

# Texas State Affordable Housing Corporation

## Multifamily Private Activity Bond Project Summary

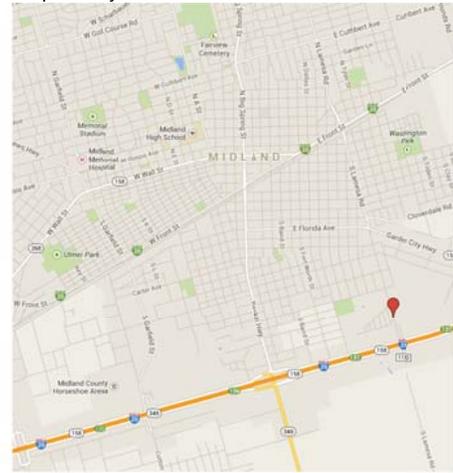
### **Agenda Item:**

Presentation, discussion and possible approval of a Resolution Regarding the Submission of one or more Applications 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 Palladium Midland Apartments Project.

### **Summary:**

The Corporation received an application from the Palladium Affordable Housing Development, Inc. (Palladium) in July for the issuance of multifamily private activity bonds for the Palladium Midland Apartments project, located at 2200 Lamesa Blvd., Midland, Texas. The project is a new construction 264 unit multifamily housing complex.

Map of Project Area



### **Public Benefit:**

The proposed project fulfills the Corporation's small urban areas target housing need because Midland, Texas is a community of less than 100,000 and is not part of or adjacent to a PMSA or MSA greater than 500,000. Additionally, Midland and surrounding communities have been under a great deal of housing cost pressures due rapid and ongoing growth of oil and gas exploration. Community leaders have been very supportive of new affordable housing projects. Palladium Midland Apartments has received letters of support from the Mayor Pro-Tem and Chamber of Commerce, as well as a resolution from the City of Midland.

### **Financial Summary:**

The proposed acquisition of land and new construction of Palladium Midland Apartments has a total budget of approximately \$35 million. \$21 million is planned for direct construction costs or approximately \$91,000 per unit. Acquisition of the land, financing costs, soft costs and developer fees account for the remaining \$14 million in total costs.

The proposed financing leverages tax-exempt bonds and 4% housing tax credits under a fairly typical financing structure. Citi Community Capital, a division of Citi Bank, has provided a commitment letter detailing the proposed terms and conditions of the bond financing. The proceeds from the bonds will be available to the project for both construction and permanent financing with interest rates locked at closing. The Corporation's Financial Advisor, First Southwest, may assist with the placement of bond proceeds into a Guaranteed Investment Contract during the course of construction. Palladium U.S.A., parent company of the developer, will be the Guarantor of the bonds.

The total bond amount is anticipated to be \$20,665,000. The permanent loan will be carry a 15-year term with 35 year amortization schedule. The rate will be fixed to the Thomson Municipal Market Data "AAA" rate plus 2.25%. The rate based on current market conditions would be 5.12%. Staff

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has included an additional .25% in its initial underwriting to factor in the risk of market changes and the proforma continued to meet our threshold requirements. The construction phase interest rate will be locked at closing based on the SIFMA Municipal Swap Index plus 2.5%. The current rate for SIFMA is .05% for an all-in anticipated rate of 2.55% during construction. Interest only payments are required during the course of construction which will be paid through reserve accounts included in the total development budget.

The project is also applying for additional financial support from the State of Texas through the Home Investment Partnerships Program (“HOME”). More than \$3 million is available to eligible projects and would be used to provide additional subsidies for units serving households at 50% or below of the area median income. The developer is also proposing to defer nearly \$2 million in developer fee or about 50% of the total fee.

### **Market Conditions:**

Midland, Texas is located in the center of the Permian Basin, an area of Texas that has been long known for its oil and gas resources. Although much of the region has struggled economically since the late 1980s, the resurgence of oil and gas exploration due to hydraulic fracturing has pushed many Permian Basin communities into a boom-time economy.

The City of Midland’s population has increased by more than 25% since 2000 to 120,000 estimated at the end of 2013. While home builders and apartment developers have worked to keep pace with the rapid growth, total housing units have only increased by 17% to a total of 44,251 units. The excess demand for housing units is being filled through less formal development models, such as RV and mobile home parks.

The rapid growth in demand is also reflected in housing prices. Median home values have increase from \$71,400 in 2000 to approximately \$160,000 in 2012, according to the Multiple Listing Service (MLS) datasets. Year over year comparisons of median rents show an 8% increase in market rents in the Midland area and more than 20% increase since 2011. Target rents for Palladium Midland Apartments will range from \$700 to \$980 for 1 to 3 bedroom affordable units. This is significantly lower than market rents anticipated to be \$1,000 to \$1,500 for the same unit types.

Access to affordable rental units is very limited in the Midland market. The state’s department of housing lists only 755 total subsidized housing units in Midland County, with only 2 vacancies currently available. The most recent new affordable housing built in the area was funded in 2011, though most units are more than 15 years old.

The unemployment rate for Midland County in May of 2014 was 2.6% compared to the statewide rate of 5.1%. Job growth due to oil and gas exploration and associated services has been the primary economic driver. Government services, education, medical and retail sectors have also seen significant increases in available jobs, though the rapid growth has also led to significant wage inflation with median hourly wages estimated at \$15/hr. Median household incomes for 2014 are estimated to be \$70,200, compared to \$39,320 in 2000.

Despite the rapid economic growth and increase in many household incomes, Midland County continues to have an estimated 10.58% of its population living below the poverty line. Many low-

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skilled workers, seniors and persons with disabilities have struggled to keep pace with the current economic gains within the community and the need for affordable housing is significant. As noted above, the stock of affordable housing is generally old and limited in number. Land and home values have increased but access to affordable options has not expanded with the pace of growth.

### **Borrower Summary:**

The development team for Palladium Midland Apartments will be led by Palladium USA, the holding company for Palladium Group assets in the United States. Palladium Group is a privately owned real estate company with developments in Western Europe, Saudi Arabia and the U.S. Its core business focuses on the development of portfolio multifamily properties that are owned and operated by the company long-term. Palladium is a vertically integrated company that provides site planning, financial structuring, construction and property management services.

Palladium often works in consort with both private and public entities to develop new projects. Palladium's local partner will be Crossroads Housing Development Corporation (Crossroads). Crossroads is a non-profit housing development organization based in Big Spring, Texas but with a foot print covering much of west Texas. In addition to operating homebuyer education, down payment assistance, youth build and single family development programs, Crossroads has partnered with a number of multifamily developers over the past 15 years on more than 20 multifamily rental developments. The Corporation has funded three multifamily projects where Crossroads acts as general partner.

Combined, Crossroads and Palladium USA have completed more than forty multifamily housing tax credit developments in Texas. Both entities have exemplary compliance records and have been highly recommended by financial and compliance references. Palladium USA also intends to provide financial guarantees to the project.

### **Recommendation:**

Staff recommends approval of the Resolution Regarding the Submission one or more Applications 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 Palladium Midland Apartments Project.

If the board approves the resolution, staff will begin the next phase of application review, scheduling of public hearing and application to the Texas Bond Review Board for a reservation of private activity bond allocation. The process for review and final approval of the bonds may take several months. The development team is hopeful that its applications for housing tax credits, HOME funds and bonds will result in a closing and start of construction the first quarter of 2015.