TDHCA

02080

Region 6

General Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM
2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Fallbrook Ranch Apartments** TDHCA #: **02080**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 500 block of West Rd. west of Deer Trail Dr.
City: Houston
County: Harris
Zip Code: 77038

LIHTC Primary Set Aside: G
Additional Elderly Set Aside ☐
Purpose / Activity: NC
Development Type: Family
☐ TTC ☐ DDA ☐ QCT

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

Special Needs: 14 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: Fallbrook Ranch, Ltd.

Principal Names:	Principal Contact:	Percentage Ownership:
Investors Affordable Housing Group IV, LLC	Darlene S. Guidry	100 %
Hettig Development Group III, Ltd.	John E. Hettig	0 %
Investors Management Corp.	Darlene S. Guidry	0 %
		0 %
		0 %

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$936,382** Allocation over 10 Years: $9,363,820
Credits Requested: $936,951 Eligible Basis Amount: $936,382 Equity/Gap Amount: $1,020,574

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	1	1	0	0	2
40%	0	0	11	5	0	0	16
50%	0	0	42	21	0	0	63
60%	0	0	52	23	0	0	75
MR	0	0	26	14	0	0	40
Total	0	0	132	64	0	0	

Total LI Units: 156
Owner/Employee Units: 0
Total Project Units: 196
Applicable Fraction: 79.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost: **$15,958,482**
Gross Building Square Feet: 207,845
Total NRA SF: 202,780
Gross/Net Rentable: 1.02
Average Square Feet/Unit: 1,035
Cost Per Net Rentable Square Foot: $78.70
Credits per Low Income Unit $6,002

INCOME AND EXPENSE INFORMATION

Effective Gross Income: $1,497,257
Total Expenses: $746,687
Net Operating Income: $750,570
Estimated 1st Year Debt Coverage Ratio: 1.13

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer: Hettig Development Group III, LTD
Housing GC: Hettig Construction Corp.
Infrastructure GC: NA
Cost Estimator: NA
Architect: JRM Architects, Inc.
Property Manager: Investors Management Group, LLC
Engineer: Brown And Gay
Syndicator: JER Hudson Housing Capital LLC

Market Analyst: O'Connor & Associates
Originator/UW: NA
Appraiser: NA
Attorney: Andrews, Kurth, Mayor, Day, Caldwell & Keaton
Supp Services: Child and Adult Development Center of Houston, LLC
Accountant: Novogradac & Company, LLP
Permanent Lender: Mitchell Mortgage Company, LLC

DEPARTMENT EVALUATION

Points Awarded: 146 Site Review: Acceptable Underwriting Finding: A

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommende

6/17/02 10:42 AM

Project Name: Fallbrook Ranch Apartments　　Project Number: 02080

PUBLIC COMMENT SUMMARY　Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials): Support: **2** Opposition: **1**

☑ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:		Comment from Other Public Official
Local Official:	Robert Eckels, County Judge, NC	Bruce A. Austin, Harris Co. Community Dev. Dept., S
TX Rep.:	Ken Yarbrough, Dist. 138 S	El Franco Lee, County Commissioner, Pct. One, S
TX Sen.:	John Whitmire, Dist. 15 S	Larry Lipton, Chairman, Chamber of Commerce, S
US Rep.:	Gene Green, US Representative, District 29, O	
US Sen.:		

CONDITIONS TO COMMITMENT

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☑ Score　☐ Meeting Required Set Aside　☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This was one of the highest scoring developments in Region 6.

Brooke Boston, Acting LIHTC Co-Manager　Date　David Burrell, Director of Housing Programs　Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director　Date
Chairman of Executive Award and Review Advisory Committee

☐ **BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):**

Approved Credit Amount: 　Date of Determination:

Michael E. Jones, Chairman of the Board　Date

Compliance Status Summary

Project ID #: 02080 — LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Fallbrook Ranch Apartments — HOME ☐ HTF ☐

Project City: Houston — BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 4 — # not yet monitored or pending review 2

of projects grouped by score — 0-9: 4 — 10-19: 0 — 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received: No

Non-Compliance Reported

Completed by Sara Carr Newsom **Completed on** 05/08/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ no outstanding issues ☐ outstanding issues ☐

Comments:

Completed by Lucy Trevino **Completed on** 05/23/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by Ralph Hendrickson **Completed on** 05/17/2002

Community Affairs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______ **Completed on** ______

Housing Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______ **Completed on** ______

Housing Programs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☑ reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______ **Completed on** ______

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: June 5, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02080

DEVELOPMENT NAME

Fallbrook Ranch Apartments

APPLICANT

Name: Fallbrook Ranch, Ltd. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 1177 West Loop South, Suite 1475 **City:** Houston **State:** TX

Zip: 77027 **Contact:** W. Barry Kahn **Phone:** (713) 871-0063 **Fax:** (713) 871-1916

PRINCIPALS of the APPLICANT

Name	(%)	Title
Investors Affordable Housing Group IV, LLC	.01	Managing General Partner
JER Hudson Housing Capital LLC	99.99	Initial Limited Partner
Hettig Development Group III, Ltd. (HDG III)	N/A	Developer & 75% owner of G.P.
Investors Management Group (IMG)	N/A	25% owner of General Partner
John E. Hettig Trust of 1985	N/A	49.5% owner of HDG III
W. Barry Kahn Share Trust	N/A	49.5% owner of HDG III
Hettig Asset Mgmt Gp IV, Inc. (HAMG IV)	N/A	1% owner of HDG III
John E. Hettig	N/A	50% owner of HAMG IV
W. Barry Kahn	N/A	50% owner of HAMG IV
Darlene S. Guidry	N/A	100% owner of IMG

GENERAL PARTNER

Name: Investors Affordable Housing Group IV, LLC **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 1177 West Loop South, Suite 1475 **City:** Houston **State:** TX

Zip: 77027 **Contact:** Darlene Smith Guidry **Phone:** (713) 871-0063 **Fax:** (713) 871-1916

PROPERTY LOCATION

Location: 500 block of West Road west of Deer Trail Drive ☐ **QCT** ☐ **DDA**

City: Harris County **County:** TX **Zip:** 77038

REQUEST

Amount	Interest Rate	Amortization	Term
$936,951	N/A	N/A	N/A

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: New construction **Set-Aside:** ☒ General ☐ Rural ☐ Non-Profit

SITE DESCRIPTION

Size: 13.74 acres 598,514 square feet **Zoning/ Permitted Uses:** None (in county)

Flood Zone Designation: Zone X **Status of Off-Sites:** Partially Improved

DESCRIPTION of IMPROVEMENTS

Total Units: 196 **# Rental Buildings** 19 **# Common Area Bldngs** 3 **# of Floors** 2 **Age:** 0 yrs **Vacant:** N/A at / /

Number	Bedrooms	Bathroom	Size in SF
132	2	2	935
64	3	2	1,240

Net Rentable SF: 202,780 **Av Un SF:** 1,035 **Common Area SF:** 5,065 **Gross Bldng SF** 207,845

Property Type: ☒ Multifamily ☐ SFR Rental ☐ Elderly ☒ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on a post-tensioned concrete slab on grade, 98% cement siding/2% masonry veneer, drywall interior wall surfaces, composite shingle & galvanized metal roofing

APPLIANCES AND INTERIOR FEATURES

Carpeting & ceramic tile flooring, range & oven, hood & fan, garbage disposal, dishwasher, refrigerator, microwave oven, tile tub/shower, washer & dryer connections, ceiling fans, laminated counter tops, individual water heaters

ON-SITE AMENITIES

- 2,261-SF clubhouse/leasing center building with activity room, management offices, laundry facilities, kitchen, & restrooms.
- 2,304-SF community center building with activity room, classroom, kitchen, restrooms, & maintenance facilities.
- 500-SF laundry building, swimming pool, equipped children's play area, sports courts, perimeter fencing with limited access gate

Uncovered Parking: 354 spaces **Carports:** 0 spaces **Garages:** 48 spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Mitchell Mortgage Company, LLC **Contact:** Wendy Maceo

Principal Amount: $12,500,000 **Interest Rate:** See below

Additional Information: Loan divided into 2 portions:
1. $7,700,000 forward-funded with proceeds of permanent mortgage loan, fixed interest rate estimated at 7%
2. $4,800,000 at variable interest rate of LIBOR + 225 basis points with floor of 6%

Amortization: N/A yrs **Term:** 2 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: Mitchell Mortgage Company LLC **Contact:** Wendy Maceo

Principal Amount: $7,700,000 **Interest Rate:** Estimated & underwritten at 7.75%

Additional Information:

Amortization: 30 yrs **Term:** 18 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

Annual Payment:	$661,965	**Lien Priority:**	1st	**Commitment Date**	2/ 25/ 2002

LONG TERM/PERMANENT FINANCING

Source: Child & Adult Development Center of Houston, Inc. **Contact:** Lashondia Pollard

Principal Amount: $35,000 **Interest Rate:** (Grant)

Additional Information: Subsidy for 2 30% AMI units

Amortization: N/A yrs **Term:** N/A yrs **Commitment:** ☐ None ☒ Firm ☐ Conditional

Annual Payment: N/A **Lien Priority:** N/A **Commitment Date** 12/ 20/ 2002

LIHTC SYNDICATION

Source: JER Hudson Housing Capital LLC **Contact:** Sam Ganeshan

Address: 630 Fifth Avenue, Suite 2300 **City:** New York

State: NY **Zip:** 10111 **Phone:** (212) 218-4469 **Fax:** (212) 218-4467

Net Proceeds: $7,581,710 **Net Syndication Rate (per $1.00 of 10-yr LIHTC)** 81¢

Commitment ☐ None ☐ Firm ☒ Conditional **Date:** 2/ 26/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $640,772 **Source:** Deferred developer fee

VALUATION INFORMATION

ASSESSED VALUE

Land: $1,216,380 (31.59-acre parcel) **Assessment for the Year of:** 2001

Building: N/A **Valuation by:** Harris County Appraisal District

Total Assessed Value: $529,062 (prorated 13.74 acres)

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Earnest money contract

Contract Expiration Date: 11/ 10/ 2002 **Anticipated Closing Date:** 9/ 15/ 2002

Acquisition Cost: $ 1,021,460 **Other Terms/Conditions:**

Seller: Bud Moore, Inc., Dorothy J. Jensen, Lori Bynum, Kyle Reilly, Homer John Moore III, Norrie Park, Harry T. Moore, Susdan Freele, Teresa Blair, Gayle Pearson **Related to Development Team Member:** No

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Fallbrook Ranch Apartments is a proposed new construction development of 196 units of mixed income housing located in Harris County near the northern city limits of Houston. The development is comprised of 19 two-story residential buildings as follows:

- Eleven Building Type A/B with 12 one-story, two-bedroom, flat units;
- Eight Building Type C with eight two-story, three-bedroom, townhouse-style units.

Based on the site plan the apartment buildings are distributed evenly and quite densely throughout the site. There is to be a decorative tower and two water features at the entrance to the site, along with separate clubhouse/leasing and community buildings and the swimming pool. A 500-square foot laundry building is to be located near the center of the site. The 2,261-square foot clubhouse/leasing building plan includes the management offices, a 450-square foot activities room, kitchen, restrooms, and laundry facilities. The architect's building plan reflects 2,402 square feet and this larger amount was used in the Underwriter's cost estimate. The 2,304-square foot community building plan includes a 1,313-square foot community center, a 260-SF classroom, kitchen, and restrooms. There are also planned to be 48 rental garages placed in groups of six throughout the development.

Supportive Services: The Applicant has contracted with Child and Adult Development Center of Houston, Inc. to provide the following supportive services programs to tenants: personal growth opportunities, family skills development, education, drug prevention, financial management, fun activities for youth, and information and referral services for other local service providers. These services will be provided at no cost to tenants. The contract requires the Applicant to provide, furnish, and maintain facilities in the community building for provision of the services and to pay for the building's utilities and telephone line, use of a copier and fax machine, plus $10/unit/month ($23,520/year) for these support services.

Schedule: The Applicant anticipates construction to begin in May of 2003, to be completed and placed in service in May of 2004, and to be substantially leased-up in October of 2004.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside. 156 of the units (79% of the total) will be reserved for low-income tenants. Two of the units (1%) will be reserved for households earning 30% or less of AMGI, 16 units (8%) will be reserved for households earning 40% or less of AMGI, 63 units (32%) will be reserved for households earning 50% or less of AMGI, 75 units (38%) will be reserved for households earning 60% or less of AMGI, and the remaining 40 units (20%) will be offered at market rents.

Special Needs Set-Asides: Fourteen units (7%) will be reserved for handicapped/developmentally-disabled tenants. All first floor units will be designed in accordance with Section 504 standards and will be adapted upon request at the development's expense for physically impaired tenants.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated January 28, 2002 was prepared by Patrick O'Connor & Associates, L.P. and highlighted the following findings:

Definition of Market/Submarket: "…the subject's primary market area includes those properties located in [nine zip codes]…The secondary market area can be defined as the area within the primary market area, plus [six additional zip codes]." (p. 13) The market area is a long and narrow configuration.

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY		
Type of Demand	**Units of Demand**	**% of Total Demand**
Household Growth	236	3%
Resident Turnover	7,432	88%
Other Sources (10% of growth & turnover)	767	9%
TOTAL ANNUAL DEMAND	**8,435**	**100%**

Ref: p. 40

Capture Rate: Calculated by the analyst to be 6.46%. (p. 41) The chosen market area excludes several recently approved developments that are closer to the proposed development than the furthest boundary of the market area. Even if these additional 616 units are included without increasing the demand side to include the population areas in which they are situated, the worst case concentration capture rate based on the market analyst's demand would be 16.73%.

Local Housing Authority Waiting List Information: "The waiting list for Section 8 vouchers was closed in

1994, when the list had grown to more than 26,000 households. According to a September 2000 article in the Houston Chronicle, the waiting list for Section 8 vouchers is approximately six years." (p. 13)
Market Rent Comparables: The market analyst surveyed five comparable apartment projects totaling 1,008 units in the market area. (p. 56)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	**Proposed**	**Program Max**	**Differential**	**Market**	**Differential**
2-Bedroom (30%)	$301	$301	$0	$780	-$479
2-Bedroom (40%)	$435	$435	$0	$780	-$345
2-Bedroom (50%)	$569	$569	$0	$780	-$211
2-Bedroom (60%)	$703	$703	$0	$780	-$77
2-Bedroom (MR)	$747	N/A	N/A	$780	-$33
3-Bedroom (30%)	$341	$342	-$1	$1,025	-$684
3-Bedroom (40%)	$496	$497	-$1	$1,025	-$529
3-Bedroom (50%)	$651	$651	-$1	$1,025	-$374
3-Bedroom (60%)	$806	$807	-$1	$1,025	-$219
4-Bedroom (MR)	$854	N/A	N/A	$1,025	-$171

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: "The rent comparables reported current occupancies ranging from 90 to 99%, with an average of 94%. The average occupancy for apartments in the subject's primary market area was reported as 89.53%..." (p. 29)
Absorption Projections: "Based on our research, most projects that are constructed in the Houston area typically lease up within 12 months. Pre-leasing should commence prior to the completion of the construction." (p. 28)
Known Planned Development: "Within the subject's area, site preparation has commenced for a new project (Park Row) to be located on Imperial Valley Drive, north of Aldine-Bender. This is a low-income housing project. The only other project either proposed or under construction in the submarket is Fountains at Tidwell, which will also be an LIHTC project." (p. 27)

The Underwriter found the market study to be acceptable.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: The site is an "L"-shaped parcel located in Harris County near the northern city limit of Houston, approximately 12 miles from the central business district. The site is situated on the south side of West Road.
Population: The estimated 2000 population of the primary market area was 239,558 and is expected to increase by 7% to approximately 257,450 by 2005. Within the primary market area there were estimated to be 89,099 households in 2000.
Adjacent Land Uses: Land uses in the overall area in which the site is located are mixed, with vacant land, commercial, retail, churches, schools, and single- and multifamily residential. Adjacent land uses include:

- **North:** West Road with vacant land beyond
- **South:** Vacant land
- **East:** Vacant land
- **West:** Vacant land

Site Access: Access to the property is from the east or west along West Road. The development is to have one main entry, from the north off West Road. Access to Interstate Highway 45 is .75 miles east, which provides connections to all other major roads serving the Houston area.
Public Transportation: Public transportation to the area is not available.
Shopping & Services: The site is within two miles of a regional shopping mall, and a variety of other retail establishments and restaurants are located along nearby thoroughfares. Schools, churches, and hospitals and health care facilities are located within a short driving distance from the site.

Site Inspection Findings: The site has not been inspected by a TDHCA staff member, and receipt, review, and acceptance of an acceptable site inspection report is a condition of this report.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

A Phase I Environmental Site Assessment report dated February 22, 2002 was prepared by Phase Engineering, Inc. and contained the following finding: "This assessment has revealed no evidence of recognized environmental conditions in connection with the property." (p. 16)

OPERATING PROFORMA ANALYSIS

Income: The Applicant's rent projections are the maximum rents allowed under LIHTC guidelines, and are achievable according to the market analyst. The Applicant stated that tenants will pay water and sewer in this project, and rents and expenses were calculated accordingly. The Applicant's secondary income estimate of $17.80unit/month includes $9.79 in garage rental for the 48 garages; the Underwriter used the upper end of the TDHCA secondary income underwriting guideline range ($15/unit) in recognition of the likelihood of additional income from this source. The Applicant's estimate of vacancy and collection losses is in line with TDHCA underwriting guidelines.

Expenses: The Applicant's estimate of total operating expense is 3.6% lower than the Underwriter's adjusted TDHCA database-derived estimate, an acceptable deviation. The Applicant's budget shows several line item estimates, however, that deviate significantly when compared to the database averages, particularly general and administrative ($20K lower), management fee ($7K lower), payroll ($14K higher), utilities ($26K lower), water, sewer, and trash ($4K higher), and insurance ($6K higher).

Conclusion: As the Applicant's net operating income is within 5% of the Underwriter's estimate, the Applicant's NOI will be used to evaluate debt service capacity. In both the Applicant's and the Underwriter's income and expense estimates there is sufficient net operating income to service the proposed first lien permanent mortgage at a debt coverage ratio that is within an TDHCA underwriting guidelines of 1.10 to 1.25.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: The site cost of $1,021,460 ($1.71/SF or $74.3K/acre) is regarded by the market analyst as somewhat above-market based on recent comparable land sales which averaged around $1.50/SF, but is assumed to be reasonable since the acquisition is an arm's-length transaction.

Off-Site Costs: The Applicant claimed off-site costs of $121,8212 for the extension of water and sewer lines to the site, and provided sufficient substantiation through a letter from the utility provider and an engineer's certification to justify these costs.

Sitework Cost: The Applicant's claimed sitework costs of $6,173 per unit are considered reasonable compared to historical sitework costs for multifamily projects.

Direct Construction Cost: The Applicant's direct construction cost estimate is $28K or 0.2% lower than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate, and is therefore regarded as reasonable as submitted.

Fees: The Applicant's contractor's and developer's fees as submitted for general requirements, general and administrative expenses, and profit are all within the maximums allowed by TDHCA guidelines. The Underwriter transferred $7.5K in housing consultant fees to developer fees, however, which results in developer fees exceeding the allowable maximum by $8,595 and the movement of this overage effectively to ineligible costs.

Conclusion: The Applicant's total development cost estimate is within 5% of the Underwriter's verifiable estimate and is therefore generally acceptable. Since the Underwriter has been able to verify the Applicant's projected costs to a reasonable margin, the Applicant's total cost breakdown, as adjusted, is used to calculate eligible basis and determine the LIHTC allocation. As a result an eligible basis of $13,964,105 is used to determine a credit allocation of $936,382 from this method. The resulting syndication proceeds will be used to compare to the gap of need using the Applicant's costs to determine the recommended credit amount.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with five types of financing from five sources: a conventional interim to permanent loan, a private grant, syndicated LIHTC equity, cash equity from the

General Partner, and deferred developer's fees.

Conventional Interim to Permanent Loan : There is a commitment for interim to permanent financing through Mitchell Mortgage Company, LLC in the amount of $12,500,000 during the interim period and $7,700,000 at conversion to permanent. The commitment letter indicated a term of 24 months for the construction portion and 18 years for the permanent, with a 30-year amortization schedule. The construction loan will be divided into two portions, the first in the amount of $7,700,000 which will be forward-funded through FNMA with the proceeds of the permanent loan, at the permanent loan interest rate less the servicing and guarantee fees. This rate will be fixed at rate lock and is currently estimated at 7%. The remainder of the construction loan in the amount of $4,800,000 will bear interest at the LIBOR rate + 225 basis points, with a floor of 6%. The interest rate on the permanent loan will be fixed prior to closing of the construction loan and is currently estimated at 7.75%.

LIHTC Syndication: JER Hudson has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $7,581,710 based on a syndication factor of 81%. The funds would be disbursed in a five-phased pay-in schedule:

1. 25% upon admission to the partnership;
2. 55% upon completion of construction;
3. 10% upon final closing of the permanent mortgage loan;
4. 7% upon receipt of IRS Forms 8609 and attainment of breakeven operating status;
5. 3% upon receipt of a tax return and audited financial statement for the breakeven date year.

Private Grant: The Applicant provided a commitment from the Child and Adult Development Center of Houston , Inc. for a grant in the amount of $35,000, to be used as a subsidy to offset the costs of construction of the two 30% AMI units.

Cash Equity: The Applicant indicated that the General Partner would contribute $1,000 to the development.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $640,772 amount to 35% of the total fees.

Financing Conclusions: Based on the Applicant's adjusted estimate of eligible basis, the LIHTC allocation should not exceed $936,382 annually for ten years, resulting in syndication proceeds of approximately $7,577,104. Based on the underwriting analysis, the Applicant's deferred developer fee will be increased slightly to $645,378, which still represents approximately 35% of the available fee. Should the Applicant's final direct construction cost exceed the cost estimate used to determine credits in this analysis, additional deferred developer's fee should be available to fund those development cost overruns. The projected amount of deferred developer fee should be repayable in just over five years of stabilized operations.

REVIEW of ARCHITECTURAL DESIGN

The units are in two types of buildings, either a two-story walk-up type or a two-story townhouse row type. The structures have a simple cement siding exterior finish with a small amount of cultured stone veneer trim, and hipped and gabled roofs. The development features several distinctive ornamental elements such as water features near the entrance, a road bridge spanning these features, and a 35-foot tall tower with metal roof. A similar tower is also on top of the clubhouse. The units are of larger than average size for market rate and LIHTC units, and have covered patios or balconies, outdoor storage closets, and utility closets with hookups for full-size appliances.

IDENTITIES of INTEREST

John Hettig and Barry Kahn are principals of the Developer, the General Partner, the General Contractor, and the parent of the Property Manager. Darlene Guidry is a principal of the General Partner and the Property Manager. These are common relationships for LIHTC-funded developments. A grant is being provided by the supportive services provider, which will be paid slightly less than the initial grant amount in annual supportive services fees. There are no LIHTC rules limiting this type of relationship.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights:

- The Applicant, General Partner, and the Developer and 75% owner of the General Partner (Hettig Development Group III, Ltd.) are single-purpose entities created for the purpose of receiving assistance from TDHCA and therefore have no material financial statements.

- Investors Management Group, the 25% owner of the General Partner, submitted an unaudited financial statement as of February 21, 2002 reporting total assets of $462K and consisting of $3.7K in cash, $304K in receivables, $17K in other current assets, and $137K in business interests. Liabilities totaled $445K, resulting in a net worth of $17.4K.
- The Child and Adult Development Center of Houston, Inc., the supportive services provider and provider of the private grant funds, submitted an unaudited financial statement as of January 1, 2002 reporting total assets of $469K and consisting of $43K in cash, $336K in receivables, and $91K in vehicles and equipment. Liabilities totaled $290K, resulting in a net worth of $180K.

Background & Experience:

- The Applicant, General Partner and Developer are new entities formed for the purpose of developing the project.
- Investors Management Corporation and Darlene Guidry listed participation as part owner, general partner, developer, and manager on three previous LIHTC housing developments totaling 298 units since 1996.
- Hettig Asset Management Group VI, Inc. listed participation as part owner, general partner, and developer on two previous LIHTC housing developments totaling 384 units since 1999.
- The John E. Hettig Trust of 1985 listed participation as limited or general partner, developer, contractor, and/or manager on six previous LIHTC housing developments totaling 768 units since 1994.
- John Hettig and W. Barry Kahn listed participation as limited or general partner, developer, contractor, and/or manager on five previous LIHTC housing developments totaling 572 units since 1994.
- The W. Barry Kahn Share Trust listed participation as limited or general partner, co-developer, and/or part owner on five previous LIHTC housing developments totaling 618 units since 1996.

SUMMARY OF SALIENT RISKS AND ISSUES

None noted.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $936,382 ANNUALLY FOR TEN YEARS, SUBJECT TO CONDITIONS.

CONDITIONS

1. Receipt, review, and acceptance of a satisfactory TDHCA site inspection report;

Credit Underwriting Supervisor:	*Jim Anderson*	**Date:**	June 5, 2002
Director of Credit Underwriting:	*Tom Gouris*	**Date:**	June 5, 2002

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Fallbrook Ranch Apartments, 9% LIHTC #02080

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Trash Only
TC (30%)	1	2	2	935	$402	$301	$301	$0.32	$100.91	$10.62
TC (40%)	11	2	2	935	536	435	4,785	0.47	100.91	10.62
TC (50%)	42	2	2	935	670	569	23,898	0.61	100.91	10.62
TC (60%)	52	2	2	935	804	703	36,556	0.75	100.91	10.62
MR	26	2	2	935		747	19,422	0.80	100.91	10.62
TC (30%)	1	3	2	1,240	465	341	341	0.28	123.35	10.62
TC (40%)	5	3	2	1,240	620	496	2,480	0.40	123.35	10.62
TC (50%)	21	3	2	1,240	775	651	13,671	0.53	123.35	10.62
TC (60%)	23	3	2	1,240	930	806	18,538	0.65	123.35	10.62
MR	14	3	2	1,240		854	11,956	0.69	123.35	10.62
TOTAL:	196		AVERAGE:	1,035	$599	$673	$131,948	$0.65	$108.24	$10.62

INCOME	Total Net Rentable Sq Ft:	202,780			TDHCA	APPLICANT			
POTENTIAL GROSS RENT					$1,583,376	$1,583,376			
Secondary Income			Per Unit Per Month:	$15.00	35,280	41,856	$17.80	Per Unit Per Month	
Other Support Income:					0	0			
POTENTIAL GROSS INCOME					$1,618,656	$1,625,232			
Vacancy & Collection Loss			% of Potential Gross Income:	-7.50%	(121,399)	(121,896)	-7.50%	of Potential Gross Rent	
Employee or Other Non-Rental Units or Concessions					0	0			
EFFECTIVE GROSS INCOME					$1,497,257	$1,503,336			
EXPENSES		% OF EGI	PER UNIT	PER SQ FT			PER SQ FT	PER UNIT	% OF EGI
General & Administrative		4.27%	$326	$0.32	$63,930	$43,967	$0.22	$224	2.92%
Management		5.00%	382	0.37	74,863	67,653	0.33	345	4.50%
Payroll & Payroll Tax		10.90%	833	0.81	163,268	177,000	0.87	903	11.77%
Repairs & Maintenance		4.99%	381	0.37	74,685	76,740	0.38	392	5.10%
Utilities		3.54%	271	0.26	53,048	27,240	0.13	139	1.81%
Water, Sewer, & Trash		2.46%	188	0.18	36,847	40,980	0.20	209	2.73%
Property Insurance		2.17%	166	0.16	32,445	38,606	0.19	197	2.57%
Property Tax	3.02527	11.88%	908	0.88	177,886	177,870	0.88	908	11.83%
Reserve for Replacements		2.62%	200	0.19	39,200	39,204	0.19	200	2.61%
Otherspt svcs, compl. fees, se		2.04%	156	0.15	30,516	30,516	0.15	156	2.03%
TOTAL EXPENSES		49.87%	$3,810	$3.68	$746,687	$719,776	$3.55	$3,672	47.88%
NET OPERATING INC		50.13%	$3,829	$3.70	$750,570	$783,560	$3.86	$3,998	52.12%
DEBT SERVICE									
First Lien Mortgage		44.21%	$3,377	$3.26	$661,965	$661,965	$3.26	$3,377	44.03%
Additional Financing		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
Additional Financing		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
NET CASH FLOW		5.92%	$452	$0.44	$88,605	$121,595	$0.60	$620	8.09%
AGGREGATE DEBT COVERAGE RATIO					1.13	1.18			
ALTERNATIVE DEBT COVERAGE RATIO					1.13				

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		6.39%	$5,212	$5.04	$1,021,460	$1,021,460	$5.04	$5,212	6.40%
Off-Sites		0.76%	622	0.60	121,822	121,822	0.60	622	0.76%
Sitework		7.57%	6,173	5.97	1,210,000	1,210,000	5.97	6,173	7.58%
Direct Construction		50.77%	41,413	40.03	8,117,031	8,085,000	39.87	41,250	50.66%
Contingency	4.29%	2.50%	2,041	1.97	400,000	400,000	1.97	2,041	2.51%
General Requireme	5.98%	3.49%	2,845	2.75	557,700	557,700	2.75	2,845	3.49%
Contractor's G &	1.99%	1.16%	948	0.92	185,900	185,900	0.92	948	1.16%
Contractor's Pro1	5.98%	3.49%	2,845	2.75	557,700	557,700	2.75	2,845	3.49%
Indirect Construction		1.84%	1,502	1.45	294,400	294,400	1.45	1,502	1.84%
Ineligible Expenses		1.92%	1,569	1.52	307,500	307,500	1.52	1,569	1.93%
Developer's G & A	2.00%	1.52%	1,242	1.20	243,495	0	0.00	0	0.00%
Developer's Profit	13.00%	9.90%	8,075	7.81	1,582,715	1,830,000	9.02	9,337	11.47%
Interim Financing		5.33%	4,347	4.20	852,000	852,000	4.20	4,347	5.34%
Reserves		3.35%	2,730	2.64	535,000	535,000	2.64	2,730	3.35%
TOTAL COST		100.00%	$81,565	$78.84	$15,986,722	$15,958,482	$78.70	$81,421	100.00%
Recap-Hard Construction Costs		*68.98%*	***$56,267***	***$54.39***	***$11,028,331***	***$10,996,300***	***$54.23***	***$56,104***	*68.91%*

SOURCES OF FUNDS

Description	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	RECOMMENDED
First Lien Mortgage	48.16%	$39,286	$37.97	$7,700,000	$7,700,000	$7,700,000
Additional Financing	0.22%	$179	$0.17	35,000	35,000	35,000
LIHTC Syndication Proceeds	47.43%	$38,682	$37.39	7,581,710	7,581,710	7,577,104
GP Equity	0.01%	$5	$0.00	1,000	1,000	1,000
Deferred Developer Fees	4.01%	$3,269	$3.16	640,772	640,772	645,378
Additional (excess) Funds Requi	0.18%	$144	$0.14	28,240	0	0
TOTAL SOURCES				$15,986,722	$15,958,482	$15,958,482

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Fallbrook Ranch Apartments, 9% LIHTC #02080

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook
Average Quality Multiple Residence Basis

31.588
529061.766

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$40.13	$8,136,707
Adjustments				
Exterior Wall Finish	0.16%		$0.06	$13,019
9-Ft Ceilings	4.00%		1.61	325,468
Roofing			0.00	0
Subfloor			(1.12)	(227,114)
Floor Cover			1.82	369,060
Porches/Balconies	$28.10	17,652	2.45	496,021
Plumbing	$585	588	1.70	343,980
Built-In Appliances	$1,550	196	1.50	303,800
Stairs/Fireplaces	$1,550	22	0.17	34,100
Floor Insulation			0.00	0
Heating/Cooling			1.41	285,920
Garages/Carports	$13.62	9,840	0.66	134,021
Comm &/or Aux Bldgs	$58.44	5,206	1.50	304,246
Other:			0.00	0
SUBTOTAL			51.88	10,519,228
Current Cost Multiplier	1.04		2.08	420,769
Local Multiplier	0.91		(4.67)	(946,731)
TOTAL DIRECT CONSTRUCTION COSTS			$49.28	$9,993,266
Plans, specs, survy, bld	3.90%		($1.92)	($389,737)
Interim Construction Int	3.38%		(1.66)	(337,273)
Contractor's OH & Profit	11.50%		(5.67)	(1,149,226)
NET DIRECT CONSTRUCTION COSTS			$40.03	$8,117,031

PAYMENT COMPUTATION

Primary	$7,700,000	Term	360
Int Rate	7.75%	DCR	1.13

Secondary	$35,000	Term	
Int Rate	0.00%	Subtotal DCR	1.13

Additional	$7,581,710	Term	
Int Rate		Aggregate DCR	1.13

RECOMMENDED FINANCING STRUCTURE:

Primary Debt Service	$661,965
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$88,605

Primary	$7,700,000	Term	360
Int Rate	7.75%	DCR	1.13

Secondary	$35,000	Term	0
Int Rate	0.00%	Subtotal DCR	1.13

Additional	$7,581,710	Term	0
Int Rate	0.00%	Aggregate DCR	1.13

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$1,583,376	$1,630,877	$1,679,804	$1,730,198	$1,782,104	$2,065,947	$2,394,998	$2,776,459	$3,731,329
Secondary Income	35,280	36,338	37,429	38,551	39,708	46,032	53,364	61,864	83,140
Other Support Income:	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	1,618,656	1,667,216	1,717,232	1,768,749	1,821,812	2,111,979	2,448,362	2,838,323	3,814,469
Vacancy & Collection Loss	(121,399)	(125,041)	(128,792)	(132,656)	(136,636)	(158,398)	(183,627)	(212,874)	(286,085)
Employee or Other Non-Rent	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$1,497,257	$1,542,175	$1,588,440	$1,636,093	$1,685,176	$1,953,581	$2,264,735	$2,625,449	$3,528,384
EXPENSES at 4.00%									
General & Administrative	$63,930	$66,488	$69,147	$71,913	$74,790	$90,993	$110,707	$134,692	$199,377
Management	74,863	77,109	79,422	81,805	84,259	97,679	113,237	131,272	176,419
Payroll & Payroll Tax	163,268	169,799	176,591	183,654	191,000	232,381	282,727	343,981	509,176
Repairs & Maintenance	74,685	77,672	80,779	84,010	87,371	106,300	129,330	157,349	232,916
Utilities	53,048	55,170	57,377	59,672	62,059	75,504	91,862	111,764	165,438
Water, Sewer & Trash	36,847	38,321	39,853	41,448	43,105	52,444	63,807	77,631	114,912
Insurance	32,445	33,743	35,092	36,496	37,956	46,179	56,184	68,356	101,184
Property Tax	177,886	185,001	192,401	200,097	208,101	253,187	308,041	374,779	554,764
Reserve for Replacements	39,200	40,768	42,399	44,095	45,858	55,794	67,882	82,588	122,251
Other	30,516	31,737	33,006	34,326	35,699	43,434	52,844	64,293	95,169
TOTAL EXPENSES	$746,687	$775,806	$806,067	$837,516	$870,198	$1,053,895	$1,276,619	$1,546,705	$2,271,605
NET OPERATING INCOME	$750,570	$766,368	$782,372	$798,577	$814,977	$899,686	$988,116	$1,078,744	$1,256,778
DEBT SERVICE									
First Lien Financing	$661,965	$661,965	$661,965	$661,965	$661,965	$661,965	$661,965	$661,965	$661,965
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$88,605	$104,403	$120,408	$136,612	$153,012	$237,721	$326,151	$416,779	$594,813
DEBT COVERAGE RATIO	1.13	1.16	1.18	1.21	1.23	1.36	1.49	1.63	1.90

LIHTC Allocation Calculation - Fallbrook Ranch Apartments, 9% LIHTC #020

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost				
Purchase of land	$1,021,460	$1,021,460		
Purchase of buildings				
(2) Rehabilitation/New Construction Cost				
On-site work	$1,210,000	$1,210,000	$1,210,000	$1,210,000
Off-site improvements	$121,822	$121,822		
(3) Construction Hard Costs				
New structures/rehabilitation ha	$8,085,000	$8,117,031	$8,085,000	$8,117,031
(4) Contractor Fees & General Requirements				
Contractor overhead	$185,900	$185,900	$185,900	$185,900
Contractor profit	$557,700	$557,700	$557,700	$557,700
General requirements	$557,700	$557,700	$557,700	$557,700
(5) Contingencies	$400,000	$400,000	$400,000	$400,000
(6) Eligible Indirect Fees	$294,400	$294,400	$294,400	$294,400
(7) Eligible Financing Fees	$852,000	$852,000	$852,000	$852,000
(8) All Ineligible Costs	$307,500	$307,500		
(9) Developer Fees			$1,821,405	
Developer overhead		$243,495		$243,495
Developer fee	$1,830,000	$1,582,715		$1,582,715
(10) Development Reserves	$535,000	$535,000		
TOTAL DEVELOPMENT COSTS	$15,958,482	$15,986,722	$13,964,105	$14,000,940

Deduct from Basis:				
All grant proceeds used to finance costs in eligible basis				
B.M.R. loans used to finance cost in eligible basis				
Non-qualified non-recourse financing				
Non-qualified portion of higher quality units [42(d)(3)]				
Historic Credits (on residential portion only)				
TOTAL ELIGIBLE BASIS			$13,964,105	$14,000,940
High Cost Area Adjustment			100%	100%
TOTAL ADJUSTED BASIS			$13,964,105	$14,000,940
Applicable Fraction			79.45%	79.45%
TOTAL QUALIFIED BASIS			$11,094,570	$11,123,836
Applicable Percentage			8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS			$936,382	$938,852
	Syndication Proceeds	**0.8092**	**$7,577,104**	**$7,597,091**

TDHCA

02081

Region 6

General
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM
2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Bay Forest Ranch** TDHCA #: **02081**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 1600 Hwy.146, North of Wharton-Weems Blvd.
City: La Porte
County: Harris
Zip Code: 77571

LIHTC Primary Set Aside: G
Additional Elderly Set Aside ☐
Purpose / Activity: NC
Development Type: Family
☐ TTC ☐ DDA ☐ QCT

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

Special Needs: 14 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: Bayforest Ranch, Ltd.

Principal Names:	Principal Contact:	Percentage Ownership:
IVE Bayforest, LLC	Isaac Mathews	100 %
I.V. Enterprises, Inc.	Isaac Mathews	0 %
Isaac Mathews	NA	0 %
Vera Mathews	NA	0 %
Hettig Development Group III, Ltd.	W. Barry Kahn	0 %

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$969,008** Allocation over 10 Years: $9,690,080
Credits Requested: $969,872 Eligible Basis Amount: $969,008 Equity/Gap Amount: $1,044,410

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	1	1	0	0	2
40%	0	0	22	10	0	0	32
50%	0	0	42	21	0	0	63
60%	0	0	41	18	0	0	59
MR	0	0	26	14	0	0	40
Total	0	0	132	64	0	0	

Total LI Units: 156
Owner/Employee Units: 0
Total Project Units: 196
Applicable Fraction: 79.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost: **$15,758,679**
Gross Building Square Feet: 206,305
Total NRA SF: 201,240
Gross/Net Rentable: 1.03
Average Square Feet/Unit: 1,027
Cost Per Net Rentable Square Foot: $78.31
Credits per Low Income Unit $6,212

INCOME AND EXPENSE INFORMATION

Effective Gross Income: $1,447,329
Total Expenses: $759,070
Net Operating Income: $688,259
Estimated 1st Year Debt Coverage Ratio: 1.10

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer: Bayforest Affordable Housing Group, LLC
Housing GC: Hettg Construction Corp.
Infrastructure GC: NA
Cost Estimator: NA
Architect: JRM Architects, Inc.
Property Manager: Investors Management Group, LLC
Engineer: Brown and Gay
Syndicator: JER Hudson Housing Capital LLC

Market Analyst: O'Connor & Associates
Originator/UW: NA
Appraiser: NA
Attorney: Andrews, Kurth, Mayor, Day, Caldwell and Keaton
Supp Services: Child and Adult Development Center of Houston, LLC
Accountant: Novogradac & Company, LLP
Permanent Lender: Mitchell Mortgage Company, LLC

DEPARTMENT EVALUATION

Points Awarded: 146 Site Review: Acceptable Underwriting Finding: AC

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommendec

Project Name: Bay Forest Ranch | Project Number: 02081

PUBLIC COMMENT SUMMARY Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials): Support: **2** Opposition: **0**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:		Comment from Other Public Official
Local Official:	Norman L. Malone, Mayor, S	Bruce A. Austin, Harris Co. Community Development, S
TX Rep.:	John Davis, Dist. 129 S	James Warren, City Council Member, S
TX Sen.:	Mike Jackson, Dist. 11 S	
US Rep.:		
US Sen.:		

CONDITIONS TO COMMITMENT

Receipt, review, and acceptance of financial statements as to the capacity and documentation as to the authorization of the Child & Adult Development Center of Houston, Inc. to provide the proposed $35,000 subsidy. Documentation clarifying whether the subsidy is a loan or a grant and any terms or conditions of the award are also required.

Receipt, review, and acceptance of an updated title policy reflecting that all liens, including the seller's note, have been satisfied by the time the primary loan is converted to permanent is a condition of this report.

Should the terms of the proposed debt be altered, the recommendations and conditions in this report should be re-evaluated.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☑ Score ☐ Meeting Required Set Aside ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This was one of the highest scoring developments in Region 6.

Brooke Boston, Acting LIHTC Co-Manager Date David Burrell, Director of Housing Programs Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director Date
Chairman of Executive Award and Review Advisory Committee

☐ **BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):**

Approved Credit Amount: Date of Determination:

Michael E. Jones, Chairman of the Board Date

Compliance Status Summary

Project ID #: 02081 — LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Bay Forest Ranch — HOME ☐ HTF ☐

Project City: La Porte — BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 4 — # not yet monitored or pending review 2

of projects grouped by score — 0-9: 4 — 10-19: 0 — 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received — No

Non-Compliance Reported ____

Completed by Jo En Taylor — **Completed on** 05/28/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ — no outstanding issues ☐ — outstanding issues ☐

Comments:

Completed by Lucy Trevino — **Completed on** 05/30/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ — monitoring review pending ☐

reviewed; no unresolved issues ☐ — reviewed; unresolved issues found ☐

Comments:

Completed by Ralph Hendrickson — **Completed on** 05/30/2002

Community Affairs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Programs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☑ reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: June 15, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02081

DEVELOPMENT NAME

Bay Forest Ranch Apartments

APPLICANT

Name: Bay Forest Ranch, Ltd. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 6605 Nuben Street **City:** Houston **State:** Texas

Zip: 77091 **Contact:** Isaac Mathews **Phone:** (713) 290-1802 **Fax:** (713) 290-1842

PRINCIPALS of the APPLICANT

Name	(%)	Title
IVE Bayforest, LLC	.006	Managing General Partner
I.V. Enterprises, Inc. (Isaac and Vera Mathews)	N/A	Owner of General Partner and 60% of Developer
Hettig Development Group III, Ltd. (John Hettig and Barry Khan)	.004	Limited Partner and 40% of Developer
Bayforest Affordable Housing Group, LLC	N/A	Developer
JER Hudson Housing Capital	99.99	Limited Partner

GENERAL PARTNER

Name: IVE Bayforest, LLC **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 6605 Nuben Street **City:** Houston **State:** Texas

Zip: 77091 **Contact:** Isaac Mathews **Phone:** (713) 290-1802 **Fax:** (713) 290-1842

PROPERTY LOCATION

Location: 1600 Block of HWY 146 north of Wharton-Weems Blvd. ☐ **QCT** ☐ **DDA**

City: La Porte **County:** Harris **Zip:** 77571

REQUEST

Amount	Interest Rate	Amortization	Term
$969,872	N/A	N/A	N/A

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: New Construction **Set-Aside:** ☒ General ☐ Rural ☐ Non-Profit

SITE DESCRIPTION

Size: 14.00 acres 871,200 square feet **Zoning/ Permitted Uses:** PUD – multifamily permitted

Flood Zone Designation: Zone X **Status of Off-Sites:** Raw Land

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
CREDIT UNDERWRITING ANALYSIS

DESCRIPTION of IMPROVEMENTS

Total Units: 196 **# Rental Buildings** 16 **# Common Area Bldngs** 3 **# of Floors** 2 **Age:** 0 yrs **Vacant:** N/A at / /

Number	Bedrooms	Bathroom	Size in SF
44	2	2	900
88	2	2	935
64	3	2	1,240

Net Rentable SF: 201,240 **Av Un SF:** 1,027 **Common Area SF:** 2,402 **Gross Bldng SF** 206,305

Property Type: ☒ Multifamily ☐ SFR Rental ☐ Elderly ☐ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on a post-tensioned concrete slab on grade, 98% Hardiplank siding, 2% stone veneer exterior wall covering, drywall interior wall surfaces, composite shingle roofing.

APPLIANCES AND INTERIOR FEATURES

Carpeting & ceramic tile flooring, range & oven, hood & fan, garbage disposal, dishwasher, refrigerator, microwave oven, tile tub/shower, washer & dryer connections, ceiling fans, laminated counter tops, individual water heaters.

ON-SITE AMENITIES

2,402-SF clubhouse building with activity room, management offices, laundry facilities, kitchen, restrooms, 2,304 SF community center building with activity room, classroom, kitchen and restroom; 500-SF laundry room; swimming pool; equipped children's play area; picnic area; sports courts; perimeter fencing, and car wash area.

Uncovered Parking: 354 spaces **Carports:** 0 spaces **Garages:** 48 spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Mitchell Mortgage Company, LLC **Contact:** Wendy Maceo

Principal Amount: $12,000,000 **Interest Rate:** 7% on first part, 225 basis points over LIBOR (6%) floor on second part.

Additional Information: $7,300,000 funded with fixed rate, the second in the amount of $4,700,000

Amortization: n/a **Term:** 2 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: Mitchell Mortgage Company, LLC **Contact:** Wendy Maceo

Principal Amount: $7,300,000 **Interest Rate:** 7.75%

Additional Information:

Amortization: 30 yrs **Term:** 18 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

Annual Payment: $661,965 **Lien Priority:** 1st **Commitment Date** 2/ 25/ 2002

LONG TERM/PERMANENT FINANCING

Source: Child and Adult Development Center **Contact:** Lashondia Pollard

Principal Amount: $35,000 **Interest Rate:** n/a

Additional Information: Providing a grant subsidy as long as two units are set aside at 30% of AMGI.

Amortization: N/A **Term:** N/A **Commitment:** ☐ None ☐ Firm ☒ Conditional

Annual Payment:

N/A	**Lien Priority:**	**Commitment Date** 12/ 20/ 2001

LIHTC SYNDICATION

Source: JER Hudson Housing Capital **Contact:** Sam Ganeshan

Address: 630 Fifth Avenue, Suite 2300 **City:** New York

State: NY **Zip:** 10111 **Phone:** (212) 218-4469 **Fax:** (212) 218-4467

Net Proceeds: $7,848,108 **Net Syndication Rate** (per $1.00 of 10-yr LIHTC) 81¢

Commitment ☐ None ☐ Firm ☒ Conditional **Date:** 2/ 26/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $549,952 **Source:** Deferred developer fee and owner equity

VALUATION INFORMATION

ASSESSED VALUE

Land:	$212,400 20 acres	**Assessment for the Year of:**	2001
Building:		**Valuation by:**	Harris County Appraisal District
Total Assessed Value:	$212,400		The value is for 20 acres, on a straight line proration the site would be $148,680 for the 14 acres being required.

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Earnest money contract

Contract Expiration Date: 12/ 1/ 2002 **Anticipated Closing Date:** 9/ 15/ 2002

Acquisition Cost: $ 500,000 **Other Terms/Conditions:** $425,000 note for 9 months, 8.5% rate

Seller: Ben F. Weems, et al **Related to Development Team Member:** No

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Bay Forest Ranch is a proposed new construction development of 196 units of mixed income housing located in south La Porte. The development is comprised of 16 residential buildings as follows:

- (11) Building Type/Style A with four, two-bedroom units 900-SF units, and eight, two-bedroom 935-SF units; and
- (8) Building Type/Style B with eight, two-story three-bedroom townhome units.

Based on the site plan the apartment buildings are distributed evenly throughout the site/arranged in groups separated by parking lots, with the community building, and swimming pool located near the entrance to the site. A 500 s.f. laundry building is located near the center of the site. The 2,304-square foot community building and 2,402-square foot clubhouse are at the entrance to the property. While the property does not appear to be in any floodplain according to the architect and Phase I ESA inspector, there will be a man-made water feature at the entrance, which will be bridged by the entrance drive.

Supportive Services: The Applicant has contracted with the Child and Adult Development Center of Houston to provide the following supportive services to tenants: personal growth, family skills, education, financial management, drug and fun activity programs. These services will be provided at no cost to tenants. The contract requires the Applicant to provide, furnish, and maintain facilities in the community building for provision of the services and to pay a $10 per unit per month for these support services. The term is for five years.

Schedule: The Applicant anticipates construction to begin in May of 2003, to be completed in May of 2004, to be placed in service in May of 2004, and to be substantially leased-up in October of 2004.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside.

Special Needs Set-Asides: 14 units (7%) will be handicapped-accessible and no units will be equipped for tenants with hearing or visual impairments.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated February, 2002 was prepared by Patrick O'Conner & Associates and highlighted the following findings:

Definition of Market/Submarket: "The subject property is located in the Pasadena South submarket." (p. 26) The secondary market is comprised of zip codes 77571, 77586, 77536, 77505, 77059, 77062 and 77058, this area comprises only a couple of square miles more than the primary market. (p. 35)

Total Local/Submarket Demand for Rental Units: In the primary market area there is a total demand of 1,141 income-eligible households and 2,083 market rate households. In the secondary market area there is a total demand of 2,071 income-eligible households and 3,851 market rate households. (p. 39, 42)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY

Type of Demand	Market Analyst		Underwriter	
	Units of Demand	% of Total Demand	Units of Demand	% of Total Demand
Household Growth	31	3%	44	2%
Resident Turnover	1,009	88	1,829	98%
Other Sources: 10 yrs pent-up demand	101	9%	N/A	N/A
TOTAL ANNUAL DEMAND	**1,141**	**100%**	**1,873**	**100%**

Ref: p. 39

Capture Rate: According to the analyst, there is a capture rate of 14.05% in the primary market for the tax credit units and 7.70% in the secondary market. For the market rate units there is a capture rate of 1.98% in the primary market and 1.07% in the secondary market. (p. 40 and 43) The Underwriter concluded a demand of 1,873 units, resulting in concentration capture rate of 14%. In either case the percentage is below the Department's threshold of 25% for non-rural markets.

Local Housing Authority Waiting List Information: "The waiting list for Section 8 Vouchers was closed in 1994, when the list had grown to more than 26,000 households. According to a September 2000 article in *the Houston Chronicle*, the waiting list for Section 8 vouchers is approximately six years." (p. 33)

Market Rent Comparables: The market analyst surveyed five comparable apartment projects totaling 1,283 units in the market area. (p. 54)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	**Proposed**	**Program Max**	**Differential**	**Market**	**Differential**
2-Bedroom (30%)	$301	$301	$0	$850	-$549
2-Bedroom (40%)	$435	$435	$0	$850	-$415
2-Bedroom (50%)	$569	$569	$0	$850	-$281
2-Bedroom (60%)	$703	$703	$0	$850	-$147
2-Bedroom (MR)	$747	NA	NA	$850	-$103
3-Bedroom (30%)	$341	$341	$0	$1,120	-$779
3-Bedroom (40%)	$496	$496	$0	$1,120	-$624
3-Bedroom (50%)	$651	$651	$0	$1,120	-$469
3-Bedroom (60%)	$806	$806	$0	$1,120	-$341
3-Bedroom (MR)	$854	N/A	NA	$,1,120	-$266

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: The overall occupancy rate in the primary market area was 91.67% in December 2001. (p. 31)

Absorption Projections: "Absorption in the subject's primary market area over the past four quarters ending December 2001 totals a positive 286 units…." (p. 28) The Fairmont Oaks Apartments (LIHTC), built in 2000, averaged 36 units per month, the Alexan Deer Park, built in 2000, absorbed 19 units per month and the Park at Fairmont, built in 1998, averaged 33 units per month. (p. 28)

Known Planned Development: "Presently, there are no projects under construction in the market area…" Churchill Place Senior Apartments is a proposed elderly property consisting of 72 units, 61 of which will be rent-restricted. It will not offer direct competition with the subject as it is restricted to seniors only.

Other Relevant Information: "The average rental rate for apartments in the subject's primary market area was reported at $0.64 per square foot per month…." This was as of December 2001 (p. 32) The analyst concluded that market rent for the subjects 2-BR/2-BA, 900-SF units and 935-SF units are $850 per month. (p. 69) Also, an estimated market rent for the three-bedroom units is $1,120. (p. 73) The Underwriter found the market study to be acceptable to base a conclusion.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: La Porte is located in southeast region of the state, approximately 20 miles east from downtown Houston in Harris County. The site is an "L"-shaped parcel located in the southern area of La Porte, approximately one mile from the central business district. The site is situated on the east side of Highway 146.

Population: The estimated 2000 population of the La Porte-Deer Park area was 85,877 and is expected to increase by 7.5% to approximately 92,336 by 2005. Within this market area there were estimated to be 32,243 households in 2005.

Adjacent Land Uses: Land uses in the overall area in which the site is located are predominantly vacant land, Adjacent land uses include:

- **North:** Vacant land
- **South:** Vacant land
- **East:** Bay Forest Country Club
- **West:** State Highway 146, with vacant land beyond that

Site Access: Access to the property is from the east or west along Highway 146. The development has one main entry from Highway 146 which provides connections to all other major roads serving the La Porte area.

Public Transportation: The availability of public transportation is unknown.

Shopping & Services: The site is served by the La Porte Independent School District, with campuses close to the subject. Shopping is provided by Almeda Mall as well as nearby shopping and strip centers. The Deer Park General Hospital is 6 miles away, with the police and fire provided by the City of La Porte. Recreational facilities include Galveston Bay, Sylvan Beach Park, Bay Forest Country Club and the Pasadena Fair Grounds.

Special Adverse Site Characteristics: The City of La Porte placed a moratorium on the acceptance for the filing and the issuance of building permits and all other zoning and/or development permits for new construction of mid- and high-density residential zoning districts. The moratorium will expire on July 11, 2002 and as such should not prevent the property from moving forward on schedule. However, the moratorium suggests the city is concerned about the expansion of the multifamily development in the community, and backlogs of permits could cause delay.

Site Inspection Findings: The site has not been inspected by a TDHCA staff member, and receipt, review, and acceptance of an acceptable site inspection report is a condition of this report.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

A Phase I Environmental Site Assessment report dated March 21, 2002 was prepared by Phase Engineering, Inc. and contained the following findings and recommendations:

Findings: One RCRA treatment, storage and disposal facility, one CORRACTS facility, one ERNS site, one solid waste landfill, three leaking underground storage tank sites and two registered underground storage tank facilities are located in the standard ASTM search radii. According to the engineer there is no indication that any of the sites identified in the ASTM Standard Environmental Record Resources search will have an environmental impact on the site.

OPERATING PROFORMA ANALYSIS

Income: The Applicant's rent projections are the maximum rents allowed under LIHTC guidelines for the rent-restricted units. The market rate units, which are more than 10% above the rent-restricted units, are below the rental rates the market analyst believes can be achieve, reflecting the Applicant's desire to maintain the affordability of the units. The Applicant estimated $17.80 per unit on secondary income. However, since they did not substantiate this income, the Underwriter is limiting secondary income to $15.00 per unit per month as per the 2002 QAP and underwriting guidelines. The Applicant stated that tenants will pay water and sewer in this project, and rents and expenses were calculated accordingly.

Expenses: The Applicant's estimate of total operating expenses is 6% lower than the Underwriter's TDHCA database-derived estimate. The Applicant's budget shows several line item estimates that deviate significantly when compared to the database averages, particularly utilities which are 26K lower and general and administrative which is 20K lower. The Applicant is basing their management fee on 4.5% of the effective gross income. This is lower than the Departments 5% standard amount, however, the developer has provided evidence that they are paying a management fee of 4% on another property in Houston. Thus, the Underwriter will accept the Applicant's stated amount.

Conclusion: The Applicant's total estimated operating expense is inconsistent with the Underwriter's expectations and the Applicant's net operating income is not within 5% of the Underwriter's estimate. Therefore, the Underwriter's NOI will be used to evaluate debt service capacity. The Applicant is requesting a primary loan in the amount of $7,300,000. Despite the difference in net operating income, the Underwriter believes the debt service should be capped at $627,577, resulting in a loan amount of $7,300,000. However, the Child & Adult Development Center of Houston has indicated they will provide a subsidy in the amount of $35,000. If the final documentation indicates this is a loan, the debt coverage ratio may go below the 1.10 Department threshold, resulting in a lower debt capacity.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: The Applicant is paying $500,000 for 20 acres, or $25,000 per acre. However, only 14 acres will be used for the site and the Applicant is using only $350,000 for the acquisition cost of the site. The contract states that the Applicant will pay $75,000 at closing and finance $425,000 at 8.5% per annum. The loan will be paid in full, with no lien on the property from the seller, at the conversion of the permanent loan and prior to the first tax credit allocation. Receipt, review and acceptance of an updated title policy reflecting all liens have been satisfied prior to conversion to permanent is a condition of this report. The acquisition price is assumed be reasonable since the acquisition is an arm's-length transaction.

Off-Site Costs: The Applicant indicated $61,380 for off-site utility work and $25,000 for other unspecified off-site costs. According to the off-site cost breakdown 1,860 linear feet of 21" sanitary sewer and appurtenances will be necessary to serve the site of a construction cost of $61,380 and engineering cost of $25,000.

Sitework Cost: The Applicant's claimed sitework costs of $6,173 per unit are considered reasonable compared to historical sitework costs for multifamily projects.

Direct Construction Cost: The Applicant's direct construction cost estimate is $189,396 or 2% lower than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate, and is therefore regarded as reasonable as submitted.

Ineligible Costs: The Applicant's ineligible costs, as submitted, are acceptable.

Interim Financing Fees: The Applicant's interim fees, as submitted, are acceptable.

Fees: All of the Applicant's established fees are above the maximums allowed by TDHCA guidelines. As a result, the Underwriter reduced the general requirements and the contractor's profit to 6% and the contractor's overhead to 2% of the sitework and direct construction costs. The fees were reduced a total of $11,249, reducing the eligible basis by a like amount. In addition, the claimed developer fee exceeds 15% of the eligible basis by $1,643 and was also reduced accordingly.

Conclusion: The Applicant's total project cost estimate is within 5% of the Underwriter's verifiable estimate and is therefore generally acceptable. The Applicant's total project cost estimate of $80,404 per unit, or $78.31 per square foot appears acceptable for this product type. The Applicant is requesting $969,872 in tax credits. As a result of adjustments to the Applicant's budget, an eligible basis of $14,454,407 is used to determine a credit allocation of $969,008 from this method.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with six types of financing from five sources: a conventional interim to permanent loan, syndicated LIHTC equity, government grants, cash equity and deferred developer's fees.

Construction Financing: The Applicant intends to use Mitchell Mortgage Company for an interim construction loan of $12,000,000, and to fund the remainder of the construction phase with $7,848,108 in LIHTC syndication proceeds. The interest rate on the first $7,300,000 will be 7%, with the second phase of $4,700,000 being 225 basis points over LIBOR, with a 6% floor.

Permanent Financing: Permanent mortgage financing will be provided by Mitchell Mortgage Company in the form of an 18-year term loan of $7,300,000, amortized over 30 years. The interest rate will be a fixed rate at 7.75%. The lender has a minimum DCR requirement of 1.15.

LIHTC Syndication: JER Hudson Housing Capital has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $7,848,108 based on a syndication factor of 81%. The funds would be disbursed in a 5-phased pay-in schedule:

1. 25% upon admission to the partnership;
2. 55% upon completion of construction;
3. 10% upon final closing of the permanent mortgage loan;
4. 7% upon issuance of 8609's;
5. 3% upon tax return.

Other Financing: The Child & Adult Development Center of Houston, Inc., the supportive service provider, will provide a subsidy in the amount of $35,000, as long as two units are set aside for individuals earning 30% or less of the area median income. However, no financial information as to the capacity of the organization to pay the subsidy was provided. Receipt, review, and acceptance of such information is a condition of this report.

Cash Equity: The General Partner and Hettig Development Group will make a cash contribution of $1,000.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $548,952 amount to 29% of the total fees.

Financing Conclusions: Based on the Applicant's adjusted calculation of eligible basis, the LIHTC allocation should not exceed $969,008 annually for ten years, resulting in syndication proceeds of approximately $7,848,179. This is $864 less in credits than the $969,872 the Applicant requested due primarily to the Applicant's overstatement of fees. The Underwriter's analysis reflects that the debt service will likely be capped at $627,577, which would result in a debt amount of approximately $7,300,000. Based on the Underwriter's analysis, $574,500, or 30%, of the developer fee would need to be deferred. This amount is repayable in less than 10 years. In the event that the Applicant does not receive the $35,000 subsidy from the Child and Adult Development Center of Houston, the Applicant would need to defer a like amount, resulting in the developer still being paid back in less than ten years.

REVIEW of ARCHITECTURAL DESIGN

The exterior elevations are functional with varied rooflines. All units are of average size for market rate and LIHTC units, and have covered patios or balconies with small outdoor storage. The 900 square foot unit has the washer and dryer located in the main bathroom. Each unit has a semi-private exterior entry that is shared with another unit. The units are in either two-story walk-up structures or townhome style with hardiboard and brick accent exterior finish and pitched roofs.

IDENTITIES of INTEREST

The developer, general contractor, and property management firm are all related entities in the development. These are common relationships for LIHTC-funded developments. The supportive service firm is also promoting a subsidy to the Applicant.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights:

- The Applicant submitted an unaudited financial statement as of February 25, 2002 reporting total assets of $19,137 and liabilities totaled $18,137, resulting in a net worth of $1,000.
- The General Partner submitted an unaudited financial statement as of February 25, 2002 reporting total assets of $1,000 and no liabilities, resulting in a net worth of $1,000.

Background & Experience:

- The owner of the general partner, IV Enterprises, Inc. has completed 2 LIHTC projects totaling 320 units since 1999. Isaac and Vera Mathews are the owners of IV Enterprises, Inc.
- Hettig Asset Management has completed 2 LIHTC projects totaling 384 units since 1999. John Hettig, 50% owner, has completed 4 additional LIHTC projects in Texas totaling 384 units since 1994.
- Hettig/Kahn Development Group has been involved in the development of 6,209 apartment units since 1977.

SUMMARY OF SALIENT RISKS AND ISSUES

- The Applicant's operating expenses and operating proforma are more than 5% outside of the Underwriter's verifiable ranges.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $969,008 ANNUALLY FOR TEN YEARS, SUBJECT TO CONDITIONS.

CONDITIONS

1. Receipt, review, and acceptance of a satisfactory TDHCA site inspection report;
2. Receipt, review, and acceptance of fiancial statements as to the capacity and documentation as to the authorization of the Child & Adult Development Center of Houston, Inc to provide the proposed $35,000 subsidy. Documentation clarifying whether the subsidy is a loan or a grant and any terms or conditions of the award are also required.
3. Receipt, review, and acceptance of an updated title policy reflecting that all liens, including the seller's note, have been satisfied by the time the primary loan is converted to permanent is a condition of this report.
4. Should the terms of the proposed debt be altered, the recommendations and conditions in this report should be re-evaluated.

Underwriter:	______________ *Mark Fugina*	**Date:**	June 15, 2002
Credit Underwriting Supervisor:	______________ *Jim Anderson*	**Date:**	June 15, 2002
Director of Credit Underwriting:	______________ *Tom Gouris*	**Date:**	June 15, 2002

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Bay Forest Ranch, La Porte, LIHTC #02081

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Trash
TC30%	1	2	2	900	$402	$301	$301	$0.33	$100.91	
TC40%	10	2	2	900	536	435	4,350	0.48	100.91	
TC50%	14	2	2	900	670	569	7,966	0.63	100.91	
TC60%	11	2	2	900	804	703	7,733	0.78	100.91	
MKT	8	2	2	900	747	747	5,976	0.83	100.91	
TC40%	12	2	2	935	536	435	5,220	0.47	100.91	
TC50%	28	2	2	935	670	569	15,932	0.61	100.91	NONE
TC60%	30	2	2	935	804	703	21,090	0.75	100.91	SPECIFIED
MKT	18	2	2	935	747	747	13,446	0.80	100.91	
TC30%	1	3	2	1,240	465	341	341	0.28	123.35	
TC40%	10	3	2	1,240	620	496	4,960	0.40	123.35	
TC50%	21	3	2	1,240	775	651	13,671	0.53	123.35	
TC60%	18	3	2	1,240	930	806	14,508	0.65	123.35	
MKT	14	3	2	1,240	854	854	11,956	0.69	123.35	
TOTAL:	196		AVERAGE:	1,027	$737	$650	$127,450	$0.63	$108.24	$0.00

INCOME Total Net Rentable Sq Ft: 201,240

					TDHCA	APPLICANT			
POTENTIAL GROSS RENT					$1,529,400	$1,529,400			
Secondary Income			Per Unit Per Month:	$15.00	35,280	41,856	$17.80	Per Unit Per Month	
Other Support Income: (describe)					0	0			
POTENTIAL GROSS INCOME					$1,564,680	$1,571,256			
Vacancy & Collection Loss		% of Potential Gross Income:		-7.50%	(117,351)	(117,840)	-7.50%	of Potential Gross Rent	
Employee or Other Non-Rental Units or Concessions					0				
EFFECTIVE GROSS INCOME					$1,447,329	$1,453,416			
EXPENSES		% OF EGI	PER UNIT	PER SQ FT			PER SQ FT	PER UNIT	% OF EGI
General & Administrative		4.67%	$345	$0.34	$67,587	$46,656	$0.23	$238	3.21%
Management		4.25%	314	0.31	61,569	61,770	0.31	315	4.25%
Payroll & Payroll Tax		12.80%	945	0.92	185,273	177,000	0.88	903	12.18%
Repairs & Maintenance		5.73%	423	0.41	82,894	75,671	0.38	386	5.21%
Utilities		3.67%	271	0.26	53,048	26,820	0.13	137	1.85%
Water, Sewer, & Trash		2.11%	156	0.15	30,501	43,380	0.22	221	2.98%
Property Insurance		2.22%	164	0.16	32,198	39,360	0.20	201	2.71%
Property Tax	3.11698	12.66%	935	0.91	183,278	183,632	0.91	937	12.63%
Reserve for Replacements		2.71%	200	0.19	39,200	39,204	0.19	200	2.70%
Other Expenses: Supportive Servic		1.63%	120	0.12	23,520	23,520	0.12	120	1.62%
TOTAL EXPENSES		52.45%	$3,873	$3.77	$759,070	$717,013	$3.56	$3,658	49.33%
NET OPERATING INC		47.55%	$3,512	$3.42	$688,259	$736,403	$3.66	$3,757	50.67%
DEBT SERVICE									
First Lien Mortgage		43.36%	$3,202	$3.12	$627,577	$627,577	$3.12	$3,202	43.18%
Local Grant		0.00%	$0	$0.00	0		$0.00	$0	0.00%
Local Grant		0.00%	$0	$0.00	0		$0.00	$0	0.00%
NET CASH FLOW		4.19%	$310	$0.30	$60,682	$108,826	$0.54	$555	7.49%
AGGREGATE DEBT COVERAGE RATIO					1.10	1.17			
ALTERNATIVE DEBT COVERAGE RATIO					1.10				

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		2.26%	$1,786	$1.74	$350,000	$350,000	$1.74	$1,786	2.22%
Off-Sites		0.56%	441	0.43	86,380	86,380	0.43	441	0.55%
Sitework		7.81%	6,173	6.01	1,210,000	1,210,000	6.01	6,173	7.68%
Direct Construction		53.28%	42,131	41.03	8,257,753	8,447,149	41.98	43,098	53.60%
Contingency	4.49%	2.74%	2,168	2.11	425,000	425,000	2.11	2,168	2.70%
General Requiremer	6.00%	3.67%	2,898	2.82	568,065	584,250	2.90	2,981	3.71%
Contractor's G & A	2.00%	1.22%	966	0.94	189,355	194,750	0.97	994	1.24%
Contractor's Profi	6.00%	3.67%	2,898	2.82	568,065	584,250	2.90	2,981	3.71%
Indirect Construction		1.83%	1,443	1.41	282,900	282,900	1.41	1,443	1.80%
Ineligible Costs		1.97%	1,556	1.52	305,000	305,000	1.52	1,556	1.94%
Developer's G & A	2.00%	1.59%	1,261	1.23	247,063		0.00	0	0.00%
Developer's Profit	13.00%	10.36%	8,193	7.98	1,605,908	1,887,000	9.38	9,628	11.97%
Interim Financing		5.50%	4,347	4.23	852,000	852,000	4.23	4,347	5.41%
Reserves		3.55%	2,806	2.73	550,000	550,000	2.73	2,806	3.49%
TOTAL COST		100.00%	$79,069	$77.01	$15,497,490	$15,758,679	$78.31	$80,401	100.00%
Recap-Hard Construction Costs		*72.39%*	***$57,236***	***$55.75***	***$11,218,239***	***$11,445,399***	***$56.87***	***$58,395***	*72.63%*

SOURCES OF FUNDS

				TDHCA	APPLICANT	RECOMMENDED
First Lien Mortgage	47.10%	$37,245	$36.28	$7,300,000	$7,300,000	$7,300,000
Local Grant	0.23%	$179	$0.17	35,000	35,000	35,000
LIHTC Syndication Proceeds	50.28%	$39,756	$38.72	7,792,097	7,792,097	7,848,179
Cash Equity					1,000	1,000
Deferred Developer Fees	3.54%	$2,801	$2.73	548,952	548,952	574,500
Additional (excess) Funds Required	-1.15%	($911)	($0.89)	(178,559)	81,630	0
TOTAL SOURCES				$15,497,490	$15,758,679	$15,758,679

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Bay Forest Ranch, La Porte, LIHTC #02081

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook

Average Quality Multiple Residence / Townhome Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$42.00	$8,452,403
Adjustments				
Exterior Wall Finish	1.14%		$0.48	$96,357
Elderly			0.00	0
Subfloor			(0.98)	(197,215)
Floor Cover			1.82	366,257
Porches/Balconies	$25.02	16,112	2.00	403,042
Plumbing	$585	784	2.28	458,640
Built-In Appliances	$1,550	196	1.51	303,800
Stairs Exterior	$1,550	22	0.17	34,100
Stairs Interior	$1,175	64	0.37	75,200
Heating/Cooling			1.41	283,748
Garages/Carports	$13.12	9,600	0.63	125,952
Comm &/or Aux Bldgs	$58.44	2,402	0.70	140,376
Community Center	$58.44	2,304	0.67	134,649
Laundry	$48.58	500	0.12	24,288
SUBTOTAL			53.18	10,701,597
Current Cost Multiplier	1.04		2.13	428,064
Local Multiplier	0.91		(4.79)	(963,144)
TOTAL DIRECT CONSTRUCTION COSTS			$50.52	$10,166,517
Plans, specs, survy, bld	3.90%		($1.97)	($396,494)
Interim Construction Inte	3.38%		(1.71)	(343,120)
Contractor's OH & Profit	11.50%		(5.81)	(1,169,149)
NET DIRECT CONSTRUCTION COSTS			$41.03	$8,257,753

PAYMENT COMPUTATION

Primary	$7,300,000	Term	360
Int Rate	7.75%	DCR	1.10

Secondary	$35,000	Term	
Int Rate		Subtotal DCR	1.10

Additional	$7,792,097	Term	
Int Rate		Aggregate DCR	1.10

RECOMMENDED FINANCING STRUCTURE:

Primary Debt Service	$627,577
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$60,682

Primary	$7,300,000	Term	360
Int Rate	7.75%	DCR	1.10

Secondary	$35,000	Term	0
Int Rate	0.00%	Subtotal DCR	1.10

Additional	$7,792,097	Term	0
Int Rate	0.00%	Aggregate DCR	1.10

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$1,529,400	$1,575,282	$1,622,540	$1,671,217	$1,721,353	$1,995,520	$2,313,355	$2,681,812	$3,604,131
Secondary Income	35,280	36,338	37,429	38,551	39,708	46,032	53,364	61,864	83,140
Other Support Income: (descr	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	1,564,680	1,611,620	1,659,969	1,709,768	1,761,061	2,041,553	2,366,719	2,743,676	3,687,271
Vacancy & Collection Loss	(117,351)	(120,872)	(124,498)	(128,233)	(132,080)	(153,116)	(177,504)	(205,776)	(276,545)
Employee or Other Non-Rental	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$1,447,329	$1,490,749	$1,535,471	$1,581,535	$1,628,982	$1,888,436	$2,189,215	$2,537,900	$3,410,726
EXPENSES at 4.00%									
General & Administrative	$67,587	$70,291	$73,103	$76,027	$79,068	$96,198	$117,040	$142,397	$210,782
Management	61,569	63,416	65,319	67,279	69,297	80,334	93,129	107,962	145,092
Payroll & Payroll Tax	185,273	192,684	200,391	208,406	216,743	263,701	320,832	390,341	577,801
Repairs & Maintenance	82,894	86,210	89,658	93,245	96,974	117,984	143,546	174,646	258,518
Utilities	53,048	55,170	57,377	59,672	62,059	75,504	91,862	111,764	165,438
Water, Sewer & Trash	30,501	31,722	32,990	34,310	35,682	43,413	52,819	64,262	95,123
Insurance	32,198	33,486	34,826	36,219	37,668	45,828	55,757	67,837	100,416
Property Tax	183,278	190,610	198,234	206,163	214,410	260,862	317,379	386,140	571,582
Reserve for Replacements	39,200	40,768	42,399	44,095	45,858	55,794	67,882	82,588	122,251
Other	23,520	24,461	25,439	26,457	27,515	33,476	40,729	49,553	73,351
TOTAL EXPENSES	$759,070	$788,817	$819,735	$851,872	$885,274	$1,073,095	$1,300,974	$1,577,491	$2,320,353
NET OPERATING INCOME	$688,259	$701,932	$715,736	$729,664	$743,708	$815,341	$888,241	$960,410	$1,090,372
DEBT SERVICE									
First Lien Financing	$627,577	$627,577	$627,577	$627,577	$627,577	$627,577	$627,577	$627,577	$627,577
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$60,682	$74,355	$88,159	$102,087	$116,131	$187,764	$260,663	$332,832	$462,795
DEBT COVERAGE RATIO	1.10	1.12	1.14	1.16	1.19	1.30	1.42	1.53	1.74

LIHTC Allocation Calculation - Bay Forest Ranch, La Porte, LIHTC #02081

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost				
Purchase of land	$350,000	$350,000		
Purchase of buildings				
(2) Rehabilitation/New Construction Cost				
On-site work	$1,210,000	$1,210,000	$1,210,000	$1,210,000
Off-site improvements	$86,380	$86,380		
(3) Construction Hard Costs				
New structures/rehabilitation ha	$8,447,149	$8,257,753	$8,447,149	$8,257,753
(4) Contractor Fees & General Requirements				
Contractor overhead	$194,750	$189,355	$193,143	$189,355
Contractor profit	$584,250	$568,065	$579,429	$568,065
General requirements	$584,250	$568,065	$579,429	$568,065
(5) Contingencies	$425,000	$425,000	$425,000	$425,000
(6) Eligible Indirect Fees	$282,900	$282,900	$282,900	$282,900
(7) Eligible Financing Fees	$852,000	$852,000	$852,000	$852,000
(8) All Ineligible Costs	$305,000	$305,000		
(9) Developer Fees			$1,885,357	
Developer overhead		$247,063		$247,063
Developer fee	$1,887,000	$1,605,908		$1,605,908
(10) Development Reserves	$550,000	$550,000		
TOTAL DEVELOPMENT COSTS	$15,758,679	$15,497,490	$14,454,407	$14,206,110

Deduct from Basis:			
All grant proceeds used to finance costs in eligible basis			
B.M.R. loans used to finance cost in eligible basis			
Non-qualified non-recourse financing			
Non-qualified portion of higher quality units [42(d)(3)]			
Historic Credits (on residential portion only)			
TOTAL ELIGIBLE BASIS		$14,454,407	$14,206,110
High Cost Area Adjustment		100%	100%
TOTAL ADJUSTED BASIS		$14,454,407	$14,206,110
Applicable Fraction		79.43%	79.43%
TOTAL QUALIFIED BASIS		$11,481,136	$11,283,913
Applicable Percentage		8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS		$969,008	$952,362
Syndication Proceeds	**0.8099**	**$7,848,179**	**$7,713,363**

TDHCA

02089

Region 6

General
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM
2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Gateway Pavilion** TDHCA #: **02089**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 6914 Sugarland Howell Road
City: Houston
County: Harris
Zip Code: 77083

LIHTC Primary Set Aside: G
Additional Elderly Set Aside ☐
Purpose / Activity: NC
Development Type: Family
☐ TTC ☐ DDA ☐ QCT

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

Special Needs: 13 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: Gateway Pavilion Limited Partnership

Principal Names:	Principal Contact:	Percentage Ownership:
Gateway Pavilion GP, LP	Ryan L. Dearborn	100 %
Wood Gateway Pavilion, LP	Ryan L. Dearborn	49 %
Primus Corporation	Louis Carranza	51 %
		0 %
NA	NA	0 %

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$1,185,675** Allocation over 10 Years: $11,856,750
Credits Requested: $1,159,683 Eligible Basis Amount: $1,185,675 Equity/Gap Amount: $1,267,306

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	10	6	4	0	20
40%	0	0	38	26	16	0	80
50%	0	0	48	32	20	0	100
60%	0	0	0	0	0	0	0
MR	0	0	24	15	9	0	48
Total	0	0	120	79	49	0	

Total LI Units: 200
Owner/Employee Units: 0
Total Project Units: 248
Applicable Fraction: 80.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost: **$19,323,722**
Gross Building Square Feet: 290,734
Total NRA SF: 284,847
Gross/Net Rentable: 1.02
Average Square Feet/Unit: 1,149
Cost Per Net Rentable Square Foot: $67.84
Credits per Low Income Unit $5,928

INCOME AND EXPENSE INFORMATION

Effective Gross Income: $1,774,257
Total Expenses: $972,014
Net Operating Income: $802,243
Estimated 1st Year Debt Coverage Ratio: 1.15

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer: Wood Gateway Pavilion, LP
Housing GC: WP South Gateway Pavilion Builders, LP
Infrastructure GC: NA
Cost Estimator: NA
Architect: Womack and Hampton
Property Manager: NA
Engineer: Carter Burgess
Syndicator: SunAmerica Affordable Housing Partners

Market Analyst: O'Connor and Associates
Originator/UW: NA
Appraiser: NA
Attorney: Morris Manning and Martin, LLP
Supp Services: SER-Jobs for Progress
Accountant: Reznick, Fedder & Silverman
Permanent Lender: American Property Financing

DEPARTMENT EVALUATION

Points Awarded: 144 Site Review: Acceptable Underwriting Finding: AC

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommendec

Project Name: Gateway Pavilion   Project Number: 02089

PUBLIC COMMENT SUMMARY   Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials):   Support: **1**   Opposition: **0**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:			Comment from Other Public Official
Local Official:		NC	Bruce A. Austin, Director, Harris County Community
TX Rep.:	Talmadge Heflin, Dist. 149		Gordon Quan, Houston City Council Member at Large Position 2,
TX Sen.:	J. E. "Buster" Brown, Dist. 17		Gabriel Vasquez, City Council Member District H, S
US Rep.:			
US Sen.:			

CONDITIONS TO COMMITMENT

Receipt, review and acceptance of a revised site plan and revised building plans reflecting the proposed unit mix.

Receipt, review and acceptance of community building and auxiliary building floorplans with a total square footage of 5,887.

Receipt, review and acceptance of documentation verifying the resolution of issues listed in the submitted title commitment.

Receipt, review and acceptance of a permanent financing commitment in the amount of $8,200,000, or an alternative financing structure acceptable to the Department.

Receipt, review and acceptance of a commitment from the City of Houston for a HOME soft loan of $1,240,000 with an interest rate at AFR and payments from available cash flow.

Should the terms of the proposed financing or syndication change a review of these conditions and recommendations should be conducted by the Underwriter.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☑ Score   ☐ Meeting Required Set Aside   ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This was one of the highest scoring developments in Region 6.

Brooke Boston, Acting LIHTC Co-Manager   Date   David Burrell, Director of Housing Programs   Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director   Date
Chairman of Executive Award and Review Advisory Committee

☐ **BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):**

Approved Credit Amount: Date of Determination:

Michael E. Jones, Chairman of the Board   Date

Developer Evaluation

Compliance Status Summary

Project ID #: 02089 — LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Gateway Pavilion — HOME ☐ HTF ☐

Project City: Houston — BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 1 — # not yet monitored or pending review 2

of projects grouped by score — 0-9: 1 — 10-19: 0 — 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received: Yes

Non-Compliance Reported: No

Completed by Jo En Taylor — **Completed on** 06/13/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ — no outstanding issues ☐ — outstanding issues ☐

Comments:

Completed by Lucy Trevino — **Completed on** 06/14/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ — monitoring review pending ☐

reviewed; no unresolved issues ☐ — reviewed; unresolved issues found ☐

Comments:

Completed by Ralph Hendrickson — **Completed on** 06/14/2002

Community Affairs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Programs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by Emily Weilbaecher **Completed on** 06/14/2002

Multifamily Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Executive Director: Edwina Carrington **Date Signed:** June 14, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: June 14, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02089

DEVELOPMENT NAME

Gateway Pavilion

APPLICANT

Name: Gateway Pavilion LP **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 1001 Morehead Square Drive, Suite 250 **City:** Charlotte **State:** NC

Zip: 28203 **Contact:** Bernard Felder **Phone:** (704) 332-8995 **Fax:** (704) 332-8997

PRINCIPALS of the APPLICANT

Name	(%)	Title
SunAmerica Affordable Housing	99.99	Limited Partner
Gateway Pavilion GP, LP	0.01	Managing General Partner
Primis Corporation		51% LP of Managing GP
Wood Gateway Pavilion, LP		49% GP of Managing GP
Wood Pavilion GP, Inc.		0.01% GP of Wood Gateway Pavilion LP
Wood Pavilion, LLC		99.99% LP of Wood Gateway Pavilion LP
Leonard W Wood Family LP, LLLP		35% owner of Wood Pavilion LLC
Warren J Durkin		35% owner of Wood Pavilion LLC
Ryan L Dearborn		20% owner of Wood Pavilion LLC
Michael J Roche		10% owner of Wood Pavilion LLC

GENERAL PARTNER

Name: Gateway Pavilion GP, LP **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 1110 Northchase Parkway **City:** Marietta **State:** GA

Zip: 30067 **Contact:** Ryan L Dearborn **Phone:** (770) 951-8989 **Fax:** (770) 984-9375

PROPERTY LOCATION

Location: 6914 Sugarland Howell Road ☐ **QCT** ☐ **DDA**

City: Houston **County:** Harris **Zip:** 77083

REQUEST

Amount	Interest Rate	Amortization	Term
$1,159,683	N/A	N/A	N/A

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: New Construction **Set-Aside:** ☒ General ☐ Rural ☐ Non-Profit

SITE DESCRIPTION

Size: 16 acres 696,960 square feet **Zoning/ Permitted Uses:** N/A (Houston)

Flood Zone Designation: Zone X **Status of Off-Sites:** Raw Land

DESCRIPTION of IMPROVEMENTS

Total Units: 248 **# Rental Buildings** 16 **# Common Area Bldngs** 1 **# of Floors** 3 **Age:** N/A yrs **Vacant:** N/A at

Number	Bedrooms	Bathroom	Size in SF
120	2	2	1,033
79	3	2	1,193
49	4	2	1,360

Net Rentable SF: 284,847 **Av Un SF:** 1,149 **Common Area SF:** 5,887 **Gross Bldng SF** 290,734

Property Type: ☒ Multifamily ☐ SFR Rental ☐ Elderly ☒ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on a post-tensioned concrete slab on grade, 100% stucco exterior wall covering with wood trim, drywall interior wall surfaces, composite shingle roofing

APPLIANCES AND INTERIOR FEATURES

Carpeting & vinyl flooring, range & oven, hood & fan, garbage disposal, dishwasher, refrigerator, microwave oven, tile tub/shower, washer & dryer with connections, cable, laminated counter tops, individual water heaters, heat pump

ON-SITE AMENITIES

Community room, management offices, fitness facility, kitchen, restrooms, computer/business center, swimming pool, equipped children's play area, car wash area, perimeter fencing with limited access gate

Uncovered Parking: 471 spaces **Carports:** N/A spaces **Garages:** N/A spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Bank of America **Contact:** Raymond J Smith

Principal Amount: $8,200,000 **Interest Rate:** LIBOR + 2%

Additional Information:

Amortization: N/A yrs **Term:** 2.5 yrs **Commitment:** ☒ Proposal ☐ Firm ☐ Conditional

LONG TERM/PERMANENT FINANCING

Source: American Property Financing **Contact:** Alan Swafford

Principal Amount: $8,200,000 **Interest Rate:** 7.60% (based on 4.90% 10-year US Treasury)

Additional Information: Term sheet expires on June 30, 2002

Amortization: 30 yrs **Term:** 18 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

Annual Payment: $694,778 **Lien Priority:** 1st **Commitment Date** 02/ 26/ 2002

LONG TERM/PERMANENT FINANCING

Source: City of Houston (HOME Loan) **Contact:** Ken Fickes

Principal Amount: $1,240,000 **Interest Rate:** AFR

Additional Information: Application for funds has been submitted to City of Houston; terms presented are based on Applicant request

Amortization: 30 yrs **Term:** 30 yrs **Commitment:** ☒ None ☐ Firm ☐ Conditional

Annual Payment: Cashflow **Lien Priority:** 2nd **Commitment Date**

LIHTC SYNDICATION

Source: SunAmerica Affordable Housing **Contact:** J Mark Slack

Address: 1526 E Parham Road **City:** Richmond

State: VA **Zip:** 23228 **Phone:** (804) 261-6100 **Fax:** (804) 261-2400

Net Proceeds: $9,044,623 **Net Syndication Rate** (per $1.00 of 10-yr LIHTC) 78¢

Commitment ☐ None ☐ Firm ☒ Conditional **Date:** 02/ 28/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $839,100 **Source:** Deferred developer fee

VALUATION INFORMATION

ASSESSED VALUE

Land: 24.5534 acres $630,250 **Assessment for the Year of:** 2001

1 acre: $25,669 **Valuation by:** Harris County Appraisal District

Prorated Total: 16 acres $410,704 **Tax Rate:** 3.508

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Unimproved Property Commercial Contract (16 acres)

Contract Expiration Date: 12/ 31/ 2002 **Anticipated Closing Date:** 12/ 31/ 2002

Acquisition Cost: $ 1,291,680 **Other Terms/Conditions:**

Seller: Bellaire Investments, Ltd. **Related to Development Team Member:** No

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Gateway Pavilion is a proposed new construction development of 248 units of mixed income housing located in west Houston. The development is comprised of 16 residential buildings as follows:

- Ten Building Type I with 12 two-bedroom units and eight three-bedroom units;
- Six Building Type II with eight four-bedroom units.

This site plan would suggest one more three-bedroom unit and one less four-bedroom unit. To be consistent with the unit mix provided a revised site plan showing one building type II with a three-bedroom in lieu of a four-bedroom unit is required.

Based on the site plan the apartment buildings are distributed evenly throughout the most of the site, with the community building and swimming pool located near the entrance to the site. The southwest corner of the site will be reserved for an onsite floodwater detention basin in accordance with Harris County requirements for this area. Although the body of the application and the site plan indicate that a large leasing center is planned for the community, a floorplan for this building was not submitted. Receipt, review and acceptance of a revised site plan reflecting the correct unit mix and community building and auxiliary building floorplans with a total square footage of 5,887 is a condition of this report.

Supportive Services: The Applicant has contracted with SER-JOBS FOR PROGRESS OF THE TEXAS GULF COAST, INC. to provide the following supportive services to tenants: basic adult education, ESL, GED preparation, counseling services, vocational training referral, community workshops, youth program, scouting, social events and activities, jobs program, scholastic tutoring, computer facilities, health screening services, home buyer education, credit counseling, and financial planning assistance. These services will be provided at no cost to tenants. The contract requires the Applicant to provide, furnish, and maintain facilities in the community building for provision of the services, provide a lease free two-bedroom apartments for SER staff, to pay a one-time startup fee of $15,000, plus $500 per month for these support services. The Applicant did not indicate a lease-free unit in the submitted rent schedule and the one-time start of fee of $15,000 was included in the construction cost breakdown for the development. However, the Applicant's annual operating expense budget includes $15,491 for supportive services although the annual fee is only $6,000. The difference is equal to the annual rental income for a market rate two-bedroom apartment at $791 per month.

Schedule: The Applicant anticipates construction to begin in February of 2003, to be completed in April of 2004, to be placed in service in December of 2004, and to be substantially leased-up in October of 2004.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 20% at 50% or less of area median gross income (AMGI) set-aside. Two-hundred of the units (81% of the total) will be reserved for low-income tenants. Twenty of the units (8%) will be reserved for households earning 30% or less of AMGI, 80 of the units (32%) will be reserved for households earning 40% or less of AMGI, 100 units (40%) will be reserved for households earning 50% or less of AMGI, and the remaining 48 units will be offered at market rents.

Special Needs Set-Asides: None of the units are specifically designated to be handicapped-accessible or equipped for tenants with hearing or visual impairments.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated February 21, 2002 was prepared by O'Connor & Associates and highlighted the following findings:

Definition of Market/Submarket: "The subject property is located in the 'Sharpstown' submarket. For purposes of this report, the subject's primary market area includes those properties located in zip codes 77072, 77082, and 77083." (p. 13) "…the subject's secondary market area consists of those properties within zip codes 77072, 77082, 77083, 77077, and 77099." (p. 36)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY

Type of Demand	Market Analyst: Units of Demand	Market Analyst: % of Total Demand	Underwriter: Units of Demand	Underwriter: % of Total Demand
Household Growth	86	3%	123	3%
Resident Turnover	2,368	88%	3,444	97%
Other Sources: Undefined	245	9%	0	0%
TOTAL ANNUAL DEMAND	**2,699**	**100%**	**3,567**	**100%**

Ref: p. 40

Capture Rate: "…based on our analysis, there are 200 rent-restricted units that are under construction, approved, or proposed in the subject's primary market (including the subject). As indicated earlier, there are approximately 2,699 potential households based on income eligibility, housing preference, and taking into consideration the typical turnover rate in the subject's primary market. Capture rate for 200 Proposed Rent-restricted Units is 7.41%." (p. 41) The Underwriter calculated a concentration capture rate of 18% based upon a revised supply of unstabilized comparable units of 656 (includes Mathew Ridge and West Oaks) divided by a revised demand of 3,567.

Market Rent Comparables: The market analyst surveyed 75 apartment projects totaling 17,610 units in the market area. (p. 26)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	**Proposed**	**Program Max**	**Differential**	**Market**	**Differential**
2-Bedroom (30%)	$317	$332	-$15	$925	-$608
2-Bedroom (40%)	$451	$466	-$15	$925	-$474
2-Bedroom (50%)	$585	$600	-$15	$925	-$340
2-Bedroom (MR)	$791	N/A	N/A	$925	-$134
3-Bedroom (30%)	$365	$380	-$15	$1,200	-$835
3-Bedroom (40%)	$520	$535	-$15	$1,200	-$680
3-Bedroom (50%)	$675	$690	-$15	$1,200	-$525
3-Bedroom (MR)	$913	N/A	N/A	$1,200	-$287
4-Bedroom (30%)	$411	$412	-$1	$1,325	-$914
4-Bedroom (40%)	$584	$585	-$1	$1,325	-$741
4-Bedroom (50%)	$756	$757	-$1	$1,325	-$569
4-Bedroom (MR)	$1,022	N/A	N/A	$1,325	-$303

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: "The overall occupancy rate for projects in the submarket was 93.15% as of December 2001." (p. 26)

Absorption Projections: "As the subject will be an LIHTC development, an absorption rate of at least 24 units per month is considered achievable, indicating an absorption period of +/-10.33 months. Based on our research, most projects that are constructed in the Houston are typically lease-up within 12 months." (p. 28)

Known Planned Development: "There are no development's under construction at this time, but there are three proposed projects. Firstly, the Laurel Point Seniors Apartments is a proposed LIHTC development which will have a total of 148 units of which 110 will be rent restricted. The other two will be conventional projects…" (p. 27) "According to the Houston HUD Office, there is only one development in the subject's secondary market area in which the rents are based on income or otherwise restricted. The Evening Star Villa is an elderly development, with 61 rent-restricted units." (p. 36) The market analyst failed to include the proposed West Oaks Apartments, a 2001 bond-financed development with 168 units, in the primary market and Collingham Park, a 2000 bond-financed development with 250 units, in the secondary market. Another development, Mathews Ridge, consisting of 240 tax credit units was also approved subsequent to the completion of the market study.

The Underwriter found the market study provided sufficient information on which to base a funding recommendation.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: The site is located on the west side of Sugarland-Howell Road, approximately 351 feet south of Bellaire Boulevard and just east of State Highway 6 in Houston.

Population: The estimated 1990 population of the Houston MSA was 3,711,043 and increased by 25.1% to approximately 4,643,540 by 2000. Within the primary market area there were estimated to be 45,191 households in 2000. Within the secondary market area there were estimated to be 81,415 households in 2000.

Adjacent Land Uses: According to the market analyst, "Uses immediately surrounding the subject include vacant land; however, some development was noted to be occurring in the area along Bellaire Boulevard, and various road widening and street extensions are occurring. A new high school was recently constructed to the immediate south of the subject." Adjacent land uses include:

- **North:** Auto Zone, vacant land
- **South:** vacant land
- **East:** Sugarland-Howell Road, vacant land, cell tower
- **West:** Pavilion Drive, detention area

Site Access: Access to the property is from the north or south along Sugarland-Howell Road. The development may have two entries, one from Sugarland-Howell Road and one from Pavilion Drive. However, there is an easement recorded in the title commitment indicating that access from Pavilion Drive may not be allowed.

Public Transportation: Transportation is available only via private automobile.

Shopping & Services: The neighborhood is served by the Alief Independent School District with all school levels located in proximity to the site. Shopping, including a mall and several strip centers, is located within two miles. There are two parks in the area. Three miles from the subject is the Belle Park Hospital.

Special Adverse Site Characteristics: Although the site is located in Zone X, areas outside of the 100-year and 500-year floodplains, of the FEMA Floodplain MAP, a letter form the water and wastewater service provider indicates that "storm water detention is required by Harris County Flood Control District in this area."

The title commitment lists an Agreement relating to the right of first refusal granted to Houston First American Savings Association, dated December 14, 1981. The agreement was submitted and reads, "Whereas part of the consideration for the sale and conveyance of the Property by seller (Houston First American Savings Association) and Purchaser (The Pavilion Company), Purchaser has agreed to grant to Seller certain rights of first refusal…" It appears that this agreement may no longer apply since the current owner of the property is Bellaire Investment, Ltd. The title commitment also indicates that access to Pavilion Drive is denied by virtue of a 1 foot reserve dedicated to the public in fee as a buffer separation between the side or end of streets in subdivision plats where such streets abut adjacent acreage tracts, the condition of such dedication being that when the adjacent property is subdivided in recorded plat, the one-foot reserve shall thereupon become vested in the public for street right of way. The submitted site plan indicates a proposed second entrance from Pavilion Drive; however, the main entrance is located at Sugarland-Howell Road. Receipt, review, and acceptance of documentation verifying the resolution of these issues is a condition of this report.

Site Inspection Findings: The site was inspected by a TDHCA staff member on May 7, 2002 and found to be acceptable.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

A Phase I Environmental Site Assessment report dated March 14, 2002 was prepared by Phase Engineering, Inc. and contained the following findings and recommendations:

> "This assessment has revealed no evidence of recognized environmental conditions in connection with the property." (p. 2)

OPERATING PROFORMA ANALYSIS

Income: The Applicant used overstated utility allowances in calculating the proposed net rents resulting in a potential gross rent figure that is $29K, or 2%, less than the Underwriter's estimate. However, the Applicant's secondary income and vacancy assumptions are in line with underwriting guidelines.

Expenses: The Applicant's total operating expense figure is within 5% of the Underwriter's TDHCA database-derived estimate. Several of the Applicant's line-items, however, differ by more than $5K or 10% as compared to the Underwriter's line-item estimates including general and administrative ($31K lower), payroll (5K lower) and property insurance ($9K lower). The Applicant did not provide a breakdown of utility expenses, but instead lumped together utilities, water, sewer and trash for an overall expense of $148,800. This amount is $12K higher than the Underwriter's combined utilities and water, sewer and trash expense estimates. As described above, the Applicant also included rent for a market rate two-bedroom apartment to be maintained lease-free for the supportive services staff at $791 per month as an operating expense.

Conclusion: Overall, the Applicant's net operating income is comparable to the Underwriter's estimate; therefore, the Applicant's proforma should be used to determine the development's capacity to service debt. Both the Applicant's and the Underwriter's proformas result a debt coverage ratio (DCR) that is within the Department's guideline of 1.10 to 1.25.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: The acquisition price is assumed to be reasonable since the acquisition is an arm's-length transaction.

Sitework Cost: The Applicant's claimed sitework costs of $6,500 per unit are considered reasonable compared to historical sitework costs for multifamily projects.

Direct Construction Cost: The Applicant's costs are more than 9% lower than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate. This would suggest that the Applicant's direct construction costs are understated.

Ineligible Costs: The Applicant incorrectly included $37,560 in marketing and $15,000 in an initial supportive services fee as eligible costs; the Underwriter moved these costs to ineligible costs, resulting in an equivalent reduction in the Applicant's eligible basis. In addition, the housing consultant fee of $25,000 was added to developer fees and the eligible portion restricted under the 15% guideline.

Fees: Although $210,000 in startup costs was added to the proposed contingency, the total is within the 5% guideline for new construction developments. The Applicant's contractor's and developer's fees for general requirements, general and administrative expenses, and profit are all within the maximums allowed by TDHCA guidelines. The Applicant's developer fees plus housing consultant fees, however, exceed 15% of the Applicant's adjusted eligible basis and, therefore, the eligible portion of these fees must be reduced by $85,683.

Conclusion: The Applicant's total development cost estimate is within 5% of the Underwriter's estimate; therefore, the Applicant's cost, adjusted for overstated fees and ineligible costs, will be used to determine the development's eligible basis and overall funding need.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with five types of financing: a conventional interim loan, a permanent loan, a City funded HOME loan, syndicated LIHTC equity, and deferred developer's fees.

Construction Financing: Bank of America has offered terms for construction financing in the amount of $8,200,000. The initial maturity of the loan will be no later than 24 months, but, subject to the Bank's approval, one six month extension is available. Payments will be interest only on a monthly basis at an interest rate of LIBOR plus 2.00%.

Permanent Financing: Permanent mortgage financing may be provided by American Property Financing. A term sheet indicates a loan amount of $8,200,000 for a term of 18 years, amortized at a Lender calculated rate of 7.60% (based on 4.90% 10-year US Treasury) over 30 years. The term sheet expires on June 30, 2002. Receipt, review and acceptance of a permanent financing commitment in the amount of $8,200,000 is a condition of this report.

The Applicant has also submitted application to the City of Houston requesting $1,240,000 in HOME funds as a 30-year loan with interest at AFR and payments from available cashflow. Receipt, review and acceptance of a commitment from the City of Houston for a HOME soft loan of $1,240,000 with an interest rate at AFR and payments from available cashflow is a condition of this report. While this loan can nearly be fully amortized at zero percent interest, it would take five years of stabilized occupancy to reach minimum 1.10 DCR at an interest rate equal to AFR. Nonetheless this loan appears to be repayable.

LIHTC Syndication: SunAmerica Affordable Housing Partners, Inc. has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $9,044,623 based on a syndication factor of 78%. The funds would be disbursed in a four-phased pay-in schedule:

1. 0.3% and Bridge Loan funds totaling $7,426,326 upon signing of the partnership agreement;
2. 79.7% upon receipt of last Certificate of Occupancy and a Substantial Completion Certificate;
3. 10% upon placement of the permanent mortgage, receipt of audited cost certification, and receipt of Forms 8609; and
4. 10% upon achievement of six consecutive months of operations at a 1.15 debt service coverage.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $839,100 amount to 36% of the total proposed fees.

Financing Conclusions: As stated above, the Applicant's total development cost, adjusted for overstated fees and ineligible costs, was used to determine the development's eligible basis of $17,419,870 and recommended annual tax credit allocation of $1,185,675. This recommended allocation is $25,992 more per year than requested due to the Applicant's use of an understated applicable percentage rate of 8.19% rather than the current underwriting rate of 8.44%. The increase in anticipated syndication proceeds results in a decrease in deferred developer fees to $636,382, or 28% of total eligible developer and housing consultant fees. This amount can be repaid from cashflow within five years of stabilized operation. If priority is given to the HOME loan at the stated rate and terms, then the deferred developer fee would take nine years to be repaid.

REVIEW of ARCHITECTURAL DESIGN

The residential building elevations indicate attractive stucco exteriors with large windows and varied rooflines. Each unit has a washer and dryer closet and ample storage including small kitchen pantries and exterior closets. The elevation for the leasing office indicates that the building will be similar in design to the residential buildings. However, a floorplan was not provided. Receipt, review and acceptance of community building and auxiliary building floorplans with a total square footage of 5,887 is a condition of this report.

IDENTITIES of INTEREST

The Applicant, developer and general contractor are related entities. These identities of interest are common for LIHTC-funded developments.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights:

- The Applicant, General Partner and several principals of the General Partner are single-purpose entities created for the purpose of receiving assistance from TDHCA and therefore have no material financial statements.
- An unaudited financial statement as of May 21, 2002 was submitted for Leonard W Wood Family Limited Partnership. The statement indicates total assets of $71M consisting of cash, receivables, stocks, bonds, real property, and other long term assets. Liabilities totaled $100K, resulting in a net worth of $71M.
- Primis Corporation submitted an audited financial statement as of December 31, 2000 reporting total assets of $1.65M and consisting of cash, retainage receivable, trade accounts receivable, uncompleted contracts, inventory, due from stockholder, other receivables, property and equipment, and other assets. Liabilities totaled $1.1M, resulting in shareholder's equity of $528K.

Background & Experience:

- The Applicant and General Partner are new entities formed for the purpose of developing the project.
- Leonard W Wood, principal of the General Partner, has participated in one LIHTC-funded and three

Mortgage Revenue Bonds-funded developments in Texas totaling 2,832 units since 1991. He has also participated in 21 affordable housing developments in Florida, five in Georgia, two in Indiana, one in North Carolina, five in South Carolina and ten in Tennessee.

- Warren J Durkin, principal of the General Partner, has participated in five affordable housing developments in Florida.
- Primis Corporation, 51% limited partner of the General Partner, has participated in two affordable housing developments totaling 220 units since 1999 in Texas.

SUMMARY OF SALIENT RISKS AND ISSUES

- Significant inconsistencies in the application could affect the financial feasibility of the project.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $1,185,675 ANNUALLY FOR TEN YEARS, SUBJECT TO CONDITIONS.

CONDITIONS

1. Receipt, review and acceptance of a revised site plan and revised building plans reflecting the proposed unit mix.
2. Receipt, review and acceptance of community building and auxiliary building floorplans with a total square footage of 5,887;
3. Receipt, review, and acceptance of documentation verifying the resolution of issues listed in the submitted title commitment;
4. Receipt, review and acceptance of a permanent financing commitment in the amount of $8,200,000;
5. Receipt, review and acceptance of a commitment from the City of Houston for a HOME soft loan of $1,240,000 with an interest rate at AFR and payments from available cashflow.

Should the terms of the proposed financing or syndication change a review of these conditions and recommendations should be conducted by the Underwriter.

Credit Underwriting Supervisor: ______________________ **Date:** June 14, 2002
Lisa Vecchietti

Director of Credit Underwriting: ______________________ **Date:** June 14, 2002
Tom Gouris

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Gateway Pavilion, Houston, LIHTC 02089

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC 30%	10	2	2	1,033	$402	$332	$3,320	$0.32	$70.00	$25.00
TC 40%	38	2	2	1,033	536	466	17,708	0.45	70.00	25.00
TC 50%	48	2	2	1,033	670	600	28,800	0.58	70.00	25.00
MR	24	2	2	1,033		791	18,984	0.77	70.00	25.00
TC 30%	6	3	2	1,193	465	380	2,280	0.32	85.00	25.00
TC 40%	26	3	2	1,193	620	535	13,910	0.45	85.00	25.00
TC 50%	32	3	2	1,193	775	690	22,080	0.58	85.00	25.00
MR	15	3	2	1,193		913	13,695	0.77	85.00	25.00
TC 30%	4	4	2	1,360	518	412	1,648	0.30	106.00	25.00
TC 40%	16	4	2	1,360	691	585	9,360	0.43	$106.00	25.00
TC 50%	20	4	2	1,360	863	757	15,140	0.56	106.00	25.00
MR	9	4	2	1,360		1022	9,198	0.75	106.00	25.00
TOTAL:	248		AVERAGE:	1,149	$527	$630	$156,123	$0.55	$81.89	$25.00

INCOME	Total Net Rentable Sq Ft: 284,847		TDHCA	APPLICANT		
POTENTIAL GROSS RENT			$1,873,476	$1,844,196		
Secondary Income	Per Unit Per Month:	$15.00	44,640	44,640	$15.00	Per Unit Per Month
Other Support Income: (describe)			0	0		
POTENTIAL GROSS INCOME			$1,918,116	$1,888,836		
Vacancy & Collection Loss	% of Potential Gross Income:	-7.50%	(143,859)	(141,660)	-7.50%	of Potential Gross Rent
Employee or Other Non-Rental Units or Concessions			0	0		
EFFECTIVE GROSS INCOME			$1,774,257	$1,747,176		

EXPENSES	% OF EGI	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% OF EGI
General & Administrative	4.61%	$330	$0.29	$81,882	$50,840	$0.18	$205	2.91%
Management	5.00%	358	0.31	88,713	87,359	0.31	352	5.00%
Payroll & Payroll Tax	12.19%	872	0.76	216,256	210,800	0.74	850	12.07%
Repairs & Maintenance	6.32%	452	0.39	112,193	112,840	0.40	455	6.46%
Utilities	3.50%	251	0.22	62,146	66,960	0.24	270	3.83%
Water, Sewer, & Trash	4.19%	300	0.26	74,400	81,840	0.29	330	4.68%
Property Insurance	2.57%	184	0.16	45,576	36,936	0.13	149	2.11%
Property Tax 3.54127	12.37%	885	0.77	219,559	224,144	0.79	904	12.83%
Reserve for Replacements	2.80%	200	0.17	49,600	49,600	0.17	200	2.84%
Support Services/Compliance	1.22%	87	0.08	21,691	21,691	0.08	87	1.24%
TOTAL EXPENSES	54.78%	$3,919	$3.41	$972,014	$943,010	$3.31	$3,802	53.97%
NET OPERATING INC	45.22%	$3,235	$2.82	$802,243	$804,166	$2.82	$3,243	46.03%
DEBT SERVICE								
First Lien Mortgage	39.16%	$2,802	$2.44	$694,778	$694,778	$2.44	$2,802	39.77%
Additional Financing	0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
Additional Financing	0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
NET CASH FLOW	6.06%	$433	$0.38	$107,466	$109,388	$0.38	$441	6.26%
AGGREGATE DEBT COVERAGE RATIO				1.15	1.16			
ALTERNATIVE DEBT COVERAGE RATIO					1.15			

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg		6.08%	$4,979	$4.33	$1,234,680	$1,234,680	$4.33	$4,979	6.39%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		7.93%	6,500	5.66	1,612,000	1,612,000	5.66	6,500	8.34%
Direct Construction		52.89%	43,335	37.73	10,747,116	9,750,790	34.23	39,318	50.46%
Contingency	3.17%	1.93%	1,581	1.38	392,000	392,000	1.38	1,581	2.03%
General Requirer	5.52%	3.36%	2,749	2.39	681,767	681,767	2.39	2,749	3.53%
Contractor's G &	1.84%	1.12%	916	0.80	227,256	227,256	0.80	916	1.18%
Contractor's Pro	5.52%	3.36%	2,749	2.39	681,767	681,767	2.39	2,749	3.53%
Indirect Construction		5.63%	4,609	4.01	1,143,127	1,143,127	4.01	4,609	5.92%
Ineligible Costs		1.53%	1,255	1.09	311,307	311,307	1.09	1,255	1.61%
Developer's G & A	1.61%	1.28%	1,045	0.91	259,115	0	0.00	0	0.00%
Developer's Profi	13.00%	10.33%	8,463	7.37	2,098,725	2,357,840	8.28	9,507	12.20%
Interim Financing		3.24%	2,657	2.31	659,006	659,006	2.31	2,657	3.41%
Reserves		1.34%	1,098	0.96	272,182	272,182	0.96	1,098	1.41%
TOTAL COST		100.00%	$81,936	$71.34	$20,320,048	$19,323,722	$67.84	$77,918	100.00%
Recap-Hard Construction Costs		*70.58%*	***$57,830***	***$50.35***	***$14,341,906***	***$13,345,580***	***$46.85***	***$53,813***	*69.06%*

SOURCES OF FUNDS	%	PER UNIT	PER SQ FT	TDHCA	APPLICANT	RECOMMENDED
First Lien Mortgage	40.35%	$33,065	$28.79	$8,200,000	$8,200,000	$8,200,000
Additional Financing	6.10%	$5,000	$4.35	1,240,000	1,240,000	1,240,000
LIHTC Syndication Proceeds	44.51%	$36,470	$31.75	9,044,623	9,044,623	9,247,340
Deferred Developer Fees	4.13%	$3,383	$2.95	839,100	839,100	636,382
Additional (excess) Funds Requ	4.90%	$4,017	$3.50	996,325	(1)	0
TOTAL SOURCES				$20,320,048	$19,323,722	$19,323,722

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Gateway Pavilion, Houston, LIHTC 02089

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook

Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$39.35	$11,209,126
Adjustments				
Exterior Wall Finis	0.00%		$0.00	$0
Elderly	0.00%		0.00	0
Roofing			0.00	0
Subfloor			(0.78)	(223,320)
Floor Cover			1.82	518,422
Porches/Balconies	$28.10	24221	2.39	680,610
Plumbing	$585	744	1.53	435,240
Built-In Appliances	$1,550	248	1.35	384,400
Exterior Stairs	$1,350	104	0.49	140,400
Floor Insulation			0.00	0
Heating/Cooling			1.66	472,846
Garages/Carports			0.00	0
Comm &/or Aux Bldgs	$52.65	5,887	1.09	309,951
Other:			0.00	0
SUBTOTAL			48.90	13,927,674
Current Cost Multiplier	1.04		1.96	557,107
Local Multiplier	0.91		(4.40)	(1,253,491)
TOTAL DIRECT CONSTRUCTION COSTS			$46.45	$13,231,291
Plans, specs, survy, bl	3.90%		($1.81)	($516,020)
Interim Construction In	3.38%		(1.57)	(446,556)
Contractor's OH & Profi	11.50%		(5.34)	(1,521,598)
NET DIRECT CONSTRUCTION COSTS			$37.73	$10,747,116

PAYMENT COMPUTATION

Primary	$8,200,000	Term	360
Int Rate	7.60%	DCR	1.15

Secondary	$1,240,000	Term	
Int Rate	0.00%	Subtotal DCR	1.15

Additional	$9,044,623	Term	
Int Rate		Aggregate DCR	1.15

RECOMMENDED FINANCING STRUCTURE APPLICANT'S NOI

Primary Debt Service	$694,778
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$107,466

Primary	$8,200,000	Term	360
Int Rate	7.60%	DCR	1.15

Secondary	$1,240,000	Term	
Int Rate	5.56%	Subtotal DCR	1.15

Additional	$9,044,623	Term	0
Int Rate	0.00%	Aggregate DCR	1.15

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$1,873,476	$1,929,680	$1,987,571	$2,047,198	$2,108,614	$2,444,461	$2,833,801	$3,285,152	$4,414,969
Secondary Income	44,640	45,979	47,359	48,779	50,243	58,245	67,522	78,277	105,197
Other Support Income: (de	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	1,918,116	1,975,659	2,034,929	2,095,977	2,158,856	2,502,706	2,901,323	3,363,428	4,520,166
Vacancy & Collection Loss	(143,859)	(148,174)	(152,620)	(157,198)	(161,914)	(187,703)	(217,599)	(252,257)	(339,012)
Employee or Other Non-Ren	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$1,774,257	$1,827,485	$1,882,310	$1,938,779	$1,996,942	$2,315,003	$2,683,723	$3,111,171	$4,181,154
EXPENSES at 4.00%									
General & Administrative	$81,882	$85,157	$88,563	$92,106	$95,790	$116,543	$141,792	$172,512	$255,360
Management	88,713	91,374	94,115	96,939	99,847	115,750	134,186	155,559	209,058
Payroll & Payroll Tax	216,256	224,906	233,902	243,259	252,989	307,800	374,485	455,619	674,427
Repairs & Maintenance	112,193	116,681	121,348	126,202	131,250	159,686	194,282	236,374	349,891
Utilities	62,146	64,631	67,217	69,905	72,701	88,452	107,616	130,931	193,810
Water, Sewer & Trash	74,400	77,376	80,471	83,690	87,037	105,894	128,837	156,750	232,028
Insurance	45,576	47,399	49,294	51,266	53,317	64,868	78,922	96,021	142,134
Property Tax	219,559	228,341	237,475	246,974	256,853	312,501	380,205	462,577	684,727
Reserve for Replacements	49,600	51,584	53,647	55,793	58,025	70,596	85,891	104,500	154,685
Other	21,691	22,559	23,461	24,399	25,375	30,873	37,562	45,700	67,647
TOTAL EXPENSES	$972,014	$1,010,008	$1,049,494	$1,090,533	$1,133,185	$1,372,963	$1,663,778	$2,016,541	$2,963,767
NET OPERATING INCOME	$802,243	$817,477	$832,815	$848,246	$863,757	$942,040	$1,019,945	$1,094,630	$1,217,387
DEBT SERVICE									
First Lien Financing	$694,778	$694,778	$694,778	$694,778	$694,778	$694,778	$694,778	$694,778	$694,778
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$107,466	$122,700	$138,038	$153,468	$168,980	$247,262	$325,168	$399,852	$522,609
DEBT COVERAGE RATIO	1.15	1.18	1.20	1.22	1.24	1.36	1.47	1.58	1.75

LIHTC Allocation Calculation - Gateway Pavilion, Houston, LIHTC 02089

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost				
Purchase of land	$1,234,680	$1,234,680		
Purchase of buildings				
(2) Rehabilitation/New Construction Cost				
On-site work	$1,612,000	$1,612,000	$1,612,000	$1,612,000
Off-site improvements				
(3) Construction Hard Costs				
New structures/rehabilitation ha	$9,750,790	$10,747,116	$9,750,790	$10,747,116
(4) Contractor Fees & General Requirements				
Contractor overhead	$227,256	$227,256	$227,256	$227,256
Contractor profit	$681,767	$681,767	$681,767	$681,767
General requirements	$681,767	$681,767	$681,767	$681,767
(5) Contingencies	$392,000	$392,000	$392,000	$392,000
(6) Eligible Indirect Fees	$1,143,127	$1,143,127	$1,143,127	$1,143,127
(7) Eligible Financing Fees	$659,006	$659,006	$659,006	$659,006
(8) All Ineligible Costs	$311,307	$311,307		
(9) Developer Fees			$2,272,157	
Developer overhead		$259,115		$259,115
Developer fee	$2,357,840	$2,098,725		$2,098,725
(10) Development Reserves	$272,182	$272,182		
TOTAL DEVELOPMENT COSTS	$19,323,722	$20,320,048	$17,419,870	$18,501,879

Deduct from Basis:			
All grant proceeds used to finance costs in eligible basis			
B.M.R. loans used to finance cost in eligible basis			
Non-qualified non-recourse financing			
Non-qualified portion of higher quality units [42(d)(3)]			
Historic Credits (on residential portion only)			
TOTAL ELIGIBLE BASIS		$17,419,870	$18,501,879
High Cost Area Adjustment		100%	100%
TOTAL ADJUSTED BASIS		$17,419,870	$18,501,879
Applicable Fraction		80.65%	80.65%
TOTAL QUALIFIED BASIS		$14,048,282	$14,920,870
Applicable Percentage		8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS		$1,185,675	$1,259,321
Syndication Proceeds	**0.7799**	**$9,247,340**	**$9,821,725**

TDHCA

02099

Region 6

Non Profit
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM
2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Sunrise Village Apartments** TDHCA #: **02099**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 7526 Martin Luther King Jr. Blvd.
City: Houston
County: Harris
Zip Code: 77033

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

LIHTC Primary Set Aside: NP
Additional Elderly Set Aside ☐
Purpose / Activity: NC
Development Type: Family
☐ TTC ☐ DDA ☑ QCT

Special Needs: 4 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: Sunrise Village Apartments, L.P.

Principal Names:	Principal Contact:	Percentage Ownership:
Sunrise Village Joint Venture	Bennie W. Davis	0 %
Sunrise Village Develop., LLC	Bennie W. Davis	55 %
Park Village Sunrise, LLC	Thomas H. Scott	45 %
NA	NA	0 %
NA	NA	0 %

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$616,304** Allocation over 10 Years: $6,163,040
Credits Requested: $644,263 Eligible Basis Amount: $616,304 Equity/Gap Amount: $632,266

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	0	0	0	0	0
40%	0	0	32	0	0	0	32
50%	0	0	32	0	0	0	32
60%	0	0	8	0	0	0	8
MR	0	0	8	0	0	0	8
Total	0	0	80	0	0	0	

Total LI Units: 72
Owner/Employee Units: 0
Total Project Units: 80
Applicable Fraction: 90.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost:	**$7,109,051**
Gross Building Square Feet:	86,584
Total NRA SF:	81,384
Gross/Net Rentable:	1.06
Average Square Feet/Unit:	1,017
Cost Per Net Rentable Square Foot:	$87.35
Credits per Low Income Unit	$8,560

INCOME AND EXPENSE INFORMATION

Effective Gross Income:	$544,788
Total Expenses:	$312,000
Net Operating Income:	$232,788
Estimated 1st Year Debt Coverage Ratio:	1.25

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer:	P.V.D.C. Partners, LP (Co-Developer)	Market Analyst:	O'Connor & Associates
Housing GC:	Rampart Builders, LLC	Originator/UW:	NA
Infrastructure GC:	NA	Appraiser:	O'Connor & Assoc.
Cost Estimator:	Rampart Builders, LLC	Attorney:	Coats Rose Yale Ryman & Lee
Architect:	Thompson Nelson Group	Supp Services:	Texas Inter-Faith Housing Corp.
Property Manager:	Coach Realty Services, Inc.	Accountant:	Reznick, Fedder & Silverman
Engineer:	Benchmark Engineering		
Syndicator:	Lend Lease Real Estate Investment	Permanent Lender:	Lend Lease

DEPARTMENT EVALUATION

Points Awarded: 147 Site Review: Acceptable Underwriting Finding: AC

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommendec

Project Name: Sunrise Village Apartments

Project Number: 02099

PUBLIC COMMENT SUMMARY Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials): Support: **2** Opposition: **0**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:			Comment from Other Public Official
Local Official:		NC	Margie L. Bingham, Director, City of Houston, NC
TX Rep.:	Al Edwards, Dist. 146	S	
TX Sen.:	Rodney Ellis, Dist. 13		
US Rep.:	Sheila Jackson Lee, US Representative, S		
US Sen.:			

CONDITIONS TO COMMITMENT

Receipt, review, and acceptance of a letter from an environmental engineer familiar with the site that any findings discovered in the Phase I report will not adversely affect the property.

Receipt, review, and acceptance of a revised permanent loan commitment reflecting an increase in the debt service to not less than $186,210.

Should the terms or interest rate of the proposed debt be lower than 8%, the recommendations and conditions of this report should be re-evaluated by the Underwriter.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☑ Score ☑ Meeting Required Set Aside ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This development was one of the highest scoring developments in the Nonprofit Set Aside statewide.

Brooke Boston, Acting LIHTC Co-Manager Date David Burrell, Director of Housing Programs Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director
Chairman of Executive Award and Review Advisory Committee Date

☐ **BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):**

Approved Credit Amount: Date of Determination:

Michael E. Jones, Chairman of the Board Date

Compliance Status Summary

Project ID #: 02099 — LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Sunrise Village Apartments — HOME ☐ HTF ☐

Project City: — BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 5 — # not yet monitored or pending review 1

of projects grouped by score — 0-9: 5 — 10-19: 0 — 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received — Yes

Non-Compliance Reported — No

Completed by Jo En Taylor **Completed on** 05/29/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ no outstanding issues ☐ outstanding issues ☐

Comments: 530727 (For-Profit)

Completed by Lucy Trevino **Completed on** 05/30/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☑

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments: 530727 pending review

Completed by Ralph Hendrickson **Completed on** 05/30/2002

Community Affairs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Programs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☑ reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: June 11, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02099

DEVELOPMENT NAME

Sunrise Village Apartments

APPLICANT

Name: Sunrise Village Apartments, L.P. **Type:** ☐ For Profit ☒ Non-Profit ☐ Municipal ☐ Other

Address: 11490 Westheimer, Suite 550 **City:** Houston **State:** Texas

Zip: 77077 **Contact:** Thomas Scott **Phone:** (713) 785-1005 **Fax:** (713) 783-2555

PRINCIPALS of the APPLICANT

Name	(%)	Title
Sunrise Village Joint Venture	.01	Managing General Partner
Sunrise Village Development, LLC		55% Owner of G.P
Neighborhood Care Center of Houston		Owner of SunriseVillage Dev.
Park Village Sunrise, LLC		45% Owner of G.P.
Tom Scott		50% Owner of Park Village
Paul Buchanan		50% Owner of Park Village
Lend Lease	99.99	Limited Partner

GENERAL PARTNER

Name: Sunrise Village Joint Venture **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 12522 Martindale **City:** Houston **State:** Texas

Zip: 77048 **Contact:** Bennie Davis **Phone:** (713) 987-0949 **Fax:** (713) 987-0756

PROPERTY LOCATION

Location: 7526 Martin Luther King Jr. Blvd. ☒ **QCT** ☐ **DDA**

City: Houston **County:** Harris **Zip:** 77033

REQUEST

Amount	Interest Rate	Amortization	Term
$644,263	n/a	n/a	n/a

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: New Construction **Set-Aside:** ☐ General ☐ Rural ☒ Non-Profit

SITE DESCRIPTION

Size: 7.705 acres 335,630 square feet **Zoning/ Permitted Uses:** No Zoning in Houston

Flood Zone Designation: Not in 100 flood plain **Status of Off-Sites:** Raw Land

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
CREDIT UNDERWRITING ANALYSIS

DESCRIPTION of IMPROVEMENTS

Total Units: 80 **# Rental Buildings** 5 **# Common Area Bldngs** 1 **# of Floors** 2 **Age:** 0 yrs **Vacant:** n/a at / /

Number	Bedrooms	Bathroom	Size in SF
32	2	1	945
24	2	2	1,053
24	3	2	1,078

Net Rentable SF: 81,384 **Av Un SF:** 1,017 **Common Area SF:** 5,200 **Gross Bldng SF** 86,584

Property Type: ☒ Multifamily ☐ SFR Rental ☐ Elderly ☐ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on a post-tensioned concrete slab on grade, 40% masonry/brick veneer 60% Hardiplank siding exterior wall covering, drywall interior wall surfaces, composite shingle roofing.

APPLIANCES AND INTERIOR FEATURES

Carpeting & vinyl flooring, range & oven, hood & fan, garbage disposal, dishwasher, refrigerator, tile tub/shower, washer & dryer connections, ceiling fans, laminated counter tops, individual water heaters.

ON-SITE AMENITIES

5,200 SF community building with activity room, management offices, fitness & laundry facilities, kitchen, restrooms, computer/business center, swimming pool, equipped children's play area, perimeter fencing.

Uncovered Parking: 150 spaces **Carports:** N/A spaces **Garages:** N/A spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Lend Lease **Contact:** Marie Keutmann

Principal Amount: $2,000,000 **Interest Rate:** LIBOR + 3%

Additional Information:

Amortization: N/A yrs **Term:** 2 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: Lend Lease **Contact:** Marie Keutmann

Principal Amount: $2,000,000 **Interest Rate:** 8.5%

Additional Information:

Amortization: 30 yrs **Term:** 18 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

Annual Payment: $186,243 **Lien Priority:** 1st **Commitment Date** 2/ 26/ 2002

LIHTC SYNDICATION

Source: Lend Lease **Contact:** Marie Keutmann

Address: 101 Arch Street **City:** Boston

State: MA **Zip:** 02110 **Phone:** (617) 439-3911 **Fax:** (617) 439-9978

Net Proceeds: $5,089,000 **Net Syndication Rate** (per $1.00 of 10-yr LIHTC) 79¢

Commitment ☐ None ☐ Firm ☒ Conditional **Date:** 2/ 21/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $20,051 **Source:** Deferred developer fee

VALUATION INFORMATION

ASSESSED VALUE

Land:	201,350	**Assessment for the Year of:**	2001
Building:	14,000	**Valuation by:**	Harris County Appraisal District
Total Assessed Value:	215,350		

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Earnest Money Contract

Contract Expiration Date: 9/ 15/ 2002 **Anticipated Closing Date:** 9/ 15/ 2002

Acquisition Cost: $ 257,000 **Other Terms/Conditions:**

Seller: Full Gospel Church of Love in Christ **Related to Development Team Member:** No

REVIEW of PREVIOUS UNDERWRITING REPORTS

Sunrise Village was submitted and underwritten in the 1998 LIHTC cycle. The project did not receive an allocation in that cycle.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Sunrise Village is a proposed new construction development of 80 units of mixed income housing located in south Houston. The development is comprised of five residential buildings as follows:

- (2) Building Type/Style A with eight, two bedroom/one bath units, and eight two bedroom/two bath units;
- (2) Building Type/Style B with eight two bedroom/one bath units, and eight three bedroom/two bath units;
- (1) Building Type/Style C with eight two bedroom/two bath units, and eight three bedroom/two bath units;

Based on the site plan the apartment buildings are distributed evenly throughout the site separated by parking lots, with the community building and swimming pool located near the entrance to the site. The community building plan includes the management office, a community room, exercise room, kitchen, restrooms, laundry facilities and a maintenance room.

Supportive Services: The Applicant has contracted with Texas Inter-Faith to provide personal growth opportunities, family skills, education programs, fun activities and neighborhood advancement programs. The programs will be of no cost to the tenants. The Applicant will pay a one time start up fee of $1,000 and a monthly fee of $9.72 per unit. There is a five year term for the contract.

Schedule: The Applicant anticipates construction to begin in May of 2003, to be completed in March of 2004, to be placed in service in December of 2004, and to be substantially leased-up in April of 2004.

POPULATIONS TARGETED

Income Set-Aside: The Applicant initially indicated an election of the 20% at 50% or less of area median gross income (AMGI) set-aside however this would require 100% of the LIHTC units to be restricted at or below 50%. The Applicant clearly has indicated that some of the LIHTC units will be restricted at 60% of AMGI and therefore was given the opportunity to clarify the election of choice and did alter it to 40% at 60%. Thirty-two units (40%) will be reserved for households earning 40% or less of AMGI and eight units (40%) will be reserved for households earning 50% or less of AMGI and eight units (10%) will be restricted to households earning 60% or less of AMGI. The remaining eight units (10%) will be unrestricted.

Special Needs Set-Asides: No units are indicated to be handicapped-accessible or to be equipped for tenants with hearing or visual impairments.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated February 5, 2002 was prepared by Patrick O'Conner & Associates and highlighted the following findings:

Definition of Market/Submarket: "…the subject's primary market includes those properties located in zip codes 77033, 77087 and 77051." (p. 26) "…the subject's secondary market consists of those properties within zip codes 77033, 77087, 77051, 77021, 77048, 77047 and 77061." (p. 35)

Total Local/Submarket Demand for Rental Units: In the primary market area there is a total demand of 1,277 income-eligible households and 1,420 market rate households. In the secondary market area there is a total demand of 2,943 income-eligible households and 3,343 market rate households. (p. 39, 41)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY				
	Market Analyst		Underwriter	
Type of Demand	Units of Demand	% of Total Demand	Units of Demand	% of Total Demand
Household Growth	25	1%	38	2%
Resident Turnover	1,136	89%	2,278	98%
Other Sources: 10 yrs pent-up demand	116	9%	0	0%
TOTAL ANNUAL DEMAND	**1,277**	**100%**	**2,316**	**100%**

Ref: p. 39

Capture Rate: According to the analyst, there is a capture rate of 47.68% in the primary market for the tax credit units and 20.69% in the secondary market. For the market rate units there is a capture rate of 1.62% in the primary market and 0.69% in the secondary market. (p. 39 and 42) In the primary market area, covering three zip codes, the Underwriter concluded a demand of 2,315 units, resulting in concentration capture rate of 40%. This resulted from the supply of 80 units at the subject site, Cullen Park (2001 LIHTC) at 192 units, Bellfort Pines (2001 LIHTC) at 248 units, Plum Creek at 152 units and San Melia at 252 units.

In the secondary market, (seven zip codes) the Underwriter determined demand of 4,868 units. As a result of the larger area, one property was added to the supply, Scott Street Apartments (LIHTC) at 96 units. This resulted in a concentration capture rate of 21%, which is below the Departments threshold of 25% for non-rural markets. Though the Market Analyst neglected to account for the additional unstabilized properties in a manner consistent with the Department's concentration capture policy, they did provide a secondary market of a reasonable size that when considering all unstabilized units, produces an acceptable concentration rate.

Local Housing Authority Waiting List Information: "The waiting list for Section 8 Vouchers was closed in 1994, when the list had grown to more than 26,000 households. According to a September 2000 article in *the Houston Chronicle*, the waiting list for Section 8 vouchers is approximately six years." (p. 33)

Market Rent Comparables: The market analyst surveyed five comparable apartment projects totaling 1,344 units in the market area. (p. 55)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	**Proposed**	**Program Max**	**Differential**	**Market**	**Differential**
2-Bed/1Bath (40%)	$465	$466	-$1	$720	-$254
2-Bed/1Bath (50%)	$597	$600	-$3	$720	-$120
2-Bed/2Bath (40%)	$465	$466	-$1	$795	-$329
2-Bed/2Bath (MR)	$765	NA	NA	$795	-$30
3-Bedroom (50%)	$688	$690	-$2	$845	-$155
3-Bedroom (60%)	$840	$840	$0	$845	-$5

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: The overall occupancy rate in the primary market area was 87.32% in December 2001. (p. 31)
Absorption Projections: "Absorption in the subject's primary market area over the past eight quarters, ending December 2001, totals a positive 413 units…." (p. 28) Concord at Palm Center, built in 2000, averaged 40 units per month, Reed Parque Townhomes (LIHTC) achieved stabilization in 12 months. Plum Creek Townhomes (LIHTC) absorbed 38 units per month. "Based on our research, most projects in the Houston area typically lease up within 12 months." (p. 28)
Known Planned Development: According to the analyst, there are two properties that are under construction in the primary market area. Bellfort Pines, an LIHTC property of 248 units and San Melia, which according to a conversation with the analyst, is a family style Class A community of 252 units (p. 27). As discussed above, the Analyst missed Cullen Park a late 2002 bond/4%LIHTC transaction; and did not mention Scott Street Apartments which was in the secondary market.
Other Relevant Information: "The average rental rate for apartments in the subject's primary market area was reported at $0.68 per square foot per month…." This was as of December 2001. (p. 30) The analyst concluded that market rent for the subjects 2-BR/1-BA, 945-SF units are $720 and for the 2-BR/2BA 1,053 -SF units the market rents are $795 per month. (p. 69) The estimated market rent for the three-bedroom units is $845. (p. 75)
The Underwriter found the market study to be acceptable to base a conclusion.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: Houston is located in the southeastern region of state in Harris County. The site is a trapezoidally-shaped parcel located in the south area of Houston, approximately six miles from the central business district. The site is situated on the west side of Martin Luther King Blvd.
Population: The estimated 2000 population of the primary market area was 79,460, and is expected to increase by 5% to approximately 83,513 in 2005. Within the market area there were estimated to be 25,208 households in 2000. In the secondary market, the 2000 population was 156,606 and expected to increase to 165,592. In 2000 there were 152,833 in the larger secondary market.
Adjacent Land Uses: Land uses in the overall area in which the site is located are predominantly mixed use with retail, commercial and single family homes. To the north and east are free standing commercial/retail buildings and to the south and west are single family residences.
Site Access: Access to the property is from the north or south on Martin Luther King. The development has one main entry, from Martin Luther King. Access to Interstate Loop 610 is one mile north, which provides connections to all other major roads serving the Houston area.
Public Transportation: Public transportation is available through METRO.
Shopping & Services: The site is within 3 miles of the Gulfgate Mall and near neighborhood shopping and strip centers. The Houston Independent School District serves the area, with many schools located near the property. A medical clinic is located 2.5 miles away with Quentin Meese Community Hospital located 5 miles. The site is close to Barnett Stadium, Sunnyside Park and Law Park.
Site Inspection Findings: The site was inspected by a TDHCA staff member on May 8, 2002 and found to be acceptable for the proposed development.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORTS

A Phase I Environmental Site Assessment report dated February 2002 was prepared by Tidewater Environmental and contained the following findings and recommendations:
Findings:
1. Gulf Oil Corporation has a leaking underground storage tank.
2. South Park Food Facility has an underground storage tank.
3. O'Brien's Hardware, Pilgrim Cleaners and UTOTEM are indicated as three tenants in a shopping center that may represent recognized environmental concerns.

Recommendations: According to the engineer, further field studies or environmental research needs to be done to determine any environmental threat posed by these environmental concerns listed in the findings.
A contract was executed in April 2002 allowing Tidewater Environmental to install up to five shallow

borings to sample soil and groundwater at the site to determine if there are any environmental issues as a result of the findings of the Phase I. Receipt, review and acceptance of a letter from an environmental engineer indicating that the sites of issue listed in the Phase I will not adversely impact the subject site is a condition of the report.

OPERATING PROFORMA ANALYSIS

Income: The Applicant's rent projections are slightly lower than the maximum rents allowed under LIHTC guidelines for all the tax credit units except the three-bedroom at 60% of AMGI. The reason for the difference is because the Applicant used the 2001 rent limits, which were slightly lower, and the Applicant used utility allowances that predated what the Underwriter used, and had verified with the City of Houston's Housing Office. As a result however, the difference in potential gross income was only $1,344. Both the Underwriter and the Applicant used $10 per unit per month in secondary income and a vacancy and collection loss of 7.5%.

Expenses: The Applicant's estimate of total operating expense is 2% higher than the Underwriter's TDHCA database-derived estimate, an acceptable deviation. The main differences were in the Applicant assuming $23,843 less in property taxes, however this was somewhat offset by the Underwriter assuming insurance to be $18,351 less than the Applicant.

Conclusion: The Applicant's estimated income is consistent with the Underwriter's expectations and total operating expenses are within 5% of the database-derived estimate. Therefore, the Applicant's NOI should be used to evaluate debt service capacity. However, the Underwriter reduced the interest rate on the permanent loan to the maximum Underwriting rate for this funding cycle of 8.0%, resulting in the current loan having a debt coverage ratio of 1.32, which is outside the 1.10 to 1.25 Department guidelines. Thus, the Underwriter believes that the Applicant can increase their debt service to $186,210, which results in a lowering of the debt service ratio to 1.25, and within the Department guidelines. This will provide an additional $114,729 in sources of funds and reduces the amount of tax credits needed for the feasibility of the project.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: The site cost of $257,000 ($0.77/SF or $33,355/acre) is assumed be reasonable since the acquisition is an arm's-length transaction.

Sitework Cost: The Applicant's claimed total sitework costs of $6,483 per unit and eligible sitework costs of $5,784 per unit are considered reasonable compared to historical sitework costs for multifamily projects.

Direct Construction Cost: The Applicant's direct construction cost estimate is $42,476 or 3% lower than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate, and is therefore regarded as reasonable as submitted.

Ineligible Costs: The Applicant claimed $225,000 of the construction interest as an eligible cost. However, the Underwriter believes that this amount is overstated and reduced the Applicant's eligible interim financing fees by $25,000 to reflect an apparent overestimation of eligible construction loan interest, to bring the eligible interest expense down to one year of fully drawn interest expense. This results in an equivalent adjustment to the Applicant's eligible basis estimate.

Fees: The Applicant's general requirements, contractor's general and administrative fees, and contractor's profit were below the 6%, 2%, and 6% maximums allowed by LIHTC guidelines based on their own construction costs. However, the Applicant also submitted a cost of $64,000 for field supervision and $23,000 for general and administrative costs for field work. The Underwriter treated these as fees and moved these amounts into general requirements, contractor's general and administrative fees, and contractor's profit to maximize the Applicant's fees at the 6%, 2% and 6% amounts. Although this overstated the maximums by a total of $62,762, it increased the eligible basis by $1,238. The Applicant's developer fees also exceed 15% of the Applicant's adjusted eligible basis and therefore the eligible portion of the Applicant's developer fee must be reduced by $17,920

Conclusion: The Applicant's total project cost estimate is within 5% of the Underwriter's verifiable estimate and is therefore generally acceptable. The Applicant's total project cost estimate of $88,863 per unit, or $87.35 per square foot appears acceptable for this product type. The Applicant is requesting $644,263 in tax credits, based on an applicable percentage of 8.60%. As a result of adjustments to the Applicant's budget, an eligible basis of $6,265,541 is used to determine a credit allocation of $616,304. This credit amount will be used to compare to the gap.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with four types of financing from two sources: a conventional interim to permanent loan, syndicated LIHTC equity, and deferred developer's fees.

Combined: The Applicant intends to use Lend Lease for all facets of financing, i.e., for the interim construction loan of $2,000,000, the permanent loan of $2,000,000, and as the syndicator for the low-income housing tax credits. The commitment letter indicated a term of 24 months for the construction portion at an interest rate at 3 points over LIBOR, and a 15 years commitment for the permanent at a fixed interest rate at the time of closing, to be underwritten at 8.5% and amortized over 30 years. There is a minimum debt coverage ratio of 1.15 required for the permanent loan. This commitment reflects an interest rate higher than the maximum 8% guideline for this application cycle.

LIHTC Syndication: Lend Lease has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $5,089,000 based on a syndication factor of 79%. The funds would be disbursed in a seven-phased pay-in schedule:

1. 30% upon admission to the partnership;
2. 10% upon 90 days after admission;
3. 15% upon 180 days after admission;
4. 15% upon 270 days after admission;
5. 10% upon construction completion;
6. 10% upon closing of permanent loan;
7. 10% upon receipt of 8609's.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $20,051 amount to 2% of the total fees.

Financing Conclusions: Based on the Applicant's adjusted calculation of eligible basis, the LIHTC allocation should not exceed $616,304, resulting in syndication proceeds of $4,868,311. However, according to the Underwriter, the Applicant is able to service $144,779 more in debt than what they had stated based on a maximum 8% permanent loan interest rate. The difference results in a lower gap for the development in the same amount. The reduction of syndication proceeds due to the adjustments to eligible basis however are $220,689, and therefore the difference of $125,961 must be absorbed through the deferral of developer fees. This amounts to 15% of eligible developer fees and can be repaid in three years of stabilized occupancy.

REVIEW of ARCHITECTURAL DESIGN

The exterior elevations are attractive, with varied rooflines. All units are of average size for market rate and LIHTC units, and have covered patios or balconies and small outdoor storage closets. Each unit has a semi-private exterior entry that is shared with another unit. The units are in two-story walk-up structures with mixed brick/masonry and Hardiboard siding exterior finish and pitched roofs.

IDENTITIES of INTEREST

Sunrise Village Joint Venture is the General Partner, with a .01% interest in the Applicant. Sunrise Village Development, LLC is the 55% owner of the General Partner, with the Neighborhood Care Center of Houston being its sole owner. Park Village Sunrise, LLC is the 45% owner of the General Partner with both Thomas H. Scott and Paul J. Buchanan being 50% owners. PVDC Partners is the co-developer, they are affiliated with the same owner as Coach Realty Services (property management company) and Park Village Sunrise, LLC. These types of relationships are common in LIHTC transactions.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights: The Applicant and General Partner are single-purpose entities created for the purpose of receiving assistance from TDHCA and therefore have no material financial statements.

- The Neighborhood Care Center of Houston, submitted an unaudited financial statement as of December 31, 2001 reporting total assets of $500 and total liabilities of $500.

Background & Experience:

- Tom Scott, co-owner of Park Village Sunrise, LLC has completed 10 LIHTC housing developments totaling 1,089 units since 1993.
- According to a letter sent by the Department, Tom Scott of Brazos Village Partners, L.P. has been in non-compliance with the Brazos Village Apartments. According to the Applicant, they have received verbal confirmation from the Department that all non-compliance issues have been resolved.
- Paul Buchanan, co-owner of Park Village Sunrise, LLC has completed 10 LIHTC housing developments totaling 1,089 units since 1993.

SUMMARY OF SALIENT RISKS AND ISSUES

- Significant environmental risks may exist.
- The development could potentially achieve an excessive profit level (i.e., a DCR above 1.25) if the maximum tax credit rents can be achieved in this market.
- The significant financing structure changes being proposed have not been reviewed or accepted by the Applicant, lenders, and syndicators, and acceptable alternative structures may exist.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $616,304 ANNUALLY FOR TEN YEARS, SUBJECT TO CONDITIONS.

CONDITIONS

1. Receipt, review, and acceptance of a letter from an environmental engineer familiar with the site that any findings discovered in the Phase I report will not adversely affect the property.
2. Receipt, review, and acceptance of a revised permanent loan commitment reflecting an increase in the debt service to not less than $186,210..
3. Should the terms or interest rate of the proposed debt be lower than 8%, the recommendations and conditions of this report should be re-evaluated by the Underwriter.

Underwriter:	*Mark Fugina*	**Date:**	June 11, 2002
Credit Underwriting Supervisor:	*Jim Anderson*	**Date:**	June 11, 2002
Director of Credit Underwriting:	*Tom Gouris*	**Date:**	June 11, 2002

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Sunrise Village, Houston, LIHTC #02099

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC40%	16	2	1	945	$536	$466	$7,456	$0.49	$70.00	
TC50%	16	2	1	945	670	600	9,600	0.63	70.00	
TC40%	16	2	2	1,053	536	466	7,456	0.44	70.00	
MKT	8	2	2	1,053	765	765	6,120	0.73	70.00	
TC50%	16	3	2	1,078	775	690	11,040	0.64	85.00	
TC60%	8	3	2	1,078	930	840	6,720	0.78	85.00	
TOTAL:	80		**AVERAGE:**	1,017	$673	$605	$48,392	$0.59	$74.50	$0.00

INCOME	Total Net Rentable Sq Ft:	81,384			**TDHCA**	**APPLICANT**			
POTENTIAL GROSS RENT					$580,704	$579,360			
Secondary Income			Per Unit Per Month:	$10.00	9,600	9,600	$10.00	Per Unit Per Month	
Other Support Income: (describe)					0				
POTENTIAL GROSS INCOME					$590,304	$588,960			
Vacancy & Collection Loss		% of Potential Gross Income:		-7.50%	(44,273)	(44,172)	-7.50%	of Potential Gross Rent	
Employee or Other Non-Rental Units or Concessions					0				
EFFECTIVE GROSS INCOME					$546,031	$544,788			
EXPENSES		% OF EGI	PER UNIT	PER SQ FT			PER SQ FT	PER UNIT	% OF EGI
General & Administrative		4.84%	$330	$0.32	$26,413	$27,000	$0.33	$338	4.96%
Management		5.00%	341	0.34	27,302	21,500	0.26	269	3.95%
Payroll & Payroll Tax		12.78%	872	0.86	69,760	72,000	0.88	900	13.22%
Repairs & Maintenance		5.91%	404	0.40	32,281	41,500	0.51	519	7.62%
Utilities		3.34%	228	0.22	18,238	15,000	0.18	188	2.75%
Water, Sewer, & Trash		4.50%	307	0.30	24,555	30,000	0.37	375	5.51%
Property Insurance		2.68%	183	0.18	14,649	33,000	0.41	413	6.06%
Property Tax	2.962603	13.89%	948	0.93	75,843	52,000	0.64	650	9.54%
Reserve for Replacements		2.93%	200	0.20	16,000	20,000	0.25	250	3.67%
Other Expenses:		0.00%	0	0.00	0		0.00	0	0.00%
TOTAL EXPENSES		55.87%	$3,813	$3.75	$305,041	$312,000	$3.83	$3,900	57.27%
NET OPERATING INC		44.13%	$3,012	$2.96	$240,990	$232,788	$2.86	$2,910	42.73%
DEBT SERVICE									
First Lien Mortgage		33.80%	$2,307	$2.27	$184,539	$186,243	$2.29	$2,328	34.19%
Additional Financing		0.00%	$0	$0.00	0		$0.00	$0	0.00%
Additional Financing		0.00%	$0	$0.00	0		$0.00	$0	0.00%
NET CASH FLOW		10.34%	$706	$0.69	$56,451	$46,545	$0.57	$582	8.54%
AGGREGATE DEBT COVERAGE RATIO					1.31	1.25			
ALTERNATIVE DEBT COVERAGE RATIO						1.25			

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	**TDHCA**	**APPLICANT**	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		3.60%	$3,213	$3.16	$257,000	$257,000	$3.16	$3,213	3.62%
Off-Sites		0.00%	0	0.00	0		0.00	0	0.00%
Sitework		6.49%	5,784	5.69	462,750	462,750	5.69	5,784	6.51%
Direct Construction		49.19%	43,836	43.09	3,506,905	3,398,117	41.75	42,476	47.80%
Contingency	5.00%	2.78%	2,481	2.44	198,483	224,750	2.76	2,809	3.16%
General Requireme	6.00%	3.34%	2,977	2.93	238,179	256,450	3.15	3,206	3.61%
Contractor's G &	2.00%	1.11%	992	0.98	79,393	99,500	1.22	1,244	1.40%
Contractor's Pro1	6.00%	3.34%	2,977	2.93	238,179	247,333	3.04	3,092	3.48%
Indirect Construction		6.35%	5,656	5.56	452,500	452,500	5.56	5,656	6.37%
Ineligible Costs		3.31%	2,952	2.90	236,121	236,121	2.90	2,952	3.32%
Developer's G & A	1.97%	1.54%	1,376	1.35	110,057		0.00	0	0.00%
Developer's Profit	13.00%	10.17%	9,064	8.91	725,108	835,165	10.26	10,440	11.75%
Interim Financing		5.63%	5,017	4.93	401,365	401,365	4.93	5,017	5.65%
Reserves		3.13%	2,789	2.74	223,139	238,000	2.92	2,975	3.35%
TOTAL COST		100.00%	$89,115	$87.60	$7,129,180	$7,109,051	$87.35	$88,863	100.00%
Recap-Hard Construction Costs		*66.26%*	***$59,049***	***$58.04***	***$4,723,889***	***$4,688,900***	***$57.61***	***$58,611***	*65.96%*

SOURCES OF FUNDS

						RECOMMENDED
First Lien Mortgage	28.05%	$25,000	$24.57	$2,000,000	$2,000,000	$2,114,779
Additional Financing	0.00%	$0	$0.00	0		0
LIHTC Syndication Proceeds	71.38%	$63,613	$62.53	5,089,000	5,089,000	4,868,311
Deferred Developer Fees	0.28%	$251	$0.25	20,051	20,051	125,961
Additional (excess) Funds Requir	0.28%	$252	$0.25	20,129	0	0
TOTAL SOURCES				$7,129,180	$7,109,051	$7,109,051

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Sunrise Village, Houston, LIHTC #02099

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook

Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$40.06	$3,259,924
Adjustments				
Exterior Wall Finish	4.50%		$1.80	$146,697
Elderly			0.00	0
Roofing			0.00	0
Subfloor			(0.98)	(79,756)
Floor Cover			1.82	148,119
Porches/Balconies	$25.02	15,954	4.90	399,087
Plumbing	$585	208	1.50	121,680
Built-In Appliances	$1,550	80	1.52	124,000
Stairs/Fireplaces	$1,550	20	0.38	31,000
Floor Insulation			0.00	0
Heating/Cooling			1.41	114,751
Garages/Carports		0	0.00	0
Comm &/or Aux Bldgs	$53.70	5,200	3.43	279,256
Other:			0.00	0
SUBTOTAL			55.84	4,544,757
Current Cost Multiplier	1.04		2.23	181,790
Local Multiplier	0.91		(5.03)	(409,028)
TOTAL DIRECT CONSTRUCTION COSTS			$53.05	$4,317,519
Plans, specs, survy, bld	3.90%		($2.07)	($168,383)
Interim Construction Int	3.38%		(1.79)	(145,716)
Contractor's OH & Profit	11.50%		(6.10)	(496,515)
NET DIRECT CONSTRUCTION COSTS			$43.09	$3,506,905

PAYMENT COMPUTATION

Primary	$2,000,000	Term	360
Int Rate	8.50%	DCR	1.31

Secondary	$0	Term	
Int Rate	0.00%	Subtotal DCR	1.31

Additional	$5,089,000	Term	
Int Rate		Aggregate DCR	1.31

RECOMMENDED FINANCING STRUCTURE (APPLICANT'S NOI

Primary Debt Service	$186,210
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$54,780

Primary	$2,114,779	Term	360
Int Rate	8.00%	DCR	1.25

Secondary		Term	
Int Rate		Subtotal DCR	1.25

Additional		Term	0
Int Rate		Aggregate DCR	1.25

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE APPLICANT'S NOI

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$579,360	$596,741	$614,643	$633,082	$652,075	$755,933	$876,334	$1,015,911	$1,365,300
Secondary Income	9,600	9,888	10,185	10,490	10,805	12,526	14,521	16,834	22,623
Other Support Income: (des	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	588,960	606,629	624,828	643,572	662,880	768,459	890,855	1,032,745	1,387,923
Vacancy & Collection Loss	(44,172)	(45,497)	(46,862)	(48,268)	(49,716)	(57,634)	(66,814)	(77,456)	(104,094)
Employee or Other Non-Rent	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$544,788	$561,132	$577,966	$595,305	$613,164	$710,825	$824,041	$955,289	$1,283,829
EXPENSES at 4.00%									
General & Administrative	$27,000	$28,080	$29,203	$30,371	$31,586	$38,429	$46,755	$56,885	$84,204
Management	21,500	28,057	28,898	29,765	30,658	35,541	41,202	47,764	64,191
Payroll & Payroll Tax	72,000	74,880	77,875	80,990	84,230	102,478	124,681	151,693	224,543
Repairs & Maintenance	41,500	43,160	44,886	46,682	48,549	59,067	71,865	87,434	129,424
Utilities	15,000	15,600	16,224	16,873	17,548	21,350	25,975	31,603	46,780
Water, Sewer & Trash	30,000	31,200	32,448	33,746	35,096	42,699	51,950	63,205	93,560
Insurance	33,000	34,320	35,693	37,121	38,605	46,969	57,145	69,526	102,915
Property Tax	52,000	54,080	56,243	58,493	60,833	74,012	90,047	109,556	162,170
Reserve for Replacements	20,000	20,800	21,632	22,497	23,397	28,466	34,634	42,137	62,373
Other	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	$312,000	$330,177	$343,103	$356,538	$370,502	$449,013	$544,254	$659,804	$970,160
NET OPERATING INCOME	$232,788	$230,955	$234,863	$238,766	$242,662	$261,811	$279,787	$295,485	$313,669
DEBT SERVICE									
First Lien Financing	$186,210	$186,210	$186,210	$186,210	$186,210	$186,210	$186,210	$186,210	$186,210
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$46,578	$44,745	$48,653	$52,556	$56,452	$75,601	$93,577	$109,275	$127,459
DEBT COVERAGE RATIO	1.25	1.24	1.26	1.28	1.30	1.41	1.50	1.59	1.68
						66,027	84,589	101,426	118,367

LIHTC Allocation Calculation - Sunrise Village, Houston, LIHTC #02099

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost				
Purchase of land	$257,000	$257,000		
Purchase of buildings				
(2) Rehabilitation/New Construction Cost				
On-site work	$462,750	$462,750	$462,750	$462,750
Off-site improvements				
(3) Construction Hard Costs				
New structures/rehabilitation ha	$3,398,117	$3,506,905	$3,398,117	$3,506,905
(4) Contractor Fees & General Requirements				
Contractor overhead	$99,500	$79,393	$77,217	$79,393
Contractor profit	$247,333	$238,179	$231,652	$238,179
General requirements	$256,450	$238,179	$231,652	$238,179
(5) Contingencies	$224,750	$198,483	$193,043	$198,483
(6) Eligible Indirect Fees	$452,500	$452,500	$452,500	$452,500
(7) Eligible Financing Fees	$401,365	$401,365	$401,365	$401,365
(8) All Ineligible Costs	$236,121	$236,121		
(9) Developer Fees			$817,245	
Developer overhead		$110,057		$110,057
Developer fee	$835,165	$725,108		$725,108
(10) Development Reserves	$238,000	$223,139		
TOTAL DEVELOPMENT COSTS	$7,109,051	$7,129,180	$6,265,541	$6,412,919

Deduct from Basis:				
All grant proceeds used to finance costs in eligible basis				
B.M.R. loans used to finance cost in eligible basis				
Non-qualified non-recourse financing				
Non-qualified portion of higher quality units [42(d)(3)]				
Historic Credits (on residential portion only)				
TOTAL ELIGIBLE BASIS			$6,265,541	$6,412,919
High Cost Area Adjustment			130%	130%
TOTAL ADJUSTED BASIS			$8,145,204	$8,336,795
Applicable Fraction			89.65%	89.65%
TOTAL QUALIFIED BASIS			$7,302,175	$7,473,937
Applicable Percentage			8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS			$616,304	$630,800
	Syndication Proceeds	**0.7899**	**$4,868,311**	**$4,982,824**

TDHCA

02119

Region 6

General
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM

2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Lovett Manor** TDHCA #: **02119**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 2056 Antoine
City: Houston
County: Harris
Zip Code: 77055

LIHTC Primary Set Aside: G
Additional Elderly Set Aside ☑
Purpose / Activity: NC
Development Type: Elderly

☐ TTC ☐ DDA ☑ QCT

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

Special Needs: 10 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: Lovette Manor, Ltd.

Principal Names:	Principal Contact:	Percentage Ownership:
Artisan/American Corporation	H. Elizabeth Young	51 %
Inland General Construction Company	Vernon R. Young, Jr.	49 %
NA	NA	0 %
NA	NA	0 %
NA	NA	0 %

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$1,085,628** Allocation over 10 Years: $10,856,280

Credits Requested: $1,098,812 Eligible Basis Amount: $1,085,628 Equity/Gap Amount: $1,160,761

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	0	0	0	0	0
40%	0	32	32	0	0	0	64
50%	0	32	32	0	0	0	64
60%	0	15	15	0	0	0	30
MR	0	20	20	0	0	0	40
Total	0	99	99	0	0	0	

Total LI Units: 158
Owner/Employee Units: 0
Total Project Units: 198
Applicable Fraction: 80.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost:	**$13,933,374**
Gross Building Square Feet:	163,952
Total NRA SF:	159,588
Gross/Net Rentable:	1.03
Average Square Feet/Unit:	806
Cost Per Net Rentable Square Foot:	$87.31
Credits per Low Income Unit	$6,871

INCOME AND EXPENSE INFORMATION

Effective Gross Income:	$1,256,609
Total Expenses:	$761,390
Net Operating Income:	$495,219
Estimated 1st Year Debt Coverage Ratio:	1.10

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer:	Artisan/American Corporation	Market Analyst:	O'Conner & Assoc.
Housing GC:	Inland General Construction Company	Originator/UW:	NA
Infrastructure GC:	NA	Appraiser:	O'Conner & Assoc.
Cost Estimator:	NA	Attorney:	Andrews, Kurth, Mayor, Day, Caldwell and Keaton
Architect:	JRM Architects, Inc.	Supp Services:	Child & Adult Development Center
Property Manager:	Investors Management Group, LLC	Accountant:	Novogradac & Company, LLP
Engineer:	Brown & Gay		
Syndicator:	JER Hudson Housing Capital, LLC	Permanent Lender:	Mitchell Mortgage and Southwest Bank

DEPARTMENT EVALUATION

Points Awarded: 155 Site Review: Acceptable Underwriting Finding: AC

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommendec

6/17/02 10:42 AM

Project Name: Lovett Manor | Project Number: 02119

PUBLIC COMMENT SUMMARY Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials): Support: **2** Opposition: **0**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:			Comment from Other Public Official
Local Official:		NC	Margie L. Bingham, Director, City of Houston, NC
TX Rep.:	Al Edwards, Dist. 146		Sylvester Turner, State Representative, District 139, S
TX Sen.:	Mario Gallegos, Jr., Dist. 6	S	Carroll G. Robinson, Houston City Council Member, S
US Rep.:	heila Jackson Lee, US Representative, District 18, S		Bruce Tatro, City of Houston Council Member District A, S
US Sen.:			

CONDITIONS TO COMMITMENT

Receipt, review, and acceptance of revised architectural plans reflecting at least four elevators disbursed throughout the development.

Receipt, review, and acceptance of documentation that the Seller of the land will subordinate their lien position to the Texas Department of Housing and Community Affairs, LIHTC, LCRA, and confirmation in the form of an opinion from the Applicant's tax attorney that the seller's cash flow note will not adversely effect the credit syndication.

Should the terms, rate or amount of the proposed debt or syndication be altered, the recommendations and conditions herein be re-evaluated by the Underwriter.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☑ Score ☐ Meeting Required Set Aside ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This was one of the highest scoring developments in Region 6.

Brooke Boston, Acting LIHTC Co-Manager Date David Burrell, Director of Housing Programs Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director
Chairman of Executive Award and Review Advisory Committee Date

☐ **BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):**

Approved Credit Amount: Date of Determination:

Michael E. Jones, Chairman of the Board Date

Compliance Status Summary

Project ID #: 02119 — LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Lovett Manor — HOME ☐ HTF ☐

Project City: Houston — BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☑

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 0 — # not yet monitored or pending review 0

of projects grouped by score — 0-9: 0 — 10-19: 0 — 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received N/A

Non-Compliance Reported

Completed by Jo En Taylor **Completed on** 05/09/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ no outstanding issues ☐ outstanding issues ☐

Comments:

Completed by Lucy Trevino **Completed on** 05/23/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by Ralph Hendrickson **Completed on** 05/17/2002

Community Affairs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Programs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☑ reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: June 7, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02119

DEVELOPMENT NAME

Lovett Manor Apartments

APPLICANT

Name: Lovett Manor, Ltd. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 1177 West Loop South, Suite 1475 **City:** Houston **State:** Texas

Zip: 77055 **Contact:** Elizabeth Young **Phone:** (713) 626-1400 **Fax:** (713) 626-1098

PRINCIPALS of the APPLICANT

Name	(%)	Title
Artisan/American Corp.	.005	Managing General Partner
Inland General Construction	.005	General Partner
JER Hudson Housing Capital	99.99	Limited Partner

GENERAL PARTNER

Name: Artisan/American Corp. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 1177 West Loop South, Suite 1475 **City:** Houston **State:** Texas

Zip: 77027 **Contact:** Elizabeth Young **Phone:** (713) 626-1400 **Fax:** (713) 626-1098

PROPERTY LOCATION

Location: 2056 Antoine ☒ **QCT** ☐ **DDA**

City: Houston **County:** Harris **Zip:** 77055

REQUEST

Amount	Interest Rate	Amortization	Term
$1,098,812	n/a	n/a	n/a

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: New construction **Set-Aside:** ☒ General ☐ Rural ☐ Non-Profit

SITE DESCRIPTION

Size: 6.0652 acres 264,200 square feet **Zoning/ Permitted Uses:** No zoning

Flood Zone Designation: Zone X **Status of Off-Sites:** Raw Land

DESCRIPTION of IMPROVEMENTS

Total Units: 198 **# Rental Buildings** 1 **# Common Area Bldngs** 0 **# of Floors** 4 **Age:** 0 yrs **Vacant:** n/a at / /

Number	Bedrooms	Bathroom	Size in SF
99	1	1	676
99	2	1	936

Net Rentable SF: 159,588 **Av Un SF:** 806 **Common Area SF:** 4,364* **Gross Bldng SF** 163,952

Property Type: ☐ Multifamily ☐ SFR Rental ☒ Elderly ☐ Mixed Income ☐ Special Use

*The Applicant also indicated a significant amount of common hallways/corridors estimated to be 42,708 square feet.

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on concrete slab on grade, 100% Hardiplank siding exterior, drywall interior wall surfaces, composite shingle roofing and two fourstop elevators.

APPLIANCES AND INTERIOR FEATURES

Carpeting & flooring, range & oven, hood & fan, garbage disposal, dishwasher, refrigerator, microwave oven, tile tub/shower, washer & dryer connections, ceiling fans, laminated counter tops.

ON-SITE AMENITIES

4,364 SF community area with recreation room, management offices, community room, senior center, kitchen, dining room, restrooms, tenant storage area, perimeter fencing and laundry rooms.

Uncovered Parking: 247 spaces **Carports:** n/a spaces **Garages:** n/a spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Mitchell Mortgage and Southwest Bank **Contact:** Don Hickey

Principal Amount: $5,762,000 **Interest Rate:** 8%

Additional Information: Interim to Permanent Loan

Amortization: n/a yrs **Term:** 2 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: Mitchell Motgage and Southwest Bank **Contact:** Don Hickey

Principal Amount: $5,720,000 **Interest Rate:** 8%

Additional Information:

Amortization: 30 yrs **Term:** 15 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

Annual Payment: $497,901 **Lien Priority:** 1st **Commitment Date** 2/ 25/ 2002

LIHTC SYNDICATION

Source: JER Hudson Housing Capital **Contact:** Sam Ganeshan

Address: 630 Fifth Avenue, Suite 2300 **City:** New York

State: NY **Zip:** 10111 **Phone:** (212) 218-4460 **Fax:** (212) 218-4467

Net Proceeds: $8,350,136 **Net Syndication Rate (per $1.00 of 10-yr LIHTC)** 76¢

Commitment ☐ None ☐ Firm ☒ Conditional **Date:** 2/ 21/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $10,738 **Source:** Deferred developer fee

VALUATION INFORMATION

ASSESSED VALUE

Land: 267,950 **Assessment for the Year of:** 2001

Building: **Valuation by:** Harris County Appraisal District

Total Assessed Value: 267,950

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Earnest money contract

Contract Expiration Date: 10/ 25/ 2002 **Anticipated Closing Date:** 10/ 25/ 2002

Acquisition Cost: $ 810,500 **Other Terms/Conditions:** $660,500 at Closing and $150,000 paid out of cash flow after all other obligations of the partnership have been paid.

Seller: Sage Interest, Inc. **Related to Development Team Member:** No

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Lovett Manor Apartments is a proposed new construction development of 198 units of mixed income housing located in west Houston. The development is comprised of one 4 story residential building. Based on the site plan the apartment building is located in the center of the site in a "U" shape with a courtyard in the middle. A 4,364 -square foot community area is located on the first floor and includes management offices, kitchen, dining room, recreation room and a seniors' center. Also, there is a lobby with a sitting area and restrooms. Each floor is equipped with two laundry rooms with an adjacent sitting area. The building is also equipped with two elevators.

Supportive Services: The Applicant has contracted with Child and Adult Development Center of Houston, Inc. to provide the following supportive services to tenants: on-site educational and social programs, advise on availability of social services from the city, county and other community providers. The provider will also assist in child care and transportation, educational classes, as well as computer training for adult and children. The contract requires the Applicant to provide, furnish, and maintain facilities in the community building for provision of the services and to pay $10.00 per month for each unit in the building for these support services.

Schedule: The Applicant anticipates construction to begin in February of 2003, to be completed in February of 2004, to be placed in service in February of 2004, and to be substantially leased-up in May of 2004.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside. Sixty-four units (32%) will be reserved for households earning 40% or less of AMGI, 64 units (32%) will be reserved for households earning 50% of less of AMGI, and 30 units (15%) will be reserved for households 60% or less of AMGI. The remaining 40 units will be unrestricted.
Special Needs Set-Asides: 10 units (5%) will be handicapped-accessible.
Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated February 20, 2002 was prepared by Patrick O'Conner & Associates and highlighted the following findings:
Definition of Market/Submarket: "The primary market area is defined as those properties bound by West Little York on the north, Beltway 8 on the west, White Oak Bayou to 610 Loop on the east and I-10 on the South" (p. 13) The secondary market is defined as those properties north of Buffalo Bayou, west of I-45, east of Highway 6 and south of FM 1960. (p. 36)
Total Local/Submarket Demand for Rental Units: In the primary market area there is a total demand of 826 income-eligible households and 4,222 market rate households. In the secondary market area there is a total demand of 2,696 income-eligible households and 10,812 market rate households. (p. 40, 43)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY				
	Market Analyst		Underwriter	
Type of Demand	Units of Demand	% of Total Demand	Units of Demand	% of Total Demand
Household Growth	10	1%	18	2%
Resident Turnover	741	90%	858	98%
Other Sources: 10 yrs pent-up demand	75	9%	0	0%
TOTAL ANNUAL DEMAND	**826**	**100%**	**876**	**100%**

Ref: p. 40

Capture Rate: According to the analyst, there is a capture rate of 19.13% in the primary market for the tax credit units and 5.86% in the secondary market. For the market rate units there is a capture rate of 9.43% in the primary market and 3.68% in the secondary market. (p. 40 and 44) The Underwriter concluded a demand of 876 units, resulting in a concentration capture rate of 22.4%. In either case, the percentage is below the Department's threshold of 25% for non-rural markets.
Local Housing Authority Waiting List Information: "The waiting list for Section 8 Vouchers was closed in 1994, when the list had grown to more than 26,000 households. According to a September 2000 article in *the Houston Chronicle*, the waiting list for Section 8 vouchers is approximately six years." (p. 34)
Market Rent Comparables: The market analyst surveyed six comparable apartment projects totaling 1,638 units in the market area. (p. 57) There are five LIHTC projects within the subject's primary market area." (p. 28)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	Proposed	Program Max	Differential	Market	Differential
1-Bedroom (40%)	$391	$391	$0	$660	-$269
1-Bedroom (50%)	$502	$502	$0	$660	-$158
1-Bedroom (60%)	$614	$614	$0	$660	-$46
1-Bedroom (MR)	$645	n/a	n/a	$660	-$15
2-Bedroom (40%)	$466	$466	$0	$835	-$369
2-Bedroom (50%)	$600	$600	$0	$835	-$235
2-Bedroom (60%)	$734	$734	$0	$835	-$101
2-Bedroom (MR)	$771	n/a	n/a	$835	-$64

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: "……there were 169 projects in the primary market area, which contain a total of 29,289 units. The overall occupancy rate for projects in the primary market area was 94.37% as of December 2001." (p. 27)
Absorption Projections: "Absorption in the subject's primary market area over the past eight quarters ending December 2001 totals a positive 975 units…." (p. 29) The analyst mentioned three properties (without designating how far they are from the subject) that were built in the past three years and indicated that they averaged absorbing approximately 15 units per month. (p. 29)
Known Planned Development: The market analyst provides conflicting statements regarding developments under construction. At one point they indicate two apartments under construction totaling 358 units and at another they indicate no projects are under construction in this submarket. The Underwriter is not aware of any affordable seniors' transactions in the submarket that have been stabilized for less than 12 months.
Other Relevant Information: "The average rental rate for apartments in the subject's primary market area was reported at $0.64 per square foot per month…." This was as of December 2001 (p. 30) "…. (the analyst) concluded market rent for the subjects 1 BR/1BA units of $660 per month is reasonable and well supported by the market data.….." (p. 75) "…..(the analyst) concluded market rent for the subjects 2 BR/1BA units of $835 per month is reasonable and well supported by the market data." (p. 77) The Underwriter questioned the validity of the comparable properties used in the market analysis because the comparable properties were family, Class A, garden style apartments. At the request of the Underwriter, the market analyst provided data comparing elderly properties in a given market in Houston to market rate properties in that same market to determine the differential between existing elderly properties and their most likely competition. The analysis determined that the elderly projects' rents were comparable, and in some cases higher, than the market rate. This further analysis supported the original findings proposed by the market analyst. Although the Underwriter had requested additional rental information on senior housing, the Underwriter found the market study to be acceptable to base a conclusion.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: Houston is located in southeast region of Texas in Harris County. The site is an irregularly-shaped parcel located in the northwest area of Houston, approximately 12 miles from the central business district. The site is situated on the east side of Antoine Drive.
Population: The estimated 2000 population of the Houston CMSA was 4,263,219 and is expected to increase by 19.08% to approximately 5,076,781 by 2010. Harris County had approximately 3,160,005 people in 2000 and is expected to increase 17.62% to 3,716,947 by 2010.
Adjacent Land Uses: The land surrounding the site is vacant land in all directions.
Site Access: Access to the property is from the east or west along Hwy 290 and going south on Antoine, with the property being located just south of Hempstead Highway on the left side of the street. The development has one main entry, from Antoine Drive. Access to Interstate Highway 10 is two miles south, which provides connections to all other major roads serving the Houston area.
Public Transportation: The market analyst did not mention that public transportation was available to the area. Without making any assumptions as the availability of public transportation to the subject site, the Underwriter is aware that the City of Houston does have a major public transportation bus system.
Shopping & Services: Freed Park, Schwartz Park and TC Jester Park are all located in the subject's area. Memorial Hermann Northwest Hospital is located a couple of miles east of the site. Sam Houston Memorial Hospital is also located nearby. Major shopping includes Kroger Food Mart as well as various restaurants located within 2.0 miles of the site.
Site Inspection Findings: The site has not been inspected by a TDHCA staff member, and receipt, review, and acceptance of an acceptable site inspection report is a condition of this report.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

A Phase I Environmental Site Assessment report dated February 25, 2002 was prepared by Phase Engineering, Inc. The assessment revealed that there is no evidence of recognized environmental conditions in connection with the property.

OPERATING PROFORMA ANALYSIS

Income: The Applicant's estimated rent projections are within 5% of the Underwriter's estimate. In addition, the Applicant and Underwriter agree with secondary income at $10 per unit per month. The Applicant will be able to rent the tax credit units at their maximum allowable rate. Also, the Underwriter agrees that the Applicant may be able to rent the one-bedroom market rate units at $645 and the two-bedroom units at $771.

Expenses: The Applicant's total expense estimate of $3,400 per unit is 12% lower than the TDHCA database-derived estimate of $3,845 per unit for comparably-sized projects. Several line items account for most of the difference. Most notable the Applicant having almost $55K less in payroll, almost $37K less in taxes and $16K less in water, sewer and trash compared to the Underwriter's estimates. These items where somewhat off-set by the Applicant assuming $12K more in management fees and $5K more in general administrative and repairs and maintenance expenses.

Conclusion: The Applicant's estimated operating expenses are inconsistent with the Underwriter's expectations, resulting in the Applicant's net operating income not being within 5% of the Underwriter's estimate. Therefore, the Underwriter's NOI will be used to evaluate debt service capacity. Due primarily to the difference in expenses, the Underwriter's estimated debt coverage ratio (DCR) of 0.98 is less than the program minimum standard of 1.10. Therefore, annual debt service should be reduced to not exceed $450,186. Based on the proposed loan terms this would allow for a maximum debt amount of $5,112,748.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: The Applicant estimated land costs to be $815,899, or $134,521 per acre. There is no evidence that the seller and buyer are related entities, however the contract is structured where the buyer will pay $660,500.27 at closing and finance $150,000. According to the contract, the $150,000 will be paid out of cash flow "after all other obligations of the partnership have been paid." As a result of the financing, the seller will have to subordinate their first lien position to the Texas Department of Housing and Community Affairs and LCRA as a condition of this report. This financing should also require the opinion of tax credit council with regard to the implications of the potential for this financing to be reconsidered as equity at some point in the future. Since this analysis includes that there will be more deferral of developer fees than the difference in seller financing, any over potential over payment of the load due to that note does not appear to effect the tax credit allocation recommendation. The sales price appears reasonable, and this is an arm's length sale.

Sitework Cost: The Applicant's claimed sitework costs of $5,266 per unit are considered reasonable compared to historical sitework costs for multifamily projects.

Direct Construction Cost: The Applicant's direct construction cost estimate is $13,507, or less than 1% higher, than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate, and is therefore regarded as reasonable as submitted.

Ineligible Costs: The Applicant ineligible costs are acceptable as submitted.

Interim Financing Fees: The Applicant's estimate for construction interest was $579,255. The Underwriter's estimate is $460,960, based on the total amount borrowed multiplied by the interest rate, assuming one year to complete the project, based on the Applicant's estimate. Thus, the Underwriter reduced the Applicant's eligible interim financing fees by $118,295 to reflect an apparent overestimation of eligible construction loan interest, to bring the eligible interest expense down to one year of fully drawn interest expense. This results in an equivalent adjustment to the Applicant's eligible basis estimate.

Fees: The Applicant's contractor's fees for general requirements, general and administrative expenses, and profit are all within the maximums allowed by TDHCA guidelines. The Applicant's developer fees exceed 15% of the Applicant's adjusted eligible basis and therefore the eligible potion of the Applicant's developer fee must be reduced by $17,744.

Conclusion: The Applicant's total development cost estimate is within 5% of the Underwriter's verifiable estimate and is therefore generally acceptable. The Applicant's total project cost estimate of $70,371 per unit, or $87.31 per square foot appears reasonable for average-sized, elderly, mid-rise apartments. Since the Underwriter has been able to verify the Applicant's projected costs to a reasonable margin, the Applicant's total cost breakdown, as adjusted, is used to calculate eligible basis and determine the LIHTC allocation. As a result, an eligible basis of $12,399,168 is used to determine a credit allocation of $1,085,628 from this method. This is $13,184 less than initially requested by the Applicant due mainly to the Applicant's overstated interim financing costs.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with four types of financing from three sources: a conventional interim to permanent loan, syndicated LIHTC equity and deferred developer's fees.

Conventional Interim to Permanent Loan : There is a commitment for interim to permanent financing through Mitchell Mortgage and Southwest Bank in the amount of $5,762,000 during the interim period and $5,762,000 at conversion to permanent. The commitment letter indicated a term of 24 months for the construction portion and 15 years for the permanent at a fixed interest rate of 8%. The lender is requiring a minimum debt coverage ration of 1.15.

LIHTC Syndication: JER Hudson Housing Capital has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $8,350,136 based on a syndication factor of 76%. The funds would be disbursed in a five-phased pay-in schedule:

1. 60% upon admission to the partnership;
2. 20% upon completion of construction;
3. 10% upon final closing of the permanent mortgage loan;
4. 7% at issuance of 8609's;
5. 3% at tax returns.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $10,738 amount to 1% of the total fees.

Financing Conclusions: Based on the Applicant's adjusted estimate of eligible basis, the LIHTC allocation should not exceed $1,085,628 annually for ten years, resulting in syndication proceeds of approximately $8,249,691. This is $13,184 less in credits than the $1,098,812 the Applicant requested, due primarily to the Applicant's use of a higher interim loan interest amount. The Underwriter's analysis reflects that the debt service will likely be capped at $450,186, which would result in a reduction in the loan amount to $5,112,748. Based on the underwriting analysis, the Applicant's deferred developer fee will be increased to $420,936, or 26% of the fee. The fee can be paid back in less than 10 years. As a result, should the Applicant's final direct construction cost exceed the cost estimate used to determine credits in this analysis, additional deferred developer's fee may be available to fund those development cost overruns.

REVIEW of ARCHITECTURAL DESIGN

The four-story mid-rise, exterior elevations are attractive with 100% hardiboard and varied pitched rooflines. All units are of average size for market rate and LIHTC units. The units' design requires that the tenant enters from the tiled dining/kitchen area before reaching the carpeted living room area. Also, to reach the bedrooms or bathroom from the living room, tenants must walk through the kitchen/dining area. Each unit has a utility/storage room with washer/dryer connections. The units are not designed with balconies or patios. Only two elevators are included in the development which means each will serve on average 75 upper floor units. While the Department does not currently have a formal guideline with regard to the maximum upper floor units per elevator most comparable developments funded by the Department will have sufficient elevators to serve not more than 30 to 40 floors units each. As a practical matter, elevators are required for seniors developments in order to facilitate accessibility and aging in place. Therefore the Underwriter recommends revisiting this issue and requiring a minimum of four elevators be provided.

IDENTITIES of INTEREST

The developer, general partners and general contractor (as originally proposed in the application) are related entities. These are common identities of interest for LIHTC developments.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights: The Applicant is a single-purpose entity created for the purpose of receiving assistance from TDHCA and therefore has no material financial statements.

Background & Experience:

- The Applicant is a new entity formed for the purpose of developing the project.
- The General Partners and General Contractor appear to have indicated on their previous participation

certification that they have no previous experience with the TDHCA developments. However, they have met the experience requirement for developing or constructing comparable commercial property according to copies of certificates from the Department dated February 22, 2001.

SUMMARY OF SALIENT RISKS AND ISSUES

- The Applicant's estimated operating expenses and operating proforma are more than 5% outside of the Underwriter's verifiable ranges.
- The significant financing structure changes being proposed have not been reviewed/accepted by the Applicant, lenders, and syndicators, and acceptable alternative structures may exist.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $1,085,628 ANNUALLY FOR TEN YEARS, SUBJECT TO CONDITIONS.

CONDITIONS

1. Receipt, review, and acceptance of a satisfactory TDHCA site inspection report;
2. Receipt, review and acceptance of revised architectural plans reflecting at least four elevators disbursed throughout the development;
3. Receipt, review and acceptance of documentation that the Seller of the land will subordinate their lien position to the Texas Department of Housing and Community Affairs, LIHTC, LCRA, and confirmation in the form of an opinion from the Applicant's tax attorney that the seller's cash flow note will not adversely effect the credit syndication;
4. Should the terms, rate or amount of the proposed debt or syndication be altered, the recommendations and conditions herein be re-evaluated by the Underwriter.

Underwriter:	*Mark Fugina*	**Date:**	June 7, 2002
Credit Underwriting Supervisor:	*Jim Anderson*	**Date:**	June 7, 2002
Director of Credit Underwriting:	*Tom Gouris*	**Date:**	June 7, 2002

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Lovett Manor, Houston, LIHTC #02119

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC40%	32	1	1	676	$447	$391	$12,512	$0.58	$56.00	
TC50%	32	1	1	676	558	502	16,064	0.74	56.00	Not Available in this market
TC60%	15	1	1	676	670	614	9,210	0.91	56.00	
MKT	20	1	1	676	580	645	12,900	0.95	56.00	
TC40%	32	2	1	936	536	466	14,912	0.50	70.00	
TC50%	32	2	1	936	670	600	19,200	0.64	70.00	
TC60%	15	2	1	936	804	734	11,010	0.78	70.00	
MKT	20	2	1	936	675	771	15,420	0.82	70.00	
TOTAL:	198		**AVERAGE:**	806	$596	$562	$111,228	$0.70	$63.00	

INCOME	Total Net Rentable Sq Ft:	159,588			**TDHCA**	**APPLICANT**		
POTENTIAL GROSS RENT					$1,334,736	$1,334,736		
Secondary Income		Per Unit Per Month:		$10.00	23,760	23,760	$10.00	Per Unit Per Month
Other Support Income: (describe)					0			
POTENTIAL GROSS INCOME					$1,358,496	$1,358,496		
Vacancy & Collection Loss		% of Potential Gross Income:		-7.50%	(101,887)	(101,892)	-7.50%	of Potential Gross Rent
Employee or Other Non-Rental Units or Concessions					0			
EFFECTIVE GROSS INCOME					$1,256,609	$1,256,604		

EXPENSES		% OF EGI	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% OF EGI
General & Administrative		5.11%	$324	$0.40	$64,210	$69,850	$0.44	$353	5.56%
Management		5.00%	317	0.39	62,830	75,200	0.47	380	5.98%
Payroll & Payroll Tax		11.52%	731	0.91	144,789	90,000	0.56	455	7.16%
Repairs & Maintenance		9.39%	596	0.74	117,970	122,950	0.77	621	9.78%
Utilities		4.17%	265	0.33	52,391	53,000	0.33	268	4.22%
Water, Sewer, & Trash		4.48%	284	0.35	56,248	40,000	0.25	202	3.18%
Property Insurance		2.54%	161	0.20	31,918	32,000	0.20	162	2.55%
Property Tax	3.26127	12.85%	815	1.01	161,433	124,600	0.78	629	9.92%
Reserve for Replacements		3.15%	200	0.25	39,600	35,600	0.22	180	2.83%
Other Expenses: Security		2.39%	152	0.19	30,000	30,000	0.19	152	2.39%
TOTAL EXPENSES		60.59%	$3,845	$4.77	$761,390	$673,200	$4.22	$3,400	53.57%
NET OPERATING INC		39.41%	$2,501	$3.10	$495,219	$583,404	$3.66	$2,946	46.43%
DEBT SERVICE									
First Lien Mortgage		40.37%	$2,562	$3.18	$507,354	$497,901	$3.12	$2,515	39.62%
Additional Seller Financing		0.00%	$0	$0.00	0		$0.00	$0	0.00%
Additional Seller Financing		0.00%	$0	$0.00	0		$0.00	$0	0.00%
NET CASH FLOW		-0.97%	($61)	($0.08)	($12,135)	$85,503	$0.54	$432	6.80%
AGGREGATE DEBT COVERAGE RATIO					0.98	1.17			
ALTERNATIVE DEBT COVERAGE RATIO					1.10				

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		5.87%	$4,121	$5.11	$815,899	$815,899	$5.11	$4,121	5.86%
Off-Sites		0.00%	0	0.00	0		0.00	0	0.00%
Sitework		7.50%	5,266	6.53	1,042,688	1,042,688	6.53	5,266	7.48%
Direct Construction		52.03%	36,519	45.31	7,230,805	7,244,312	45.39	36,587	51.99%
Contingency	4.18%	2.49%	1,747	2.17	345,867	345,867	2.17	1,747	2.48%
General Requireme	6.00%	3.57%	2,507	3.11	496,410	497,220	3.12	2,511	3.57%
Contractor's G &	2.00%	1.19%	836	1.04	165,470	165,740	1.04	837	1.19%
Contractor's Prof	6.00%	3.57%	2,507	3.11	496,410	497,220	3.12	2,511	3.57%
Indirect Construction		1.95%	1,368	1.70	270,900	270,900	1.70	1,368	1.94%
Ineligible Expenses		2.23%	1,567	1.94	310,196	310,196	1.94	1,567	2.23%
Developer's G & A	2.00%	1.55%	1,088	1.35	215,330		0.00	0	0.00%
Developer's Profit	13.00%	10.07%	7,069	8.77	1,399,643	1,635,027	10.25	8,258	11.73%
Interim Financing		5.17%	3,626	4.50	717,938	717,938	4.50	3,626	5.15%
Reserves		2.81%	1,972	2.45	390,367	390,367	2.45	1,972	2.80%
TOTAL COST		100.00%	$70,192	$87.09	$13,897,923	$13,933,374	$87.31	$70,371	100.00%
Recap-Hard Construction Costs		*70.35%*	***$49,382***	***$61.27***	***$9,777,649***	***$9,793,047***	***$61.36***	***$49,460***	*70.28%*

SOURCES OF FUNDS

	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	RECOMMENDED
First Lien Mortgage	41.46%	$29,101	$36.11	$5,762,000	$5,762,000	$5,112,748
Additional Seller Financing	0.00%	$0	$0.00			150,000
LIHTC Syndication Proceeds	60.08%	$42,172	$52.32	8,350,136	8,350,136	8,249,691
Deferred Developer Fees	0.08%	$54	$0.07	10,738	10,738	420,936
Additional (excess) Funds Require	-1.62%	($1,136)	($1.41)	(224,951)	(189,500)	0
TOTAL SOURCES				$13,897,923	$13,933,374	$13,933,374

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Lovett Manor, Houston, LIHTC #02119

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook
Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$39.49	$6,302,130
Adjustments				
Exterior Wall Finish	1.00%		$0.39	$63,021
Elderly	5.00%		1.97	315,107
Roofing			0.00	0
Subfloor			(0.49)	(78,198)
Floor Cover			1.82	290,450
Porches/Balconies	$30.71	600	0.12	18,426
Plumbing	$585	0	0.00	0
Built-In Appliances	$1,550	198	1.92	306,900
Elevators	$34,500	2	0.43	69,000
Floor Insulation			0.00	0
Heating/Cooling			1.41	225,019
Garages/Carports	$0.00	0	0.00	0
Comm &/or Aux Bldgs	$39.49	4,364	1.08	172,334
Other: Hallways	$39.49	42,708	10.57	1,686,539
SUBTOTAL			58.72	9,370,728
Current Cost Multiplier	1.04		2.35	374,829
Local Multiplier	0.91		(5.28)	(843,366)
TOTAL DIRECT CONSTRUCTION COSTS			$55.78	$8,902,192
Plans, specs, survy, bld	3.90%		($2.18)	($347,185)
Interim Construction Inte	3.38%		(1.88)	(300,449)
Contractor's OH & Profit	11.50%		(6.41)	(1,023,752)
NET DIRECT CONSTRUCTION COSTS			$45.31	$7,230,805

PAYMENT COMPUTATION

Primary	$5,762,000	Term	360
Int Rate	8.00%	DCR	0.98

Secondary	$0	Term	
Int Rate	0.00%	Subtotal DCR	0.98

Additional		Term	
Int Rate		Aggregate DCR	0.98

RECOMMENDED FINANCING STRUCTURE:

Primary Debt Service	$450,186
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$45,033

Primary	$5,112,748	Term	360
Int Rate	8.00%	DCR	1.10

Secondary	$0	Term	0
Int Rate	0.00%	Subtotal DCR	1.10

Additional	$0	Term	0
Int Rate	0.00%	Aggregate DCR	1.10

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$1,334,736	$1,374,778	$1,416,021	$1,458,502	$1,502,257	$1,741,528	$2,018,908	$2,340,468	$3,145,393
Secondary Income	23,760	24,473	25,207	25,963	26,742	31,001	35,939	41,663	55,992
Other Support Income: (desc	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	1,358,496	1,399,251	1,441,228	1,484,465	1,528,999	1,772,529	2,054,847	2,382,131	3,201,385
Vacancy & Collection Loss	(101,887)	(104,944)	(108,092)	(111,335)	(114,675)	(132,940)	(154,114)	(178,660)	(240,104)
Employee or Other Non-Renta	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$1,256,609	$1,294,307	$1,333,136	$1,373,130	$1,414,324	$1,639,589	$1,900,734	$2,203,471	$2,961,281
EXPENSES at 4.00%									
General & Administrative	$64,210	$66,779	$69,450	$72,228	$75,117	$91,391	$111,192	$135,282	$200,250
Management	62,830	64,715	66,657	68,657	70,716	81,979	95,037	110,174	148,064
Payroll & Payroll Tax	144,789	150,581	156,604	162,868	169,383	206,081	250,729	305,050	451,548
Repairs & Maintenance	117,970	122,689	127,597	132,701	138,009	167,909	204,286	248,546	367,908
Utilities	52,391	54,486	56,666	58,933	61,290	74,568	90,724	110,380	163,389
Water, Sewer & Trash	56,248	58,498	60,838	63,271	65,802	80,058	97,403	118,506	175,417
Insurance	31,918	33,194	34,522	35,903	37,339	45,429	55,271	67,246	99,540
Property Tax	161,433	167,890	174,606	181,590	188,854	229,769	279,549	340,115	503,453
Reserve for Replacements	39,600	41,184	42,831	44,545	46,326	56,363	68,574	83,431	123,499
Other	30,000	31,200	32,448	33,746	35,096	42,699	51,950	63,205	93,560
TOTAL EXPENSES	$761,390	$791,217	$822,219	$854,441	$887,932	$1,076,247	$1,304,715	$1,581,933	$2,326,627
NET OPERATING INCOME	$495,219	$503,090	$510,918	$518,690	$526,392	$563,342	$596,018	$621,538	$634,654
DEBT SERVICE									
First Lien Financing	$450,186	$450,186	$450,186	$450,186	$450,186	$450,186	$450,186	$450,186	$450,186
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$45,033	$52,904	$60,731	$68,503	$76,206	$113,156	$145,832	$171,352	$184,468
DEBT COVERAGE RATIO	1.10	1.12	1.13	1.15	1.17	1.25	1.32	1.38	1.41

LIHTC Allocation Calculation - Lovett Manor, Houston, LIHTC #02119

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost				
Purchase of land	$815,899	$815,899		
Purchase of buildings				
(2) Rehabilitation/New Construction Cost				
On-site work	$1,042,688	$1,042,688	$1,042,688	$1,042,688
Off-site improvements				
(3) Construction Hard Costs				
New structures/rehabilitation ha	$7,244,312	$7,230,805	$7,244,312	$7,230,805
(4) Contractor Fees & General Requirements				
Contractor overhead	$165,740	$165,470	$165,740	$165,470
Contractor profit	$497,220	$496,410	$497,220	$496,410
General requirements	$497,220	$496,410	$497,220	$496,410
(5) Contingencies	$345,867	$345,867	$345,867	$345,867
(6) Eligible Indirect Fees	$270,900	$270,900	$270,900	$270,900
(7) Eligible Financing Fees	$717,938	$717,938	$717,938	$717,938
(8) All Ineligible Costs	$310,196	$310,196		
(9) Developer Fees			$1,617,283	
Developer overhead		$215,330		$215,330
Developer fee	$1,635,027	$1,399,643		$1,399,643
(10) Development Reserves	$390,367	$390,367		
TOTAL DEVELOPMENT COSTS	$13,933,374	$13,897,923	$12,399,168	$12,381,461

Deduct from Basis:			
All grant proceeds used to finance costs in eligible basis			
B.M.R. loans used to finance cost in eligible basis			
Non-qualified non-recourse financing			
Non-qualified portion of higher quality units [42(d)(3)]			
Historic Credits (on residential portion only)			
TOTAL ELIGIBLE BASIS		$12,399,168	$12,381,461
High Cost Area Adjustment		130%	130%
TOTAL ADJUSTED BASIS		$16,118,918	$16,095,899
Applicable Fraction		80%	80%
TOTAL QUALIFIED BASIS		$12,862,897	$12,844,527
Applicable Percentage		8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS		$1,085,628	$1,084,078
Syndication Proceeds	**0.7599**	**$8,249,691**	**$8,237,909**

TDHCA

02120

Region 6

Non Profit
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM
2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Humble Memorial Gardens** TDHCA #: **02120**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 200 feet east of McKay Drive on JM Hester
City: Humble
County: Harris
Zip Code: 77338

LIHTC Primary Set Aside: NP
Additional Elderly Set Aside ☑
Purpose / Activity: NC
Development Type: Elderly
☐ TTC ☐ DDA ☐ QCT

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

Special Needs: 4 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: Humble Memorial Gardens, Ltd.

Principal Names:	Principal Contact:	Percentage Ownership:
Multi-Family Mission Ministries, Inc.	David R. Muguerza	51 %
MGT Support Services, LLC	Margaret G. Tann	49 %
NA	NA	0 %
NA	NA	0 %
NA	NA	0 %

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$366,177** Allocation over 10 Years: $3,661,770
Credits Requested: $367,807 Eligible Basis Amount: $366,177 Equity/Gap Amount: $396,151

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	1	0	0	0	1
40%	0	0	30	0	0	0	30
50%	0	0	30	0	0	0	30
60%	0	0	10	0	0	0	10
MR	0	0	4	0	0	0	4
Total	0	0	75	0	0	0	

Total LI Units: 71
Owner/Employee Units: 0
Total Project Units: 75
Applicable Fraction: 95.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost:	**$5,370,355**
Gross Building Square Feet:	67,275
Total NRA SF:	62,055
Gross/Net Rentable:	1.08
Average Square Feet/Unit:	827
Cost Per Net Rentable Square Foot:	$86.54
Credits per Low Income Unit	$5,157

INCOME AND EXPENSE INFORMATION

Effective Gross Income:	$482,700
Total Expenses:	$258,400
Net Operating Income:	$224,300
Estimated 1st Year Debt Coverage Ratio:	1.11

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer:	Multi-Family Mission Ministries, Inc.	Market Analyst:	Apartment MarketData Research Services, LLC
Housing GC:	Barron Builders	Originator/UW:	NA
Infrastructure GC:	NA	Appraiser:	NA
Cost Estimator:	William Joseph Architects	Attorney:	Dwyer & Cambre
Architect:	William Joseph Architects	Supp Services:	Center for Christian Counseling
Property Manager:	NA	Accountant:	Novogradac & Company, LLP
Engineer:	NA		
Syndicator:	Midland Equity Corporation	Permanent Lender:	Midland Mortgage Investment Corp.

DEPARTMENT EVALUATION

Points Awarded: 142 Site Review: Acceptable Underwriting Finding: AC

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommendec

Project Name: Humble Memorial Gardens Project Number: 02120

PUBLIC COMMENT SUMMARY Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials): Support: **3** Opposition: **1**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:				Comment from Other Public Official
Local Official:	Wilson Archer, Mayor,		S	James P. Baker, City Manager, NC
TX Rep.:	Senfronia Thompson,	Dist. 141	S	
TX Sen.:	Jon Lindsay,	Dist. 7	NC	
US Rep.:				
US Sen.:				

CONDITIONS TO COMMITMENT

Receipt, review, and acceptance of a revised site plan and building plans reflecting that none of the buildings will have less than four units, or acknowledgement that the three-unit building proposed will be an ineligible building, and a determination from the Department that the remainder of the development qualifies under the QAP.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☑ Score ☑ Meeting Required Set Aside ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This development was one of the highest scoring developments in the Nonprofit Set Aside statewide.

Brooke Boston, Acting LIHTC Co-Manager Date David Burrell, Director of Housing Programs Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director
Chairman of Executive Award and Review Advisory Committee

Date

☐ **BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):**

Approved Credit Amount: Date of Determination:

Michael E. Jones, Chairman of the Board Date

Compliance Status Summary

Project ID #: 02120 — LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Humble Memorial Gardens — HOME ☐ HTF ☐

Project City: Humble — BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 2 — # not yet monitored or pending review 2

of projects grouped by score — 0-9: 1 — 10-19: 1 — 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received N/A

Non-Compliance Reported

Completed by Jo En Taylor **Completed on** 05/30/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ no outstanding issues ☐ outstanding issues ☐

Comments:

Completed by Lucy Trevino **Completed on** 05/30/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments: Monitoring review not applicable closed 532300.

Completed by Ralph Hendrickson **Completed on** 05/30/2002

Community Affairs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Programs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☑ reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: June 8, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02120

DEVELOPMENT NAME

Humble Memorial Gardens

APPLICANT

Name: Humble Memorial Gardens, Ltd. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 2020 Rocky Falls **City:** Richmond **State:** TX

Zip: 77469 **Contact:** David Muguerza **Phone:** (281) 342-5252 **Fax:** (281) 232-2684

PRINCIPALS of the APPLICANT

Name	(%)	Title
Multi-Family Mission Ministries, Inc.	.0051	Managing General Partner
Midland Equity Corporation	99.99	Initial Limited Partner
MGT Support Service, L.L.C.	.0049	Co-General Partner
David Muguerza	N/A	President of Managing G.P.
Margaret Tann	N/A	Pres. & 100% owner of Co-G.P.

MANAGING GENERAL PARTNER

Name: Multi-Family Mission Ministries, Inc. **Type:** ☐ For Profit ☒ Non-Profit ☐ Municipal ☐ Other

Address: 2020 Rocky Falls **City:** Richmond **State:** TX

Zip: 77469 **Contact:** David Muguerza **Phone:** (281) 342-5252 **Fax:** (281) 232-2684

CO-GENERAL PARTNER

Name: MGT Support Services, LLC **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 29426 Geneva **City:** Spring **State:** TX

Zip: 77386 **Contact:** Margaret Tann **Phone:** (281) 363-9863

PROPERTY LOCATION

Location: J.M. Hester Road, 200 feet east of McKay Drive ☐ **QCT** ☐ **DDA**

City: Humble **County:** Harris **Zip:** 77338

REQUEST

Amount	Interest Rate	Amortization	Term
$367,807	N/A	N/A	N/A

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: New construction **Set-Aside:** ☐ General ☒ Elderly ☒ Non-Profit

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS

CREDIT UNDERWRITING ANALYSIS

SITE DESCRIPTION

Size: 5.0 acres 217,800 square feet **Zoning/ Permitted Uses:** No zoning in Humble

Flood Zone Designation: Zone X **Status of Off-Sites:** Partially Improved

DESCRIPTION of IMPROVEMENTS

Total Units: 75 **# Rental Buildings** 8 **# Common Area Bldngs** 0 **# of Floors** 3 **Age:** 0 yrs **Vacant:** N/A at / /

Number	Bedrooms	Bathroom	Size in SF
71	2	1	825
4	2	2	870

Net Rentable SF: 62,055 **Av Un SF:** 827 **Common Area SF:** 5,220 **Gross Bldng SF** 67,275

Property Type: ☒ Multifamily ☐ SFR Rental ☒ Elderly ☒ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on a post-tensioned concrete slab on grade, 76% brick veneer/24% Hardiplank siding exterior wall covering, drywall interior wall surfaces, composite shingle roofing

APPLIANCES AND INTERIOR FEATURES

Carpeting & vinyl flooring, range & oven, hood & fan, garbage disposal, dishwasher, refrigerator, microwave oven, fiberglass tub/shower, washer & dryer connections, ceiling fans, laminated counter tops, individual water heaters

ON-SITE AMENITIES

3,345 SF of common areas with activity room, management offices, laundry facilities, storage and maintenance areas, perimeter fencing with limited access gate

Uncovered Parking: 100 spaces **Carports:** 0 spaces **Garages:** 0 spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Midland Mortgage Investment Corporation **Contact:** Dan Flick

Principal Amount: $2,918,815 **Interest Rate:** Variable, Wall Street Journal prime rate +1%, 6% minimum

Additional Information:

Amortization: N/A yrs **Term:** 2 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: Midland Mortgage Investment Corporation **Contact:** Dan Flick

Principal Amount: $2,360,000 **Interest Rate:** Unspecified index + 40 basis points, minimum 6.5%, maximum 9%, estimated & underwritten at 7.75%

Additional Information:

Amortization: 30 yrs **Term:** 15 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

Annual Payment: $202,888 **Lien Priority:** 1st **Commitment Date** 2/ 19/ 2002

LIHTC SYNDICATION

Source: Midland Equity Corporation **Contact:** Chris Diaz

Address: 33 North Garden Avenue, Suite 1200 **City:** Clearwater

State: FL **Zip:** 33755 **Phone:** (727) 461-4801 **Fax:** (727) 443-6067

Net Proceeds: $2,794,073 **Net Syndication Rate** (per $1.00 of 10-yr LIHTC) 76¢

Commitment ☐ None ☐ Firm ☒ Conditional **Date:** 2/ 21/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $216,282 **Source:** Deferred developer fee

VALUATION INFORMATION

ASSESSED VALUE

Land:	$134,479 (prorated from 20.6-acre parcel)	**Assessment for the Year of:**	2001
Building:	N/A	**Valuation by:**	Harris County Appraisal District
Total Assessed Value:	$134,479		

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Option agreement

Contract Expiration Date: 7/ 1/ 2002 **Anticipated Closing Date:** ??/ /

Acquisition Cost: $ 590,000 **Other Terms/Conditions:**

Seller: Eastex 119, Paul Rosenthal MD, & Gaylor Trustees **Related to Development Team Member:** No

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Humble Memorial Gardens is a proposed new construction development of 75 units of mixed income elderly housing located in western Humble. The development is comprised of eight residential buildings as follows:

- One three-story, elevator-served Building Type A with 24 two-bedroom units and the common use areas;
- Six one-story Building Type B with eight two-bedroom units;
- One one-story Building Type C with three two-bedroom units. This building is an ineligible building type under the QAP and must be modified to contain at least four units or be excluded as an eligible building for tax credits (and house only unrestricted units). Receipt, review, and acceptance of an adjustment to the site plan and building plans or acknowledgement of this ineligible building type is a condition of this report.

Based on the site plan the apartment buildings are arranged in three groups separated by parking lots, with the community/residential "A" building located near the entrance to the site. The common use areas are located in the central portion of the first floor of the three-story "A" building, and include the management offices, a 690-square foot lobby/multipurpose room, and 765 SF of laundry facilities and storage and mechanical areas. The second and third floors will also have the 765-SF areas for storage and future needs. The "A" building will also have 975 SF of air conditioned interior corridor space on each floor.

Supportive Services: The Applicant has contracted with the Center for Christian Counseling of Corpus Christi to provide the following supportive services to tenants: instruction on community-building skills and counseling for seniors. These services will be provided at no cost to tenants. The contract requires the Applicant to provide, furnish, and pay utilities in the community center for provision of the services and to pay $125 per month for these support services.

Schedule: The Applicant anticipates construction to begin in February of 2003, to be completed and placed in service in August of 2003, and to be substantially leased-up in October of 2003.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside. 71 of the units (94% of the total) will be reserved for low-income elderly tenants. One unit (1%) will be reserved for households earning 30% or less of AMGI, 30 units (40%) will be reserved for households earning 40% or less of AMGI, 30 units (40%) will be reserved for households earning 50% or less of AMGI, 10 units (130%) will be reserved for households earning 60% or less of AMGI, and the remaining four units will be offered at market rents.

Special Needs Set-Asides: Four units (5%) will be reserved for handicapped/developmentally-disabled tenants.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated March 26, 2002 was prepared by Apartment MarketData Research Services, LLC and highlighted the following findings:

Definition of Market/Submarket: "…we utilized boundaries of the trade area located in northern Houston and the City of Humble, Harris County, Texas. This trade area accounts for 167 square miles in northeast Harris County." (p. 31)

Total Local/Submarket Demand for Rental Units: "In the primary market area we have determined that there is a demand for a minimum of 182 elderly rental units per year, based on the household growth analysis." (p. 17)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY

Type of Demand	Market Analyst		Underwriter	
	Units of Demand	% of Total Demand	Units of Demand	% of Total Demand
Household Growth	64	22%	47	7%
Resident Turnover	235	78%	717	93%
TOTAL ANNUAL DEMAND	**299**	**100%**	**764**	**100%**

Ref: p. 41

Capture Rate: Calculated by the analyst to be 23.7%. (p. 41) The Underwriter calculated a concentration capture rate of 10% based upon the TDHCA demand model.

Market Rent Comparables: "The competitive submarket supply and demand analysis conducted … comprised of 3,195 units [in ten projects] within the primary market area (including four properties that are currently in lease-up)…the overall average occupancy is 86.1%. The occupancy rate is reflective of the fact that some of the comparable properties are still in the lease-up process…" (p. 84) None of these properties are elderly properties; in response to the Underwriter's inquiry the analyst stated that "The trade area used for the analysis did not contain any comparable elderly properties, only elderly assisted living or special needs projects." (undated letter received 6/5/02)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	Proposed	Program Max	Differential	Market	Differential
2-Bedroom (30%)	$332	$332	$0	$783	-$461
2-Bedroom (40%)	$466	$466	$0	$783	-$317
2-Bedroom (50%)	$600	$600	$0	$783	-$183
2-Bedroom (60%)	$734	$734	$0	$783	-$49
2-Bedroom (MR)	$771	N/A	N/A	$783	-$12

Ref: p. 87
(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: "The current occupancy of the market area is 94.9% as a result of ever increasing demand." (p. 79)
Absorption Projections: "We estimate that the project could achieve a lease rate of approximately 7% to 10% of its units per month as they come on line for occupancy [resulting in a 12-month absorption period]." (p. 76)
Known Planned Development: "Currently, there are no other 'senior' projects known to be under construction." (p. 9)
Effect on Existing Housing Stock: "The submarket demand identified can absorb a minimum of 192 'senior' units per year based on our growth analysis without a detrimental economic change to the existing multi-housing conditions within the submarket." (cover letter)

The Underwriter found the market study to be acceptable.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: Humble is located in southeast Texas, approximately 18 miles northeast of downtown Houston in Harris County. The site is a rectangularly-shaped parcel located in the western area of the city, approximately one mile from the central business district. The site is situated on the south side of J.M. Hester Road.
Population: The estimated 2001 elderly (age 55+) population of the primary market area was 28,737 and is expected to increase by 21% to approximately 34,861 by 2006. Within the primary market area there were estimated by the market analyst to be 19,158 elderly households in 2001 (based on an assumed household size of 1.5 persons).
Adjacent Land Uses: Land uses in the overall area in which the site is located are predominantly residential, with business centers, retail, and recreational areas nearby. Adjacent land uses include:

- **North:** J. M. Hester Road with commercial beyond
- **South:** Vacant land
- **East:** Retail
- **West:** Vacant land

Site Access: Access to the property is from the east or west along J. M. Hester Road. The development is to have one entry, from J. M. Hester Road. Access to U.S. Highway 59 is 0.3 miles east, which provides connections to all other major roads serving the Humble and Houston areas.
Public Transportation: The availability of public transportation is unknown.
Shopping & Services: The site is within 1.5 miles of two major grocery/pharmacies and a major shopping mall. A variety of other retail establishments and restaurants as well as schools, churches, and hospitals and health care facilities are located within a short driving distance from the site.
Site Inspection Findings: The site has not been inspected by a TDHCA staff member, and receipt, review, and acceptance of an acceptable site inspection report is a condition of this report.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

A Phase I Environmental Site Assessment report dated March 1, 2002 was prepared by ARTREX Environmental Services, Inc. and contained the following findings and recommendations:
Findings: "This assessment has revealed no evidence or findings of recognized environmental conditions in connection with the property." (Sec. 8.0)
Recommendations: "No further assessment activities [should] be conducted at the subject site." (Sec. 10.0)

OPERATING PROFORMA ANALYSIS

Income: The Applicant's rent projections are the maximum rents allowed under LIHTC guidelines, and are achievable according to the market analyst. Estimates of secondary income and vacancy and collection losses are in line with TDHCA underwriting guidelines. The Applicant provided a commitment for an operating subsidy of $1,200/year from Peaceful Pastures Housing, Inc. for the 30% AMI unit, but did not include this income on their rent schedule or proforma; the Underwriter has included this committed income source.
Expenses: The Applicant's estimate of total operating expense is 1% lower than the Underwriter's TDHCA database-derived estimate, an acceptable deviation. The Applicant's budget shows several line item estimates, however, that deviate significantly when compared to the database averages, particularly general and administrative ($5.7K lower) and repairs and maintenance ($12.9K higher). The current Houston metropolitan area utility allowances do not include allowances for water, sewer, or trash collection, so the Underwriter used the Pasadena allowances as proxies for the purpose of estimating these expenses and compared them to IREM data for the region and found them to be roughly consistent.
Conclusion: The Applicant's estimated income is consistent with the Underwriter's expectations and total operating expenses are within 5% of the database-derived estimate. Therefore, the Applicant's NOI should be used to evaluate debt service capacity. In both the Applicant's and the Underwriter's income and expense estimates there is sufficient net operating income to service the proposed first lien permanent mortgage at a debt coverage ratio that is within an acceptable range of TDHCA underwriting guidelines of 1.10 to 1.25.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: The site cost of $590,000 ($2.71/SF or $18K/acre), although 438% of the tax assessed value, is assumed to be reasonable since the acquisition is an arm's-length transaction.
Sitework Cost: The Applicant's claimed sitework costs of $4,707 per unit are considered reasonable compared to historical sitework costs for multifamily projects.
Direct Construction Cost: The Applicant's direct construction cost estimate is within 1% of the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate, and is therefore regarded as reasonable as submitted.
Interim Financing Fees: The Applicant's eligible interim financing costs include only one item, construction loan interest, which on its face appears to be $2,100 more than one year of fully drawn interest expense. However, no organization fees or other potentially eligible construction loan costs were listed, suggesting they are all in this figure. Therefore no adjustment to the Applicant's eligible basis estimate is made.
Fees: The Applicant's contractor's and developer's fees for general requirements, general and administrative expenses, and profit are set at the maximums allowed by TDHCA guidelines.
Conclusion: The Applicant's total development cost estimate is within 5% of the Underwriter's verifiable estimate and is therefore generally acceptable. Since the Underwriter has been able to verify the Applicant's projected costs to a reasonable margin, the Applicant's total cost breakdown is used to calculate eligible basis and determine the LIHTC allocation. As a result an eligible basis of $4,596,355 is used to determine a credit allocation of $366,177 from this method. This is $1,630 less than requested due to the Applicant's use of a slightly higher 8.45% applicable percentage rather than the 8.44% being used for this application cycle. The resulting syndication proceeds will be used to compare to the gap of need using the Applicant's costs to determine the recommended credit amount.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with three types of financing from three sources: a conventional interim to permanent loan, syndicated LIHTC equity, and deferred developer's fees.

Conventional Interim to Permanent Loan: There is a commitment for interim to permanent financing through Midland Mortgage Investment Corporation in the amount of $2,918,815 during the interim period and $2,360,000 at conversion to permanent. The commitment letter indicated a term of 24 months for the construction portion and 15 years for the permanent, with a 30-year amortization schedule. The construction loan will bear interest at a variable rate defined as 1% above the Wall Street Journal prime rate, with a minimum rate of 6%. The interest rate for the permanent loan will be fixed at rate lock at 40 basis points over an index rate to be specified by the lender, with a minimum rate of 6.5% and a maximum rate of 9%. The rate is estimated and underwritten at 7.75%.

LIHTC Syndication: Midland Equity Corporation has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $2,794,073 based on a syndication factor of 76%. The funds would be disbursed in a three-phased pay-in schedule:

1. 60% upon the later of admission to the partnership or closing of the construction loan and land acquisition;
2. 20% within 30 days of the later of completion of construction or receipt of the credit and cost certification;
3. 20% within 30 days of the later of closing of the permanent mortgage loan, receipt of IRS Forms 8609, 90% physical occupancy for three consecutive months, or achievement of a DCR of at least 1.15 for 90 days.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $216,282 amount to 36% of the total fees.

Financing Conclusions: Based on the Applicant's adjusted estimate of eligible basis, the LIHTC allocation should not exceed $366,177 annually for ten years, resulting in syndication proceeds of approximately $2,782,669. Based on the underwriting analysis, the Applicant's deferred developer fee will be increased slightly to $227,686, which amounts to approximately 38% of the eligible fee and should be repayable within approximately seven years. Should the Applicant's final direct construction cost exceed the cost estimate used to determine credits in this analysis, additional deferred developer's fee should be available to fund those development cost overruns.

REVIEW of ARCHITECTURAL DESIGN

Forty-eight of the units are in one-story eight-plex structures, three are in a one-story three-plex building, and the remaining 24 units are in a three-story, elevator-served building with the community areas and management offices placed in the center of the building between the residential wings. The exterior elevations are simple and attractive, with architectural elements such as ornamental window shutters and French doors. The units have covered patios or balconies and utility closets with hookups for full-size appliances. Units in the one-story buildings have semi-private exterior entries shared with another unit, and the units in the three-story building are entered off an interior breezeway that is shared with seven other units.

IDENTITIES of INTEREST

The Developer, Multi-Family Mission Ministries, Inc., is also the Managing General Partner. These are common relationships for LIHTC-funded developments. The subsidy used to meet the QAP requirement for selection points for the 30% unit is from another entity, Peaceful Pastures Housing, Inc. for which David Muguerza serves as president. Mr. Murguerza is also the president of Multi-Family Mission Ministries, the 51% Managing General Partner of the Applicant. It is unknown to the Underwriter whether this affiliation meets the letter of the QAP but it would appear to not meet the intention of the requirement which is to not allow funds from related entities to qualify. Therefore, a review and possible reduction in points allocated for deep targeting based upon the interlocking control of officers of the Managing General Partner and the Peaceful Pastures entity is a condition of this report.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights:

- The Applicant is a single-purpose entity created for the purpose of receiving assistance from TDHCA and therefore has no material financial statements.
- The Managing General Partner, Multi-Family Mission Ministries, Inc., submitted an unaudited financial statement as of February 19, 2002 reporting total assets of $16.7M and consisting of $1.3M in cash, $19K in receivables, $11.8M in real property, $897K in machinery, equipment, and fixtures, and $2.67M in other long term assets, loan costs, and debt reserves. Liabilities totaled $12.3M, resulting in a net worth of $4.4M.
- The Co-General Partner, MGT Support Services, LLC, submitted an unaudited financial statement as of February 19, 2002 reporting total assets of $90K, consisting of $65K in cash and $25K in other assets. Liabilities totaled $80K, resulting in a net worth of $9.7K.
- Peaceful Pastures Housing, Inc., the provider of the 30% AMI unit operating subsidy, submitted an unaudited financial statement as of April 30, 2002 reporting total assets of $2.54M and consisting of $80.3K in cash, $800 in receivables, $39.7K in prepaids and deposits, $447K in dedicated accounts, and $1.97 in fixed assets (net of depreciation). Liabilities totaled $2.89M, resulting in a negative net equity of ($351K). This amount includes $1.2M in accumulated depreciation, however. Moreover, Peaceful Pastures appears to be a single-asset entity that owns and operates a similar property in Alvin, TX.

Background & Experience:

- The Applicant is a new entity formed for the purpose of developing the project.
- The Developer and Managing General Partner, Multi-Family Mission Ministries, Inc., listed participation as limited partner, owner, and/or co-general partner on four previous affordable housing developments totaling 366 units since 1978.
- The Co-General Partner, MGT Support Services, LLC, has participated as co-general partner on one prior LIHTC housing developments of 32 units since 2001.
- The Applicant appears to be relying on the development experience of the proposed General Contractor.

SUMMARY OF SALIENT RISKS AND ISSUES

- None noted.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $366,177 ANNUALLY FOR TEN YEARS, SUBJECT TO CONDITIONS.

CONDITIONS

1. Receipt, review, and acceptance of a revised site plan and building plans reflecting that none of the buildings will have less than four units, or acknowledgement that the three-unit building proposed will be an ineligible building, and a determination from the Department that the remainder of the development qualifies under the QAP;
2. Receipt, review, and acceptance of a satisfactory TDHCA site inspection report;
3. Review and possible reduction in score based upon the deep rent skewing subsidy provider, Peaceful Pastures Housing, Inc., having common control as a result of having the same authorized corporate officers.

Credit Underwriting Supervisor:	____________________ *Jim Anderson*	**Date:**	June 8, 2002
Director of Credit Underwriting:	____________________ *Tom Gouris*	**Date:**	June 8, 2002

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Humble Memorial Gardens, 9% LIHTC #02120

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC (30%)	1	2	1	825	$402	$332	$332	$0.40	$70.00	$24.73
TC (40%)	30	2	1	825	536	466	13,980	0.56	70.00	24.73
TC (50%)	30	2	1	825	670	600	18,000	0.73	70.00	24.73
TC (60%)	10	2	1	825	804	734	7,340	0.89	70.00	24.73
MR	4	2	2	870		771	3,084	0.89	70.00	24.73
TOTAL:	75		AVERAGE:	827	$595	$570	$42,736	$0.69	$70.00	$24.73

INCOME	Total Net Rentable Sq Ft: 62,055			TDHCA	APPLICANT			
POTENTIAL GROSS RENT				$512,832	$512,832			
Secondary Income		Per Unit Per Month:	$10.00	9,000	9,000	$10.00	Per Unit Per Month	
Other Support Income: Subsidy from Peaceful Pastures Housing, Inc.				1,200	0			
POTENTIAL GROSS INCOME				$523,032	$521,832			
Vacancy & Collection Loss	% of Potential Gross Income:		-7.50%	(39,227)	(39,132)	-7.50%	of Potential Gross Rent	
Employee or Other Non-Rental Units or Concessions				0	0			
EFFECTIVE GROSS INCOME				$483,805	$482,700			
EXPENSES	% OF EGI	PER UNIT	PER SQ FT			PER SQ FT	PER UNIT	% OF EGI
General & Administrative	3.79%	$245	$0.30	$18,356	$12,616	$0.20	$168	2.61%
Management	5.28%	341	0.41	25,565	22,800	0.37	304	4.72%
Payroll & Payroll Tax	13.56%	875	1.06	65,589	62,000	1.00	827	12.84%
Repairs & Maintenance	6.02%	388	0.47	29,132	42,000	0.68	560	8.70%
Utilities	3.32%	214	0.26	16,065	15,500	0.25	207	3.21%
Water, Sewer, & Trash	4.60%	297	0.36	22,257	24,434	0.39	326	5.06%
Property Insurance	2.16%	140	0.17	10,474	10,400	0.17	139	2.15%
Property Tax 2.69622	10.45%	674	0.81	50,554	46,875	0.76	625	9.71%
Reserve for Replacements	3.10%	200	0.24	15,000	15,000	0.24	200	3.11%
Other: spt svcs, compl. fees, se	1.40%	90	0.11	6,775	6,775	0.11	90	1.40%
TOTAL EXPENSES	53.69%	$3,464	$4.19	$259,766	$258,400	$4.16	$3,445	53.53%
NET OPERATING INC	46.31%	$2,987	$3.61	$224,038	$224,300	$3.61	$2,991	46.47%
DEBT SERVICE								
First Lien Mortgage	41.94%	$2,705	$3.27	$202,888	$202,888	$3.27	$2,705	42.03%
Additional Financing	0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
Additional Financing	0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
NET CASH FLOW	4.37%	$282	$0.34	$21,150	$21,412	$0.35	$285	4.44%
AGGREGATE DEBT COVERAGE RATIO				1.10	1.11			
ALTERNATIVE DEBT COVERAGE RATIO					1.11			

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		10.96%	$7,867	$9.51	$590,000	$590,000	$9.51	$7,867	10.99%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		6.56%	4,707	5.69	353,000	353,000	5.69	4,707	6.57%
Direct Construction		52.36%	37,579	45.42	2,818,409	2,806,500	45.23	37,420	52.26%
Contingency	2.36%	1.39%	1,000	1.21	75,000	75,000	1.21	1,000	1.40%
General Requireme	5.98%	3.52%	2,528	3.05	189,570	189,570	3.05	2,528	3.53%
Contractor's G & /	1.99%	1.17%	843	1.02	63,190	63,190	1.02	843	1.18%
Contractor's Profi	5.98%	3.52%	2,528	3.05	189,570	189,570	3.05	2,528	3.53%
Indirect Construction		2.51%	1,800	2.18	135,000	135,000	2.18	1,800	2.51%
Ineligible Expenses		0.65%	467	0.56	35,000	35,000	0.56	467	0.65%
Developer's G & A	1.96%	1.46%	1,045	1.26	78,389	0	0.00	0	0.00%
Developer's Profit	13.00%	9.68%	6,948	8.40	521,136	599,525	9.66	7,994	11.16%
Interim Financing		3.44%	2,467	2.98	185,000	185,000	2.98	2,467	3.44%
Reserves		2.77%	1,987	2.40	149,000	149,000	2.40	1,987	2.77%
TOTAL COST		100.00%	$71,764	$86.73	$5,382,264	$5,370,355	$86.54	$71,605	100.00%
Recap-Hard Construction Costs		*68.54%*	***$49,183***	***$59.44***	***$3,688,739***	***$3,676,830***	***$59.25***	***$49,024***	*68.47%*

SOURCES OF FUNDS

				TDHCA	APPLICANT	RECOMMENDED
First Lien Mortgage	43.85%	$31,467	$38.03	$2,360,000	$2,360,000	$2,360,000
Additional Financing	0.00%	$0	$0.00	0	0	0
LIHTC Syndication Proceeds	51.91%	$37,254	$45.03	2,794,073	2,794,073	2,782,669
Deferred Developer Fees	4.02%	$2,884	$3.49	216,282	216,282	227,686
Additional (excess) Funds Required	0.22%	$159	$0.19	11,909	0	0
TOTAL SOURCES				$5,382,264	$5,370,355	$5,370,355

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Humble Memorial Gardens, 9% LIHTC #02120

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook

Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$41.78	$2,592,607
Adjustments				
Exterior Wall Finish	6.32%		$2.64	$163,853
Elderly	5.00%		2.09	129,630
Roofing			0.00	0
Subfloor			(1.52)	(94,599)
Floor Cover			1.82	112,940
Porches/Balconies	$28.10	6,589	2.98	185,151
Plumbing	$585	12	0.11	7,020
Built-In Appliances	$1,550	75	1.87	116,250
Stairs	$1,550	4	0.10	6,200
Floor Insulation			0.00	0
Heating/Cooling			1.41	87,498
Corridors	$41.78	2,925	1.97	122,204
Comm &/or Aux Bldgs	$41.78	3,345	2.25	139,751
Other: Elevators	$42,000	2	1.35	84,000
SUBTOTAL			58.86	3,652,504
Current Cost Multiplier	1.04		2.35	146,100
Local Multiplier	0.91		(5.30)	(328,725)
TOTAL DIRECT CONSTRUCTION COSTS			$55.92	$3,469,879
Plans, specs, survy, bld	3.90%		($2.18)	($135,325)
Interim Construction Inte	3.38%		(1.89)	(117,108)
Contractor's OH & Profit	11.50%		(6.43)	(399,036)
NET DIRECT CONSTRUCTION COSTS			$45.42	$2,818,409

PAYMENT COMPUTATION

Primary	$2,360,000	Term	360
Int Rate	7.75%	DCR	1.10
Secondary	$0	Term	
Int Rate	0.00%	Subtotal DCR	1.10
Additional	$2,794,073	Term	
Int Rate		Aggregate DCR	1.10

RECOMMENDED FINANCING STRUCTURE APPLICANT'S NOI:

Primary Debt Service	$202,888
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$21,150

Primary	$2,360,000	Term	360
Int Rate	7.75%	DCR	1.11
Secondary	$0	Term	0
Int Rate	0.00%	Subtotal DCR	1.11
Additional	$2,794,073	Term	0
Int Rate	0.00%	Aggregate DCR	1.11

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE APPLICANT'S NOI

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$512,832	$528,217	$544,063	$560,385	$577,197	$669,129	$775,704	$899,254	$1,208,522
Secondary Income	9,000	9,270	9,548	9,835	10,130	11,743	13,613	15,782	21,209
Other Support Income: Subsi	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	521,832	537,487	553,612	570,220	587,327	680,872	789,318	915,036	1,229,731
Vacancy & Collection Loss	(39,132)	(40,312)	(41,521)	(42,766)	(44,049)	(51,065)	(59,199)	(68,628)	(92,230)
Employee or Other Non-Renta	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$482,700	$497,175	$512,091	$527,453	$543,277	$629,807	$730,119	$846,408	$1,137,501
EXPENSES at 4.00%									
General & Administrative	$12,616	$13,121	$13,645	$14,191	$14,759	$17,957	$21,847	$26,580	$39,345
Management	22,800	26,271	27,059	27,871	28,707	33,279	38,580	44,725	60,106
Payroll & Payroll Tax	62,000	64,480	67,059	69,742	72,531	88,245	107,364	130,625	193,356
Repairs & Maintenance	42,000	43,680	45,427	47,244	49,134	59,779	72,730	88,488	130,983
Utilities	15,500	16,120	16,765	17,435	18,133	22,061	26,841	32,656	48,339
Water, Sewer & Trash	24,434	25,411	26,428	27,485	28,584	34,777	42,312	51,479	76,201
Insurance	10,400	10,816	11,249	11,699	12,167	14,802	18,009	21,911	32,434
Property Tax	46,875	48,750	50,700	52,728	54,837	66,718	81,172	98,759	146,187
Reserve for Replacements	15,000	15,600	16,224	16,873	17,548	21,350	25,975	31,603	46,780
Other	6,775	7,046	7,328	7,621	7,926	9,643	11,732	14,274	21,129
TOTAL EXPENSES	$258,400	$271,295	$281,884	$292,889	$304,326	$368,612	$446,563	$541,098	$794,861
NET OPERATING INCOME	$224,300	$225,880	$230,207	$234,564	$238,951	$261,195	$283,556	$305,310	$342,641
DEBT SERVICE									
First Lien Financing	$202,888	$202,888	$202,888	$202,888	$202,888	$202,888	$202,888	$202,888	$202,888
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$21,412	$22,992	$27,319	$31,677	$36,063	$58,307	$80,668	$102,422	$139,753
DEBT COVERAGE RATIO	1.11	1.11	1.13	1.16	1.18	1.29	1.40	1.50	1.69

LIHTC Allocation Calculation - Humble Memorial Gardens, 9% LIHTC #02120

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost				
Purchase of land	$590,000	$590,000		
Purchase of buildings				
(2) Rehabilitation/New Construction Cost				
On-site work	$353,000	$353,000	$353,000	$353,000
Off-site improvements				
(3) Construction Hard Costs				
New structures/rehabilitation ha	$2,806,500	$2,818,409	$2,806,500	$2,818,409
(4) Contractor Fees & General Requirements				
Contractor overhead	$63,190	$63,190	$63,190	$63,190
Contractor profit	$189,570	$189,570	$189,570	$189,570
General requirements	$189,570	$189,570	$189,570	$189,570
(5) Contingencies	$75,000	$75,000	$75,000	$75,000
(6) Eligible Indirect Fees	$135,000	$135,000	$135,000	$135,000
(7) Eligible Financing Fees	$185,000	$185,000	$185,000	$185,000
(8) All Ineligible Costs	$35,000	$35,000		
(9) Developer Fees			$599,525	
Developer overhead		$78,389		$78,389
Developer fee	$599,525	$521,136		$521,136
(10) Development Reserves	$149,000	$149,000		
TOTAL DEVELOPMENT COSTS	$5,370,355	$5,382,264	$4,596,355	$4,608,264

Deduct from Basis:				
All grant proceeds used to finance costs in eligible basis				
B.M.R. loans used to finance cost in eligible basis				
Non-qualified non-recourse financing				
Non-qualified portion of higher quality units [42(d)(3)]				
Historic Credits (on residential portion only)				
TOTAL ELIGIBLE BASIS			$4,596,355	$4,608,264
High Cost Area Adjustment			100%	100%
TOTAL ADJUSTED BASIS			$4,596,355	$4,608,264
Applicable Fraction			94.39%	94.39%
TOTAL QUALIFIED BASIS			$4,338,594	$4,349,836
Applicable Percentage			8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS			$366,177	$367,126
	Syndication Proceeds	**0.7599**	**$2,782,669**	**$2,789,879**

TDHCA

02147

Region 6

General
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM
2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Heatherbrook Apartments** TDHCA #: **02147**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 9405 Alcorn St.
City: Houston
County: Harris
Zip Code: 77093

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

LIHTC Primary Set Aside: G
Additional Elderly Set Aside ☐
Purpose / Activity: NC
Development Type: Family
☐ TTC ☐ DDA ☑ QCT

Special Needs: 13 Units for Disabled/Other-Hearing/Visually Impaired

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: Houston Heatherbrook, L.P.

Principal Names:	Principal Contact:	Percentage Ownership:
KRR Construction, Inc.	Joseph Kemp	100 %
NA	NA	0 %
NA	NA	0 %
NA	NA	0 %
NA	NA	0 %

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$1,084,340** Allocation over 10 Years: $10,843,400
Credits Requested: $1,048,837 Eligible Basis Amount: $1,084,340 Equity/Gap Amount: $1,145,808

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	24	24	8	0	56
40%	0	0	24	24	8	0	56
50%	0	0	10	10	8	0	28
60%	0	0	0	0	0	0	0
MR	0	0	14	14	8	0	36
Total	0	0	72	72	32	0	

Total LI Units: 140
Owner/Employee Units: 0
Total Project Units: 176
Applicable Fraction: 79.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost: **$13,864,193**
Gross Building Square Feet: 204,236
Total NRA SF: 201,472
Gross/Net Rentable: 1.01
Average Square Feet/Unit: 1,145
Cost Per Net Rentable Square Foot: $68.81
Credits per Low Income Unit $7,745

INCOME AND EXPENSE INFORMATION

Effective Gross Income: $1,117,060
Total Expenses: $681,327
Net Operating Income: $435,733
Estimated 1st Year Debt Coverage Ratio: 1.07

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer: KRR Construction, Inc.
Housing GC: Picerne Construction Corporation
Infrastructure GC: NA
Cost Estimator: NA
Architect: Architecttura
Property Manager: Picerne Management Corporation
Engineer: Kimley-Horn & Associates
Syndicator: Columbia Housing Partners, LP

Market Analyst: Real Property Research Group
Originator/UW: NA
Appraiser: NA
Attorney: Coats, Rose, Yale, Ryman and Lee
Supp Services: Picerne Management Corporation
Accountant: Novogradac & Company, LLP
Permanent Lender: PNC Bank

DEPARTMENT EVALUATION

Points Awarded: 167 Site Review: Acceptable Underwriting Finding: AC

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommende

Project Name: Heatherbrook Apartments   Project Number: 02147

PUBLIC COMMENT SUMMARY

Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials): Support: **0** Opposition: **0**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:			Comment from Other Public Official
Local Official:		NC	Gabriel Vasquez, Houston City Council Member District H, S
TX Rep.:	Jessica Farrar,	Dist. 148	Margie L. Bingham, Director, City of Houston, NC
TX Sen.:	Mario Gallegos, Jr.,	Dist. 6	
US Rep.:			
US Sen.:			

CONDITIONS TO COMMITMENT

Receipt, review, and acceptance of a revised permanent loan commitment reflecting a maximum first lien debt service amount not to exceed $395,990, or an alternative financing structure acceptable to the Department.

Receipt, review, and acceptance of a revised site plan showing the one quarter acre section of land adjacent to Alcorn Street, that will be owned by a separate entity, as not part of the development plan or site control documentation for that parcel.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☑ Score   ☐ Meeting Required Set Aside   ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This was the highest scoring development in Region 6.

Brooke Boston, Acting LIHTC Co-Manager   Date   David Burrell, Director of Housing Programs   Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director   Date
Chairman of Executive Award and Review Advisory Committee

☐ BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):

Approved Credit Amount: Date of Determination:

Michael E. Jones, Chairman of the Board   Date

Compliance Status Summary

Project ID #: **02147** LIHTC 9% ☑ LIHTC 4% ☐

Project Name: **Heatherbrook Apartments** HOME ☐ HTF ☐

Project City: **Houston** BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 3 # not yet monitored or pending review 6

of projects grouped by score 0-9: 3 10-19: 0 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received N/A

Non-Compliance Reported

Completed by Jo En Taylor **Completed on** 05/29/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ no outstanding issues ☐ outstanding issues ☐

Comments:

Completed by Lucy Trevino **Completed on** 05/30/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by Ralph Hendrickson **Completed on** 05/30/2002

Community Affairs

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ | monitoring review pending ☐

reviewed; no unresolved issues ☐ | reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Finance

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ | monitoring review pending ☐

reviewed; no unresolved issues ☐ | reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Programs

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ | monitoring review pending ☐

reviewed; no unresolved issues ☑ | reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ | monitoring review pending ☐

reviewed; no unresolved issues ☐ | reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: June 11, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02147

DEVELOPMENT NAME

Heatherbrook Apartments

APPLICANT

Name: Houston Heatherbrook, L.P. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 1818 Cedardale Road **City:** Lancaster **State:** Texas

Zip: 75134 **Contact:** Joseph Kemp **Phone:** (972) 224-1096 **Fax:** (972) 224-6098

PRINCIPALS of the APPLICANT

Name	(%)	Title
KRR Construction, Inc.	.01	Managing General Partner
Joseph Kemp	N/A	100% owner of G.P.
Columbia Housing Partners	99.99	Limited Partner

GENERAL PARTNER

Name: KRR Construction, Inc. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 1818 Cedardale Road **City:** Lancaster **State:** Texas

Zip: 75134 **Contact:** Joesph Kemp **Phone:** (972) 224-1096 **Fax:** (972) 224-6098

PROPERTY LOCATION

Location: 9405 Alcorn Street ☒ **QCT** ☐ **DDA**

City: Houston **County:** Harris **Zip:** 77093

REQUEST

Amount	Interest Rate	Amortization	Term
$1,048,837	N/A	N/A	N/A

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: New Construction **Set-Aside:** ☒ General ☐ Rural ☐ Non-Profit

SITE DESCRIPTION

Size: 13.277 acres 578,337 square feet **Zoning/ Permitted Uses:** No zoning in Houston

Flood Zone Designation: Zone X **Status of Off-Sites:** Partially improved

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
CREDIT UNDERWRITING ANALYSIS

DESCRIPTION of IMPROVEMENTS

Total Units: 176 **# Rental Buildings** 11 **# Common Area Bldngs** 1 **# of Floors** ____ **Age:** 0 yrs **Vacant:** N/A at / /

Number	Bedrooms	Bathroom	Size in SF
72	2	2	1,035
72	3	2	1,189
32	4	2	1,292

Net Rentable SF: 201,472 **Av Un SF:** 1,145 **Common Area SF:** 2,764 **Gross Bldng SF** 204,236

Property Type: ☒ Multifamily ☐ SFR Rental ☐ Elderly ☒ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on concrete slab on grade, 77% brick veneer, 23% Hardiplank siding exterior wall covering, drywall interior wall surfaces, composite shingle roofing.

APPLIANCES AND INTERIOR FEATURES

Carpeting & vinyl & tile flooring, range & oven, hood & fan, garbage disposal, dishwasher, refrigerator, fiberglass tub/shower, washer & dryer connections, ceiling fans, laminated counter tops, individual water heaters.

ON-SITE AMENITIES

2,764-SF community building with activity room, management offices, fitness & laundry facilities, restrooms, swimming pool, equipped children's play area, picnic area, perimeter fencing with access gate.

Uncovered Parking: 352 spaces **Carports:** n/a spaces **Garages:** n/a spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: PNC Bank **Contact:** Robert Courtney

Principal Amount: $5,142,300 **Interest Rate:** 15-year interpolated Treasury rate, estimated at 7.75%

Additional Information: Closing simultaneous with permanent loan, interest-only payments

Amortization: N/A yrs **Term:** 2 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: PNC Bank **Contact:** Robert Courtney

Principal Amount: $5,142,300 **Interest Rate:** 15-year interpolated Treasury rate, estimated & underwritten at 7.75%

Additional Information:

Amortization: 30 yrs **Term:** 18 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

Annual Payment: $442,081 **Lien Priority:** 1st **Commitment Date** 2/ 11/ 2002

LONG TERM/PERMANENT FINANCING

Source: Hou-Dal Affordable Housing Corporation **Contact:** Hugh Harrison

Principal Amount: $150,000 **Interest Rate:** 5%

Additional Information: Assistance for 56 30% AMI units, cash flow loan

Amortization: 30 yrs **Term:** 30 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

Annual Payment: $9,663 **Lien Priority:** 2nd **Commitment Date** 12/ 18/ 2001

LIHTC SYNDICATION

Source: Columbia Housing Partners **Contact:** Robert Courtney

Address: 115 SW 5th Avenue, Suite 3200 **City:** Portland

State: Oregon **Zip:** 97204 **Phone:** (502) 581-3262 **Fax:** (502) 581-3209

Net Proceeds: $8,337,420 **Net Syndication Rate (per $1.00 of 10-yr LIHTC)** 79.5¢

Commitment ☐ None ☐ Firm ☒ Conditional **Date:** 1/ 18/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $234,473 **Source:** Deferred developer fee

VALUATION INFORMATION

ASSESSED VALUE

Parcel I: 193,000 **Assessment for the Year of:** 2002

Parcel II Land: 185,200 **Valuation by:** Harris County Appraisal District

Parcel II Building: 30,900

Total Assessed Value: 409,100

EVIDENCE of SITE or PROPERTY CONTROL

Parcel 1

Type of Site Control: Purchase And Sale Agreement

Contract Expiration Date: 8/ 12/ 2002 **Anticipated Closing Date:** 8/ 12/ 2002

Acquisition Cost: $ 399,079.48 **Other Terms/Conditions:** 7.6288 acres, $35,000 earnest money

Seller: Iron Mountain Information Management **Related to Development Team Member:** No

Parcel 2

Type of Site Control: Purchase And Sale Agreement

Contract Expiration Date: 8/ 12/ 2002 **Anticipated Closing Date:** 8/ 12/ 2002

Acquisition Cost: $ 533,174.40 **Other Terms/Conditions:** 5.648 acres, $15,000 earnest money

Seller: Eugene Valero, Trustee of the Eugene Valero Living Trust **Related to Development Team Member:** No

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Heatherbrook Apartments is a proposed new construction development of 176 units of mixed-income housing located in northwest Houston. The development has 11 residential buildings as follows:

- Four Building Type/Style A with eight two-bedroom units and eight four-bedroom units,
- Five Building Type/Style B with eight two-bedroom units and eight three-bedroom units, and
- Two Building Type/Style C with 16 three-bedroom units;

Based on the site plan the apartment buildings are distributed evenly throughout the site, with the community building and swimming pool located near the entrance to the site. The community building plan includes the management office, a community room, exercise room, kitchen, restrooms and laundry facilities.

Supportive Services: The Applicant has contracted with Latino Education Project to provide after school youth programs, health care, residence support group meetings and literacy classes. There is no cost to the tenants. The Applicant will be paying $691.66 per month, with a term of five years.

Schedule: The Applicant anticipates construction to begin in February of 2003, to be completed in January of 2004, to be placed in service in February of 2004, and to be substantially leased-up in April of 2004.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside. Fifty-six units (32% of the total) will be reserved for households earning 30% or less of AMGI, 56 units (32%) will be reserved for households earning 40% or less of AMGI, 28 units (16%) will be reserved for households earning 50% or less of AMGI and the remaining 36 units (20%) will be available for market rate tenants.

Special Needs Set-Asides: Nine units (5%) will be handicapped-accessible and four units (2%) will be equipped for tenants with hearing or visual impairments.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated February 12, 2002 was prepared by Real Property Research Group and highlighted the following findings:

Definition of Market/Submarket: "The Primary Market Area for Heatherbrook consists of census tracts north of Interstate 610, north of downtown Houston along Interstate 45, the Hardy Toll Road and U.S. Highway 59." (p. 17)

Total Local/Submarket Demand for Rental Units: According to the analyst, there is a demand of 24 new units and 486 units from turnover for a total demand of 510 units in the market area. (p. 52)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY

Type of Demand	Market Analyst: Units of Demand	Market Analyst: % of Total Demand	Underwriter: Units of Demand	Underwriter: % of Total Demand
Household Growth	24	4.7	73	2%
Resident Turnover	486	95.3%	4,597	98%
TOTAL ANNUAL DEMAND	**510**	**100%**	**4,670**	**100%**

Ref: p. 53

Capture Rate: "The excess demand for rental housing was over 330 units and the capture rate for affordability was 1.5 percent for tax credit units and 0.45 percent for market rate units." (p. 58) The Underwriter calculated a concentration capture rate of 12.25% based upon a revised supply of 572 unstabilized comparable affordable units divided by a revised demand of 4,670 units. However, in either case the concentration capture rate is below the Departments standard of 25% for non-rural areas.

Local Housing Authority Waiting List Information: The Housing Authority of the City of Houston indicated it has a waiting list of applicants that exceeds 30,000. (p. 58)

Market Rent Comparables: The market analyst surveyed 14 comparable apartment projects totaling 1,754 units in the market area. (p. 38)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	**Proposed**	**Program Max**	**Differential**	**Market**	**Differential**
2-Bedroom (30%)	$341	$332	+$9	$817	-$476
2-Bedroom (40%)	$475	$466	+$9	$817	-$342
2-Bedroom (50%)	$609	$600	+$9	$817	-$208
2-Bedroom (MR)	$781	NA	NA	$817	-$36
3-Bedroom (30%)	$393	$380	+$13	$944	-$551
3-Bedroom (40%)	$548	$535	+$13	$944	-$396
3-Bedroom (50%)	$703	$690	+$13	$944	-$241
3-Bedroom (MR)	$901	NA	NA	$944	-$43
4-Bedroom (30%)	$432	$412	+$20	$1,046	-$614
4-Bedroom (40%)	$605	$585	+$20	$1,046	-$441
4-Bedroom (50%)	$777	$757	+$20	$1,046	-$269
4-Bedroom (MR)	$998	N/A	NA	$1,046	-$48

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: The vacancy rate in the primary market area is 3.04% (p. 38)
Absorption Projections: "…given the large unit sizes, strong demand estimates, competitive rents and competitive amenities...this project should be able to lease at a minimum rate of 21 units per month." (p. 60)
Known Planned Development: "According to the Houston Planning and Development Department, there are no multi-family rental properties proposed within the borders of the primary market area" (p. 45)
The Underwriter found the market study to provide sufficient information to make an Underwriting recommendation.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: The site is comprised of two irregularly-shaped parcels located in north Houston, approximately ten miles from the central business district. The site is situated on the west side of Alcorn Street.
Population: The estimated 2000 population of the primary market area was 94,433 and is expected to increase by 6.2% to approximately 100,241 by 2006. Within the primary market area there were estimated to be 27,726 households in 2000.
Adjacent Land Uses: Land uses in the overall area in which the site is located are predominantly older mixed use properties. To the north and east is single family, to the south is an existing business and to the west is vacant land.
Site Access: Access to the property is from the east or west along Tidwell Road or north and south on Alcorn Street. The development has two main entries, the main one from Tidwell and the other from Alcorn. Access to Highway 59 is one mile west, which provides connections to all other major roads serving the Houston area.
Public Transportation: Public transportation is available through the METRO city bus system.
Shopping & Services: Shopping is located within a half mile of the site, as are restaurants and other retail establishments. Garcia Elementary School is 0.2 miles away, Sam Houston High School is 0.7 miles away and Burbank Middle School is 1.4 miles away. Houston Community Hospital is 3.3 miles from the site and Doctor's Hospital Parkway is 3.1 miles away.
Site Inspection Findings: TDHCA staff performed a site inspection on May 8, 2002 and found the location to be acceptable for the proposed development.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORTS

A Phase I Environmental Site Assessment report dated February 28, 2002 was prepared by Professional Service Industries, Inc. The study concluded that there are no environmental risks to the site and no further assessment of recognized environmental conditions appears warranted at this time.

OPERATING PROFORMA ANALYSIS

Income: The Applicant's rent projections are slightly higher than the maximum rents allowed under LIHTC guidelines for all the tax credit units because the Applicant used utility allowances that predated what the Underwriter used, and had verified with the City of Houston's Housing Office. As a result, the Applicant's potential gross income was $29,472 higher than the Underwriter's. Both the Underwriter and the Applicant used $10 per unit per month in secondary income and a vacancy and collection loss factor of 7.5%.

Expenses: The Applicant's estimate of total operating expense is 7% lower than the Underwriter's TDHCA database-derived estimate. The Applicant's budget shows several line item estimates that deviate significantly when compared to the adjusted database averages, particularly general and administrative ($25K lower), repairs and maintenance ($10.2K lower), payroll (19.5K lower), utilities (which were $16.5K lower) and insurance ($7.9K lower). The Applicant's insurance estimate of $0.12 per net rentable square foot appears extremely low in light of current trends. These were somewhat offset by the Applicant estimating a property tax value $15.2K higher than the Underwriter. The Applicant overstated compliance fees by $900 and understated supportive services fees by $500 and also used $250/unit in replacement reserves instead of the TDHCA guideline of $200; no requirement for this amount was noted in the financing commitments.

Conclusion: The Applicant's total estimated operating expense is inconsistent with the Underwriter's expectations and the Applicant's net operating income (NOI) is not within 5% of the Underwriter's estimate. Therefore, the Underwriter's NOI will be used to evaluate debt service capacity. Due primarily to the difference in estimated operating expenses, the Underwriter's estimated debt coverage ratio (DCR) of 0.96 is significantly lower than the program minimum standard of 1.10. As the secondary loan is repayable on a cash flow basis, the Underwriter has not included its debt service in the calculation of maximum allowable debt. Therefore, the maximum first lien-only debt service for this project should be limited to $395,990 by a reduction of the loan amount and/or a reduction in the interest rate and/or an extension of the term.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: The site cost of $399,079 ($52,312 per acre) for one parcel and $533,174 ($81,425 per acre) for the other parcel is assumed to be reasonable since the acquisitions are arm's-length transaction.

Sitework Cost: The Applicant's claimed sitework costs of $5,297 per unit are considered reasonable compared to historical sitework costs for multifamily projects.

Direct Construction Cost: The Applicant's direct construction cost estimate is $443,578 or 6% lower than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate.

Indirect Construction Costs: The Applicant included $25K in soft contingency allowance, which the Underwriter combined with hard cost contingency allowance. This resulted in the combined contingency allowance exceeding the TDHCA 5% maximum guideline by $18,750, with this overage being effectively removed from eligible basis.

Fees: The Applicant's contractor's and developer's fees for general requirements, general and administrative expenses and profit are all within the maximums allowed by TDHCA guidelines.

Conclusion: The Applicant's total project cost estimate is within 5% of the Underwriter's verifiable estimate and is therefore generally acceptable. The Applicant's total project cost estimate of $78,774 per unit, or $68.81 per square foot appears acceptable for this product type. The Applicant is requesting $1,048,837 in tax credits, however, they utilized an applicable percentage fraction of 8.15% which is below the Department underwriting rate of 8.44% for projects received in March 2002. As a result of the adjustment to the Applicant's applicable percentage, a credit allocation of $1,084,340 resulted from this method. This represents a $35K or 3.4% increase over the original request.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with four types of financing from four sources: a conventional interim to permanent loan, a private loan, syndicated LIHTC equity and deferred developer's fees.

Conventional Interim to Permanent Loan: There is a commitment for interim to permanent financing through PNC Bank in the amount of $5,142,300 during both the interim period and at conversion to permanent. The commitment letter indicated a term of two years for the construction portion and 18 years for the permanent, with a 30-year amortization schedule. The loans will close simultaneously and will bear interest at a fixed rate defined as the 15-year interpolated U.S. Treasury rate, currently estimated at 7.75%.

Private Loan: The Hou-Dal Affordable Housing Corporation will be providing additional funding of $150,000 as assistance for the 56 30% AMI units. The interest rate will be fixed at 5% with a term and amortization schedule of 30 years. Repayment will be made from available cash flow after primary debt service.

LIHTC Syndication: Columbia Housing has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $8,337,420 based on a syndication factor of 79%. The funds would be disbursed in a 2-phased pay-in schedule:

1. 85% upon admission to the partnership. However this amount will be funded in monthly installments upon meeting certain benchmarks and monthly construction draws.
2. 15% upon completion of construction.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $234,473 amount to 14% of the total fees.

Financing Conclusions: The Applicant's total development cost estimate is within 5% of the Underwriter's verifiable estimate and is therefore generally acceptable. Since the Underwriter has been able to verify the Applicant's projected costs to a reasonable margin, the Applicant's total cost breakdown, as adjusted, is used to calculate eligible basis and determine the LIHTC allocation. As a result an eligible basis of $12,443,704 is used to determine a credit allocation of $1,084,340 from this method. This is $35,303 more than initially requested due to the Applicant's use of a lower applicable percentage of 8.15% rather than the 8.44% underwriting rate used for applications received in March 2002. The resulting syndication proceeds will be used to compare to the gap of need using the Applicant's costs to determine the recommended credit amount. The Underwriter's analysis reflects that the debt service will likely be capped at $395,990 for the primary loan, which would result in a debt amount of approximately $4,606,166. Based on the Underwriter's analysis, $488,389, or 30%, of the developer fee would need to be deferred. This amount is repayable in less than ten years. Should the Applicant's final direct construction cost exceed the cost estimate used to determine credits in this analysis, additional deferred developer's fee should be available to fund those development cost overruns.

REVIEW of ARCHITECTURAL DESIGN

The units are in two-story walk-up structures with mixed brick and Hardiboard siding exterior finish and pitched roofs. The exterior elevations are functional and attractive, with varied rooflines and dormer windows. All units are above average size for market rate and LIHTC units and have covered patios or balconies with small outdoor storage closets. Each unit has an exterior entry either from an exterior stairway or off a breezeway that is shared with three other units. The density for the property is 13.2 units per acre. However due to the shape of the site, some of the land is not conducive for apartment buildings, causing the Applicant to reduce the amount of open space to maximize the site. A one quarter acre section of the property adjacent to Alcorn Street is not part of the purchase and will not be owned by the Applicant. However, the site plan submitted by the Applicant shows that section as part of the development plan and one building appears to be on or immediately adjacent to that portion of the site. Receipt, review and acceptance of a revised site plan showing that section of land as separate from the Applicant's development plan is a condition of the report.

IDENTITIES of INTEREST

The Developer, KRR Construction, Inc. is also the General Partner. The General Contractor, Picerne Construction Corporation, shares common principals with the property manager and supportive services provider, Picerne Management Corporation. These are common relationships for LIHTC-funded developments.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights:

- The Applicant is a single-purpose entity created for the purpose of receiving assistance from TDHCA and therefore has no material financial statements.

- The Developer and General Partner, KRR Construction, Inc., submitted an unaudited financial statement as of February 5, 2002 reporting total assets of $10,357,115 and consisting of $100,692 in cash, $9,807,000 in receivables, $10,120 in stocks and securities, $425,750 in machinery, equipment and fixtures, and $13,553 in partnership interests. Liabilities totaled $56,600, resulting in a net worth of $10,300,515.

Background & Experience:

- Joseph Kemp and KRR Construction have completed nine LIHTC housing developments totaling 1,800 units since 1997.

SUMMARY OF SALIENT RISKS AND ISSUES

- The Applicant's estimated operating expenses and operating income are more than 5% outside of the Underwriter's verifiable ranges.
- The significant financing structure changes being proposed have not been reviewed or accepted by the Applicant, lenders and syndicators, and acceptable alternative structures may exist.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $1,084,340 ANNUALLY FOR TEN YEARS, SUBJECT TO CONDITIONS.

CONDITIONS

1. Receipt, review and acceptance of a revised permanent loan commitment reflecting a maximum first lien debt service amount not to exceed $395,990.
2. Receipt, review and acceptance of a revised site plan showing the one quarter acre section of land adjacent to Alcorn Street, that will be owned by a separate entity, as not part of the development plan or site control documentation for that parcel.

Underwriter:	____________ *Mark Fugina*	**Date:**	June 11, 2002
Credit Underwriting Supervisor:	____________ *Jim Anderson*	**Date:**	June 11, 2002
Director of Credit Underwriting:	____________ *Tom Gouris*	**Date:**	June 11, 2002

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Heatherbrook, Houston, LIHTC #02147

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC30%	24	2	2	1,035	$402	$332	$7,968	$0.32	$70.00	
TC40%	24	2	2	1,035	536	466	11,184	0.45	70.00	
TC50%	10	2	2	1,035	670	600	6,000	0.58	70.00	
MKT	14	2	2	1,035	535	742	10,388	0.72	70.00	
TC30%	24	3	2	1,189	465	380	9,120	0.32	85.00	
TC40%	24	3	2	1,189	620	535	12,840	0.45	85.00	
TC50%	10	3	2	1,189	775	690	6,900	0.58	85.00	
MKT	14	3	2	1,189	719	890	12,460	0.75	85.00	
TC30%	8	4	2	1,292	518	412	3,296	0.32	106.00	
TC40%	8	4	2	1,292	691	585	4,680	0.45	106.00	
TC50%	8	4	2	1,292	863	757	6,056	0.59	106.00	
MKT	8	4	2	1,292	960	998	7,984	0.77	106.00	
TOTAL:	176		**AVERAGE:**	1,145	$596	$562	$98,876	$0.49	$82.68	$0.00

INCOME	Total Net Rentable Sq Ft: 201,472		**TDHCA**	**APPLICANT**		
POTENTIAL GROSS RENT			$1,186,512	$1,215,984		
Secondary Income	Per Unit Per Month:	$10.00	21,120	21,120	$10.00	Per Unit Per Month
Other Support Income:			0	0		
POTENTIAL GROSS INCOME			$1,207,632	$1,237,104		
Vacancy & Collection Loss	% of Potential Gross Income:	-7.50%	(90,572)	(92,784)	-7.50%	of Potential Gross Rent
Employee or Other Non-Rental Units or Concessions			0			
EFFECTIVE GROSS INCOME			$1,117,060	$1,144,320		

EXPENSES		% OF EGI	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% OF EGI
General & Administrative		5.20%	$330	$0.29	$58,110	$33,100	$0.16	$188	2.89%
Management		5.00%	317	0.28	55,853	57,216	0.28	325	5.00%
Payroll & Payroll Tax		13.74%	872	0.76	153,472	134,000	0.67	761	11.71%
Repairs & Maintenance		6.00%	381	0.33	67,064	56,880	0.28	323	4.97%
Utilities		3.99%	253	0.22	44,529	28,000	0.14	159	2.45%
Water, Sewer, & Trash		5.18%	329	0.29	57,834	60,800	0.30	345	5.31%
Property Insurance		2.89%	183	0.16	32,236	24,300	0.12	138	2.12%
Property Tax	2.882603	14.71%	934	0.82	164,330	179,500	0.89	1,020	15.69%
Reserve for Replacements		3.15%	200	0.17	35,200	44,000	0.22	250	3.85%
Other: spt svcs, compl. fees		1.14%	72	0.06	12,700	12,300	0.06	70	1.07%
TOTAL EXPENSES		60.99%	$3,871	$3.38	$681,327	$630,096	$3.13	$3,580	55.06%
NET OPERATING INC		39.01%	$2,476	$2.16	$435,733	$514,224	$2.55	$2,922	44.94%
DEBT SERVICE									
First Lien Mortgage		39.58%	$2,512	$2.19	$442,081	$442,081	$2.19	$2,512	38.63%
Hou-Dal Affordable Housing Corp		0.87%	$55	$0.05	9,663	9,887	$0.05	$56	0.86%
Additional Financing		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
NET CASH FLOW		-1.43%	($91)	($0.08)	($16,011)	$62,256	$0.31	$354	5.44%
AGGREGATE DEBT COVERAGE RATIO					0.96	1.14			
ALTERNATIVE FIRST LIEN-ONLY DEBT COVERAGE RATIO					1.10				

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		6.44%	$5,297	$4.63	$932,254	$932,254	$4.63	$5,297	6.72%
Off-Sites		0.00%	0	0.00	0		0.00	0	0.00%
Sitework		7.10%	5,838	5.10	1,027,507	1,027,507	5.10	5,838	7.41%
Direct Construction		53.33%	43,868	38.32	7,720,834	7,277,256	36.12	41,348	52.49%
Contingency	4.96%	3.00%	2,466	2.15	433,988	433,988	2.15	2,466	3.13%
General Requiremen	5.61%	3.39%	2,789	2.44	490,785	490,785	2.44	2,789	3.54%
Contractor's G & A	1.87%	1.13%	930	0.81	163,595	163,595	0.81	930	1.18%
Contractor's Profi	5.61%	3.39%	2,789	2.44	490,785	490,785	2.44	2,789	3.54%
Indirect Construction		3.65%	3,006	2.63	529,050	529,050	2.63	3,006	3.82%
Ineligible Costs		3.22%	2,652	2.32	466,673	466,673	2.32	2,652	3.37%
Developer's G & A	3.60%	2.81%	2,310	2.02	406,476	406,476	2.02	2,310	2.93%
Developer's Profit	10.81%	8.42%	6,929	6.05	1,219,428	1,219,428	6.05	6,929	8.80%
Interim Financing		2.95%	2,423	2.12	426,396	426,396	2.12	2,423	3.08%
Reserves		1.18%	971	0.85	170,867		0.00	0	0.00%
TOTAL COST		100.00%	$82,265	$71.86	$14,478,638	$13,864,193	$68.81	$78,774	100.00%
Recap-Hard Construction Costs		*71.33%*	***$58,679***	***$51.26***	***$10,327,494***	***$9,883,916***	***$49.06***	***$56,159***	*71.29%*

SOURCES OF FUNDS

	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	RECOMMENDED
First Lien Mortgage	35.52%	$29,218	$25.52	$5,142,300	$5,142,300	$4,606,166
Hou-Dal Affordable Housing Corp	1.04%	$852	$0.74	150,000	150,000	150,000
LIHTC Syndication Proceeds	57.58%	$47,372	$41.38	8,337,420	8,337,420	8,619,638
Deferred Developer Fees	1.62%	$1,332	$1.16	234,473	234,473	488,389
Additional (excess) Funds Requirec	4.24%	$3,491	$3.05	614,445	0	0
TOTAL SOURCES				$14,478,638	$13,864,193	$13,864,193

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook
Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$39.38	$7,933,068
Adjustments				
Exterior Wall Finish	6.39%		$2.52	$506,923
Elderly			0.00	0
Roofing			0.00	0
Subfloor			(0.98)	(197,443)
Floor Cover			1.82	366,679
Porches/Balconies	$25.02	10,920	1.36	273,164
Plumbing	$585	528	1.53	308,880
Built-In Appliances	$1,550	176	1.35	272,800
Stairs	$1,550	62	0.48	96,100
Floor Insulation			0.00	0
Heating/Cooling			1.41	284,076
Garages/Carports		0	0.00	0
Comm &/or Aux Bldgs	$58.44	2,764	0.80	161,532
Other:			0.00	0
SUBTOTAL			49.66	10,005,779
Current Cost Multiplier	1.04		1.99	400,231
Local Multiplier	0.91		(4.47)	(900,520)
TOTAL DIRECT CONSTRUCTION COSTS			$47.18	$9,505,490
Plans, specs, survy, bld p	3.90%		($1.84)	($370,714)
Interim Construction Inte	3.38%		(1.59)	(320,810)
Contractor's OH & Profit	11.50%		(5.43)	(1,093,131)
NET DIRECT CONSTRUCTION COSTS			$38.32	$7,720,834

PAYMENT COMPUTATION

Primary	$5,142,300	Term	360
Int Rate	7.75%	DCR	0.99

Secondary	$150,000	Term	360
Int Rate	5.00%	Subtotal DCR	0.96

Additional	$8,337,420	Term	
Int Rate		Aggregate DCR	0.96

RECOMMENDED FINANCING STRUCTURE:

Primary Debt Service	$395,990
Secondary Debt Service	9,663
Additional Debt Service	0
NET CASH FLOW	$30,080

Primary	$4,606,166	Term	360
Int Rate	7.75%	DCR	1.10

Secondary	$150,000	Term	360
Int Rate	5.00%	Subtotal DCR	1.07

Additional	$8,337,420	Term	0
Int Rate	0.00%	Aggregate DCR	1.07

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$1,186,512	$1,222,107	$1,258,771	$1,296,534	$1,335,430	$1,548,129	$1,794,706	$2,080,556	$2,796,093
Secondary Income	21,120	21,754	22,406	23,078	23,771	27,557	31,946	37,034	49,771
Other Support Income:	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	1,207,632	1,243,861	1,281,177	1,319,612	1,359,200	1,575,686	1,826,652	2,117,590	2,845,864
Vacancy & Collection Loss	(90,572)	(93,290)	(96,088)	(98,971)	(101,940)	(118,176)	(136,999)	(158,819)	(213,440)
Employee or Other Non-Rental	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$1,117,060	$1,150,571	$1,185,089	$1,220,641	$1,257,260	$1,457,509	$1,689,653	$1,958,771	$2,632,424
EXPENSES at 4.00%									
General & Administrative	$58,110	$60,434	$62,851	$65,365	$67,980	$82,708	$100,627	$122,428	$181,223
Management	55,853	57,529	59,254	61,032	62,863	72,875	84,483	97,939	131,621
Payroll & Payroll Tax	153,472	159,611	165,995	172,635	179,541	218,439	265,764	323,342	478,626
Repairs & Maintenance	67,064	69,746	72,536	75,438	78,455	95,453	116,133	141,293	209,149
Utilities	44,529	46,310	48,163	50,089	52,093	63,379	77,110	93,816	138,871
Water, Sewer & Trash	57,834	60,148	62,554	65,056	67,658	82,316	100,150	121,848	180,365
Insurance	32,236	33,525	34,866	36,261	37,711	45,881	55,821	67,915	100,531
Property Tax	164,330	170,903	177,739	184,849	192,243	233,893	284,566	346,219	512,488
Reserve for Replacements	35,200	36,608	38,072	39,595	41,179	50,101	60,955	74,161	109,777
Other	12,700	13,208	13,736	14,286	14,857	18,076	21,992	26,757	39,607
TOTAL EXPENSES	$681,327	$708,022	$735,767	$764,605	$794,579	$963,120	$1,167,601	$1,415,718	$2,082,257
NET OPERATING INCOME	$435,733	$442,550	$449,321	$456,036	$462,681	$494,389	$522,051	$543,053	$550,167
DEBT SERVICE									
First Lien Financing	$395,990	$395,990	$395,990	$395,990	$395,990	$395,990	$395,990	$395,990	$395,990
Second Lien	9,663	9,663	9,663	9,663	9,663	9,663	9,663	9,663	9,663
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$30,080	$36,897	$43,669	$50,383	$57,029	$88,737	$116,399	$137,400	$144,515
DEBT COVERAGE RATIO	1.07	1.09	1.11	1.12	1.14	1.22	1.29	1.34	1.36

LIHTC Allocation Calculation - Heatherbrook, Houston, LIHTC #02147

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost				
Purchase of land	$932,254	$932,254		
Purchase of buildings				
(2) Rehabilitation/New Construction Cost				
On-site work	$1,027,507	$1,027,507	$1,027,507	$1,027,507
Off-site improvements				
(3) Construction Hard Costs				
New structures/rehabilitation ha	$7,277,256	$7,720,834	$7,277,256	$7,720,834
(4) Contractor Fees & General Requirements				
Contractor overhead	$163,595	$163,595	$163,595	$163,595
Contractor profit	$490,785	$490,785	$490,785	$490,785
General requirements	$490,785	$490,785	$490,785	$490,785
(5) Contingencies	$433,988	$433,988	$415,238	$433,988
(6) Eligible Indirect Fees	$529,050	$529,050	$529,050	$529,050
(7) Eligible Financing Fees	$426,396	$426,396	$426,396	$426,396
(8) All Ineligible Costs	$466,673	$466,673		
(9) Developer Fees			$1,623,092	
Developer overhead	$406,476	$406,476		$406,476
Developer fee	$1,219,428	$1,219,428		$1,219,428
(10) Development Reserves		$170,867		
TOTAL DEVELOPMENT COSTS	$13,864,193	$14,478,638	$12,443,704	$12,908,844

Deduct from Basis:			
All grant proceeds used to finance costs in eligible basis			
B.M.R. loans used to finance cost in eligible basis			
Non-qualified non-recourse financing			
Non-qualified portion of higher quality units [42(d)(3)]			
Historic Credits (on residential portion only)			
TOTAL ELIGIBLE BASIS		$12,443,704	$12,908,844
High Cost Area Adjustment		130%	130%
TOTAL ADJUSTED BASIS		$16,176,815	$16,781,498
Applicable Fraction		79.42%	79.42%
TOTAL QUALIFIED BASIS		$12,847,627	$13,327,866
Applicable Percentage		8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS		$1,084,340	$1,124,872
Syndication Proceeds	**0.7949**	**$8,619,638**	**$8,941,837**

TDHCA

02160

Region 6

Rural
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM

2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Green Manor Apartments** TDHCA #: **02160**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 2000 4th Street
City: Hempstead
County: Waller
Zip Code: 77445

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

LIHTC Primary Set Aside: R
Additional Elderly Set Aside ☐
Purpose / Activity: ACQ/R
Development Type: Family
☐ TTC ☐ DDA ☐ QCT

Special Needs: 3 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: FDI-GM 2002, Ltd.

Principal Names:	Principal Contact:	Percentage Ownership:
Fieser Real Estate Investments, Inc.	James W. Fieser	100 %
		%
		%
		%
James W. Fieser	James W. Fieser	10 %

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$63,915** Allocation over 10 Years: $639,150

Credits Requested: $87,971 Eligible Basis Amount: $70,511 Equity/Gap Amount: $63,915

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	0	0	0	0	0
40%	0	0	0	0	0	0	0
50%	0	8	32	0	0	0	40
60%	0	0	0	0	0	0	0
MR	0	0	0	0	0	0	0
Total	0	8	32	0	0	0	

Total LI Units: 40
Owner/Employee Units: 0
Total Project Units: 40
Applicable Fraction: 100.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost: **$1,488,522**
Gross Building Square Feet: 32,204
Total NRA SF: 30,576
Gross/Net Rentable: 1.05
Average Square Feet/Unit: 764
Cost Per Net Rentable Square Foot: $48.68
Credits per Low Income Unit $1,598

INCOME AND EXPENSE INFORMATION

Effective Gross Income: $150,072
Total Expenses: $111,862
Net Operating Income: $38,210
Estimated 1st Year Debt Coverage Ratio: 1.47

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer: Fieser Development, Inc.
Housing GC: D.W. & S. Construction, Inc.
Infrastructure GC: NA
Cost Estimator: NA
Architect: Architectural Design Services
Property Manager: Hamilton Valley Management, Inc.
Engineer: NA
Syndicator: Midland Equity Corporation

Market Analyst: The Gerald Teel Company
Originator/UW: NA
Appraiser: The Gerald Teel Company
Attorney: NA
Supp Services: NA
Accountant: Marshall & Shafer, PC
Permanent Lender: USDA

DEPARTMENT EVALUATION

Points Awarded: 67 Site Review: Acceptable Underwriting Finding: A

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommendec

Project Name: Green Manor Apartments — Project Number: 02160

PUBLIC COMMENT SUMMARY

Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials): Support: **0** Opposition: **0**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:		Comment from Other Public Official
Local Official:	Hayden Barry, Mayor, S	
TX Rep.:	Tommy Williams, Dist. 15	
TX Sen.:	Steve Ogden, Dist. 5	
US Rep.:		
US Sen.:		

CONDITIONS TO COMMITMENT

Receipt, review, and acceptance of confirmation that TXRD/USDA has approved the loan transfer on an existing terms basis. Should the terms of the TXRD loan change a re-evaluation of the conclusions herein should be conducted.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☐ Score ☑ Meeting Required Set Aside ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This development is in the TxRD Set Aside. Because the TxRD Set Aside is undersubscribed it is necessary that all TxRD Developments recommended by Underwriting be recommended to the Board.

Brooke Boston, Acting LIHTC Co-Manager — Date

David Burrell, Director of Housing Programs — Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director
Chairman of Executive Award and Review Advisory Committee — Date

☐ BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):

Approved Credit Amount: ______ Date of Determination: ______

Michael E. Jones, Chairman of the Board — Date

Compliance Status Summary

Project ID #: 02160 LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Green Manor Apartments HOME ☐ HTF ☐

Project City: BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 0 # not yet monitored or pending review 3

of projects grouped by score 0-9: 0 10-19: 0 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received N/A

Non-Compliance Reported

Completed by Jo En Taylor **Completed on** 04/25/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ no outstanding issues ☐ outstanding issues ☐

Comments:

Completed by Lucy Trevino **Completed on** 05/23/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by Ralph Hendrickson **Completed on** 04/30/2002

Community Affairs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Programs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☑ reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: May 13, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02160

DEVELOPMENT NAME

Green Manor Apartments

APPLICANT

Name: FDI-GM 2002, Ltd. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 26735 Stockdick School Road **City:** Katy **State:** TX

Zip: 77493 **Contact:** James W Fieser **Phone:** (281) 371-0998 **Fax:** (281) 371-2470

PRINCIPALS of the APPLICANT

Name	(%)	Title
Fieser Real Estate Investment, Inc.	0.01	Managing General Partner
Midland Equity Corp.	99.99	Limited Partner
James W Fieser	N/A	100% owner GP

GENERAL PARTNER

Name: Fieser Real Estate Investment, Inc. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 26735 Stockdick School Road **City:** Katy **State:** TX

Zip: 77493 **Contact:** James W Fieser **Phone:** (281) 371-0998 **Fax:** (281) 371-2470

PROPERTY LOCATION

Location: 2000 4th Street ☐ **QCT** ☐ **DDA**

City: Hempstead **County:** Waller **Zip:** 77445

REQUEST

Amount	Interest Rate	Amortization	Term
$87,971	N/A	N/A	N/A

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: Acquisition/Rehabiliitation **Set-Aside:** ☐ General ☒ Rural ☐ Non-Profit

SITE DESCRIPTION

Size: 1.4348 acres 62,500 square feet **Zoning/ Permitted Uses:** R-3

Flood Zone Designation: Zone C **Status of Off-Sites:** Fully Improved

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
CREDIT UNDERWRITING ANALYSIS

DESCRIPTION of IMPROVEMENTS

Total Units: 40 **# Rental Buildings** 5 **# Common Area Bldngs** 1 **# of Floors** 2 **Age:** 19 yrs **Vacant:** 1 at 12/ 17/ 2001

Number	Bedrooms	Bathroom	Size in SF
8	1	1	650
32	2	1	793

Net Rentable SF: 30,576 **Av Un SF:** 764 **Common Area SF:** 1,628 **Gross Bldng SF** 32,204

Property Type: ☒ Multifamily ☐ SFR Rental ☐ Elderly ☐ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on concrete slab on grade, 80% brick veneer/20% wood siding exterior wall covering with wood trim, drywall interior wall surfaces, composite shingle roofing

APPLIANCES AND INTERIOR FEATURES

Carpeting & vinyl flooring, range & oven, hood & fan, refrigerator, fiberglass tub/shower, laminated counter tops, individual water heaters, heat pump, evaporative cooling

ON-SITE AMENITIES

Community room, laundry facilities, equipped children's play area

Uncovered Parking: 65 spaces **Carports:** N/A spaces **Garages:** N/A spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Midland Mortgage Investment Corporation **Contact:** Daniel Flick

Principal Amount: $642,831 **Interest Rate:** Prime + 1%; 6.00% minimum

Additional Information: Upon award of tax credits

Amortization: N/A yrs **Term:** 1 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: USDA **Contact:** William Taylor/ Gene Pavlat

Principal Amount: $990,038 (12/2001) **Interest Rate:** 10.75%; subsidized to 1%

Additional Information: Applicant requesting transfer of existing loan; $1,020,000 original loan amount. There are 32 years left on this loan

Amortization: 50 yrs **Term:** 50 yrs **Commitment:** ☒ None ☐ Firm ☐ Conditional

Annual Payment: $25,932 **Lien Priority:** 1st **Original Loan Date** 8/ 1/ 1983

LIHTC SYNDICATION

Source: Midland Equity Corp. **Contact:** Chris Diaz

Address: 33 N Garden Avenue **City:** Clearwater

State: FL **Zip:** 33755 **Phone:** (727) 461-4801 **Fax:** (727) 443-6067

Net Proceeds: $685,490 **Net Syndication Rate** (per $1.00 of 10-yr LIHTC) 78¢

Commitment ☐ None ☒ Firm ☐ Conditional **Date:** 02/ 14/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $184,000 **Source:** Deferred developer fee

VALUATION INFORMATION

APPRAISED VALUE

Land Only:	$27,007	**Date of Valuation:**	02/ 13/ 2002
Total: as is subject to unrestricted rents	$1,410,000	**Date of Valuation:**	02/ 25/ 2002

Appraiser: The Gerald A Teel Company, Inc. **City:** Houston **Phone:** (713) 467-5858

ASSESSED VALUE

Land:	$50,000	**Assessment for the Year of:**	2001
Building:	$270,000	**Valuation by:**	Waller County Appraisal District
Total Assessed Value:	$320,000	**Tax Rate:**	2.7704

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Earnest money contract

Contract Expiration Date: 10/ 31/ 2002 **Anticipated Closing Date:** 10/ 31/ 2002

Acquisition Cost: $ 1,190,038 **Other Terms/Conditions:** $500 earnest money; $200K cash to seller

Seller: Green Manor Apartments, Ltd. **Related to Development Team Member:** Yes

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Green Manor is a proposed acquisition and rehabilitation development of 40 units of affordable housing located in Hempstead. The development was built in 1984 and is comprised of five residential buildings as follows:

- One Building Style A with eight one-bedroom units and
- Four Building Style B with eight two-bedroom units.

Based on the site plan the apartment buildings are distributed evenly throughout the site with the community building and mailboxes located at the southwest corner of the site. The community building appears to include a large common room with kitchen and leasing/management offices.

Existing Subsidies: The development has all 40 units enrolled in the HUD Section 515 program. According to the Market Analyst:

> "Section 515 of the Housing Act provides subsidized loans to for-profit and non-profit entities to finance housing and related facilities for low and moderate-income rural renters. The government finances up to 97 percent of a project's cost at an effective interest rate of as little as one percent, amortized over 50 years.
>
> The average income of tenants of Section 515 developments is about $7,300 per year and roughly 60% are elderly households or households with individuals with disabilities. Very low-income families living in Section 515 developments may also receive rental assistance from RHS that is similar to Section 8. The maximum rents allowed per the Section 515 program are 30% or less of the median income figures. Utility allowance schedules are property specific and are approved by regional USDA offices for each USDA Section 515 property. Those properties, which are all bills paid by the landlord, will not be required to deduct any utility allowance away from the estimate of maximum monthly rents.
>
> A review of the USDA guidelines for Section 515 Housing reveals that such housing projects may

not be sold. However, conversations with Mr. Pat Sultenfuss, Chief USDA Appraiser for the State of Texas, indicates that a Section 515 property may be sold. He further states that most sales are not arm's length transactions, and that the transfer is simply a change of names in order to obtain a LIHTC loan. Mr. Sultenfuss indicated that such a change in ownership structure or name is legal under the USDA guidelines."

Development Plan: As of December 17, 2001, the development had one vacant unit which translates to an occupancy rate of 97.5%. According to the market analyst, the buildings are in average condition with average appeal. The architect's scope of work includes: accessibility work, landscaping, signage, repair of stair treads, handrails and drywall, replacement of weather stripping, gutters, toilets, sinks, fixtures, water heaters, air conditioners, screens, fans, carpeting, ranges, refrigerators and range hoods, and exterior and interior painting. The Applicant has indicated that no tenants will be relocated during the rehabilitation of the development.

Supportive Services: No supportive services are planned to be provided to tenants.

Schedule: The Applicant anticipates construction to begin in November of 2002 and to be completed in May of 2003. The project will be placed in service and substantially leased-up in May of 2003.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside. All of the units will be reserved for low-income tenants. It is proposed that all of the units will be reserved for households earning 50% or less of AMGI. The maximum rents allowed per the USDA Section 515 program are 30% or less of the median income figures. As of October 12, 2001, the development's basic rents were $280 for one-bedroom units and $340 for two-bedroom units. The Applicant does not propose changes to these rents.

Special Needs Set-Asides: Two units (5%) will be reserved for households with handicapped/developmentally disabled individuals and one unit will be equipped for tenants with hearing or visual impairments.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated February 25, 2002 was prepared by The Gerald A Teel Company, Inc. and highlighted the following findings:

Definition of Market/Submarket: "The subject neighborhood in this instance is considered the City of Hempstead and the surrounding 10-20 mile radius." (p. 28) "The overall neighborhood boundaries can be defined as the County lines to the north, the Brazos River to the west, Harris County line to the east, and Interstate 10 to the south." (p.28)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY		
Type of Demand	**Units of Demand**	**% of Total Demand**
Household Growth	3	3%
Resident Turnover (55%)	100	92%
Other Sources (two years of pent-up growth)	6	5%
TOTAL ANNUAL DEMAND	**109**	**100%**

Ref: p. 73

Capture Rate: "Overall, the estimated qualified households demand is 110 units as of December 2001. This equates to a 36.5% capture rate for the subject's 40 USDA Section 515 rental units, including probable rental turnover. A capture rate of +/-50% suggests good prospects for the subject units." (p. 72) This is an acceptable capture rate as the development is already +90% leased and located in a rural area.

Market Rent Comparables: The market analyst surveyed eight comparable apartment projects totaling 421 units in the Cities of Hempstead, Prairie View and Waller. "The projects surveyed vary in size from 26 units to 76 units. As compared to the subject, the complexes surveyed are generally considered competitive, but Clear Creek is a newer project located on US Highway 290 and is clearly superior, although it is a LIHTC project." (p. 45) "It should be noted that USDA rent restrictions are in effect for the 50-year term of the original loan, which was signed in 1983." (p. 59)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	**Proposed**	**Program Max**	**Differential**	**Market**	**Differential**
1-Bedroom (50%)	$280	$528	-$248	$360	-$80
2-Bedroom (50%)	$340	$631	-$291	$480	-$140

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: "Occupancy rates in the immediate area range from 93% to 100%, and indicate a weighted average of 97%." (p. 45)
Absorption Projections: Clear Creek is a LIHTC project that began lease-up in June 2001, and achieved stabilized occupancy in December 2001. "It is currently 98% occupied. This indicates an absorption rate of 13 units/month." (p. 45)
Known Planned Development: "To the best of our knowledge, no similar USDA projects are either under construction or planned for the subject market area. Additionally, per our discussion with the city officials of Hempstead, Prairie View and Waller, and an official of Waller County, there are no conventional or LIHTC project s proposed or under construction for the area." (p. 72) The Applicant has also submitted applications for three similar acquisition/rehabilitation developments in the same area.
The Underwriter found the market study provided sufficient information on which to base a funding recommendation.
The market analyst also provided an "as is" appraised value conclusion of $1,410,000 for the existing development. However, this value was not well-substantiated for several reasons. First and foremost, the body of the report reflects a final value of $1,240,000, which is $170K less than the final value listed in the cover letter. The difference of $170K is unexplained. Moreover, the $1.24M figure is reconciled using only the income approach strictly based on a direct capitalization method. The appraiser utilized a built-up cap rate of 3.4%, which is based on an 8% USDA allowed maximum equity return rather than the 8.73% to 12.65% equity returns extracted from comparable sales. In addition, the appraiser derived a mortgage return using the original 50-year 1% USDA loan terms whereas only 32 years remain on the existing USDA loan. Using the actual remaining term rather than the original 50 year term would increase the capitalization rate by 0.934% and reduce the value of the development based on this approach and the $42K of estimated NOI by $277K and bring it below the current outstanding loan amount. In addition, this estimated NOI projected is much greater than the $16K maximum owner return that USDA would allow for this development based upon the appraiser's information that $200,000 in equity was initially included in the development ($200,000 x 8%= $16K annual maximum return). The actual owner's return allowed in the 2001 and 2002 budgets is lower still at $4,296. Using either of these more justifiable figures as the maximum USDA allowable net operating income reduces the value of the development by this method by more than half to well under the current loan balance. Therefore the Appraiser's conclusion of value is not substantiated.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: The subject is located on the city block bound by 4th Street to the east, McDade Street to the north, 3rd Street to the west and Baker Street to the south in the southeastern quadrant of the City of Hempstead. Hempstead is located approximately 9-10 miles northwest of the Harris/Waller County line off of US 290, 45-55 miles northwest of the Houston Central Business District. Houston is located about 50 miles northwest of the Gulf of Mexico in southeast Texas.
Population: Currently, almost four million people live in the Houston metropolitan area. In 2000, Waller County had a population of 27,488, which is expected to increase to 37,796 by 2010. The immediate neighborhood had a population of 11,076 in 2000, projected at 11,913 for 2005. This equates to 3,150 households in 200 and 3,440 households in 2005.
Adjacent Land Uses: The area is developed primarily with residential concerns. Typical development consists of single- and multi-family residential, vacant SFR lots, mobile homes and the Hempstead High School campus. Adjacent land uses include:

Site Access: Immediate access to the site is from 4th Street. The subject area is accessed via US Highway 290, the primary roadway between Houston and the subject. Additionally, State Highway 6, just west of Hempstead, provides access to the main campus of the Texas A & M University, 35-45 miles northerly. Interstate 10, the primary intercoastal route from California to Florida is located about 22-25 miles to the south.

Public Transportation: The availability of public transportation is unknown.

Shopping & Services: Shopping and services within the subject area was not directly addressed by the submitted market study.

Site Inspection Findings: TDHCA staff performed a site inspection on April 9, 2002 and found it to be acceptable.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

A Phase I Environmental Site Assessment report was not included, as USDA-RD-financed projects are not required to submit this report.

OPERATING PROFORMA ANALYSIS

Income: Both the Applicant's and the Underwriter's potential gross rent estimates are based on the development's current basic rents under the USDA Section 515 program of $280 for one-bedroom units and $340 for two-bedroom units. It should be noted that an additional $11,296 per month in potential gross income could be achieved if the project could collect the maximum LIHTC net rents of $528 for one-bedroom units and $631 for two-bedroom units. The Applicant's use of an understated $3 per unit per month in secondary income could not be supported by the development's historical operating statements. Therefore, the Underwriter included $10 per unit per month in secondary income to calculate an effective gross income estimate that is within 5% of the Applicant's estimate.

Expenses: The Applicant's total annual operating expense estimate is $6K, or just over 5%, less than the Underwriter's TDHCA database-derived estimate. Although adjusted to reflect the development's historical operating levels, many of the Applicant's line-item expenses differed by more than 5% or $1,500 as compared to the Underwriter's estimates. These include: general and administrative ($4K lower), repairs and maintenance ($10K higher), and reserve for replacements ($2K lower). It should be noted that the Underwriter's estimates were in line with the development's historical operating expenses with the exception of repairs and maintenance for which the 2001 historical expense was $11K higher and payroll and payroll expense which was also higher by $10K. Repairs and maintenance expense costs should be anticipated to move downward toward the state wide averages for similar sized developments once the rehabilitation is completed and the payroll costs are anticipated to be reduced to IREM based levels with new ownership.

Conclusion: Overall, the Applicant's net operating income estimate is more than 5% higher than the Underwriter's estimate; therefore, the Underwriter's estimate will be used to determine the project's ability to service debt. This results in a debt coverage ratio (DCR) of 1.47, which is well over the Department's DCR guideline of 1.10 to 1.25, but only allows a nominal $12,275 in net cashflow. USDA monitors for cashflow distribution and adjusts its basic rents in order to limit a return to the owner to not more than 8% of the owner's initial equity investment in the development. Any end of the year excess beyond this maximum amount is transferred to reserves, which are also heavily monitored by USDA. Therefore, any excess debt coverage ratio issues that transpire will be dealt with by USDA. Moreover requiring another loan to absorb the excess cash flow would only serve to provide $4,631 in debt service and allow, at 8% interest and a 30 year term, an additional $52,594 in debt.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: According to the market analyst, "A review of the USDA guidelines for Section 515 Housing reveals that such housing projects may not be sold. However, conversations with Mr. Pat Sultenfuss, Chief USDA Appraiser for the State of Texas, indicates that a Section 515 property may be sold. He further states that most sales are not arm's length transactions, and that the transfer is simply a change of names in order to obtain a LIHTC loan. Mr. Sultenfuss indicated that such a change in ownership structure or name is legal under the USDA guidelines."

The land cost of $50,000 included in the submitted cost breakdown is high compared to the appraised value of $27,007. However, the tax assessed value for the land is $50,000. The indicated total acquisition price of $1,190,038 is low compared to the appraised value of $1,410,000, but high compared to the tax-assessed value of $320,000. As discussed in the Market Highlights section above, the appraised value is $120K overstated by its own conclusion and significantly more overstated than that when either a more appropriate cap rate is used or the USDA's maximum allowable return to owner is used as the property's restricted NOI. In addition, $990,038 in principal remains to be paid-off on the existing loan. Although not related to the Applicant, the president of the seller is also the president of the general contractor and, therefore, the proposed sale is categorized as an identity of interest sale. The Underwriter requested additional support for the sales price in excess of the loan payoff amount, but the Applicant indicated that none was available.

The Applicant subsequently provided a letter dated May 2, 2002 which reflects: "…Boston Capital has requested $245,000 to agree to the sale. The acquisition price was increased by $150,000 and the balance will have to be negotiated or paid from Developer Fees…There will be a tax issue on the sale of the properties. If the partnerships have to incur a tax liability it does not make economic sense to agree to the sale unless the sales price will generate the funds to pay taxes, etc." Attached to this letter is a letter dated May 1, 2002 from Katherine Alitz, Senior Real Estate Analyst with Boston Capital. This letter sets out to explain that with the proposed sale there would be a tax liability of at least $100,589, which may increase with the passage of time and continued decrease in the adjusted basis of the building. The following calculation example was provided and next to it the Underwriter has proposed an alternative calculation example if the property was to be transferred at the mortgage only value.

	Boston Capital Example	Underwriter's Example
Mortgage Balance	$ 986,713	$ 986,713
Cash	245,000	-0-
Total Sales Price	$1,231,713	$ 986,713
Less Transaction Costs	-0-	-0-
Less Adjusted Building Basis	($777,357)	($777,357)
Less Land Basis	($52,000)	($52,000)
Taxable Gain on Sale	$ 402,356	$ 157,356
Capital Gain Tax Liability @ 25%	$100,589	$ 39,339

This illustrates that the tax liability would significantly decrease if the inflated acquisition price were reduced to the approximate loan balance. Moreover it suggests that the partnerships interest in the building is now only $777,357 while the un-depreciated basis in the land is $52,000 or even more than the current assessed value.

The Underwriter has utilized the documented unpaid principal balance, $990,038, as of December 31, 2001 as the total acquisition price for the project. Less the documented assessed value of $50K for the underlying land, this amounts to a qualified acquisition cost of $940,038, which is $200K less than the Applicant's figure. This is consistent with USDA regarding their own refinancing of such projects up to the lesser of the appraised value or existing loan amount. According to Mr. Gene Pavlat, Multi-Family Director for Texas Rural Development, USDA, a higher transfer price may be allowed only where the seller can show that the tax liability for the transfer is greater than the tax liability for foreclosure. In such a case the difference in tax liability amounts as documented by the seller's CPA may be used to increase the transfer price. Neither the Applicant nor the seller have indicated that this is the situation in this case.

Site Work Cost: Because the subject is an existing development, minimal site work should be needed. Therefore, $735 per unit in site work costs appears to be reasonable.

Direct Construction Cost: The Applicant's direct construction costs were substantiated by a third party work write-up and, while low at only $5,265 per unit, are considered to be reasonable as presented.

Fees: The Applicant did not claim eligible developer fees for acquisition of the existing buildings. However, the developer fees associated with the rehabilitation of the development exceed 15% of the Applicant's adjusted eligible basis. Since this is an identity of interest transaction, a developer fee for acquisition would be difficult to substantiate as the buyer will not be able to show a significant expenditure of resources to locate the property, place it under contract and conduct acquisition due diligence. Therefore none of the excess developer fee on the rehabilitation side can be moved to the acquisition side of eligible basis. As a result, the eligible potion of the Applicant's developer fee must be reduced by $171K. Since this reduction stems from the 9% credit side of the eligible basis/credit calculation, it will have a more pronounced effect on the recommended credits.

Conclusion: Overall, the Applicant's total development cost exceeds the Underwriter's estimate by $373K. Because this difference is more than 5% above the verifiable range, the Underwriter's total development cost estimate will be used to calculate the development's eligible basis and need for funding. It should be noted that the development's site work costs combined with direct construction costs is equal to the $6,000 per unit minimum for hard costs under the 2002 QAP suggesting a minimal need for rehabilitation.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with four types of financing: a conventional interim loan, transfer of an existing USDA permanent loan, syndicated LIHTC equity and deferred developer's fees.

Construction Financing: Midland Mortgage Investment Corporation will provide an interim construction loan of $642,831 for a term of 12 months with interest only payments at a rate of Prime plus 1% or a minimum of 6%.

Permanent Financing: The development was financed in 1983 through the USDA Section 515 program. The original loan terms included a loan amount of $1,020,000 with a 10.75% interest rate subsidized to 1% and amortized over 50 years. As of December 31, 2001, the principal remaining was $990,038.39. The Applicant plans to assume the loan and has written a letter addressed to Gene Pavlat, Multifamily Program Director of Rural Development, USDA, indicating intent to pursue transfer and rehabilitation of the property. According to Mr. Pavlat, transfers of this kind are not unusual and do not require significant USDA approval or even a USDA approved appraisal so long as the rates and terms of the USDA loan does not change and no new loans or write-downs are required.

LIHTC Syndication: Midland Equity Corporation has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $685,490 based on a syndication factor of 78%. The funds would be disbursed in a three-phased pay-in schedule:

1. 85% upon completion of the development;
2. 5% upon receipt of cost and credit certification; and
3. 10% upon closing of the permanent loan, receipt of Forms 8609 or 90% physical occupancy by eligible tenants.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $184,000 amount to 81% of the total proposed fees. This should have made them ineligible for any deep rent targeting selection points. In addition this level of deferred developer fee does not appear to be repayable within 15 years even with the Underwriter's higher NOI and therefore the Applicant's scenario as presented is infeasible.

Financing Conclusions: As stated above, the Underwriter's total development cost estimate was used to calculate the project's eligible basis and need for funding. The Underwriter's total acquisition and rehabilitation eligible basis calculation resulted in a basis that is $371,006 less than the Applicant's estimate. This difference is due to several factors:

1. Based on the information presented in the application, the Underwriter could not justify a total acquisition cost that exceeds the current loan payoff amount of $990,038, or $200K less than the Applicant's figure.
2. The Applicant did not include a developer's fee for the acquisition portion of the eligible basis,

but instead included an overstated developer's fee for the rehabilitation portion of the development.

The Underwriter's eligible basis calculation indicates that the project qualifies for tax credits in the amount of $70,511 annually for ten years. However, taking into consideration the proposed transfer of the existing USDA loan of $990,038, the Underwriter's total development cost estimate indicates a gap in funds of only $498,484. Based on the submitted syndication agreement, this indicates a gap driven allocation of only $63,915 annually for ten years, or $24,056 less than requested.

Alternatively, should the Board decide to accept the contract value of $1,190,038 for acquisition of the project, the development would qualify for tax credits in the amount of $77,851 annually for ten years. Under this scenario, the Underwriter's total development cost estimate would result in a need for deferred developer fees of $12,994, or $171,006 less than anticipated by the Applicant. This amount would be repayable from project cash flow within four years of stabilized occupancy.

REVIEW of ARCHITECTURAL DESIGN

The elevations are typical of 1980's construction with majority brick exteriors and breezeways. All units are of average size for market rate units in the area, and they have functional floorplans with adequate storage space. The units are in two-story walk-up structures and each unit has a single entry that is off an interior breezeway shared with three other units on each floor.

IDENTITIES of INTEREST

The general contractor and architect are related entities. The developer and Applicant are also related entities. These are common identities of interest for LIHTC-funded developments. The president of the general contractor is also the president of the current owner of the development. This identity of interest land sale was discussed in detail in the construction cost estimate evaluation section of this report.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights:

- The Applicant and General Partner are single-purpose entities created for the purpose of receiving assistance from TDHCA and therefore have no material financial statements.
- James W Fieser, president and 100% owner of the General Partner, and Patricia A Fieser, secretary of the General Partner, submitted a joint financial statement.

Background & Experience:

- The Applicant and General Partner are new entities formed for the purpose of developing the project.
- James W Fieser, 100% owner of the General Partner, has participated in two LIHTC/USDA housing developments totaling 64 units since 1999.

SUMMARY OF SALIENT RISKS AND ISSUES

- The Applicant's estimated operating proforma is more than 5% outside of the Underwriter's verifiable range.
- The Applicant's development costs differ from the Underwriter's verifiable estimate by more than 5%.
- The development could potentially achieve an excessive profit level (i.e., a DCR above 1.25) if the maximum tax credit rents can be achieved in this market.
- The seller of the property has an identity of interest with the Applicant.
- The significant financing structure changes being proposed have not been reviewed/accepted by the Applicant, lenders, and syndicators, and acceptable alternative structures may exist.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $63,915 ANNUALLY FOR TEN YEARS.

CONDITIONS

1. Receipt, review, and acceptance of confirmation that TXRD/USDA has approved the loan transfer on an existing terms basis. Should the terms of the TXRD loan change a re-evaluation of the conclusions herein should be conducted

Credit Underwriting Supervisor:	______________ *Lisa Vecchietti*	**Date:**	May 13, 2002
Director of Credit Underwriting:	______________ *Tom Gouris*	**Date:**	May 13, 2002

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Green Manor Apartments, Hempstead, LIHTC 02160 **LOAN PAYOFF**

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC 50%	8	1	1	650	$558	$280	$2,240	$0.43	$30.00	$14.00
TC 50%	32	2	1	793	670	340	10,880	0.43	39.00	14.00
TOTAL:	40		AVERAGE:	764	$648	$328	$13,120	$0.43	$37.20	$14.00

INCOME Total Net Rentable Sq Ft: 30,576

			TDHCA	APPLICANT		
POTENTIAL GROSS RENT			$157,440	$157,440		
Secondary Income	Per Unit Per Month:	$10.00	4,800	1,440	$3.00	Per Unit Per Month
Other Support Income:			0	0		
POTENTIAL GROSS INCOME			$162,240	$158,880		
Vacancy & Collection Loss	% of Potential Gross Income:	-7.50%	(12,168)	(11,916)	-7.50%	of Potential Gross Rent
Employee or Other Non-Rental Units or Concessions			0	0		
EFFECTIVE GROSS INCOME			$150,072	$146,964		

EXPENSES		% OF EGI	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% OF EGI
General & Administrative		6.27%	$235	$0.31	$9,402	$5,550	$0.18	$139	3.78%
Management		8.72%	327	0.43	13,087	14,032	0.46	351	9.55%
Payroll & Payroll Tax		21.59%	810	1.06	32,407	31,735	1.04	793	21.59%
Repairs & Maintenance		8.98%	337	0.44	13,474	23,090	0.76	577	15.71%
Utilities		3.28%	123	0.16	4,923	3,620	0.12	91	2.46%
Water, Sewer, & Trash		6.30%	236	0.31	9,458	9,300	0.30	233	6.33%
Property Insurance		4.83%	181	0.24	7,246	7,806	0.26	195	5.31%
Property Tax	2.7704	5.91%	222	0.29	8,865	8,500	0.28	213	5.78%
Reserve for Replacements		8.00%	300	0.39	12,000	10,200	0.33	255	6.94%
Compliance		0.67%	25	0.03	1,000	0	0.00	0	0.00%
TOTAL EXPENSES		74.54%	$2,797	$3.66	$111,862	$113,833	$3.72	$2,846	77.46%
NET OPERATING INC		25.46%	$955	$1.25	$38,210	$33,131	$1.08	$828	22.54%
DEBT SERVICE									
First Lien Mortgage		17.28%	$648	$0.85	$25,932	$25,932	$0.85	$648	17.65%
LIHTC Syndication Proceeds		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
Additional Financing		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
NET CASH FLOW		8.18%	$307	$0.40	$12,278	$7,199	$0.24	$180	4.90%
AGGREGATE DEBT COVERAGE RATIO					1.47	1.28			
ALTERNATIVE DEBT COVERAGE RATIO					1.47				

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		66.51%	$24,751	$32.38	$990,038	$1,190,038	$38.92	$29,751	64.00%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		1.98%	735	0.96	29,405	29,405	0.96	735	1.58%
Direct Construction		14.15%	5,265	6.89	210,595	210,595	6.89	5,265	11.33%
Contingency	5.70%	0.92%	342	0.45	13,680	13,680	0.45	342	0.74%
General Requiremer	6.00%	0.97%	360	0.47	14,400	14,400	0.47	360	0.77%
Contractor's G & /	2.00%	0.32%	120	0.16	4,800	4,800	0.16	120	0.26%
Contractor's Prof:	6.00%	0.97%	360	0.47	14,400	14,400	0.47	360	0.77%
Indirect Construction		3.55%	1,322	1.73	52,864	52,864	1.73	1,322	2.84%
Ineligible Expenses		1.08%	403	0.53	16,105	16,105	0.53	403	0.87%
Developer's G & A	2.00%	0.50%	186	0.24	7,420	45,332	1.48	1,133	2.44%
Developer's Profit	13.00%	3.24%	1,206	1.58	48,233	181,327	5.93	4,533	9.75%
Interim Financing		2.07%	772	1.01	30,876	30,876	1.01	772	1.66%
Reserves		3.74%	1,393	1.82	55,706	55,706	1.82	1,393	3.00%
TOTAL COST		100.00%	$37,213	$48.68	$1,488,522	$1,859,528	$60.82	$46,488	100.00%
Recap-Hard Construction Costs		*19.30%*	***$7,182***	***$9.40***	***$287,280***	***$287,280***	***$9.40***	***$7,182***	*15.45%*

SOURCES OF FUNDS

				TDHCA	APPLICANT	RECOMMENDED
First Lien Mortgage	66.51%	$24,751	$32.38	$990,038	$990,038	$990,038
LIHTC Syndication Proceeds	46.05%	$17,137	$22.42	685,490	685,490	498,484
Additional Financing	0.00%	$0	$0.00	0	0	0
Deferred Developer Fees	12.36%	$4,600	$6.02	184,000	184,000	0
Additional (excess) Funds Require	-24.92%	($9,275)	($12.13)	(371,006)	0	0
TOTAL SOURCES				$1,488,522	$1,859,528	$1,488,522

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Green Manor Apartments, Hempstead, LIHTC 02160 LOAN PAYOFF

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook

Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost				
Adjustments				
Exterior Wall Finish				
Elderly				
Roofing				
Subfloor				
Floor Cover				
Porches/Balconies				
Plumbing				
Built-In Appliances				
Stairs/Fireplaces				
Floor Insulation				
Heating/Cooling				
Garages/Carports				
Comm &/or Aux Bldgs				
Other:				
SUBTOTAL				
Current Cost Multiplier				
Local Multiplier				
TOTAL DIRECT CONSTRUCTION COSTS				
Plans, specs, survy, bld prmts				
Interim Construction Interest				
Contractor's OH & Profit				
NET DIRECT CONSTRUCTION COSTS				

PAYMENT COMPUTATION

Primary	$1,020,000	Term	600
Int Rate	1.00%	DCR	1.47

Secondary	$685,490	Term	
Int Rate	0.00%	Subtotal DCR	1.47

Additional	$0	Term	
Int Rate		Aggregate DCR	1.47

ALTERNATIVE FINANCING STRUCTURE:

Primary Debt Service	$25,932
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$12,278

Primary	$1,020,000	Term	600
Int Rate	1.00%	DCR	1.47

Secondary	$685,490	Term	0
Int Rate	0.00%	Subtotal DCR	1.47

Additional	$0	Term	0
Int Rate	0.00%	Aggregate DCR	1.47

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$157,440	$162,163	$167,028	$172,039	$177,200	$205,423	$238,142	$276,072	$371,018
Secondary Income	4,800	4,944	5,092	5,245	5,402	6,263	7,260	8,417	11,312
Other Support Income:	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	162,240	167,107	172,120	177,284	182,603	211,686	245,403	284,489	382,329
Vacancy & Collection Loss	(12,168)	(12,533)	(12,909)	(13,296)	(13,695)	(15,876)	(18,405)	(21,337)	(28,675)
Employee or Other Non-Renta	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$150,072	$154,574	$159,211	$163,988	$168,907	$195,810	$226,997	$263,152	$353,654
EXPENSES at 4.00%									
General & Administrative	$9,402	$9,779	$10,170	$10,576	$11,000	$13,383	$16,282	$19,810	$29,323
Management	13,087	13,480	13,884	14,301	14,730	17,076	19,795	22,948	30,840
Payroll & Payroll Tax	32,407	33,703	35,051	36,453	37,911	46,125	56,118	68,276	101,065
Repairs & Maintenance	13,474	14,013	14,573	15,156	15,762	19,177	23,332	28,387	42,019
Utilities	4,923	5,120	5,325	5,538	5,759	7,007	8,525	10,372	15,354
Water, Sewer & Trash	9,458	9,837	10,230	10,639	11,065	13,462	16,379	19,927	29,497
Insurance	7,246	7,536	7,837	8,151	8,477	10,313	12,548	15,266	22,598
Property Tax	8,865	9,220	9,589	9,972	10,371	12,618	15,352	18,678	27,648
Reserve for Replacements	12,000	12,480	12,979	13,498	14,038	17,080	20,780	25,282	37,424
Other	1,000	1,040	1,082	1,125	1,170	1,423	1,732	2,107	3,119
TOTAL EXPENSES	$111,862	$116,206	$120,719	$125,409	$130,283	$157,664	$190,842	$231,053	$338,886
NET OPERATING INCOME	$38,210	$38,368	$38,492	$38,578	$38,625	$38,146	$36,155	$32,099	$14,768
DEBT SERVICE									
First Lien Financing	$25,932	$25,932	$25,932	$25,932	$25,932	$25,932	$25,932	$25,932	$25,932
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$12,278	$12,437	$12,560	$12,647	$12,693	$12,215	$10,224	$6,168	($11,163)
DEBT COVERAGE RATIO	1.47	1.48	1.48	1.49	1.49	1.47	1.39	1.24	0.57

LIHTC Allocation Calculation - Green Manor Apartments, Hempstead, LIHTC 02160 LOAN PAYOFF

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S ACQUISITION ELIGIBLE BASIS	TDHCA ACQUISITION ELIGIBLE BASIS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost						
Purchase of land	$50,000	$50,000				
Purchase of buildings	$1,140,038	$940,038	$1,140,038	$940,038		
(2) Rehabilitation/New Construction Cost						
On-site work	$29,405	$29,405			$29,405	$29,405
Off-site improvements						
(3) Construction Hard Costs						
New structures/rehabilitation ha	$210,595	$210,595			$210,595	$210,595
(4) Contractor Fees & General Requirements						
Contractor overhead	$4,800	$4,800			$4,800	$4,800
Contractor profit	$14,400	$14,400			$14,400	$14,400
General requirements	$14,400	$14,400			$14,400	$14,400
(5) Contingencies	$13,680	$13,680			$13,680	$13,680
(6) Eligible Indirect Fees	$52,864	$52,864			$52,864	$52,864
(7) Eligible Financing Fees	$30,876	$30,876			$30,876	$30,876
(8) All Ineligible Costs	$16,105	$16,105				
(9) Developer Fees					$55,653	
Developer overhead	$45,332	$7,420				$7,420
Developer fee	$181,327	$48,233				$48,233
(10) Development Reserves	$55,706	$55,706				
TOTAL DEVELOPMENT COSTS	$1,859,528	$1,488,522	$1,140,038	$940,038	$426,673	$426,673

Deduct from Basis:						
All grant proceeds used to finance costs in eligible basis						
B.M.R. loans used to finance cost in eligible basis						
Non-qualified non-recourse financing						
Non-qualified portion of higher quality units [42(d)(3)]						
Historic Credits (on residential portion only)						
TOTAL ELIGIBLE BASIS			$1,140,038	$940,038	$426,673	$426,673
High Cost Area Adjustment					100%	100%
TOTAL ADJUSTED BASIS			$1,140,038	$940,038	$426,673	$426,673
Applicable Fraction			100%	100%	100%	100%
TOTAL QUALIFIED BASIS			$1,140,038	$940,038	$426,673	$426,673
Applicable Percentage			3.67%	3.67%	8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS			$41,839	$34,499	$36,011	$36,011
	Syndication Proceeds	**0.7799**	**$326,315**	**$269,068**	**$280,859**	**$280,859**
				TOTAL COMBINED TAX CREDITS	**$77,851**	**$70,511**
				TOTAL SYNDICATION PROCEEDS	**$607,174**	**$549,928**

Actual Gap of Need $498,484

Gap-Driven Allocation $63,915

TDHCA

02161

Region 6

Rural
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM

2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Bayou Bend Apartments** TDHCA #: **02161**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 3025 Waller Street
City: Waller
County: Waller
Zip Code: 77484

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

LIHTC Primary Set Aside: R
Additional Elderly Set Aside ☐
Purpose / Activity: ACQ/R
Development Type: Family
☐ TTC ☐ DDA ☐ QCT

Special Needs: 3 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: FDI-BB 2002, Ltd.

Principal Names:	Principal Contact:	Percentage Ownership:
Fieser Real Estate Investments, Inc.	James W. Fieser	100 %
		%
		%
		%
		%

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$96,390** Allocation over 10 Years: $963,900

Credits Requested: $123,808 Eligible Basis Amount: $105,336 Equity/Gap Amount: $96,392

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	0	0	0	0	0
40%	0	0	0	0	0	0	0
50%	0	13	43	0	0	0	56
60%	0	0	0	0	0	0	0
MR	0	0	0	0	0	0	0
Total	0	13	43	0	0	0	

Total LI Units: 56
Owner/Employee Units: 0
Total Project Units: 56
Applicable Fraction: 100.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost: **$2,187,086**
Gross Building Square Feet: 46,206
Total NRA SF: 44,957
Gross/Net Rentable: 1.03
Average Square Feet/Unit: 803
Cost Per Net Rentable Square Foot: $48.65
Credits per Low Income Unit $1,721

INCOME AND EXPENSE INFORMATION

Effective Gross Income: $203,119
Total Expenses: $153,040
Net Operating Income: $50,079
Estimated 1st Year Debt Coverage Ratio: 1.34

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer: Fieser Development, Inc.
Housing GC: D.W. S. Construction, Inc.
Infrastructure GC: NA
Cost Estimator: NA
Architect: Architectural Design Services
Property Manager: Hamilton Valley Management, Inc.
Engineer: NA
Syndicator: Midland Equity Corporation

Market Analyst: The Gerald Teel Company
Originator/UW: NA
Appraiser: The Gerald Teel Company
Attorney: NA
Supp Services: NA
Accountant: Marshall & Shafer, PC
Permanent Lender: USDA

DEPARTMENT EVALUATION

Points Awarded: 70 Site Review: Acceptable Underwriting Finding: A

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommende(

6/17/02 10:43 AM

Project Name: Bayou Bend Apartments   Project Number: 02161

PUBLIC COMMENT SUMMARY   Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials):   Support: **0**   Opposition: **0**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:		Comment from Other Public Official
Local Official:	Danny Marburger, Mayor, S	
TX Rep.:	Tommy Williams, Dist. 15	
TX Sen.:	Steve Ogden, Dist. 5	
US Rep.:		
US Sen.:		

CONDITIONS TO COMMITMENT

Receipt, review, and acceptance of confirmation that TXRD/USDA has approved the loan transfer on an existing terms basis. Should the terms of the TXRD loan change a re-evaluation of the conclusions herein should be conducted.

Receipt, review, and acceptance of documentation clarifying this discrepancy in the number of one-bedroom and two-bedroom units. Documentation should include revised building plans and rent roll if there are less than 14 one-bedroom units or rescheduled and TXRD/USDA budgets if there are 14 one-bedroom units.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☐ Score   ☑ Meeting Required Set Aside   ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This development is in the TxRD Set Aside. Because the TxRD Set Aside is undersubscribed it is necessary that all TxRD Developments recommended by Underwriting be recommended to the Board.

Brooke Boston, Acting LIHTC Co-Manager   Date   David Burrell, Director of Housing Programs   Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director   Date
Chairman of Executive Award and Review Advisory Committee

☐ **BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):**

Approved Credit Amount: ____   Date of Determination: ____

Michael E. Jones, Chairman of the Board   Date

Compliance Status Summary

Project ID #: 02161 LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Bayou Bend Apartments HOME ☐ HTF ☐

Project City: BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 0 # not yet monitored or pending review 3

of projects grouped by score 0-9: 0 10-19: 0 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received N/A

Non-Compliance Reported

Completed by Jo En Taylor **Completed on** 04/25/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ no outstanding issues ☐ outstanding issues ☐

Comments:

Completed by Lucy Trevino **Completed on** 05/23/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by Ralph Hendrickson **Completed on** 04/30/2002

Community Affairs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Housing Programs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☑ reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ______________ **Completed on** ______________

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: May 13, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02161

DEVELOPMENT NAME

Bayou Bend Apartments

APPLICANT

Name: FDI-BB 2002, Ltd. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 26735 Stockdick School Road **City:** Katy **State:** TX

Zip: 77493 **Contact:** James W Fieser **Phone:** (281) 371-0998 **Fax:** (281) 371-2470

PRINCIPALS of the APPLICANT

Name: Fieser Real Estate Investment, Inc. **(%):** 0.01 **Title:** Managing General Partner

Name: Midland Equity Corp. **(%):** 99.99 **Title:** Limited Partner

Name: James W Fieser **(%):** N/A **Title:** 100% owner GP

GENERAL PARTNER

Name: Fieser Real Estate Investment, Inc. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 26735 Stockdick School Road **City:** Katy **State:** TX

Zip: 77493 **Contact:** James W Fieser **Phone:** (281) 371-0998 **Fax:** (281) 371-2470

PROPERTY LOCATION

Location: 3025 Waller Street ☐ **QCT** ☐ **DDA**

City: Waller **County:** Waller **Zip:** 77484

REQUEST

Amount	Interest Rate	Amortization	Term
$123,808	N/A	N/A	N/A

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: Acquisition/Rehabiliitation **Set-Aside:** ☐ General ☒ Rural ☐ Non-Profit

SITE DESCRIPTION

Size: 3.4589 acres 150,670 square feet **Zoning/ Permitted Uses:** N/A (City of Waller)

Flood Zone Designation: Zone A1 **Status of Off-Sites:** Fully Improved

* Zone A1: areas of 100 year flood

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
CREDIT UNDERWRITING ANALYSIS

DESCRIPTION of IMPROVEMENTS

Total Units: 56 **# Rental Buildings** 7 **# Common Area Bldngs** 1 **# of Floors** 2 **Age:** 19 yrs **Vacant:** 0 at 12/ 01/ 2001

Number	Bedrooms	Bathroom	Size in SF
13	1	1	693
43	2	1	836

Net Rentable SF: 44,957 **Av Un SF:** 803 **Common Area SF:** 1,249 **Gross Bldng SF** 46,206

Property Type: ☒ Multifamily ☐ SFR Rental ☐ Elderly ☐ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on concrete slab on grade, 75% brick veneer/25% wood siding exterior wall covering with wood trim, drywall interior wall surfaces, composite shingle roofing

APPLIANCES AND INTERIOR FEATURES

Carpeting & vinyl flooring, range & oven, hood & fan, refrigerator, fiberglass tub/shower, laminated counter tops, heat pump

ON-SITE AMENITIES

Community room, laundry facilities, equipped children's play area

Uncovered Parking: 83 spaces **Carports:** N/A spaces **Garages:** N/A spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Midland Mortgage Investment Corporation **Contact:** Daniel Flick

Principal Amount: $816,459 **Interest Rate:** Prime + 1%; 6.00% minimum

Additional Information: Upon award of tax credits

Amortization: N/A yrs **Term:** 1 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: USDA **Contact:** William Taylor/ Gene Pavlat

Principal Amount: $1,435,321 (12/2001) **Interest Rate:** 10.75%; subsidized to 1%

Additional Information: Applicant requesting transfer of existing loan; $1,475,000 original loan amount There are 32 years left on this loan

Amortization: 50 yrs **Term:** 50 yrs **Commitment:** ☒ None ☐ Firm ☐ Conditional

Annual Payment: $37,254 **Lien Priority:** 1st **Original Loan Date** 4/ 26/ 1984

LIHTC SYNDICATION

Source: Midland Equity Corp. **Contact:** Chris Diaz

Address: 33 N Garden Avenue **City:** Clearwater

State: FL **Zip:** 33755 **Phone:** (727) 461-4801 **Fax:** (727) 443-6067

Net Proceeds: $964,734 **Net Syndication Rate** (per $1.00 of 10-yr LIHTC) 78¢

Commitment ☐ None ☒ Firm ☐ Conditional **Date:** 02/ 14/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $162,000 **Source:** Deferred developer fee

VALUATION INFORMATION

APPRAISED VALUE

Land Only:	$60,287	**Date of Valuation:**	02/ 13/ 2002
Total: as is subject to unrestricted rents	$1,760,000	**Date of Valuation:**	02/ 27/ 2002

Appraiser: The Gerald A Teel Company, Inc. **City:** Houston **Phone:** (713) 467-5858

ASSESSED VALUE

Land:	$55,360	**Assessment for the Year of:**	2001
Building:	$476,640	**Valuation by:**	Waller County Appraisal District
Total Assessed Value:	$532,000	**Tax Rate:**	2.25040

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Earnest money contract

Contract Expiration Date: 10/ 31/ 2002 **Anticipated Closing Date:** 10/ 31/ 2002

Acquisition Cost: $ 1,585,321 **Other Terms/Conditions:** $500 earnest money; $150K cash to seller

Seller: Bayou Bend Apartmetns, Ltd. **Related to Development Team Member:** Yes

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Bayou Bend is a proposed acquisition and rehabilitation development of 56 units of affordable housing located in Waller. The development was built in 1984 and is comprised of eight residential buildings as follows:

- Six Building Style A with two one-bedroom units and six two-bedroom units;
- One Building Style B with two one-bedroom units and two two-bedroom units; and
- One Building Style C with four two-bedroom units.

The above building configuration suggests a total of 14 one-bedroom units and 42 two-bedroom units, while the rent schedule indicates 13 one-bedroom units and 43 two-bedroom units. The current rent roll confirms 14 one-bedroom units but the latest TXRD/USDA budget reflects 13 one-bedroom units. The rehabilitation plan does not indicate conversion of any units to accommodate this difference. Receipt review and acceptance of documentation clarifying this discrepancy in the number of one-bedroom and two-bedroom units is a condition of this report. Based on the site plan the apartment buildings are distributed evenly throughout the site with the community building located at the entrance. A floorplan for the community building was not provided.

Existing Subsidies: The development has all 56 units enrolled in the HUD Section 515 program. According to the Market Analyst:

> "Section 515 of the Housing Act provides subsidized loans to for-profit and non-profit entities to finance housing and related facilities for low and moderate-income rural renters. The government finances up to 97 percent of a project's cost at an effective interest rate of as little as one percent, amortized over 50 years.
>
> The average income of tenants of Section 515 developments is about $7,300 per year and roughly

60% are elderly households or households with individuals with disabilities. Very low-income families living in Section 515 developments may also receive rental assistance from RHS that is similar to Section 8. The maximum rents allowed per the Section 515 program are 30% or less of the median income figures. Utility allowance schedules are property specific and are approved by regional USDA offices for each USDA Section 515 property. Those properties, which are all bills paid by the landlord, will not be required to deduct any utility allowance away from the estimate of maximum monthly rents.

A review of the USDA guidelines for Section 515 Housing reveals that such housing projects may not be sold. However, conversations with Mr. Pat Sultenfuss, Chief USDA Appraiser for the State of Texas, indicate a Section 515 property may be sold. He further states that most sales are not arm's length transactions, and that the transfer is simply a change of names in order to obtain a LIHTC loan. Mr. Sultenfuss indicated that such a change in ownership structure or name is legal under the USDA guidelines."

Development Plan: As of December 1, 2001, the development had no vacant units which translates to an occupancy rate of 100%. According to the market analyst, the buildings are in average condition with average appeal. The architect's scope of work includes: rough grading, accessibility upgrades, landscaping, repair and/or replacement of the porches, stair treads, doors, roofing, light fixtures, smoke detectors, toilets, sinks, water heaters, air conditioners, ceiling fans, bathroom vent fans, windows, screens, drywall, flooring, carpeting, range, refrigerator and fan/hood, and exterior and interior painting. The Applicant has indicated that no tenants will be relocated during the rehabilitation of the development.

Supportive Services: The Applicant does not plan to provide supportive services.

Schedule: The Applicant anticipates construction to begin in November of 2002 and to be completed in May of 2003. The project will be placed in service and substantially leased-up in May of 2003.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside. All of the units will be reserved for low-income tenants. It is proposed that all of the units will be reserved for households earning 50% or less of AMGI. The maximum rents allowed per the USDA Section 515 program are 30% or less of the median income figures. As of October 12, 2001, the development's basic rents were $273 for one-bedroom units and $330 for two-bedroom units. The Applicant does not propose changes to these rents.

Special Needs Set-Asides: Three units (5%) will be reserved for households with handicapped/developmentally disabled individuals and two units will be equipped for tenants with hearing or visual impairments.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated February 27, 2002 was prepared by The Gerald A Teel Company, Inc. and highlighted the following findings:

Definition of Market/Submarket: "The subject neighborhood in this instance is considered the City of Waller and the surrounding 10-20 mile radius." (p. 27) "The overall neighborhood boundaries can be defined as the County lines to the north, the Brazos River to the west, Harris County line to the east, and Interstate 10 to the south." (p.27)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY		
Type of Demand	**Units of Demand**	**% of Total Demand**
Household Growth	16	8%
Resident Turnover (55%)	181	89%
Other Sources (two years of pent-up growth)	6	3%
TOTAL ANNUAL DEMAND	**203**	**100%**

Ref: p. 71

Capture Rate: "Overall, the estimated qualified households demand is 203 units as of December 2001. This equates to a 27.6% capture rate for the subject's 56 USDA Section 515 rental units, including probable rental turnover. A capture rate of +/-50% suggests good prospects for the subject units." (p. 70) This is an acceptable capture rate as the development is already +90% leased and located in a rural area.

Market Rent Comparables: The market analyst surveyed eight comparable apartment projects totaling 421 units in the Cities of Hempstead, Prairie View and Waller. "The projects surveyed vary in size from 26 units to 76 units. As compared to the subject, the complexes surveyed are generally considered competitive, but Clear Creek is a newer project located on US Highway 290 and is clearly superior, although it is a LIHTC project." (p. 45) "It should be noted that USDA rent restrictions are in effect for the 50-year term of the original loan, which was signed in 1983." (p. 59)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	**Proposed**	**Program Max**	**Differential**	**Market**	**Differential**
1-Bedroom (50%)	$273	$528	-$255	$360	-$87
2-Bedroom (50%)	$330	$631	-$301	$480	-$150

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: "Occupancy rates in the immediate area range from 93% to 100%, and indicate a weighted average of 97%." (p. 45)

Absorption Projections: Clear Creek is a LIHTC project that began lease-up in June 2001, and achieved stabilized occupancy in December 2001. "It is currently 98% occupied. This indicates an absorption rate of 13 units/month." (p. 45)

Known Planned Development: "To the best of our knowledge, no similar USDA projects are either under construction or planned for the subject market area. Additionally, per our discussion with the city officials of Hempstead, Prairie View and Waller, and an official of Waller County, there are no conventional or LIHTC project s proposed or under construction for the area." (p. 70) The Applicant has also submitted applications for three similar acquisition/rehabilitation developments in the same area.

The Underwriter found the market study provided sufficient information on which to base a funding recommendation.

The market analyst also provided an "as is" appraised value conclusion of $1,760,000 for the existing development. However, this value was not well-substantiated. The $1.76M figure is reconciled using only the income approach strictly based on a direct capitalization method. The appraiser utilized a built-up cap rate of 3.0%, which is based on an 8% USDA allowed maximum equity return rather than the 8.73% to 12.65% equity returns extracted from comparable sales. In addition, the appraiser derived a mortgage return using the original 50-year 1% USDA loan terms rather than the actual remaining terms on the existing USDA loan. Using the actual remaining term rather than the original 50 year term would increase the capitalization rate and reduce the value of the development based on this approach and bring it below the current outstanding loan amount. In addition, the estimated NOI projected is much greater than the maximum owner return that USDA would allow for this development based upon the appraiser's information that $150,000 in equity was initially included ion the development ($150,000 x 8%= $12K annual maximum return). The actual owner's return allowed in the 2001 and 2002 budgets is lower still at $6,888. Using either of these more justifiable figures as the maximum USDA allowable net operating income reduces the value of the development by this method by more than half to well under the current loan balance. Therefore the Appraiser's conclusion of value is not substantiated.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: The subject is located on the east line of Waller Street netween Old US Highway 290 and Reinke Road in the northwest quadrant of the City of Waller. Waller is located on the Harris/Waller County line off of US 290, 45-55 miles northwest of the Houston Central Business District. Houston is located about 40 miles northwest of the Gulf of Mexico in southeast Texas.

Population: Currently, almost four million people live in the Houston metropolitan area. In 2000, Waller County had a population of 27,488, which is expected to increase to 37,796 by 2010. The immediate neighborhood had a population of 9,821 in 2000, projected at 11,660 for 2005. This equates to 2,643 households in 2000 and 3,299 households in 2005.

Adjacent Land Uses: The area is developed primarily with residential concerns. Typical development consists of single- and multi-family residential, vacant SFR lots, duplexes and mobile homes.

Site Access: Immediate access to the site is from Waller Street. The subject area is accessed via US Highway 290, the primary roadway between Houston and the subject. Additionally, State Highway 6, just west of Hempstead, provides access to the main campus of the Texas A & M University, 35-45 miles northerly. Interstate 10, the primary intercoastal route from California to Florida is located about 22-25 miles to the south.

Public Transportation: The availability of public transportation is unknown.

Shopping & Services: Shopping and services within the subject area was not directly addressed by the submitted market study.

Site Inspection Findings: TDHCA staff performed a site inspection on April 9, 2002 and found it to be acceptable.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

A Phase I Environmental Site Assessment report was not included, as USDA-RD-financed projects are not required to submit this report.

OPERATING PROFORMA ANALYSIS

Income: Both the Applicant's and the Underwriter's potential gross rent estimates are based on the development's current basic rents under the USDA Section 515 program of $273 for one-bedroom units and $330 for two-bedroom units. It should be noted that an additional $16,258 per month in potential gross income could be achieved if the project could collect the maximum LIHTC net rents of $528 for one-bedroom units and $631 for two-bedroom units. The Applicant's use of an understated $3 per unit per month in secondary income could not be supported by the development's historical operating statements. Therefore, the Underwriter included $10 per unit per month in secondary income to calculate an effective gross income estimate that is within 5% of the Applicant's estimate.

Expenses: The Applicant's total annual operating expense estimate is $595, or less than 1%, less than the Underwriter's TDHCA database-derived estimate. Although adjusted to reflect the development's historical operating levels, many of the Applicant's line-item expenses differed by more than 5% or $1,500 as compared to the Underwriter's estimates. These include: general and administrative ($8K lower), payroll ($3K lower), repairs and maintenance ($10K higher), water sewer and trash ($2K lower), property tax ($5K higher) and reserve for replacements ($2K lower).

Conclusion: Overall, the Applicant's net operating income estimate is more than 5% higher than the Underwriter's estimate; therefore, the Underwriter's estimate will be used to determine the project's ability to service debt. This results in a debt coverage ratio (DCR) of 1.34, which is well over the Department's DCR guideline of 1.10 to 1.25, but only allows a nominal $12,580 in net cashflow. USDA monitors for cashflow distribution and adjusts its basic rents in order to limit a return to the owner to not more than 8% of the owner's initial equity investment in the development. Any end of the year excess beyond this maximum amount is transferred to reserves, which are also heavily monitored by USDA. Therefore, any excess debt coverage ratio issues that transpire will be dealt with by USDA. Moreover requiring another loan to absorb the excess cash flow would only serve to provide $2,564 in debt service and allow, at 8% interest and a 30 year term, an additional $29,122 in debt.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: According to the market analyst, "A review of the USDA guidelines for Section 515 Housing reveals that such housing projects may not be sold. However, conversations with Mr. Pat Sultenfuss, Chief USDA Appraiser for the State of Texas, indicates that a Section 515 property may be sold. He further states that most sales are not arm's length transactions, and that the transfer is simply a change of names in order to obtain a LIHTC loan. Mr. Sultenfuss indicated that such a change in ownership structure or name is legal under the USDA guidelines."

The land cost of $69,200 included in the submitted cost breakdown is high compared to the appraised value of $60,287. The indicated total acquisition price of $1,585,321 is low compared to the appraised value of $1,760,000, but high compared to the tax-assessed value of $532,000. As discussed in the Market

Highlights section above, the appraised value is overstated by when either a more appropriate cap rate is used or the USDA's maximum allowable return to owner is used as the property's restricted NOI. In addition, $1,435,321 remains to be paid-off on the existing loan. Although not related to the Applicant, the president of the seller is also the president of the general contractor and, therefore, the proposed sale is categorized as an identity of interest sale. The Underwriter requested additional support for the sales price in excess of the loan payoff amount, but the Applicant indicated that none was available.

The Applicant subsequently provided a letter dated May 2, 2002 which describes the situation for all four of the applications for which Mr. Fieser is a principal (Green Manor, Bayou Bend, Willow Chase, and Cedar Cove). It specifically refers to Green Manor when it reflects: "…Boston Capital has requested $245,000 to agree to the sale. The acquisition price was increased by $150,000 and the balance will have to be negotiated or paid from Developer Fees…There will be a tax issue on the sale of the properties. If the partnerships have to incur a tax liability it does not make economic sense to agree to the sale unless the sales price will generate the funds to pay taxes, etc." Attached to this letter is a letter dated May 1, 2002 from Katherine Alitz, Senior Real Estate Analyst with Boston Capital. This letter sets out to explain that with the proposed sale of Green Manor there would be a tax liability of at least $100,589, which may increase with the passage of time and continued decrease in the adjusted basis of the building. The following calculation example was provided and next to it the Underwriter has proposed an alternative calculation example if the property in the example was to be transferred at the mortgage only value.

	Boston Capital Example	Underwriter's Example
Mortgage Balance	$ 986,713	$ 986,713
Cash	245,000	-0-
Total Sales Price	$1,231,713	$ 986,713
Less Transaction Costs	-0-	-0-
Less Adjusted Building Basis	($777,357)	($777,357)
Less Land Basis	($52,000)	($52,000)
Taxable Gain on Sale	$ 402,356	$ 157,356
Capital Gain Tax Liability @ 25%	$100,589	$ 39,339

This illustrates that the tax liability would significantly decrease if the inflated acquisition price were reduced to the approximate loan balance and questions the suggestion that the higher sales price is a result of the exit taxes. On the contrary it would appear that the higher exit taxes are a result of the artificially high sales price.

The Underwriter has utilized the documented unpaid principal balance of $1,435,321 as of December 31, 2001 as the total acquisition price for the project. Less the Applicant proposed land value of $69,200 for the underlying land, this amounts to a qualified acquisition cost of $1,366,121, which is $150K less than the Applicant's figure. This is consistent with USDA regarding their own refinancing of such projects up to the lesser of the appraised value or existing loan amount. According to Mr. Gene Pavlat, Multi-Family Director for Texas Rural Development, USDA, a higher transfer price may be allowed only where the seller can show that the tax liability for the transfer is greater than the tax liability for foreclosure. In such a case the difference in tax liability amounts as documented by the seller's CPA may be used to increase the transfer price. Neither the Applicant nor the seller have indicated that this is the situation in this case.

Site Work Cost: Because the subject is an existing development, minimal site work should be needed. Therefore, $862 per unit in site work costs appears to be reasonable.

Direct Construction Cost: The Applicant's direct construction costs were substantiated by a third party work write-up and, while low at only $6,138 per unit are considered to be reasonable as presented.

Fees: The Applicant did not claim eligible developer fees for acquisition of the existing buildings. However, the developer fees associated with the rehabilitation of the development exceed 15% of the Applicant's adjusted eligible basis. Since this is an identity of interest transaction, a developer fee for acquisition would be difficult to substantiate as the buyer will not be able to show a significant expenditure of resources to locate the property, place it under contract and conduct acquisition due diligence. Therefore none of the excess developer fee on the rehabilitation side can be moved to the acquisition side of eligible basis. As a result, the eligible potion of the Applicant's developer fee must be reduced by $225K. Since this reduction stems from the 9% credit side of the eligible basis/credit calculation, this will have a more pronounced effect on the recommended credits.

Conclusion: Overall, the Applicant's total development cost exceeds the Underwriter's estimate by $375K. Because this difference is more than 5% above the verifiable range, the Underwriter's total development cost estimate will be used to calculate the development's eligible basis and need for funding. It should be noted that the development's site work costs combined with direct construction costs at $7,000 per unit is just over the $6,000 per unit minimum for hard costs under the 2002 QAP suggesting a minimal rehabilitation need.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with four types of financing: a conventional interim loan, transfer of an existing USDA permanent loan, syndicated LIHTC equity and deferred developer's fees.

Construction Financing: Midland Mortgage Investment Corporation will provide an interim construction loan of $816,459 for a term of 12 months with interest only payments at a rate of Prime plus 1% or a minimum of 6%.

Permanent Financing: The development was financed in 1984 through the USDA Section 515 program. The original loan terms included a loan amount of $1,475,000 with a 10.75% interest rate subsidized to 1% and amortized over 50 years. As of December 31, 2001, the principal remaining was $1,435,321.02. The Applicant plans to assume the loan and has written a letter addressed to Gene Pavlat, Multifamily Program Director of Rural Development, USDA, indicating intent to pursue transfer and rehabilitation of the property. According to Mr. Pavlat, transfers of this kind are not unusual and do not require significant USDA approval or even a USDA approved appraisal so long as the rates and terms of the USDA loan does not change and no new loans or write-downs are required.

LIHTC Syndication: Midland Equity Corporation has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $964,734 based on a syndication factor of 78%. The funds would be disbursed in a three-phased pay-in schedule:

1. 85% upon completion of the development;
2. 5% upon receipt of cost and credit certification; and
3. 10% upon closing of the permanent loan, receipt of Forms 8609 or 90% physical occupancy by eligible tenants.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $162,000 amount to 52% of the total proposed fees. This should have made them ineligible for any deep rent targeting selection points. In addition this level of deferred developer fee does not appear to be repayable within 15 years based on the Applicant's NOI and therefore the Applicant's scenario as presented is infeasible.

Financing Conclusions: As stated above, the Underwriter's total development cost estimate was used to calculate the project's eligible basis and need for funding. The Underwriter's total acquisition and rehabilitation eligible basis calculation resulted in a basis that is $146,845 less than the Applicant's estimate. This difference is due to several factors:

1. Based on the information presented in the application, the Underwriter could not justify a total acquisition cost that exceeds the current loan payoff amount of $1,435,321, or $150K less than the Applicant's figure.
2. The Applicant did not include a developer's fee for the acquisition portion of the eligible basis, but instead included an overstated developer's fee for the rehabilitation portion of the development.

The Underwriter's eligible basis calculation indicates that the project qualifies for tax credits in the amount of $105,336 annually for ten years. However, taking into consideration the proposed transfer of the existing USDA loan of $1,435,321, the Underwriter's total development cost estimate indicates a gap in funds of only $751,765. Based on the submitted syndication agreement, this indicates a gap driven allocation of only $96,390 annually for ten years, or $27,418 less than requested.

Alternatively, should the Board decide to accept the contract value of $1,585,321 for acquisition of the project, the development would qualify for tax credits in the amount of $110,575 annually for ten years. Under this scenario, the Underwriter's total development cost estimate would result in a need for deferred developer fees of $39,368, or $122,632 less than anticipated by the Applicant. This amount would be repayable from project cash flow within four years of stabilized occupancy.

REVIEW of ARCHITECTURAL DESIGN

The elevations are typical of 1980's construction with majority brick exteriors and breezeways. All units are of average size for market rate units in the area, and they have functional floorplans with adequate storage space. The buildings are in two-story walk-up structures and each unit has a single entry that is off an interior breezeway shared with other units on each floor.

IDENTITIES of INTEREST

The general contractor and architect are related entities. The developer and Applicant are also related entities. These are common identities of interest for LIHTC-funded developments. The president of the general contractor is also the president of the current owner of the development. This identity of interest land sale was discussed in detail in the construction cost estimate evaluation section of this report.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights:

- The Applicant and General Partner are single-purpose entities created for the purpose of receiving assistance from TDHCA and therefore have no material financial statements.
- James W Fieser, president and 100% owner of the General Partner, and Patricia A Fieser, secretary of the General Partner, submitted a joint financial statement.

Background & Experience:

- The Applicant and General Partner are new entities formed for the purpose of developing the project.
- James W Fieser, 100% owner of the General Partner, has participated in two LIHTC/USDA housing developments totaling 64 units since 1999.

SUMMARY OF SALIENT RISKS AND ISSUES

- The Applicant's operating proforma is more than 5% outside of the Underwriter's verifiable range.
- The Applicant's development costs differ from the Underwriter's verifiable estimate by more than 5%.
- The development could potentially achieve an excessive profit level (i.e., a DCR above 1.25) if the maximum tax credit rents can be achieved in this market.
- The seller of the property has an identity of interest with the Applicant.
- The significant financing structure changes being proposed have not been reviewed/accepted by the Applicant, lenders, and syndicators, and acceptable alternative structures may exist.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $96,390 ANNUALLY FOR TEN YEARS.

CONDITIONS

1. Receipt, review, and acceptance of confirmation that TXRD/ USDA has approved the loan transfer on an existing terms basis. Should the terms of the TXRD loan change a re-evaluation of the conclusions herein should be conducted
2. Receipt review and acceptance of documentation clarifying this discrepancy in the number of one-bedroom and two-bedroom units. Documentation should include revised building plans and rent roll if there are less than 14 one-bedroom units or reschedule and TXRD/USDA budgets if there are 14 one-bedroom units.

Credit Underwriting Supervisor: ____________________ **Date:** May 13, 2002
Lisa Vecchietti

Director of Credit Underwriting: ____________________ **Date:** May 13, 2002
Tom Gouris

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Bayou Bend Apartments, Waller, LIHTC 02161 **LOAN PAYOFF**

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC 50%	13	1	1	693	$558	$273	$3,549	$0.39	$30.00	$14.00
TC 50%	43	2	1	836	670	330	14,190	0.39	39.00	14.00
TOTAL:	56		AVERAGE:	803	$644	$317	$17,739	$0.39	$36.91	$14.00

INCOME	Total Net Rentable Sq Ft: 44,957				TDHCA	APPLICANT			
POTENTIAL GROSS RENT					$212,868	$212,868			
Secondary Income			Per Unit Per Month:	$10.00	6,720	2,016	$3.00	Per Unit Per Month	
Other Support Income: USDA Subsidy					0	0			
POTENTIAL GROSS INCOME					$219,588	$214,884			
Vacancy & Collection Loss		% of Potential Gross Income:		-7.50%	(16,469)	(16,116)	-7.50%	of Potential Gross Rent	
Employee or Other Non-Rental Units or Concessions					0	0			
EFFECTIVE GROSS INCOME					$203,119	$198,768			
EXPENSES		% OF EGI	PER UNIT	PER SQ FT			PER SQ FT	PER UNIT	% OF EGI
General & Administrative		6.64%	$241	$0.30	$13,494	$5,150	$0.11	$92	2.59%
Management		9.25%	336	0.42	18,789	20,460	0.46	365	10.29%
Payroll & Payroll Tax		16.62%	603	0.75	33,766	30,898	0.69	552	15.54%
Repairs & Maintenance		9.52%	345	0.43	19,345	29,700	0.66	530	14.94%
Utilities		2.40%	87	0.11	4,879	3,900	0.09	70	1.96%
Water, Sewer, & Trash		12.23%	444	0.55	24,843	22,500	0.50	402	11.32%
Property Insurance		4.75%	172	0.21	9,642	10,337	0.23	185	5.20%
Property Tax	2.2504	4.96%	180	0.22	10,081	14,750	0.33	263	7.42%
Reserve for Replacements		8.27%	300	0.37	16,800	14,750	0.33	263	7.42%
Compliance		0.69%	25	0.03	1,400	0	0.00	0	0.00%
TOTAL EXPENSES		75.34%	$2,733	$3.40	$153,040	$152,445	$3.39	$2,722	76.69%
NET OPERATING INC		24.66%	$894	$1.11	$50,079	$46,323	$1.03	$827	23.31%
DEBT SERVICE									
First Lien Mortgage		18.46%	$670	$0.83	$37,499	$37,254	$0.83	$665	18.74%
LIHTC Syndication Proceeds		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
Additional Financing		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
NET CASH FLOW		6.19%	$225	$0.28	$12,580	$9,069	$0.20	$162	4.56%
AGGREGATE DEBT COVERAGE RATIO					1.34	1.24			
ALTERNATIVE DEBT COVERAGE RATIO					1.34				

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		65.63%	$25,631	$31.93	$1,435,321	$1,585,321	$35.26	$28,309	61.88%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		2.21%	862	1.07	48,260	48,260	1.07	862	1.88%
Direct Construction		15.72%	6,138	7.65	343,740	343,740	7.65	6,138	13.42%
Contingency	5.70%	1.02%	399	0.50	22,344	22,344	0.50	399	0.87%
General Requiremen	6.00%	1.08%	420	0.52	23,520	23,520	0.52	420	0.92%
Contractor's G & A	2.00%	0.36%	140	0.17	7,840	7,840	0.17	140	0.31%
Contractor's Profi	6.00%	1.08%	420	0.52	23,520	23,520	0.52	420	0.92%
Indirect Construction		2.60%	1,017	1.27	56,961	56,961	1.27	1,017	2.22%
Ineligible Expenses		1.21%	473	0.59	26,506	26,506	0.59	473	1.03%
Developer's G & A	2.00%	0.52%	203	0.25	11,374	62,055	1.38	1,108	2.42%
Developer's Profit	13.00%	3.38%	1,320	1.64	73,933	248,221	5.52	4,433	9.69%
Interim Financing		1.94%	759	0.95	42,530	42,530	0.95	759	1.66%
Reserves		3.26%	1,272	1.58	71,237	71,237	1.58	1,272	2.78%
TOTAL COST		100.00%	$39,055	$48.65	$2,187,086	$2,562,055	$56.99	$45,751	100.00%
Recap-Hard Construction Costs		*21.45%*	***$8,379***	***$10.44***	***$469,224***	***$469,224***	***$10.44***	***$8,379***	*18.31%*

SOURCES OF FUNDS

	%	PER UNIT	PER SQ FT	TDHCA	APPLICANT	RECOMMENDED
First Lien Mortgage	65.63%	$25,631	$31.93	$1,435,321	$1,435,321	$1,435,321
LIHTC Syndication Proceeds	44.11%	$17,227	$21.46	964,734	964,734	751,765
Additional Financing	0.00%	$0	$0.00	0	0	0
Deferred Developer Fees	7.41%	$2,893	$3.60	162,000	162,000	0
Additional (excess) Funds Require	-17.14%	($6,696)	($8.34)	(374,969)	0	0
TOTAL SOURCES				$2,187,086	$2,562,055	$2,187,086

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Bayou Bend Apartments, Waller, LIHTC 02161 LOAN PAYOFF

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook

Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost				
Adjustments				
Exterior Wall Finish				
Elderly				
Roofing				
Subfloor				
Floor Cover				
Porches/Balconies				
Plumbing				
Built-In Appliances				
Stairs/Fireplaces				
Floor Insulation				
Heating/Cooling				
Garages/Carports				
Comm &/or Aux Bldgs				
Other:				
SUBTOTAL				
Current Cost Multiplier				
Local Multiplier				
TOTAL DIRECT CONSTRUCTION COSTS				
Plans, specs, survy, bld prmts				
Interim Construction Interest				
Contractor's OH & Profit				
NET DIRECT CONSTRUCTION COSTS				

PAYMENT COMPUTATION

Primary	$1,475,000	Term	600
Int Rate	1.00%	DCR	1.34
Secondary	$964,734	Term	
Int Rate	0.00%	Subtotal DCR	1.34
Additional	$0	Term	
Int Rate		Aggregate DCR	1.34

ALTERNATIVE FINANCING STRUCTURE:

Primary Debt Service	$37,499
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$12,580

Primary	$1,475,000	Term	600
Int Rate	1.00%	DCR	1.34
Secondary	$964,734	Term	0
Int Rate	0.00%	Subtotal DCR	1.34
Additional	$0	Term	0
Int Rate	0.00%	Aggregate DCR	1.34

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$212,868	$219,254	$225,832	$232,607	$239,585	$277,744	$321,982	$373,265	$501,637
Secondary Income	6,720	6,922	7,129	7,343	7,563	8,768	10,165	11,784	15,836
Other Support Income: USDA S	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	219,588	226,176	232,961	239,950	247,148	286,513	332,147	385,049	517,474
Vacancy & Collection Loss	(16,469)	(16,963)	(17,472)	(17,996)	(18,536)	(21,488)	(24,911)	(28,879)	(38,811)
Employee or Other Non-Rental	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$203,119	$209,212	$215,489	$221,954	$228,612	$265,024	$307,236	$356,170	$478,663
EXPENSES at 4.00%									
General & Administrative	$13,494	$14,034	$14,595	$15,179	$15,786	$19,206	$23,367	$28,429	$42,083
Management	18,789	19,353	19,933	20,531	21,147	24,515	28,420	32,947	44,277
Payroll & Payroll Tax	33,766	35,117	36,522	37,983	39,502	48,060	58,472	71,141	105,305
Repairs & Maintenance	19,345	20,118	20,923	21,760	22,630	27,533	33,499	40,756	60,329
Utilities	4,879	5,074	5,277	5,488	5,708	6,944	8,449	10,279	15,216
Water, Sewer & Trash	24,843	25,837	26,871	27,945	29,063	35,360	43,021	52,341	77,478
Insurance	9,642	10,028	10,429	10,846	11,280	13,724	16,697	20,315	30,071
Property Tax	10,081	10,485	10,904	11,340	11,794	14,349	17,458	21,240	31,440
Reserve for Replacements	16,800	17,472	18,171	18,898	19,654	23,912	29,092	35,395	52,393
Other	1,400	1,456	1,514	1,575	1,638	1,993	2,424	2,950	4,366
TOTAL EXPENSES	$153,040	$158,974	$165,139	$171,545	$178,202	$215,596	$260,899	$315,793	$462,959
NET OPERATING INCOME	$50,079	$50,239	$50,350	$50,408	$50,410	$49,428	$46,336	$40,377	$15,704
DEBT SERVICE									
First Lien Financing	$37,499	$37,499	$37,499	$37,499	$37,499	$37,499	$37,499	$37,499	$37,499
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$12,580	$12,740	$12,851	$12,909	$12,911	$11,929	$8,837	$2,878	($21,795)
DEBT COVERAGE RATIO	1.34	1.34	1.34	1.34	1.34	1.32	1.24	1.08	0.42

LIHTC Allocation Calculation - Bayou Bend Apartments, Waller, LIHTC 02161 LOAN PAYOFF

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S ACQUISITION ELIGIBLE BASIS	TDHCA ACQUISITION ELIGIBLE BASIS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost						
Purchase of land	$69,200	$69,200				
Purchase of buildings	$1,516,121	$1,366,121	$1,516,121	$1,366,121		
(2) Rehabilitation/New Construction Cost						
On-site work	$48,260	$48,260			$48,260	$48,260
Off-site improvements						
(3) Construction Hard Costs						
New structures/rehabilitation ha	$343,740	$343,740			$343,740	$343,740
(4) Contractor Fees & General Requirements						
Contractor overhead	$7,840	$7,840			$7,840	$7,840
Contractor profit	$23,520	$23,520			$23,520	$23,520
General requirements	$23,520	$23,520			$23,520	$23,520
(5) Contingencies	$22,344	$22,344			$22,344	$22,344
(6) Eligible Indirect Fees	$56,961	$56,961			$56,961	$56,961
(7) Eligible Financing Fees	$42,530	$42,530			$42,530	$42,530
(8) All Ineligible Costs	$26,506	$26,506				
(9) Developer Fees					$85,307	
Developer overhead	$62,055	$11,374				$11,374
Developer fee	$248,221	$73,933				$73,933
(10) Development Reserves	$71,237	$71,237				
TOTAL DEVELOPMENT COSTS	$2,562,055	$2,187,086	$1,516,121	$1,366,121	$654,022	$654,022

Deduct from Basis:						
All grant proceeds used to finance costs in eligible basis						
B.M.R. loans used to finance cost in eligible basis						
Non-qualified non-recourse financing						
Non-qualified portion of higher quality units [42(d)(3)]						
Historic Credits (on residential portion only)						
TOTAL ELIGIBLE BASIS			$1,516,121	$1,366,121	$654,022	$654,022
High Cost Area Adjustment					100%	100%
TOTAL ADJUSTED BASIS			$1,516,121	$1,366,121	$654,022	$654,022
Applicable Fraction			100%	100%	100%	100%
TOTAL QUALIFIED BASIS			$1,516,121	$1,366,121	$654,022	$654,022
Applicable Percentage			3.67%	3.67%	8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS			$55,642	$50,137	$55,199	$55,199
Syndication Proceeds		**0.7799**	**$433,961**	**$391,027**	**$430,513**	**$430,513**
			TOTAL AMOUNT OF TAX CREDITS		$110,841	$105,336
			TOTAL SYNDICATION PROCEEDS		$864,474	$821,540
					Actual Gap of Need	**$751,765**
					Gap-Driven Allocation	**$96,390**

TDHCA

02162

Region 6

Rural
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM
2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Willowchase Apartments** TDHCA #: **02162**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 1845 5th Street
City: Hempstead
County: Waller
Zip Code: 77445

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

LIHTC Primary Set Aside: R
Additional Elderly Set Aside ☐
Purpose / Activity: ACQ/R
Development Type: Family
☐ TTC ☐ DDA ☐ QCT

Special Needs: 5 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: FDI-WC 2002, Ltd.

Principal Names:	Principal Contact:	Percentage Ownership:
Fieser Real Estate Investments, Inc.	James W. Fieser	100 %
NA		0 %
NA		%
NA	NA	%
NA		%

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$91,616** Allocation over 10 Years: $916,160
Credits Requested: $126,135 Eligible Basis Amount: $107,029 Equity/Gap Amount: $91,616

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	0	0	0	0	0
40%	0	0	0	0	0	0	0
50%	0	16	41	0	0	0	57
60%	0	0	0	0	0	0	0
MR	0	0	0	0	0	0	0
Total	0	16	41	0	0	0	

Total LI Units: 57
Owner/Employee Units: 0
Total Project Units: 57
Applicable Fraction: 100.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost: **$2,194,537**
Gross Building Square Feet: 44,374
Total NRA SF: 43,505
Gross/Net Rentable: 1.02
Average Square Feet/Unit: 763
Cost Per Net Rentable Square Foot: $50.44
Credits per Low Income Unit $1,607

INCOME AND EXPENSE INFORMATION

Effective Gross Income: $190,520
Total Expenses: $142,929
Net Operating Income: $47,591
Estimated 1st Year Debt Coverage Ratio: 1.25

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer: Fieser Development, Inc.
Housing GC: D.W. S. Construction, Inc.
Infrastructure GC: NA
Cost Estimator: NA
Architect: Architectural Design Services
Property Manager: Hamilton Valley Management, Inc.
Engineer: NA
Syndicator: Midland Equity Corporation

Market Analyst: The Gerald Teel Company
Originator/UW: NA
Appraiser: The Gerald Teel Company
Attorney: NA
Supp Services: NA
Accountant: Marshall & Shafer, PC
Permanent Lender: USDA

DEPARTMENT EVALUATION

Points Awarded: 67 Site Review: Acceptable Underwriting Finding: AC

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommende

Project Name: Willowchase Apartments Project Number: 02162

PUBLIC COMMENT SUMMARY Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials): Support: **0** Opposition: **0**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:			Comment from Other Public Official
Local Official:		NC	
TX Rep.:	Tommy Williams, Dist. 15		
TX Sen.:	Steve Ogden, Dist. 5		
US Rep.:			
US Sen.:			

CONDITIONS TO COMMITMENT

Receipt, review, and acceptance of confirmation that TXRD/USDA has approved the loan transfer on an existing terms basis. Should the terms of the TXRD loan change a re-evaluation of the conclusions herein should be conducted.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☐ Score ☑ Meeting Required Set Aside ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This development is in the TxRD Set Aside. Because the TxRD Set Aside is undersubscribed it is necessary that all TxRD Developments recommended by Underwriting be recommended to the Board.

Brooke Boston, Acting LIHTC Co-Manager Date David Burrell, Director of Housing Programs Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director Date
Chairman of Executive Award and Review Advisory Committee

☐ **BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):**

Approved Credit Amount: Date of Determination:

Michael E. Jones, Chairman of the Board Date

Compliance Status Summary

Project ID #: 02162 — LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Willowchase Apartments — HOME ☐ HTF ☐

Project City: Hempstead — BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

reviewed 0 — # not yet monitored or pending review 3

of projects grouped by score — 0-9: 0 — 10-19: 0 — 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received N/A

Non-Compliance Reported

Completed by Jo En Taylor — **Completed on** 04/25/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ — no outstanding issues ☐ — outstanding issues ☐

Comments:

Completed by Lucy Trevino — **Completed on** 05/23/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ — monitoring review pending ☐

reviewed; no unresolved issues ☐ — reviewed; unresolved issues found ☐

Comments:

Completed by Ralph Hendrickson — **Completed on** 04/30/2002

Community Affairs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Programs Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☑ reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☐ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: May 13, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02162

DEVELOPMENT NAME

Willow Chase Apartments

APPLICANT

Name: FDI-WC 2002, Ltd. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 26735 Stockdick School Road **City:** Katy **State:** TX

Zip: 77493 **Contact:** James W Fieser **Phone:** (281) 371-0998 **Fax:** (281) 371-2470

PRINCIPALS of the APPLICANT

Name	(%)	Title
Fieser Real Estate Investment, Inc.	0.01	Managing General Partner
Midland Equity Corp.	99.99	Limited Partner
James W Fieser	N/A	100% owner GP

GENERAL PARTNER

Name: Fieser Real Estate Investment, Inc. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 26735 Stockdick School Road **City:** Katy **State:** TX

Zip: 77493 **Contact:** James W Fieser **Phone:** (281) 371-0998 **Fax:** (281) 371-2470

PROPERTY LOCATION

Location: 1845 5th Street ☐ **QCT** ☐ **DDA**

City: Hempstead **County:** Waller **Zip:** 77445

REQUEST

Amount	Interest Rate	Amortization	Term
$126,135	N/A	N/A	N/A

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: Acquisition/Rehabiliitation **Set-Aside:** ☐ General ☒ Rural ☐ Non-Profit

SITE DESCRIPTION

Size: 2.1522 acres 93,750 square feet **Zoning/ Permitted Uses:** R3/Multifamily

Flood Zone Designation: Zone C **Status of Off-Sites:** Fully Improved

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
CREDIT UNDERWRITING ANALYSIS

DESCRIPTION of IMPROVEMENTS

Total Units: 57 **# Rental Buildings** 7 **# Common Area Bldngs** 1 **# of Floors** 2 **Age:** 17 yrs **Vacant:** 2 at 02/ 01/ 2002

Number	Bedrooms	Bathroom	Size in SF
16	1	1	687
41	2	1	793

Net Rentable SF: 43,505 **Av Un SF:** 763 **Common Area SF:** 869 **Gross Bldng SF** 44,374

Property Type: ☒ Multifamily ☐ SFR Rental ☐ Elderly ☐ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on concrete slab on grade, 80% brick veneer/20% plywood/composite exterior wall covering with wood trim, drywall interior wall surfaces, composite shingle roofing

APPLIANCES AND INTERIOR FEATURES

Carpeting & vinyl flooring, range & oven, hood & fan, refrigerator, fiberglass tub/shower, tile counter tops, individual water heaters, heat pump

ON-SITE AMENITIES

Laundry facilities, equipped children's play area

Uncovered Parking: 106 spaces **Carports:** N/A spaces **Garages:** N/A spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Midland Mortgage Investment Corporation **Contact:** Daniel Flick

Principal Amount: $785,306 **Interest Rate:** Prime + 1%; 6.00% minimum

Additional Information: Upon award of tax credits

Amortization: N/A yrs **Term:** 1 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: USDA **Contact:** William Taylor/ Gene Pavlat

Principal Amount: $1,480,000 (12/2001) **Interest Rate:** 11.875%; subsidized to 1%

Additional Information: Applicant requesting transfer of existing loan; $1,496,250 original loan amount There are 33 years left on this loan

Amortization: 50 yrs **Term:** 50 yrs **Commitment:** ☒ None ☐ Firm ☐ Conditional

Annual Payment: $37,254 **Lien Priority:** 1st **Original Loan Date** 9/ 6/ 1985

LIHTC SYNDICATION

Source: Midland Equity Corp. **Contact:** Chris Diaz

Address: 33 N Garden Avenue **City:** Clearwater

State: FL **Zip:** 33755 **Phone:** (727) 461-4801 **Fax:** (727) 443-6067

Net Proceeds: $982,866 **Net Syndication Rate** (per $1.00 of 10-yr LIHTC) 78¢

Commitment ☐ None ☒ Firm ☐ Conditional **Date:** 02/ 14/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $120,000 **Source:** Deferred developer fee

VALUATION INFORMATION

APPRAISED VALUE

Land Only:	$37,500	**Date of Valuation:**	02/ 13/ 2002
Total: as is subject to unrestricted rents	$1,510,000	**Date of Valuation:**	02/ 25/ 2002

Appraiser: The Gerald A Teel Company, Inc. **City:** Houston **Phone:** (713) 467-5858

ASSESSED VALUE

Land:	$75,000	**Assessment for the Year of:**	2002
Building:	$360,970	**Valuation by:**	Waller County Appraisal District
Total Assessed Value:	$435,970	**Tax Rate:**	2.7704

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Earnest money contract

Contract Expiration Date: 10/ 31/ 2002 **Anticipated Closing Date:** 10/ 31/ 2002

Acquisition Cost: $ 1,630,000 **Other Terms/Conditions:** $500 earnest money; $150K cash to seller

Seller: Willow Chase Apartmetns, Ltd. **Related to Development Team Member:** Yes

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Willow Chase is a proposed acquisition and rehabilitation development of 57 units of affordable housing located on two separate sites in Hempstead. The development was built in 1984 and is comprised of seven residential buildings as follows:

- Two Building Style A with eight one-bedroom units; and
- Five Building Style B with eight two-bedroom units.
- One common area building with one two-bedroom unit attatched

Based on the site plan the apartment buildings are distributed evenly throughout the two sites with the community building located at the corner of 5th and Allen Streets.

Existing Subsidies: The development has all 57 units enrolled in the HUD Section 515 program. According to the Market Analyst:

> "Section 515 of the Housing Act provides subsidized loans to for-profit and non-profit entities to finance housing and related facilities for low and moderate-income rural renters. The government finances up to 97 percent of a project's cost at an effective interest rate of as little as one percent, amortized over 50 years.
>
> The average income of tenants of Section 515 developments is about $7,300 per year and roughly 60% are elderly households or households with individuals with disabilities. Very low-income families living in Section 515 developments may also receive rental assistance from RHS that is similar to Section 8. The maximum rents allowed per the Section 515 program are 30% or less of the median income figures. Utility allowance schedules are property specific and are approved by regional USDA offices for each USDA Section 515 property. Those properties, which are all bills paid by the landlord, will not be required to deduct any utility allowance away from the estimate of maximum monthly rents.

A review of the USDA guidelines for Section 515 Housing reveals that such housing projects may not be sold. However, conversations with Mr. Pat Sultenfuss, Chief USDA Appraiser for the State of Texas, indicate a Section 515 property may be sold. He further states that most sales are not arm's length transactions, and that the transfer is simply a change of names in order to obtain a LIHTC loan. Mr. Sultenfuss indicated that such a change in ownership structure or name is legal under the USDA guidelines."

Development Plan: As of February 1, 2002, the development had two vacant units which translates to an occupancy rate of 96%. According to the market analyst, the buildings are in average condition with average appeal. The architect's scope of work includes: rough grading, accessibility upgrades, landscaping, repair and/or replacement of the masonry, vinyl siding, stair treads, doors, roofing, light fixtures, smoke detectors, toilets, bathtub/shower enclosures, water heaters, air conditioners, ceiling fans, bathroom vent fans, windows, drywall, flooring, carpeting, cabinets, range, refrigerator and fan/hood, and exterior and interior painting. The Applicant has indicated that no tenants will be relocated during the rehabilitation of the development.

Supportive Services: The Applicant does not plan to provide supportive services.

Schedule: The Applicant anticipates construction to begin in November of 2002 and to be completed in May of 2003. The project will be placed in service and substantially leased-up in May of 2003.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside. All of the units will be reserved for low-income tenants. It is proposed that all of the units will be reserved for households earning 50% or less of AMGI. The maximum rents allowed per the USDA Section 515 program are 30% or less of the median income figures. As of October 12, 2001, the development's basic rents were $245 for one-bedroom units and $296 for two-bedroom units. The Applicant has proposed an increase to $251 for the one-bedroom units and $304 for the two-bedroom units.

Special Needs Set-Asides: Three units (5%) will be reserved for households with handicapped/developmentally disabled individuals and two units will be equipped for tenants with hearing or visual impairments.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated February 25, 2002 was prepared by The Gerald A Teel Company, Inc. and highlighted the following findings:

Definition of Market/Submarket: "The subject neighborhood in this instance is considered the City of Hempstead and the surrounding 10-20 mile radius." (p. 27) "The overall neighborhood boundaries can be defined as the County lines to the north, the Brazos River to the west, Harris County line to the east, and Interstate 10 to the south." (p.27)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY		
Type of Demand	**Units of Demand**	**% of Total Demand**
Household Growth	3	3%
Resident Turnover (55%)	100	92%
Other Sources (two years of pent-up growth)	6	5%
TOTAL ANNUAL DEMAND	**109**	**100%**

Ref: p. 71

Capture Rate: "Overall, the estimated qualified households demand is 110 units as of December 2001. This equates to a 52.0% capture rate for the subject's 56 USDA Section 515 rental units, including probable rental turnover. A capture rate of +/-50% suggests good prospects for the subject units." (p. 70) This is an acceptable capture rate as the development is already +90% leased and located in a rural area.

Market Rent Comparables: The market analyst surveyed eight comparable apartment projects totaling 421 units in the Cities of Hempstead, Prairie View and Waller. "The projects surveyed vary in size from 26 units to 76 units. As compared to the subject, the complexes surveyed are generally considered competitive, but

Clear Creek is a newer project located on US Highway 290 and is clearly superior, although it is a LIHTC project." (p. 44) "It should be noted that USDA rent restrictions are in effect for the 50-year term of the original loan, which was signed in 1985." (p. 58)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	**Proposed**	**Program Max**	**Differential**	**Market**	**Differential**
1-Bedroom (50%)	$251	$528	-$277	$360	-$109
2-Bedroom (50%)	$304	$631	-$327	$480	-$176

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: "Occupancy rates in the immediate area range from 93% to 100%, and indicate a weighted average of 97%." (p. 44)
Absorption Projections: Clear Creek is a LIHTC project that began lease-up in June 2001, and achieved stabilized occupancy in December 2001. "It is currently 98% occupied. This indicates an absorption rate of 13 units/month." (p. 44)
Known Planned Development: "To the best of our knowledge, no similar USDA projects are either under construction or planned for the subject market area. Additionally, per our discussion with the city officials of Hempstead, Prairie View and Waller, and an official of Waller County, there are no conventional or LIHTC project s proposed or under construction for the area." (p. 70) The Applicant has also submitted applications for three similar acquisition/rehabilitation developments in the same area.

The Underwriter found the market study provided sufficient information on which to base a funding recommendation.

The market analyst also provided an "as is" appraised value conclusion of $1,510,000 for the existing development. However, this value was not well-substantiated. The $1.51M figure is reconciled using only the income approach strictly based on a direct capitalization method. The appraiser utilized a built-up cap rate of 3.0%, which is based on an 8% USDA allowed maximum equity return rather than the 8.73% to 12.65% equity returns extracted from comparable sales. In addition, the appraiser derived a mortgage return using the original 50-year 1% USDA loan terms rather than the actual remaining terms on the existing USDA loan. Using the actual remaining term rather than the original 50 year term would increase the capitalization rate and reduce the value of the development based on this approach and bring it below the current outstanding loan amount. In addition, the estimated NOI projected is much greater than the maximum owner return that USDA would allow for this development based upon the appraiser's information that $150,000 in equity was initially included ion the development ($150,000 x 8%= $12K annual maximum return). The actual owner's return allowed in the 2001 and 2002 budgets is lower still at $6,300. Using either of these more justifiable figures as the maximum USDA allowable net operating income reduces the value of the development by this method by more than half to well under the current loan balance. Therefore the Appraiser's conclusion of value is not substantiated.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: A portion of the site is situated on a city block bound by 5th Street, 6th Street, Baker Street and McDade Street. The remainder of the site is located one block south of the primary subject site on the western half of a city block bound by 5th Street, 4th Street and McDade Street. Both of these locations are in the southeast quadrant of the City of Hempstead. Hempstead is located 9-10 miles northwest of the Harris/Waller County line off of US 290, 45-55 miles northwest of the Houston Central Business District. Houston is located about 40 miles northwest of the Gulf of Mexico in southeast Texas.
Population: Currently, almost four million people live in the Houston metropolitan area. In 2000, Waller County had a population of 27,488, which is expected to increase to 37,796 by 2010. The immediate neighborhood had a population of 11,076 in 2000, projected at 11,913 for 2005. This equates to 3,150 households in 2000 and 3,440 households in 2005.
Adjacent Land Uses: Abutting the subject property to the west is single family residential. Single family residential is also to the east. To the north and south are vacant tracts of land. The predominate land use in the immediate vicinity consist of older detached single-family residences, mobile homes, and apartments.

Site Access: Immediate access to both sites is from 5th Street. The subject area is accessed via US Highway 290, the primary roadway between Houston and the subject. Additionally, State Highway 6, just west of Hempstead, provides access to the main campus of the Texas A & M University, 35-45 miles northerly. Interstate 10, the primary intercoastal route from California to Florida is located about 22-25 miles to the south.

Public Transportation: The availability of public transportation is unknown.

Shopping & Services: Shopping and services within the subject area was not directly addressed by the submitted market study.

Site Inspection Findings: TDHCA staff performed a site inspection on April 9, 2002 and found it to be acceptable.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

A Phase I Environmental Site Assessment report was not included, as USDA-RD-financed projects are not required to submit this report.

OPERATING PROFORMA ANALYSIS

Income: Both the Applicant's and the Underwriter's potential gross rent estimates are based on the development's proposed basic rents under the USDA Section 515 program of $251 for one-bedroom units and $304 for two-bedroom units. It should be noted that an additional $17,839 in potential gross income could be achieved if the project could collect the maximum LIHTC net rents of $528 for one-bedroom units and $631 for two-bedroom units. The Applicant used a secondary income of $12 per unit per month that is higher than the underwriting standard of $10 per unit per month but is substantiated by historical experience and, therefore, is acceptable. The Underwriter's effective gross income estimate is within 5% of the Applicant's estimate.

Expenses: The Applicant's total annual operating expense estimate is $5K, or 3%, higher than the Underwriter's TDHCA database-derived estimate. Although adjusted to reflect the development's historical operating levels, many of the Applicant's line-item expenses differed by more than 5% or $1,500 as compared to the Applicant's estimates. These include: general and administrative ($8K lower), payroll ($13K higher), repairs and maintenance ($3K higher) and reserve for replacements ($2K lower).

Conclusion: Overall, the Applicant's net operating income estimate more than 5% lower than the Underwriter's estimate; therefore, the Underwriter's estimate will be used to determine the project's ability to service debt. Both the Applicant's proforma and the Underwriter's proforma result in a debt coverage ratio (DCR) that falls within the Department's DCR guideline of 1.10 to 1.25.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: According to the market analyst, "A review of the USDA guidelines for Section 515 Housing reveals that such housing projects may not be sold. However, conversations with Mr. Pat Sultenfuss, Chief USDA Appraiser for the State of Texas, indicates that a Section 515 property may be sold. He further states that most sales are not arm's length transactions, and that the transfer is simply a change of names in order to obtain a LIHTC loan. Mr. Sultenfuss indicated that such a change in ownership structure or name is legal under the USDA guidelines."

The land cost of $95,000 included in the submitted cost breakdown is high compared to the appraised value of $37,500. The indicated total acquisition price of $1,630,000 is also high compared to the appraised value of $1,510,000 and the tax-assessed value of $435,970. As discussed in the Market Highlights section above, the appraised value is overstated when either a more appropriate cap rate is used or the USDA's maximum allowable return to owner is used as the property's restricted NOI. In addition, only $1,471,920 remains to be paid-off on the existing loan. Although not related to the Applicant, the president of the seller is also the president of the general contractor and, therefore, the proposed sale is categorized as an identity of interest sale. The Underwriter requested additional support for the sales price in excess of the loan payoff amount, but the Applicant indicated that none was available.

The Applicant subsequently provided a letter dated May 2, 2002 which describes the situation for all four of the applications for which Mr. Fieser is a principal (Green Manor, Bayou Bend, Willow Chase, and Cedar Cove). It specifically refers to Green Manor when it reflects: "…Boston Capital has requested $245,000 to agree to the sale. The acquisition price was increased by $150,000 and the balance will have to be negotiated or paid from Developer Fees…There will be a tax issue on the sale of the properties. If the partnerships have to incur a tax liability it does not make economic sense to agree to the sale unless the sales price will generate the funds to pay taxes, etc." Attached to this letter is a letter dated May 1, 2002 from Katherine Alitz, Senior Real Estate Analyst with Boston Capital. This letter sets out to explain that with the proposed sale of Green Manor there would be a tax liability of at least $100,589, which may increase with the passage of time and continued decrease in the adjusted basis of the building. The following calculation example was provided and next to it the Underwriter has proposed an alternative calculation example if the property in the example was to be transferred at the mortgage only value.

	Boston Capital Example	Underwriter's Example
Mortgage Balance	$ 986,713	$ 986,713
Cash	245,000	-0-
Total Sales Price	$1,231,713	$ 986,713
Less Transaction Costs	-0-	-0-
Less Adjusted Building Basis	($777,357)	($777,357)
Less Land Basis	($52,000)	($52,000)
Taxable Gain on Sale	$ 402,356	$ 157,356
Capital Gain Tax Liability @ 25%	$100,589	$ 39,339

This illustrates that the tax liability would significantly decrease if the inflated acquisition price were reduced to the approximate loan balance and questions the suggestion that the higher sales price is a result of the exit taxes. On the contrary it would appear that the higher exit taxes are a result of the artificially high sales price.

The Underwriter has utilized the documented unpaid principal balance of $1,471,920 as of December 31, 2001 as the total acquisition price for the project. Less the Applicant estimated value of $95K for the underlying land, this amounts to a qualified acquisition cost of $1,376,920, which is $150K less than the Applicant's figure. This is consistent with USDA regarding their own refinancing of such projects up to the lesser of the appraised value or existing loan amount. According to Mr. Gene Pavlat, Multi-Family Director for Texas Rural Development, USDA, a higher transfer price may be allowed only where the seller can show that the tax liability for the transfer is greater than the tax liability for foreclosure. In such a case the difference in tax liability amounts as documented by the seller's CPA may be used to increase the transfer price. Neither the Applicant nor the seller have indicated that this is the situation in this case.

Site Work Cost: Because the subject is an existing development, minimal site work should be needed. Therefore, $687 per unit in site work costs appears to be reasonable.

Direct Construction Cost: The Applicant's direct construction costs were substantiated by a third party work write-up and, while low at only $6,313 per unit are considered to be reasonable as presented.

Fees: The Applicant did not claim eligible developer fees for acquisition of the existing buildings. However, the developer fees associated with the rehabilitation of the development exceed 15% of the Applicant's adjusted eligible basis. Since this is an identity of interest transaction, a developer fee for acquisition would be difficult to substantiate as the buyer will not be able to show a significant expenditure of resources to locate the property, place it under contract and conduct acquisition due diligence. Therefore none of the excess developer fee on the rehabilitation side can be moved to the acquisition side of eligible basis. As a result, the eligible potion of the Applicant's developer fee must be reduced by $231K.

Conclusion: Overall, the Applicant's total development cost exceeds the Underwriter's estimate by $388K. Because this difference is more than 5% above the verifiable range, the Underwriter's total development cost estimate will be used to calculate the development's eligible basis and need for funding. It should be noted that the development's site work costs combined with direct construction costs at $7,000 per unit is just over the $6,000 per unit minimum for hard costs under the 2002 QAP suggesting a minimal rehabilitation need.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with four types of financing: a conventional interim loan, transfer of an existing USDA permanent loan, syndicated LIHTC equity and deferred developer's fees.

Construction Financing: Midland Mortgage Investment Corporation will provide an interim construction loan of $785,306 for a term of 12 months with interest only payments at a rate of Prime plus 1% or a minimum of 6%.

Permanent Financing: The development was financed in 1985 through the USDA Section 515 program. The original loan terms included a loan amount of $1,496,250 with a 10.625% interest rate subsidized to 1% and amortized over 50 years. As of December 31, 2001, the principal remaining was $1,471,920.31. The Applicant plans to assume the loan and has written a letter addressed to Gene Pavlat, Multifamily Program Director of Rural Development, USDA, indicating intent to pursue transfer and rehabilitation of the property.

LIHTC Syndication: Midland Equity Corporation has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $982,866 based on a syndication factor of 78%. The funds would be disbursed in a three-phased pay-in schedule:

1. 85% upon completion of the development;
2. 5% upon receipt of cost and credit certification; and
3. 10% upon closing of the permanent loan, receipt of Forms 8609 or 90% physical occupancy by eligible tenants.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $120,000 amount to 38% of the total proposed fees. This level of deferred developer fee does not appear to be repayable within 15 years based on the Applicant's NOI and therefore the Applicant's scenario as presented is infeasible.

Financing Conclusions: As stated above, the Underwriter's total development cost estimate was used to calculate the project's eligible basis and need for funding. The Underwriter's total acquisition and rehabilitation eligible basis calculation resulted in a basis that is $154,868 less than the Applicant's estimate. This difference is due to several factors:

1. Based on the information presented in the application, the Underwriter could not justify a total acquisition cost that exceeds the current loan payoff amount of $1,471,920, or $150K less than the Applicant's figure.
2. The Applicant did not include a developer's fee for the acquisition portion of the eligible basis, but instead included an overstated developer's fee for the rehabilitation portion of the development.

The Underwriter's eligible basis calculation indicates that the project qualifies for tax credits in the amount of $107,029 annually for ten years. However, taking into consideration the proposed transfer of the existing USDA loan of $1,471,920, the Underwriter's total development cost estimate indicates a gap in funds of only $714,537. Based on the submitted syndication agreement, this indicates a gap driven allocation of only $91,616 annually for ten years, or $34,519 less than requested.

Alternatively, should the Board decide to accept the contract value of $1,630,000 for acquisition of the project, the development would qualify for tax credits in the amount of $112,559 annually for ten years, but the gap in funding would result in an allocation of not more than $111,885 annually for ten years and no deferred developer fee would be required.

REVIEW of ARCHITECTURAL DESIGN

The elevations are typical of 1980's construction with majority brick exteriors. All units are of average size for market rate units in the area, and they have functional floorplans with adequate storage space. The buildings are two-story walk-up structures and each unit has a single entry that is off common balconies shared with other units on each floor.

IDENTITIES of INTEREST

The general contractor and architect are related entities. The developer and Applicant are also related entities. These are common identities of interest for LIHTC-funded developments. The president of the general contractor is also the president of the current owner of the development. This identity of interest land sale was discussed in detail in the construction cost estimate evaluation section of this report.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights:

- The Applicant and General Partner are single-purpose entities created for the purpose of receiving assistance from TDHCA and therefore have no material financial statements.

- James W Fieser, president and 100% owner of the General Partner, and Patricia A Fieser, secretary of the General Partner, submitted a joint financial statement.

Background & Experience:

- The Applicant and General Partner are new entities formed for the purpose of developing the project.
- James W Fieser, 100% owner of the General Partner, has participated in two LIHTC/USDA housing developments totaling 64 units since 1999.

SUMMARY OF SALIENT RISKS AND ISSUES

- The Applicant's operating proforma is more than 5% outside of the Underwriter's verifiable range.
- The Applicant's development costs differ from the Underwriter's verifiable estimate by more than 5%.
- The development would need to capture a majority of the projected market area demand (i.e., capture rate exceeds 50%).
- The seller of the property has an identity of interest with the Applicant.
- The significant financing structure changes being proposed have not been reviewed/accepted by the Applicant, lenders, and syndicators, and acceptable alternative structures may exist.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $91,616 ANNUALLY FOR TEN YEARS.

CONDITIONS

1. Receipt, review, and acceptance of confirmation that TXRD/ USDA has approved the loan transfer on an existing terms basis. Should the terms of the TXRD loan change a re-evaluation of the conclusions herein should be conducted

Credit Underwriting Supervisor: ______________________ **Date:** May 13, 2002
Lisa Vecchietti

Director of Credit Underwriting: ______________________ **Date:** May 13, 2002
Tom Gouris

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Willow Chase Apartments, Waller, LIHTC 02162 **LOAN PAYOFF**

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC 50%	16	1	1	687	$558	$251	$4,016	$0.37	$30.00	$14.00
TC 50%	41	2	1	793	670	304	12,464	0.38	39.00	14.00
TOTAL:	57		**AVERAGE:**	763	$639	$289	$16,480	$0.38	$36.47	$14.00

INCOME	Total Net Rentable Sq Ft: 43,505				**TDHCA**	**APPLICANT**			
POTENTIAL GROSS RENT					$197,760	$197,760			
Secondary Income			Per Unit Per Month:	$12.00	8,208	8,208	$12.00	Per Unit Per Month	
Other Support Income: USDA Subsidy					0	0			
POTENTIAL GROSS INCOME					$205,968	$205,968			
Vacancy & Collection Loss			% of Potential Gross Income:	-7.50%	(15,448)	(13,176)	-6.40%	of Potential Gross Rent	
Employee or Other Non-Rental Units or Concessions					0	0			
EFFECTIVE GROSS INCOME					$190,520	$192,792			
EXPENSES		% OF EGI	PER UNIT	PER SQ FT			PER SQ FT	PER UNIT	% OF EGI
General & Administrative		7.03%	$235	$0.31	$13,388	$5,550	$0.13	$97	2.88%
Management		9.78%	327	0.43	18,635	21,068	0.48	370	10.93%
Payroll & Payroll Tax		14.62%	489	0.64	27,858	40,475	0.93	710	20.99%
Repairs & Maintenance		10.07%	337	0.44	19,185	22,600	0.52	396	11.72%
Utilities		2.45%	82	0.11	4,659	3,350	0.08	59	1.74%
Water, Sewer, & Trash		9.30%	311	0.41	17,711	17,200	0.40	302	8.92%
Property Insurance		5.43%	181	0.24	10,336	11,145	0.26	196	5.78%
Property Tax	2.7704	6.63%	222	0.29	12,632	11,500	0.26	202	5.96%
Reserve for Replacements		8.98%	300	0.39	17,100	14,962	0.34	262	7.76%
Compliance		0.75%	25	0.03	1,425	0	0.00	0	0.00%
TOTAL EXPENSES		75.02%	$2,508	$3.29	$142,929	$147,850	$3.40	$2,594	76.69%
NET OPERATING INC		24.98%	$835	$1.09	$47,591	$44,942	$1.03	$788	23.31%
DEBT SERVICE									
First Lien Mortgage		19.97%	$667	$0.87	$38,039	$38,358	$0.88	$673	19.90%
LIHTC Syndication Proceeds		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
Additional Financing		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
NET CASH FLOW		5.01%	$168	$0.22	$9,552	$6,584	$0.15	$116	3.42%
AGGREGATE DEBT COVERAGE RATIO					1.25	1.17			
ALTERNATIVE DEBT COVERAGE RATIO					1.25				

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		67.07%	$25,823	$33.83	$1,471,920	$1,630,000	$37.47	$28,596	63.11%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		1.79%	687	0.90	39,180	39,180	0.90	687	1.52%
Direct Construction		16.40%	6,313	8.27	359,821	359,821	8.27	6,313	13.93%
Contingency	5.70%	1.04%	399	0.52	22,743	22,743	0.52	399	0.88%
General Requiremen	6.00%	1.09%	420	0.55	23,940	23,940	0.55	420	0.93%
Contractor's G & A	2.00%	0.36%	140	0.18	7,980	7,980	0.18	140	0.31%
Contractor's Profi	6.00%	1.09%	420	0.55	23,940	23,940	0.55	420	0.93%
Indirect Construction		2.84%	1,094	1.43	62,380	62,380	1.43	1,094	2.42%
Ineligible Expenses		1.01%	389	0.51	22,189	22,189	0.51	389	0.86%
Developer's G & A	2.00%	0.53%	204	0.27	11,641	63,512	1.46	1,114	2.46%
Developer's Profit	13.00%	3.45%	1,328	1.74	75,669	254,049	5.84	4,457	9.84%
Interim Financing		1.92%	738	0.97	42,088	42,088	0.97	738	1.63%
Reserves		1.41%	545	0.71	31,045	31,045	0.71	545	1.20%
TOTAL COST		100.00%	$38,501	$50.44	$2,194,537	$2,582,867	$59.37	$45,313	100.00%
Recap-Hard Construction Costs		*21.76%*	***$8,379***	***$10.98***	***$477,604***	***$477,604***	***$10.98***	***$8,379***	*18.49%*

SOURCES OF FUNDS

						RECOMMENDED
First Lien Mortgage	67.44%	$25,965	$34.02	$1,480,000	$1,480,000	$1,480,000
LIHTC Syndication Proceeds	44.79%	$17,243	$22.59	982,866	982,866	714,537
Additional Financing	0.00%	$0	$0.00	0	0	0
Deferred Developer Fees	5.47%	$2,105	$2.76	120,000	120,000	0
Additional (excess) Funds Required	-17.70%	($6,813)	($8.93)	(388,329)	1	0
TOTAL SOURCES				$2,194,537	$2,582,867	$2,194,537

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Willow Chase Apartments, Waller, LIHTC 02162 LOAN PAYOFF

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook
Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost				
Adjustments				
Exterior Wall Finish				
Elderly				
Roofing				
Subfloor				
Floor Cover				
Porches/Balconies				
Plumbing				
Built-In Appliances				
Stairs/Fireplaces				
Floor Insulation				
Heating/Cooling				
Garages/Carports				
Comm &/or Aux Bldgs				
Other:				
SUBTOTAL				
Current Cost Multiplier				
Local Multiplier				
TOTAL DIRECT CONSTRUCTION COSTS				
Plans, specs, survy, bld prmts				
Interim Construction Interest				
Contractor's OH & Profit				
NET DIRECT CONSTRUCTION COSTS				

PAYMENT COMPUTATION

Primary	$1,496,250	Term	600
Int Rate	1.00%	DCR	1.25
Secondary	$982,866	Term	
Int Rate	0.00%	Subtotal DCR	1.25
Additional	$0	Term	
Int Rate		Aggregate DCR	1.25

ALTERNATIVE FINANCING STRUCTURE:

Primary Debt Service	$38,039
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$9,552

Primary	$1,496,250	Term	600
Int Rate	1.00%	DCR	1.25
Secondary	$982,866	Term	0
Int Rate	0.00%	Subtotal DCR	1.25
Additional	$0	Term	0
Int Rate	0.00%	Aggregate DCR	1.25

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$197,760	$203,693	$209,804	$216,098	$222,581	$258,032	$299,130	$346,773	$466,034
Secondary Income	8,208	8,454	8,708	8,969	9,238	10,710	12,415	14,393	19,343
Other Support Income: USDA Su	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	205,968	212,147	218,511	225,067	231,819	268,742	311,545	361,166	485,377
Vacancy & Collection Loss	(15,448)	(15,911)	(16,388)	(16,880)	(17,386)	(20,156)	(23,366)	(27,087)	(36,403)
Employee or Other Non-Rental	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$190,520	$196,236	$202,123	$208,187	$214,432	$248,586	$288,179	$334,079	$448,974
EXPENSES at 4.00%									
General & Administrative	$13,388	$13,924	$14,481	$15,060	$15,663	$19,056	$23,184	$28,207	$41,754
Management	18,635	19,194	19,770	20,363	20,974	24,314	28,187	32,676	43,914
Payroll & Payroll Tax	27,858	28,973	30,132	31,337	32,590	39,651	48,242	58,694	86,881
Repairs & Maintenance	19,185	19,953	20,751	21,581	22,444	27,306	33,222	40,420	59,832
Utilities	4,659	4,845	5,039	5,240	5,450	6,631	8,067	9,815	14,529
Water, Sewer & Trash	17,711	18,419	19,156	19,922	20,719	25,208	30,669	37,313	55,233
Insurance	10,336	10,750	11,180	11,627	12,092	14,712	17,899	21,777	32,235
Property Tax	12,632	13,137	13,663	14,209	14,778	17,980	21,875	26,614	39,395
Reserve for Replacements	17,100	17,784	18,495	19,235	20,005	24,339	29,612	36,027	53,329
Other	1,425	1,482	1,541	1,603	1,667	2,028	2,468	3,002	4,444
TOTAL EXPENSES	$142,929	$148,460	$154,207	$160,177	$166,381	$201,224	$243,425	$294,546	$431,546
NET OPERATING INCOME	$47,591	$47,776	$47,916	$48,010	$48,052	$47,362	$44,754	$39,533	$17,428
DEBT SERVICE									
First Lien Financing	$38,039	$38,039	$38,039	$38,039	$38,039	$38,039	$38,039	$38,039	$38,039
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$9,552	$9,737	$9,877	$9,970	$10,012	$9,322	$6,715	$1,493	($20,611)
DEBT COVERAGE RATIO	1.25	1.26	1.26	1.26	1.26	1.25	1.18	1.04	0.46

LIHTC Allocation Calculation - Willow Chase Apartments, Waller, LIHTC 02162 LOAN PAYOFF

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S ACQUISITION ELIGIBLE BASIS	TDHCA ACQUISITION ELIGIBLE BASIS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost						
Purchase of land	$95,000	$95,000				
Purchase of buildings	$1,535,000	$1,376,920	$1,535,000	$1,376,920		
(2) Rehabilitation/New Construction Cost						
On-site work	$39,180	$39,180			$39,180	$39,180
Off-site improvements						
(3) Construction Hard Costs						
New structures/rehabilitation ha	$359,821	$359,821			$359,821	$359,821
(4) Contractor Fees & General Requirements						
Contractor overhead	$7,980	$7,980			$7,980	$7,980
Contractor profit	$23,940	$23,940			$23,940	$23,940
General requirements	$23,940	$23,940			$23,940	$23,940
(5) Contingencies	$22,743	$22,743			$22,743	$22,743
(6) Eligible Indirect Fees	$62,380	$62,380			$62,380	$62,380
(7) Eligible Financing Fees	$42,088	$42,088			$42,088	$42,088
(8) All Ineligible Costs	$22,189	$22,189				
(9) Developer Fees					$87,311	
Developer overhead	$63,512	$11,641				$11,641
Developer fee	$254,049	$75,669				$75,669
(10) Development Reserves	$31,045	$31,045				
TOTAL DEVELOPMENT COSTS	$2,582,867	$2,194,537	$1,535,000	$1,376,920	$669,383	$669,383

Deduct from Basis:						
All grant proceeds used to finance costs in eligible basis						
B.M.R. loans used to finance cost in eligible basis						
Non-qualified non-recourse financing						
Non-qualified portion of higher quality units [42(d)(3)]						
Historic Credits (on residential portion only)						
TOTAL ELIGIBLE BASIS			$1,535,000	$1,376,920	$669,383	$669,383
High Cost Area Adjustment					100%	100%
TOTAL ADJUSTED BASIS			$1,535,000	$1,376,920	$669,383	$669,383
Applicable Fraction			100%	100%	100%	100%
TOTAL QUALIFIED BASIS			$1,535,000	$1,376,920	$669,383	$669,383
Applicable Percentage			3.67%	3.67%	8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS			$56,335	$50,533	$56,496	$56,496
Syndication Proceeds		**0.7799**	**$439,365**	**$394,118**	**$440,624**	**$440,624**
			TOTAL AMOUNT OF TAX CREDITS		$112,830	$107,029
			TOTAL SYNDICATION PROCEEDS		$879,989	$834,742
					Actual Gap of Need	**$714,537**
					Gap-Driven Allocation	**$91,616**

TDHCA

02163

Region 6

Rural
Set-Aside

LOW INCOME HOUSING TAX CREDIT PROGRAM
2002 DEVELOPMENT PROFILE AND BOARD SUMMARY FOR RECOMMENDED APPLICATIONS
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Development Name: **Cedar Cove Apartments** TDHCA #: **02163**

DEVELOPMENT LOCATION AND DESIGNATIONS

Region: 6
Site Address: 1400 Eagle Lake Drive
City: Sealy
County: Austin
Zip Code: 77474

Set Asides: AR=At Risk, NP=Nonprofit, G=General, R=Rural
Purposes: N=New Construction, A=Acquisition, R=Rehabilitation

LIHTC Primary Set Aside: R
Additional Elderly Set Aside ☐
Purpose / Activity: ACQ/R
Development Type: Family
☐ TTC ☐ DDA ☐ QCT

Special Needs: 3 Units for Handicapped/Developmentally Disabled

OWNER AND PRINCIPAL INFORMATION

Owner Entity Name: FDI-CC 2002, Ltd.

Principal Names:	Principal Contact:	Percentage Ownership:
Fieser Real Estate Investments, Inc.	James W. Fieser	100 %
		0 %
		%
		%
		%

TAX CREDIT ALLOCATION INFORMATION

Annual Credit Allocation Recommendation: **$93,636** Allocation over 10 Years: $936,360
Credits Requested: $123,035 Eligible Basis Amount: $104,243 Equity/Gap Amount: $93,636

UNIT INFORMATION

	Eff	1 BR	2 BR	3 BR	4 BR	5 BR	Total
30%	0	0	0	0	0	0	0
40%	0	0	0	0	0	0	0
50%	0	16	38	0	0	0	54
60%	0	0	0	0	0	0	0
MR	0	0	0	0	0	0	0
Total	0	16	38	0	0	0	

Total LI Units: 54
Owner/Employee Units: 0
Total Project Units: 54
Applicable Fraction: 100.00

Applicable fraction is the lesser of the unit fraction or the square foot fraction attributable to low income units.

BUILDING INFORMATION

Total Development Cost: **$2,134,947**
Gross Building Square Feet: 42,427
Total NRA SF: 41,646
Gross/Net Rentable: 1.02
Average Square Feet/Unit: 771
Cost Per Net Rentable Square Foot: $51.26
Credits per Low Income Unit $1,734

INCOME AND EXPENSE INFORMATION

Effective Gross Income: $190,143
Total Expenses: $149,897
Net Operating Income: $40,246
Estimated 1st Year Debt Coverage Ratio: 1.10

DEVELOPMENT TEAM

Note: "NA" = Not Yet Available

Developer: Fieser Development, Inc.
Housing GC: D.W. & S. Construction, Inc.
Infrastructure GC: NA
Cost Estimator: NA
Architect: Architectural Design Services
Property Manager: Hamilton Valley Management, Inc.
Engineer: NA
Syndicator: Midland Equity Corporation

Market Analyst: The Gerald Teel Company
Originator/UW: NA
Appraiser: The Gerald Teel Company
Attorney: NA
Supp Services: NA
Accountant: Marshall & Shafer, PC
Permanent Lender: USDA

DEPARTMENT EVALUATION

Points Awarded: 68 Site Review: Acceptable Underwriting Finding: AC

Underwriting Findings: A=Acceptable, AC=Acceptable with Conditions, NR=Not Recommende

Project Name: Cedar Cove Apartments | Project Number: 02163

PUBLIC COMMENT SUMMARY Note: "O" = Opposed, "S" = Support, "NC" or Blank = No comment

# of Letters, Petitions, or Witness Affirmation Forms(not from Officials): Support: **0** Opposition: **0**

☐ A resolution was passed by the local government in support of the development.

Local/State/Federal Officials w/ Jurisdiction:		Comment from Other Public Official
Local Official:	Betty Reinbeck, Mayor, S	
TX Rep.:	Lois Kolkhorst, Dist. 13	
TX Sen.:	Ken Armbrister, Dist. 18	
US Rep.:		
US Sen.:		

CONDITIONS TO COMMITMENT

Receipt, review, and acceptance of confirmation that TXRD/USDA has approved the loan transfer on an existing terms basis. Should the terms of the TXRD loan change a re-evaluation of the conclusions herein should be conducted.

Alternate Recommendation:

RECOMMENDATION BY PROGRAM MANAGER AND DIRECTOR OF HOUSING PROGRAMS IS BASED ON:

☐ Score ☑ Meeting Required Set Aside ☐ Meeting the Regional Allocation

☐ To serve a greater number of lower income families for fewer credits

☐ To serve a greater number of lower income families for a longer period of time

☐ To ensure the Development's consistency with local needs or its impact as part of a revitalization or preservation plan

☐ To ensure the allocation of credits among as many different entities as practicable without diminishing the quality of the housing that is built

Comment: This development is in the TxRD Set Aside. Because the TxRD Set Aside is undersubscribed it is necessary that all TxRD Developments recommended by Underwriting be recommended to the Board.

Brooke Boston, Acting LIHTC Co-Manager Date David Burrell, Director of Housing Programs Date

RECOMMENDATION BY THE EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

The recommendation by the Executive Award and Review Advisory Committee for the 2002 LIHTC applications is also based on the above reasons. If a decision was based on any additional reason, that reason is identified below:

Edwina Carrington, Executive Director
Chairman of Executive Award and Review Advisory Committee Date

☐ **BOARD OF DIRECTOR'S APPROVAL AND DESCRIPTION OF DISCRETIONARY FACTORS (if applicable):**

Approved Credit Amount: Date of Determination:

Michael E. Jones, Chairman of the Board Date

Compliance Status Summary

Project ID #: 02163 — LIHTC 9% ☑ LIHTC 4% ☐

Project Name: Cedar Cove Apartments — HOME ☐ HTF ☐

Project City: — BOND ☐ SECO ☐

Housing Compliance Review

Project(s) in material non-compliance ☐

No previous participation ☐

Status of Findings (individual compliance status reports and National Previous Participation and Background Certification(s) available)

Projects Monitored by the Department

\# reviewed 0 — # not yet monitored or pending review 3

\# of projects grouped by score — 0-9: 0 — 10-19: 0 — 20-29: 0

Members of the development team have been disbarred by HUD ☐

National Previous Participation Certification Received N/A

Non-Compliance Reported

Completed by Jo En Taylor **Completed on** 04/25/2002

Single Audit

Status of Findings (any outstanding single audit issues are listed below)

single audit not applicable ☑ no outstanding issues ☐ outstanding issues ☐

Comments:

Completed by Lucy Trevino **Completed on** 05/23/2002

Program Monitoring

Status of Findings (any unresolved issues are listed below)

monitoring review not applicable ☑ monitoring review pending ☐

reviewed; no unresolved issues ☐ reviewed; unresolved issues found ☐

Comments:

Completed by Ralph Hendrickson **Completed on** 04/30/2002

Community Affairs

Status of Findings (any unresolved issues are listed below)

- monitoring review not applicable ☑
- monitoring review pending ☐
- reviewed; no unresolved issues ☐
- reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Finance

Status of Findings (any unresolved issues are listed below)

- monitoring review not applicable ☐
- monitoring review pending ☐
- reviewed; no unresolved issues ☐
- reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Housing Programs

Status of Findings (any unresolved issues are listed below)

- monitoring review not applicable ☐
- monitoring review pending ☐
- reviewed; no unresolved issues ☑
- reviewed; unresolved issues found ☐

Comments:

Completed by E. Weilbaecher **Completed on** 06/06/2002

Multifamily Finance

Status of Findings (any unresolved issues are listed below)

- monitoring review not applicable ☐
- monitoring review pending ☐
- reviewed; no unresolved issues ☐
- reviewed; unresolved issues found ☐

Comments:

Completed by ____________ **Completed on** ____________

Executive Director: Edwina Carrington **Date Signed:** June 10, 2002

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS

DATE: May 13, 2002 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02163

DEVELOPMENT NAME

Cedar Cove Apartments

APPLICANT

Name: FDI-CC 2002, Ltd. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 26735 Stockdick School Road **City:** Katy **State:** TX

Zip: 77493 **Contact:** James W Fieser **Phone:** (281) 371-0998 **Fax:** (281) 371-2470

PRINCIPALS of the APPLICANT

Name	(%)	Title
Fieser Real Estate Investment, Inc.	0.01	Managing General Partner
Midland Equity Corp.	99.99	Limited Partner
James W Fieser	N/A	100% owner GP

GENERAL PARTNER

Name: Fieser Real Estate Investment, Inc. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

Address: 26735 Stockdick School Road **City:** Katy **State:** TX

Zip: 77493 **Contact:** James W Fieser **Phone:** (281) 371-0998 **Fax:** (281) 371-2470

PROPERTY LOCATION

Location: 1400 Eagle Lake Drive ☐ **QCT** ☐ **DDA**

City: Sealy **County:** Austin **Zip:** 77474

REQUEST

Amount	Interest Rate	Amortization	Term
$123,035	N/A	N/A	N/A

Other Requested Terms: Annual ten-year allocation of low-income housing tax credits

Proposed Use of Funds: Acquisition/Rehabiliitation **Set-Aside:** ☐ General ☒ Rural ☐ Non-Profit

SITE DESCRIPTION

Size: 3.9486 acres 172,001 square feet **Zoning/ Permitted Uses:** N/A (City of Sealy)

Flood Zone Designation: Zone X **Status of Off-Sites:** Fully Improved

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
CREDIT UNDERWRITING ANALYSIS

DESCRIPTION of IMPROVEMENTS

Total Units: 54 **# Rental Buildings** 7 **# Common Area Bldngs** 1 **# of Floors** 2 **Age:** 16 yrs **Vacant:** 1 at 02/ 01/ 2002

Number	Bedrooms	Bathroom	Size in SF
16	1	1	634
38	2	1	829

Net Rentable SF: 41,646 **Av Un SF:** 771 **Common Area SF:** 781 **Gross Bldng SF** 42,427

Property Type: ☒ Multifamily ☐ SFR Rental ☐ Elderly ☐ Mixed Income ☐ Special Use

CONSTRUCTION SPECIFICATIONS

STRUCTURAL MATERIALS

Wood frame on concrete slab on grade, 70% brick veneer/30% plywood/composite exterior wall covering with wood trim, drywall interior wall surfaces, composite shingle roofing

APPLIANCES AND INTERIOR FEATURES

Carpeting & vinyl flooring, range & oven, hood & fan, refrigerator, fiberglass tub/shower, tile counter tops, individual water heaters, heat pump, evaporative cooling

ON-SITE AMENITIES

Laundry facilities, equipped children's play area

Uncovered Parking: 81 spaces **Carports:** N/A spaces **Garages:** N/A spaces

OTHER SOURCES of FUNDS

INTERIM CONSTRUCTION or GAP FINANCING

Source: Midland Mortgage Investment Corporation **Contact:** Daniel Flick

Principal Amount: $797,051 **Interest Rate:** Prime + 1%; 6.00% minimum

Additional Information: Upon award of tax credits

Amortization: N/A yrs **Term:** 1 yrs **Commitment:** ☐ None ☐ Firm ☒ Conditional

LONG TERM/PERMANENT FINANCING

Source: USDA **Contact:** William Taylor/ Gene Pavlat

Principal Amount: $1,404,663 (12/2001) **Interest Rate:** 9.5%; subsidized to 1%

Additional Information: Applicant requesting transfer of existing loan; $1,441,800 original loan amount. There are 34 years left on this loan.

Amortization: 50 yrs **Term:** 50 yrs **Commitment:** ☒ None ☐ Firm ☐ Conditional

Annual Payment: $36,780 **Lien Priority:** 1st **Original Loan Date** 12/ 22/ 1986

LIHTC SYNDICATION

Source: Midland Equity Corp. **Contact:** Chris Diaz

Address: 33 N Garden Avenue **City:** Clearwater

State: FL **Zip:** 33755 **Phone:** (727) 461-4801 **Fax:** (727) 443-6067

Net Proceeds: $958,717 **Net Syndication Rate** (per $1.00 of 10-yr LIHTC) 78¢

Commitment ☐ None ☒ Firm ☐ Conditional **Date:** 02/ 14/ 2002

Additional Information:

APPLICANT EQUITY

Amount: $150,000 **Source:** Deferred developer fee

VALUATION INFORMATION

APPRAISED VALUE

Land Only:	$51,619	**Date of Valuation:**	02/ 13/ 2002
Total: as is subject to unrestricted rents	$1,750,000	**Date of Valuation:**	02/ 27/ 2002

Appraiser: The Gerald A Teel Company, Inc. **City:** Houston **Phone:** (713) 467-5858

ASSESSED VALUE

Land:	$31,790	**Assessment for the Year of:**	2001
Building:	$524,054	**Valuation by:**	Austin County Appraisal District
Total Assessed Value:	$555,844	**Tax Rate:**	2.4049

EVIDENCE of SITE or PROPERTY CONTROL

Type of Site Control: Earnest money contract

Contract Expiration Date: 10/ 31/ 2002 **Anticipated Closing Date:** 10/ 31/ 2002

Acquisition Cost: $ 1,554,663 **Other Terms/Conditions:** $500 earnest money; $150K cash to seller

Seller: Cedar Cove Apartmetns, Ltd. **Related to Development Team Member:** Yes

REVIEW of PREVIOUS UNDERWRITING REPORTS

No previous reports.

PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

Description: Cedar Cove is a proposed acquisition and rehabilitation development of 54 units of affordable housing located in Sealy. The development was built in 1986 and is comprised of seven residential buildings as follows:

- Two Building Style A with eight one-bedroom units;
- One Building Style B with two two-bedroom units;
- Three Building Style C with eight two-bedroom units; and
- One Building Style D with twelve two-bedroom units.

Based on the site plan the apartment buildings are distributed evenly throughout the site with the office/laundry building located near the center.

Existing Subsidies: The development has all 54 units enrolled in the HUD Section 515 program. According to the Market Analyst:

> "Section 515 of the Housing Act provides subsidized loans to for-profit and non-profit entities to finance housing and related facilities for low and moderate-income rural renters. The government finances up to 97 percent of a project's cost at an effective interest rate of as little as one percent, amortized over 50 years.
>
> The average income of tenants of Section 515 developments is about $7,300 per year and roughly 60% are elderly households or households with individuals with disabilities. Very low-income families living in Section 515 developments may also receive rental assistance from RHS that is similar to Section 8. The maximum rents allowed per the Section 515 program are 30% or less of the median income figures. Utility allowance schedules are property specific and are approved by regional USDA offices for each USDA Section 515 property. Those properties, which are all bills paid by the landlord, will not be

required to deduct any utility allowance away from the estimate of maximum monthly rents.

A review of the USDA guidelines for Section 515 Housing reveals that such housing projects may not be sold. However, conversations with Mr. Pat Sultenfuss, Chief USDA Appraiser for the State of Texas, indicate a Section 515 property may be sold. He further states that most sales are not arm's length transactions, and that the transfer is simply a change of names in order to obtain a LIHTC loan. Mr. Sultenfuss indicated that such a change in ownership structure or name is legal under the USDA guidelines."

Development Plan: As of February 1, 2002, the development had one vacant unit which translates to an occupancy rate of 98%. According to the market analyst, the buildings are in average condition with average appeal. The architect's scope of work includes: fine grading, site drainage, accessibility upgrades, landscaping, repair and/or replacement of fencing, stairs, doors, roofing, light fixtures, smoke detectors, toilets, sinks, bathtub/shower enclosures, water heaters, air conditioners, ceiling fans, windows, screens, drywall, flooring, carpeting, cabinets, range, refrigerator and fan/hood, and exterior and interior painting. The Applicant has indicated that no tenants will be relocated during the rehabilitation of the development.

Supportive Services: The Applicant does not plan to provide supportive services.

Schedule: The Applicant anticipates construction to begin in November of 2002 and to be completed in May of 2003. The project will be placed in service and substantially leased-up in May of 2003.

POPULATIONS TARGETED

Income Set-Aside: The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside. All of the units will be reserved for low-income tenants. It is proposed that all of the units will be reserved for households earning 50% or less of AMGI. The maximum rents allowed per the USDA Section 515 program are 30% or less of the median income figures. As of November 14, 2001, the development's basic rents were $265 for one-bedroom units and $325 for two-bedroom units. The Applicant has not proposed changes to these rent levels.

Special Needs Set-Asides: Three units (5%) will be reserved for households with handicapped/developmentally disabled individuals and two units will be equipped for tenants with hearing or visual impairments.

Compliance Period Extension: The Applicant has elected to extend the compliance period an additional 25 years.

MARKET HIGHLIGHTS

A market feasibility study dated February 25, 2002 was prepared by The Gerald A Teel Company, Inc. and highlighted the following findings:

Definition of Market/Submarket: "The subject neighborhood in this instance is considered the City of Sealy and surrounding areas." (p. 16)

ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY		
Type of Demand	**Units of Demand**	**% of Total Demand**
Household Growth	3	2%
Resident Turnover (55%)	153	98%
TOTAL ANNUAL DEMAND	**156**	**100%**

Ref: p. 48

Capture Rate: "Overall, the estimated qualified households demand is 156 units as of December 2001. This equates to a 35.9% capture rate for the subject's 54 USDA Section 515 rental units, including probable rental turnover. This capture rate suggests god prospects for the subject units." (p. 47) This is an acceptable capture rate as the development is already +90% leased and located in a rural area.

Market Rent Comparables: The market analyst surveyed three comparable apartment projects totaling 132 units. (p. 26-28)

RENT ANALYSIS (net tenant-paid rents)					
Unit Type (% AMI)	Proposed	Program Max	Differential	Market	Differential
1-Bedroom (50%)	$265	$443	-$178	$350	-$85
2-Bedroom (50%)	$325	$529	-$204	$425	-$100

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

Submarket Vacancy Rates: "Occupancy rates in the immediate area range from 95% to 100%, and indicate a weighted average of 99%." (p. 26)
Absorption Projections: Not discussed in submitted market study.
Known Planned Development: "We are not aware of any planned projects for the immediate subject market area" (p. 38) "To the best of our knowledge there are no similar USDA projects either under construction or planned for the subject market area. Additionally, per our discussions with the city officials of the City of Sealy, and officials of Austin County, there are no conventional or LIHTC projects proposed or under construction in the area." (p. 47) The Applicant has also submitted applications for three similar acquisition/rehabilitation developments in the same area.

The Underwriter found the market study provided sufficient information on which to base a funding recommendation.

The market analyst also provided an "as is" appraised value conclusion of $1,750,000 for the existing development. However, this value was not well-substantiated. The $1.75M figure is reconciled using only the income approach strictly based on a direct capitalization method. The appraiser utilized a built-up cap rate of 3.0%, which is based on an 8% USDA allowed maximum equity return rather than the 8.73% to 12.65% equity returns extracted from comparable sales. In addition, the appraiser derived a mortgage return using the original 50-year 1% USDA loan terms rather than the actual remaining terms on the existing USDA loan. Using the actual remaining term rather than the original 50 year term would increase the capitalization rate and reduce the value of the development based on this approach and bring it below the current outstanding loan amount. In addition, the estimated NOI projected is much greater than the maximum owner return that USDA would allow for this development based upon the appraiser's information that $150,000 in equity was initially included ion the development ($150,000 x 8%= $12K annual maximum return). The actual owner's return allowed in the 2001 and 2002 budgets is lower still at $6,072. Using either of these more justifiable figures as the maximum USDA allowable net operating income reduces the value of the development by this method by more than half to well under the current loan balance. Therefore, the Appraiser's conclusion of value is not substantiated.

SITE and NEIGHBORHOOD CHARACTERISTICS

Location: The subject site is located on the south line of Eagle Lake Drive, just east of US Highway 90 in the southwest quadrant of the City of Sealy. Sealy is located in Austin County, in the Coastal Bend area about 75 miles northwest of the Gulf of Mexico.
Population: Currently, 5,248 people are estimated to live in Sealy. The immediate neighborhood had a population of 5,953 in 2000, projected at 6,279 for 2005. This equates to 2,173 households in 2000 and 2,309 households in 2005.
Adjacent Land Uses: This area is developed primarily with residential concerns. Typical development consists of single- and multi-family residential, duplexes and a new nursing home across the street from the subject.
Site Access: Immediate access is from Eagle Lake Drive. The subject area is accessed via IH 10, which effectively is the southern neighborhood boundary and is the primary intercoastal route from California to Florida. Access to this interstate freeway is via State Highway 36, which extends through the central portion of the City of Sealy.
Public Transportation: The availability of public transportation is unknown.
Shopping & Services: Shopping and services within the subject area was not directly addressed by the submitted market study.
Site Inspection Findings: TDHCA staff performed a site inspection on April 10, 2002 and found it to be

acceptable.

HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

A Phase I Environmental Site Assessment report was not included, as USDA-RD-financed projects are not required to submit this report.

OPERATING PROFORMA ANALYSIS

Income: Both the Applicant's and the Underwriter's potential gross rent estimates are based on the development's proposed basic rents under the USDA Section 515 program of $265 for one-bedroom units and $325 for two-bedroom units. It should be noted that an additional $10,600 in potential gross income could be achieved if the project could collect the maximum LIHTC net rents of $443 for one-bedroom units and $529 for two-bedroom units. The Applicant's use of a lower than customary $6 per unit per month in secondary income. The Underwriter included $10 per unit per month in secondary income. Despite the Applicant's use of a 6.5% vacancy rate rather than the underwriting guideline of 7.5%, the effective gross income estimates are within 5%.
Expenses: The Applicant's total annual operating expense estimate is $3.9K, or 2.6%, lower than the Underwriter's TDHCA database-derived estimate. Although adjusted to reflect the development's historical operating levels, many of the Applicant's line-item expenses differed by more than 5% or $1,500 as compared to the Underwriter's estimates. These include: general and administrative ($7K lower), repairs and maintenance ($7K higher) and reserve for replacements ($2K lower).
Conclusion: Overall, the Applicant's net operating income estimate is more than 5% greater than the Underwriter's estimate; therefore, the Underwriter's estimate will be used to determine the project's ability to service debt. Both the Applicant's proforma and the Underwriter's proforma result in a debt coverage ratio (DCR) that falls within the Department's DCR guideline of 1.10 to 1.25. It should be noted however that the Underwriter's long term proforma for this development does not look good as the DCR is not projected to go above 1.10 and more likely is anticipated to drop below 1.10 after the first year and drop below 1.10 just after year 10. It is highly likely that USDA will have to react quickly to changes in expenses and may need to be more supportive of rental increases for this development in order for it to maintain feasibility in the very near future.

CONSTRUCTION COST ESTIMATE EVALUATION

Land Value: According to the market analyst, "A review of the USDA guidelines for Section 515 Housing reveals that such housing projects may not be sold. However, conversations with Mr. Pat Sultenfuss, Chief USDA Appraiser for the State of Texas, indicates that a Section 515 property may be sold. He further states that most sales are not arm's length transactions, and that the transfer is simply a change of names in order to obtain a LIHTC loan. Mr. Sultenfuss indicated that such a change in ownership structure or name is legal under the USDA guidelines."

The land cost of $31,790 included in the submitted cost breakdown is low compared to the appraised value of $51,619. However, the tax assessed value for the land is $31,790. The indicated total acquisition price of $1,554,663 is low compared to the appraised value of $1,750,000, but high compared to the tax-assessed value of $555,844. As discussed in the Market Highlights section above, the appraised value is overstated when either a more appropriate cap rate is used or the USDA's maximum allowable return to owner is used as the property's restricted NOI. In addition, only $1,404,663 remains to be paid-off on the existing loan. Although not related to the Applicant, the president of the seller is also the president of the general contractor and, therefore, the proposed sale is categorized as an identity of interest sale. The Underwriter requested additional support for the sales price in excess of the loan payoff amount, but the Applicant indicated that none was available.

The Applicant subsequently provided a letter dated May 2, 2002 which describes the situation for all four of the applications for which Mr. Fieser is a principal (Green Manor, Bayou Bend, Willow Chase, and Cedar Cove). It specifically refers to Green Manor when it reflects: "…Boston Capital has requested $245,000 to agree to the sale. The acquisition price was increased by $150,000 and the balance will have to be negotiated or paid from Developer Fees…There will be a tax issue on the sale of the properties. If the partnerships have to incur a tax liability it does not make economic sense to agree to the sale unless the sales price will generate the funds to pay taxes, etc." Attached to this letter is a letter dated May 1, 2002 from Katherine Alitz, Senior

Real Estate Analyst with Boston Capital. This letter sets out to explain that with the proposed sale of Green Manor there would be a tax liability of at least $100,589, which may increase with the passage of time and continued decrease in the adjusted basis of the building. The following calculation example was provided and next to it the Underwriter has proposed an alternative calculation example if the property in the example was to be transferred at the mortgage only value.

	Boston Capital Example	Underwriter's Example
Mortgage Balance	$ 986,713	$ 986,713
Cash	245,000	-0-
Total Sales Price	$1,231,713	$ 986,713
Less Transaction Costs	-0-	-0-
Less Adjusted Building Basis	($777,357)	($777,357)
Less Land Basis	($52,000)	($52,000)
Taxable Gain on Sale	$ 402,356	$ 157,356
Capital Gain Tax Liability @ 25%	$100,589	$ 39,339

This illustrates that the tax liability would significantly decrease if the inflated acquisition price were reduced to the approximate loan balance and questions the suggestion that the higher sales price is a result of the exit taxes. On the contrary it would appear that the higher exit taxes are a result of the artificially high sales price.

The Underwriter has utilized the documented unpaid principal balance of $1,404,663 as of December 31, 2001 as the total acquisition price for the project. Less the assessed value of $31,790 for the underlying land, this amounts to a qualified acquisition cost of $1,372,837, which is $150K less than the Applicant's figure. This is consistent with USDA regarding their own refinancing of such projects up to the lesser of the appraised value or existing loan amount. According to Mr. Gene Pavlat, Multi-Family Director for Texas Rural Development, USDA, a higher transfer price may be allowed only where the seller can show that the tax liability for the transfer is greater than the tax liability for foreclosure. In such a case the difference in tax liability amounts as documented by the seller's CPA may be used to increase the transfer price. Neither the Applicant nor the seller have indicated that this is the situation in this case.

Site Work Cost: Because the subject is an existing development, minimal site work should be needed. Therefore, $1,220 per unit in site work costs appears to be reasonable.

Direct Construction Cost: The Applicant's direct construction costs were substantiated by a third party work write-up and, while low at only $5,780 per unit are considered to be reasonable as presented.

Fees: The Applicant did not claim eligible developer fees for acquisition of the existing buildings. However, the developer fees associated with the rehabilitation of the development exceed 15% of the Applicant's adjusted eligible basis. Since this is an identity of interest transaction, a developer fee for acquisition would be difficult to substantiate as the buyer will not be able to show a significant expenditure of resources to locate the property, place it under contract and conduct acquisition due diligence. Therefore none of the excess developer fee on the rehabilitation side can be moved to the acquisition side of eligible basis. As a result, the eligible potion of the Applicant's developer fee must be reduced by $229K. Since this reduction stems from the 9% credit side of the eligible basis/credit calculation, this will have a more pronounced effect on the recommended credits.

Conclusion: Overall, the Applicant's total development cost exceeds the Underwriter's estimate by $378K. Because this difference is more than 5% above the verifiable range, the Underwriter's total development cost estimate will be used to calculate the development's eligible basis and need for funding. It should be noted that the development's site work costs combined with direct construction costs at $7,000 per unit is just over the $6,000 per unit minimum for hard costs under the 2002 QAP suggesting a minimal rehabilitation need.

FINANCING STRUCTURE ANALYSIS

The Applicant intends to finance the development with four types of financing: a conventional interim loan, transfer of an existing USDA permanent loan, syndicated LIHTC equity and deferred developer's fees.

Construction Financing: Midland Mortgage Investment Corporation will provide an interim construction loan of $797,051 for a term of 12 months with interest only payments at a rate of Prime plus 1% or a minimum of 6%.

Permanent Financing: The development was financed in 1986 through the USDA Section 515 program. The original loan terms included a loan amount of $1,441,800 with a 9.50% interest rate subsidized to 1% and amortized over 50 years. As of December 31, 2001, the principal remaining was $1,404,662.59. The Applicant plans to assume the loan and has written a letter addressed to Gene Pavlat, Multifamily Program Director of Rural Development, USDA, indicating intent to pursue transfer and rehabilitation of the property.

LIHTC Syndication: Midland Equity Corporation has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be $958,717 based on a syndication factor of 78%. The funds would be disbursed in a three-phased pay-in schedule:

1. 85% upon completion of the development;
2. 5% upon receipt of cost and credit certification; and
3. 10% upon closing of the permanent loan, receipt of Forms 8609 or 90% physical occupancy by eligible tenants.

Deferred Developer's Fees: The Applicant's proposed deferred developer's fees of $150,000 amount to 48% of the total proposed fees. This level of deferred developer fee does not appear to be repayable within 15 years based on the Applicant's NOI and therefore the Applicant's scenario as presented is infeasible.

Financing Conclusions: As stated above, the Underwriter's total development cost estimate was used to calculate the project's eligible basis and need for funding. The Underwriter's total acquisition and rehabilitation eligible basis calculation resulted in a basis that is $146,957 less than the Applicant's estimate. This difference is due to several factors:

1. Based on the information presented in the application, the Underwriter could not justify a total acquisition cost that exceeds the current loan payoff amount of $1,404,663, or $150K less than the Applicant's figure.
2. The Applicant did not include a developer's fee for the acquisition portion of the eligible basis, but instead included an overstated developer's fee for the rehabilitation portion of the development.

The Underwriter's eligible basis calculation indicates that the project qualifies for tax credits in the amount of $104,243 annually for ten years. However, taking into consideration the proposed transfer of the existing USDA loan of $1,404,663, the Underwriter's total development cost estimate indicates a gap in funds of only $730,284. Based on the submitted syndication agreement, this indicates a gap driven allocation of only $93,636 annually for ten years, or $29,414 less than requested.

Alternatively, should the Board decide to accept the contract value of $1,554,663 for acquisition of the project, the development would qualify for tax credits in the amount of $109,748 annually for ten years. Under this scenario, the Underwriter's total development cost estimate would result in a need for deferred developer fees of $26,340, or $123,660 less than anticipated by the Applicant. This amount would be repayable from project cash flow within fifteen years of stabilized occupancy.

REVIEW of ARCHITECTURAL DESIGN

The elevations are typical of 1980's construction with majority brick exteriors. All units are of average size for market rate units in the area, and they have functional floorplans with adequate storage space. The buildings are two-story walk-up structures and the units have single entries off common balconies shared with other units on each floor.

IDENTITIES of INTEREST

The general contractor and architect are related entities. The developer and Applicant are also related entities. These are common identities of interest for LIHTC-funded developments. The president of the general contractor is also the president of the current owner of the development. This identity of interest land sale was discussed in detail in the construction cost estimate evaluation section of this report.

APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

Financial Highlights:

- The Applicant and General Partner are single-purpose entities created for the purpose of receiving assistance from TDHCA and therefore have no material financial statements.

- James W Fieser, president and 100% owner of the General Partner, and Patricia A Fieser, secretary of the General Partner, submitted a joint financial statement.

Background & Experience:

- The Applicant and General Partner are new entities formed for the purpose of developing the project.
- James W Fieser, 100% owner of the General Partner, has participated in two LIHTC/USDA housing developments totaling 64 units since 1999.

SUMMARY OF SALIENT RISKS AND ISSUES

- The Applicant's operating proforma is more than 5% outside of the Underwriter's verifiable range.
- The Applicant's development costs differ from the Underwriter's verifiable estimate by more than 5%.
- The seller of the property has an identity of interest with the Applicant.
- The significant financing structure changes being proposed have not been reviewed/accepted by the Applicant, lenders, and syndicators, and acceptable alternative structures may exist.

RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $93,636 ANNUALLY FOR TEN YEARS.

CONDITIONS

1. Receipt, review, and acceptance of confirmation that TXRD/ USDA has approved the loan transfer on an existing terms basis. Should the terms of the TXRD loan change a re-evaluation of the conclusions herein should be conducted.

Credit Underwriting Supervisor:	*Lisa Vecchietti*	**Date:**	May 13, 2002
Director of Credit Underwriting:	*Tom Gouris*	**Date:**	May 13, 2002

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis

Cedar Cove Apartments, Waller, LIHTC 02163 **LOAN PAYOFF**

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC 50%	16	1	1	634	$473	$265	$4,240	$0.42	$30.00	$14.00
TC 50%	38	2	1	829	568	325	12,350	0.39	39.00	14.00
TOTAL:	54		**AVERAGE:**	771	$540	$307	$16,590	$0.40	$36.33	$14.00

INCOME	Total Net Rentable Sq Ft:	41,646			**TDHCA**	**APPLICANT**			
POTENTIAL GROSS RENT					$199,080	$199,080			
Secondary Income			Per Unit Per Month:	$10.00	6,480	3,888	$6.00	Per Unit Per Month	
Other Support Income: USDA Subsidy					0	0			
POTENTIAL GROSS INCOME					$205,560	$202,968			
Vacancy & Collection Loss		% of Potential Gross Income:		-7.50%	(15,417)	(13,188)	-6.50%	of Potential Gross Rent	
Employee or Other Non-Rental Units or Concessions					0	0			
EFFECTIVE GROSS INCOME					$190,143	$189,780			
EXPENSES		% OF EGI	PER UNIT	PER SQ FT			PER SQ FT	PER UNIT	% OF EGI
General & Administrative		6.71%	$236	$0.31	$12,750	$5,300	$0.13	$98	2.79%
Management		9.33%	329	0.43	17,747	16,402	0.39	304	8.64%
Payroll & Payroll Tax		19.06%	671	0.87	36,242	37,550	0.90	695	19.79%
Repairs & Maintenance		9.61%	338	0.44	18,272	25,400	0.61	470	13.38%
Utilities		2.16%	76	0.10	4,107	3,500	0.08	65	1.84%
Water, Sewer, & Trash		10.51%	370	0.48	19,992	19,300	0.46	357	10.17%
Property Insurance		5.19%	183	0.24	9,870	10,623	0.26	197	5.60%
Property Tax	2.4049	7.03%	248	0.32	13,367	13,500	0.32	250	7.11%
Reserve for Replacements		8.52%	300	0.39	16,200	14,418	0.35	267	7.60%
Compliance		0.71%	25	0.03	1,350	0	0.00	0	0.00%
TOTAL EXPENSES		78.83%	$2,776	$3.60	$149,897	$145,993	$3.51	$2,704	76.93%
NET OPERATING INC		21.17%	$745	$0.97	$40,246	$43,787	$1.05	$811	23.07%
DEBT SERVICE									
First Lien Mortgage		19.28%	$679	$0.88	$36,655	$36,780	$0.88	$681	19.38%
LIHTC Syndication Proceeds		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
Additional Financing		0.00%	$0	$0.00	0	0	$0.00	$0	0.00%
NET CASH FLOW		1.89%	$67	$0.09	$3,591	$7,007	$0.17	$130	3.69%
AGGREGATE DEBT COVERAGE RATIO					1.10	1.19			
ALTERNATIVE DEBT COVERAGE RATIO					1.10				

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	**TDHCA**	**APPLICANT**	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		65.79%	$26,012	$33.73	$1,404,663	$1,554,663	$37.33	$28,790	61.86%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		3.09%	1,220	1.58	65,900	65,900	1.58	1,220	2.62%
Direct Construction		14.62%	5,780	7.49	312,100	312,100	7.49	5,780	12.42%
Contingency	5.70%	1.01%	399	0.52	21,546	21,546	0.52	399	0.86%
General Requireme	6.00%	1.06%	420	0.54	22,680	22,680	0.54	420	0.90%
Contractor's G & A	2.00%	0.35%	140	0.18	7,560	7,560	0.18	140	0.30%
Contractor's Prof	6.00%	1.06%	420	0.54	22,680	22,680	0.54	420	0.90%
Indirect Construction		2.86%	1,132	1.47	61,123	61,123	1.47	1,132	2.43%
Ineligible Expenses		1.06%	419	0.54	22,628	22,628	0.54	419	0.90%
Developer's G & A	2.00%	0.52%	206	0.27	11,098	62,333	1.50	1,154	2.48%
Developer's Profit	13.00%	3.38%	1,336	1.73	72,137	249,333	5.99	4,617	9.92%
Interim Financing		1.93%	765	0.99	41,310	41,310	0.99	765	1.64%
Reserves		3.26%	1,287	1.67	69,523	69,523	1.67	1,287	2.77%
TOTAL COST		100.00%	$39,536	$51.26	$2,134,947	$2,513,379	$60.35	$46,544	100.00%
Recap-Hard Construction Costs		*21.19%*	***$8,379***	***$10.86***	***$452,466***	***$452,466***	***$10.86***	***$8,379***	*18.00%*

SOURCES OF FUNDS

		%	PER UNIT	PER SQ FT	TDHCA	APPLICANT	RECOMMENDED
First Lien Mortgage		65.79%	$26,012	$33.73	$1,404,663	$1,404,663	$1,404,663
LIHTC Syndication Proceeds		44.91%	$17,754	$23.02	958,717	958,717	730,284
Additional Financing		0.00%	$0	$0.00	0		0
Deferred Developer Fees		7.03%	$2,778	$3.60	150,000	150,000	0
Additional (excess) Funds Require		-17.73%	($7,008)	($9.09)	(378,433)	(1)	0
TOTAL SOURCES					$2,134,947	$2,513,379	$2,134,947

MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)

Cedar Cove Apartments, Waller, LIHTC 02163 LOAN PAYOFF

DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook
Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost				
Adjustments				
Exterior Wall Finish				
Elderly				
Roofing				
Subfloor				
Floor Cover				
Porches/Balconies				
Plumbing				
Built-In Appliances				
Stairs/Fireplaces				
Floor Insulation				
Heating/Cooling				
Garages/Carports				
Comm &/or Aux Bldgs				
Other:				
SUBTOTAL				
Current Cost Multiplier				
Local Multiplier				
TOTAL DIRECT CONSTRUCTION COSTS				
Plans, specs, survy, bld prmts				
Interim Construction Interest				
Contractor's OH & Profit				
NET DIRECT CONSTRUCTION COSTS				

PAYMENT COMPUTATION

Primary	$1,441,800	Term	600
Int Rate	1.00%	DCR	1.10

Secondary	$958,717	Term	
Int Rate	0.00%	Subtotal DCR	1.10

Additional	$0	Term	
Int Rate		Aggregate DCR	1.10

ALTERNATIVE FINANCING STRUCTURE:

Primary Debt Service	$36,655
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$3,591

Primary	$1,441,800	Term	600
Int Rate	1.00%	DCR	1.10

Secondary	$958,717	Term	0
Int Rate	0.00%	Subtotal DCR	1.10

Additional	$0	Term	0
Int Rate	0.00%	Aggregate DCR	1.10

OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$199,080	$205,052	$211,204	$217,540	$224,066	$259,754	$301,126	$349,088	$469,145
Secondary Income	6,480	6,674	6,875	7,081	7,293	8,455	9,802	11,363	15,271
Other Support Income: USDA	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	205,560	211,727	218,079	224,621	231,360	268,209	310,928	360,451	484,416
Vacancy & Collection Loss	(15,417)	(15,880)	(16,356)	(16,847)	(17,352)	(20,116)	(23,320)	(27,034)	(36,331)
Employee or Other Non-Renta	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$190,143	$195,847	$201,723	$207,774	$214,008	$248,093	$287,608	$333,417	$448,084
EXPENSES at 4.00%									
General & Administrative	$12,750	$13,260	$13,790	$14,342	$14,916	$18,147	$22,079	$26,862	$39,763
Management	17,747	18,280	18,828	19,393	19,975	23,156	26,845	31,120	41,823
Payroll & Payroll Tax	36,242	37,691	39,199	40,767	42,398	51,583	62,759	76,356	113,025
Repairs & Maintenance	18,272	19,003	19,763	20,553	21,375	26,007	31,641	38,496	56,984
Utilities	4,107	4,271	4,442	4,619	4,804	5,845	7,111	8,652	12,807
Water, Sewer & Trash	19,992	20,791	21,623	22,488	23,387	28,454	34,619	42,119	62,347
Insurance	9,870	10,265	10,675	11,102	11,546	14,048	17,091	20,794	30,781
Property Tax	13,367	13,902	14,458	15,037	15,638	19,026	23,148	28,163	41,689
Reserve for Replacements	16,200	16,848	17,522	18,223	18,952	23,058	28,053	34,131	50,522
Other	1,350	1,404	1,460	1,519	1,579	1,921	2,338	2,844	4,210
TOTAL EXPENSES	$149,897	$155,715	$161,761	$168,043	$174,571	$211,246	$255,684	$309,539	$453,950
NET OPERATING INCOME	$40,246	$40,132	$39,962	$39,731	$39,437	$36,848	$31,924	$23,878	($5,866)
DEBT SERVICE									
First Lien Financing	$36,655	$36,655	$36,655	$36,655	$36,655	$36,655	$36,655	$36,655	$36,655
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$3,591	$3,477	$3,307	$3,076	$2,782	$192	($4,731)	($12,777)	($42,521)
DEBT COVERAGE RATIO	1.10	1.09	1.09	1.08	1.08	1.01	0.87	0.65	(0.16)

LIHTC Allocation Calculation - Cedar Cove Apartments, Waller, LIHTC 02163 LOAN PAYOFF

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S ACQUISITION ELIGIBLE BASIS	TDHCA ACQUISITION ELIGIBLE BASIS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
(1) Acquisition Cost						
Purchase of land	$31,790	$31,790				
Purchase of buildings	$1,522,873	$1,372,873	$1,522,873	$1,372,873		
(2) Rehabilitation/New Construction Cost						
On-site work	$65,900	$65,900			$65,900	$65,900
Off-site improvements						
(3) Construction Hard Costs						
New structures/rehabilitation ha	$312,100	$312,100			$312,100	$312,100
(4) Contractor Fees & General Requirements						
Contractor overhead	$7,560	$7,560			$7,560	$7,560
Contractor profit	$22,680	$22,680			$22,680	$22,680
General requirements	$22,680	$22,680			$22,680	$22,680
(5) Contingencies	$21,546	$21,546			$18,900	$21,546
(6) Eligible Indirect Fees	$61,123	$61,123			$61,123	$61,123
(7) Eligible Financing Fees	$41,310	$41,310			$41,310	$41,310
(8) All Ineligible Costs	$22,628	$22,628				
(9) Developer Fees					$82,838	
Developer overhead	$62,333	$11,098				$11,098
Developer fee	$249,333	$72,137				$72,137
(10) Development Reserves	$69,523	$69,523				
TOTAL DEVELOPMENT COSTS	$2,513,379	$2,134,947	$1,522,873	$1,372,873	$635,091	$638,134

Deduct from Basis:					
All grant proceeds used to finance costs in eligible basis					
B.M.R. loans used to finance cost in eligible basis					
Non-qualified non-recourse financing					
Non-qualified portion of higher quality units [42(d)(3)]					
Historic Credits (on residential portion only)					
TOTAL ELIGIBLE BASIS		$1,522,873	$1,372,873	$635,091	$638,134
High Cost Area Adjustment				100%	100%
TOTAL ADJUSTED BASIS		$1,522,873	$1,372,873	$635,091	$638,134
Applicable Fraction		100%	100%	100%	100%
TOTAL QUALIFIED BASIS		$1,522,873	$1,372,873	$635,091	$638,134
Applicable Percentage		3.67%	3.67%	8.44%	8.44%
TOTAL AMOUNT OF TAX CREDITS		$55,889	$50,384	$53,602	$53,858
Syndication Proceeds	**0.7799**	**$435,894**	**$392,959**	**$418,051**	**$420,054**
			TOTAL AMOUNT OF TAX CREDITS	$109,491	$104,243
			TOTAL SYNDICATION PROCEEDS	$853,945	$813,014
				Actual Gap of Need	**$730,284**
				Gap-Driven Allocation	**$93,636**