



Texas Department of Housing and Community Affairs

Governing Board

Board Action Request

File #: 696

Agenda Date: 7/25/2024

Agenda #:

Presentation, discussion, and possible action regarding a Material Amendment to the Housing Tax Credit Application for Lost Oaks (HTC #23209)

RECOMMENDED ACTION

WHEREAS, Lost Oaks (the Development) received a 9% Housing Tax Credit (HTC) award in 2023 for the new construction of 78 units in Houston, Harris County;

WHEREAS, Lost Oaks, LP (the Applicant) requests approval to change the Qualified Low Income Housing Development Election from the requirement that specifies that at least 40% or more of the residential units must be both rent restricted and occupied by individuals whose income is 60% or less of the median gross income (i.e., 40% at 60% minimum set-aside election) to the Average Income set-aside;

WHEREAS, Board approval is required for a request to implement a revised election under §42 (g) of the Code prior to filing of IRS Form(s) 8609 as directed by 10 TAC §10.405(a)(4)(G), and the Owner has complied with the amendment requirements under 10 TAC §10.405(a); and

WHEREAS, the requested change does not negatively affect the Development, impact the viability of the transaction, or impact the tax credit award;

NOW, therefore, it is hereby

RESOLVED, that the requested amendment for Lost Oaks is approved as presented at this meeting, and the Executive Director and his designees are each authorized, directed, and empowered to take all necessary action to effectuate the foregoing.

BACKGROUND

Lost Oaks was approved for a 9% HTC award in 2023 for the new construction of 78 units of multifamily housing in Houston, Harris County. The Applicant originally elected the set-aside requirement that specifies that at least 40% or more of the residential units must be both rent restricted and occupied by individuals whose income is 60% or less of the median gross income (i.e., 40% at 60% minimum set-aside election) as the Qualified Low Income Housing Development Election for the Development. The Development was underwritten based on the Rent Schedule provided by the Applicant that originally identified the set-asides for the 78 units as eight units at 30% Area Median Income (AMI), 32 units at 50% AMI, and 38 units at 60% AMI.

In a letter dated May 31, 2024, Taylor Pate, the representative for the Applicant, has now requested approval for a material amendment to the Application to revise the Qualified Low Income Housing Development Election from maintaining at least 40% or more of the residential units as both rent restricted and occupied by individuals whose income is 60% or less of the median gross income (i.e., 40% at 60% minimum set-aside election) to the Average Income election. The Applicant states that due to the rising costs, reduced tax credit pricing, and reduced borrowing capacity due to increased interest rates, the project is no longer financially feasible. By changing the election to Average Income and using updated rents, annual potential gross rent increases by approximately 11% from the estimates at Application. This benefits the Development by closing part of the widening gap that was caused by rising rates. The proposed change results in an average income of 54% for the Development.

The amendment request letter states it was not reasonably foreseeable that there would be a need to transition to the Average Income election, as it was impossible to anticipate the ongoing decline in the macroeconomic environment since the submission of the HTC Application. The letter also indicates that the proposed changes are necessary to ensure financial feasibility of the Development.

The Development was re-underwritten based on the proposed set-asides and revised financial information that was submitted. The analysis supports no change to the HTC allocation and demonstrates the Development remains feasible. Additionally, staff reviewed the original Application and scoring documentation against this amendment request and has concluded that none of the changes would have resulted in selection or threshold criteria changes that would have affected the selection of the Application in the competitive round.

Staff recommends approval of the amendment request as presented herein.



Addendum to Underwriting Report

TDHCA Application #: **23209** Program(s): **9% HTC**

Lost Oaks

Address/Location: **810 Oak Street**

City: **Houston** County: **Harris** Zip: **77018**

| APPLICATION HISTORY | |
|---------------------|----------------------|
| Report Date | PURPOSE |
| 06/27/24 | Amendment |
| 06/09/23 | Initial Underwriting |

ALLOCATION

| TDHCA Program | Previous Allocation | | | | RECOMMENDATION | | | | |
|-------------------|---------------------|------|-------|------|----------------|------|-------|------|------|
| | Amount | Rate | Amort | Term | Amount | Rate | Amort | Term | Lien |
| LIHTC (9% Credit) | \$2,000,000 | | | | \$2,000,000 | | | | |

CONDITIONS STATUS

- Receipt and acceptance by Cost Certification:

- Attorney opinion validating federally sourced funds (\$1.678M soft ARP loan) can be considered bona fide debt with a reasonable expectation that it will be repaid in full and further stating that the funds should not be deducted from eligible basis.

Should any terms of the proposed capital structure change or if there are material changes to the overall development plan or costs, the analysis must be re-evaluated and adjustment to the credit allocation and/or terms of other TDHCA funds may be warranted.

SET-ASIDES

| At Original Underwriting | | |
|--------------------------------------|------------|-----------------|
| TDHCA SET-ASIDES for HTC LURA | | |
| Income Limit | Rent Limit | Number of Units |
| 30% of AMI | 30% of AMI | 8 |
| 50% of AMI | 50% of AMI | 32 |
| 60% of AMI | 60% of AMI | 38 |

| Amendment | | |
|--------------------------------------|------------|-----------------|
| TDHCA SET-ASIDES for HTC LURA | | |
| Income Limit | Rent Limit | Number of Units |
| 30% of AMI | 30% of AMI | 11 |
| 50% of AMI | 50% of AMI | 32 |
| 60% of AMI | 60% of AMI | 26 |
| 80% of AMI | 80% of AMI | 9 |

ANALYSIS

Applicant is requesting to transition from a 40/60 set aside to income averaging to address the challenges posed by rising costs and interest rates.

Operating Pro Forma

The Applicant is proposing to change the Set Asides to add three (+3) 30% AMI units (11 total), and nine (+9) 80% AMI units. There will be a reduction of twelve (12) 60% AMI units as unit total and unit mix will be unchanged. Income averaging is 54%

Rents have been updated to 2024 rent limits. Applicant did not project full program rent on the four 80% 2-bedroom units. Supporting documentation was provided for insurance and payroll Pro Forma expenses. The HCHFC MOU references the same rent restrictions as the HTC restrictions.

The land will be purchased with the \$2.85M HOME ARP Grant. The Harris County Housing Finance Corp (HCHFC) will ground lease the property to the partnership via a 99 year Ground Lease. The HCHFC is not part of the ownership structure and no property tax exemption is contemplated. Instead, the HCHFC is the General Contractor to achieve sales tax exemption. The partnership will pay Ground Lease payments of \$20/unit/month or \$18,720 annually to the HCHFC.

Development Cost

Building costs increased \$1.86M and development costs by \$3.67M.

Applicant provided a Schedule of Values for Harrisburg Lofts, a 107 unit Project in Houston, with the same General Contractor. Applicant assumed a 3.3% increase in Building Costs due to inflation and greater Site Work costs since the Lost Oaks project has more paving and a more expensive underground detention system.

Sources of Funds

Applicant has changed debt provider from Amegy Bank to Stellar Bank. The Stellar Bank loan is \$3.7M, which is \$207k greater than the original Amegy loan submitted in the initial Application. The changes in interest rate (7.0% to 6.4%) and amortization period (35 years to 40 years) lowers Annual Debt Service from \$268,320 to \$257,273 (-\$11k).

Applicant also changed the equity provider from RBC to Enterprise. The new equity price is \$0.86 which is \$.06 less per credit than it was previously underwritten. This resulted in equity provided decreasing from \$18,398,160 to \$17,300,000.

The Applicant added two new Sources from the Harris County HFC (HCHFC) to offset the \$1M decrease in equity and \$2M increase in construction costs. HCHFC will purchase the land from the Partnership for \$2.85M. In return, the Partnership will pay a Ground Lease fee of \$20/unit/month or \$18,720 annually which has also been included in the Operating Pro Forma. The difference of \$4.528M and the land purchase of \$2.85M or \$1.678M will be a soft, cash flow loan from the Harris County HFC. This loan also referred to as the "ARPA loan" will carry an interest rate of one-percent (1%) and no payments will be payable during the Term.

The portion of the \$2.85M ARPA grant that is paying for the land is not a valid debt issue since it is paying for the land. However, the \$1.678M soft ARP loan portion will require an attorney opinion at cost cert.

Conclusion

Underwriter recommends no change to the amount of credits awarded.

| | |
|-----------------------------------|---------------------|
| Underwriter: | <u>Eric Weiner</u> |
| Manager of Real Estate Analysis: | <u>Gregg Kazak</u> |
| Director of Real Estate Analysis: | <u>Jeanna Adams</u> |

UNIT MIX/RENT SCHEDULE
Lost Oaks, Houston, 9% HTC #23209

| LOCATION DATA | |
|--------------------|----------|
| CITY: | Houston |
| COUNTY: | Harris |
| Area Median Income | \$90,100 |
| PROGRAM REGION: | 6 |
| PROGRAM RENT YEAR: | 2024 |

| UNIT DISTRIBUTION | | | | | |
|-------------------|-----------|---------------|----------|----------|----------|
| # Beds | # Units | % Total | Assisted | MDL | ARP |
| Eff | - | 0.0% | 0 | 0 | 0 |
| 1 | 23 | 29.5% | 0 | 0 | 0 |
| 2 | 50 | 64.1% | 0 | 0 | 0 |
| 3 | 5 | 6.4% | 0 | 0 | 0 |
| 4 | - | 0.0% | 0 | 0 | 0 |
| 5 | - | 0.0% | 0 | 0 | 0 |
| TOTAL | | | | | |
| | 78 | 100.0% | - | - | - |

| Pro Forma ASSUMPTIONS | |
|-----------------------|---------|
| Revenue Growth | 2.00% |
| Expense Growth | 3.00% |
| Basis Adjust | 130% |
| Applicable Fraction | 100.00% |
| APP % Acquisition | 4.00% |
| APP % Construction | 9.00% |
| Average Unit Size | 889 sf |

| 54% | Income | 20% | 30% | 40% | 50% | 60% | 70% | 80% | EO / MR | TOTAL |
|---------|---------|------|-------|------|-------|-------|------|-------|---------|--------|
| Average | # Units | - | 11 | - | 32 | 26 | - | 9 | - | 78 |
| Income | % Total | 0.0% | 14.1% | 0.0% | 41.0% | 33.3% | 0.0% | 11.5% | 0.0% | 100.0% |

| UNIT MIX / MONTHLY RENT SCHEDULE | | | | | | | | | | | | | | | | | | | |
|----------------------------------|------------|-----------|--------|---------|---------------|-------------------------|---------------|----------------------|-----------------------------|---------------|-------------------|--------------------|-----------------------|----------------|---------------|--------------|----------------|---------------|----------------|
| HTC | | UNIT MIX | | | | APPLICABLE PROGRAM RENT | | | APPLICANT'S PRO FORMA RENTS | | | | TDHCA PRO FORMA RENTS | | | | MARKET RENTS | | |
| Type | Gross Rent | # Units | # Beds | # Baths | NRA | Gross Rent | Utility Allow | Max Net Program Rent | Delta to Max | Rent psf | Net Rent per Unit | Total Monthly Rent | Total Monthly Rent | Rent per Unit | Rent psf | Delta to Max | Underwritten | Mrkt Analyst | |
| TC 30% | \$532 | 11 | 1 | 1 | 655 | \$532 | \$88 | \$444 | \$0 | \$0.68 | \$444 | \$4,884 | \$4,884 | \$444 | \$1 | \$0 | \$997 | \$1.52 | \$1,433 |
| TC 50% | \$887 | 4 | 1 | 1 | 655 | \$887 | \$88 | \$799 | \$0 | \$1.22 | \$799 | \$3,196 | \$3,196 | \$799 | \$1 | \$0 | \$997 | \$1.52 | \$1,433 |
| TC 50% | \$887 | 3 | 1 | 1 | 846 | \$887 | \$88 | \$799 | \$0 | \$0.94 | \$799 | \$2,397 | \$2,397 | \$799 | \$1 | \$0 | \$997 | \$1.18 | \$1,544 |
| TC 50% | \$887 | 5 | 1 | 1 | 777 | \$887 | \$88 | \$799 | \$0 | \$1.03 | \$799 | \$3,995 | \$3,995 | \$799 | \$1 | \$0 | \$997 | \$1.28 | \$1,510 |
| TC 50% | \$1,065 | 20 | 2 | 2 | 924 | \$1,065 | \$105 | \$960 | \$0 | \$1.04 | \$960 | \$19,200 | \$19,200 | \$960 | \$1 | \$0 | \$997 | \$1.08 | \$1,904 |
| TC 60% | \$1,278 | 20 | 2 | 2 | 924 | \$1,278 | \$105 | \$1,173 | \$0 | \$1.27 | \$1,173 | \$23,460 | \$23,460 | \$1,173 | \$1 | \$0 | \$1,197 | \$1.30 | \$1,904 |
| TC 60% | \$1,278 | 1 | 2 | 2 | 1,170 | \$1,278 | \$105 | \$1,173 | \$0 | \$1.00 | \$1,173 | \$1,173 | \$1,173 | \$1,173 | \$1 | \$0 | \$1,197 | \$1.02 | \$2,027 |
| TC 60% | \$1,278 | 5 | 2 | 2 | 1,014 | \$1,278 | \$105 | \$1,173 | \$0 | \$1.16 | \$1,173 | \$5,865 | \$5,865 | \$1,173 | \$1 | \$0 | \$1,704 | \$1.68 | \$1,981 |
| TC 80% | \$1,704 | 4 | 2 | 2 | 1,014 | \$1,704 | \$105 | \$1,599 | (\$22) | \$1.56 | \$1,577 | \$6,308 | \$6,396 | \$1,599 | \$2 | \$0 | \$1,704 | \$1.68 | \$1,981 |
| TC 80% | \$1,968 | 5 | 3 | 2 | 1,162 | \$1,968 | \$125 | \$1,843 | \$0 | \$1.59 | \$1,843 | \$9,215 | \$9,215 | \$1,843 | \$2 | \$0 | \$1,968 | \$1.69 | \$2,171 |
| TOTALS/AVERAGES: | | 78 | | | 69,314 | | | | (\$1) | \$1.15 | \$1,022 | \$79,693 | \$79,781 | \$1,023 | \$1.15 | \$0 | \$1,195 | \$1.34 | \$1,802 |

| | | |
|-------------------------------------|------------------|------------------|
| ANNUAL POTENTIAL GROSS RENT: | \$956,316 | \$957,372 |
|-------------------------------------|------------------|------------------|

*MFDL units float among Unit Types

STABILIZED PRO FORMA

Lost Oaks, Houston, 9% HTC #23209

| STABILIZED FIRST YEAR PRO FORMA | | | | | | | | | | | | | | |
|---------------------------------|-------------|--|-----------|--------|----------|-----------|------------------|------------------|-----------|----------|--------|-------|----------|-----------|
| COMPARABLES | | | APPLICANT | | | | PRIOR REPORT | | TDHCA | | | | VARIANCE | |
| Database | Local Comps | | % EGI | Per SF | Per Unit | Amount | Applicant | TDHCA | Amount | Per Unit | Per SF | % EGI | % | \$ |
| POTENTIAL GROSS RENT | | | | \$1.15 | \$1,022 | \$956,316 | \$859,656 | \$859,656 | \$957,372 | \$1,023 | \$1.15 | | -0.1% | (\$1,056) |
| App fees, laundry, etc | | | | | \$18.00 | \$16,848 | 16,848 | | | | | | | |
| Total Secondary Income | | | | | \$18.00 | | | 16,848 | \$16,848 | \$18.00 | | | 0.0% | \$0 |
| POTENTIAL GROSS INCOME | | | | | | \$973,164 | \$876,504 | \$876,504 | \$974,220 | | | | -0.1% | (\$1,056) |
| Vacancy & Collection Loss | | | | | 7.5% PGI | (72,987) | (65,738) | (65,738) | (73,067) | 7.5% PGI | | | -0.1% | 79 |
| EFFECTIVE GROSS INCOME | | | | | | \$900,177 | \$810,766 | \$810,766 | \$901,154 | | | | -0.1% | (\$977) |

| | | | | | | | | | | | | | | | | |
|--|-----------|--------------|-----------|---------|---------------|---------------|----------------|------------------|------------------|------------------|------------------|----------------|---------------|---------------|--------------|--------------------|
| General & Administrative | \$36,406 | \$467/Unit | \$44,893 | \$576 | 5.28% | \$0.69 | \$609 | \$47,500 | \$43,500 | \$43,500 | \$44,893 | \$576 | \$0.65 | 4.98% | 5.8% | 2,607 |
| Management | \$36,014 | 3.9% EGI | \$34,372 | \$441 | 5.00% | \$0.65 | \$577 | \$45,009 | \$40,538 | \$40,538 | \$45,058 | \$578 | \$0.65 | 5.00% | -0.1% | (49) |
| Payroll & Payroll Tax | \$107,448 | \$1,378/Unit | \$122,489 | \$1,570 | 15.44% | \$2.01 | \$1,782 | \$138,977 | \$105,300 | \$105,300 | \$138,977 | \$1,782 | \$2.01 | 15.42% | 0.0% | - |
| Repairs & Maintenance | \$58,643 | \$752/Unit | \$76,231 | \$977 | 6.28% | \$0.82 | \$725 | \$56,560 | \$58,560 | \$50,700 | \$50,700 | \$650 | \$0.73 | 5.63% | 11.6% | 5,860 |
| Electric/Gas | \$20,551 | \$263/Unit | \$28,049 | \$360 | 2.78% | \$0.36 | \$321 | \$25,000 | \$25,000 | \$25,000 | \$28,049 | \$360 | \$0.40 | 3.11% | -10.9% | (3,049) |
| Water, Sewer, & Trash Tenant Pays: WS | \$56,054 | \$719/Unit | \$86,174 | \$1,105 | 3.89% | \$0.50 | \$449 | \$35,000 | \$35,000 | \$56,054 | \$35,000 | \$449 | \$0.50 | 3.88% | 0.0% | - |
| Property Insurance | \$49,866 | \$0.72 /sf | \$59,571 | \$764 | 9.44% | \$1.23 | \$1,090 | \$85,000 | \$58,500 | \$58,500 | \$85,000 | \$1,090 | \$1.23 | 9.43% | 0.0% | - |
| Property Tax (@ 100%) 2.2019 | \$72,252 | \$926/Unit | \$76,329 | \$979 | 11.21% | \$1.46 | \$1,294 | \$100,931 | \$100,210 | \$92,179 | \$96,646 | \$1,239 | \$1.39 | 10.72% | 4.4% | 4,285 |
| Reserve for Replacements | | | | | 2.60% | \$0.34 | \$300 | \$23,400 | \$19,500 | \$19,500 | \$23,400 | \$300 | \$0.34 | 2.60% | 0.0% | - |
| Cable TV | | | | | 0.27% | \$0.03 | \$31 | \$2,400 | \$2,400 | \$2,400 | \$2,400 | \$31 | \$0.03 | 0.27% | 0.0% | - |
| TDHCA Compliance fees (\$40/HTC unit) | | | | | 0.35% | \$0.05 | \$40 | \$3,120 | \$3,120 | \$3,120 | \$3,120 | \$40 | \$0.05 | 0.35% | 0.0% | - |
| Ground Lease Fee | | | | | 2.08% | \$0.27 | \$240 | \$18,720 | \$0 | \$0 | \$18,720 | \$240 | \$0.27 | 2.08% | 0.0% | - |
| TOTAL EXPENSES | | | | | 64.61% | \$8.39 | \$7,457 | \$581,617 | \$491,628 | \$496,791 | \$571,962 | \$7,333 | \$8.25 | 63.47% | 1.7% | \$ 9,655 |
| NET OPERATING INCOME ("NOI") | | | | | 35.39% | \$4.60 | \$4,084 | \$318,560 | \$319,138 | \$313,976 | \$329,191 | \$4,220 | \$4.75 | 36.53% | -3.2% | \$ (10,631) |

| | | | | | | | | | | | | | | | | |
|------------------------------|--|--|--|--|--|--|--------------|--|--|--|--|--------------|--|--|--|--|
| CONTROLLABLE EXPENSES | | | | | | | \$3,885/Unit | | | | | \$3,816/Unit | | | | |
|------------------------------|--|--|--|--|--|--|--------------|--|--|--|--|--------------|--|--|--|--|

CAPITALIZATION / TOTAL DEVELOPMENT BUDGET / ITEMIZED BASIS

Lost Oaks, Houston, 9% HTC #23209

DEBT / GRANT SOURCES

| | | APPLICANT'S PROPOSED DEBT/GRANT STRUCTURE | | | | | | | | | | AS UNDERWRITTEN DEBT/GRANT STRUCTURE | | | | | |
|--------------------------------|-----|---|------|------------------|-----------------------------------|--------------------|------|--------------------|--------------------|--------------------|-------------|--------------------------------------|------------------|-------------|--------------|------------|-------|
| | | Cumulative DCR | | Pmt | Rate | Amort | Term | Principal | Prior Underwriting | | Principal | Term | Amort | Rate | Pmt | Cumulative | |
| DEBT (Must Pay) | Fee | UW | App | | | | | | Applicant | TDHCA | | | | | | DCR | LTC |
| Stellar Bank | | 1.28 | 1.24 | 257,273 | 6.40% | 40 | 18.0 | \$3,707,014 | \$3,500,000 | \$3,500,000 | \$3,707,014 | 18 | 40 | 6.40% | \$257,273 | 1.24 | 14.3% |
| CASH FLOW DEBT / GRANTS | | | | | | | | | | | | | | | | | |
| City of Houston | | 1.28 | 1.24 | | 0.00% | 0 | 0.0 | \$500 | \$500 | \$500 | \$500 | 0 | 0 | 0.00% | | 1.24 | 0.0% |
| HCHFC-Land | | 1.28 | 1.24 | | 0.00% | 0 | 0.0 | \$2,850,000 | \$0 | \$0 | \$2,850,000 | 0.0 | 0 | 0.00% | | 1.24 | 11.0% |
| HCHFC-Loan from ARPA funds | | 1.28 | 1.24 | | 0.00% | 0 | 0.0 | \$1,678,000 | \$0 | \$0 | \$1,678,000 | 0.0 | 0 | 0.00% | | 1.24 | 6.5% |
| | | | | \$257,273 | TOTAL DEBT / GRANT SOURCES | \$8,235,514 | | \$3,500,500 | \$3,500,500 | \$8,235,514 | | TOTAL DEBT SERVICE | \$257,273 | 1.24 | 31.8% | | |

| | | | | | | | |
|----------------------|----------|----------|--|---------------------------------------|-----------|----------|----------------------|
| NET CASH FLOW | \$71,918 | \$61,287 | | APPLICANT NET OPERATING INCOME | \$318,560 | \$61,287 | NET CASH FLOW |
|----------------------|----------|----------|--|---------------------------------------|-----------|----------|----------------------|

EQUITY SOURCES

| | | APPLICANT'S PROPOSED EQUITY STRUCTURE | | | | | AS UNDERWRITTEN EQUITY STRUCTURE | | | | | | | |
|---------------------------------|--|---------------------------------------|--------------|----------------|--------------|---------------------|----------------------------------|---------------------|---------------------|----------------|---------------|--------------|-------------------------|-------------------|
| | | DESCRIPTION | % Cost | Annual Credit | Credit Price | Amount | Prior Underwriting | | Amount | Credit Price | Annual Credit | % Cost | Annual Credits per Unit | Allocation Method |
| EQUITY / DEFERRED FEES | | | | | | | Applicant | TDHCA | | | | | | |
| Enterprise Housing Credit | | LIHTC Equity | 66.8% | \$2,000,000 | \$0.86 | \$17,298,270 | \$18,398,160 | \$18,398,160 | \$17,300,000 | \$0.87 | \$2,000,000 | 66.8% | \$25,641 | Applicant Request |
| Lost Oaks Development, LLC | | Deferred Developer Fees | 1.7% | (15% Deferred) | | \$443,477 | \$411,986 | \$411,986 | \$359,145 | (13% Deferred) | | 1.4% | Total Developer Fee: | \$2,835,259 |
| Additional (Excess) Funds Req'd | | | 0.0% | | | | \$0 | \$0 | \$0 | | | 0.0% | | |
| TOTAL EQUITY SOURCES | | | 68.5% | | | \$17,741,747 | \$18,810,146 | \$18,810,146 | \$17,659,145 | | | 68.2% | | |

| | | | | | | | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|--|--|------------------|
| TOTAL CAPITALIZATION | \$25,977,261 | \$22,310,646 | \$22,310,646 | \$25,894,659 | | 15-Yr Cash Flow after Deferred Fee: | \$590,204 |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|--|--|------------------|

DEVELOPMENT COST / ITEMIZED BASIS

| | | APPLICANT COST / BASIS ITEMS | | | | | TDHCA COST / BASIS ITEMS | | | | | COST VARIANCE | | | |
|--|------------------|------------------------------|---------------------|-------------------------|---------------------|---------------------|--------------------------|---------------------|-------------------------|---------------------|-------------|---------------|------------------|------|-----------|
| | | Eligible Basis | | Total Costs | | Prior Underwriting | | Total Costs | | Eligible Basis | | % | \$ | | |
| Acquisition | New Const. Rehab | Applicant | TDHCA | | | New Const. Rehab | Acquisition | | | | | | | | |
| Land Acquisition | | | | \$35,256 / Unit | \$2,750,000 | \$2,750,000 | \$2,750,000 | \$35,256 / Unit | | | | 0.0% | \$0 | | |
| Off-Sites | | \$0 | | \$ / Unit | \$0 | \$0 | \$0 | \$ / Unit | \$0 | | | 0.0% | \$0 | | |
| Site Work | | \$1,039,000 | | \$13,321 / Unit | \$1,039,000 | \$1,039,000 | \$1,039,000 | \$13,321 / Unit | \$1,039,000 | | | 0.0% | \$0 | | |
| Site Amenities | | \$227,900 | | \$2,922 / Unit | \$227,900 | \$227,900 | \$227,900 | \$2,922 / Unit | \$227,900 | | | 0.0% | \$0 | | |
| Building Cost | | \$9,287,383 | \$169.27 /sf | \$150,424/Unit | \$11,733,100 | \$9,875,000 | \$9,808,595 | \$11,733,100 | \$150,424/Unit | \$169.27 /sf | \$9,287,383 | 0.0% | \$0 | | |
| Contingency | | \$577,714 | 5.47% | 5.38% | \$700,000 | \$774,224 | \$774,224 | \$700,000 | 5.38% | 5.47% | \$577,714 | 0.0% | \$0 | | |
| Contractor Fees | | \$1,551,480 | 13.94% | 13.92% | \$1,906,905 | \$1,661,257 | \$1,658,961 | \$1,906,905 | 13.92% | 13.94% | \$1,551,480 | 0.0% | \$0 | | |
| Soft Costs | | \$0 | \$1,819,334 | \$23,325 / Unit | \$1,819,334 | \$1,315,600 | \$1,315,600 | \$1,819,334 | \$23,325 / Unit | \$1,819,334 | \$0 | 0.0% | \$0 | | |
| Financing | | \$0 | \$1,830,914 | \$29,887 / Unit | \$2,331,216 | \$1,777,691 | \$1,777,691 | \$2,331,216 | \$29,887 / Unit | \$2,331,216 | \$0 | 0.0% | \$0 | | |
| Developer Fee | | \$0 | \$2,200,000 | 13.47% | 15.44% | \$2,917,861 | \$2,410,000 | \$2,403,237 | \$2,748,389 | 15.00% | 13.96% | \$2,200,000 | \$0 | 6.2% | \$169,472 |
| Reserves | | | | 7 Months | \$519,445 | \$479,974 | \$479,974 | \$519,445 | 8 Months | | | 0.0% | \$0 | | |
| TOTAL HOUSING DEVELOPMENT COST (UNADJUSTED BASIS) | | \$0 | \$18,533,725 | \$333,042 / Unit | \$25,977,261 | \$22,310,646 | \$22,235,181 | \$25,807,789 | \$330,869 / Unit | \$17,954,590 | \$0 | 0.7% | \$169,472 | | |
| Acquisition Cost | | \$0 | | | \$0 | \$0 | | | | | | | | | |
| Contingency | | \$0 | | | \$0 | \$0 | | | | | | | | | |
| Contractor's Fee | | \$0 | | | \$0 | \$0 | | | | | | | | | |
| Financing Cost | | | (\$579,135) | | | | | | | | | | | | |
| Developer Fee | | \$0 | \$0 | 15.00% | (\$82,602) | \$0 | | | | | | | | | |
| Reserves | | | | | \$0 | \$0 | | | | | | | | | |
| ADJUSTED BASIS / COST | | \$0 | \$17,954,590 | \$331,983/unit | \$25,894,659 | \$22,310,646 | \$22,235,181 | \$25,807,789 | \$330,869/unit | \$17,954,590 | \$0 | 0.3% | \$86,870 | | |

TOTAL HOUSING DEVELOPMENT COSTS (Applicant's Uses are within 5% of TDHCA Estimate): **\$25,894,659**

CAPITALIZATION / TOTAL DEVELOPMENT BUDGET / ITEMIZED BASIS

Lost Oaks, Houston, 9% HTC #23209

CREDIT CALCULATION ON QUALIFIED BASIS

| | Applicant | | TDHCA | |
|-----------------------------------|-----------------------|-----------------------------|--------------|--------------|
| | Acquisition | Construction Rehabilitation | Acquisition | Construction |
| | ADJUSTED BASIS | \$0 | \$17,954,590 | \$0 |
| Deduction of Federal Grants | \$0 | \$0 | \$0 | \$0 |
| TOTAL ELIGIBLE BASIS | \$0 | \$17,954,590 | \$0 | \$17,954,590 |
| High Cost Area Adjustment | | 130% | | 130% |
| TOTAL ADJUSTED BASIS | \$0 | \$23,340,967 | \$0 | \$23,340,967 |
| Applicable Fraction | 100.00% | 100.00% | 100% | 100% |
| TOTAL QUALIFIED BASIS | \$0 | \$23,340,967 | \$0 | \$23,340,967 |
| Applicable Percentage | 4.00% | 9.00% | 4.00% | 9.00% |
| ANNUAL CREDIT ON BASIS | \$0 | \$2,100,687 | \$0 | \$2,100,687 |
| CREDITS ON QUALIFIED BASIS | \$2,100,687 | | \$2,100,687 | |

| Method | ANNUAL CREDIT CALCULATION BASED ON APPLICANT BASIS | | FINAL ANNUAL LIHTC ALLOCATION | | |
|---------------------------|--|--------------|-------------------------------|---------------------|------------|
| | Annual Credits | Proceeds | Credit Price \$0.8650 | Variance to Request | |
| | | | Credit Allocation | Credits | Proceeds |
| Eligible Basis | \$2,100,687 | \$18,170,943 | ---- | ---- | ---- |
| Needed to Fill Gap | \$2,041,520 | \$17,659,145 | ---- | ---- | ---- |
| Applicant Request | \$2,000,000 | \$17,300,000 | \$2,000,000 | \$0 | \$0 |

BUILDING COST ESTIMATE

| CATEGORY | FACTOR | UNITS/SF | PER SF | |
|------------------------------------|-----------------|----------------|---------------|---------------------|
| Base Cost: | Elevator Served | 69,314 SF | \$108.26 | 7,504,194 |
| Adjustments | | | | |
| Exterior Wall Finish | 5.60% | | 6.06 | \$420,235 |
| Elderly | 0.00% | | 0.00 | 0 |
| 9-Ft. Ceilings | 3.70% | | 4.01 | 277,655 |
| Roof Adjustment(s) | | | 1.69 | 117,000 |
| Subfloor | | | 0.47 | 32,300 |
| Floor Cover | | | 4.47 | 309,626 |
| Breezeways | \$27.83 | 18,990 | 7.62 | 528,492 |
| Balconies | \$27.83 | 6,410 | 2.57 | 178,390 |
| Plumbing Fixtures | \$1,090 | 165 | 2.59 | 179,850 |
| Rough-ins | \$535 | 156 | 1.20 | 83,460 |
| Built-In Appliances | \$1,880 | 78 | 2.12 | 146,640 |
| Exterior Stairs | \$3,050 | 9 | 0.40 | 27,450 |
| Heating/Cooling | | | 2.37 | 164,274 |
| Storage Space | \$27.83 | 2,476 | 0.99 | 68,907 |
| Carports | \$13.00 | 0 | 0.00 | 0 |
| Garages | | 0 | 0.00 | 0 |
| Common/Support Area | \$118.59 | 6,589 | 11.27 | 781,366 |
| Elevators | \$168,600 | 2 | 4.86 | 337,200 |
| Other: | | | 0.00 | 0 |
| Fire Sprinklers | \$3.65 | 97,369 | 5.13 | 355,397 |
| SUBTOTAL | | | 166.09 | 11,512,436 |
| Current Cost Multiplier | 1.00 | | 0.00 | 0 |
| Local Multiplier | 1.00 | | 0.00 | 0 |
| Reserved | | | | 0 |
| TOTAL BUILDING COSTS | | | 166.09 | \$11,512,436 |
| Plans, specs, survey, bldg permits | 3.30% | | (5.48) | (\$379,910) |
| Contractor's OH & Profit | 11.50% | | (19.10) | (1,323,930) |
| NET BUILDING COSTS | | \$125,751/unit | \$141.51/sf | \$9,808,595 |

Long-Term Pro Forma

Lost Oaks, Houston, 9% HTC #23209

| | Growth Rate | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 10 | Year 15 | Year 20 | Year 25 | Year 30 | Year 35 |
|-------------------------------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|--------------------|-------------------|
| EFFECTIVE GROSS INCOME | 2.00% | \$900,177 | \$918,180 | \$936,544 | \$955,275 | \$974,380 | \$1,075,794 | \$1,187,764 | \$1,311,387 | \$1,447,878 | \$1,598,574 | \$1,764,955 |
| TOTAL EXPENSES | 3.00% | \$581,617 | \$598,615 | \$616,115 | \$634,130 | \$652,676 | \$753,942 | \$871,056 | \$1,006,515 | \$1,163,208 | \$1,344,481 | \$1,554,210 |
| NET OPERATING INCOME ("NOI") | | \$318,560 | \$319,565 | \$320,429 | \$321,145 | \$321,704 | \$321,853 | \$316,708 | \$304,872 | \$284,670 | \$254,093 | \$210,745 |
| EXPENSE/INCOME RATIO | | 64.6% | 65.2% | 65.8% | 66.4% | 67.0% | 70.1% | 73.3% | 76.8% | 80.3% | 84.1% | 88.1% |
| MUST -PAY DEBT SERVICE | | | | | | | | | | | | |
| Stellar Bank | | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 |
| TOTAL DEBT SERVICE | | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 | \$257,273 |
| DEBT COVERAGE RATIO | | 1.24 | 1.24 | 1.25 | 1.25 | 1.25 | 1.25 | 1.23 | 1.19 | 1.11 | 0.99 | 0.82 |
| ANNUAL CASH FLOW | | \$61,287 | \$62,292 | \$63,156 | \$63,872 | \$64,431 | \$64,580 | \$59,435 | \$47,599 | \$27,397 | (\$3,180) | (\$46,529) |
| Deferred Developer Fee Balance | | \$297,859 | \$235,567 | \$172,411 | \$108,539 | \$44,108 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| CUMULATIVE NET CASH FLOW | | \$0 | \$0 | \$0 | \$0 | \$0 | \$280,362 | \$590,204 | \$854,861 | \$1,035,973 | \$1,085,825 | \$945,523 |

MARK-DANA CORPORATION
26302 Oak Ridge Drive, Suite 100
Spring, Texas 77380
(281) 292-1968
(281) 419-1991 Facsimile

May 31, 2024

Mr. Rosalio Banelos, Director of Asset Management
Texas Department of Housing and Community Affairs
221 E. 11th Street
Austin, Texas 78701

Via Email: rosalio.banelos@tdhca.state.tx.us

Re: TDHCA Application #23209 – Lost Oaks, Houston, TX – Material Application
Amendment Request

Mr. Banelos,

In accordance with §10.405(a)(4) of the Post Award and Asset Management Requirements, Lost Oaks LP (the “Applicant”) is writing to request a material amendment to the above-mentioned application. We have also included a Material Amendment Fee in the amount of \$2,500.

Lost Oaks, LP received an award of tax credits in July 2023 for Lost Oaks in Houston, TX. The development will serve families with a total of 78 units (23 one-bedroom units, 50 two-bedroom units, and 5 three-bedroom units) of which all units will be rent restricted.

The Applicant needs to revise the financial projections for the development to address the challenges posed by rising costs and reduced borrowing capacity due to increased interest rates, which have rendered the project financially infeasible. To address this issue, the applicant suggests transitioning from a 40-60 set-aside to income averaging as a strategy to maintain feasibility. This proposed change would not affect the points initially requested in the original 2023 9% LIHTC application.

The rationale behind these adjustments stems from the Applicant’s inability to manage the macroeconomic variables influencing the project's viability. With rising interest rates, reduced tax credit pricing, and inflation and supply chain issues causing construction costs to rise, the development must make adjustments to the financial model to offset these constraints.

Our proposed changes are outlined in the table below:

| Application | Amendment |
|---|--|
| Total Units: 78 | No change |
| Unit Mix: 23 1BR Units, 50 2BR units, 5 3BR units | No change |
| Affordability: 8 units @ 30% AMI 32 units @ 50% AMI 38 units @ 60% AMI | Affordability: 11 units @ 30% AMI 32 units @ 50% AMI 26 units @ 60% AMI 9 units at 80% AMI |

This modification does not materially alter the Development in a negative manner, nor would it have had an adverse effect on the selection of the Applicant in the 2023 9% application round as there is no reduction in points resulting from this amendment.

The outlined modifications constitute a Material Amendment as per §10.405(a)(4)(G). The modifications were unforeseeable during the application process as it was impossible to anticipate the ongoing decline in the macroeconomic environment since the submission of the Lost Oaks 9% application to the Department. This change is crucial to uphold the financial viability of the development. We kindly request that this amendment be brought before the TDHCA Board with a favorable staff recommendation.

We appreciate your consideration of this request and look forward to a favorable determination. If you have any questions or would like to discuss this amendment request further, please do not hesitate to contact myself at (713) 806-4280 or tpate@mark-dana.com, Toby Williams at (806) 928-8004 or twilliams@mark-dana.com, or David Koogler at (281) 292-1968 or dkoogler@mark-dana.com at any time.

Sincerely,

A handwritten signature in black ink, appearing to read 'Taylor Pate', with a long horizontal flourish extending to the right.

Taylor Pate
Vice President

cc: David Koogler, President, (281) 292-1968; dkoogler@mark-dana.com
Toby Williams, VP & Director of Development, (806) 928-8004; twilliams@mark-dana.com
Larry Blaser, Senior Project Manager - Development, (281) 292-1968; lblaser@mark-dana.com