

Memorandum



DATE October 16, 2009

TO Housing Committee Members: Steve Salazar, Chair, Carolyn R. Davis, Vice-Chair, Tennell Atkins, Dwaine Caraway, Angela Hunt, Ann Margolin, Pauline Medrano

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

On Tuesday, October 20, 2009, you will be briefed on Community Development Block Grant Section 108 Guaranteed Loan Amended 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: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom P. Perkins, Jr., City Attorney
Craig Kinton, City Auditor
C. Victor Lander, Judiciary
Ryan S. Evans, First Assistant City Manager
Forest Turner, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Dave Cook, Chief Financial Officer
Jerry Killingsworth, Housing Director
Jeanne Chipperfield, Director, Financial Services
Helena Stevens-Thompson, Assistant to the City Manager

Community Development Block Grant Section 108 Guaranteed Loan Amended Application for the Courtyards at La Reunion

A Briefing to the Housing Committee

October 20, 2009

Housing Department



Purpose

Reconsideration of submission of Community Development Block Grant Section 108 Guaranteed Loan application for:

- An increase from previously approved \$5,100,000 to \$5,300,000 to fund the acquisition of the Colorado Place Apartments located at 2201 Fort Worth Avenue, and to fund an interest reserve, tenant relocation costs and site improvements
- A project change from rehabilitation of existing units to demolition and construction of new units
- An increase in the total number of units from 64 to 95 units and a decrease in the number of affordable units from 64 units to 59 units

Reason for Increase and Project Change

- Desire for higher density
- Increased benefit in longevity of new construction
- Degradation of the property since initial approval due to fire, water and termite damage

Section 108 Guaranteed Loan Application Process

- Develop proposed HUD application information for \$5,300,000 for 62% affordability of 95 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, 143,000 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 - new construction of 95 apartments on north side of Fort Worth Avenue to provide 59 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 (up to 44 affordable units)
 - 24,000 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

Courtyards at La Reunion

- 2201 Fort Worth Avenue, Council District 3
- Construction of 95 apartments
 - 91 units - 642 square feet average
 - 4 units – 1,320 square feet (660 living area, 660 home business area)
- 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

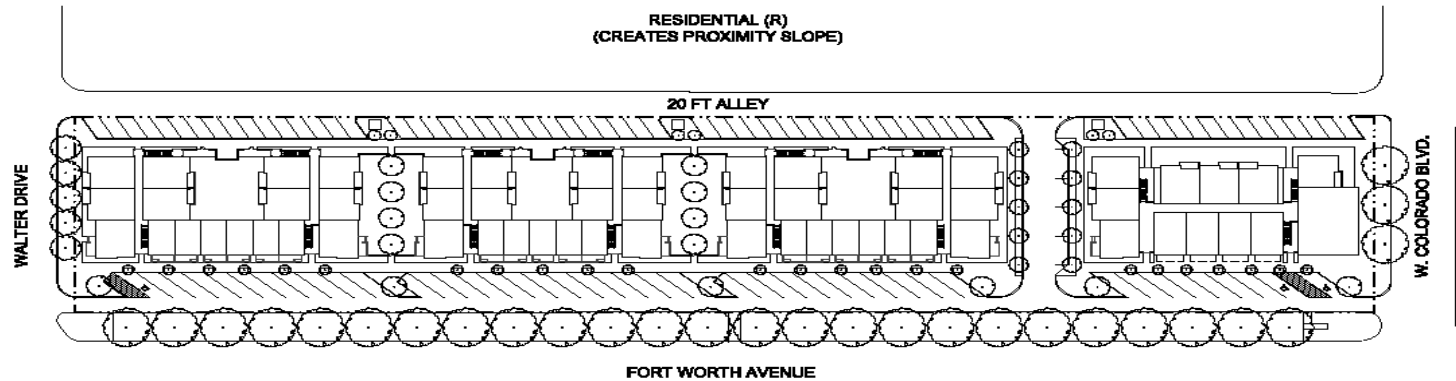
Developer

- Development team consists of Avalon Residential Care Homes, Inc. and Sky Modern Development
 - Avalon Residential Care
 - Full-service development/management firm formed in 1995
 - One of the largest assisted-living providers in North Texas managing 13 assisted living facilities in the DFW Metroplex
 - Development of 1,217 multi-family units and 8,677 square feet of retail in the Metroplex, 834 units in Austin and 248 units in Houston
 - 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

Courtyards Site Plan and Site Rendering

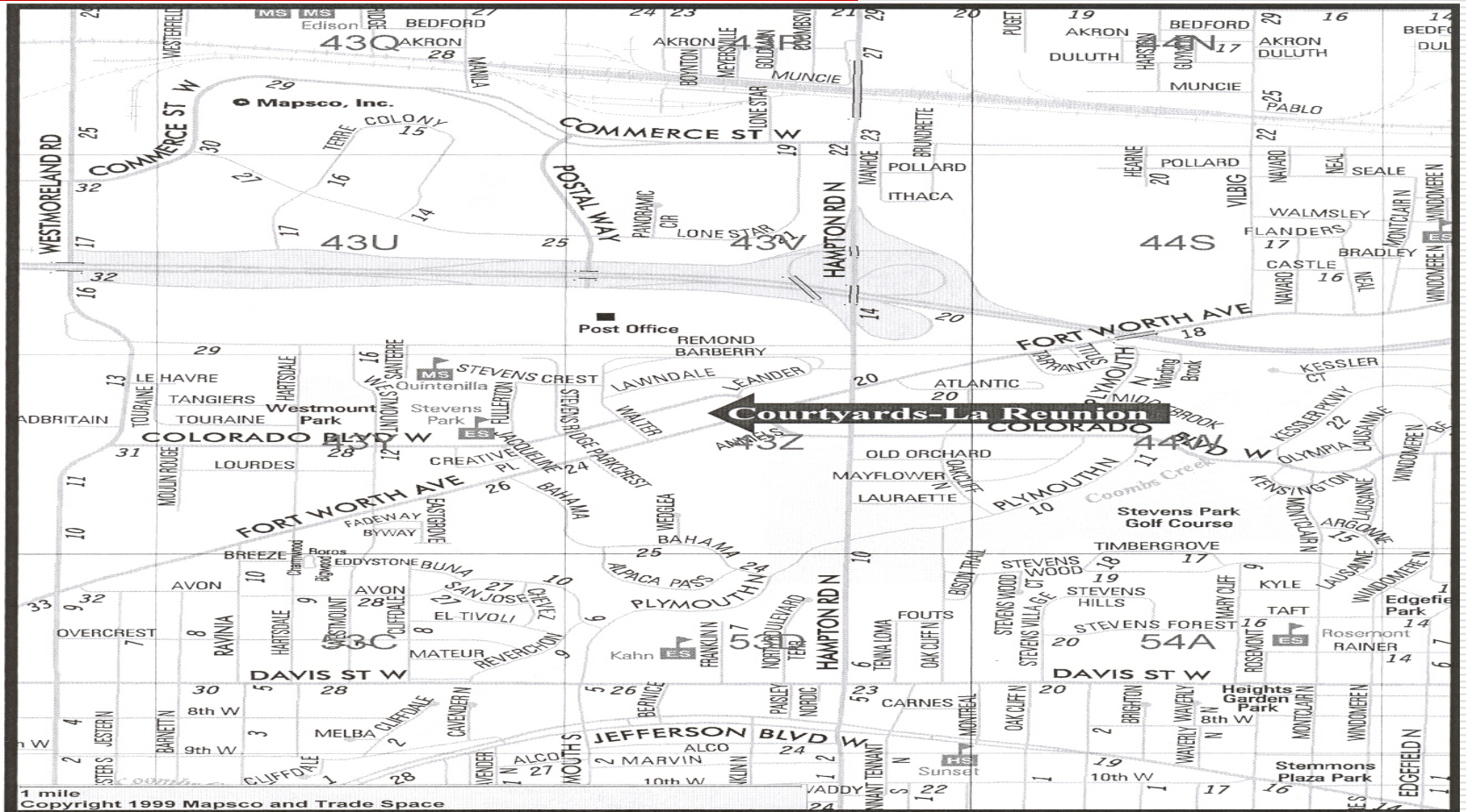


CONCEPTUAL SITE PLAN
SCALE: 1/6" = 1'-0"



CONCEPTUAL ELEVATION
SCALE: 1/16" = 1'-0"

Project Location



Sources and Uses

Original Request

SOURCES

Section 108 Guaranteed Loan	5,100,000
Developer Equity (cash)	<u>1,172,234</u>
TOTAL SOURCES	\$6,272,234

USES

Land and Building Acquisition	\$3,500,000
Site Work	300,000
Construction Costs	1,280,000
Soft Costs	82,984
Developer Fee	-0-
Interest Reserve	114,750
Operating Deficit	127,500
Working Capital	102,000
HUD 108 Interest Reserve	<u>765,000</u>
TOTAL USES	\$6,272,234

Revised Request

SOURCES

Section 108 Guaranteed Loan	\$ 5,300,000
1st Lien Mortgage	4,786,880
Developer Equity (cash)	<u>1,000,000</u>
TOTAL SOURCES	\$11,086,800

USES

Land and Building Acquisition	\$ 3,500,000
Site Work	500,000
Abatement & Demolition	300,000
Construction Costs	4,071,550
Additional Fees & Soft Costs	850,000
Developer Fee	-0-
Operating & Construction Reserve	901,000
Relocation	173,250
HUD 108 Interest Reserve	<u>791,000</u>
TOTAL USES	\$11,086,800

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 2010 and completed in 2011
- Project reaches rent stabilization in 2012
- Loan to value ratio of 85% meets underwriting guidelines
- Debt coverage of 1.71 exceeds the underwriting guideline of 1.15
- 108 loan paid in five years with permanent loan
- Three years of 108 interest reserve totaling \$791,000 will be escrowed @ construction loan closing
- Additional reserves, operating deficits, and undistributed partnership income of \$1,530,000 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 \$795,000 along with the untapped \$791,000 108 loan reserve equal \$1,586,000
- At the time of permanent loan conversion, the exposure on the 108 loan is \$5,300,000 less \$1,586,000 or approx. \$3.7M
- Based upon the Net Operating Income @ year 5 capitalized @ 7% discount rate calculates to a project value of \$9.5M
- A permanent loan exposure of \$8.1M is equal to a 83% 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 \$5.3M 108 loan for Courtyards @ La Reunion for a Call for Public Hearing on November 9th with a final Council vote on December 9th

Next Steps

- ❑ November 9, 2009 City Council call for Public Hearing on December 9th
- ❑ Schedule Community Public Hearing
- ❑ December 9, 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