRAL	4,819,700	9%	19,434
DEFERRED COSTS / RESERVES	1,301,181	3%	5,692
TOTAL	54,745,001	100%	220,746
USES OF FUNDS	AMOUNT		PER UNIT
LAND ACQUISITION	3,000,000	6%	12,097
ON SITE WORK	3,720,000	7%	15,000
CONSTRUCTION & CONTINGENCY	33,595,398	61%	135,465
PERMITS & FEES / FF&E	575,000	1%	2,319
FINANCING & BOND ISSUE COSTS	5,005,944	9%	20,185
OTHER SOFT COSTS	1,590,938	3%	6,415
DEVELOPER FEE	5,921,000	11%	23,875
RENTUP & OPERATING RESERVES	1,336,721	2%	5,390
TOTAL	54,745,001	100%	220,746

e. Sources and Uses (Permanent Phase):

SOURCES OF FUNDS	AMOUNT		PER UNIT
FREDDIE MAC 1 ST MORTGAGE	\$26,250,000	48%	\$105,847
CITY OF DALLAS	7,037,675	13%	28,378
LIHTC EQUITY INVESTOR	19,207,326	35%	77,449
DEVELOPER FEE DEFERRAL	2,250,000	4%	9,073
USES OF FUNDS	AMOUNT		PER UNIT
TOTAL	54,745,001	100%	220,746

V. RECOMMENDATION AND LIMITING CONDITIONS:

During application review, underwriting adjustments were made to the estimated amount of tax credit equity investment that the project will generate, requiring a nominal increase in the proposed construction loan amount. The original funding application indicated that approximately \$2,250,000 of the developer fee would be deferred. This assumption has been retained in the analysis although the developer subsequently requested a larger city loan that would enable no fee deferral. A December 2020 change in federal law enables the project to receive more tax credits than originally anticipated and resulting underwriting adjustments reduced the necessary City gap funding from the original \$9.8MM application amount to the current \$7,050,000 recommended amount.

Recommendation: That the City of Dallas provide a loan commitment for \$7,050,000 to the project. These funds shall be secured by a second priority lien, bear interest at 3% simple per annum, have a 40-year term, and be repayable from 50% of project surplus cash in accordance with the CHP standards for annual cash distribution. In accordance with the CHP, the deferred developer fee will be repayable from 100% of surplus cashflow prior to the commencement of payments to the City loan.

Funding Conditions: The City loan shall be funded in accordance with standard CHP administrative practices. *Prior to funding, City staff shall complete the following due diligence:*

1. *Obtain complete construction drawings and specifications and review them for compliance with City regulations. These documents shall be incorporated by reference as contract exhibits to the City loan agreement.*
2. *Confirm that a fixed price construction contract will be executed by a reputable contractor, in accordance with the approved budget, that has been competitively bid to multiple sub-contractors.*
3. *Confirm that the final commitments from the construction and permanent lender and tax credit equity investor conform to the final project budget.*

Project risks include the following considerations and mitigation recommendations:

- Final development entitlements have not yet been approved. Zoning approval must be completed prior to commencement of construction and could impact the anticipated closing date.
- Final plans are not yet complete. Competitive contractor bidding could result in a higher total construction cost and create a budget gap. Should that occur, the City will need to consider whether an adjustment in its approved loan size is appropriate or whether any cost increase should be funded through an increase in the developer's deferred developer fee (to the extent feasible.)
- The construction budget includes sufficient interest reserve to support the construction loan through an approximate 20-month lease-up period post-completion. The anticipated lease-up period to full occupancy is scheduled for 12 months, with permanent loan conversion scheduled 5 months thereafter so the budget allowance appears sufficient. However, should unit lease-up be delayed, or should monthly project cashflow upon full occupancy be insufficient to pay the construction loan carry cost until permanent loan conversion occurs, an unanticipated project cost could result. Such an increase would likely be absorbed through an increase in deferred developer fee.
- The developer is proposing that permanent financing be obtained through a Freddie Mac loan. This is a reputable loan program and appropriate for the project. However, it should be noted that the proposed loan terms include an amortization period of 35 years with a 15-year term and a balloon payment obligation. This is a typical structure in tax credit transactions that provides the property owner with flexibility to refinance the property at the end of its 15-year tax credit partnership with the initial investor. A refinancing could achieve a variety of goals including access to capital for investor tax obligations, a potential to extract project equity to accelerate prepayment to the City loan, fund owner distributions or necessary capital repairs, or an ability to extend the loan term to reduce debt service payments should this be necessary for the project's operating budget. However, the use of a balloon payment presents risk to the City as a subordinate lienholder should refinancing not be possible. Interest rates are presently at historic lows and there is no assurance that rates will be at this level in the future. It may benefit the City to require that the initial mortgage be obtained with an optional, rather than mandatory, balloon prepayment provision. This structure will increase the permanent loan interest rate, but the increase should be relatively nominal and would eliminate the risk of a forced refinancing during an undesirable interest rate climate that would pose risk to the City's investment.

- The Phase I ESA indicates that TCEQ must be consulted to obtain clearance regarding prior LUST site contamination. If further remediation is required as a condition of allowing residential redevelopment to occur, this could add unanticipated project costs. NDC is not the City's environmental consultant and is not providing an opinion regarding this item.
- The civil engineering assessment indicates that the public infrastructure surrounding the site (water, sanitary sewer, and storm sewer) systems are old and may be deteriorated and/or under-capacity. Additional evaluation of these systems will be required, and it will be important to verify that an appropriate cost allowance is included in the final project budget for any required upgrades.

EXHIBITS:

- a. Development Budget
- b. Pro Forma
- c. Source of Funds analysis

Development Budget

INCOME PROPERTY DEVELOPMENT BUDGET

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PROJECT:	Art House Lofts	Surface Parking:	392
NUMBER OF UNITS:	248	TOTAL COST PER UNIT:	220,746
		Gross SF:	256,328

ITEM	COST	% TOTAL	Depreciable	Amortize	Non-Depr.	Historic RTC	LIHTC 4%	LIHTC 9%
ACQUISITION								
Build Acquisition	0	0.00%	0				0	
Land Acquisition	3,000,000	5.48%			3,000,000			
SITE IMPROVEMENTS								
Demolition	0	0.00%	0			0	0	0
On-Site Imp.	3,720,000	6.80%	3,720,000				3,720,000	3,720,000
Off-Site Imp.	0	0.00%			0			
CONSTRUCTION								
Rehabilitation	0	0.00%	0			0	0	0
New Construction	26,875,153	49.09%	26,875,153				26,875,153	26,875,153
General Requirements	1,835,709	3.35%	1,835,709			0	1,835,709	1,835,709
Contractor Overhead	611,903	1.12%	611,903			0	611,903	611,903
Contractor Profit	1,835,709	3.35%	1,835,709			0	1,835,709	1,835,709
P & P Bond or LOC	350,000	0.64%	350,000			0	350,000	350,000
Contingency	1,686,924	3.08%	1,686,924			0	1,686,924	1,686,924
Permits & Impact Fees	575,000	1.05%	575,000			0	575,000	575,000
Furnishings	300,000	0.55%	300,000				300,000	300,000
Relocation	0	0.00%	0				0	0
GC insurance	100,000	0.18%	100,000			0	100,000	100,000
PROFESSIONAL FEES								
Architect & Engineer	660,000	1.21%	660,000			0	660,000	660,000
Real Estate Legal	250,000	0.46%	250,000			0	250,000	250,000
Consultants / Reports	42,000	0.08%	42,000			0	42,000	42,000
Developer Fee	5,921,000	10.82%	5,921,000			0	5,921,000	5,921,000
Environmental	15,000	0.03%	15,000			0	15,000	15,000
Cost Certification	30,000	0.05%	30,000			0	30,000	30,000
Accounting	0	0.00%	0			0	0	0
Survey	18,000	0.03%	18,000			0	18,000	18,000
Lender Inspections	30,000	0.05%	30,000			0	30,000	30,000
CONSTRUCTION FINANCE								
Title and Recording	225,000	0.41%	225,000			0	225,000	225,000
Constr. Interest	3,200,000	5.85%	3,200,000			0	1,357,000	1,357,000
Constr. Loan Fees	342,194	0.63%	342,194			0	342,194	342,194
Appraisal	7,500	0.01%	7,500			0	7,500	7,500
Market Study	15,000	0.03%	15,000			0	15,000	15,000
Lender Legal	100,000	0.18%	100,000			0	100,000	100,000
Other	0	0.00%	0			0	0	0
PERMANENT FINANCE								
Perm. Loan Fees	336,250	0.61%		336,250				
Bond Issuance Cost	525,000	0.96%		525,000				
Title and Recording	75,000	0.14%		75,000				
Lender Legal	55,000	0.10%		55,000				
HFC App & Costs	200,000	0.37%		200,000				
SOFT COSTS								
Property Taxes	15,000	0.03%	15,000			0	15,000	15,000
Constr. Insurance	170,000	0.31%	170,000			0	170,000	170,000
Soft Cost Contingency	50,000	0.09%	50,000			0	50,000	50,000
Tax Credit Appl. Fee	75,938	0.14%		75,938				
Tax Credit Mon. Fee		0.00%		0				
Marketing Expense	60,000	0.11%		60,000				
Organizational Exp.	0	0.00%		0				
Other Amort. Soft	0	0.00%		0				
Syndication Expense	50,000	0.09%			50,000			
Tax Opinion	0	0.00%			0			
Leaseup Expense	50,000	0.09%			50,000			
RESERVES								
Rentup Reserve	0	0.00%			0			
Operating Reserve	1,336,721	2.44%			1,336,721			
Bond D/S Reserve	0	0.00%			0			
Working Capital	0	0.00%			0			
Other	0	0.00%			0			
DEVELOPMENT COST	54,745,001	100.00%	48,981,092	1,327,188	4,436,721	0	47,138,092	47,138,092

Total Hard Costs: 36,915,398 % Soft/Hard: 40.17% Range: 15-35%
 Total Soft Costs (exc Ac 14,829,603 % Soft/TPC: 27.09% Range: 5-25%
 % Soft/TPC (exc Acq): 28.66% Range: 10-30%

Pro Forma

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RENT AND EXPENSE ASSUMPTIONS

RESIDENTIAL RENTS

Unit Type	# Units	Max Rent		Mo. Rent	Ann. Rent	SF
1 BR 50% AMI	15	808	51	757	136,260	729
1 BR 60% AMI	39	970	51	900	421,200	729
1 BR - MARKET RATE	5	1004	0	1,004	60,240	729
2 BR 50% AMI	33	970	65	905	358,380	1021
2 BR 60% AMI	81	1164	65	1,099	1,068,228	1021
2 BR 60% AMI	10	1164	65	1,099	131,880	1021
2 BR - MARKET RATE	15	1244	0	1,244	223,920	1164
3 BR 50% AMI	15	1120	79	1,041	187,380	1326
3 BR 60% AMI	30	1344	79	1,225	441,000	1326
3 BR - MARKET RATE	5	1367	0	1,367	82,020	1326
TOTAL	248			259,209	3,110,508	

RESIDENTIAL ASSUMPTIONS		Percent
Rent Inc./Year		2.00%
Op Cost Inc./Year		3.00%
Reserves Inc./Year		3.00%
Vac. Year 1		7.0%
Vac. Year 2		7.0%
Vac. Year 3 & Future		7.0%

TOTAL INCOME	
Residential Income	3,110,508
Other Income	29,760
TOTAL INCOME	3,140,268

OPERATING EXPENSES	TOTAL	Per Unit	
Management Fee	131,350	530	4.5% Percent of EGI
Advertise/Market	15,000	60	
Payroll	301,500	1,216	
Administrative	91,670	370	
Utilities	193,000	778	
Trash	45,000	181	
Maintenance/Repairs	138,500	558	
Grounds	25,000	101	
Real Estate Property Tax	0	0	
Insurance	74,400	300	
Other	44,640	180	
Total Operating Expenses	1,060,060	4,274	33.76% Percent of Revenue
Replacement Reserves	62,000	250	
City allowed priority GP Fee	50,000	202	
Total Operating Exp. and Reserves	1,172,060	4,726	37.32% Percent of Revenue

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AFTER-TAX CASH FLOW ANALYSIS

DETERMINING TAXES	1	2	3	4	5	6	7	8	9	10
Cash Flow	0	0	0	0	0	0	21,420	24,196	25,481	26,771
- Depreciation Expense	1,682,703	1,682,703	1,682,703	1,682,703	1,682,703	1,682,703	1,682,703	1,682,703	1,682,703	1,682,703
- Amortization of Fees	88,479	88,479	88,479	88,479	88,479	88,479	88,479	88,479	88,479	88,479
- Accrued Interest	0	0	0	0	0	0	0	0	0	0
+ Amortization of Principal	623,603	662,866	702,954	743,891	785,702	828,412	443,653	432,710	453,823	487,549
<u>+ Funded Reserves</u>	<u>62,000</u>	<u>63,860</u>	<u>65,776</u>	<u>67,749</u>	<u>69,782</u>	<u>71,875</u>	<u>74,031</u>	<u>76,252</u>	<u>78,540</u>	<u>80,896</u>
= Earnings (Loss) Before Tax	(1,085,579)	(1,044,456)	(1,002,452)	(959,542)	(915,699)	(870,896)	(1,232,078)	(1,238,024)	(1,213,339)	(1,175,967)
x Tax Rate	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
= Tax Incurred (Saved)	(227,972)	(219,336)	(210,515)	(201,504)	(192,297)	(182,888)	(258,736)	(259,985)	(254,801)	(246,953)
Cash Flow	0	0	0	0	0	0	21,420	24,196	25,481	26,771
- Tax Incurred (+ Saved)	(227,972)	(219,336)	(210,515)	(201,504)	(192,297)	(182,888)	(258,736)	(259,985)	(254,801)	(246,953)
Cash Flow After-tax	227,972	219,336	210,515	201,504	192,297	182,888	280,156	284,181	280,282	273,724

After-tax Benefits Analysis

Cash Flow	0	0	0	0	0	0	21,420	24,196	25,481	26,771
- Taxes	(227,972)	(219,336)	(210,515)	(201,504)	(192,297)	(182,888)	(258,736)	(259,985)	(254,801)	(246,953)
+ RTC	0	0	0	0	0	0	0	0	0	0
+ LIHTC	2,182,869	2,182,869	2,182,869	2,182,869	2,182,869	2,182,869	2,182,869	2,182,869	2,182,869	2,182,869
+ Net Sales Proceeds	0	0	0	0	0	0	0	0	0	0
Net Cash Flow After-tax	2,410,841	2,402,205	2,393,384	2,384,373	2,375,166	2,365,757	2,463,025	2,467,050	2,463,151	2,456,593
Ltd. Partners	19,207,326	2,410,599	2,401,965	2,393,145	2,384,134	2,374,928	2,365,521	2,462,779	2,466,804	2,462,905
IRR Equity	18,446,328									
Desired IRR	6.00%									
Actual IRR	5.21%									
LP Capital account	19,207,326	18,121,747	17,077,291	16,074,839	15,115,297	14,199,598	13,328,703	12,075,205	10,812,985	9,574,165
Cash Needed for Exit Taxes	0	0	0	0	0	0	0	0	0	0

Loan Amortization

BANK 1ST MORTGAGE	1	2	3	4	5	6	7	8	9	10
INTEREST APR	4.50%									
AMORTIZATION IN YEARS	35	YRS OF PMT	35							
LOAN AMOUNT	26,250,000									
P&I - ANNUAL	1,490,759	1,490,759	1,490,759	1,490,759	1,490,759	1,490,759	1,490,759	1,490,759	1,490,759	1,490,759
INTEREST	1,174,786	1,160,270	1,145,088	1,129,208	1,112,598	1,095,225	1,077,055	1,058,049	1,038,170	1,017,379
PRINCIPAL	315,973	330,489	345,671	361,551	378,161	395,533	413,704	432,710	452,588	473,380
REMAINING PRINCIPAL	25,934,027	25,603,539	25,257,868	24,896,316	24,518,156	24,122,622	23,708,918	23,276,208	22,823,620	22,350,240

Sources of Funds

SOURCES OF FUNDS

Art House Lofts

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PROJECT ASSUMPTIONS

% Commercial	0.00%
Anticipated Year of Sale	16
Cap Rate at Sale	5.50%
Cost of Sale	2%
Tax Rate at Sale	21%

HISTORIC REHAB. ASSUMPTIONS

Historic Rehabilitation 1=yes, 0=no	0
Historic RTC Equity Rate	\$0.00

LIHTC ASSUMPTIONS

Project Type (1=acq/rehab, 2=bond, 3=new constr.)	2
LIHTC Occupancy Percentage	89.05%
Bldg. Acquisition Eligible 1=yes, 0=no	0

LIHTC 4% Rate	4.00%
LIHTC 9% Rate	9%
LIHTC Bonus Area 1=yes, 0=no	1

INVESTMENT ASSUMPTIONS

Investor Tax Rate	21%
Investor Ownership	99.99%
Basis for Equity (1=Sale Rate, 2=IRR, 3=\$Amt.)	1
1. LIHTC Sale Rate	\$0.88
2. Expected Internal Rate of Return (IRR)	6.00%
3. Equity Investment Committed	\$0

EQUITY ATTRACTED

Equity Attracted Based on Sale Rate	\$19,207,326
Equity Attracted Based on IRR	\$18,446,328
Equity Attracted Based on Dollar Amount	\$0

DEBT ATTRACTION CALCULATION

	Requirements	Loan Amt.
Debt Coverage Ratio	1.20	\$26,389,089
Loan to Value Ratio	80%	\$26,158,389
Capitalization Rate	5.50%	
Stabilized NOI	\$1,798,389	
Fair Market Value	\$32,697,986	
Loan Amount, 1=\$Amt., 2=DCR, 3=DCR and LVR	1	
Bank Loan Committed	\$26,250,000	
Loan Amount Based on DCR	\$26,389,089	
Loan Amount Based on DCR and LVR	\$26,158,389	

PROPOSED PERMANENT FINANCING

	Amount	Rate	Amortization	Maturity	Pymts. Begin	Refi Balloon?	Source
BANK	26,250,000	4.50%	35	35		Y	FHLMC
Amortizing Loan							
Amortizing Loan							
Interest Only Loan							
Interest Only Loan							
Deferred Loan							
Deferred Loan							
Developer Loan	2,250,000			15	100.00%	% of CF	Deferred Dev Fee
Cash Flow Loan	7,037,675	3.00%			50.00%	% of CF	City of Dallas
TOTAL LOANS	35,537,675						
Grant - Non Basis	0						
Grant - Other	0						
TOTAL GRANTS	0						
EQUITY	19,207,326						
TOTAL SOURCES	54,745,001						

\$ 28,377.72 per unit

TOTAL DEV. COST	54,745,001
- TOTAL SOURCES	54,745,001
GAP	0

CASH FLOW	1	2	3	4	5
	0	0	0	0	0

ACTUAL IRR	5.21%
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TAX & APPRECIATION BENEFITS

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Art House Lofts

LIHTC	Acquisition and Rehab.	Tax Exempt Bond	Rehab./New No Acq.
Rehab./New Construction	47,138,092	47,138,092	47,138,092
- % Commercial	0	0	0
- RTC (Housing only)	0	0	0
- Grants	0	0	0
= Rehab/Const. Basis	47,138,092	47,138,092	47,138,092
x Credit Rate	9.00%	4.00%	9.00%
x Bonus Area	130%	130%	130%
= Annual Rehab/Const Credit	5,515,157	2,451,181	5,515,157
Acquisition	0	0	
x Credit Rate	4.00%	4.00%	
= Annual Acq. Credit	0	0	
Annual Credit	5,515,157	2,451,181	5,515,157
x % Low Income	89%	89%	89%
Amount of Credit/Year	4,911,455	2,182,869	4,911,455

Annual LIHTC	2,182,869
10 Year LIH Tax Credit	21,828,690
Equity	19,209,247
x % Ownership	99.99%
Partnership Equity	19,207,326
TOTAL EQUITY LIHTC	19,207,326

CALCULATION OF HISTORIC TAX CREDIT

Eligible Costs	0
- Non RTC Basis Items	
Historic Basis	0
Historic Rate	20%
Historic Tax Credit	0
x % Ownership	99.99%
Historic RTC Equity Rate	\$0.00
Equity Raised by RTC	0

DEPRECIABLE BASIS

Depreciable Expenses	48,681,092
- Amount of Historic RTC	0
Adjusted Depreciable Basis	48,681,092
Years of Depreciation	30.0
Other Depreciable	300,000
Depreciation Per Year	1,682,703

Likely Residential property

NET SALE PROCEEDS

Sale Price	39,680,132
- Cost of Sale	793,603
- Existing Debt	27,072,405
- Tax Due	2,942,443
Net Sale Proceeds	0

Capital Gain

Sale Price	39,680,132
- Cost of Sale	793,603
- Adjusted Bas	-26,462,100
Capital Gain	14,011,635

Adjusted Basis

Original Project Cost	54,745,001
- Sum Depreciation	26,923,249
- Sum Amortization	1,359,652
- RTC	0
Adjusted Basis	26,462,100

Tax on Gain

Capital Gain	14,011,635
x Tax Rate	21%
Tax	2,942,443