



*2023 Midwest Lender's Conference  
LIHTC 221(d)(4) Case Study Panel*

Rise on 7

## Rise on 7

Deal Overview	
Deal Type	221(d)(4) – New Construction
Project Type	Multifamily
Total Units	120
Affordability	19 units at 30% AMI 22 units at 40% AMI 21 units at 50% AMI 58 units at 60% AMI
Original Mortgage Amount – At Submission	\$17,554,000 (including TIF of ~\$1,173,000 and Sec 8 Overhang of ~\$1,300,000)
Term	40 years
Rate – At Submission	Mid 3% + 0.25% MIP
Amenities (building)	Early Childhood Center for 60 students – ½ held for residents of low income HH in need of subsidies or scholarships. Also, community room with kitchen, computer/learning lab, parcel room, leasing office, large outdoor tot lot/playground, and outdoor leisure space. In addition to 95 surface parking spaces, the development will also feature one level of underground parking with 74 spaces to serve residents and minimize surface parking.
Amenities (Unit)	Standard amenities. Highly marketable.

# Rise on 7

St. Louis Park, MN



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## Summary Submission to HUD – Revisions Occurred

- To meet the 180-day issuance obligation of the 1/11/2022 tax-exempt bond allocation, the required closing deadline is 7/8/2022;
- Total Development Cost of \$40.7 million;
- Mortgage tranches:
  - Real estate note at \$15,074,000, 40-year term, 1.15x DSCR
  - TIF note of \$1,173,000, 15-year term, 1.0x DSCR
  - Hennepin County rental subsidy (akin to Section 8 overhang) note of \$1,307,000, 15-year term, 1.0x DSCR
- Equity from the sale of 4% tax credits, tax exempt bonds, GP loan, deferred developer fee, and subordinate debt and grants. Equity Bridge Loan also committed;
- Project qualifies for Broadly Affordable MIP of 0.25% because at least 90% of units are covered by an affordability use restriction under the LIHTC program and the achievable and underwritten tax credit rents are at least 10% below comparable market rents;

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## Summary Submission to HUD – Revisions Occurred – cont.

- 100 percent of the units will be affordable to a range of income levels from 30% of AMI to 60% of AMI for a term of 30 years;
- The tax-exempt bond allocation also requires that 100 percent of the units be reserved for tenants whose income, on average, is 50% or less of AMI; this will be accomplished via income averaging;
- Nineteen units at 30% of AMI are covered under a 15-year operating subsidy funded by the Hennepin County Housing & Redevelopment Authority. Six of the units at 30% of AMI are considered “High Priority Homeless” units and will receive additional subsidy provided by Hennepin County through the Minnesota Department of Human Services Housing Support;
- JLL submitted a Concept Memo to HUD and participated in a Concept Meeting on 1/20/22, receiving an invitation to submit a Firm Application on 1/25/2022. JLL received further instructions from Ken Doresky on 2/9/2022 requesting that we structure a third mortgage tranche covering the portion of the subsidized rent that exceeds LIHTC max.

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Sources and Uses of Funds			
Sources / Mortgageable Uses		Non-Mortgageable Sources/Uses	
FHA 1 <sup>st</sup> mortgage:	\$ 17,554,000	Borrower Cash:	
Deferred Developer Fee:	\$ 1,822,512	Seller Note	\$ -
Existing R4R Escrows (and/or other):	\$ -	Tax Credit or Exchange Proceeds:	\$ 3,443,544
Tax Credit Equity:	\$ 10,987,527	Grants	\$ -
Subordinate Loans and Public Grants	\$ 5,281,695	Cash flow during operations	\$ -
Letters of Credit - IOD	\$ 526,620	Deferred Developer Fee:	\$ -
General Partner Loan	\$ 1,024,674	Other: Current Reserves & Escrows	\$ -
<b><u>Total Cash Sources for Mortgageable Items:</u></b>	<b>\$ 37,197,028</b>	<b><u>Total Cash Sources for Non-mortgageable Items:</u></b>	<b>\$ 3,443,544</b>
Existing Land Value/ Debt/Acquisition Price:	\$ 2,265,000	Initial Operating Deficit Reserve:	\$ 526,620
Total for All Improvements:	\$ 29,566,706	Borrower Operating Reserve:	\$ 178,934
Total Carrying and Financing Charges:	\$ 1,481,093	Working Capital:	\$ 702,160
Legal, Org, Audit:	\$ 175,000	Soft Cost Contingency	\$ 50,000
Other: 3rd party reports	\$ 44,229	Bridge Lender Legal	\$ 12,000
Organizational	\$ 40,000	Tax Credit Costs	\$ 198,262
Other: LIHTC Developer Fee	\$ 3,625,000	Bridge Interest Reserve	\$ 722,500
	\$ -	Syndicator Operating Reserve	\$ 806,804
	\$ -	Other: TIF Application, Marketing	\$ 246,264
<b><u>Total HUD-recognized Uses (to be paid with cash):</u></b>	<b>\$ 37,197,028</b>	<b><u>Total Non-mortgageable Uses:</u></b>	<b>\$ 3,443,544</b>

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## Underwriting Focus – Deal Killers

- Time-line necessary to satisfy the Tax-Exempt Bond requirements
  - Much discussion and planning.
- SHPO Sign Off
  - Vacated Church - consolidated their congregation with another Church. Building a new Church in close proximity - Impact of the Demo and SHPO sign off timing.
  - Expanded the radius of review.

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## Underwriting Focus – Primary

- Day Care Structure
  - Building out the shell only.
  - Owned outside the partnership.
- UW to the 2022 Tax Credit Rents prior to official publication
  - Condition of closing and of course subject to re-UW.



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## Underwriting Focus – Primary (cont.)

- Waiver – Treating the Local Rent Subsidy as if Section 8. 15-year tranche of mortgage at 1.0 coverage for the portion exceeding the LIHTC max
  - The rent subsidy was capped.
    - Demonstrated that we could exceed the cap within the 15-year period, however our DSC projection well exceeded programmatic max at that time, so a non-issue, but thoroughly reviewed.
  - There was a second rent subsidy for the six homeless units. Both lumped together for the separate tranche.

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## Underwriting Focus – Primary (cont.)

- Six Subordinate Loans – total increased to ~\$6.1 million – issue of coordination
  - Abandoned the TIF due to timing concerns.
    - Need to be demonstrated. Sized at \$1,173,000.
  - Different levels of commitment.
    - One was a stand-by where need would be determined.
  - All able to execute the required HUD Subordination Agreements (none with the State).
  - Varied purpose which had to be tracked for pro-forma purposes and draw levels for the HUD loan as well as the other sources of funds.

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## Underwriting Focus – Secondary

- Net Demand Review
  - When considering market rate projects as new supply, negative demand while penetration and capture rates outstanding. Affordable need!
- Early Start Request – Denied. Would have jeopardized our overall time-line for the tax-exempt bonds.
  - Reason for the request for an early start came from the contractor for the demo related to the ACM removal. We could lose them for a month if we could not accommodate.
  - Turned out to be ok per their schedule.

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## Subordinate Debt

- Metropolitan Council – City of St. Louis Park Economic Development Authority, LCDA Funds
- Metropolitan Council – Local Housing Incentives Account (LHIA)
- Hennepin County Affordable Housing Incentive Fund (AHIF)
- Hennepin County ERF: Environmental Response Fund (ERF)
- City of St. Louis Park Housing Trust Fund
- Hennepin County American Rescue Plan Act (ARPA)

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## Major Revisions to the Application

### From Application to Commitment

- TIF Pulled
- Increased rents to 2022 Proposed AMI levels
- Processing mortgage rate up significantly (90 BPs)
- Construction Contingency Added by Syndicator (UW Change)
- Number of other non-mortgageable costs changing – “getting nailed down”
- Increased one of the Grants (somewhat offset lost TIF) and GP Loan
- Expand LOC to include HUD Working Capital

### Formal Amendments to Commitment (two)

- Not much – minor

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## Tax Increment Financing (TIF)

- The Economic Development Authority of the City of St. Louis Park adopted a resolution a pay-as-you-go tax increment financing for the Project in an amount not to exceed \$1.2 million;
  - Public hearing required;
  - Verification of need performed by municipal provider to high feasibility standard;
  - Negotiation of the Development Agreement;
  - The exact amount of assistance won't be known until complete Sources and Uses known.
- 
- Ehlers & Associates was consulted in sizing the TIF along with a JLL analysis;
  - There are certain characteristics of the TIF structure that creates a potential timing mismatch between the payment receipts of the TIF and the debt service payment requirements of the FHA insured TIF Note.

Due to phase in of construction, TIF payments would fall short of debt service requirements of the TIF Note, thus an escrow was established for this short-term funding GAP.

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**Rise on 7**  
**St Louis Park, Minnesota**  
**HUD 221(d)(4) Substantial Rehabilitation**  
**Monthly Sources and Uses of Funds**

	Totals	Initial Draw	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 13	Month 14	Month 15	Month 16	Month 17	Full	Later Stabilized	Later of 8609	Totals
			1.34%	4.03%	5.03%	6.04%	7.04%	8.05%	8.05%	9.06%	9.06%	8.55%	7.82%	7.55%	7.04%	6.04%	4.03%	1.01%	0.26%	Completion or	Occupancy or	Or	
			1.34%	5.37%	10.40%	16.44%	23.48%	31.53%	39.58%	48.64%	57.70%	66.25%	74.07%	81.62%	88.67%	94.70%	98.73%	99.74%	100.00%	4/1/2023	6/1/2024	4/1/2025	
<b>Sources of Funds</b>																							
HUD First Mortgage - RE	\$15,074,000	\$3,193,240	\$0					\$1,000,000	\$1,000,000	\$2,323,786	\$2,454,248	\$2,330,646	\$2,146,585	\$625,495									\$15,074,000
HUD First Mortgage - TIF and Rent Subsidy	\$2,480,000												\$0	\$1,456,706	\$1,023,294								\$2,480,000
Hennepin County AHIF 2021	\$950,000		603,403	346,597																			\$950,000
Met Council LCDA-TOD	\$1,430,000					\$750,051	\$679,949																\$1,430,000
Hennepin County ERF	\$251,695					\$251,695																	\$251,695
City of St Louis Park Housing Trust	\$1,000,000				\$421,401	\$578,599																	\$1,000,000
MN Brownfield GAP Grant	\$0																						\$0
Hennepin County ARPA	\$700,000				\$700,000																		\$700,000
Met Council - Noted as Deferred Loan	\$950,000			738,620	\$211,380																		\$950,000
Deferred Developer Fee	\$1,822,512																					\$1,822,512	\$1,822,512
Letters of Credit - IOD	\$526,620	\$526,620																					\$526,620
Tax Credit Equity, incl GP at \$100	\$14,431,071	\$1,443,197																		\$4,329,291	\$8,568,054	\$90,529	\$14,431,071
Sales Tax Rebate	\$0																						\$0
Energy Rebates	\$0																						\$0
LOC - Deferred Grants	\$0																						\$0
Bridge Loan Draws (Repayment)		\$1,443,097				\$0	\$1,147,959	\$1,075,472	\$1,078,347	\$5,000	\$5,000	\$5,000	\$0	\$0	\$934,234	\$1,699,153	\$1,176,519	\$392,567	\$199,823	(\$1,527,092)	(\$6,719,818)	(\$915,262)	\$0
General Partner Loan	\$1,024,674																						\$1,024,674
<b>Total Sources of Funds</b>	<b>\$40,640,572</b>	<b>\$6,606,154</b>	<b>\$603,403</b>	<b>\$1,085,218</b>	<b>\$1,332,781</b>	<b>\$1,580,345</b>	<b>\$1,827,908</b>	<b>\$2,075,472</b>	<b>\$2,078,347</b>	<b>\$2,328,786</b>	<b>\$2,459,248</b>	<b>\$2,335,646</b>	<b>\$2,146,585</b>	<b>\$2,082,201</b>	<b>\$1,957,528</b>	<b>\$1,699,153</b>	<b>\$1,176,519</b>	<b>\$392,567</b>	<b>\$199,823</b>	<b>\$2,802,199</b>	<b>\$1,848,236</b>	<b>\$2,022,453</b>	<b>\$40,640,572</b>