

THE COMMUNITY CONCEPTS GROUP, INC. & THE HENDRICKSON COMPANY

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**MEMORANDUM**

To: Housing Finance Authority of Manatee County

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

Subject: River Trace Apartments -- Review of Credit Underwriting Report

Date: May 30, 2017

**A. Background**

1. A bond application was received for the Acquisition and Rehabilitation of two properties now referred to as River Trace Apartments, located at 2710 River Trace Circle and 1449 17<sup>th</sup> Street Circle East, (formerly known as River Trace Apartments and Manatee Pond) Bradenton, Florida.
2. River Trace is a scattered site property. It combines the 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.
3. **River Trace** was built in 2000 under the FHFC/HUD Risk sharing Program serving elderly tenants. The financing was FHFC bonds with 4% Housing Credits. The unit mix is :

Unit Mix		
Bedroom/Baths	Number	Square Footage
1/1	44	750
2/2	94	861
3/2	40	1,067
4/2	40	1344

4. River Trace 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 3<sup>rd</sup> 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.

5. **Manatee Pond** consists 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

#### **B. Board Action To Date on River Trace**

1. The Financial Advisors performed an initial review of application, and a report submitted to the Board for the November 2016 Board meeting.
2. The Board moved the project forward by adopting an Inducement Resolution and inviting the project into the financing process including invitation to the credit underwriting process.
3. At the April 11, 2017 Board meeting, the Board approved a waiver allowing the set-aside term to change from 50 years, as required in the application, to a set aside term of 30 years due to some financial challenges in the project and the rehabilitation needed for these properties.

#### **C. Current Status**

1. The developer requested an expedited process, but due to delays by the developer in providing the needed documents to the credit underwriter for their analysis, the draft report was completed April 29, 2017 and finalized on May 26, 2017.
2. The CUR concludes that the developer entity and partners have sufficient previous experience to complete the transaction, that the project is feasible, and that the funds provided through the bond proceeds and credits is sufficient to perform the priority work identified by GLE which performed a Construction Needs Assessment. GLE is an CNA approved vendor by FHFC and their report will also be utilized to access the tax credits needed for this project.

3. The per unit rehabilitation is now scheduled to be \$21,073 at River Trace and \$42,476 at Manatee Ponds—which is an increase from their original application. During the CU process the developer was able to provide an additional \$997,724 to the scope of rehabilitation.
4. The CUR points out that all of the items that the developer agreed to do within their original application will not be completed based on the financial costs of the acquisition rehabilitation with more rehabilitation and updating identified as necessary than there are funds to complete it. The actual work now to be completed can be found in Exhibit 4 of the CUR (which is attached to this memo as Exhibit A).
5. An outside Construction Analysis was performed by GLE that identified all construction and development needs associated with the properties in a report (dated January 30, 2017, updated April 27, 2017). These items were identified as an immediate need due to reaching the end of their useful life. GLE also provided a recommendation that a more significant replacement reserve was needed to continue to complete many of the items that will be currently needed.
6. In further negotiations with the developer, they agreed to provide an additional \$997,724 in rehabilitation which will allow for some of the improvements needed on the property to occur now versus a later date. Those negotiations included the requirement that the life and safety issues are to be prioritized including smoke detectors, lighting, and ADA issues. The CU has recommended that the ongoing replacement reserve be \$400 per unit annually which is a bit higher than normal, but with amount of work to be completed will be sufficient.
7. Several factors restricted all the construction improvements that are needed to bring the property totally up to current standards—but the main issue is the amount of debt that the property can support. Although initially it appeared their delay exacerbated the reduction in tax credits (limiting the amount of equity available), in the end the tax credit-pricing drop was not as severe as originally feared. In the last 6 months, the price of credits has declined significantly, from a potential of over \$1.09 per credit to the \$.9725 that is currently reflected in the commitment letter from Raymond James. The full amount of net capital contribution is \$9,380,861.
8. The developer has been required to defer 94.3% of the total Developer fee or \$4,325,157 during the construction phase and 89.6% or \$4,100,447 for the permanent phase.
9. Of the guarantees that will be required, in lieu of a personal guarantee that is normally required for on going fees (Compliance, Fiscal Agent, Issuer and Monitoring Fees) a 5-year reserve will be set up at closing for those fees which is estimated to be at \$226,096. The 5-year rolling reserve (meaning fees are still paid each year so

that the reserve is always five years) will be required to be maintained while bonds are outstanding. Personal guarantees will be required of Mark Moorhouse and Christopher Barnes for Construction Completions (in addition to the corporate guarantees).

10. The CUR in Section B provides that the Loan Conditions as outlined must be met, including satisfaction of all items prior to Real Estate Loan Closing.
11. As you review the credit underwriting report, the credit underwriter has provided indicators noted as “NP” behind each project amenity or construction features if the developer is not providing them. The Financial Advisors and the CU feel it is important to insure that all issues related to accessibility and safety are completed in the initial rehabilitation. In addition, items that will reduce the cost of utilities for the tenants should also be prioritized.
12. To see the complete Plan and Cost Review and Capital Needs Assessment summary within the Section C of the CUR for additional scope of work limitations.

**Recommendations:**

1. **The First Housing Development Corporation of Florida (the Credit Underwriter), recommends Tax-Exempt Multifamily Mortgage in an amount up to \$26,374,500 which includes \$3,000,000 in Taxable Note and \$3,124,500 in Tax Exempt Seller Note during construction; and \$15,490,000 Tax Exempt Note during permanent financing, but no more than the loan amount approved by JLL (Jones Lang LaSalle Multifamily, LLC) to finance the acquisition/rehabilitation and permanent financing of the Development.**
2. **The Borrower is requesting a waiver of the required energy-conservation scope; and a waiver of the energy-start rated roofing material requirement. The FA and CU recommend granting these waivers.**
3. **The recommended approval includes all items in the CUR, including replacing 100% of all smoke detectors in both sites, replacing all wood decks at Manatee pond, replacing portions of chain link fence at both properties, replacing the wood bridge at Manatee Pond, installing gutters and downspouts at Manatee Pond, and repairing and repainting the exterior of homes at Manatee Pond.**
4. **The set-aside period is 30 years. Repayment of the bonds prior to that date does not remove the affordability requirement.**