

THE COMMUNITY CONCEPTS GROUP, INC. & THE HENDRICKSON COMPANY

MEMORANDUM

To: Housing Finance Authority of Manatee County

From: Susan J. Leigh and Mark Hendrickson, Financial Advisor

Subject: Analysis of River Trace Apartments Bond Application

Date: November 7, 2016

Attached is an analysis of the River Trace Apartments bond application. *The original application was missing major items, and a new/revise application was submitted at the direction of the Financial Advisors.*

Analysis of Bond Applications- River Trace Apartments

I. Summary of Findings

The information in some cases will be the combined compiled information from both properties since they are being financed as one property

A. Summary of key criteria:

Question	River Trace & Manatee Pond
Is the development economically feasible as submitted?	Yes
Are the costs/fees associated with the development reasonable and appropriate?	Yes
Is the experience of the development team adequate?	Yes
If feasible, is it ready to proceed to closing in 2017	Likely
Is the product being proposed adequate in terms of design and amenities?	Rehab appears to be adequate. PNA will verify.
Is the product being proposed adequate in terms of ongoing resident services?	Yes
Are the income targeting and length of set-aside adequate?	Yes
Any special impact on redevelopment?	No
Did the responses within the application contain adequate responses to important questions, relating to financing and other key issues?	No, in original application. Yes with revised application.
Recommend Inducement?	Yes

B. Summary of the Proposed Development

	River Trace Apartments
Developer/ Location	Bradenton Leased Housing Development III, LLC 2905 Northwest Blvd. Ste #150 Plymouth, MN 55441
Development Location	2710 River Trace Circle, Bradenton, FL 34208 1449 17 th Street Circle E, Bradenton, FL 34208
Type	Acquisition & Rehabilitation
Units	218
Bedrooms	512 (1,2,3 and 4 bedrooms)
Square Feet	278,264 (River Trace – 224,214 sq. ft. Manatee Pond – 54,050 sq. ft.)
Bond Request	\$25,000,000
Total Cost	\$31,056,008
Cost per unit	\$142,459
Land Cost	\$920,259 \$4221.37 per unit
Acquisition of Building Cost	\$13,667,741 \$62,696.05 per unit
Hard Construction or Rehabilitation Cost	\$3,934,505 \$12.34 per square foot \$18,048 per unit
General Contractor	TBD
Credit Enhancement	None
Set Aside Period	50 years
Set Aside Levels	9 units at 30% AMI/ 209 at 60% AMI

C. Summary of Findings and Recommendations for River Trace Apartments

1. The Applicant provided payment as required within the HFA of Manatee County Policies and Guidelines, of Exhibit B “A” of .1% of the total bond request and the Financial Feasibility Fee of \$5,500 as shown in Exhibit B “B” of the HFA of Manatee County Policies and Guidelines, Fees and expenses.
2. The development appears economically feasible. The bond issue is not dependent upon any outside subsidy.
3. The annual fee should be based upon the original amount of bonds issued, due to the fact that most bonds are paid off immediately after construction.

4. The development amenities and resident programs meet minimum HFA of Manatee County policies and requirements.
5. The costs and fees associated with this development appear to be reasonable over all although the architect fees seem to be more in line with a new construction property and not rehabilitation. These fees should be looked at closer during the CU process.
6. The amount of rehabilitation appears to be adequate, but will be verified by an independent third-party Physical Needs Assessment.
7. The energy efficiency items meet minimum HFA of Manatee County standards.
8. The site is controlled by the developer, has proper zoning, and has evidence of availability of water, sewer, roads and electricity. The transaction could close as early as the first quarter of 2017.
9. The developer and development team members have experience in other states of affordable housing in general and have closed two transactions in Florida. These developments have included rehabilitation of older properties.
10. The development (both properties) has current occupancies of 98%-100% and the market does not seem a concern. However, the credit underwriter will order and evaluate an independent market analysis.
11. If the Board decides to proceed with the transaction, the applicant will need to submit to an independent Credit Underwriter approved by Florida Housing Finance Corporation. Once completed that report which will include a bond size recommendation, credit worthiness of the developer and partners, affirmation of experience, confirmation of equity sources and financing structure and most importantly insuring that the properties are rehabilitated at the appropriate level. This will be submitted to the HFA of Manatee board with the board would take appropriate action at that time.
12. The applicant did not submit the Feasibility Review fee but has submitted as of November 7, 2017.
13. **Recommendations for River Trace Apartments:**
 - Permit River Trace to proceed through the HFA of Manatee County financing process.
 - Adopt Inducement Resolution prepared by bond counsel, which includes a Memorandum of Agreement.
 - All items subject to review and approval of credit underwriter and counsel, including but not limited to preconstruction analysis, appraisal, market study, loan terms and amount, guaranties, credit enhancement, loan and bond documents.
 - Authorize the Financial Advisor to engage contract with First Housing to perform the credit underwriting on this transaction (to the extent the Board approves it to move forward) and to provide the credit underwriting report for the board review.

- All items subject to conditions in this memorandum.

II. Application Analysis River Trace Apartments and Manatee Pond

River Trace is a scattered site property. It combines existing River Trace, 178-unit garden style apartments (a Family property) consisting of 17 buildings with Manatee Ponds, which consists of 40 single-family structures (currently serving Family and Farmworker). The total number of units for the combined properties is 218.

River Trace Apartments project was built in 2000 under the FHFC/HUD Risk sharing Program serving elderly tenants. This was a bond structure with 4% credits. Within the 178 units were 44 one bedroom one bath units that are 750 sq.; ninety-four two bedrooms two bath units comprising 861 sq. feet each; and forty-three bedrooms two bath units comprising 1067 sq. each. It also included a clubhouse with a community room, a computer room, and swimming pool with sun deck, shuffleboard courts with picnic area, a community garden, exercise trails and handicapped accessibility for ground floor units. During the life of the project four LURA amendments were made to remove various restrictions including 80% instead of 100% of the units were set aside for Elderly (defined as 55 or older). The 3rd amendment included a requirement to least 5% of the units to tenants at 30% of median or lower and 80% of the units at 60% median income or lower. A defeasance of bonds on this property took place in September of 2013 but the FHFC LURA remained in place.

Manatee Pond consisted of 40 single-family rental housing dwelling built in 1996. All dwellings included four bedrooms and two baths each with four models ranging from 1,280 square feet to 1,422 square feet. Amenities at the time included a 1.6-acre retention lake with eleven lots having direct frontage on the lake; and a recreation facility for older children and security and energy features. The construction was concrete slab on grade and concrete block/stucco materials. Each unit was required to have a single-family garage attached. 16 units or 40% were to be set aside for rental to Farmworker households with 20% of the dwellings, 8 units, for rental to persons at 50% or less of median income and 80% to persons making 60% or less of median income

The proposed rehabilitation will be “minimal” (\$18.048/unit). A detailed description of the rehabilitation follows later in this analysis.

A. Financing & Cost Analysis:

1. In 2014, Freddie Mac unveiled a program pursuant to which Freddie Mac, through its affiliated lenders, will fund tax exempt loans to municipal multifamily housing issuers who will loan those tax exempt “funding loan” proceeds to developers under a “borrower loan” to finance the acquisition and moderate rehabilitation of affordable housing projects which meet the requirements for the issuance of tax exempt debt under Section 142(d) of the Code and for the syndication of 4% LIHTC under Section 42 of the Code. **Freddie Mac’s “TEL” Program** is patterned after similar draw-down tax exempt loan programs utilized by a number of commercial banks to provide a private placement funding platform for these types of projects that eliminate much of the time and expense of a rated, publicly offered bond issue. In substance, these draw-down tax exempt loan programs provide the same advantages of a draw-down tax exempt bond private placements which have been used since the late 1990’s to fund many affordable projects. The tax-exempt loan structure simply uses loan terminology rather than bonds/securities terminology to accomplish the same result

2. Too simplify, all bonds are sold at closing and will be functionally be a private placement with the bond proceeds held by the trustee and a forward commitment by Freddie Mac with a rate lock at closing. There is a settlement at closing and a delivery of bonds to Freddie Mac at stabilization. The construction funds will be released based on draws.
3. Specific to the River Trace, the Borrower has selected JLL Capital Markets (“JLL”) to be Freddie Mac Seller Servicer. JLL will underwriter the permanent Freddie Mac Tax-Exempt Loan (the “TEL”). However, Freddie Mac will only acquire the TEL after construction is completed and the Project achieves stabilization as defined in the Freddie Mac loan documents. As a result, Dominion will select a Construction Lender (the Construction Lender is designated the Initial Funding Lender) to originate and fund the TEL during construction and will hold the TEL until Freddie Mac acquires the TEL after stabilization and once the conditions to conversion have been satisfied. Dominion is in discussions with several national banks and hopes to select a construction lender within the next few weeks. In addition, the construction lender will also provide an Equity Bridge Loan to the Borrower to bridge Tax Credit Equity contributions that will be received after closing and fund a portion of the acquisition and rehabilitation of the Project. Dominion requests that a portion of the Bridge Loan be issued as a tax-exempt Note.
4. The proposed acquisition cost is \$13,667,741 million, or \$62,696.05 per unit. The Credit Underwriter will determine if this is an appropriate cost, based upon an independent appraisal.
5. *There is a proposed firm commitment from JLL Capital Markets, lender for the Freddie Mac loan that would provide permanent financing. The terms are 1.15/x 1.00 debt service coverage, a 15-year term, and 35-year amortization. The interest rate is currently estimated at 4.19%.*
6. The Applicant provided a Letter of Intent for Housing Credit syndication from RBC Capital Markets. The price is \$1.095 per \$1 of credits. Representing a total capital contribution of \$10,714,589.
7. The Applicant is not applying for SAIL, and the deal works without any additional FHFC or HFA subordinate financing.
8. Because the portion of bonds will be paid off after construction, a payment in lieu of annual fees will be required
9. **Financing & Cost Issues:**
 - The financing commitments are adequate for this stage of the process.
 - The annual fee should be based upon the original amount of bonds issued, due to the fact that most bonds are paid off immediately after construction

B. Sources:

Permanent Loan Period

Source	\$	Per Unit	% of Development Cost
Tax Exempt Bonds	\$ 3,124,500	\$ 14,333	10%
Housing Credits	\$10,667,725	\$ 48,935	34%
Deferred Developer Fee	\$ 1,787,644	\$ 8,200	6%
NOI During Construction	\$ 601,787	\$ 2,760	2%
Freddie Mac 1 st (18 th month forward commitment)	\$14,840,000	\$ 68,073	50%
TOTAL	\$31,021,656	\$142,301	102% (rounding)

C. Development Information, Including Design and Amenities

Unit Mix	Number	Square Footage
1/1	44	750
2/2	94	861
3/2	40	1065
4/2	40	1344

- 1 River Trace apartments is a proposed 178-unit acquisition rehabilitation of a family/elderly development, in 17 two-story buildings, plus one office/administrative building. The design is garden-style. The clubhouse is 2334 sq. ft. and an existing maintenance building of 520 sq. ft. During the rehabilitation, there will be an additional 480 sq. ft. added to the existing maintenance building. Manatee Pond is an acquisition-rehabilitation of 40 single-family residences with no additional buildings or clubhouse planned.
- 2 An independent Physical Needs Assessment is needed to determine if proposed \$18,048/unit rehabilitation is adequate.

- 3 In addition to meeting all building code, Fair Housing Act, and Americans with Disabilities Act requirement, the following are also required amenities:
 - Air conditioning
 - Dishwasher
 - Garbage disposal
 - Cable TV hook-up
 - Full sized appliances in all units

4. Unit amenities (in addition to those required) include:
 - Laundry hook-ups and space for washer/dryer
 - Window Treatments
 - Dishwasher
 - Garbage disposal
 - Steel entry door frames
 - Marble window sills
 - Non-smoking units
 - Non-smoking buildings

5. Development amenities include:
 - Exercise room with appropriate equipment
 - Community center on the River Trace property
 - Swimming pool on the River Trace property
 - Playground/tot lot on both properties
 - Childcare facility located within three miles of property
 - Public transportation located within one-half mile of property
 - Outside Recreation area for older children/Picnic shelter

6. Mandatory Energy Conservation features:
 - Energy Star qualified refrigerator;
 - Energy Star qualified dishwasher;
 - Energy Star qualified washing machine, if provided by applicant;
 - Minimum SEER of 14 for unit air conditioners (excluding buildings with a central chiller system);
 - Low-VOC paint for all interior walls (50 grams per liter or less for flat paint; 150 grams per liter or less for non-flat paint);
 - Low-flow water fixtures in bathrooms--Water Sense labeled products or the following specifications:
 - Toilets: 1.6 gallons/flush or less
 - Faucets: 1.5 gallons/minute or less
 - Showerheads: 2.2 gallons/minute or less.

7. Other energy conservation features:
 - Energy Star qualified roofing material or coating
 - Energy Star exhaust fans in all bathrooms (**The Developer has only agreed to install new units as they are “changed out” in units**)
 - Programmable thermostats in all units.
 - Install daylight sensors, timers or motion detectors on all outdoor lighting attached to buildings
 - FL Yards and Neighborhoods certification on all landscaping

8. Design, Amenity & Energy Efficiency Issues:

- The development has physical features that are consistent with the needs of family and elderly housing collectively

D. Public Purpose/ Resident Services

1. The set-aside period is for 50 years.
2. The set aside will be 100% at 60% or less. The existing FHFC LURA also requires that River Trace serve 5% of their units for 30% of median or lower and 80% at 60% of median income. For Manatee Pond and addition 20% of the units (8 units) had to serve tenants at 50% of median income or below.
3. The resident services/programs include (no optional services/programs selected):
M: Mandatory
 - Health Care Screening (M)
 - Resident Activities (M)
 - On Site Voter Registration (M)
 - Homeownership Opportunity Program (M)
 - First-time homebuyer seminars (M)
 - Financial Counseling (M)
 - Computer Training (M)
 - Health and Nutrition Counseling (optional)
 - Homeownership Opportunity (M)
 - Welfare to Work (M)
 - Job Training (optional)

4. Public Purpose Issues: None

- The Applicant is providing services and programs for residents that meet HFA of Manatee County standards.

E. Ability to Proceed

1. Site control is established by a contract for purchase and sale which terms allow for closing by April 30, 2017 with two 90 day extensions.
2. Letters from the City were provided that show that the properties are built within the current zoning

requirements.

3. No letters were provided regarding utilities, but these are existing occupied properties with working utilities.
4. All other information was submitted as required, and no information submitted indicated there would be no issues at this stage that would prevent the project from moving forward.
5. The applicant's schedule calls for a bond closing in January 2017 which can only occur if the credit underwriting including the PNA has been completed with recommendations that can be incorporated into the current finance structure.
6. Although the Environment report is dated October 15, 2015, the information provided at the time should still be accurate although an update will be required for the credit underwriting process. Conclusions, Opinions and Recommendations of the provider of the states that the Phase I Environmental Site Assessment is in conformance with the scope and limitations of ASTM Practice E1527-13 and the Fannie Mae Multifamily Selling and Servicing Guide of 2710 River Trace Circle in Bradenton, Manatee County, Florida (the "subject property"). Any exceptions to, or deletions from, this practice are described in Section 1.5 of this report.
7. This assessment is only for the River Trace portion of the property. **No assessment was provided for Manatee Pond which will be required during credit underwriting.** The report provided has revealed no evidence of recognized environmental conditions or environmental issues in connection with the subject properties. Based on the conclusions of this assessment, the report recommends no further investigation of the subject property at this time. This report will be updated when it goes into credit underwriting as the report needs to be dated within a period that satisfies the lender

8. Ability to Proceed Issues: None.

F. Experience of Development Team:

The developer's principals and the team have experience with affordable housing, bond transactions, rehabilitation of existing developments, and housing credits in other states. They have closed two similar transactions in Florida.

Experience of Development Team Issues: None.

G. Other requirements: Expense and Indemnity Agreement

- The required Expense and Indemnity Agreement was executed.

H. Site Location and Market

1. These are two separate developments that are being financed and managed as one property. They are considered a "scattered site". The current River Trace is located at 2710 River Trace Circle, Bradenton, Florida 34208; and Manatee Pond is located at 1449 17th Street Circle East, Bradenton, Florida 34208.
2. *River Trace has over an occupancy level above 98% and Manatee Pond has an occupancy of 100%*

3. The credit underwriter will evaluate an independent market study.

4. **Site Location and Market Issues: None.**

I. Rehabilitation

1. Possibly the most important analysis for the HFA relates to adequacy of the rehabilitation.
2. As part of credit underwriting, a Physical Needs Assessment will be ordered from an independent third party and will be compared to the proposed rehabilitation. This will insure that required repairs are part of the rehabilitation plan and budget.
3. The proposed rehabilitation would be considered more than minimal and less than moderate. Manatee Pond was built about 1996 and River Trace 2001 and depending on their current needs what is being proposed may be sufficient. However, the applicant reports that the basic structures are in good shape—a fact that will be confirmed or disputed by the PNA.
4. However, the proposed \$18,048 per unit rehabilitation would be generally considered less than moderate or sufficient for unit interior rehabilitation that is being proposed.
5. A detailed rehabilitation work plan and resident location plan are included in the application. Note that there is a matrix that is not included that the only items to be replaced in all units are the mini-blinds. The remainder of the proposed changes relate to ADA requirements, specific unit cabinet replacement, and clubhouse interior updating including cabinets.
6. Given the importance of this issue, I have copied the Project Narrative from the application for the Board's review:

Development Narrative

At a broad level the projects have a budget of \$3,924,000 in construction costs, (18,000 per unit) plus an additional construction contingency of 10% (\$392,400). The renovation will address all deferred maintenance of both developments – units that have been identified to have kitchen appliances, kitchen cabinets and countertops, bathroom vanities and countertops, plumbing fixtures and or flooring that is at the end of its useful life will receive replacements. The renovation will also include upgrades to the common area amenities for both sites. An underutilized shuffle board court, currently located to the east of the club housing of River Trace e apartments will be replaced with a playground and picnic shelter more attuned for the high representation of families within the resident populations. Outdated playground equipment currently located on the manatee pond site will be removed and replaced with a similar play structure for use by the surrounding residents.

The renovation will not displace tenants. Most in unit renovation work will be completed without the need to relocate the tenants. In the instance that extensive work is needed for some of the units a budget has been set for tenant's relocation.

The Applicant anticipates closing the transaction in January 2017 with construction completion and all units placed-in-service by December of 2017.

7. **Rehabilitation Issues:** The proposed rehabilitation appears adequate, but will need to be evaluated in credit underwriting by an independent third-party Physical Needs Assessment. The PNA may

require additional repairs to be made. One concern is that because of the unit-by-unit approach that sufficient replacement may not occur. The Credit Underwriter through the PNA (independently ordered by CU) will be directed to be responsive on the following issues in addition to their normal focus:

- **Functional life remaining on mechanical components**
- A. **AC/Furnace**
- Roof life
- Appliance update and replacement for all units