UNDERWRITING
APPEALS TIMELY FILED

08235
Buena Vida Senior Village
Board Appeal

REAL ESTATE ANALYSIS DIVISION
BOARD ACTION REQUEST
July 31, 2008

Action Item

Presentation, Discussion and Possible Action for 2008 Competitive Housing Tax Credit ("HTC") Appeals of Underwriting.

Requested Action

Approve, Deny or Approve with Amendments a determination on the appeal.

Background and Recommendations

Buena Vida Senior Village, 08235

This Applicant is appealing the reduction in recommended tax credits from $923,689 to $857,951 resulting from the Underwriter's lower construction cost estimate.

The Applicant has made application for housing tax credits and has passed threshold and scored high enough to be underwritten. During the underwriting process it was identified that the Applicant's total development cost were out of line with the Department's estimate pursuant to 10 TAC Section 1.32 (e)(4). In particular the Applicant's direct construction costs are $405K or 9% higher than could reasonably be justified by the Underwriter. The Rule requires that the Department utilize the Underwriter's Marshall and Swift based estimate if the Applicant's total development costs are more than 5% different than the Underwriter's costs. In addition and independent of the direct construction cost difference, staff determined that the Applicant's costs estimates for eligible interest cost and developer fee were in excess of the levels allowed under 10 TAC Section 1.32 (e)(7 and 8). Prior to completing the underwriting analysis, staff contacted the Applicant to ascertain if there was any additional documentation that they could provide to support their significantly higher costs. Staff received a copy of the memo which was originally sent by Dan Algeier with NuRock Development that was also supplied as the only documentation provided in the appeal. This memo is insufficient justification for the higher costs as it is merely a restatement of the Applicant's expectation that the costs are higher and does not provide the kind of substantive value that copies of recently completed transactions, existing contracts or bids for construction of comparable properties might have. Moreover, the Applicant has not addressed or contested the overstated eligible interest cost or developer fee but has asked that the entire amount of the credit be reinstated.

The appeal does not indicate that an error was made in the application of the rules by the Underwriter but only that the tool used must be flawed. Staff believes that if this tool were flawed to the extent suggested in this case there would be many more appeals of differences of costs. If the Board were to grant this appeal they would in effect be waiving several rules by which the Department is required to evaluate development cost particularly 10 TAC Sections

1.32 (e)(4, 7 and 8) and this could have an additional impact on the Department's ability to consistently apply the Board's approved underwriting criteria in the future.

Relevant documentation related to this appeal is provided behind the Board Action Request.

Applicant :	Rocky Ridge Affordable Housing, LLC
Site Location:	4650 Old Brownsville Road
City/County:	Corpus Christi
Regional Allocation Category:	Urban
Population Served:	Elderly
Region:	10
Set Asides:	None
Type of Development:	New Construction
Units:	100
Credits Requested:	$923,869
Credits Recommended:	$857,951

Staff Recommendation:	The Executive Director denied the original appeal. Staff is recommending that the Board also deny the appeal.

08235

Buena Vida Senior Village

Executive Director Response

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

Michael Gerber
EXECUTIVE DIRECTOR

July 28, 2008

Mr. Randy Stevenson
Rocky Ridge Affordable Housing, LLC
2400 A Roosevelt Dr.
Arlington, Texas 76016
Telephone: (817) 261-5088
Telecopier: (512) 261-5095

Re: Underwriting Appeal for Buena Vida Senior Village, HTC #08235

Dear Mr. Stevenson:

<u>Appeal Review</u>

I have reviewed your letter that was received on July 23, 2008 regarding the underwriting recommendation which was sent to you on July 16, 2008. Your letter appeals the reduction of tax credits from $923,689 to $857,951.

Your request includes a one page memo that identifies several issues regarding the appeal primarily addressing the properties existence in a first tier county wind zone. As indicated in the underwriting report on page 7 the underwriter has included the maximum wind adjustment available in Marshall and Swift to account for this issue. Your memo also acknowledges that the Marshall and Swift local multiplier is higher for DFW than for the Corpus Christi area but suggests that this is not correct and is not supported by actual construction costs. However, you have not provided any additional documentation to support this claim.

<u>Appeal Determination</u>

Your appeal is denied.

Pursuant to Title 10 Texas Administrative Code Section 1.7 you have requested that your appeal, if denied by me, be filed with the Board and heard at its next regularly scheduled meeting. Your appeal will be considered by the Board at the July 31, 2008 Board meeting.

If you have questions or comments, please call me or Tom Gouris, Director of our Real Estate Analysis Division at (512) 475-1470.

Sincerely,

Michael Gerber
Executive Director

MGG : TJG

08235
Buena Vida Senior Village
Appeal

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

REAL ESTATE ANALYSIS

Housing Tax Credit Program – 2008 Application Cycle
Underwriting Report Notice

Appeal Election Form: 08235 Buena Vida Senior Village Date Notice Sent: 7/17/2008

I am in receipt of my 2008 Underwriting report notice and have reviewed the Appeal Policy at 10TAC Section 50.17(b). I recognize that should I choose to file an appeal, I must file a formal appeal to the Executive Director within seven days from the date this Notice was issued and the Underwriting report was posted to the Department's web site. I understand that my appeal must identify my specific grounds for appeal.
If my appeal is denied by the Executive Director, I

☒ Do wish to have my appeal to the Board of Directors and request that my appeal be added to the next available Board of Directors' meeting agenda. I understand that my Board appeal documentation must still be submitted by 5:00 p.m., seven days prior to the next Board meeting or three days prior if the Executive Director has not responded to my appeal in order to be included in the Board book. I understand that if no documentation is submitted, the appeal documentation submitted to the Executive Director will be utilized.

☐ Wish to wait to hear the Executive Director's response before deciding on my appeal to the Board of Directors.

☐ Do **not** wish to appeal to the Board of Directors or Executive Director.

Signed ____________________

Title PRES. OF GP

Date 7-23-08

Please fax or e-mail to the attention of:
Pam Cloyde: (fax) 512.475.4420
(e-mail) pamela.cloyde@tdhca.state.tx.us

Rocky Ridge Affordable Housing, LLC
2400 A Roosevelt Dr
Arlington, TX 76016

Phone: (817) 261-5088
Fax: (817) 261-5095

July 23, 2008

Texas Department of Housing & Community Affairs
Real Estate Analysis
P O Box 13941
Austin, TX 78711-3941

Re: #08235 Buena Vida Senior Village
Notice of 7/17/08

Attn: Pam Cloyde via pamela.cloyde@tdhca.state.tx.us

We are appealing the underwriting report reduction of tax credits from the requested amount of $923,689 to $857,951. We disagree with the assertion that our costs are too high for the region containing Corpus Christi. Please refer to the attached Appeal Election Form and the memo stating the justification for our increased costs to build in Corpus Christi. We believe that the costs stated in our application are justified for this project.

Sincerely,

RRAH Buena Vida, LP

Randy Stevenson
President of the General Partner

REA reduced the construction cost estimate by $405,000 based on Marshall Swift Residential Cost Handbook derived estimates. This results in an unrealistically low estimate of the cost for a project in Corpus Christi. This property is located in a first tier county wind zone. The City of Corpus Christi has adopted very strict building codes to protect against damage from potential wind storms. Among the many construction items that are required here that are not required in other areas of the state are:

- Additional framing
- Heavier anchor bolts connecting framing to foundations
- Strapping roofs to framing and foundations
- Wind resistant roofing
- Wind resistant siding materials
- Connect air conditioner compressors to slabs
- Wind resistant glass in exposed windows
- Operable shutters on windows
- Stronger fences and other outside equipment
- Several construction companies that build multifamily communities in Texas have indicated an additional $2-$3 a square foot to build in tier one counties above Marshall Swift cost estimates.
- As quoted by Mark Moyle at Frost Insurance company, builder's risk insurance will be $108,000 ($1.37/Square Foot) while the same project in D/FW would cost $27,000 for a net difference of $81,000(Approximately $1/Square Foot).

The Agency has acknowledged that it costs more to build in this area because the cost per net rental square foot cap for these first tier counties has been increased by $2. REA uses Marshall Swift to estimate construction costs. The additional construction requirements in first tier counties increase real construction costs much more than Marshall Swift's analysis. Marshall Swift has a local multiplier for the Corpus area of 0.83 for Average Quality Multiple Residences. The local multiplier for the DFW area is 0.90. Marshall Swift considers it cheaper to build in Corpus Christi than in DFW. This is not correct and is supported by actual construction costs. The construction cost estimate prepared by the applicant should be used for this project.
The credit allocation should be restored to the amount requested by the applicant.

08235
Buena Vida Senior Village
Underwriting Report

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Real Estate Analysis Division
Underwriting Report

REPORT DATE: 07/16/08 PROGRAM: HTC 9% FILE NUMBER: **08235**

DEVELOPMENT

Buena Vida Senior Village

Location: 4650 Old Brownsville Road Region: 10

City: Corpus Christi County: Nueces Zip: 78405 [X] QCT [ ] DDA

Key Attributes: Elderly, New Construction

ALLOCATION

	REQUEST			RECOMMENDATION		
TDHCA Program	Amount	Interest	Amort/Term	**Amount**	**Interest**	**Amort/Term**
Housing Tax Credit (Annual)	$923,689	n/a	n/a	**$857,951**	**n/a**	**n/a**

CONDITIONS

1 Receipt, review, and acceptance, by carryover, of updated loan and equity commitments which are not more than 30 days old.

2 Should the terms and rates of the proposed debt or syndication change, the transaction should be re-evaluated and an adjustment to the allocation amount may be warranted.

SALIENT ISSUES

TDHCA SET-ASIDES for LURA		
Income Limit	Rent Limit	Number of Units
30% of AMI	30% of AMI	5
50% of AMI	50% of AMI	35
60% of AMI	60% of AMI	60

PROS

This development will provide affordable seniors housing in an area of the state that has a high demand for it.

CONS

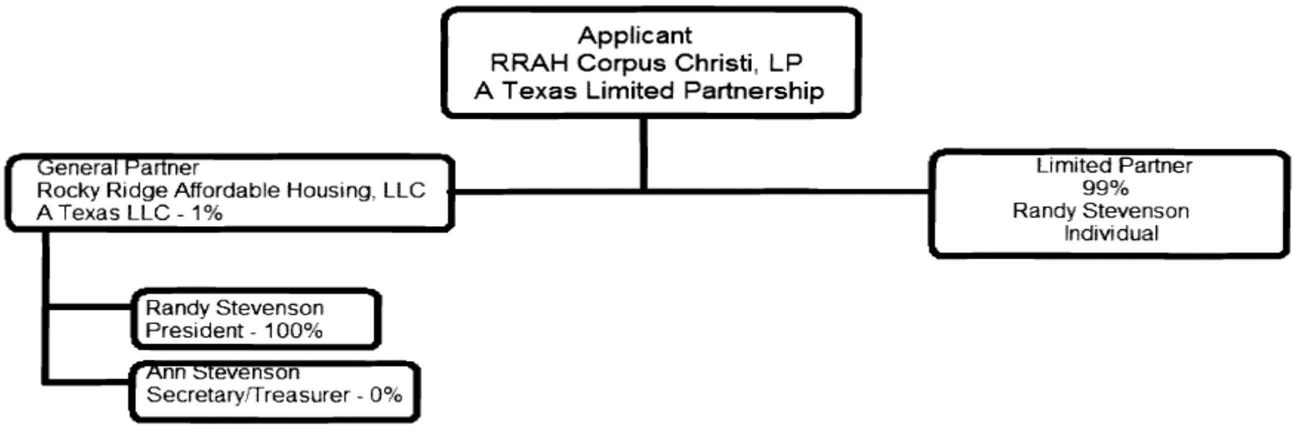
- The Applicant's and Underwriter's expense to income ratios are quite high, above 60%. An expense to income ratio above 60% reflects an increased risk that the development will not be able to sustain even a moderate period of flat rental income with rising expenses.
- The Applicant's direct construction costs are overstated compared to the Underwriter's by 9% after accounting for Tier 2 high wind construction.

PREVIOUS UNDERWRITING REPORTS

No previous reports.

DEVELOPMENT TEAM

OWNERSHIP STRUCTURE



CONTACT

Contact: Randy Stevenson Phone: (817) 261-5088 Fax: (817) 261-5095

Email: Randy@swrealtors.net

KEY PARTICIPANTS

Name	Financial Notes	# Completed Developments
Rocky Ridge Developer, LP	N/A	2
Randy Stevenson	N/A	7
Matt Stevenson	N/A	2

IDENTITIES of INTEREST

- The Applicant, Developer, and property manager are related entities. These are common relationships for HTC-funded developments.

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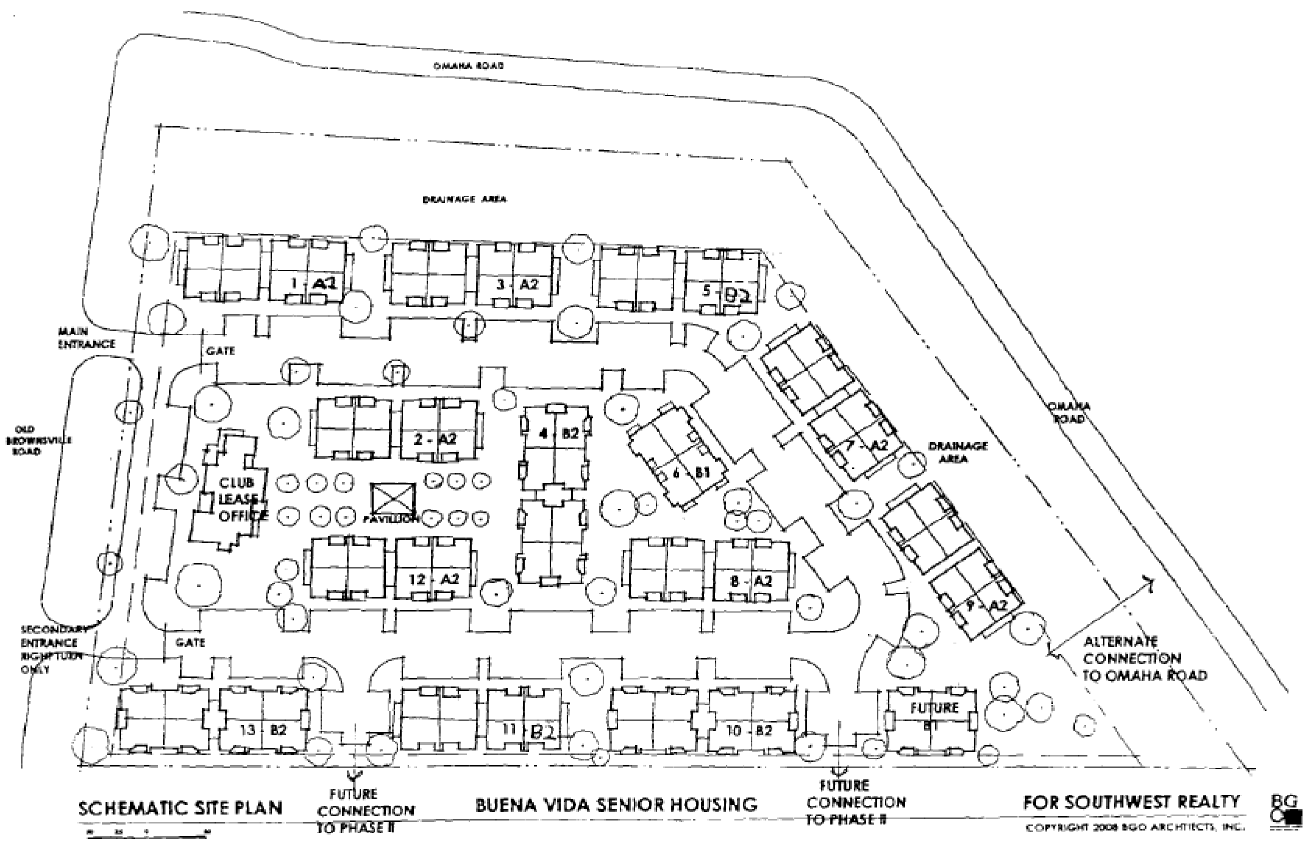
PROPOSED SITE

SITE PLAN



BUILDING CONFIGURATION

Building Type	A1	A2	B1	B2							Total Buildings
Floors/Stories	1	1	1	1							
Number	1	6	1	5							**13**

BR/BA	SF	Units										Total Units	Total SF
1/1	716	2										2	1,432
2/1	862	6										6	5,172
1/1	716		8									48	34,368
2/2	907			4								4	3,628
2/1	862				8							40	34,480
Units per Building		8	8	4	8							**100**	**79,080**

SITE ISSUES

Total Size:	8.955 acres	Scattered site?	[ ] Yes	[X] No	
Flood Zone:	C	Within 100-yr floodplain?	[ ] Yes	[X] No	
Zoning:	A-1 Apt. District	Needs to be re-zoned?	[ ] Yes	[X] No	[ ] N/A

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TDHCA SITE INSPECTION

Inspector: Manufactured Housing Staff — Date: 3/26/2008

Overall Assessment:

☐ Excellent ☒ Acceptable ☐ Questionable ☐ Poor ☐ Unacceptable

Surrounding Uses:

North: Vacant / warehouse beyond — East: Apartments / commercial beyond

South: Golf course / single family beyond — West: College / single family beyond

HIGHLIGHTS of ENVIRONMENTAL REPORTS

Provider: Boatright Engineering — Date: 3/16/2008

Recognized Environmental Concerns (RECs) and Other Concerns:

"The review of the site has not revealed any environmental concerns." (p. 16)

MARKET HIGHLIGHTS

Provider: Mark C. Temple & Associates, LLC — Date: 3/26/2008

Contact: Mark Temple — Phone: (210) 496-9499 — Fax:

Number of Revisions: 2 — Date of Last Applicant Revision: 6/2/2008

Primary Market Area (PMA): 130.83 square miles (6.47 mile radius)

"The primary or defined market area for the Buena Vida Senior Village Apartments is considered the City of Corpus Christi and is described by the following farthest boundaries: North - Corpus Christi Bay and Nueces Bay, South - Corpus Christi City Limits, East - Laguna Madre, and West - FM Highway 2292. The primary market area had an estimated 2007 population of 284,324 which is greater than the Department's PMA size limit. The excessive market area size should be addressed with the Market Analyst, however the effect on the demand will be addressed below.

Secondary Market Area (SMA):

"The secondary market area includes the Corpus Christi Metropolitan Statistical Area (MSA) and is described by the following farthest boundaries: North - Bee and Refugio Counties, South - Kleberg County, East - Gulf of Mexico, and West - Live Oak and Jim Wells Counties." (p II-3) This is an extraordinary sized secondary market, "however, demand calculations are based on the primary market area for the purposes of this analysis."

PROPOSED, UNDER CONSTRUCTION & UNSTABILIZED COMPARABLE DEVELOPMENTS								
PMA				SMA				
Name	File #	Total Units	Comp Units	Name	File #	Total Units	25%	Comp Units
Sea Breeze Seniors	060405	200	200	None Identified				
Costa Tarragona I	05433	250	Family					
LULAC Hacienda Apts.	07174	60	Recon					
Navagation Pointe	05127	124	Family					
Hampton Port	05166	110	Rehab					
Gulfway Manor	07401	151	Rehab					
Oasis at the Park	08145	80	Rehab					
DN Leathers Townhomes	08194	130	Rehab					

INCOME LIMITS						
Nueces						
% AMI	1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons
30	$10,100	$11,550	$13,000	$14,450	$15,600	$16,750
50	$16,850	$19,300	$21,700	$24,100	$26,050	$27,950
60	$20,220	$23,160	$26,040	$28,920	$31,260	$33,540

MARKET ANALYST PMA DEMAND BY UNIT TYPE							
Unit Type	Turnover Demand	Growth Demand	Other Demand	Total Demand	Subject Units	Unstabilized Comparable (PMA)	Capture Rate
1BR/30%	772	41	0	813	4	0	0.5%
1BR/50%	1,394	73	0	1,467	15	0	1.0%
1BR/60%	1,611	85	0	1,696	31	0	1.8%
2BR/30%	772	41	0	813	1	0	0.1%
2BR/50%	1,208	64	0	1,272	20	0	1.6%
2BR/60%	1,178	62	0	1,240	29	0	2.3%

OVERALL DEMAND					
	Target Households	Household Size	Income Eligible	Tenure	Demand
PMA DEMAND from TURNOVER					
Market Analyst p. IX-4	37,904	90% 34,114	26% 8,767	40% 3,481	100% 3,481
Underwriter	22% 37,924	90% 34,132	21% 7,298	40% 2,899	32% 922
PMA DEMAND from HOUSEHOLD GROWTH					
Market Analyst p. IX-4		90% 1,736	26% 446	40% 178	100% 178
Underwriter		90% 921	21% 177	40% 70	100% 70

INCLUSIVE CAPTURE RATE						
	Subject Units	Unstabilized Comparable (PMA)	Unstabilized Comparable (25% SMA)	Total Supply	Total Demand (w/25% of SMA)	Inclusive Capture Rate
Market Analyst p. IX-4	100	100	0	200	3,659	5.47%
Underwriter	100	200	0	300	992	30.23%

Comment:

The Market Analyst information indicate an inclusive capture rate of 5.47%; however, the Underwriter used a more conservative approach and calculated a rate of 30.23%. The Underwriter included the seniors units that have received tax credit awards since 2005, with the exception of acquisition/rehabilitation properties, and a turnover rate of 32% since this is a senior's development. Presumably the market could have been reduced by as much as half and the capture rate by this method would likely still be within the guidelines.

The Underwriter also calculated the capture rate using HISTA data with the resulting capture rate being 59% which is still within the Department's maximum allowable rate.

Primary Market Occupancy Rates:

"The occupancy level of the market area is presently 98.5 percent." (p. VII-1)

Absorption Projections:

"According to the Corpus Christi Chamber of Commerce and Claritas, Inc. present absorption trends of apartment projects located in the Corpus Christi Market Area range from 10 to 15 units per month. The strength of this immediate market area is further supported by the continued and projected indicators of increasing occupancy levels and rental rates. Based upon current positive multi-family indicators and present absorption levels of 10 to 15 units per month, it is estimated that a 95+ percent occupancy level can be achieved in a 7 to 10 month time frame. (p. IX-5)

This section intentionally left blank.

RENT ANALYSIS (Tenant-Paid Net Rents)					
Unit Type (% AMI)	Proposed Rent	Program Maximum	Market Rent	Underwriting Rent	Savings Over Market
1 BR 716 SF 30%	$188	$188	$581	$188	$393
1 BR 716 SF 50%	$369	$369	$581	$369	$212
1 BR 716 SF 60%	$460	$460	$581	$460	$121
2 BR 862 SF 30%	$225	$225	$791	$225	$566
2 BR 862 SF 50%	$442	$442	$791	$442	$349
2 BR 862 SF 60%	$551	$551	$791	$551	$240
2 BR 907 SF 60%	$551	$551	$791	$551	$240

Market Impact:

"The primary source for potential resident demand for the subject project will be derived from new household growth and turnover in existing older units. As demonstrated in Parts IV and V of the Market Study, positive employment, population, and household increases will continue to impact rental housing demand through the 2000's. In addition, the continued upward trend in market rents and with vacancy rates in the immediate market area at approximately 2 percent for senior units will facilitate demand for the subject property. (p. IX-7)

Comments:

Despite using an oversized Primary Market Area, the Market Analyst provided sufficient information for the Underwriter to reach an acceptable inclusive capture rate.

Concentration:

Staff has calculated the concentration rate of the areas surrounding the property in accordance with section 1.32 (i)(2) of the Texas Administrative Code approved in 2007. The Underwriter has concluded a census tract concentration of 7 units per square mile which is less than the 1,432 units per square mile limit and a Primary Market Area concentration of 142 units per square mile which is less than the 1,000 units per square mile limit. Therefore, the proposed development is in an area which has an acceptable level of apartment dispersion based upon the Department’s standard criteria.

OPERATING PROFORMA ANALYSIS

Income: Number of Revisions: none Date of Last Applicant Revision: N/A

The Applicant's projected rents collected per unit were calculated by subtracting tenant-paid utilities from the 2008 program rent limits. Estimates of secondary income and vacancy and collection losses are in line with TDHCA underwriting guidelines. Tenants are to pay electrical costs. The Underwriter also used 2008 maximum program rents less tenant paid utilities.

Expense: Number of Revisions: 3 Date of Last Applicant Revision: 7/12/2008

The Applicant's total annual operating expense projection of $3,396 per unit is within 5% of the Underwriter's estimate of $3,397 derived from the TDHCA database and third party data sources. The Applicant initially provided an annual expense estimate of $3,578 which would have resulted in an expense to income ratio of 68.46% These original expenses were also signed off on as being viable by the lender. It should be noted that the lender is allowed to make their own judgment as to the long term viability of a transaction and is not confined to the department's underwriting standards. The Applicant subsequently revised expenses and provided justification and documentation for differences in the initial expense estimates.

Conclusion:

The Applicant's estimates of effective gross income, total operating expense, and net operating income are each within 5% of the Underwriter's estimates. Therefore, the Applicant's Year One proforma is used to determine the development's debt capacity and debt coverage ratio (DCR). The proforma results in a DCR that is within the Department's current guideline of 1.15 to 1.35.

Both the Applicant's and Underwriter's expense to income ratios are quite high at well above 60%. An expense to income ratio above 60% reflects an increased risk that the development will not be able to sustain even a moderate period of flat income and rent growth with rising expenses.

Feasibility:

The underwriting 30-year proforma utilizes a 3% annual growth factor for income and a 4% annual growth factor for expenses in accordance with current TDHCA guidelines. As noted above, the Applicant's base year effective gross income, expense and net operating income were utilized resulting in a debt coverage ratio that remains above 1.15 and continued positive cashflow. Therefore, the development can be characterized as feasible.

ACQUISITION INFORMATION

ASSESSED VALUE

Land Only:	8.95 acres	$46,419	Tax Year:	2007
Existing Buildings:		$0	Valuation by:	Nueces CAD
Total Assessed Value:		$46,419	Tax Rate:	2.546395

EVIDENCE of PROPERTY CONTROL

Type: Commercial Contract - Unimproved Property — Acreage: 8.95

Contract Expiration: 10/15/2008 — Valid Through Board Date? [X] Yes [ ] No

Acquisition Cost: $350,000 — Other:

Seller: Ingrid Langdon & Edmond Ford, Jr. — Related to Development Team? [ ] Yes [X] No

CONSTRUCTION COST ESTIMATE EVALUATION

COST SCHEDULE Number of Revisions: 1 Date of Last Applicant Revision: 5/5/2008

Acquisition Value:

The site cost of $39,106 per acre or $3,500 per unit is assumed to be reasonable since the acquisition is an arm's length transaction.

Sitework Cost:

The Applicant's claimed sitework costs of $5,650 per unit are within the Department's guidelines, and therefore, no third party substantiation is required.

Direct Construction Cost:

The Applicant's direct construction cost is $405K or 9% higher than the Underwriter's Marshall and Swift Residential Cost Handbook-derived estimate. The Applicant explained that most of the potential differences between their costs and other transactions has to do with the tier 2 wind zone and the higher construction costs that result. However, the Underwriter's estimate has included an adjuster to the standard Marshall and Swift cost estimate, provided by Marshall and Swift to account for these differences.

Interim Interest Expense:

The Underwriter reduced the Applicant’s eligible interim financing fees by $32,198 to bring the eligible interest expense down to one year of fully drawn interest expense. This results in an equivalent reduction to the Applicant’s eligible basis estimate.

Contingency & Fees:

The Applicant's contractor's fees are all within the maximums allowed by TDHCA guidelines, but the Applicant's developer fee exceeds 15% of the Applicant's adjusted eligible basis by $2,036 and therefore the eligible portion of the Applicant's eligible fees in this area has been reduced by the same amount with the overage effectively moved to ineligible costs.

Conclusion:

The Applicant's total development cost is not within 5% of the Underwriter's estimate; therefore, the Underwriter's cost schedule will be used to determine the development's need for permanent funds and to calculate eligible basis. An eligible basis of $7,932,238 supports annual tax credits of $857,951. This figure will be compared to the Applicant's request and the tax credits calculated based on the gap in need for permanent funds to determine the recommended allocation.

FINANCING STRUCTURE

SOURCES & USES Number of Revisions: 1 Date of Last Applicant Revision: 5/12/2008

Source: Wells Fargo Bank, N.A. Type: **Interim to Permanent Financing**

Interim:	$1,780,000	Interest Rate:	5.50%	X	Fixed	Term:	24	months
Permanent:	$1,780,000	Interest Rate:	6.55%	X	Fixed	Term:	360	months

The original amount of the perm loan was $1,425,000 but at the same rate of 10 year US Treasury plus 255 bps (underwritten at 6.55%), an amortization term of 30 years, with a repayment term of 18 years. The interim loan was also increased from $1,425,000 though the rate did not change from its 3 month LIBOR plus 225 bps (estimated at 5.50%).

Source: Corpus Christi CDBG Type: **Interim Financing**

Principal: $475,000 Interest Rate: AFR X Amort: 24 months

Source: Centerline Capital Group Type: **Syndication**

Proceeds: $7,389,000 Syndication Rate: 80% Anticipated HTC: $ 923,689

Amount: $164,352 Type: **Deferred Developer Fees**

Comments:

The committed credit price appears to be consistent with recent trends in pricing. However, the Underwriter has performed a sensitivity test and determined that if the credit price were to decline lower than $0.70, the deferred developer fee would no longer be repayable within 15 years and the financial viability of the transaction would be jeopardized. Alternatively, should the final credit price increase to more than $0.81, all deferred developer fees would be eliminated and an adjustment to the credit amount may be warranted.

Market Uncertainty:

The financial market for tax credit developments from both a loan and equity perspective are in their greatest period of uncertainty since the early 1990's and fluctuations in pricing and private funding are expected to continue to occur. The Underwriter has evaluated the pricing flexibility independently for credits and interest rates under which this development could continue to be considered financially feasible. Because of the significant number of potential scenarios, the Underwriter has not modeled the potential impact of movement on both interest rates and equity pricing occurring at the same time.

Due to the uncertainty in the market and the potential for such movement in both equity pricing and interest rates, this report is conditioned upon updated loan and equity commitments at the submission of carryover. Should the revised commitments reflect changes in the anticipated permanent interest rate(s) and equity price, a re-evaluation of the financial feasibility of the transaction should be conducted.

CONCLUSIONS

Recommended Financing Structure:

The Underwriter's total development cost estimate less the permanent loan of $1,780,000 indicates the need for $6,927,735 in gap funds. Based on the submitted syndication terms, a tax credit allocation of $866,027 annually would be required to fill this gap in financing. Of the three possible tax credit allocations, Applicant's request ($923,689), the gap-driven amount ($866,027), and eligible basis-derived estimate ($857,951), the eligible basis-derived estimate of $857,951 is recommended resulting in proceeds of $6,863,131 based on a syndication rate of 80%.

The Underwriter's recommended financing structure indicates the need for $64,604 in additional permanent funds. Deferred developer fees in this amount appear to be repayable from development cashflow within 2 years of stabilized operation.

Underwriter:	*D. Burrell*	Date:	July 16, 2008
Director of Real Estate Analysis:	*Tom Gouris*	Date:	July 16, 2008

MULTIFAMILY COMPARATIVE ANALYSIS

Buena Vida Senior Village, Corpus Christi, HTC 9% #08235

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Rent Collected	Rent per Month	Rent per SF	Tnt-Pd Util	WS&T
TC 30%	4	1	1	716	$270	$188	$752	$0.26	$82.00	$69.00
TC 50%	15	1	1	716	$451	$369	$5,535	$0.52	$82.00	$69.00
TC 60%	31	1	1	716	$542	$460	$14,260	$0.64	$82.00	$69.00
TC 30%	1	2	1	862	$325	$225	$225	$0.26	$100.00	$75.00
TC 50%	20	2	1	862	$542	$442	$8,840	$0.51	$100.00	$75.00
TC 60%	25	2	1	862	$651	$551	$13,775	$0.64	$100.00	$75.00
TC 60%	4	2	2	907	$651	$551	$2,204	$0.61	$100.00	$75.00
TOTAL:	100		AVERAGE:	791		$456	$45,591	$0.58	$91.00	$72.00

INCOME	Total Net Rentable Sq Ft:	79,080	TDHCA	APPLICANT	COUNTY	IREM REGION	COMPT. REGION
POTENTIAL GROSS RENT			$547,092	$547,092	Nueces	Corpus Christ	10
Secondary Income	Per Unit Per Month:	$15.00	18,000	18,000	$15.00	Per Unit Per Month	
Other Support Income:			0		$0.00	Per Unit Per Month	
POTENTIAL GROSS INCOME			$565,092	$565,092			
Vacancy & Collection Loss	% of Potential Gross Income:	-7.50%	(42,382)	(42,384)	-7.50%	of Potential Gross Income	
Employee or Other Non-Rental Units or Concessions			0				
EFFECTIVE GROSS INCOME			$522,710	$522,708			

EXPENSES		% OF EGI	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% OF EGI
General & Administrative		5.74%	$300	0.38	$29,997	$37,600	$0.48	$376	7.19%
Management		4.00%	209	0.26	20,908	20,908	0.26	209	4.00%
Payroll & Payroll Tax		18.37%	960	1.21	96,019	100,800	1.27	1,008	19.28%
Repairs & Maintenance		4.34%	227	0.29	22,692	23,200	0.29	232	4.44%
Utilities		4.18%	218	0.28	21,840	18,000	0.23	180	3.44%
Water, Sewer, & Trash		7.45%	390	0.49	38,953	32,200	0.41	322	6.16%
Property Insurance		6.89%	360	0.46	36,000	36,000	0.46	360	6.89%
Property Tax	2.546395	7.31%	382	0.48	38,196	37,000	0.47	370	7.08%
Reserve for Replacements		4.78%	250	0.32	25,000	25,000	0.32	250	4.78%
TDHCA Compliance Fees		0.77%	40	0.05	4,000	4,000	0.05	40	0.77%
Other: Supportive Services		0.96%	50	0.06	5,000	5,000	0.06	50	0.96%
TOTAL EXPENSES		64.78%	$3,386	$4.28	$338,605	$339,708	$4.30	$3,397	64.99%
NET OPERATING INC		35.22%	$1,841	$2.33	$184,105	$183,000	$2.31	$1,830	35.01%
DEBT SERVICE									
Wells Fargo Bank, N.A.		25.83%	$1,350	$1.71	$135,010	$135,712	$1.72	$1,357	25.96%
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		9.39%	$491	$0.62	$49,096	$47,288	$0.60	$473	9.05%
AGGREGATE DEBT COVERAGE RATIO					1.36	1.35			
RECOMMENDED DEBT COVERAGE RATIO						1.35			

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)		4.02%	$3,500	$4.43	$350,000	$350,000	$4.43	$3,500	3.78%
Off-Sites		0.00%	0	0.00	0		0.00	0	0.00%
Sitework		6.49%	5,650	7.14	565,000	565,000	7.14	5,650	6.10%
Direct Construction		52.25%	45,500	57.54	4,550,017	4,955,000	62.66	49,550	53.49%
Contingency	5.00%	2.94%	2,558	3.23	255,751	275,000	3.48	2,750	2.97%
Contractor's Fees	14.00%	8.22%	7,161	9.06	716,102	772,800	9.77	7,728	8.34%
Indirect Construction		6.41%	5,580	7.06	558,000	558,000	7.06	5,580	6.02%
Ineligible Costs		3.74%	3,255	4.12	325,498	325,498	4.12	3,255	3.51%
Developer's Fees	15.00%	11.88%	10,346	13.08	1,034,640	1,108,815	14.02	11,088	11.97%
Interim Financing		2.90%	2,527	3.20	252,728	252,728	3.20	2,527	2.73%
Reserves		1.15%	1,000	1.26	100,000	100,000	1.26	1,000	1.08%
TOTAL COST		100.00%	$87,077	$110.11	$8,707,735	$9,262,840	$117.13	$92,628	100.00%
Construction Cost Recap		*69.90%*	***$60,869***	***$76.97***	***$6,086,871***	***$6,567,800***	***$83.05***	***$65,678***	*70.90%*

SOURCES OF FUNDS	%	PER UNIT	PER SQ FT	TDHCA	APPLICANT	RECOMMENDED	
Wells Fargo Bank, N.A.	20.44%	$17,800	$22.51	$1,780,000	$1,780,000	$1,780,000	Developer Fee Available
Additional Financing	0.00%	$0	$0.00	0		0	$1,106,779
HTC Syndication Proceeds	84.86%	$73,890	$93.44	7,389,000	7,389,000	6,863,131	% of Dev. Fee Deferred
Deferred Developer Fees	1.08%	$938	$1.19	93,840	93,840	64,604	6%
Additional (Excess) Funds Req'd	-6.37%	($5,551)	($7.02)	(555,105)	0	0	15-Yr Cumulative Cash Flow
TOTAL SOURCES				$8,707,735	$9,262,840	$8,707,735	$903,624

MULTIFAMILY COMPARATIVE ANALYSIS (continued)

Buena Vida Senior Village, Corpus Christi, HTC 9% #08235

DIRECT CONSTRUCTION COST ESTIMATE

Marshall & Swift Residential Cost Handbook

Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$57.02	$4,509,240
Adjustments				
Exterior Wall Finish	5.20%		$2.97	$234,480
Elderly	3.00%		1.71	135,277
9-Ft. Ceilings	3.65%		2.08	164,587
Roofing			0.00	0
Subfloor			(2.47)	(195,328)
Floor Cover			2.43	192,164
Breezeways/Balconies	$39.01	19,629	9.68	765,718
Plumbing Fixtures	$805	12	0.12	9,660
Rough-ins	$400	300	1.52	120,000
Built-In Appliances	$1,850	100	2.34	185,000
Hurricane Wind Adjust	$0.94	79,080	0.94	74,335
Enclosed Corridors	$47.10	0	0.00	0
Heating/Cooling			1.90	150,252
Garages/Carports		0	0.00	0
Comm &/or Aux Bldgs	$71.29	3,500	3.16	249,498
Other: fire sprinkler	$1.95	79,080	1.95	154,206
SUBTOTAL			85.35	6,749,090
Current Cost Multiplier	1.00		0.00	0
Local Multiplier	0.83		(14.51)	(1,147,345)
TOTAL DIRECT CONSTRUCTION COSTS			$70.84	$5,601,745
Plans, specs, survy, bld prmt	3.90%		($2.76)	($218,468)
Interim Construction Interest	3.38%		(2.39)	(189,059)
Contractor's OH & Profit	11.50%		(8.15)	(644,201)
NET DIRECT CONSTRUCTION COSTS			$57.54	$4,550,017

PAYMENT COMPUTATION

Primary	$1,780,000	Amort	360
Int Rate	6.50%	DCR	1.36

Secondary	$0	Amort	
Int Rate		Subtotal DCR	1.36

Additional		Amort	
Int Rate		Aggregate DCR	1.36

RECOMMENDED FINANCING STRUCTURE APPLICANT'S NOI:

Primary Debt Service	$135,713
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$47,287

Primary	$1,780,000	Amort	360
Int Rate	6.55%	DCR	1.35

Secondary	$0	Amort	0
Int Rate	0.00%	Subtotal DCR	1.35

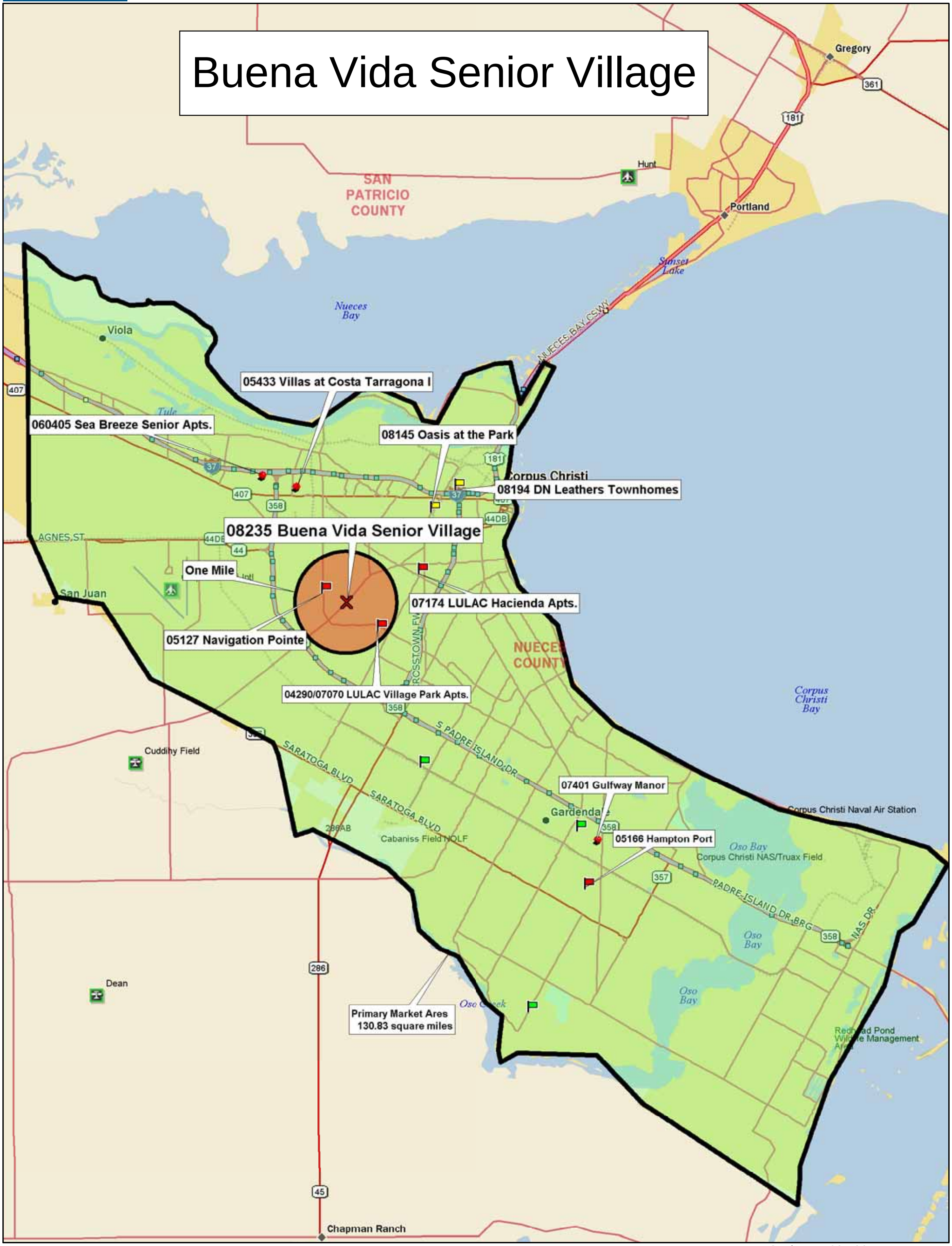
Additional	$0	Amort	0
Int Rate	0.00%	Aggregate DCR	1.35

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	$547,092	$563,505	$580,410	$597,822	$615,757	$713,831	$827,526	$959,329	$1,289,258
Secondary Income	18,000	18,540	19,096	19,669	20,259	23,486	27,227	31,563	42,418
Other Support Income:	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	565,092	582,045	599,506	617,491	636,016	737,317	854,752	990,892	1,331,676
Vacancy & Collection Loss	(42,384)	(43,653)	(44,963)	(46,312)	(47,701)	(55,299)	(64,106)	(74,317)	(99,876)
Employee or Other Non-Rental	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$522,708	$538,391	$554,543	$571,179	$588,315	$682,018	$790,646	$916,575	$1,231,801
EXPENSES at 4.00%									
General & Administrative	$37,600	$39,104	$40,668	$42,295	$43,987	$53,517	$65,111	$79,218	$117,261
Management	20,908	21,536	22,182	22,847	23,533	27,281	31,626	36,663	49,272
Payroll & Payroll Tax	100,800	104,832	109,025	113,386	117,922	143,470	174,553	212,370	314,360
Repairs & Maintenance	23,200	24,128	25,093	26,097	27,141	33,021	40,175	48,879	72,353
Utilities	18,000	18,720	19,469	20,248	21,057	25,620	31,170	37,923	56,136
Water, Sewer & Trash	32,200	33,488	34,828	36,221	37,669	45,831	55,760	67,841	100,421
Insurance	36,000	37,440	38,938	40,495	42,115	51,239	62,340	75,847	112,271
Property Tax	37,000	38,480	40,019	41,620	43,285	52,663	64,072	77,953	115,390
Reserve for Replacements	25,000	26,000	27,040	28,122	29,246	35,583	43,292	52,671	77,966
Other	9,000	9,360	9,734	10,124	10,529	12,810	15,585	18,962	28,068
TOTAL EXPENSES	$339,708	$353,088	$366,996	$381,454	$396,484	$481,033	$583,684	$708,327	$1,043,498
NET OPERATING INCOME	$183,000	$185,304	$187,547	$189,726	$191,831	$200,985	$206,962	$208,249	$188,302
DEBT SERVICE									
First Lien Financing	$135,713	$135,713	$135,713	$135,713	$135,713	$135,713	$135,713	$135,713	$135,713
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	$47,287	$49,591	$51,834	$54,013	$56,118	$65,273	$71,249	$72,536	$52,589
DEBT COVERAGE RATIO	1.35	1.37	1.38	1.40	1.41	1.48	1.52	1.53	1.39

HTC ALLOCATION ANALYSIS -Buena Vida Senior Village, Corpus Christi, HTC 9% #08235				
CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
Acquisition Cost				
Purchase of land	$350,000	$350,000		
Purchase of buildings				
Off-Site Improvements				
Sitework	$565,000	$565,000	$565,000	$565,000
Construction Hard Costs	$4,955,000	$4,550,017	$4,955,000	$4,550,017
Contractor Fees	$772,800	$716,102	$772,800	$716,102
Contingencies	$275,000	$255,751	$275,000	$255,751
Eligible Indirect Fees	$558,000	$558,000	$558,000	$558,000
Eligible Financing Fees	$252,728	$252,728	$252,728	$252,728
All Ineligible Costs	$325,498	$325,498		
Developer Fees			$1,106,779	
Developer Fees	$1,108,815	$1,034,640		$1,034,640
Development Reserves	$100,000	$100,000		
TOTAL DEVELOPMENT COSTS	$9,262,840	$8,707,735	$8,485,307	$7,932,238

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		$8,485,307	$7,932,238
High Cost Area Adjustment		130%	130%
TOTAL ADJUSTED BASIS		$11,030,899	$10,311,909
Applicable Fraction		100%	100%
TOTAL QUALIFIED BASIS		$11,030,899	$10,311,909
Applicable Percentage		8.32%	8.32%
TOTAL AMOUNT OF TAX CREDITS		$917,771	$857,951
Syndication Proceeds	**0.7999**	**$7,341,657**	**$6,863,131**
Total Tax Credits (Eligible Basis Method)		**$917,771**	**$857,951**
Syndication Proceeds		**$7,341,657**	**$6,863,131**
Requested Tax Credits		**$923,689**	
Syndication Proceeds		**$7,389,000**	
Gap of Syndication Proceeds Needed			**$6,927,735**
Total Tax Credits (Gap Method)			**$866,027**



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Scale 1 : 162,500

1" = 2.56 mi

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08184
Washington Hotel Lofts
Board Appeal

REAL ESTATE ANALYSIS DIVISION
BOARD ACTION REQUEST
July 31, 2008

Action Item

Presentation, Discussion and Possible Action for 2008 Competitive Housing Tax Credit ("HTC") Appeals of Underwriting.

Requested Action

Approve, Deny or Approve with Amendments a determination on the appeal.

Background and Recommendations

Washington Hotel Lofts, 08184

This Applicant is appealing three of the eight conditions contained in the underwriting report namely: (condition 1) 50% income restrictions corresponding with the elected rent restrictions; (condition 3) a Private Letter Ruling from the Internal Revenue Service regarding the validity of the proposed lease pass-through structure as a method to claim historic tax credits without reducing the housing tax credit eligible basis; and, (condition 4) a plan, site control and long term requirement for at least 36 parking spaces to be restricted by the tax credit LURA with a provision to ensure the parking remains free for residents.

The Applicant has made application for housing tax credits and has passed threshold and scored high enough to be underwritten. During the underwriting process it was identified that the achievable market rents as determined by the Market Analyst were less than the HTC 50% and that the proposed units targeting households earning 60% of the area median income would not be able to achieve rents greater than those affordable to households earning 50% of the area median income. Pursuant to the 2008 Real Estate Analysis Rules [10 TAC Section 1.32(i)(4)], units that have Achievable Market Rents below the 50% level will be required to restrict these units in the LURA at the 50% level or the development will be characterized as infeasible and would therefore not be recommended. It has been the Board's policy and Department's practice to ensure that rent restrictions have corresponding income restrictions. Thus when a reference to a 50% tax credit unit is made today it means a unit which is restricted both to leasing to tenants that make not more than 50% of the are median income and to charging not more than the 50% rent (which is based on 30% of the 50% of area median rent adjusted for family size). While exceptions to this rule exist, the Board as well as our State Legislature have moved toward this corresponding income and rent approach as evidenced by the Private Activity Bond priority system changes to the highest priority which formerly called for rents at 50% and incomes up to 60% but now prioritize developments which have 50% rents and target 50% incomes. This is also evidenced in the scoring criteria Section 50.9(i)(3) of the QAP which explicitly requires that "…income levels require corresponding rent levels that do not exceed 30% of the income limitation…" This policy helps to keep a fair playing field for existing and future affordable housing developments so developments restricted to 50% rents but 60% incomes do not have a future pricing advantage over developments that wish to serve 60% households with 60% rents. The problem that has arisen in some markets that have had developments with this pricing advantage is that it artificially depresses the rent for 60% units, while making 50% units less available and undermines the financial viability of new development wishing to target 60% households. In addition, the units at the subject are requesting funds at a level that makes them financially feasible for the long term at rents that enable the development to serve 50% households and that funding level is more than it would be necessary for the long term if they were only required to serve only 60% households.

The Underwriter also identified that the Applicant included an amount of historic credits attributed to the rehabilitation of the residential units in eligible basis instead of deducting this amount as generally required by Treasury regulations in IRC Section 42. The Applicant provided a general legal memorandum from Powell Goldstein, LLP (dated May 3, 2005) opining that under a lease pass-through structure the LIHTC eligible basis is not reduced provided that certain conditions with regard to the lease structure are met and "provided that the lessee and lessor have substantially different investors and the lease between the two entities has an economic effect." A visual representation of this dual lease structure is provided on page 3 of the underwriting report. The commitment for the syndication of both the historic credits and the housing tax credits is from the same entity Regions Bank. Staff has received additional guidance on this issue through several recent conferences and from discussions directly with the IRS which have reiterated the prohibition on claiming the full housing credit on transactions with historic credits. Based upon the uncertainty on this issue, staff recommended the condition of seeking and receiving a private letter ruling (PLR) from the IRS rather than completely removing the historic credits which would make the project potentially infeasible. The Applicant, on appeal, indicated that the cost of a private letter ruling would be prohibitive at an estimated $60,000. However the sum total of tax credits that are at risk with this developer in Texas for three other developments (which have not yet received final 8609's) plus the subject will amount to over $25M. If these credits are ultimately deemed to be ineligible by the IRS sometime in the future, the Department will have no ability to re-allocate the credits, or enforce compliance should the lender foreclose. Without the PLR the State would be accepting the unnecessary risk of loosing these credits. Thus following the IRS guidance provided to staff on the issue and requiring private letter ruling is a prudent course of action.

The third issue involves the provision of 36 parking spaces which was clearly identified in the application by the Applicant and confirmed in a phone conversation between the Applicant and the Underwriter. The Applicant's appeal appears to have reversed their prior position where they in fact included the value of such parking space as a contribution from the city to the development. This answered a question from staff on how the development planned to comply with their commitment to provide 36 parking garage spaces as indicated in Volume 3, Tab 1, Part B of the application. Staff's understanding from the Applicant is that the city intended that their contribution of 36 spaces would be for the benefit of the tenants and that in addition the county intends to contribute another 20 spaces be used to benefit the tenants. While the Applicant has appealed staff's recommendation to restrict the 36 spaces as parking they have provided no other way to prove up conformance with the commitment in the application.

Relevant documentation related to this appeal is provided behind the Board Action Request.

Applicant :	Washington Hotel Lofts, LLC
Site Location:	2612 Washington Street
City/County:	Greenville
Regional Allocation Category:	Rural
Population Served:	Family
Region:	3
Set Asides:	None
Type of Development:	Acquisition/Adaptive Reuse
Units:	36
Credits Requested:	$390,225
Credits Recommended:	$390,225

Staff Recommendation: The Executive Director denied the original appeal. Staff is recommending that the Board also deny the appeal.

PART B. SPECIFICATIONS AND AMENITIES

SITE ATTRIBUTES

Total Acquisition Acreage: 21 Development Site Acreage: 21 # Units per Acre: 36

☒ Single Site ☐ Contiguous Multiple Sites (# Sites:) ☐ Scattered Sites (# Sites:)**

** Note: **If Scattered Site, submit evidence of scattered site pursuant to ASPM behind this tab.**

DEVELOPMENT ATTRIBUTES *Selections must be consistent with submitted architectural plans*

# of Residential Buildings: 1 Maximum # of Floors: 6

Configuration:
- ☐ Duplex
- ☐ Townhome
- ☐ Fourplex
- ☒ >4 units per building
- ☐ Single family construction
- ☐ SRO (per §42(i)(3)(B))
- ☐ Transitional (per §42(i)(3)(B))

☒ Fire Sprinkler in all residential areas # of Hydraulic / 1 - Passenger Elevators: 1

EXTERIOR *Selections must be consistent with submitted architectural plans*

Subfloor
- ☐ Wood
- ☒ Concrete Slab
- ☐ Other *(Describe)*

Walls
- % Plywood/Hardboard
- % Vinyl or Aluminum Siding
- 100 % Masonry Veneer
- % Fiber Cement Siding
- % Stucco
- % Other *(Describe)*

Parking
- Shed or Flat Roof Carports
- Detached Garages
- Uncovered Spaces
- 36 Parking Garage Spaces

Roofs
- ☒ Built-Up Tar and Gravel
- ☐ Comp. Shingle
- ☐ Comp. Roll
- ☐ Elastomeric
- ☐ Wood Shake
- ☐ Other *(Describe)*

INTERIOR *Selections must be consistent with submitted architectural plans*

Flooring
- 75 % Carpet
- 25 % Resilient Covering
- % Ceramic Tile
- % Light Concrete
- % Other *(Describe)*

Air System
- ☐ Forced Air
- ☐ Furnace
- ☐ Hot Water
- ☐ Warm and Cooled Air
- ☒ Heat Pump, packaged
- ☐ Wall Units
- ☐ Other *(Describe)*

Walls
- ☒ Drywall
- ☒ Plaster
- ☐ - Foot Ceilings

Other
- ☒ Washer and Dryers onsite (# 2/2)
- ☐ Fireplace included in all Units
- ☐ Fireplace onsite (#)
- ☐ Other *(Describe)*

By: [signature] 2/26/08 Its: Bill Scantland, VP Landmark Asset Services, Inc.; MM

Signature of Applicant/Owner *Date*

08184

Washington Hotel Lofts

Executive Director Response

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

Michael Gerber
EXECUTIVE DIRECTOR

July 28, 2008

Ms. Cynthia L. Bast
Locke Lord Bissell & Liddell, LLP
100 Congress Avenue, Suite 300
Austin, Texas 78701
Telephone: (512) 305-4700
Telecopier: (512) 305-4800

Re: Underwriting Appeal for Washington Hotel Lofts, HTC #08184

Dear Ms. Bast:

Appeal Review

I have reviewed your letter that was received on July 23, 2008 regarding the underwriting recommendation which was sent to your client on July 16, 2008. Your letter appeals three of the conditions of the underwriting report regarding the income level of the tenants, the need for a Private Letter Ruling from the Internal Revenue Service and the provision of parking for residents.

Your request to remove the condition regarding tenant income is inconsistent with the Board's policy to ensure that the targeted rent restricted units are available to households at those lower incomes. If higher 60% income households are allowed to rent units restricted at the 50% level then fewer units will be available to serve the 50% households in the market. Moreover, the already low market rent in this area is indicative that 60% households already have comparably affordable housing opportunities and do not need additional units targeting their income level. The Underwriter considered the demand from households earning 50% or less and confirmed that ample demand exists at this level to avoid any potential negative impact to the property.

Staff understands your appeal issues on the use of historic tax credits in conjunction with tax credits, but stands by its position that in the current environment based on guidance from both additional training and direction from IRS staff that this process has not received a definitive approval from the IRS. Due to this unknown, the staff recommended the condition of seeking and receiving a private letter ruling from the IRS rather than a complete removal of the credits that would make the project potentially infeasible. This is considered an accommodation rather than a termination.

Your final request is to remove the condition that the property be required to provide parking for the residents of the proposed development despite the developer's oral agreement to provide such parking. This seems to be a reversal of the developer's prior position and in fact they included the value of such parking space as a contribution from the city to the development. This answered a question from staff on how the development planned to comply with their commitment to provide 36 parking garage spaces as indicated in Volume 3, Tab 1, Part B of the application. It is our understanding that the city intended that their contribution of 36 spaces would be for the benefit of the ***tenants*** rather than the development and that the county intends to contribute an additional 20 spaces be used to benefit the ***tenants***. These contributions may not be significant in dollar value today when parking in this downtown location is currently free, however, should the economics of this downtown change in the future as you suggest, it should not be the tenants of the development that have to adapt but rather be secure in the knowledge that they will be able to park near their residence. While it is understandable that your client would prefer to have these local contributions unfettered in the future with the requirement that it be used for residents of the development, there has been no other way suggested by the applicant to prove up conformance with the commitment in the application..

Appeal Determination

Your appeal is denied.

Pursuant to Title 10 Texas Administrative Code Section 1.7 you have requested that your appeal, if denied by me, be filed with the Board and heard at its next regularly scheduled meeting. Your appeal will be considered by the Board at the July 31, 2008 Board meeting.

If you have questions or comments, please call me or Tom Gouris, Director of our Real Estate Analysis Division at (512) 475-1470.

Sincerely,

Michael Gerber
Executive Director

MGG : TJG

08184
Washington Hotel Lofts
Appeal

LLB&L
Locke Lord Bissell & Liddell LLP
Attorneys & Counselors

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Cynthia L. Bast
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July 23, 2008

Mr. Michael Gerber
Executive Director
Texas Department of Housing and Community Affairs
221 West 11th Street
Austin, Texas 78701

Re: Underwriting Appeal for Washington Hotel Lofts (Greenville)
TDHCA No: 08184

Dear Mike:

We represent the tax credit applicant for the above-referenced Development. Our client appeals the first, third, and fourth conditions imposed by the underwriting report performed by the Real Estate Analysis Division, which read as follows:

1. Receipt, review, and acceptance, by commitment, of documentation from the Applicant acknowledging that all of the proposed units have income restrictions corresponding with the elected rent restrictions and that all income and rent restrictions are at or below 50% of AMI.

3. Receipt review, and acceptance, by 10% test, of a Private Letter Ruling from the Internal Revenue Service regarding legitimacy of the proposed lease pass-through structure and potential effect of the historic tax credits on LIHTC eligible basis.

4. Receipt, review and acceptance, by carryover, of a survey, title commitment, siteplan, and site control for at least 36 parking spaces to be restricted by the tax credit LURA with a provision to ensure the parking remains free for residents.

Background

The proposed Development consists of rehabilitation and reconfiguration of the six-story Washington Hotel in downtown Greenville to 36 affordable housing units. Because of the historic nature of the building, the property will be eligible for both low-income housing tax credits under Section 42 of the Internal Revenue Code and rehabilitation credits (typically known as historic tax credits) under Section 47 of the Internal Revenue Code.

Greenville is a town of approximately 25,000 people, but it is part of the Dallas Metropolitan Statistical Area. It is actively seeking downtown revitalization. More than $7 million has been invested in downtown projects due to the City's designation as a Main Street City. The proposed Development fits with the City's overall plan for downtown revitalization.

First Condition: Restriction of Tenant Rents and Incomes

Section 1.32(i)(4) of the Real Estate Analysis Rules indicates that a Development will be considered financially infeasible under the following conditions:

> The Restricted Market Rent for units with rents restricted at 60% of AMGI is less than both the Net Program Rent and Market Rent for units with rents restricted at or below 50% of the AMGI unless the development proposes all restricted units with rents restricted at or below the 50% of AMGI level.

The applicant acknowledges that the market rents in the Greenville area are low, relative to the tax credit rents. This is due, in part, to the fact that Greenville is located in the Dallas MSA and therefore has Dallas tax credit rents, but the overall market of a small town outside of Dallas does not support that level of rents in its market generally. This has been a problem statewide in similar areas that do not support maximum tax credit rents.

The applicant agrees to abide by the Real Estate Analysis Rules and restrict its rents to at or below the 50% of AMGI level. However, the applicant believes it in the best interest of the Development to allow the incomes of the residents to be restricted at 60% of AMGI or less. Consider the following:

- Because the town of Greenville is small, there is a limited pool of potential residents. Restricting the pool of tenants even further so that only people with incomes at or below 50% of AMGI can apply for residency will have a negative impact on the Development's ability to maintain its occupancy.

- The Real Estate Analysis Rules do not require a restriction of the tenant incomes in this instance. They only require a restriction of the rents, as evidenced by the language above.

- There is precedent for projects having restrictions with rents at 50% of AMGI and tenant incomes at 60% of AMGI. This was a standard structure for projects using tax-exempt bonds with tax credits for several years.

Based on the above, our client believes the Development will be more feasible if the underwriting condition is revised to limit the rents to 50% of AMGI or below and the resident incomes to 60% of AMGI or below.

Third Condition: Private Letter Ruling

As noted above, the applicant anticipates using both low-income housing tax credits and historic tax credits to finance the Development. Although certain Internal Revenue Service laws and regulations indicate that the amount of the historic tax credits should be removed from the eligible basis of the low-income housing tax credits, the laws and regulations also indicate that the historic tax credits can be passed through on a lease. Thus, in order to avoid the removal of the historic tax credit amount from the low-income housing tax credit eligible basis, and to maximize the amount of equity available for the rehabilitation, a standard structure has evolved to utilize a lease pass-through. Under this structure, the property is owned by one limited partnership and master leased to another limited partnership. The owner partnership admits the low-income housing tax credit investor and the tenant partnership admits the historic tax credit investor.

The lease pass-through structure has been used for years. It has been accepted by syndicators and their tax counsel. It has been accepted by accountants performing audits and cost certifications. The applicant provided TDHCA with a legal memorandum from Powell Goldstein, LLP, indicating that the lease pass-through structure can be utilized effectively so that the historic tax credits are not removed from the eligible basis of the low-income housing tax credits. Staff acknowledges that it accepted this legal memorandum and the lease pass-through structure in 2006 and 2007. However, staff is indicating that they are now uncertain about this structure, based on conversations with the IRS and recent trainings. Specifically, the staff's comments are as follows:

- "… staff has cost certified several developments that received historic credits and all removed the historic credits from eligible basis."

  Response: There are many instances in which a lease pass-through structure would not be used. Just because an applicant chooses not to use the lease pass-through structure does not mean the structure is illegitimate. For instance, affiliates of the applicant received low-income housing tax credits and historic tax credits for the Moore Grocery Lofts and the Beaumont Downtown Lofts in prior years. The applicant's affiliates did not use the lease pass-through structure for those deals because they were in areas with 130% low-income housing tax credit boost. As a result, they had sufficient eligible basis to support their low-income housing tax credits, even if the historic tax credits were removed from eligible basis. The pass-through structure was not necessary in that instance. In this instance, the lease pass-through is an important part of the financing structure. Yet, it does not oversubsidize the transaction. The amount of low-income housing tax credits requested per unit is comparable to the amount of low-income housing tax credits per unit awarded to the Beaumont Downtown Lofts, which chose not to use the lease pass-through structure. Washington Hotel Lofts is not trying to get more low-income housing tax credits per unit.

- "Recent trainings, including a training with the National Development Council, suggest that historic credits must be removed from LIHTC eligible basis."

  Response: Staff is correct that historic credits must be removed from low-income housing tax credit eligible basis. That is the basic rule. The rules also specifically permit the lease pass-through structure.

- "More importantly, the Underwriter and Senior Director of Programs contacted the Internal Revenue Service to determine if this or a similar structure allowing historic credits to remain in LIHTC eligible basis had been vetted. While the pass through election for the historic credit can be allowable, IRS staff indicated concern regarding the belief that the LIHTC eligible basis is not affected and serious concern regarding whether at structure such as that proposed in fact has economic effect and substantially different investors."

Response: The applicant recognizes that a lease pass-through must be carefully structured. The lease must have substantial economic effect, and different investors may be required for the low-income housing tax credits and historic tax credits. We have no way of knowing what was presented to the Internal Revenue Service in this call and hypothetical discussion. However, the applicant assures TDHCA that it intends to structure the lease pass-through in a manner that will meet the IRS concerns.

The applicant understands that the inclusion of the historic tax credits in the eligible basis for the low-income housing tax credits may be important for the financial feasibility of this transaction. The applicant further understands that TDHCA does not want to award tax credits to a project that will not utilize them. However, a private letter ruling is extremely expensive. (See the attached letter from our firm, with an estimate that the cost could exceed $60,000.) This is an extraordinary burden to place on a project when there are other, less expensive ways to address TDHCA's concerns. Consider the following:

- In this hyper-sensitive market where syndicators are rigorously underwriting transactions, the lease pass-through structure, and all of its elements, will be carefully considered by a syndicator before it makes a commitment. We anticipate that no syndicator will proceed with Washington Hotel Lofts unless it is completely comfortable with the proposed structure.

- At closing, the syndicator will receive an opinion from its tax counsel, indicating that all benefits of the low-income housing tax credits will be available to the investor.

- Upon completion, the accountants will provide a cost certification to establish the eligible basis of the Development for purposes of calculating the low-income housing tax credits. That cost certification will verify whether the lease pass-through structure is legitimate.

In other words, the market place should take care of this situation. Numerous private parties will review the lease pass-through structure at various stages along the way. Most importantly, if the investors and lenders are not satisfied with the structure, they will not provide financing. If the financing is not provided, the tax credits will be returned for re-use by TDHCA and other applicants.

This situation is no different than any other tax credit award given by TDHCA. The market place examines every deal and determines whether the tax credit eligible basis has been calculated properly and whether the investor can reasonably expect to achieve the benefit of its bargain. From time to time, the market place decides that there is too great a risk that the tax credits will not be available for a variety of reasons, the syndicators refuse to invest, and the tax credits are returned. The applicant does not expect the market place to be wary of the lease pass-through structure, as it has been used time and again throughout the country.

The financial burden of seeking a private letter ruling is too great to impose when there are other methods of assuring that the lease pass-through structure will work so that the historic tax credits are not required to be removed from the basis of the low-income housing tax credits.

Fourth Condition: Parking Spaces

TDHCA has asked the applicant to commit in its LURA to a providing the residents with a certain number of parking spaces, at a certain location, with no costs to the resident. The applicant is committed to providing adequate parking for its residents. However, it objects to specifying the parking spaces and location in the LURA, which will last for over 30 years.

A development in the downtown area is very different than a suburban development. Residents who choose to live in downtown often have fewer cars than their counterparts in the suburbs. Moreover, the nature of a downtown area changes over time. With the density of downtown, it is common for adjoining and nearby tracts to change uses and for the overall real estate character of the area to change. Thus, the applicant objects to specifying a particular parking requirement in the LURA.

The site for the Washington Hotel Lofts is zoned CA (Central Area). According to the City of Greenville's Zoning Ordinance, no parking spaces are required:

> 5-3.1(B) There shall be no off-street parking required for development in the CA district.

To place a greater restriction upon the property than is required by the City's zoning, and to place that restriction for over 30 years, is detrimental to an owner of downtown property that may need to adapt to the inevitable changes of a central business district.

Conclusion and Request

Based on the information submitted above, the applicant requests that:

1. The first condition of the underwriting report be revised to restrict the rents to 50% AMGI levels but allow the tenant incomes to be up to 60% AMGI levels; and

2. The third condition of the underwriting report be removed in its entirety. As an alternative, the condition could be revised require the applicant to submit a statement from its syndicator, or the syndicator's tax counsel, indicating that the syndicator accepts the lease pass-through structure; and

3. The fourth condition of the underwriting report be removed in its entirety.

Should the Executive Director deny this appeal, we request that it be considered at the July 31 Board meeting.

If you need additional information to process this request, please let me know.

Sincerely,

Cynthia L Bast

Cynthia L. Bast

cc: Fitch Development Group

100 Congress Avenue, Suite 300
Austin, Texas 78701-2748
Telephone: 512-305-4700
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Cynthia L. Bast
Direct Telephone: 512-305-4707
Direct Fax: 512-391-4707
cbast@lockelord.com

July 23, 2008

Mr. Hollis Fitch
Fitch Development Group
2154 Coker Ave.
Charleston, SC 29412

Re: Private Letter Ruling

Dear Hollis:

You asked us to provide an estimate of legal fees associated with making a request for a private letter ruling to the Internal Revenue Service. The private letter ruling would seek guidance as to whether the amount of rehabilitation tax credits under Section 47 of the Internal Revenue Code would need to be reduced from the eligible basis of low-income housing tax credits under Section 42 of the Internal Revenue Code if a lease pass-through structure is utilized for the development and ownership of a housing property. I have consulted with our Tax Department and have been advised that the legal fees to pursue a private letter ruling could be in the range of $30,000 to $50,000. In addition, there is a filing fee that would be approximately $11,500. Please note that this is an estimate for informational purposes only and does not establish an engagement or a particular fee arrangement for this work. If you proceed with this matter, a formal engagement letter, outlining a fee arrangement, would be required.

If you need additional information, please let me know.

Sincerely,

Cynthia L. Bast

Cynthia L. Bast

08184
Washington Hotel Lofts
Underwriting Report

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Real Estate Analysis Division
Underwriting Report

REPORT DATE: 07/15/08 PROGRAM: 9% HTC FILE NUMBER: **08184**

DEVELOPMENT

Washington Hotel Lofts

Location: 2612 Washington Street Region: 3

City: Greenville County: Hunt Zip: 75401 ☐ QCT ☐ DDA

Key Attributes: Multifamily, Family, Rural, Acquisition/Adaptive Reuse

ALLOCATION

	REQUEST			**RECOMMENDATION**		
TDHCA Program	Amount	Interest	Amort/Term	**Amount**	**Interest**	**Amort/Term**
Housing Tax Credit (Annual)	$390,225			**$390,225**		

CONDITIONS

1 Receipt, review, and acceptance, by commitment, of documentation from the Applicant acknowledging that all of the proposed units have income restrictions corresponding with the elected rent restrictions and that all income and rent restrictions are at or below 50% of AMI.

2 Receipt, review, and acceptance, at carryover, 10% test, and cost certification, of documentation from the State Historic Preservation Office and/or the National Parks Service regarding the application stage and/or approval for certifying the building as a historic site and for the historic credit request.

3 Receipt, review, and acceptance, by 10% test, of a Private Letter Ruling from the Internal Revenue Service regarding legitimacy of the proposed lease pass-through structure and potential effect of the historic tax credits on LIHTC eligible basis.

4 Receipt, review, and acceptance, by carryover, of a survey, title commitment, siteplan, and site control for at least 36 parking spaces to be restricted by the tax credit LURA with a provision to ensure the parking remains free for residents.

5 Receipt, review, and acceptance, by cost certification, of documentation that all Phase I ESA recommendations (regarding asbestos, mold, lead-based paint, lead in drinking water, noise, and potential effects of RECs from previous uses of the subject and surrounding property) and all subsequent environmental report recommendations has been carried out.

6 Receipt, review, and acceptance, by carryover, that the exception for Tax Suits as reflected in Schedule C of the title commitment has been cleared by the title company.

7 Receipt, review, and acceptance, by carryover, of updated loan and equity commitments which are not more than 30 days old.

8 Should the terms or amounts of the proposed debt or equity change, the transaction should be reevaluated and an adjustment to the credit amount may be warranted.

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SALIENT ISSUES

TDHCA SET-ASIDES for LURA		
Income Limit	Rent Limit	Number of Units
30% of AMI	30% of AMI	2
50% of AMI	50% of AMI	13
50% of AMI*	50% of AMI*	21

* The original application reflected 15 60% of AMI units, but in order to meet Department rules, all units must be at or below 50% of AMI (rents and incomes).

PROS

- The Applicant proposes the revitalization of a six story historic hotel that was originally constructed in 1926 and providing 36 affordable units in downtown Greenville.
- The development team has extensive experience in other states with restoring historic structures and with the LIHTC program.

CONS

- If the historic credits must ultimately be removed from eligible basis, the transaction may not be financially viable due to the gap in financing.
- The building to be revitalized is in very poor condition with several potential environmental concerns and in need of extensive revitalization.
- The achievable rents for the market are below the 50% of AMI rent levels indicating little or no savings over existing units in the market.

PREVIOUS UNDERWRITING REPORTS

The subject application was submitted during the 2007 competitive tax credit cycle. However, the application was not competitive in the subregion and therefore underwriting was not completed. The same development team has also been awarded tax credit allocations for three other similar transactions in Texas in previous cycles.

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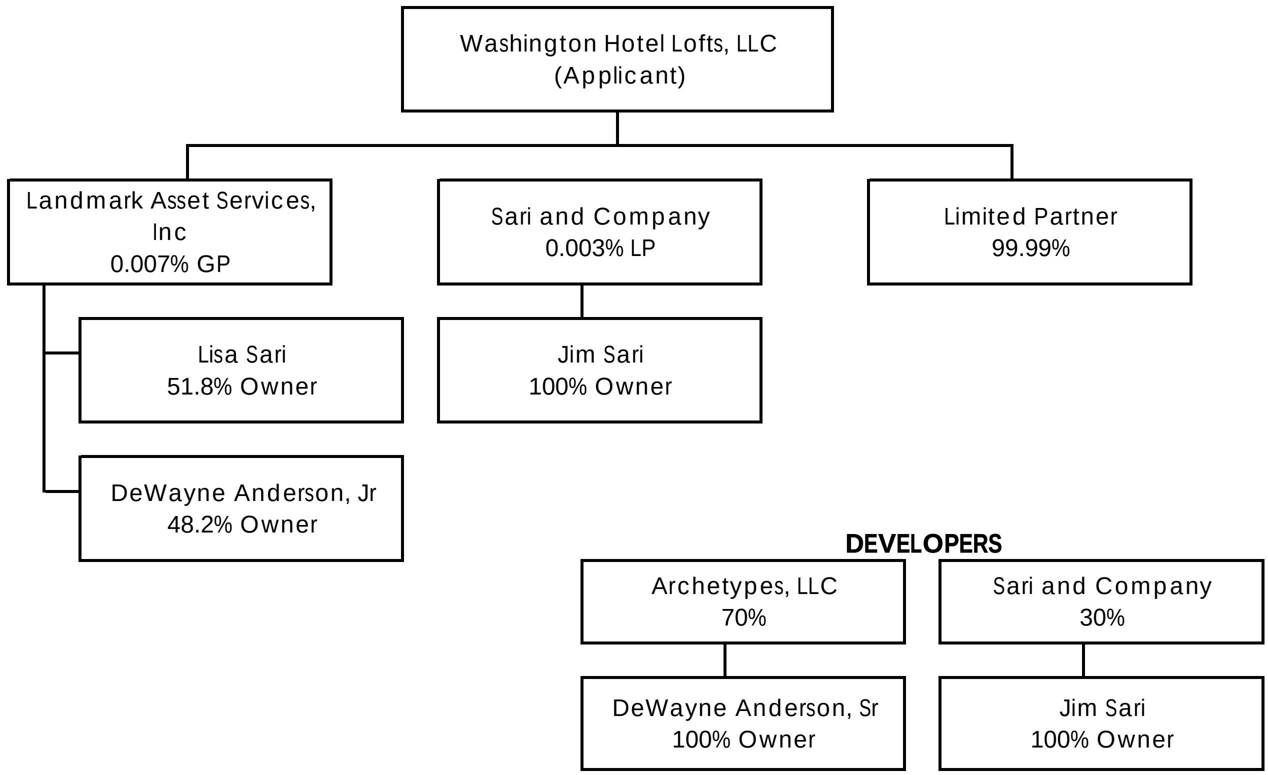
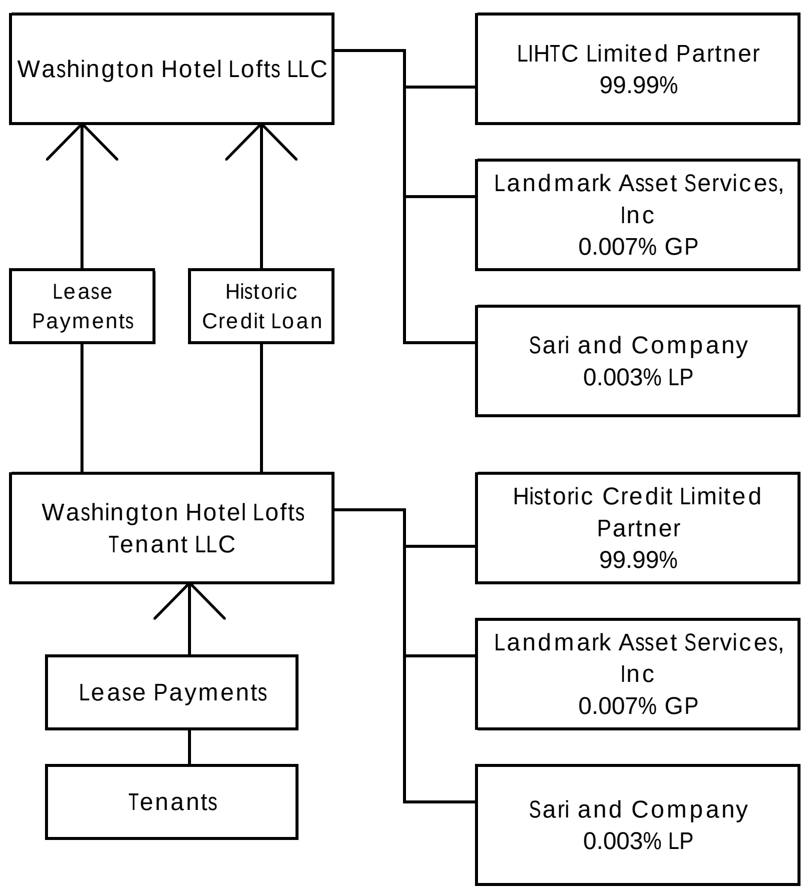
DEVELOPMENT TEAM

OWNERSHIP STRUCTURE (As submitted with the application)



LEASE PASS-THROUGH STRUCTURE



CONTACT

Contact: Bill Scantland Phone: 336.722.9871 Fax: 336.722.3603
Email: bill@landmarkdevelopment.biz

KEY PARTICIPANTS

Name	Financial Notes	# Completed Developments
Landmark Asset Services	N/A	3 LIHTC Allocations
Sari and Company	N/A	3 LIHTC Allocations
Jim Sari	N/A	3 LIHTC Allocations
Lisa Sari	N/A	3 LIHTC Allocations
DeWayne H Anderson, Sr	N/A	3 LIHTC Allocations

Comments:

The Applicant has indicated that they anticipate receiving 20% federal historic tax credits in addition to the requested LIHTCs. The 20% historic tax credit is available to developments proposing the rehabilitation of historic structures that are listed in the National Register or located in a registered historic district. Currently, the subject building does not qualify for 20% historic credits as it does not meet this basic requirement. However, the Applicant has provided information regarding the necessary steps to meet the basic requirements and coordinate with the State Historic Preservation Office and National Parks Service in order to access the historic tax credits. Moreover, Regions Bank has provided a Letter of Intent for the purchase of the historic credits reflecting another level of confidence that the Applicant will be successful in receiving the credits.

However, receipt, review, and acceptance, at carryover, 10% test, and cost certification, of documentation from the State Historic Preservation Office and/or the National Parks Service regarding the application stage and/or approval for certifying the building as a historic site and for the historic credit request is a condition of this report.

It should be noted that the Applicant has indicated that of more than 250 historic properties rehabilitated, most were not previously in the National Register.

A more significant concern is regarding whether the historic credits attributed to the rehabilitation of the residential units should be removed from eligible basis as generally required by Treasury regulations in IRC Section 42. The Applicant has not removed the historic credits from basis and has provided a general legal memorandum from Powell Goldstein, LLP (dated May 3, 2005) opining that under a lease pass through structure the LIHTC eligible basis is not reduced provided that certain conditions with regard to the lease structure are met and "provided that the lessee and lessor have substantially different investors and the lease between the two entities has an economic effect."

In 2006 and 2007, the Department accepted such an opinion and tax credit awards were approved for three transactions from the same development team. However, staff has cost certified several developments that received historic credits and all removed the historic credits from eligible basis. Recent trainings, including a training with the National Development Council, suggest that historic credits must be removed from LIHTC eligible basis. Also, the legal memo provided is ambiguous and does not address the specific circumstances of the subject development.

More importantly, the Underwriter and Senior Director of Programs contacted the Internal Revenue Service to determine if this or a similar structure allowing historic credits to remain in LIHTC eligible basis had been vetted. While the pass through election for the historic credit can be allowable, IRS staff indicated concern regarding the belief that the LIHTC eligible basis is not affected and serious concern regarding whether a structure such as that proposed in fact has economic effect and substantially different investors.

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Based on the information and advice provided to staff and due to the forthcoming cost certifications of three transactions with similar circumstances, this report is conditioned upon receipt, review, and acceptance, by 10% test, of a Private Letter Ruling from the Internal Revenue Service regarding legitimacy of the proposed lease pass-through structure and potential effect of the historic tax credits on LIHTC eligible basis is a condition of this report.

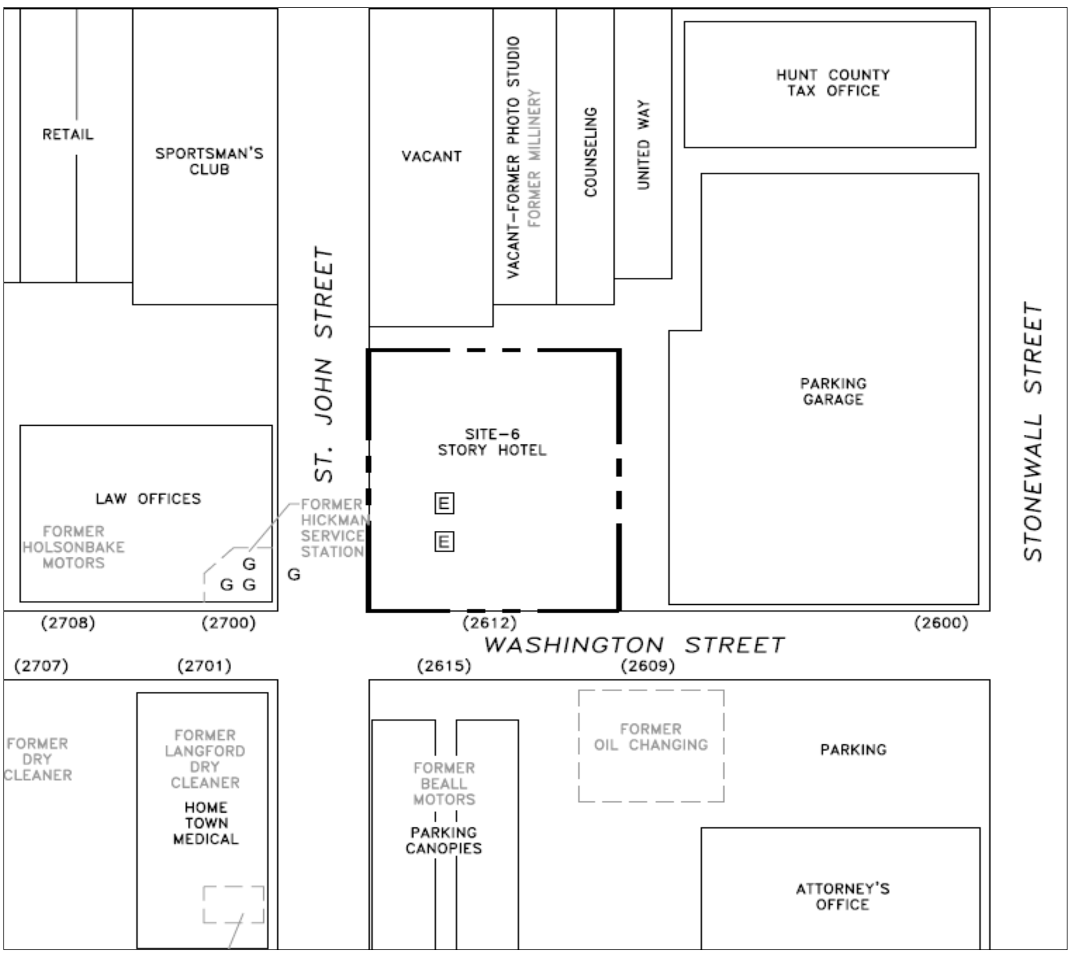
As reflected in the conclusions section of this report, if the historic tax credits must be removed from LIHTC eligible basis, the subject transaction would not meet the Department's rules and would be characterized as infeasible.

IDENTITIES of INTEREST

- The Applicant, Developer, General Contractor, and property manager are related entities. These are common relationships for HTC-funded developments.

PROPOSED SITE

SITE PLAN and ELEVATION



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BUILDING CONFIGURATION

Building Type	A									Total Buildings
Floors/Stories	6									
Number	1									**1**

BR/BA	SF	Units										Total Units	Total SF
1/1	706	8										8	5,648
1/1	903	3										3	2,709
2/2	918	4										4	3,672
2/2	927	4										4	3,708
2/2	948	2										2	1,896
2/2	1,040	4										4	4,160
2/2	1,075	3										3	3,225
2/2	1,028	2										2	2,056
3/2	1,143	2										2	2,286
3/2	1,211	2										2	2,422
3/2	1,406	2										2	2,812
Units per Building		36										**36**	**34,594**

SITE ISSUES

Total Size:	0.202 acres	Scattered site?	[ ]	Yes	[x]	No	
Flood Zone:	X	Within 100-yr floodplain?	[ ]	Yes	[x]	No	
Zoning:	CA	Needs to be re-zoned?	[ ]	Yes	[x]	No	[ ] N/A

Comments:

The site is currently zoned CA (Central Area District) which allows for multifamily housing according to a letter from the City of Greenville Director of Planning and Zoning dated January 17, 2008.

TDHCA SITE INSPECTION

Inspector: ORCA staff Date: 4/25/2008

Overall Assessment:

☐ Excellent ☐ Acceptable ☒ Questionable ☐ Poor ☐ Unacceptable

Surrounding Uses:

North: vacant retail / counseling center / United Way building / County Tax Office

South: Washington St / parking lot / law office

East: parking garage (for County courthouse) / Stonewall Street / courthouse

West: St John Street / law offices

Comments:

The site inspector rated the site as "questionable" due to the current condition of the building. The inspector notes that the building has solid construction but that the interior needs complete restoration. The Applicant has proposed to revitalize and convert this vacant hotel for multifamily housing and the Architect for the Applicant provided a Property Condition Assessment reflecting a cost estimate consistent with a complete rehabilitation of the building and has included a schedule of the estimated future capital needs. The Underwriter has evaluated this information and based the level of funding on the Architect's cost estimate. Additionally, the Underwriter has evaluated the future capital needs to ensure that the Applicant has the capacity to meet the estimated future needs of the property.

The Applicant has indicated that the City will donate a 36 space parking lot located across Washington Street at approximately the 2600 block of Washington. A resolution from the City was provided that confirms the City's approval of the in-kind contribution. At the time of application the Applicant did not include additional information regarding this parking lot and has not included it in the site. Moreover, the Applicant has not yet secured a survey, title commitment, or other documentation that would have been required at application to include this parking lot as part of the site.

The Applicant also subsequently indicated that they anticipate an additional 20 space parking lot owned by the County will also be donated to the Applicant, although have not received official County approval of this contribution. As such, as the application now stands, there would be no parking on the LURA restricted site and no guarantee that the offsite parking secured would remain free for the use of residents over the compliance and extended use periods. It should be noted that a parking garage that is currently free is located adjacent to the site and there is currently free on-street parking downtown. However, there is no guarantee that this parking will remain free for the tenants of the subject development.

In conversation with the Underwriter, the Applicant indicated that it was their intent to maintain this parking for residents of the development and to charge no fees for resident use of the parking. Moreover, the Applicant indicated their willingness to restrict this parking in the tax credit LURA with a provision requiring the parking to remain free for residents. Therefore, receipt, review, and acceptance, by carryover, of a survey, title commitment, siteplan, and site control for at least 36 parking spaces to be restricted by the tax credit LURA with a provision to ensure the parking remains free for residents is a condition of this report.

HIGHLIGHTS of ENVIRONMENTAL REPORTS

Provider: Terracon Date: 2/13/2008

Recognized Environmental Concerns (RECs) and Other Concerns:

- "2616 Washington Street - Yarbrough Millinery (hat maker) was located on-site at 2616 Washington Street from at least 1956 to 1959. Millineries historically used mercury in the hat making process. Based on the absence of information regarding waste handling activities, the former on-site Yarbrough Millinery constitutes a REC in connection with the site" (p. 16).

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- "2701/2703 Washington Street – A dry cleaner/laundry facility was located to the adjacent southwest of the site at 2701/2703 Washington Street. Langford Laundry and Dry Cleaners/William's Laundry/ Wright's Cleaners were located adjacent to the site from 1922 to 1956. The former Langford Laundry facility was located topographically cross-gradient relative to the site. Based on a review of the Sanborn Maps (Section 3.4) a 'solvent tank' associated with the Langford Laundry was identified approximately 140 feet southwest of the site on the 1949 map. Based on its longevity (1922 to 1956), proximity to the site, and absence of information regarding former chemical/waste handling practices, the former Langford Dry Cleaners constitutes a REC in connection with the site" (p. 17).

- "2613 Lee Street - A millinery abutted the site to the north (1898), and was located topographically up-gradient relative to the site. Millineries historically used mercury in the hat making process. Based on the absence of information regarding waste handling activities and its topographic up-gradient position, the former abutting millinery constitutes a REC in connection with the site" (p. 19).

- "2704 Washington Street – An auto repair garage (Holsonbake Motors) and associated gas tank were identified to the adjacent west of the site (1923) at 2704 Washington Street. The gas tank was located approximately 30 feet west of the site. A "filling station" (identified during the city directory review as Hickman Service Station) was located to the adjacent west of the site, in the southeastern corner of the garage. The gas tank located 30 feet from the site was not shown; however, three gas tanks were shown approximately 50 feet west of the site in 1949. The former Holsonbake Motors and Hickman Service Station facilities were located to the adjacent west and topographically cross- to up-gradient relative to the site. The facilities were not identified during the regulatory review. Based on their proximity to the site, up- to cross-gradient relative to the site, and absence of information regarding the removal/presence of the identified USTs, the former Holsonbake Motors and Hickman Service Station facilities constitute RECs in connection with the site" (p. 19).

- "Staining of the walls, ceilings, and floors indicative of water infiltration was noted throughout the areas of the building that were accessed. In addition, standing water was noted in the basement. Terracon recommends that a mold survey be conducted for the site. If mold is identified in the on-site building and prior to renovation or demolition of the building, the areas of visible mold and associated substrate supporting the mold growth should be remediate in accordance with the current Texas Mold Assessment and Remediation Rules (TMARR). If it is determined that the extent of the remediation will be greater than twenty-five (25) contiguous square feet, a Mold Remediation Protocol must be developed by a licensed Mold Consultant.

  The Mold Remediation Protocol will define the work areas to be remediate, approximate quantities, removal methods, personal protective equipment to be used, containment and clearance protocols. The mold remediation must be performed by a licensed Mold Contractor, who has prepared a Mold Remediation Work Plan in response to the Mold Remediation Protocol. Prior to the performance of remediation, a five (5) working day notification must be submitted to the Texas Department of State Health Services. Following remediation of mold impacted building materials, we recommend that the HVAC system ductwork be evaluated and cleaned by a reputable contractor." (p. 30)

- "Terracon conducted an asbestos survey and limited lead based paint (LBP) sampling of the Cadillac (Washington) Hotel located at 2612 Washington Street in Greenville, Texas. ... All the ACM identified in the building was assessed to be in poor condition on the day of the survey. Due to the poor condition of the identified ACM, public access to the building should be restricted. If public access is not restricted, measures should be taken to clean-up all friable ACM in order to limit potential exposure for anyone entering the building. If any renovation, demolition, or clean-up activities impact the identified ACM, the abatement or clean-up of those materials must be performed by a State of Texas licensed asbestos contractor prior to disturbance.

This section intentionally left blank.

The abatement will be performed in accordance with a project design prepared by a State of Texas licensed asbestos consultant. In addition, third party air monitoring must be performed during the abatement. It is important to note that state and federal regulations require a ten working day notification prior to any renovation or demolition activities in a building that affords public access or occupancy, regardless of whether asbestos is present or not. These activities must be performed in accordance with the current TDSHS, EPA, and OSHA guidelines. Terracon has made a reasonable effort to survey accessible suspect materials, however; due to the current occupancy of the building and the non-destructive nature of the asbestos survey the potential exists for additional suspect asbestos containing materials to be present beneath carpet, behind wall paneling, above ceilings, in voids or in other concealed areas" (p. 31).

- "[Lead Based Paint] LBP, as previously defined (<1 mg/cm2 of lead by area) was identified in four (4) of the forty (40) samples collected. The four (4) samples that tested positive for LBP levels above the specified limit include: dark blue/tan paint on the plaster column in the 1st floor lobby; tan paint on the wooden window casing in the southwest corner room on the 2nd floor; green/yellow paint on the wooden door frame in the room south of the stairs on the fourth floor; dark blue/light blue paint on the wooden window apron in the north central room on the 6th floor. The remaining thirty-six (36) samples were determined to contain <1 mg/cm2 of lead by area. If any renovation/demolition activities impact the integrity of the LBP, (>1 mg/cm2 or <1 mg/cm2) the contractor performing the removal of the LBP components must perform the renovation or demolition activities in compliance with the OSHA 29 CFR 1926.62 – Lead in Construction Standard.

  As a condition of the OSHA regulation it is the responsibility of the site owner to notify the general contractor (GC) of the presence of the LBP identified at the building. In addition, there are federal and state regulations that require appropriate analysis and classification of the lead containing debris generated by renovation or demolition activity to determine the proper disposal procedures. In order to characterize the lead waste generated from the renovation or demolition process for disposal a Toxicity Characteristic Leaching Procedure (TCLP) test must be performed" (p. 31).

- "The Housing of Urban Development (HUD) requires noise attenuation measures be provided when proposed projects are to be located in high noise areas. According to HUD Noise Assessment Guidelines, potential noise sources are examined for projects located within 15 miles of a military or civilian airport, 1,000 feet from a road or 3,000 feet from a railroad. Based on Terracon's review, Washington Street abuts the site to the south, St. John Street abuts the site to the west, the Missouri-Kansas- Texas Railway is located approximately 1,400 feet west of the site, the Majors Fields Airport is located approximately 5 miles south of the site, the Caddo Mills Airport is located approximately 10 miles southwest of the site, and the Commerce Municipal Airport is located approximately 13.5 miles northeast of the site" (p. 32).

- "The on-site building was constructed between 1925 and 1932. Based on the age of the onsite structure, lead piping and/or lead solder may have been utilized on-site. However, Terracon understands that the building may undergo complete renovation in the future" (p. 32).

Comments:

Based on the findings reflected in detail above, Terracon makes the following recommendations:

"Based on the findings of this assessment, Terracon recommends that additional investigation be conducted to evaluate if the site has been affected by potential releases from the former on-site Yarbrough Millinery and the former adjacent Langford Cleaners and the former Holsonbake Motors/Hickman Service Station" (p. 5).

"Staining of the walls, ceilings, and floors indicative of water infiltration was noted throughout the areas of the building that were accessed. In addition, standing water was noted in the basement. Terracon recommends that a mold survey be conducted for the site" (p. 6).

This section intentionally left blank.

"An asbestos survey and a lead-based paint survey were previously conducted for the onsite building. Terracon recommends that the identified asbestos containing materials (ACM) and the identified lead-based paint be maintained in a site-specific operations and maintenance (O&M) program. It is important to note that state and federal regulations require notification, and additional sampling requirements must be adhered to prior to any demolition or renovation activities that may impact the condition of ACM in a building that affords public access or occupancy. Additionally, it should be noted that if any ACM or suspect ACM becomes damaged, additional samples should be collected and/or the materials should be abated in accordance with applicable regulations" (p. 6).

"If any renovation, demolition, or clean-up activities impact the identified ACM, the abatement or clean-up of those materials must be performed by a State of Texas licensed asbestos contractor prior to disturbance. The abatement will be performed in accordance with a project design prepared by a State of Texas licensed asbestos consultant. In addition, third party air monitoring must be performed during the abatement" (p. 4).

"Based on the findings of this assessment, Terracon recommends further evaluation be conducted regarding lead in drinking water and a noise assessment study" (p. 6).

Receipt, review, and acceptance, by cost certification, of documentation that all Phase I ESA recommendations (regarding asbestos, mold, lead-based paint, lead in drinking water, noise, and potential effects of RECs from previous uses of the subject and surrounding property) and all subsequent environmental report recommendations has been carried out is a condition of this report.

MARKET HIGHLIGHTS

Provider: Novogradac & Company, LLP　Date: 3/28/2008

Contact: H Blair Kinser　Phone: 512.340.0420　Fax: 512.340.0421

Number of Revisions: None　Date of Last Applicant Revision: N/A

Primary Market Area (PMA): 883 square miles (16.8 mile radius)

The Market Analyst has used defined the PMA as Hunt County. The Analyst notes, "The City of Greenville is located in northeast Texas in Hunt County approximately 48 miles northeast of Dallas, Texas. Greenville is located in the center of Hunt County and serves as the county seat" (p. 10). The estimated 2007 population for the PMA was 84,205.

Secondary Market Area (SMA):

"The secondary market area (SMA) is defined as both Hunt County and Hopkins County" (p. 12). The Market Analyst includes some demographic information regarding the SMA; however, the Analyst has not included demand from the SMA in the analysis provided.

PROPOSED, UNDER CONSTRUCTION & UNSTABILIZED COMPARABLE DEVELOPMENTS								
PMA				SMA				
Name	File #	Total Units	Comp Units	Name	File #	Total Units	25%	Comp Units
Churchill at Commerce	04118	100	90	N/A				

Comments:

The Market Analyst indicated that Churchill at Commerce (04118), a 2004 9% transaction targeting families, is currently 95% occupied and therefore, is not included in the inclusive capture rate. However, the Underwriter contacted the on-site property manager and verified that the property reached 90% occupancy in November of 2007. As a result, this property does not meet the Department's definition of a stabilized property, which requires 12 consecutive months of occupancy equal to or exceeding 90%. The Underwriter has included all of the development's 90 units targeting households at 30%, 50%, and 60% in the inclusive capture rate. This yields a significant increase in the inclusive capture rate, but it remains below the Department's maximum threshold of 75% for rural transactions.

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INCOME LIMITS						
Hunt						
% AMI	1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons
30	$13,950	$15,950	$17,950	$19,950	$21,550	$23,150
50	$23,300	$26,600	$29,950	$33,250	$35,900	$38,550
60	$27,960	$31,920	$35,940	$39,900	$43,080	$46,260

MARKET ANALYST'S PMA DEMAND by UNIT TYPE							
Unit Type	Turnover Demand	Growth Demand	Other Demand	Total Demand	Subject Units	Unstabilized Comparable (PMA)	Capture Rate
1 BR / 30% Rent Limit			192	192	2	0	1%
1 BR / 60% Rent Limit			391	391	6	0	2%
2 BR / 50% Rent Limit			231	231	13	0	6%
2 BR / 60% Rent Limit			507	507	7	0	1%
3 BR / 60% Rent Limit			345	345	8	0	2%

Comments:

The Market Analyst utilized the number of income qualified renter households as demand in order to determine the inclusive capture rates by unit type. This would generally be considered a penetration rate. In order to determine an inclusive capture rate per the Department's rules, a turnover rate must be applied to the number of eligible renter households. Additionally, the Analyst's calculation does not include household growth. Based on the Underwriter's analysis, if the Market Analyst had applied the turnover rate used in the overall demand calculations, the inclusive capture rate for each unit type would remain below the Department's threshold of 75%.

The Market Analyst has applied a turnover rate to the overall demand calculations and correctly calculated an inclusive capture rate as reflected below; although, the Market Analyst used an income band extending to 5 person households at 60% of AMI. The Underwriter has used an income band with a maximum for 5 person households at 50% of AMI in accordance with the recommendations of this report.

OVERALL DEMAND										
	Renter Households		Household Size		Income Eligible		Tenure	Demand	
PMA DEMAND from TURNOVER									
Market Analyst p. 61	100%	8,468	100%	8,468	20%	1,667		35%	583
Underwriter	100%	8,469	96%	8,130	20%	6,030		35%	390
PMA DEMAND from HOUSEHOLD GROWTH									
Market Analyst p. 61	100%	96	100%	96	20%	19		100%	19
Underwriter	100%	92	96%	88	20%	63		100%	12

INCLUSIVE CAPTURE RATE						
	Subject Units	Unstabilized Comparable (PMA)	Unstabilized Comparable (25% SMA)	Total Supply	Total Demand (w/25% of SMA)	Inclusive Capture Rate
Market Analyst p. 61	36	0	0	36	602	5.98%
Underwriter	36	90	0	126	402	31.34%

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Primary Market Occupancy Rates:

"One of the comparables properties was able to provide information on absorption. The manager for the Ranchview Townhomes, a LIHTC property that targets families, estimated that the property took 18 months to reach 95 percent stabilized occupancy. This pace equates to an approximate absorption rate of approximately 13 units per month. The manager noted that typical occupancy at the property has been at 93 percent in the past year and stated that the property would benefit from offering one-bedroom units and from offering a number of market rate units. Churchill at Commerce is a 100 unit LIHTC/market rate property located 14 miles northeast from the Subject in Commerce, Texas. The manager reported that the property opened in January of 2006 and reached a stabilized occupancy of 90 percent on February 1, 2007, which equates to an absorption rate of approximately 7 units per month" (p. 39).

Absorption Projections:

"We conservatively estimate the absorption period to be approximately 4 months to reach stabilization of 95 percent occupancy, with an absorption rate of approximately 9 units per month" (p. 39).

RENT ANALYSIS (Tenant-Paid Net Rents)								
Unit Type (% AMI)			Proposed Rent	Program Maximum	Achievable Market Rent	Underwriting Rent	Savings Over Market
1 BR	706 SF	30%	$300	$302	$515	$302	$213
1 BR	706 SF	60%	$515	$552	$515	$515	$0
2 BR	903 SF	50%	$600	$657	$600	$600	$0
2 BR	918 SF	50%	$600	$657	$600	$600	$0
2 BR	927 SF	50%	$600	$657	$600	$600	$0
2 BR	948 SF	50%	$600	$657	$600	$600	$0
2 BR	1,040 SF	50%*	$640	$657	$640	$640	$0
2 BR	1,075 SF	50%*	$640	$657	$640	$640	$0
3 BR	1,028 SF	50%*	$700	$753	$700	$700	$0
3 BR	1,143 SF	50%*	$700	$753	$700	$700	$0
3 BR	1,211 SF	50%*	$700	$753	$700	$700	$0
3 BR	1,406 SF	50%*	$700	$753	$700	$700	$0

* The Applicant elected to restrict these units at 60% rents and incomes at application. However, as discussed below, in order to meet the Department's rules the Applicant has indicated that they agree to restrict these units at 50% of AMI rents. It is unclear if the Applicant agrees to an equivalent 50% of AMI restriction on incomes but such a restriction is recommended by the Underwriter.

Market Impact:

"Demand for the Subject's vacant units is likely to originate from rent overburdened households at older market rate properties, Housing Choice Voucher holders and new household growth. Despite the competition in the PMA from Ranchview Townhomes, the potential impact on the existing affordable housing stock is anticipated to be minimal given the relatively small number of units the Subject will have and the broad unit mix. Finally, the demand analysis illustrates an overall capture rate of 8.1 percent, indicating substantial demand from income-qualified households in the PMA. Based on this information, the potential impact on the existing affordable housing stock is anticipated to be minimal" (p. 53-54).

Comments:

The Market Analyst and Underwriter determined inclusive capture rates well below the Department's maximum threshold. Moreover, the Analyst provided sufficient information on which to base a funding recommendation.

Concentration:

Staff has calculated the concentration rate of the areas surrounding the property in accordance with section 1.32 (i)(2) of the Texas Administrative Code approved in 2007. The Underwriter has concluded a census tract concentration of 40 units per square mile which is less than the 1,432 units per square mile limit and a Primary Market Area concentration of 4 units per square mile which is less than the 1,000 units per square mile limit. Therefore, the proposed development is in an area which has an acceptable level of apartment dispersion based upon the Department’s standard criteria.

OPERATING PROFORMA ANALYSIS

Income: Number of Revisions: 3 Date of Last Applicant Revision: 6/19/2008

The Applicant's rents appear to be based on the lesser of the HTC program 60% rent limit less utility allowances or the achievable market rent as determined by the Market Analyst. The achievable market rents are less than the HTC 50% and 60% net rents on all but the two 30% one-bedroom units.

The 2008 Real Estate Analysis Rules [10 TAC Section 1.32(i)(4)] require units that have Achievable Market Rents below the 50% level to be LURA restricted at the 50% level or the development will be characterized as infeasible and would therefore not be recommended.

In correspondence with the Underwriter, the Applicant agreed to change the rent restrictions on the 21 units originally restricted at 60% of AMI to 50% of AMI rents. A revised rent schedule was submitted to confirm these restrictions, but the Applicant indicated that they would only agree to restrict rents at the 50% level for these units and that the income restrictions should remain at 60% of AMI.

It has been the Department's practice to ensure that rent restrictions have corresponding income restrictions [QAP Section 50.9(i)(3)]. This helps to keep a fair playing field for existing and future affordable housing developments so that they have a more limited income band in which to serve. In addition, the units are anticipated to be able to serve 50% households at this time and the State should lock in that level of affordability while the opportunity is available. Therefore, this report has been conditioned upon all of the proposed units having income restrictions corresponding with the elected rent restrictions; all income and rent restrictions are at or below 50% of AMI.

The Underwriter has used the achievable market rents as reflected in the market study provided, all of which are below the 50% of AMI net program rents. The Applicant's estimate of vacancy and collection loss is in line with the Department standard.

The Applicant included secondary income of $21,600 from leasing the planned 3,000 square feet of retail space that will be located on the first floor of the building, which amounts to $7.20 per square foot annually or $0.60 per square foot monthly. The Applicant provided information regarding rents received for other Greenville retail and commercial properties that appears to confirm the Applicant's estimate; moreover, given the downtown location and the extensive rehabilitation planned the Applicant's estimate appears to be reasonable. Therefore, the Underwriter has used the Applicant's projected retail rental income.

The Applicant's estimate of effective gross income is within 5% of the Underwriter's estimate.

Expense: Number of Revisions: 1 Date of Last Applicant Revision: 5/12/2008

The Applicant's total operating expense estimate of $3,917 per unit is within 5% of the Underwriter's total operating expense estimate of $4,080 derived from the TDHCA database, IREM data, and other sources. However, two of the Applicant's line items differ significantly from the Underwriter's estimates, including: general and administrative ($3K lower); and payroll and payroll tax ($7K lower).

Conclusion:

The Applicant’s estimates of effective gross income, total operating expense, and net operating income are each within 5% of the Underwriter's estimates; therefore, the Applicant's Year One proforma will be used to determine the development's debt capacity and debt coverage ratio (DCR). The proforma results in a DCR within the parameters of the Department's current guideline.

Feasibility:

The underwriting 30-year proforma utilizes a 3% annual growth factor for income and a 4% annual growth factor for expenses in accordance with current TDHCA guidelines. As noted above, the Applicant's base year effective gross income, expense and net operating income were utilized resulting in a debt coverage ratio that remains above 1.15 and continued positive cashflow. Therefore, the development can be characterized as feasible for the long-term.

ACQUISITION INFORMATION

APPRAISED VALUE

Provider: Pacific Southwest Valuation | Date: 2/12/2008

Number of Revisions: None | Date of Last Applicant Revision: N/A

Land Only:	0.20 acres	$60,000	As of:	1/29/2008
Existing Buildings: (as-is)		$540,000	As of:	1/29/2008
Total Development: (as-is)		$600,000	As of:	1/29/2008

ASSESSED VALUE

Land Only:	N/A acres	$18,250	Tax Year:	2007
Existing Buildings:		$62,570	Valuation by:	Hunt CAD
Total Assessed Value:		$80,820	Tax Rate:	2.72381

EVIDENCE of PROPERTY CONTROL

Type: Contract for Sale and Purchase of Real Estate | Acreage: N/A

Contract Expiration: 10/31/2008 | Valid Through Board Date? [x] Yes [ ] No

Acquisition Cost: $500,000 | Other: See Comments section below.

Seller: Black Resources, Inc | Related to Development Team? [ ] Yes [x] No

Comments:

The contract includes a provision that may ultimately result in an adjustment to the final purchase price. According to the contract, the Buyer will be wholly responsible for the construction related to remediation of asbestos, lead based paint, and removal of sludge from drains. However, if such cost exceeds $210,000, the purchase price will be adjusted downward by the difference between the actual cost and the $210,000 allowance. Additionally, if such cost is less than $210,000, the purchase price will increase by the amount of the savings over the $210,000 allowance. As discussed below, the Underwriter has made adjustments to account for the potential acquisition cost adjustments.

TITLE

Comments:

Schedule C of the title commitment reflects an exception for Tax Suits, Cause Numbers 16833 and 17258, for unpaid property taxes. No additional information has been provided by the Applicant to confirm clearance of this exception. Therefore, receipt, review, and acceptance, by carryover, that the exception for Tax Suits as reflected in Schedule C of the title commitment has been cleared by the title company is a condition of this report.

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CONSTRUCTION COST ESTIMATE EVALUATION

COST SCHEDULE Number of Revisions: 1 Date of Last Applicant Revision: 5/12/2008

Acquisition Value:

The Applicant has provided a contract reflecting a purchase price of $500,000 or $13,889 per unit. The acquisition of the subject appears to be an arms length transaction and is therefore assumed to be reasonable. As previously discussed, the contract indicates that the purchase price may ultimately be adjusted if the final cost for environmental remediation is higher or lower than $210,000. If such cost exceeds $210,000, the purchase price will be adjusted downward by the difference between the actual cost and the $210,000 allowance. Additionally, if such cost is less than $210,000, the purchase price will increase by the amount of the savings over the $210,000 allowance.

Because the Applicant is responsible for the work associated with environmental remediation, this cost has been included in the development cost schedule as an eligible cost. The Applicant has estimated $246,000 for abatement of asbestos and lead based paint. As a result, the final acquisition price would be reduced by $36,000 from $500,000 to $464,000. This reduction is not reflected in the Applicant's cost schedule. The PCA provider has estimated remediation totaling $202,000. Therefore, the Underwriter has reflected an increase in the purchase price of $8,000 for a total price of $508,000 to account for the savings that will accrue to the existing owner.

The Applicant has claimed eligible building basis of $450,000 based on a land value of $50,000. The Underwriter has used a land value of $60,000 as reflected in the appraisal provided and a total adjusted purchase price of $508,000 to determine eligible building basis of $448,000.

As discussed previously, the City has agreed to donate parking to the development. However, the Applicant has been unable to provide detailed information about the parking that will be donated. The Applicant has not included the value of this parking in the acquisition cost or in the eligible acquisition basis and because the parking will be donated, no eligible costs will be incurred for the transfer.

Sitework Cost:

The Applicant's sitework estimate of $2,033 per unit is well below the Department's standard threshold, which is typical of existing properties being rehabilitated. The revised Property Condition Assessment (PCA), prepared by the Architect for the transaction, reflects sitework costs of $2,089 per unit. The Underwriter has used the PCA estimate.

Direct Construction Cost:

The Applicant's direct construction cost estimate is just 0.36% higher than the estimate reflected in the revised PCA. The PCA estimate of $62,083 per unit is significantly more than would be expected for a typical rehabilitation transaction and rivals that of a new construction development However, the existing structure is proposed to be completely reconfigured and revitalized with the entire interior reconstructed. The building was constructed in 1926 and has been abandoned for many years.

The Applicant has also included $600,000 in construction cost for the commercial space as an ineligible cost. The development of the commercial space has not been included in the PCA estimate and it is unlikely that the actual cost will be unknown until it is clear what tenant may ultimately occupy this space.

Interim Interest Expense:

The Applicant's eligible interim interest expense exceeds the Department's maximum of one year of fully drawn interest on construction financing. The Underwriter has reduced the eligible portion to the Department's maximum and shifted the excess $32,987 to ineligible expenses.

Contingency & Fees:

As a result of the overstatement of eligible interim interest expense, the Applicant's developer fee now exceeds the Department's maximum. The Underwriter has effectively shifted $4,817 in developer fee exceeding the 20% maximum to ineligible costs.

Conclusion:

The Underwriter's cost schedule was derived from information presented in the Application materials submitted by the Applicant. Any deviations from the Applicant's estimates are due to program and underwriting guidelines. Therefore, Underwriter's development cost schedule will be used to determine the development's need for permanent funds and to calculate eligible basis. An eligible basis of $5,136,495 supports annual tax credits of $401,713. This figure will be compared to the Applicant's request and the tax credits calculated based on the gap in need for permanent funds to determine the recommended allocation.

FINANCING STRUCTURE

SOURCES & USES Number of Revisions: 1 Date of Last Applicant Revision: 5/12/2008

Source: Regions Bank Type: **Interim to Permanent Financing**

Interim:	$5,160,168	Interest Rate:	7.5%		Fixed	Term:	24	months
Permanent:	$1,451,000	Interest Rate:	6.5%	x	Fixed	Amort:	420	months

Comments:

The lender's letter of intent indicates a minimum DCR of 1.15 and 95% occupancy will be required for 90 consecutive days in order to convert to permanent. The LOI indicates an interest rate on the construction loan equal to Prime plus 1% (estimated at 7.5% based on February's Prime rate).

Source: Greenville Board of Development Type: **Permanent Financing**

Principal: $325,000 Interest Rate: 0.0% x Fixed Amort: N/A months

Comments:

The Applicant has provided a confirmation from the Greenville Board of Development (GBD) that an application for this source of funds was received and is being processed. The Applicant anticipates the loan to be repayable from cashflow and carry an interest rate of 0.00%. The Applicant has indicated that the funds are not federally sourced but that the GBD loan will be funded from sales tax revenue. As such, it appears that the below AFR interest rate will not have an impact on the Applicant's eligibility for 9% HTCs. Moreover, the transaction would remain viable if this source of funds was ultimately not received.

Source: Regions Bank Type: **LIHTC Syndication**

Proceeds: $3,235,628 Syndication Rate: 83% Anticipated HTC: N/A

Comments:

Should the final credit price decreases to less than $0.72, all else equal, the gap in financing would increase and the resulting deferred developer fee would not be repayable within the required 15 years. Alternatively, the credit price can increase to $0.85 before the gap in financing decreases to a level that could warrant an adjustment to the recommended credit amount.

Source: Regions Bank Type: **Historic Credit Equity**

Proceeds: $959,604 Syndication Rate: 90% Anticipated HTC: N/A

Comments:

The same letter of intent provided for the LIHTCs also indicates a purchase price of $0.90 for the Historic Tax Credits. Historic Credits are calculated using a basis similar to eligible basis used for tax credit purposes but inclusive of costs associated with commercial space and excluding building acquisition costs. The Applicant has estimated historic credit basis of $5,333,000 resulting in an estimated historic credit amount of approximately $1,066,600. The Underwriter has calculated a slightly lower historic credit basis of $5,206,295, if the Department's limitations on developer fees and interim interest were used. The Underwriter can however replicate the math used to reach the Applicant's assumption, and based on the information available has assumed that the projected historic credit equity is reasonable.

However, it should be noted that it is not entirely known how this equity will be received by the Owner since the equity actually goes to the Lessee under the lease pass-through structure proposed. The Underwriter requested information regarding this transfer of the proceeds on June 26, 2008 and again on July 2, 2008, but as of the date of this report, the Applicant has not provided such information. This report is conditioned upon a Private Letter Ruling from the IRS regarding this structure and the Underwriter will reevaluate the financing structure once this Private Letter Ruling is received.

Amount: $99,344 Type: **Deferred Developer Fees**

Market Uncertainty:

The financial market for tax credit developments from both a loan and equity perspective are in their greatest period of uncertainty since the early 1990's and fluctuations in pricing and private funding are expected to continue to occur. The Underwriter has evaluated the pricing flexibility independently for credits and interest rates under which this development could continue to be considered financially feasible. Because of the significant number of potential scenarios, the Underwriter has not modeled the potential impact of movement on both interest rates and equity pricing occurring at the same time.

Due to the uncertainty in the market and the potential for such movement in both equity pricing and interest rates, this report is conditioned upon updated loan and equity commitments at the submission of carryover. Should the revised commitments reflect changes in the anticipated permanent interest rate(s) and equity price, a re-evaluation of the financial feasibility of the transaction should be conducted.

CONCLUSIONS

Recommended Financing Structure:

The Underwriter's total development cost estimate less the permanent first lien of $1,451,000, GBD loan of $325,000, and anticipated historic credit proceeds of $959,604 indicates the need for $3,330,555 in gap funds. Based on the submitted syndication terms, a tax credit allocation of $401,312 annually would be required to fill this gap in financing. Of the three possible tax credit allocations, Applicant's request ($390,225), the gap-driven amount ($401,312), and eligible basis-derived estimate ($401,713), the Applicant's request of $390,225 is recommended resulting in proceeds of $3,238,544 based on a syndication rate of 83%.

The Underwriter's recommended financing structure indicates the need for $92,011 in additional permanent funds. Deferred developer fees in this amount appear to be repayable from development cashflow within five years of stabilized operation.

However, if the historic credits are required to be removed from LIHTC eligible basis, the recommended credit amount would be reduced to a maximum of $330,831 and the gap in financing would increase to $584,928. Deferred developer fees in this amount do not appear to be repayable from development cashflow within 15 years of stabilized operation. Therefore, the development would be characterized as infeasible and could not be recommended for funding.

Underwriter:	*Cameron Dorsey*	Date:	July 15, 2008
Reviewing Underwriter:	*Raquel Morales*	Date:	July 15, 2008
Director of Real Estate Analysis:	*Tom Gouris*	Date:	July 15, 2008

MULTIFAMILY COMPARATIVE ANALYSIS

Washington Hotel Lofts, Greenville, 9% HTC #08184

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Rent Collected	Rent per Month	Rent per SF	Tnt-Pd Util	WS&T
TC 30%	2	1	1	706	$373	$302	$604	$0.43	$70.88	$63.50
TC 50%	6	1	1	706	$623	$515	$3,090	$0.73	$70.88	$63.50
TC 50%	3	2	2	903	$748	$600	$1,800	$0.66	$91.14	$78.58
TC 50%	4	2	2	918	$748	$600	$2,400	$0.65	$91.14	$78.58
TC 50%	4	2	2	927	$748	$600	$2,400	$0.65	$91.14	$78.58
TC 50%	2	2	2	948	$748	$600	$1,200	$0.63	$91.14	$78.58
TC 50%	4	2	2	1,040	$748	$640	$2,560	$0.62	$91.14	$78.58
TC 50%	3	2	2	1,075	$748	$640	$1,920	$0.60	$91.14	$78.58
TC 50%	2	3	2	1,028	$864	$700	$1,400	$0.68	$111.39	$93.64
TC 50%	2	3	2	1,143	$864	$700	$1,400	$0.61	$111.39	$93.64
TC 50%	2	3	2	1,211	$864	$700	$1,400	$0.58	$111.39	$93.64
TC 50%	2	3	2	1,406	$864	$700	$1,400	$0.50	$111.39	$93.64
TOTAL:	36		**AVERAGE:**	961		$599	$21,574	$0.62	$91.14	$78.58

INCOME	Total Net Rentable Sq Ft:	34,594			TDHCA	APPLICANT	COUNTY	IREM REGION	COMPT. REGION
POTENTIAL GROSS RENT					$258,891	$258,840	Hunt		3
Secondary Income			Per Unit Per Month:	$14.00	6,048	6,048	$14.00	Per Unit Per Month	
Other Support Income:					21,600	21,600	$50.00	Per Unit Per Month	
POTENTIAL GROSS INCOME					$286,539	$286,488			
Vacancy & Collection Loss			% of Potential Gross Income:	-7.50%	(21,490)	(21,492)	-7.50%	of Potential Gross Income	
Employee or Other Non-Rental Units or Concessions					0	0			
EFFECTIVE GROSS INCOME					$265,048	$264,996			

EXPENSES		% OF EGI	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% OF EGI
General & Administrative		4.53%	$333	0.35	$11,998	$8,950	$0.26	$249	3.38%
Management		5.59%	412	0.43	14,814	15,031	0.43	418	5.67%
Payroll & Payroll Tax		11.43%	841	0.88	30,283	22,880	0.66	636	8.63%
Repairs & Maintenance		8.29%	610	0.64	21,973	19,164	0.55	532	7.23%
Utilities		4.53%	334	0.35	12,013	12,960	0.37	360	4.89%
Water, Sewer, & Trash		5.41%	399	0.41	14,347	18,600	0.54	517	7.02%
Property Insurance		4.40%	324	0.34	11,651	13,900	0.40	386	5.25%
Property Tax	2.72381	6.63%	488	0.51	17,579	17,300	0.50	481	6.53%
Reserve for Replacements		4.07%	300	0.31	10,800	10,800	0.31	300	4.08%
TDHCA Compliance Fees		0.54%	40	0.04	1,440	1,440	0.04	40	0.54%
Other:		0.00%	0	0.00	0	0	0.00	0	0.00%
TOTAL EXPENSES		55.42%	$4,080	$4.25	$146,897	$141,025	$4.08	$3,917	53.22%
NET OPERATING INC		44.58%	$3,282	$3.42	$118,151	$123,971	$3.58	$3,444	46.78%
DEBT SERVICE									
First Lien Mortgage		39.69%	$2,922	$3.04	$105,195	$105,200	$3.04	$2,922	39.70%
Greenville Board of Development		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		4.89%	$360	$0.37	$12,956	$18,771	$0.54	$521	7.08%
AGGREGATE DEBT COVERAGE RATIO					1.12	1.18			
RECOMMENDED DEBT COVERAGE RATIO						1.18			

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)		8.37%	$14,111	$14.68	$508,000	$500,000	$14.45	$13,889	8.24%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		1.24%	2,089	2.17	75,200	73,200	2.12	2,033	1.21%
Direct Construction		36.84%	62,083	64.61	2,235,000	2,243,000	64.84	62,306	36.95%
Contingency	4.76%	1.81%	3,056	3.18	110,000	110,000	3.18	3,056	1.81%
Contractor's Fees	13.68%	5.21%	8,778	9.13	316,000	316,000	9.13	8,778	5.21%
Indirect Construction		7.16%	12,061	12.55	434,200	434,200	12.55	12,061	7.15%
Ineligible Costs		13.33%	22,463	23.38	808,663	808,663	23.38	22,463	13.32%
Developer's Fees	20.00%	14.11%	23,780	24.75	856,083	862,500	24.93	23,958	14.21%
Interim Financing		10.91%	18,389	19.14	662,013	662,013	19.14	18,389	10.91%
Reserves		1.01%	1,694	1.76	61,000	61,000	1.76	1,694	1.00%
TOTAL COST		100.00%	$168,504	$175.35	$6,066,159	$6,070,576	$175.48	$168,627	100.00%
Construction Cost Recap		*45.11%*	***$76,006***	***$79.09***	***$2,736,200***	***$2,742,200***	***$79.27***	***$76,172***	*45.17%*

SOURCES OF FUNDS

	%	PER UNIT	PER SQ FT	TDHCA	APPLICANT	RECOMMENDED	
First Lien Mortgage	23.92%	$40,306	$41.94	$1,451,000	$1,451,000	$1,451,000	
Greenville Board of Development	5.36%	$9,028	$9.39	325,000	325,000	325,000	Developer Fee Available
Historic Credit Proceeds	15.82%	$26,656	$27.74	959,604	959,604	959,604	$857,683
HTC Syndication Proceeds	53.34%	$89,879	$93.53	3,235,628	3,235,628	3,238,544	% of Dev. Fee Deferred
Deferred Developer Fees	1.64%	$2,760	$2.87	99,344	99,344	92,011	11%
Additional (Excess) Funds Req'd	-0.07%	($123)	($0.13)	(4,417)	0	0	15-Yr Cumulative Cash Flow
TOTAL SOURCES				$6,066,159	$6,070,576	$6,066,159	$535,568

PAYMENT COMPUTATION

Primary	$1,451,000	Amort	420
Int Rate	6.50%	DCR	1.12

Secondary	$325,000	Amort	
Int Rate	0.00%	Subtotal DCR	1.12

Additional	$959,604	Amort	
Int Rate		Aggregate DCR	1.12

RECOMMENDED FINANCING STRUCTURE APPLICAN

Primary Debt Service	$105,195
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$18,776

Primary	$1,451,000	Amort	420
Int Rate	6.50%	DCR	1.18

Secondary	$325,000	Amort	0
Int Rate	0.00%	Subtotal DCR	1.18

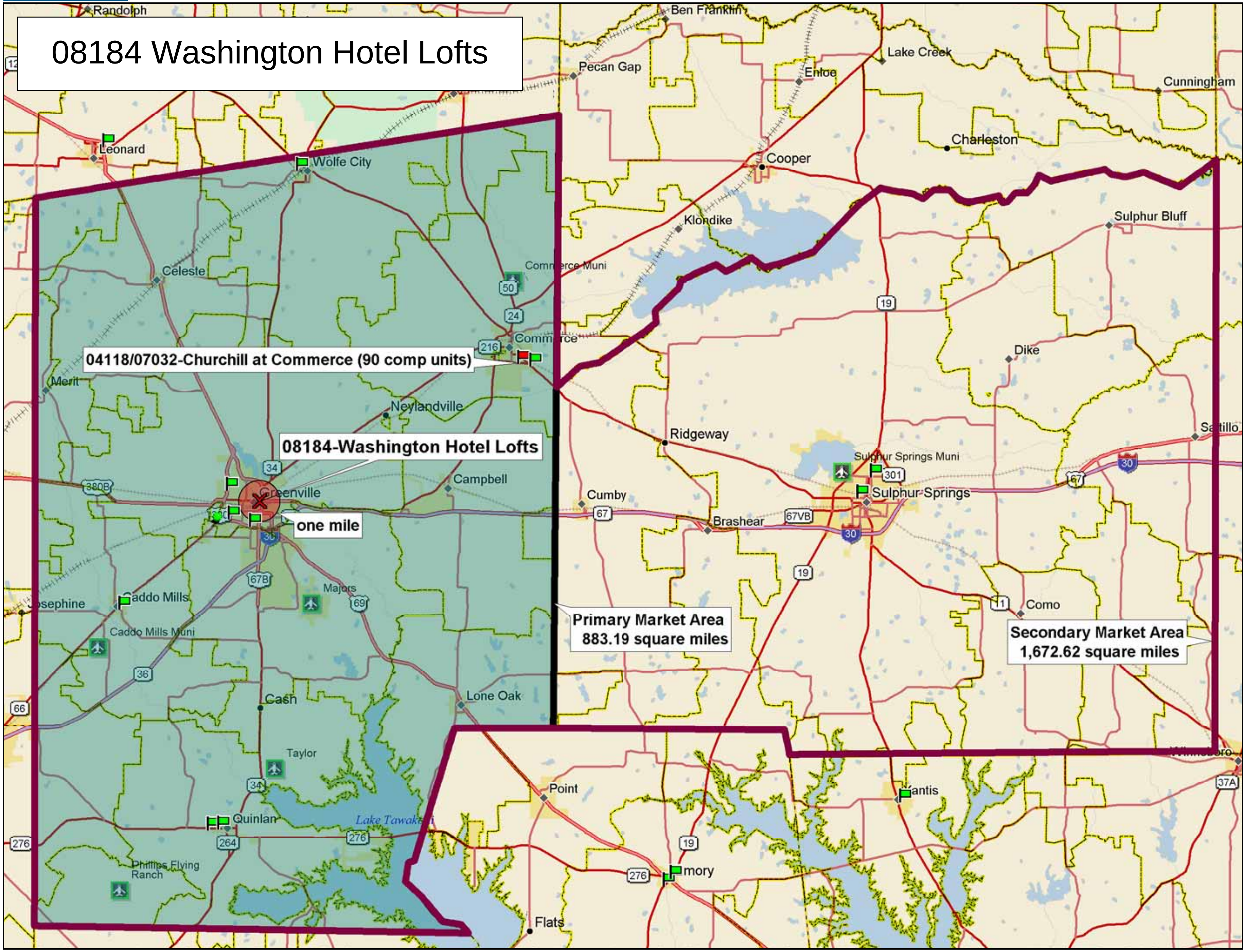
Additional	$959,604	Amort	
Int Rate		Aggregate DCR	1.18

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	$258,840	$266,605	$274,603	$282,841	$291,327	$337,727	$391,519	$453,878	$609,973
Secondary Income	6,048	6,229	6,416	6,609	6,807	7,891	9,148	10,605	14,253
Other Support Income:	21,600	22,248	22,915	23,603	24,311	28,183	32,672	37,876	50,902
POTENTIAL GROSS INCOME	286,488	295,083	303,935	313,053	322,445	373,802	433,339	502,358	675,128
Vacancy & Collection Loss	(21,492)	(22,131)	(22,795)	(23,479)	(24,183)	(28,035)	(32,500)	(37,677)	(50,635)
Employee or Other Non-Rental	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$264,996	$272,951	$281,140	$289,574	$298,261	$345,767	$400,838	$464,682	$624,493
EXPENSES at 4.00%									
General & Administrative	$8,950	$9,308	$9,680	$10,068	$10,470	$12,739	$15,499	$18,856	$27,912
Management	15,031	15,482	15,947	16,425	16,918	19,612	22,736	26,357	35,422
Payroll & Payroll Tax	22,880	23,795	24,747	25,737	26,766	32,565	39,621	48,205	71,355
Repairs & Maintenance	19,164	19,931	20,728	21,557	22,419	27,276	33,186	40,376	59,766
Utilities	12,960	13,478	14,018	14,578	15,161	18,446	22,443	27,305	40,418
Water, Sewer & Trash	18,600	19,344	20,118	20,922	21,759	26,474	32,209	39,187	58,007
Insurance	13,900	14,456	15,034	15,636	16,261	19,784	24,070	29,285	43,349
Property Tax	17,300	17,992	18,712	19,460	20,239	24,623	29,958	36,448	53,953
Reserve for Replacements	10,800	11,232	11,681	12,149	12,634	15,372	18,702	22,754	33,681
Other	1,440	1,498	1,558	1,620	1,685	2,050	2,494	3,034	4,491
TOTAL EXPENSES	$141,025	$146,516	$152,222	$158,151	$164,313	$198,941	$240,917	$291,808	$428,354
NET OPERATING INCOME	$123,971	$126,435	$128,918	$131,423	$133,948	$146,826	$159,921	$172,874	$196,140
DEBT SERVICE									
First Lien Financing	$105,195	$105,195	$105,195	$105,195	$105,195	$105,195	$105,195	$105,195	$105,195
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	$18,776	$21,240	$23,723	$26,228	$28,753	$41,630	$54,726	$67,678	$90,944
DEBT COVERAGE RATIO	1.18	1.20	1.23	1.25	1.27	1.40	1.52	1.64	1.86

HTC ALLOCATION ANALYSIS -Washington Hotel Lofts, Greenville, 9% HTC #08184						
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
Acquisition Cost						
Purchase of land	$50,000	$60,000				
Purchase of buildings	$450,000	$448,000	$450,000	$448,000		
Off-Site Improvements						
Sitework	$73,200	$75,200			$73,200	$75,200
Construction Hard Costs	$2,243,000	$2,235,000			$2,243,000	$2,235,000
Contractor Fees	$316,000	$316,000			$316,000	$316,000
Contingencies	$110,000	$110,000			$110,000	$110,000
Eligible Indirect Fees	$434,200	$434,200			$434,200	$434,200
Eligible Financing Fees	$662,013	$662,013			$662,013	$662,013
All Ineligible Costs	$808,663	$808,663				
Developer Fees			$90,000	$89,600	$767,683	$766,483
Developer Fees	$862,500	$856,083				
Development Reserves	$61,000	$61,000				
TOTAL DEVELOPMENT COSTS	$6,070,576	$6,066,159	$540,000	$537,600	$4,606,095	$4,598,895

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		$540,000	$537,600	$4,606,095	$4,598,895
High Cost Area Adjustment				100%	100%
TOTAL ADJUSTED BASIS		$540,000	$537,600	$4,606,095	$4,598,895
Applicable Fraction		100%	100%	100%	100%
TOTAL QUALIFIED BASIS		$540,000	$537,600	$4,606,095	$4,598,895
Applicable Percentage		3.55%	3.55%	8.32%	8.32%
TOTAL AMOUNT OF TAX CREDITS		$19,170	$19,085	$383,227	$382,628
Syndication Proceeds	**0.8299**	**$159,095**	**$158,388**	**$3,180,467**	**$3,175,495**
			Total Tax Credits (Eligible Basis Method)	**$402,397**	**$401,713**
			Syndication Proceeds	**$3,339,562**	**$3,333,883**
			Requested Tax Credits	**$390,225**	
			Syndication Proceeds	**$3,238,544**	
			Gap of Syndication Proceeds Needed	**$3,334,972**	**$3,330,555**
			Total Tax Credits (Gap Method)	**$401,844**	**$401,312**



TN
MN (3.7°E)

Scale 1 : 400,000
1" = 6.31 mi
Data Zoom 9-0

ADDITIONAL UNDERWRTING REPORTS THAT HAVE BEEN COMPLETED

08262
Lake View Apt Homes
Underwriting Report

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Real Estate Analysis Division
Underwriting Report

REPORT DATE: 07/26/08 PROGRAM: 9% HTC FILE NUMBER: **08262**

DEVELOPMENT

Lake View Apartment Homes

Location: North Broadway at Loope 323 Region: 4

City: Tyler County: Smith Zip: 75706 [x] QCT [ ] DDA

Key Attributes: Elderly, Urban, New Construction, Fourplex

ALLOCATION

	REQUEST			**RECOMMENDATION**		
TDHCA Program	Amount	Interest	Amort/Term	**Amount**	**Interest**	**Amort/Term**
Housing Tax Credit (Annual)	$1,150,000			**$1,150,000**		

CONDITIONS

1 Receipt, review and acceptance by commitment of documentation that the development will comply with §50.6(a) of the 2008 QAP which requires that any Development proposing New Construction or Reconstruction and located within the 100 year floodplain as identified by the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps must develop the site so that all finished ground floor elevations are at least one foot above the flood plain and parking and drive areas are no lower than six inches below the floodplain, subject to more stringent local requirements.

2 Receipt, review and acceptance by commitment of a zoning change from the City of Tyler Planning & Zoning Department approving a zoning change to R3 Multi-family.

3 Receipt, review, and acceptance, by carryover, of updated loan and equity commitments which are not more than 30 days old.

4 Should the terms and rates of the proposed debt or syndication change, the transaction should be re-evaluated and an adjustment to the allocation amount may be warranted.

SALIENT ISSUES

TDHCA SET-ASIDES for LURA		
Income Limit	Rent Limit	Number of Units
30% of AMI	30% of AMI	7
50% of AMI	50% of AMI	49
60% of AMI	60% of AMI	78

PROS

- The developer has a considerable amount of experience in the development of affordable housing and the capacity to support a transaction if necessary.

CONS

- The proposed number of two-bedroom units targeting 50% and 60% elderly households is more than the demand for such units given the Market Analyst's high capture rates for these unit types.

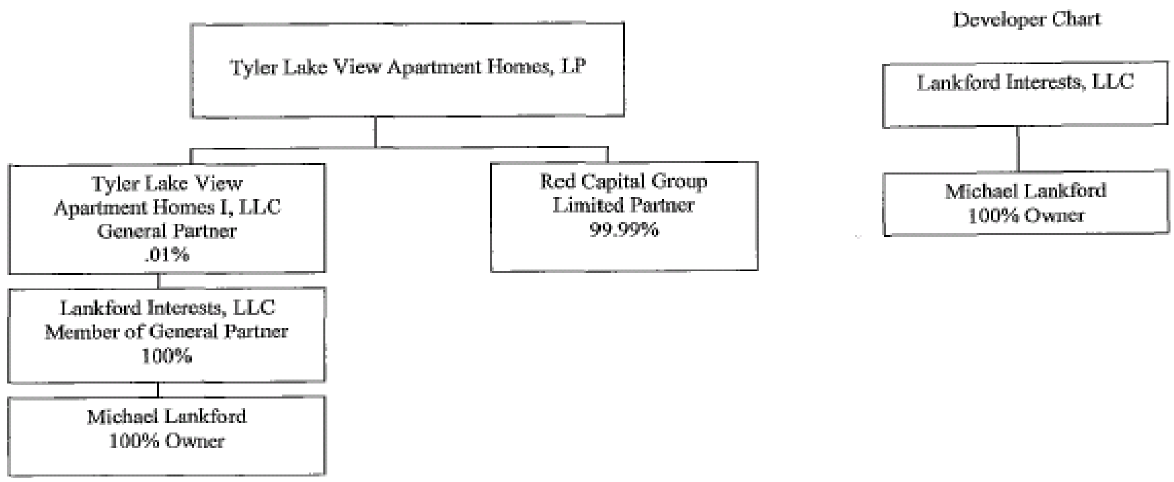
- The proposed development falls within the primary market area of another higher scoring development 08157 SilverLeaf at Chandler and will have a significantly negative impact on its capture rate.

PREVIOUS UNDERWRITING REPORTS

None

DEVELOPMENT TEAM

OWNERSHIP STRUCTURE



CONTACT

Contact: Michael Lankford Phone: (713) 626-9655 Fax: (713) 621-4947
Email: mlankford@lankfordinterests.com

KEY PARTICIPANTS

Name	Financial Notes	# Completed Developments
Lankford Interests, LLC	N/A	14 HTC allocations
Michael Lankford	N/A	14 HTC allocations

IDENTITIES of INTEREST

- The Applicant, Developer, General Contractor, property manager, and supportive services provider are related entities. These are common relationships for HTC-funded developments.

PROPOSED SITE

SITE PLAN

BUILDING CONFIGURATION

Building Type	I	II	III	IV	V	VI					Total Buildings
Floors/Stories	1	1	1	1	1	1					
Number	7	3	1	18	4	2					**35**

BR/BA	SF	Units										Total Units	Total SF
1/1	840	4	4	4								44	36,960
2/2	1,045				4	4	4					96	100,320
Units per Building		4	4	4	4	4	4					**140**	**137,280**

SITE ISSUES

Total Size: 18 acres — Scattered site? [ ] Yes [x] No

Flood Zone: X, A4, and B — Within 100-yr floodplain? [x] Yes [ ] No

Zoning: AG — Needs to be re-zoned? [x] Yes [ ] No [ ] N/A

Comments:

"The subject property sits mainly outside the floodplain. The northwestern corner of the tract is located within Zone B (shaded) which is identified as the 500-year floodplain. The southwestern edge of the property sits within Zone A4 which is identified as the 100-year floodplain. Base flood elevation data has been established within zone A4 for this area." (p. 10)

This report is conditioned upon receipt, review and acceptance of documentation from the Applicant that the development will comply with §50.6(a) of the 2008 QAP which requires that any Development proposing New Construction or Reconstruction and located within the 100 year floodplain as identified by the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps must develop the site so that all finished ground floor elevations are at least one foot above the flood plain and parking and drive areas are no lower than six inches below the floodplain, subject to more stringent local requirements.

TDHCA SITE INSPECTION

Inspector: Manufactured Housing Staff   Date: 4/21/2008

Overall Assessment:

☐ Excellent ☒ Acceptable ☐ Questionable ☐ Poor ☐ Unacceptable

Surrounding Uses:

North: Vacant land   East: Vacant land

South: Vacant land   West: Vacant land

HIGHLIGHTS of ENVIRONMENTAL REPORTS

Provider: LFC, Inc.   Date: 3/1/2008

Recognized Environmental Concerns (RECs) and Other Concerns:

- None other than the small northwestern corner and southwestern corners that sits within zone B and A4 that is described above in the Site Issues.

MARKET HIGHLIGHTS

Provider: Patrick O'Connor & Associates, L.P.   Date: 3/24/2008

Contact: Daniel C. Hollander   Phone: (713) 686-9955   Fax: (713) 686-8336

Number of Revisions: None   Date of Last Applicant Revision: N/A

Primary Market Area (PMA): 950.88 square feet (17.4 miles radius)

"The subject's primary market area is defined as that area contained within the Tyler MSA, which is within the boundaries of Smith County. This area includes all or a portion of the following zip codes 75701, 75702, 75703, 75704, 75705, 75706 (subject), 75707, 75708, 75762, 75771, and 75792 and all of the following census tracts 48423000100, 48423000201, 48423000202, 48423000300 (subject), 48423000400, 48423000500, 48423000600, 48423000700, 48423000800, 48423000900, 48423001000, 48423001102, 48423001200, 48423001300, 48423001401, 48423001402, 48423001500, 48423001601, 48423001602, 48423001603, 48423001700, 48423001801, 48423001802, 48423001803, 48423001901, 48423001903, 48423001904 48423002003, 48423002004, 48423002006, 48423002007, 48423002008, 48423002009, 48423002100, and 48423002200." (p. 22)

PROPOSED, UNDER CONSTRUCTION & UNSTABILIZED COMPARABLE DEVELOPMENTS								
PMA				SMA				
Name	File #	Total Units	Comp Units	Name	File #	Total Units	25%	Comp Units
None				N/A				

Just outside the PMA to the west is where the proposed 08157 SilverLeaf ant Chandler which contains an additional 80 units also targeting seniors. The SilverLeaf at Chandler PMA included much of Tyler including the subject but because it has priority over the subject did not include the subject in its inclusive capture rate. Had the inclusive capture rate for SilverLeaf at Chandler included the subject, it would not have been within the 75% limit for financial feasibility. The market analysis for SilverLeaf at Chandler was conducted by a different market analysis firm. The excessive capture rate could pose a problem for the Chandler transaction but as Chandler is not part of the PMA for the subject it is not consider a problem for the subject. Had the subject scored higher than SilverLeaf at Chandler, then SilverLeaf at Chandler would not be recommended for funding this year.

INCOME LIMITS						
Smith						
% AMI	1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons
30	$11,150	$12,700	$14,300	$15,900	$17,150	$18,450
50	$18,550	$21,200	$23,850	$26,500	$28,600	$30,750
60	$22,260	$25,440	$28,620	$31,800	$34,320	$36,900

MARKET ANALYST'S PMA DEMAND by UNIT TYPE							
Unit Type	Turnover Demand	Growth Demand	Other Demand	Total Demand	Subject Units	Unstabilized Comparable (PMA)	Capture Rate
1BR/30% Rent Limit	25	5	0	30	2	0	6.7%
1BR/50% Rent Limit	28	6	0	34	20	0	58.8%
1BR/60% Rent Limit	28	9	0	37	20	0	54.1%
2BR/30% Rent Limit	15	2	0	17	5	0	29.4%
2BR/50% Rent Limit	21	5	0	26	29	0	111.5%
2BR/60% Rent Limit	20	8	0	28	58	0	207.1%

OVERALL DEMAND											
		Target Households		Household Size		Income Eligible		Tenure		Demand	
PMA DEMAND from TURNOVER											
Market Analyst p.	69	33%	24,400	100%	24,400	Included in tenure %		7%	1,620	30%	486
Underwriter		33%	24,405	100%	24,405	23%	5,671	30%	1,729	30%	519
PMA DEMAND from HOUSEHOLD GROWTH											
Market Analyst p.	69			100%	1,014	Included in tenure %		7%	67	100%	67
Underwriter				100%	335	23%	78	30%	24	100%	24
DEMAND from OTHER SOURCES											
Market Analyst p.	68										19
Underwriter											9

INCLUSIVE CAPTURE RATE							
		Subject Units	Unstabilized Comparable (PMA)	Unstabilized Comparable (25% SMA)	Total Supply	Total Demand (w/25% of SMA)	Inclusive Capture Rate
Market Analyst p.	69	134	0	0	134	572	23.4%
Underwriter		134	0	0	134	552	24.3%
HISTA-Based Data Alternate		134	0	0	134	453	29.6%

The Underwriter independently evaluated demand for the subject using both the traditional method of calculating demand and the HISTA-based data alternative. The Underwriter found the revised inclusive capture rates using both methods to be acceptable at 24.3% and 29.6% for senior developments. Even if the 80 units from SilverLeaf at Chandler were included in the subjects market area the inclusive capture rate would be less than 50% based on any of the three demand calculations above. This inconsistency with the conclusions of the SilverLeaf and Chandler market study are a result of fact that the SilverLeaf and Chandler market study used a much smaller market area, less than half the size of the subject PMA.

Primary Market Occupancy Rates:

"The average occupancy for apartments in the subject's submarket area was reported at 95.3% in the most recent Apartment MarketData survey (December 2007). Average occupancy in the primary market area has remained relatively stable over the periods reported by the Apartment MarketData survey." (p. 37-38)

Absorption Projections:

"Pre-leasing should commence prior to the completion of the construction. Based on our research, it is anticipated that the subject property would lease up within 12 months." (p. 37)

RENT ANALYSIS (Tenant-Paid Net Rents)								
Unit Type (% AMI)			Proposed Rent	Program Maximum	Market Rent	Underwriting Rent	Savings Over Market
1 BR	840 SF	30%	$212	$212	$870	$212	$658
1 BR	840 SF	50%	$410	$410	$870	$410	$460
1 BR	840 SF	60%	$510	$510	$870	$510	$360
1 BR	840 SF	Mkt	$700	N/A	$870	$700	$170
2 BR	1,045 SF	30%	$253	$253	$990	$253	$737
2 BR	1,045 SF	50%	$492	$492	$990	$492	$498
2 BR	1,045 SF	60%	$611	$611	$990	$611	$379
2 BR	1,045 SF	Mkt	$850	N/A	$990	$850	$140

Market Impact:

"The majority of the apartment facilities in the subject's primary market are older, less appealing projects. It is our opinion that rental rates will show minimal increases over the next few years. With continued demand and negligible new construction, the supply of available apartment product is declining. This trend is expected to continue, which will likely result in occupancies remaining high in the area. Although rents are slowly increasing, there are limited indications of external obsolescence in the market." (p. 39-40)

Comments:

The market study provides sufficient information on which to base a funding recommendation. The addition of SilverLeaf at Chandler, while potentially an issue of excessive capture rate that will manifest it self in slower absorption for both properties, is mitigated by looking at senior demand from the larger market area contained in this report.

Concentration:

Staff has calculated the concentration rate of the areas surrounding the property in accordance with section 1.32 (i)(2) of the Texas Administrative Code approved in 2007. The Underwriter has concluded a census tract concentration of 0 units per square mile which is less than the 1,432 units per square mile limit and a Primary Market Area concentration of 9 units per square mile which is less than the 1,000 units per square mile limit. Therefore, the proposed development is/is not in an area which has an acceptable level of apartment dispersion based upon the Department's standard criteria.

OPERATING PROFORMA ANALYSIS

Income: Number of Revisions: None Date of Last Applicant Revision: N/A

The Applicant's projected rents collected per unit were calculated by subtracting the tenant-paid utility allowances as of July 1, 2007, maintained by The City of Tyler Housing Authority from the 2008 program gross rent limits. Tenants will be required to pay all electric utility costs. The projected rents are achievable based on the market rents determined by the Market Analyst. Of note, the Applicant's projected rents for the market rate units are less than the market rents determined by the Market Analyst. If the Applicant were able to achieve the market rents as determined by the analyst for these units, the development would receive an additional $10,800 in rental income per month.

The Applicant's estimate of secondary income and vacancy and collection loss is within the Department's guidelines. Overall the Applicant's effective gross income is within 5% of the Underwriter's estimate.

Expense: Number of Revisions: None Date of Last Applicant Revision: N/A

The Applicant's total annual operating expense projection at $3,614 per unit is within 5% of the Underwriter's estimate of $3,584, derived from the TDHCA database, IREM, and third-party data sources. The Applicant's budget shows several line item estimates that deviate significantly when compared to the database averages, specifically: property tax ($20K higher) and reserve for replacements ($7.0 lower).

Conclusion:

The Applicant's total operating expense and net operating income are within 5% of the Underwriter's estimate; therefore, the Applicant's year one proforma will be used to determine the development's debt capacity.

Feasibility:

The underwriting 30-year proforma utilizes a 3% annual growth factor for income and a 4% annual growth factor for expenses in accordance with current TDHCA guidelines. As noted above, the Applicant's base year effective gross income, expense and net operating income were utilized resulting in a debt coverage ratio that remains above 1.15 and continued positive cashflow. Therefore, the development can be characterized as feasible for the long-term.

ACQUISITION INFORMATION

ASSESSED VALUE

Land Only: 212 acres	$717,100	Tax Year:	2008
Prorated 1.0 ac:	$3,378	Valuation by:	Smith CAD
Total prorated 18.0 ac:	$60,803	Tax Rate:	1.830109

EVIDENCE of PROPERTY CONTROL

Type: Commercial Contract - Unimproved Property Acreage: 18

Contract Expiration: 8/30/2008 Valid Through Board Date? [x] Yes [ ] No

Acquisition Cost: $540,000 Other:

Seller: Northchase Development, LLC Related to Development Team? [ ] Yes [x] No

CONSTRUCTION COST ESTIMATE EVALUATION

COST SCHEDULE Number of Revisions: None Date of Last Applicant Revision: N/A

Acquisition Value:

The site cost of $30,000 per acre or $3,857 per unit is assumed to be reasonable since the acquisition is an arm's-length transaction.

Sitework Cost:

The Applicant's claimed sitework costs of $6,643 per unit are within current Department guidelines. Therefore, further third party substantiation is not required.

Direct Construction Cost:

The Applicant's direct construction cost estimate is $384.6K or 5.4% higher than the Underwriter's Marshall & Swift Residential Cost Handbook-derived estimate.

Contingency & 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 development cost is within 5% of the Underwriter's estimate; therefore, the Applicant's cost schedule will be used to determine the development's need for permanent funds and to calculate eligible basis. An eligible basis of $12,734,180 supports annual tax credits of $1,318,301. This figure will be compared to the Applicant's request and the tax credits calculated based on the gap in need for permanent funds to determine the recommended allocation.

FINANCING STRUCTURE

SOURCES & USES Number of Revisions: 1 Date of Last Applicant Revision: 4/30/2008

Source: Red Capital Markets, Inc. Type: **Interim Financing**

Principal: $3,762,695 Interest Rate: 7.0% ☐ Fixed Term: 24 months

Comments:

Rate set by Fannie Mae Pass-through rate

Source: Red Capital Markets, Inc. Type: **Interim Financing**

Principal: $2,500,000 Interest Rate: 4.96% ☐ Fixed Term: 24 months

Comments:

Rate set by thirty-day LIBOR plus 2.50%, adjusted monthly

Source: Amegy Bank Type: **Interim Financing**

Principal: $300,000 Interest Rate: ☐ Fixed Term: months

Comments:

Rate and term to be provided at commitment

Source: City of Tyler Type: **Interim Financing**

Principal: $725,000 Interest Rate: ☐ Fixed Term: months

Comments:

Rate and term to be provided at commitment

Source: Red Capital Markets, Inc. Type: **Permanent Financing**

Principal: $3,762,695 Interest Rate: 7.0% ☐ Fixed Amort: 360 months

Comments:

Rates are subject to daily fluctuations and will be fixed after a permanent loan commitment is received from Fannie Mae but prior to construction loan closing.

Source: Red Capital Group Type: **Syndication**

Proceeds: $9,314,068 Syndication Rate: 81% Anticipated HTC: $ 1,150,000

Comments:

The committed credit price appears to be consistent with recent trends in pricing. However, the Underwriter has performed a sensitivity test and determined that the credit price can decline to $0.75. At this point, the financial viability of the transaction may be jeopardized. Alternatively, should the final credit price increase to more than the $0.86, all deferred developer fees would be eliminated and an adjustment to the credit amount may be warranted.

Amount: $579,418 Type: **Deferred Developer Fees**

Market Uncertainty:

The financial market for tax credit developments from both a loan and equity perspective are in their greatest period of uncertainty since the early 1990's and fluctuations in pricing and private funding are expected to continue to occur. The Underwriter has evaluated the pricing flexibility independently for credits and interest rates under which this development could continue to be considered financially feasible. Because of the significant number of potential scenarios, the Underwriter has not modeled the potential impact of movement on both interest rates and equity pricing occurring at the same time.

Due to the uncertainty in the market and the potential for such movement in both equity pricing and interest rates, this report is conditioned upon updated loan and equity commitments at the submission of carryover. Should the revised commitments reflect changes in the anticipated permanent interest rate(s) and equity price, a re-evaluation of the financial feasibility of the transaction should be conducted.

CONCLUSIONS

Recommended Financing Structure:

The Applicant's total development cost estimate less the permanent loan of $3,762,695 indicates the need for $9,893,485 in gap funds. Based on the submitted syndication terms, a tax credit allocation of $1,221,540 annually would be required to fill this gap in financing. Of the three possible tax credit allocations, Applicant's request ($1,150,000), the gap-driven amount ($1,221,540), and eligible basis-derived estimate ($1,318,301), the Applicant's request of $1,150,000 is recommended resulting in proceeds of $9,314,068 based on a syndication rate of 81%.

The Underwriter's recommended financing structure indicates the need for $579,417 in additional permanent funds. Deferred developer and contractor fees in this amount appear to be repayable from development cashflow within ten years of stabilized operation.

Underwriter:	*Carl Hoover*	Date:	July 26, 2008
Reviewing Underwriter:	*Raquel Morales*	Date:	July 26, 2008
Director of Real Estate Analysis:	*Tom Gouris*	Date:	July 26, 2008

MULTIFAMILY COMPARATIVE ANALYSIS

Lake View Apartment Homes, Tyler, 9% HTC #08262

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Rent Collected	Rent per Month	Rent per SF	Tnt-Pd Util	WS&T
TC 30%	2	1	1	840	$298	$212	$424	$0.25	$86.00	$25.00
TC 50%	20	1	1	840	$496	$410	$8,200	$0.49	$86.00	$25.00
TC 60%	20	1	1	840	$596	$510	$10,200	$0.61	$86.00	$25.00
MR	2	1	1	840		$700	$1,400	$0.83	$86.00	$25.00
TC 30%	5	2	2	1,045	$357	$253	$1,265	$0.24	$104.00	$29.00
TC 50%	29	2	2	1,045	$596	$492	$14,268	$0.47	$104.00	$29.00
TC 60%	58	2	2	1,045	$715	$611	$35,438	$0.58	$104.00	$29.00
MR	4	2	2	1,045		$850	$3,400	$0.81	$104.00	$29.00
TOTAL:	140		AVERAGE:	981		$533	$74,595	$0.54	$98.34	$27.74

INCOME	Total Net Rentable Sq Ft:	137,280		TDHCA	APPLICANT	COUNTY	IREM REGION	COMPT. REGION
POTENTIAL GROSS RENT				$895,140	$895,140	Smith		4
Secondary Income		Per Unit Per Month:	$15.00	25,200	25,200	$15.00	Per Unit Per Month	
Other Support Income:				0		$0.00	Per Unit Per Month	
POTENTIAL GROSS INCOME				$920,340	$920,340			
Vacancy & Collection Loss		% of Potential Gross Income:	-7.50%	(69,026)	(69,024)	-7.50%	of Potential Gross Income	
Employee or Other Non-Rental Units or Concessions				0				
EFFECTIVE GROSS INCOME				$851,315	$851,316			

EXPENSES		% OF EGI	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% OF EGI
General & Administrative		5.16%	$314	0.32	$43,961	$45,500	$0.33	$325	5.34%
Management		5.00%	304	0.31	42,566	42,612	0.31	304	5.01%
Payroll & Payroll Tax		13.39%	814	0.83	113,955	112,000	0.82	800	13.16%
Repairs & Maintenance		6.88%	418	0.43	58,563	63,000	0.46	450	7.40%
Utilities		3.99%	243	0.25	33,974	36,700	0.27	262	4.31%
Water, Sewer, & Trash		5.47%	333	0.34	46,608	40,300	0.29	288	4.73%
Property Insurance		4.12%	251	0.26	35,085	28,000	0.20	200	3.29%
Property Tax	1.830109	7.52%	458	0.47	64,054	84,000	0.61	600	9.87%
Reserve for Replacements		4.11%	250	0.25	35,000	28,000	0.20	200	3.29%
TDHCA Compliance Fees		0.66%	40	0.04	5,600	3,500	0.03	25	0.41%
Other: Supp. Serv., Security		2.63%	160	0.16	22,400	22,400	0.16	160	2.63%
TOTAL EXPENSES		58.94%	$3,584	$3.66	$501,765	$506,012	$3.69	$3,614	59.44%
NET OPERATING INC		41.06%	$2,497	$2.55	$349,550	$345,304	$2.52	$2,466	40.56%
DEBT SERVICE									
Red Capital Group		35.29%	$2,146	$2.19	$300,400	$300,263	$2.19	$2,145	35.27%
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		5.77%	$351	$0.36	$49,150	$45,041	$0.33	$322	5.29%
AGGREGATE DEBT COVERAGE RATIO					1.16	1.15			
RECOMMENDED 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)		4.11%	$3,857	$3.93	$540,000	$540,000	$3.93	$3,857	3.95%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		7.07%	6,643	6.77	930,000	930,000	6.77	6,643	6.81%
Direct Construction		54.23%	50,945	51.95	7,132,263	7,500,000	54.63	53,571	54.92%
Contingency	5.00%	3.06%	2,879	2.94	403,113	421,500	3.07	3,011	3.09%
Contractor's Fees	14.00%	8.58%	8,062	8.22	1,128,717	1,180,200	8.60	8,430	8.64%
Indirect Construction		4.99%	4,689	4.78	656,500	656,500	4.78	4,689	4.81%
Ineligible Costs		1.38%	1,300	1.33	182,000	182,000	1.33	1,300	1.33%
Developer's Fees	15.00%	12.13%	11,395	11.62	1,595,339	1,660,980	12.10	11,864	12.16%
Interim Financing		2.93%	2,750	2.80	385,000	385,000	2.80	2,750	2.82%
Reserves		1.52%	1,429	1.46	200,000	200,000	1.46	1,429	1.46%
TOTAL COST		100.00%	$93,950	$95.81	$13,152,932	$13,656,180	$99.48	$97,544	100.00%
Construction Cost Recap		*72.94%*	***$68,529***	***$69.89***	***$9,594,093***	***$10,031,700***	***$73.07***	***$71,655***	*73.46%*

SOURCES OF FUNDS				TDHCA	APPLICANT	RECOMMENDED	
Red Capital Group	28.61%	$26,876	$27.41	$3,762,695	$3,762,695	$3,762,695	Developer Fee Available
Additional Financing	0.00%	$0	$0.00	0		0	$1,660,980
HTC Syndication Proceeds	70.81%	$66,529	$67.85	9,314,067	9,314,067	9,314,068	% of Dev. Fee Deferred
Deferred Developer Fees	4.41%	$4,139	$4.22	579,418	579,418	579,417	35%
Additional (Excess) Funds Req'd	-3.83%	($3,595)	($3.67)	(503,248)	0	0	15-Yr Cumulative Cash Flow
TOTAL SOURCES				$13,152,932	$13,656,180	$13,656,180	$1,227,813

MULTIFAMILY COMPARATIVE ANALYSIS (continued)

Lake View Apartment Homes, Tyler, 9% HTC #08262

DIRECT CONSTRUCTION COST ESTIMATE

Marshall & Swift Residential Cost Handbook
Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$55.34	$7,596,802
Adjustments				
Exterior Wall Finish	2.00%		$1.11	$151,936
Elderly	5.00%		2.77	379,840
9-Ft. Ceilings			0.00	0
Roofing			0.00	0
Subfloor			(2.47)	(339,082)
Floor Cover			2.43	333,590
Breezeways/Balconies	$19.81	21,052	3.04	417,032
Plumbing Fixtures	$805	288	1.69	231,840
Rough-ins	$400	280	0.82	112,000
Built-In Appliances	$1,850	140	1.89	259,000
Exterior Stairs	$1,800		0.00	0
Enclosed Corridors	$45.42		0.00	0
Heating/Cooling			1.90	260,832
Carports	$10	28,000	2.07	284,200
Comm &/or Aux Bldgs	$71.29	4,072	2.11	290,273
Other: fire sprinkler	$1.95		0.00	0
SUBTOTAL			72.69	9,978,263
Current Cost Multiplier	1.00		0.00	0
Local Multiplier	0.88		(8.72)	(1,197,392)
TOTAL DIRECT CONSTRUCTION COSTS			$63.96	$8,780,871
Plans, specs, survy, bld prm	3.90%		($2.49)	($342,454)
Interim Construction Interest	3.38%		(2.16)	(296,354)
Contractor's OH & Profit	11.50%		(7.36)	(1,009,800)
NET DIRECT CONSTRUCTION COSTS			$51.95	$7,132,263

PAYMENT COMPUTATION

Primary	$3,762,695	Amort	360
Int Rate	7.00%	DCR	1.16
Secondary	$0	Amort	
Int Rate		Subtotal DCR	1.16
Additional	$9,314,067	Amort	
Int Rate		Aggregate DCR	1.16

RECOMMENDED FINANCING STRUCTURE APPLICAN

Primary Debt Service	$300,400
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$44,904

Primary	$3,762,695	Amort	360
Int Rate	7.00%	DCR	1.15
Secondary	$0	Amort	0
Int Rate	0.00%	Subtotal DCR	1.15
Additional	$9,314,067	Amort	0
Int Rate	0.00%	Aggregate DCR	1.15

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

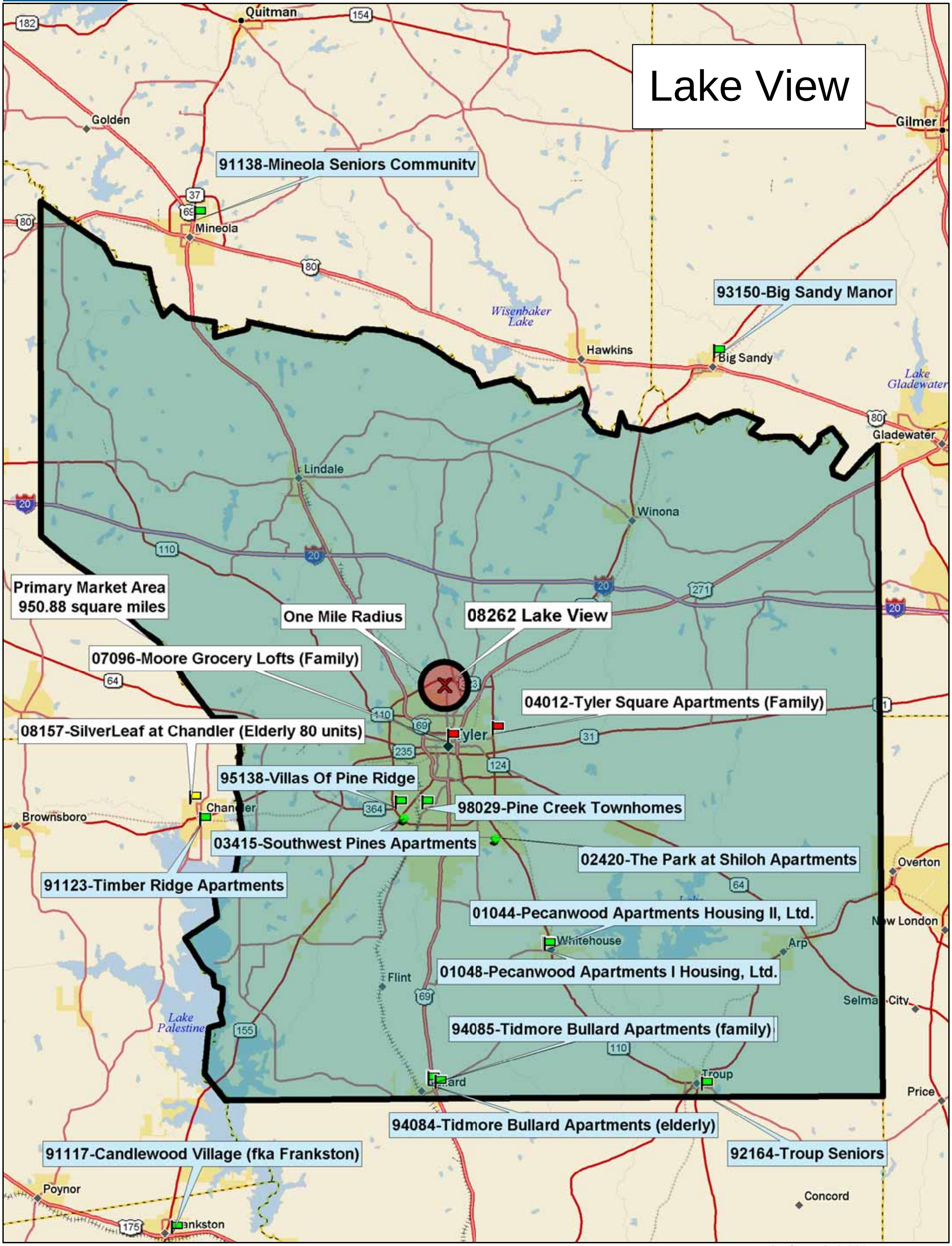
INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$895,140	$921,994	$949,654	$978,144	$1,007,488	$1,167,955	$1,353,980	$1,569,633	$2,109,456
Secondary Income	25,200	25,956	26,735	27,537	28,363	32,880	38,117	44,188	59,385
Other Support Income:	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	920,340	947,950	976,389	1,005,680	1,035,851	1,200,835	1,392,097	1,613,822	2,168,841
Vacancy & Collection Loss	(69,024)	(71,096)	(73,229)	(75,426)	(77,689)	(90,063)	(104,407)	(121,037)	(162,663)
Employee or Other Non-Rental	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$851,316	$876,854	$903,160	$930,254	$958,162	$1,110,772	$1,287,690	$1,492,785	$2,006,178
EXPENSES at 4.00%									
General & Administrative	$45,500	$47,320	$49,213	$51,181	$53,229	$64,761	$78,791	$95,862	$141,899
Management	42,612	43,890	45,207	46,563	47,960	55,599	64,454	74,720	100,418
Payroll & Payroll Tax	112,000	116,480	121,139	125,985	131,024	159,411	193,948	235,967	349,289
Repairs & Maintenance	63,000	65,520	68,141	70,866	73,701	89,669	109,096	132,731	196,475
Utilities	36,700	38,168	39,695	41,283	42,934	52,236	63,553	77,321	114,455
Water, Sewer & Trash	40,300	41,912	43,588	45,332	47,145	57,359	69,787	84,906	125,682
Insurance	28,000	29,120	30,285	31,496	32,756	39,853	48,487	58,992	87,322
Property Tax	84,000	87,360	90,854	94,489	98,268	119,558	145,461	176,975	261,967
Reserve for Replacements	28,000	29,120	30,285	31,496	32,756	39,853	48,487	58,992	87,322
Other	25,900	26,936	28,013	29,134	30,299	36,864	44,850	54,567	80,773
TOTAL EXPENSES	$506,012	$525,826	$546,420	$567,825	$590,073	$715,162	$866,913	$1,051,034	$1,545,601
NET OPERATING INCOME	$345,304	$351,028	$356,739	$362,429	$368,089	$395,611	$420,776	$441,751	$460,578
DEBT SERVICE									
First Lien Financing	$300,400	$300,400	$300,400	$300,400	$300,400	$300,400	$300,400	$300,400	$300,400
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	$44,904	$50,628	$56,339	$62,030	$67,690	$95,211	$120,377	$141,351	$160,178
DEBT COVERAGE RATIO	1.15	1.17	1.19	1.21	1.23	1.32	1.40	1.47	1.53

HTC ALLOCATION ANALYSIS -Lake View Apartment Homes, Tyler, 9% HTC #08262

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
Acquisition Cost				
Purchase of land	$540,000	$540,000		
Purchase of buildings				
Off-Site Improvements				
Sitework	$930,000	$930,000	$930,000	$930,000
Construction Hard Costs	$7,500,000	$7,132,263	$7,500,000	$7,132,263
Contractor Fees	$1,180,200	$1,128,717	$1,180,200	$1,128,717
Contingencies	$421,500	$403,113	$421,500	$403,113
Eligible Indirect Fees	$656,500	$656,500	$656,500	$656,500
Eligible Financing Fees	$385,000	$385,000	$385,000	$385,000
All Ineligible Costs	$182,000	$182,000		
Developer Fees				
Developer Fees	$1,660,980	$1,595,339	$1,660,980	$1,595,339
Development Reserves	$200,000	$200,000		
TOTAL DEVELOPMENT COSTS	$13,656,180	$13,152,932	$12,734,180	$12,230,932

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		$12,734,180	$12,230,932
High Cost Area Adjustment		130%	130%
TOTAL ADJUSTED BASIS		$16,554,434	$15,900,211
Applicable Fraction		95.71%	95.71%
TOTAL QUALIFIED BASIS		$15,844,958	$15,218,773
Applicable Percentage		8.32%	8.32%
TOTAL AMOUNT OF TAX CREDITS		$1,318,301	$1,266,202
Syndication Proceeds	**0.8099**	**$10,677,166**	**$10,255,210**

Total Tax Credits (Eligible Basis Method)	**$1,318,301**	**$1,266,202**
Syndication Proceeds	**$10,677,166**	**$10,255,210**
Requested Tax Credits	**$1,150,000**	
Syndication Proceeds	**$9,314,068**	
Gap of Syndication Proceeds Needed	**$9,893,485**	
Total Tax Credits (Gap Method)	**$1,221,540**	


Lake View
Quitman
Golden
Gilmer
91138-Mineola Seniors Community
Mineola
Wisenbaker Lake
Hawkins
93150-Big Sandy Manor
Big Sandy
Lake Gladewater
Gladewater
Lindale
Winona
Primary Market Area
950.88 square miles
One Mile Radius
08262 Lake View
07096-Moore Grocery Lofts (Family)
04012-Tyler Square Apartments (Family)
08157-SilverLeaf at Chandler (Elderly 80 units)
Tyler
95138-Villas Of Pine Ridge
98029-Pine Creek Townhomes
Brownsboro
03415-Southwest Pines Apartments
02420-The Park at Shiloh Apartments
91123-Timber Ridge Apartments
Overton
01044-Pecanwood Apartments Housing II, Ltd.
Whitehouse
Arp
01048-Pecanwood Apartments I Housing, Ltd.
Flint
Lake Palestine
94085-Tidmore Bullard Apartments (family)
Troup
Price
94084-Tidmore Bullard Apartments (elderly)
92164-Troup Seniors
91117-Candlewood Village (fka Frankston)
Poynor
Concord
TN
MN (3.4°E)
Scale 1 : 350,000
1" = 5.52 mi
Data Zoom 9-2

08278
Vista Bella Ranch
Underwriting Report

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Real Estate Analysis Division
Underwriting Report

REPORT DATE: 07/26/08 PROGRAM: 9% HTC FILE NUMBER: **08278**

DEVELOPMENT

Vista Bella Ranch

Location: 1300 W Taylor Street Region: 3

City: Sherman County: Grayson Zip: 75091 ☐ QCT ☐ DDA

Key Attributes: Multifamily, Family, Urban, New Construction

ALLOCATION

	REQUEST			**RECOMMENDATION**		
TDHCA Program	Amount	Interest	Amort/Term	**Amount**	**Interest**	**Amort/Term**
Housing Tax Credit (Annual)	$950,000			**$950,000**		

CONDITIONS

1 Receipt, review, and acceptance, by commitment, of a revised commitment from the lender with any corrections to the interest rate calculation as described in this report.

2 Receipt, review, and acceptance, by commitment, of evidence of final approval of appropriate zoning for the subject site.

3 Receipt, review, and acceptance, by carryover, of a revised survey and siteplan clearly depicting the location of the floodplain in relation to the subject site or the base flood elevations and evidence that the subject development will meet the QAP requirement for new construction developments located in a floodplain.

4 Receipt, review, and acceptance, by commitment, of recommendations from the ESA provider concerning radon, lead based paint, asbestos, and noise.

5 Receipt, review, and acceptance, by cost certification, of documentation that any recommendations resulting from any further environmental investigation have been carried out.

6 Receipt, review, and acceptance, by cost certification, of documentation that the outstanding court fee reflected in Schedule C of the title commitment has been paid.

7 Receipt, review, and acceptance, by carryover, of updated loan and equity commitments that are not more than 30 days old.

8 Should the terms and rates of the proposed debt or syndication change, the transaction should be reevaluated and an adjustment to the credit allocation amount may be warranted.

SALIENT ISSUES

TDHCA SET-ASIDES for LIHTC LURA		
Income Limit	Rent Limit	Number of Units
30% of AMI	30% of AMI	7
50% of AMI	50% of AMI	44
60% of AMI	60% of AMI	73

TDHCA SET-ASIDES for HOME LURA (NO LONGER APPLICABLE)		
Income Limit	Rent Limit	Number of Units
50% of AMI	Low HOME	12
80% of AMI	High HOME	13

Comments:

The Applicant originally contemplated requesting a $1,200,000 HOME loan from the TDHCA. As such, the Applicant incorporated HOME restrictions in the rent schedule and HOME funding into the sources and uses of funds exhibit. However, the Applicant did not ultimately submit an application for HOME funds, and HOME funds are currently no longer available to fund the subject development.

The Underwriter requested that the Applicant provide any new documentation required to support how the gap in financing will be filled without the subject HOME funds. However, due to the very limited timeframe to complete the subject report, the Underwriter has completed the underwriting with an oral representation but without this revised documentation and has demonstrated that the subject development is financial feasible in accordance with Department guidelines without the HOME funds.

The Underwriter's rent schedule continues to reflect the units elected to be HOME units by the Applicant and the HOME rent restrictions. If the HOME restrictions are ultimately not required the potential gross income would increase $6,660 annually based on the Underwriter's rent schedule and $4,248 based on the Applicant's rent schedule (due to incorrect utility allowances). This difference is the result of the HUD fair market rents (FMRs) being lower than the 60% tax credit rents for one and two bedroom units.

It should be noted that the development's targeting of lower income households will not be diminished if the HOME restrictions are ultimately not imposed however the rent levels will be higher.

The HOME LURA chart above reflects the Applicant's contemplated HOME restrictions. Such restrictions are not applicable for the subject development unless TDHCA HOME funds are received and any application for TDHCA HOME funds will be fully reevaluated in the future should such application be made.

PROS

- If approved, the subject would be the first recently funded development located in the City of Sherman targeting family households.

CONS

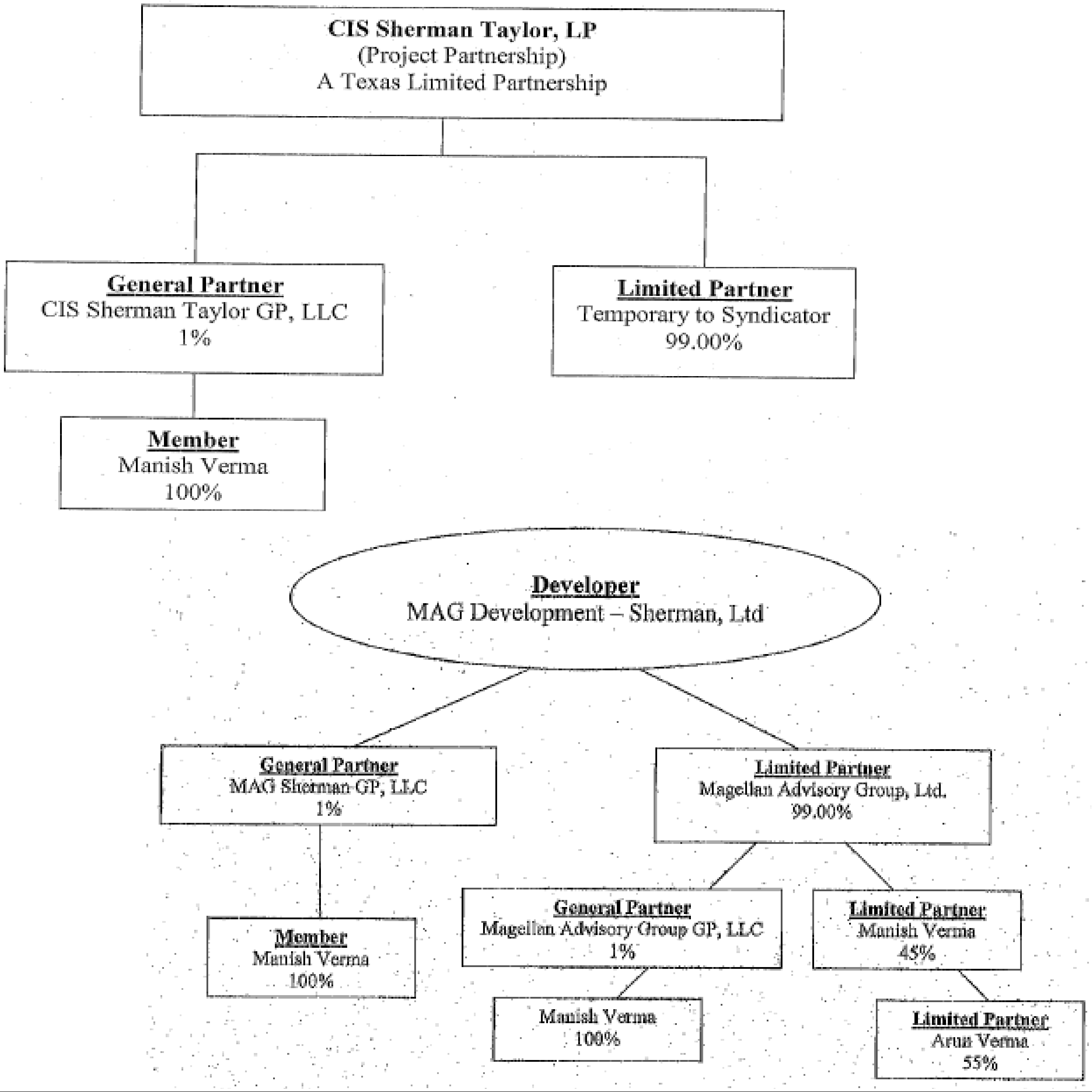
- The Applicant's direct construction costs are more than 5% higher than the Underwriter's estimated costs.
- The Applicant must defer 85% of the developer fee in order to fill the significant gap in financing, but this amount is marginally repayable within 15 years.

PREVIOUS UNDERWRITING REPORTS

None

DEVELOPMENT TEAM

OWNERSHIP STRUCTURE



CONTACT

Contact: Manish Verma   Phone: 210.530.0090   Fax: 210.530.5060
Email: manishv@about-cis.com

KEY PARTICIPANTS

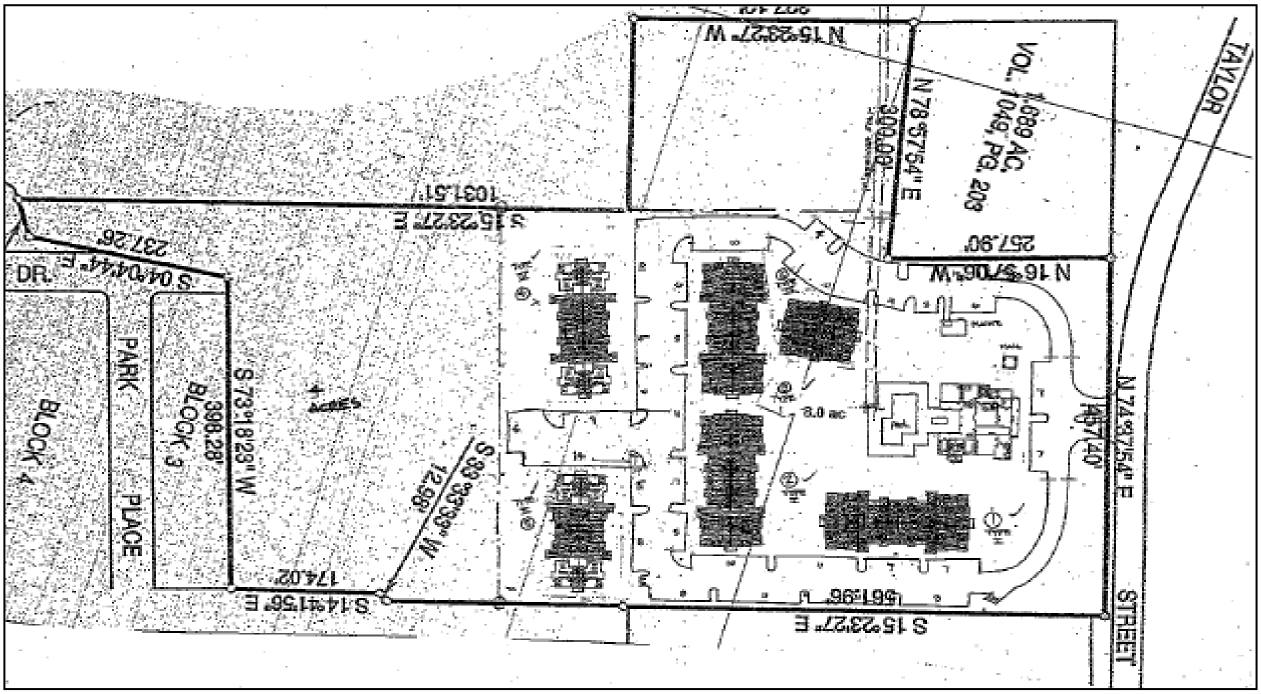
Name	Financial Notes	# Completed Developments
Magellan Advisory Group, Ltd	N/A	--
Manish Verma	N/A	8 HTC Allocations
Arun Verma	N/A	8 HTC Allocations

IDENTITIES of INTEREST

- The Applicant, Developer, and General Contractor provider are related entities. These are common relationships for HTC-funded developments.

PROPOSED SITE

SITE PLAN



BUILDING CONFIGURATION

Building Type	I	II	III	IV							Total Buildings
Floors/Stories	3	3	3	3							
Number	3	1	1	1							**6**

BR/BA	SF	Units										Total Units	Total SF
1/1	732		12									12	8,784
2/2	975	12	8	20								64	62,400
3/2	1,262	12			12							48	60,576
Units per Building		24	20	20	12							**124**	**131,760**

SITE ISSUES

Total Size:	8.00 acres	Scattered site?	☐ Yes ☒ No	
Flood Zone:	AE & X	Within 100-yr floodplain?	☒ Yes ☐ No	
Zoning:	Single Family	Needs to be re-zoned?	☒ Yes ☐ No	☐ N/A

Comments:

The Applicant is currently in the process of seeking a zoning change from single family to multifamily to allow for the subject development. According to minutes of the zoning meeting available online, the zoning change was originally denied by the City of Sherman in April and the Applicant subsequently appealed this decision. It is unclear what the current status of this zoning change is, but Department rules require the Applicant to provide evidence of proper zoning by commitment in mid-August. Receipt, review, and acceptance, by commitment, of evidence of final approval of appropriate zoning for the subject site is a condition of this report.

The Phase I ESA indicates that a portion of the 12 acres assessed is located within the flood plain. However, it appears that the subject 8 acres that are under contract and reflected in the siteplan are outside of this floodplain area. Still it is not entirely clear that this is the case because the Survey does not clear identify the location of the floodplain. The QAP reflects the following requirements:

"Any Development proposing New Construction or Reconstruction and located within the 100 year floodplain as identified by the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps must develop the site so that all finished ground floor elevations are at least one foot above the flood plain and parking and drive areas are no lower than six inches below the floodplain, subject to more stringent local requirements. If no FEMA Flood Insurance Rate Maps are available for the proposed Development, flood zone documentation must be provided from the local government with jurisdiction identifying the 100 year floodplain. No buildings or roads that are part of a Development proposing Rehabilitation or Adaptive Reuse, with the exception of Developments with federal funding assistance from HUD or TX USDA-RHS, will be permitted in the 100 year floodplain unless they already meet the requirements established in this subsection for New Construction."

Receipt, review, and acceptance, by cost carryover, of a revised survey and siteplan clearly depicting the location of the floodplain in relation to the subject site or base flood elevations and evidence that the subject development will meet the QAP requirement for new construction developments located in a floodplain is a condition of this report.

TDHCA SITE INSPECTION

Inspector: Manufactured Housing staff   Date: 4/2/2008

Overall Assessment:

[x] Excellent   [ ] Acceptable   [ ] Questionable   [ ] Poor   [ ] Unacceptable

Surrounding Uses:

North: Taylor Street / City park   East: Parkview Apts

South: vacant land / residential   West: land with sheds / commercial

Comments:

The site inspector notes the adjacent park provides a baseball field, tennis courts, and a soccer field.

HIGHLIGHTS of ENVIRONMENTAL REPORTS

Provider: Frost GeoSciences   Date: 2/29/2008

Recognized Environmental Concerns (RECs) and Other Concerns:

Comments:

The Phase I ESA revealed no environmental concerns and no additional investigation is recommended. However, the ESA did not address any potential concerns regarding radon, lead based paint, asbestos, or noise as required by the Department's Real Estate Analysis Rules and Guidelines. Therefore, receipt, review, and acceptance, by commitment, of recommendations from the ESA provider concerning radon, lead based paint, asbestos, and noise are a condition of this report. Moreover, receipt, review, and acceptance, by cost certification, of documentation that any recommendations results from further environmental investigation have been carried out is a condition of this report.

MARKET HIGHLIGHTS

Provider: Apartment Market Data   Date: 3/14/2008

Contact: Darrell Jack   Phone: 210.530.0040   Fax: 210.340.5830

Number of Revisions: none   Date of Last Applicant Revision: N/A

Primary Market Area (PMA): 92 square miles (5.4 mile radius)

The Market Analyst has defined the Primary Market as follows (p. 3):

North: Union Pacific RR Track, Refuge Road, FM 691, Woodlake Road, Woodlawn Road

East: Fannin Road, Texas Northeastern Railroad Tracks, FM 1417, Calf Creek, Leslie Lane, Merriman Parkway; Ladd Road

South: FM 1417, Lone Star Road

West: O'Hanlon Road, Spalding Road, Old Sherman Road, 1st Street, Southmayd Road, Old Southmayd Road, Union Pacific RR Track

The estimated 2007 population of the PMA is 38,706.

Secondary Market Area (SMA):

The Market Analyst did not define and evaluate a Secondary Market.

PROPOSED, UNDER CONSTRUCTION & UNSTABILIZED COMPARABLE DEVELOPMENTS								
PMA				SMA				
Name	File #	Total Units	Comp Units	Name	File #	Total Units	25%	Comp Units
Community	05612	196	0	N/A				

INCOME LIMITS						
Grayson						
% AMI	1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons
30	$10,550	$12,050	$13,550	$15,050	$16,250	$17,450
50	$17,550	$20,100	$22,600	$25,100	$27,100	$29,100
60	$21,060	$24,120	$27,120	$30,120	$32,520	$34,920

MARKET ANALYST'S PMA DEMAND by UNIT TYPE*							
Unit Type	Turnover Demand	Growth Demand	Other Demand	Total Demand	Subject Units	Unstabilized Comparable (PMA)	Capture Rate
1 BR/ 30% Rent Limit	130	0	0	130	0	0	0%
1 BR/ 50% Rent Limit	64	0	0	64	4	0	6%
1 BR/ 60% Rent Limit	396	4	0	400	8	0	2%
2 BR/ 30% Rent Limit	69	-1	0	68	6	0	9%
2 BR/ 50% Rent Limit	34	0	0	34	21	0	62%
2 BR/ 60% Rent Limit	259	-3	0	256	37	0	14%
3 BR/ 30% Rent Limit	26	0	0	26	1	0	4%
3 BR/ 50% Rent Limit	66	-1	0	65	19	0	29%
3 BR/ 60% Rent Limit	57	-1	0	56	28	0	50%

Comments:

The Applicant changed the unit mix during the threshold review process, but the Analyst's unit mix was not updated accordingly. The Underwriter has used the most current unit mix to extrapolate inclusive capture rates for each unit type using the Market Analyst's demand figures.

This change in the unit mix also accounts for the Analyst's use of a slightly larger income band in the calculation of overall demand as reflected below. Lastly, the Analyst used turnover of 73% based on the actual turnover for the Department's AHDP properties located in North Texas. The Underwriter has used a lower turnover based on the Department's database for all properties in North Texas.

OVERALL DEMAND												
			Target Households		Household Size		Income Eligible		Tenure		Demand	
PMA DEMAND from TURNOVER												
Market Analyst	p.	56	100%	14,054	97%	13,564	29%	3,891	39%	1,511	73%	1,103
Underwriter			100%	13,941	97%	13,453	23%	3,136	45%	1,405	52%	731
PMA DEMAND from HOUSEHOLD GROWTH												
Market Analyst	p.	56			97%	-29	29%	-8	39%	-3	100%	-3
Underwriter					97%	-38	23%	-9	45%	-4	100%	-4

INCLUSIVE CAPTURE RATE								
			Subject Units	Unstabilized Comparable (PMA)	Unstabilized Comparable (25% SMA)	Total Supply	Total Demand (w/25% of SMA)	Inclusive Capture Rate
Market Analyst	p.	61	124	0	0	124	1,100	11.27%
Underwriter			124	0	0	124	727	17.07%

Primary Market Occupancy Rates:

"The current occupancy of the market area is 88.8% as a result of one elderly LIHTC project that is still in lease-up and the fact that a majority of properties were constructed prior to 1990. Not including the lease-up community, overall average occupancy is 92.4%. Eleven of the eighteen projects surveyed report occupancy of 94% or higher" (p. 12).

Absorption Projections:

"The MapInfo demographics estimate the demand growth for new rental units to be 22 units per year. The HISTA data suggests that the growth for new rental units will be 78 units per year. Finally, the employment growth methodology suggests that the primary market area will absorb 79 units per year. ... The absorption period of new supply is within acceptable levels" (p. 21).

RENT ANALYSIS (Tenant-Paid Net Rents)					
Unit Type (% AMI)	Proposed Rent	Program Maximum	Market Rent	Underwriting Rent	Savings Over Market
1 BR 732 SF 50%	$465	$458	$600	458	$142
1 BR 732 SF 50%/LH	$440	$458	$600	458	$142
1 BR 732 SF 60%	$570	$563	$600	563	$37
1 BR 732 SF 60%/HH	$478	$520	$600	520	$80
2 BR 975 SF 30%/LH	$307	$299	$690	299	$391
2 BR 975 SF 50%	$558	$550	$690	550	$140
2 BR 975 SF 50%/LH	$527	$550	$690	550	$140
2 BR 975 SF 60%	$684	$676	$690	676	$14
2 BR 975 SF 60%/HH	$560	$609	$690	609	$81
3 BR 1,262 SF 30%/LH	$355	$346	$810	346	$464
3 BR 1,262 SF 50%	$646	$637	$810	637	$173
3 BR 1,262 SF 50%/LH	$610	$637	$810	637	$173
3 BR 1,262 SF 60%	$792	$783	$810	783	$27
3 BR 1,262 SF 60%/HH	$748	$783	$810	783	$27

Market Impact:

"Overall, the analyst feels that this project would be well positioned to meet the needed demand for affordable housing in the sub-market" (p. 21).

Comments:

The Market Analyst provided sufficient information for the Underwriter to reach an acceptable conclusion.

Concentration:

Staff has calculated the concentration rate of the areas surrounding the property in accordance with section 1.32 (i)(2) of the Texas Administrative Code approved in 2007. The Underwriter has concluded a census tract concentration of 222 units per square mile which is less than the 1,432 units per square mile limit and a Primary Market Area concentration of 37 units per square mile which is less than the 1,000 units per square mile limit. Therefore, the proposed development is in an area which has an acceptable level of apartment dispersion based upon the Department's standard criteria.

OPERATING PROFORMA ANALYSIS

Income: Number of Revisions: 2 Date of Last Applicant Revision: 4/10/2008

The Applicant's rents are equal to the most restrictive gross program rent limits (HOME or Tax Credit) less utility allowances. The Applicant has submitted estimates from the applicable electric utility provider for all electric utility costs. The application indicates that water heating will be gas and the Applicant has used the Grayson County Housing Authority utility allowance for this cost. The Underwriter has used the Cirro estimates provided for electric utility allowances and the Sherman Housing Authority (the applicable PHA) utility allowance for gas water heating. The Sherman allowance for gas is higher than the county allowance and this accounts for one difference between the Applicant's potential gross income estimate and the Underwriter's potential gross income . The Applicant also used 2007 HOME rents while the Underwriter used 2008 HOME rents.

As indicated previously, the Underwriter and Applicant have reflected the HOME rent restrictions in the rent schedule as sufficient time to reconcile the issue of having not applied for HOME funds did not exist in this case. Nevertheless, the Underwriter has fully considered the impact of the HOME rents on the transaction. If only tax credit restrictions are used, potential gross income would increase $6,660 in the Underwriter's proforma while the Applicant's potential gross income would increase $4,248 once the utility allowances are corrected.

The Applicant's estimates of secondary income and vacancy and collection loss are each in line with Department standards. The Applicant's effective gross income estimate is within 5% of the Underwriter's estimate, and would remain so if the HOME rents were not incorporated.

Expense: Number of Revisions: 1 Date of Last Applicant Revision: 4/10/2008

The Applicant's total operating expense estimate of $4,331 per unit is within 5% of the Underwriter's estimate of $4,258 per unit derived from the TDHCA expense database, IREM data, and other sources. However, the Applicant's estimate of utilities is $13K higher than the Underwriter's estimate.

Conclusion:

The Applicant's estimates of effective gross income, total operating expense, and net operating income are each within 5% of the Underwriter's estimates. Therefore, the Applicant's Year One proforma is used to determine the development's debt capacity and debt coverage ratio (DCR). The proforma yields a DCR that is within the Department's current guideline of 1.15 to 1.35.

Feasibility:

The underwriting 30-year proforma utilizes a 3% annual growth factor for income and a 4% annual growth factor for expenses in accordance with current TDHCA guidelines. As noted above, the Applicant's base year effective gross income, expense and net operating income were utilized resulting in a debt coverage ratio that remains above 1.15 and continued positive cashflow. Therefore, the development can be characterized as feasible.

ACQUISITION INFORMATION

ASSESSED VALUE

Land Only: 31.4 acres	$135,242	Tax Year:	2007
Existing Buildings:	$187,461	Valuation by:	Grayson CAD
Total Assessed Value:	$322,703	Tax Rate:	2.400639

Comments:

The site completely encompasses three small lots (0.86, 1.00, and 1.06 acres respectively) with existing houses that are planned for demolition. The Grayson County Appraisal District has valued the improvements on these lots at $186,042 combined. The Applicant has estimated total demolition related costs of $100K. The remaining portion of the 8 acres is a portion of a 28.45 acre tract according to appraisal district documents.

EVIDENCE of PROPERTY CONTROL

Type: Purchase and Sale Agreement (w/one amendment) Acreage: 8.00

Contract Expiration: 11/31/08 Valid Through Board Date? [x] Yes [ ] No

Acquisition Cost: $725,000 Other: amended from 12 acres to 8 acres

Seller: Charles E. & Rosemary Anderson Related to Development Team? [ ] Yes [x] No

Jarrod W & Allda K Anderson

Cynthia E Pallet

The CW Anderson Testamentary

TITLE

Comments:

Schedule C of the title commitment indicates an outstanding court fee must be paid prior to issuance of clear title. Receipt, review, and acceptance, by cost certification, of documentation that the outstanding court fee reflected in Schedule C of the title commitment has been paid is a condition of this report.

CONSTRUCTION COST ESTIMATE EVALUATION

COST SCHEDULE Number of Revisions: none Date of Last Applicant Revision: N/A

Acquisition Value:

The Applicant's has provided a purchase and sale agreement with one amendment reflecting a purchase price of $725,000 ($90,625 per acre or $5,845 per unit). The Applicant has indicated that the Seller is not a related party; therefore, the transaction is arms length and the purchase price is assumed to be reasonable. Of note, the original purchase and sale agreement provided at application indicated that 12 acres would be purchased for a price of $1,050,000. The amendment to the agreement was provided during application review and is consistent with the Applicant's development plan, survey, and siteplan.

The Applicant has also estimated $7,250 in closing costs, which has been included in the acquisition cost line item of the cost schedule.

Sitework Cost:

The Applicant's estimated sitework costs of $8,377 per unit are below the Department's $9K per unit threshold. Therefore, no third party support is required at this time.

Direct Construction Cost:

The Applicant's direct construction cost estimate of $57,670 per unit is $390,770 or 6% higher than the Underwriter's estimate of $54,519 per unit.

Conclusion:

The Applicant’s total development cost is within 5% of the Underwriter’s estimate; therefore, the Applicant’s cost schedule will be used to determine the development’s need for permanent funds and to calculate eligible basis. An eligible basis of $12,230,159 supports annual tax credits of $1,017,549. This figure will be compared to the Applicant’s request and the tax credits calculated based on the gap in need for permanent funds to determine the recommended allocation.

FINANCING STRUCTURE

SOURCES & USES Number of Revisions: none Date of Last Applicant Revision: N/A

Source: Southeast Texas HFC Type: **Interim Financing**

Principal: $730,000 Interest Rate: AFR ☐ Fixed Term: 12 months

Comments:

The Applicant has submitted application for the subject predevelopment funding. The funding is anticipated to be structured as a loan at AFR with a term of at least 12 months. The Underwriter has used 4.37%, AFR as of February 2008.

Source: Single Family Investment, Ltd Type: **Interim Financing**

Principal: $300,000 Interest Rate: Prime+1% ☐ Fixed Amort: 60 months

Source: KeyBank Real Estate Capital Type: **Interim to Permanent Financing**

Principal: $4,250,000 Interest Rate: 6.72% ☒ Fixed Amort: 480 months

Comments:

The commitment indicates that the mortgage is anticipated to be an FHA Section 221(d)4 insured loan. The 221(d)4 program allows for a 40 year fixed rate mortgage for multifamily developments being substantially rehabilitated. The mortgage will carry a 0.45% Mortgage Insurance Premium (MIP) which has been included in the underwritten interest rate.

The commitment provided appears to include a calculation error to determine the all in effective underwriting rate. The Underwriter has corrected the math error and used this rate, which is slightly lower than the presumably miscalculated rate. However, if the interest rate is actually the higher rate, the transaction may not be financially viable. The Underwriter contacted the lender directly to resolve this issue but did not receive a response during the short timeframe in which this report was completed. Due to this potential impact, receipt, review, and acceptance, by commitment, of a revised commitment from the lender with any corrections to the interest rate is a condition of this report.

Source: Hudson Housing Capital Type: **Syndication**

Proceeds: $7,884,000 Syndication Rate: 83% Anticipated HTC: $ 950,000

Comments:

The committed credit price appears to be consistent with recent trends in pricing. However, the Underwriter has performed a sensitivity test based on projected income without HOME restrictions/funds and determined that the credit price can decline only a fraction of one cent**.** At this point, the level of required deferred developer fees would not be repayable within 15 years and the transaction would not be viable. Alternatively, should the final credit price increase to more than $0.97, all deferred developer fees would be eliminated and an adjustment to the credit amount may be warranted.

Amount: $309,549 Type: **Deferred Developer Fees**

Comments:

The financial market for tax credit developments from both a loan and equity perspective are in their greatest period of uncertainty since the early 1990's and fluctuations in pricing and private funding are expected to continue to occur. The Underwriter has evaluated the pricing flexibility independently for credits and interest rates under which this development could continue to be considered financially feasible. Because of the significant number of potential scenarios, the Underwriter has not modeled the potential impact of movement on both interest rates and equity pricing occurring at the same time. Due to the uncertainty in the market and the potential for such movement in both equity pricing and interest rates, this report is conditioned upon updated loan and equity commitments at the submission of carryover. Should the revised commitments reflect changes in the anticipated permanent interest rate(s) and equity price, a re-evaluation of the financial feasibility of the transaction should be conducted.

CONCLUSIONS

Recommended Financing Structure:

The Applicant's total development cost estimate less the permanent loan of $4,250,000 (and no HOME loan) indicates the need for $9,241,451in gap funds. Based on the submitted syndication terms, a tax credit allocation of $1,113,569 annually would be required to fill this gap in financing. Of the three possible tax credit allocations, Applicant's request ($950,000), the gap-driven amount ($1,113,569), and eligible basis-derived estimate ($1,017,549), the Applicant's request of $950,000 is recommended resulting in proceeds of $7,884,000 based on a syndication rate of 83%.

The Underwriter's recommended financing structure indicates the need for $1,357,451in additional permanent funds. Based on the Underwriter's recalculation of the Applicant's gross rent potential, deferred developer fees in this amount do not appear to be repayable from development cashflow within 15 years of stabilized operation if the HOME rent restrictions are imposed without the benefit of the HOME funding. If the HOME rent restrictions are not imposed, the Applicant's potential gross income would increase $4,248 and the developments 15 year cumulative cashflow would total $1,390,081, which is marginally sufficient to project repayment of the deferred developer fees and meet the Department's guidelines.
Based on the Underwriter's proforma, the deferred developer fee is also repayable within 15 years and the Underwriter's projected 15 year cashflow of $1.57M provides for a greater margin for repayment than the Applicant's proforma.

If the HOME funds were ultimately received, the HOME award amount is below the 221(d)(3) limit for this project. In addition, the HOME award is below the prorata share of development cost based on the number HOME units to total units. Once again however, this would also be reevaluated if and when such an application was received.

Underwriter:	Cameron Dorsey	Date:	July 26, 2008
Director of Real Estate Analysis:	Tom Gouris	Date:	July 26, 2008

MULTIFAMILY COMPARATIVE ANALYSIS

Vista Bella Ranch, Sherman, 9% HTC #08278

Type of Unit		Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Rent Collected	Rent per Month	Rent per SF	Tnt-Pd Util	WS&T
TC 50%		3	1	1	732	$523	458	1,374	0.63	65.00	27.00
TC 50%	LH	1	1	1	732	$523	458	458	0.63	65.00	27.00
TC 60%		6	1	1	732	$628	563	3,378	0.77	65.00	27.00
TC 60%	HH	2	1	1	732	$585	520	1,040	0.71	65.00	27.00
TC 30%	LH	6	2	2	975	$377	299	1,794	0.31	78.00	38.00
TC 50%		18	2	2	975	$628	550	9,900	0.56	78.00	38.00
TC 50%	LH	3	2	2	975	$628	550	1,650	0.56	78.00	38.00
TC 60%		30	2	2	975	$754	676	20,280	0.69	78.00	38.00
TC 60%	HH	7	2	2	975	$687	609	4,263	0.62	78.00	38.00
TC 30%	LH	1	3	2	1,262	$435	346	346	0.27	89.00	37.00
TC 50%		18	3	2	1,262	$726	637	11,466	0.50	89.00	37.00
TC 50%	LH	1	3	2	1,262	$726	637	637	0.50	89.00	37.00
TC 60%		24	3	2	1,262	$872	783	18,792	0.62	89.00	37.00
TC 60%	HH	4	3	2	1,262	$872	783	3,132	0.62	89.00	37.00
TOTAL:		124		**AVERAGE:**	1,063		$633	$78,510	$0.60	$81.00	$36.55

INCOME	Total Net Rentable Sq Ft:	131,760		TDHCA	APPLICANT	COUNTY	IREM REGION	COMPT. REGION
POTENTIAL GROSS RENT				$942,120	$944,532	Grayson		3
Secondary Income		Per Unit Per Month:	$15.00	22,320	22,320	$15.00	Per Unit Per Month	
Other potential Income (nonHOME restricted):				6,660	4,248	$2.85	Per Unit Per Month	
POTENTIAL GROSS INCOME				$971,100	$971,100			
Vacancy & Collection Loss		% of Potential Gross Income:	-7.50%	(72,833)	(72,516)	-7.47%	of Potential Gross Income	
Employee or Other Non-Rental Units or Concessions				0	0			
EFFECTIVE GROSS INCOME				$898,268	$898,584			

EXPENSES		% OF EGI	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% OF EGI
General & Administrative		5.65%	$410	0.39	$50,795	$47,120	$0.36	$380	5.24%
Management		5.00%	362	0.34	44,913	44,811	0.34	361	4.99%
Payroll & Payroll Tax		14.30%	1,036	0.97	128,416	124,449	0.94	1,004	13.85%
Repairs & Maintenance		6.04%	437	0.41	54,247	58,679	0.45	473	6.53%
Utilities		3.35%	243	0.23	30,132	43,440	0.33	350	4.83%
Water, Sewer, & Trash		5.82%	422	0.40	52,315	57,744	0.44	466	6.43%
Property Insurance		3.84%	278	0.26	34,464	31,622	0.24	255	3.52%
Property Tax	2.400639	9.61%	696	0.66	86,327	82,800	0.63	668	9.21%
Reserve for Replacements		3.45%	250	0.24	31,000	31,000	0.24	250	3.45%
TDHCA Compliance Fees		0.55%	40	0.04	4,960	4,960	0.04	40	0.55%
Other: Support Services		1.16%	84	0.08	10,387	10,387	0.08	84	1.16%
TOTAL EXPENSES		58.77%	$4,258	$4.01	$527,957	$537,012	$4.08	$4,331	59.76%
NET OPERATING INC		41.23%	$2,986	$2.81	$370,311	$361,572	$2.74	$2,916	40.24%
DEBT SERVICE									
First Lien Mortgage		34.13%	$2,473	$2.33	$306,612	$309,549	$2.35	$2,496	34.45%
TDHCA HOME funds		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		7.09%	$514	$0.48	$63,699	$52,023	$0.39	$420	5.79%
AGGREGATE DEBT COVERAGE RATIO					1.21	1.17			
RECOMMENDED DEBT COVERAGE RATIO						1.18			

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)		5.61%	$5,905	$5.56	$732,250	$732,250	$5.56	$5,905	5.43%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		7.20%	7,571	7.13	938,803	938,803	7.13	7,571	6.96%
Direct Construction		51.83%	54,519	51.31	6,760,355	7,151,125	54.27	57,670	53.00%
Contingency	3.34%	1.97%	2,072	1.95	256,881	256,881	1.95	2,072	1.90%
Contractor's Fees	14.00%	8.26%	8,690	8.18	1,077,528	1,077,528	8.18	8,690	7.99%
Indirect Construction		6.50%	6,837	6.43	847,738	847,738	6.43	6,837	6.28%
Ineligible Costs		3.01%	3,166	2.98	392,542	392,542	2.98	3,166	2.91%
Developer's Fees	15.00%	11.78%	12,392	11.66	1,536,623	1,595,237	12.11	12,865	11.82%
Interim Financing		2.78%	2,926	2.75	362,847	362,847	2.75	2,926	2.69%
Reserves		1.05%	1,101	1.04	136,500	136,500	1.04	1,101	1.01%
TOTAL COST		100.00%	$105,178	$98.98	$13,042,067	$13,491,451	$102.39	$108,802	100.00%
Construction Cost Recap		*69.26%*	***$72,851***	***$68.56***	***$9,033,567***	***$9,424,337***	***$71.53***	***$76,003***	*69.85%*

SOURCES OF FUNDS				TDHCA	APPLICANT	RECOMMENDED	
First Lien Mortgage	32.59%	$34,274	$32.26	$4,250,000	$4,250,000	$4,250,000	Developer Fee Available
TDHCA HOME funds	9.20%	$9,677	$9.11	1,200,000	1,200,000	0	$1,595,237
HTC Syndication Proceeds	60.45%	$63,581	$59.84	7,884,000	7,884,000	7,884,000	% of Dev. Fee Deferred
Deferred Developer Fees	1.21%	$1,270	$1.19	157,451	157,451	1,357,451	85%
Additional (Excess) Funds Req'd	-3.45%	($3,624)	($3.41)	(449,384)	0	0	15-Yr Cumulative Cash Flow
TOTAL SOURCES				$13,042,067	$13,491,451	$13,491,451	$1,390,081

Vista Bella Ranch, Sherman, 9% HTC #08278

DIRECT CONSTRUCTION COST ESTIMATE

Marshall & Swift Residential Cost Handbook

Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$53.42	$7,038,063
Adjustments				
Exterior Wall Finish	2.64%		$1.41	$185,805
Elderly	0.00%		0.00	0
9-Ft. Ceilings	3.33%		1.78	234,368
Roofing			0.00	0
Subfloor			(0.82)	(108,482)
Floor Cover			2.43	320,177
Breezeways/Balconies	$24.79	9,136	1.72	226,481
Plumbing Fixtures	$805	336	2.05	270,480
Rough-ins	$400	248	0.75	99,200
Built-In Appliances	$1,850	124	1.74	229,400
Exterior Stairs	$1,800	66	0.90	118,800
Enclosed Corridors	$43.50		0.00	0
Heating/Cooling			1.90	250,344
Garages/Carports			0.00	0
Comm &/or Aux Bldgs	$68.93	4,880	2.55	336,385
Other: fire sprinkler	$1.95	131,760	1.95	256,932
SUBTOTAL			71.78	9,457,952
Current Cost Multiplier	0.98		(1.44)	(189,159)
Local Multiplier	0.90		(7.18)	(945,795)
TOTAL DIRECT CONSTRUCTION COSTS			$63.17	$8,322,998
Plans, specs, survy, bld prmts	3.90%		($2.46)	($324,597)
Interim Construction Interest	3.38%		(2.13)	(280,901)
Contractor's OH & Profit	11.50%		(7.26)	(957,145)
NET DIRECT CONSTRUCTION COSTS			$51.31	$6,760,355

PAYMENT COMPUTATION

Primary	$4,250,000	Amort	480
Int Rate	6.72%	DCR	1.21

Secondary	$1,200,000	Amort	
Int Rate	4.27%	Subtotal DCR	1.21

Additional		Amort	
Int Rate		Aggregate DCR	1.21

RECOMMENDED FINANCING STRUCTURE APPLICAN

Primary Debt Service	$306,612
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$54,960

Primary	$4,250,000	Amort	480
Int Rate	6.72%	DCR	1.18

Secondary	$0	Amort	0
Int Rate	4.27%	Subtotal DCR	1.18

Additional	$0	Amort	0
Int Rate	0.00%	Aggregate DCR	1.18

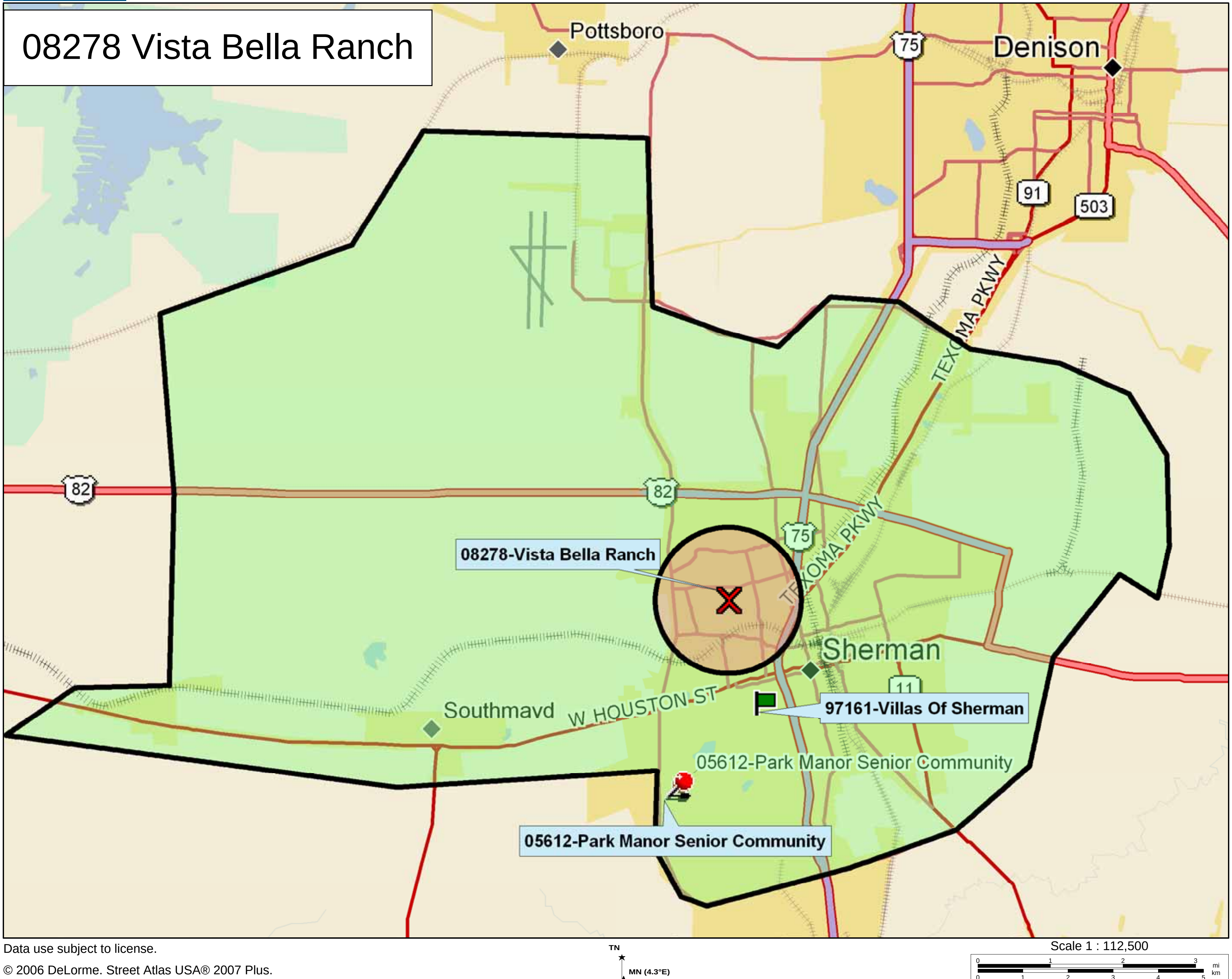
OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

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	$942,120	$970,384	$999,495	$1,029,480	$1,060,364	$1,229,253	$1,425,041	$1,652,013	$2,220,167
Secondary Income	22,320	22,990	23,679	24,390	25,121	29,123	33,761	39,138	52,599
Other potential Income (nonHOME re	6,660	6,860	7,066	7,278	7,496	8,690	10,074	11,678	15,695
POTENTIAL GROSS INCOME	971,100	1,000,233	1,030,240	1,061,147	1,092,982	1,267,065	1,468,876	1,702,830	2,288,461
Vacancy & Collection Loss	(72,833)	(75,017)	(77,268)	(79,586)	(81,974)	(95,030)	(110,166)	(127,712)	(171,635)
Employee or Other Non-Rental Units	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$898,268	$925,216	$952,972	$981,561	$1,011,008	$1,172,035	$1,358,710	$1,575,117	$2,116,826
EXPENSES at 4.00%									
General & Administrative	$50,795	$52,827	$54,940	$57,137	$59,423	$72,297	$87,960	$107,017	$158,412
Management	44,913	46,261	47,649	49,078	50,550	58,602	67,936	78,756	105,841
Payroll & Payroll Tax	128,416	133,552	138,894	144,450	150,228	182,776	222,374	270,552	400,484
Repairs & Maintenance	54,247	56,417	58,674	61,021	63,462	77,211	93,939	114,291	169,178
Utilities	30,132	31,337	32,591	33,894	35,250	42,887	52,179	63,484	93,971
Water, Sewer & Trash	52,315	54,407	56,584	58,847	61,201	74,460	90,592	110,219	163,152
Insurance	34,464	35,843	37,277	38,768	40,319	49,054	59,681	72,612	107,483
Property Tax	86,327	89,780	93,371	97,106	100,990	122,870	149,490	181,878	269,224
Reserve for Replacements	31,000	32,240	33,530	34,871	36,266	44,123	53,682	65,312	96,678
Other	15,347	15,961	16,599	17,263	17,954	21,844	26,576	32,334	47,862
TOTAL EXPENSES	$527,957	$548,626	$570,108	$592,436	$615,643	$746,123	$904,410	$1,096,455	$1,612,285
NET OPERATING INCOME	$370,311	$376,590	$382,864	$389,125	$395,365	$425,913	$454,300	$478,663	$504,542
DEBT SERVICE									
First Lien Financing	$306,612	$306,612	$306,612	$306,612	$306,612	$306,612	$306,612	$306,612	$306,612
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	$63,699	$69,978	$76,252	$82,514	$88,754	$119,301	$147,689	$172,051	$197,930
DEBT COVERAGE RATIO	1.21	1.23	1.25	1.27	1.29	1.39	1.48	1.56	1.65

HTC ALLOCATION ANALYSIS -Vista Bella Ranch, Sherman, 9% HTC #08278

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
Acquisition Cost				
Purchase of land	$732,250	$732,250		
Purchase of buildings				
Off-Site Improvements				
Sitework	$938,803	$938,803	$938,803	$938,803
Construction Hard Costs	$7,151,125	$6,760,355	$7,151,125	$6,760,355
Contractor Fees	$1,077,528	$1,077,528	$1,077,528	$1,077,528
Contingencies	$256,881	$256,881	$256,881	$256,881
Eligible Indirect Fees	$847,738	$847,738	$847,738	$847,738
Eligible Financing Fees	$362,847	$362,847	$362,847	$362,847
All Ineligible Costs	$392,542	$392,542		
Developer Fees				
Developer Fees	$1,595,237	$1,536,623	$1,595,237	$1,536,623
Development Reserves	$136,500	$136,500		
TOTAL DEVELOPMENT COSTS	$13,491,451	$13,042,067	$12,230,159	$11,780,775

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		$12,230,159	$11,780,775
High Cost Area Adjustment		100%	100%
TOTAL ADJUSTED BASIS		$12,230,159	$11,780,775
Applicable Fraction		100%	100%
TOTAL QUALIFIED BASIS		$12,230,159	$11,780,775
Applicable Percentage		8.32%	8.32%
TOTAL AMOUNT OF TAX CREDITS		$1,017,549	$980,160
Syndication Proceeds	**0.8299**	**$8,444,587**	**$8,134,300**
Total Tax Credits (Eligible Basis Method)		**$1,017,549**	**$980,160**
Syndication Proceeds		**$8,444,587**	**$8,134,300**
Requested Tax Credits		**$950,000**	
Syndication Proceeds		**$7,884,000**	
Gap of Syndication Proceeds Needed		**$9,241,451**	
Total Tax Credits (Gap Method)		**$1,113,569**	


08278 Vista Bella Ranch
Pottsboro
75
Denison
91
503
TEXOMA PKWY
82
82
75
08278-Vista Bella Ranch
TEXOMA PKWY
Sherman
11
Southmavd
W HOUSTON ST
97161-Villas Of Sherman
05612-Park Manor Senior Community
05612-Park Manor Senior Community
TN
MN (4.3°E)
Scale 1 : 112,500
1" = 1.78 mi
Data Zoom 10-0