DATE      May 15, 2009

TO       Members of the Economic Development Committee: Ron Natinsky (Chair),
          Tennell Atkins (Vice Chair), Jerry R. Allen, Dwaine Caraway, Sheffie Kadane,
          Linda Koop, Mitchell Rasansky and Steve Salazar

SUBJECT  Community Development Block Grant Section 108 Guarantee Loan Application
          for the Courtyards at La Reunion

          On Monday, May 18, 2009, the Economic Development Committee will be
          briefed on Community Development Block Grant Section 108 Guarantee Loan
          Application for the Courtyards at La Reunion. A copy of the briefing is attached

Please let me know if you have any questions.

A.C. Gonzalez
Assistant City Manager

C: Mary K. Suhm, City Manager
   Ryan S. Evans, First Assistant City Manager
   Deborah Watkins, City Secretary
   Tom P. Perkins, Jr., City Attorney
   Craig Kinton, City Auditor
   Judge C. Victor Lander, Judiciary
   Ramon Miguez, P.E., Assistant City Manager
   Jill Jordan, P.E., Assistant City Manager
   Forest Turner, Interim Assistant City Manager
   David Cook, Chief Financial Officer
   Jeanne Chipperfield, Budget Director, Office of Financial Services
   Karl Zavitkovsky, Director, Office of Economic Development
   Hammond Perot, Assistant Director, Office of Economic Development
   Lee McKinney, Assistant Director, Office of Economic Development
   Helena Stevens Thompson, Assistant to the City Manager

Dallas-Together, we do it better
Community Development Block Grant Section 108
Guaranteed Loan Application for the Courtyards at La Reunion

A Briefing to the Economic Development Committee
May 18, 2009
Housing Department
Purpose

Consideration of submission of Community Development Block Grant Section 108 Guaranteed Loan application for $5,100,000 for the acquisition and rehabilitation of the Colorado Place Apartments located at 2201 Fort Worth Avenue to provide 100% affordability for 64 rental units
Section 108 Guaranteed Loan Application Process

- Develop proposed HUD application information for $5,100,000 for 100% affordability of 64 apartment units

- Neighborhood Public Hearing will be held
  - Hearing held in the area in which funds will be used
  - Participants provided Section 108 Loan Guarantee purpose and eligible uses
  - Obtain views of citizens
    - Community development objectives
    - Housing and economic development needs
Section 108 Guaranteed Loan Application Process (cont.)

- Hold City Council Public Hearing
  - Contents of final HUD application
  - Summary of public comments

- Obtain City Council Approval
  - Final application for project
  - Schedule of repayment to HUD of the Section 108 guaranteed loan

- Prepare Final HUD Application
  - Consideration of public comments and views
  - Finalized description of activities
Underwriting Standards

- Section 108 funding used as subordinate gap financing as a mezzanine refunding piece
- Total loan balance of the project, including first liens, cannot exceed 85% of the lower of total cost or appraised value of the completed stabilized project
- Debt service coverage ratio of 1.15 for all debt
- Additional credit enhancement to provide collateral support to insure that payments can be repaid if refinancing does not repay both first and second liens
- Additional credit support required if the first lien mortgage financing does not include an interest reserve during the construction period, redevelopment and lease up
La Reunion Master Development Plan

- Multi-phase mixed-use town center with 900 residences, 150,000 square feet of upscale retail, entertainment venues, running trails, walking paths, community gardens, and a pond

- Phase I – Fairways at La Reunion - new construction of 198 market rate seniors apartment units

- Phase II – Courtyards at La Reunion - rehabilitation of Colorado Place Apartments on north side of Fort Worth Avenue to provide 64 affordable apartment units

- Phase III – The Orleans at La Reunion - new construction of 30 acre mixed use development
  - 220 one and two bedroom apartment units (44 affordable units)
  - 37,000 square feet of commercial space

- Phases IV, V, and VI will add an additional 400 plus residential units and 100,000 + square feet of retail space
La Reunion Master Site Plan
Courtyards at La Reunion

- 2201 Fort Worth Avenue, Council District 3
- Rehabilitation of the Colorado Place Apartments
  - 60 one bedrooms - 595 square feet
  - 4 units – 1,190 square feet
- Applicant – Courtyards at La Reunion, LLC
  - Avalon Residential Care Homes, Inc., a Seib family enterprise
  - Todd Aaron Seib, Manager and members Jonathan Seib, Jeffrey Seib and Timothy Seib
Developer

- Development team consists of Avalon Residential Care Homes, Inc. and Sky Modern Development
  - Avalon Residential Care
    - Formed in 1995
    - Full-service development/management firm
    - One of the largest assisted-living providers in North Texas
    - Managing 13 assisted living facilities in the DFW Metroplex
    - Constructing two new elder care facilities in Garland
  - Sky Modern
    - Specializing in residential construction including single residential homes, two and three-story townhomes, patio homes and condos
    - Kessler Woods in Oak Cliff: 30 single family residential, 45 3-story townhomes, 18 two-story townhomes, 14 patio homes and 31 condos
    - Austin Woods Carrollton/Lewisville area: 49 contemporary single family residences
    - Montgomery Farm in Allen: 8 contemporary single family residences
Property Manager

- Capstone Real Estate Services, Inc., Dallas Regional Office, 222 W. Las Colinas Blvd., Irving, TX
  - Formed in 1969
  - 53,000 units managed nationally
  - 35,000 units managed in Texas Market
  - Properties managed in Dallas area:
    - Dallas - Virginia Manor, 156 units
    - Irving – Waterford at Valley Ranch, 300 units
    - Mesquite – Newport, 152 units
    - Desoto – Arbors of Wintergreen, 180 units
    - Arlington
      - Claremont, 261 units
      - Walnut Ridge, 264 units
    - Plano – Old Shepard Place, 244 units
    - Frisco – Stonebrook Village, 216 units
Site Rendering of Courtyards (La Reunion Phase II)
Site Plan
Project Location
Sources and Uses

**SOURCES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 108 Guaranteed Loan</td>
<td>$5,100,000</td>
</tr>
<tr>
<td>Developer Equity (cash)</td>
<td>$1,172,234</td>
</tr>
<tr>
<td><strong>TOTAL SOURCES</strong></td>
<td><strong>$6,272,234</strong></td>
</tr>
</tbody>
</table>

**USES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Building Acquisition</td>
<td>$3,500,000</td>
</tr>
<tr>
<td>Site Work</td>
<td>$300,000</td>
</tr>
<tr>
<td>Construction Costs</td>
<td>$1,280,000</td>
</tr>
<tr>
<td>Soft Costs</td>
<td>$82,984</td>
</tr>
<tr>
<td>Developer Fee</td>
<td>$0</td>
</tr>
<tr>
<td>Interest Reserve</td>
<td>$114,750</td>
</tr>
<tr>
<td>Operating Deficit</td>
<td>$127,500</td>
</tr>
<tr>
<td>Working Capital</td>
<td>$102,000</td>
</tr>
<tr>
<td>Supplemental 108 Interest</td>
<td>$765,000</td>
</tr>
<tr>
<td><strong>TOTAL USES</strong></td>
<td><strong>$6,272,234</strong></td>
</tr>
</tbody>
</table>
Credit Enhancement

- Three years of interest reserve represents two years of additional interest reserve to cover interest shortfall that might occur during the lease up period.
- All partnerships distributions will be escrowed as additional collateral to pay down loan, if necessary, when the permanent loan is made three years after stabilization or approximately @ year 5.
Pro Forma Analysis

- Construction commences in 2009 and completed in 2010
- Project reaches rent stabilization in 2011
- Loan to value ratio of 85% meets underwriting guidelines
- Debt coverage of 1.50 exceeds the underwriting guideline of 1.15
- 108 loan paid in five years with permanent loan
- Three years of 108 interest reserve totaling $765,000 will be escrowed @ construction loan closing
- Additional reserves, operating deficits, and undistributed partnership income of $2,032,250 will be used to make 108 loan payments of $1,275,000 for the five years until permanent loan
- The excess of additional reserves, operating deficits, and undistributed partnership interests after the 108 loan payments for the five year period are made is $757,250 along with the untapped $765,000 108 loan reserve equal $1,522,250
- At the time of permanent loan conversion, the exposure on the 108 loan is $5,100,000 less $1,522,250 or approx. $3.6M
- Based upon the Net Operating Income @ year 5 capitalized @ 7% discount rate calculates to a project value of $6M
- A permanent loan exposure of $3.6M is equal to a 60% loan to value with permanent loan take outs ranging from 80% to 85% ensures that the City’s loan will be paid off
RECOMMENDATION

- Recommend $5.1M 108 loan for Courtyards @ La Reunion for a Call for Public Hearing on May 20th with a final Council vote on June 24th
Next Steps

- May 20, 2009 City Council call for Public Hearing on June 24th
- Schedule Community Public Hearing
- June 24, 2009 City Council Public Hearing and final approval for filing of Section 108 guaranteed loan application and waiver request to HUD
- Submit Section 108 loan guarantee application and waiver to HUD
Attachments
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>AMOUNT</th>
<th>PER UNIT</th>
<th>PER SQ. FT</th>
<th>AMOUNT</th>
<th>PER UNIT</th>
<th>PER SQ. FT</th>
<th>AMOUNT</th>
<th>PER UNIT</th>
<th>PER SQ. FT</th>
<th>AMOUNT</th>
<th>PER UNIT</th>
<th>PER SQ. FT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental income</td>
<td>$854,720</td>
<td>$10,320.95</td>
<td>$16.18</td>
<td>$654,720</td>
<td>$10,320.95</td>
<td>$16.18</td>
<td>$607,814</td>
<td>$10,459.50</td>
<td>$18.91</td>
<td>$581,171</td>
<td>$10,459.50</td>
<td>$19.84</td>
</tr>
<tr>
<td>Lease Vacancy Loss</td>
<td>$(427,990)</td>
<td>$(5,459.95)</td>
<td>$(10.00)</td>
<td>$(352,730)</td>
<td>$(5,459.95)</td>
<td>$(10.00)</td>
<td>$(343,621)</td>
<td>$(5,634.55)</td>
<td>$(12.64)</td>
<td>$(494,545)</td>
<td>$(5,634.55)</td>
<td>$(12.64)</td>
</tr>
<tr>
<td>Loss To Date Lease</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Rental Discounts</td>
<td>$(6,750.00)</td>
<td>$105.46</td>
<td>$2.00</td>
<td>$(11,550.00)</td>
<td>$105.46</td>
<td>$2.00</td>
<td>$(12,100.00)</td>
<td>$109.55</td>
<td>$2.00</td>
<td>$(12,015.00)</td>
<td>$109.55</td>
<td>$2.00</td>
</tr>
<tr>
<td>Miscellaneous Income</td>
<td>$5,076.00</td>
<td>$633.88</td>
<td>$1.00</td>
<td>$13,852.00</td>
<td>$166.75</td>
<td>$3.00</td>
<td>$12,150.00</td>
<td>$109.55</td>
<td>$0.00</td>
<td>$12,150.00</td>
<td>$109.55</td>
<td>$0.00</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td>$226,988</td>
<td>$27,632.91</td>
<td>$5.00</td>
<td>$620,436.00</td>
<td>$9,694.31</td>
<td>$15.33</td>
<td>$632,574.00</td>
<td>$9,883.96</td>
<td>$15.83</td>
<td>$643,727.00</td>
<td>$10,058.24</td>
<td>$15.91</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>$(4,800.00)</td>
<td>$(57.60)</td>
<td>$(0.10)</td>
<td>$(5,000.00)</td>
<td>$(62.50)</td>
<td>$(0.12)</td>
<td>$(5,270.00)</td>
<td>$(65.60)</td>
<td>$(0.12)</td>
<td>$(5,270.00)</td>
<td>$(65.60)</td>
<td>$(0.12)</td>
</tr>
<tr>
<td>Monthly Services</td>
<td>$(8,000.00)</td>
<td>$(100.00)</td>
<td>$(0.16)</td>
<td>$(10,000.00)</td>
<td>$(125.00)</td>
<td>$(0.20)</td>
<td>$(10,500.00)</td>
<td>$(131.25)</td>
<td>$(0.20)</td>
<td>$(10,500.00)</td>
<td>$(131.25)</td>
<td>$(0.20)</td>
</tr>
<tr>
<td>Utilities</td>
<td>$(12,000.00)</td>
<td>$(150.00)</td>
<td>$(0.25)</td>
<td>$(18,000.00)</td>
<td>$(225.00)</td>
<td>$(0.37)</td>
<td>$(24,000.00)</td>
<td>$(300.00)</td>
<td>$(0.48)</td>
<td>$(24,000.00)</td>
<td>$(300.00)</td>
<td>$(0.48)</td>
</tr>
<tr>
<td>Utility Resident Reimbursements</td>
<td>$(6,000.00)</td>
<td>$(75.00)</td>
<td>$(0.13)</td>
<td>$(9,000.00)</td>
<td>$(112.50)</td>
<td>$(0.21)</td>
<td>$(12,000.00)</td>
<td>$(150.00)</td>
<td>$(0.25)</td>
<td>$(12,000.00)</td>
<td>$(150.00)</td>
<td>$(0.25)</td>
</tr>
<tr>
<td>Advertising &amp; Promotion</td>
<td>$(6,000.00)</td>
<td>$(75.00)</td>
<td>$(0.13)</td>
<td>$(9,000.00)</td>
<td>$(112.50)</td>
<td>$(0.21)</td>
<td>$(12,000.00)</td>
<td>$(150.00)</td>
<td>$(0.25)</td>
<td>$(12,000.00)</td>
<td>$(150.00)</td>
<td>$(0.25)</td>
</tr>
<tr>
<td>Payroll</td>
<td>$(18,720.00)</td>
<td>$(234.00)</td>
<td>$(0.39)</td>
<td>$(28,120.00)</td>
<td>$(351.50)</td>
<td>$(0.59)</td>
<td>$(40,000.00)</td>
<td>$(500.00)</td>
<td>$(0.83)</td>
<td>$(40,000.00)</td>
<td>$(500.00)</td>
<td>$(0.83)</td>
</tr>
<tr>
<td>Management Fee</td>
<td>$(8,681.33)</td>
<td>$(108.52)</td>
<td>$(0.18)</td>
<td>$(12,122.00)</td>
<td>$(151.50)</td>
<td>$(0.25)</td>
<td>$(16,500.00)</td>
<td>$(206.25)</td>
<td>$(0.34)</td>
<td>$(16,500.00)</td>
<td>$(206.25)</td>
<td>$(0.34)</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>$(3,040.00)</td>
<td>$(38.00)</td>
<td>$(0.06)</td>
<td>$(4,560.00)</td>
<td>$(57.00)</td>
<td>$(0.10)</td>
<td>$(6,060.00)</td>
<td>$(75.75)</td>
<td>$(0.13)</td>
<td>$(6,060.00)</td>
<td>$(75.75)</td>
<td>$(0.13)</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>$(119,000.00)</td>
<td>$(1,474.90)</td>
<td>$(0.25)</td>
<td>$(155,000.00)</td>
<td>$(1,937.50)</td>
<td>$(0.33)</td>
<td>$(179,000.00)</td>
<td>$(2,237.50)</td>
<td>$(0.37)</td>
<td>$(179,000.00)</td>
<td>$(2,237.50)</td>
<td>$(0.37)</td>
</tr>
<tr>
<td>Property Insurance</td>
<td>$(12,140.00)</td>
<td>$(151.75)</td>
<td>$(0.26)</td>
<td>$(18,210.00)</td>
<td>$(227.63)</td>
<td>$(0.39)</td>
<td>$(24,350.00)</td>
<td>$(304.38)</td>
<td>$(0.51)</td>
<td>$(24,350.00)</td>
<td>$(304.38)</td>
<td>$(0.51)</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>$177,594</td>
<td>$2,773.49</td>
<td>$4.39</td>
<td>$220,547.00</td>
<td>$3,446.95</td>
<td>$5.48</td>
<td>$224,951.00</td>
<td>$3,514.88</td>
<td>$5.56</td>
<td>$231,284.00</td>
<td>$3,615.38</td>
<td>$5.72</td>
</tr>
<tr>
<td><strong>NET OPERATING INCOME</strong></td>
<td>$149,082.39</td>
<td>$2,329.41</td>
<td>$3.68</td>
<td>$399,889.01</td>
<td>$6,248.27</td>
<td>$9.88</td>
<td>$407,622.90</td>
<td>$6,369.11</td>
<td>$10.07</td>
<td>$412,342.68</td>
<td>$6,442.85</td>
<td>$10.19</td>
</tr>
<tr>
<td><strong>NET CASH FLOW</strong></td>
<td>$149,082.39</td>
<td>$2,329.41</td>
<td>$3.68</td>
<td>$399,889.01</td>
<td>$6,248.27</td>
<td>$9.88</td>
<td>$407,622.90</td>
<td>$6,369.11</td>
<td>$10.07</td>
<td>$412,342.68</td>
<td>$6,442.85</td>
<td>$10.19</td>
</tr>
<tr>
<td><strong>1ST LIEN DEBT SVC AT 5.00%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESCROWED DURING CONSTRUCTION/LEASE</td>
<td>$255,000.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$255,000.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$255,000.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$255,000.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td><strong>NET CASH FLOW AFTER DEBT SVC</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESCROWED DURING CONSTRUCTION/LEASE</td>
<td>$144,889.01</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$152,622.90</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$157,342.66</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$165,555.79</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

**Total Units:** 64

**Total Net Sq. Ft.:** 49,406

This PROforma budget is preliminary based on the information available to us. Although reasonable care was used in obtaining data and making projections based upon that data, this is submitted without representation or warranty. The Owner should carefully verify each item of expense and all other Information contained herein. Upon assumption of management by Capstone, a REVISED budget will be produced to allow for changes in the property, in the market or new information obtained. Taxes are an estimate only, as Manager is not an expert in this regard. The Owner should contact professionals in the appropriate field to obtain a more accurate assessment of the property's cost for taxes and insurance.