



Multifamily Private Activity Bonds

Agenda Item

March 14, 2008

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Presentation, Discussion and Possible Approval of a Resolution Regarding the submission of a calendar year 2008 Application for Allocation of Private Activity Bonds, Notice of Intention to Issue Bonds and State Bond Application to the Texas Bond Review Board and Declaration of Expectation to Reimburse Expenditures with Proceeds of Future Debt for the Texas 5 Portfolio Project

Summary

The Texas 5 Portfolio is a pooled private activity bond transaction that includes three (3) multifamily affordable rental developments located in three (3) cities. GP Associates, LLC is an experienced affordable rental housing developer and manager. The Texas 5 Portfolio will be GP Associates' second transaction in Texas and includes properties in Hitchcock, Houston and Temple. In total the properties have 392 units, all of which are supported through the U.S. Department of Housing and Urban Development's ("HUD") Section 8 Project Based Rental Assistance Program. All 392 units are reserved for households earning 60% or less than the area median income ("AMI"). All of the properties were constructed in the early 1970s and will be acquired and receive approximately \$15,000 per unit in rehabilitation. The Texas 5 Portfolio will preserve 392 units of affordable housing, complete more than \$6 million in rehabilitation and utilize approximately \$15 million of the Corporation's private activity bond volume cap.

Project

The Texas 5 Portfolio includes the following three (3) properties listed in the table below.

Property	City	County	Units
Branch Village Apartments	Houston	Harris	160
Independent Missionary Village Apartments	Hitchcock	Galveston	72
Wayman Manor Apartments	Temple	Bell	160
Total			392

The transaction involves the acquisition of all three (3) properties from Westside Rehabilitation, a for profit corporation. All three properties have Section 8 project based subsidy contracts that are eligible for renewal or termination. GP Associates will renew contracts with HUD and eliminate all federal debt on the properties. GP Associates will use approximately \$23.6 million in combined private activity bonds, low-income housing tax credits and developer equity to purchase and rehabilitate all 392 units.

Source of funds	Amount
Private Activity bonds	\$15,183,349
Housing Tax Credits	\$7,106,083
Developer Equity	\$843,279
Deferred Fees	\$472,332
Total	\$23,605,043

Excluding contractor fees, overhead and contingencies each property will receive approximately \$15,000 per unit in rehabilitation. The development cost schedule shows that a majority of these funds are used for improvement to building mechanical systems, HVAC, structural improvements and energy upgrades. The rehabilitation budget for each property also includes \$10,000 for new playgrounds or sports courts, and additional funding for security upgrades and fencing.

Developer

The Developer GP Associates, LLC (“GPA”) is an affiliate corporation and shares the same principals as GH Capital, LLC (“GHC”). GPA was formed in 2007 and has substantial prior experience in acquiring, developing and operating large portfolio transactions similar to the Texas 5 Portfolio. Since 2001, GPA and GHC have developed a diverse real estate portfolio focused on multifamily affordable properties throughout the United States. GPA’s principal, Gregory Perlman, has been engaged in the acquisition and rehabilitation of affordable housing since 1993. GPA adheres to a philosophy of renovating affordable housing units to market rate physical conditions and operating with attention to compliance with federal and state regulations. GPA and GHC have completed several large portfolio transactions similar to the Texas 5 Portfolio, including the following:

- KB Portfolio, acquisition and rehab of 1,170 units in 10 properties located in Northeast Ohio involving private activity bonds and tax credits.
- AE Portfolio, acquisition and rehab of 1,909 high rise elderly affordable housing units in Cleveland, Ohio involving private activity bonds and tax credits.
- Thetford Portfolio, acquisition and moderate rehab of 25 Section 8 project-based properties in North Carolina involving conventional financing.
- Cardinal One Portfolio, acquisition and rehab of 10 properties in Dayton, Ohio and surrounding cities involving private activity bonds and tax credits.

Since its formation in 2007, GPA has acquired five (5) properties in South Carolina, two (2) properties in Tennessee and one (1) property in Fort Worth, Texas, totaling 688 units.

Review

Staff’s review of the application included both threshold and scoring criteria. The application met all threshold criteria required under the Corporation’s 2008 RFP for Private Activity Bonds, including underwriting standards. The financing includes approximately \$15.2 million in bonds held by

Citigroup, through its Citi Community Capital entity, and \$7.1 million in tax credit equity provided by Enterprise Community Investments. The bonds will include a swap agreement and variable interest rate. The Corporation will require that issuer and trustee fees are included in the final analysis of debt coverage ratios and cap rate agreements.

Staff's preliminary underwriting analysis has been based on previous rent records for the properties and anticipated income and expense projections. Staff has made the following preliminary assumptions for the purpose of review.

1. The vacancy rate used by Staff was 7% in comparison to the applicant's proposed 5%. The properties may support a 5% rate, but a complete rent roll was not available for review.
2. The income and expense projections increase respectively by 3% and 4% annually. This is in line with projected increases used by TDHCA for tax credit underwriting.
3. Staff believes that the owner's estimates for operating expenses are approximately 10% higher than regional averages. This could provide a cushion for unexpected increases overtime if GPA reduces current expenses to come in line with regional averages.
4. The interest rate used for bonds in Staff's underwriting includes both issuer and trustee fees. Additionally, staff anticipated a cap rate in place for the bonds given the current commitment uses as variable rate swap structure.

Given these assumptions, Staff's preliminary underwriting still meets the Corporation's debt coverage ratio limits and anticipates that the development will maintain feasibility for the term of the bonds.

Staff is concerned about tax credit syndication proceeds that have been trending downward across both 9% and 4% allocations. However, the development budget contains sufficient developer fees that could be deferred without harming either the short or long term feasibility of the development.

Recommendation

Staff is recommending that the Board approve the Resolution regarding the submission of a calendar year 2008 Application for Allocation of Private Activity Bonds, Notice of Intention to Issue Bonds and State Bond Application to the Texas Bond Review Board and Declaration of Expectation to Reimburse Expenditures with Proceeds of Future Debt for the Texas 5 Portfolio Project