CITY OF EL PASO, TEXAS
REQUEST FOR COUNCIL ACTION

DEPARTMENT: Development Services

AGENDA DATE: January 12, 2010

CONTACT PERSON/PHONE: Mathew McElroy, ext 4193

DISTRICTS AFFECTED: All

SUBJECT:
APPROVE a resolution / ordinance / lease to do what? OR AUTHORIZE the City Manager to do what? Be descriptive of what we want city council to approve. Include dollar amount if applicable.

Discussion regarding the results of a multifamily housing study completed by Alvarez and Marsal as part of the grant funding received for the Multifamily Housing Forum II. The study looks specifically at regional costs to construct multifamily housing (land, construction, fees, taxes, etc.) and includes three separate models of construction costs and financing options. The study also reviewed available Federal programs that might be used to incentivize more construction.

BACKGROUND/DISCUSSION:
Discussion of the what, why, where, when, and how to enable council to have a reasonably complete description of the contemplated action. This should include attachment of the bid tabulation, or ordinance or resolution if appropriate. What are the benefits to thee City of This action? What are the Citizen concerns?

The Department of Defense's Office of Economic Adjustment provided funding as part of the second housing conference in El Paso to conduct the above described study. The documents are complete and a presentation to City Council was included in the scope of work.

PRIOR COUNCIL ACTION:
Has the Council previously considered this item or a closely related one?

No. This is the first contract with Alvarez and Marsal.

AMOUNT AND SOURCE OF FUNDING:

How will this item be funded? Has the item been budgeted? If so, identify funding source by account numbers and description of account. Does it require a budget transfer?

NA

**********************************REQUIRED AUTHORIZATION**********************************

DEPARTMENT HEAD: Victor Torres

(Example: If RCA is initiated by Purchasing, client department should sign also)
Information copy to appropriate Deputy City Manager

APPROVED FOR AGENDA:

CITY MANAGER: _____ DATE: _____

Analysis of Housing Stimulus Programs

Phase 1 Summary and Findings

Final Draft

Prepared for City of El Paso

October 22, 2009

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Scope of Work - Phase 1

The consultant was engaged by the City of El Paso to perform a review and analysis of Federal and State affordable housing programs that could be used to stimulate the construction of rental housing to meet the needs of the growing population of Army personnel and their families relocating to Fort Bliss in the El Paso, TX MSA.

To accomplish this objective, the following work was performed:

- Met with the Deputy Director of Planning, Development Services Department with the City of El Paso to obtain necessary background information on the project;
- Met with the Director of Team Bliss Base Transformation Office and other Army leadership to discuss housing needs and demographic profiles of the projected growth at the installation;
- Collected information from Federal and State sources on programs that support the development of rental housing;
- Interviewed various local and national developers on the challenges of developing rental housing in El Paso, TX;
- Interviewed trade associations, State affordable housing officials, and the Texas Field Offices of the Department of Housing and Urban Development ("HUD") to gain an in-depth understanding of program requirements; and,
- Summarized the findings in this report.

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Executive Summary

- The City of El Paso, TX MSA is projecting a 7,000 rental housing shortfall for military families relocating to the region between 2009 and 2013. The majority of the growth will occur in the E1 to E5 pay grades.
- Total compensation defined as base pay plus Basic Allowance for Housing ("BAH") of E1 to E5 pay grades with 4 years of service is an average of $10,261 per year above the HUD income limits restriction for the El Paso, TX MSA.
- The 2009 Net BAH (excluding utilities and renter's insurance) covers between 75% and 78% of total rental housing costs. Average out-of-pocket rent expenses for the E1 to E4 pay grades on a newly constructed two-bedroom/two-bath apartment in the El Paso, TX MSA is $269 per month. Average out-of-pocket expenses for the E5 pay grades is $244 per month.
- On a year-over-year basis, increases in the BAH have lagged effective rental rate increases in the El Paso, TX MSA. The BAH increases for E1 to E4 pay grades have generally kept pace with the market changes. The BAH increases for E5 pay grades have fallen behind recent rental rate changes.
- The majority of Federal and State programs designed to stimulate development of rental housing are linked to the HUD income limits restriction.

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Executive Summary

- Rental housing inventory in the El Paso, TX MSA developed under Federal and State affordable housing programs is limited with 70% of the supply concentrated in the Central submarket along the Texas-Mexico border. The majority of military families favor the East, Northeast, and the Northwest El Paso submarkets for residency due to diverse retail options, off-base employment opportunities, and newly constructed schools.
- 37 Federal and State affordable housing programs were evaluated. Most of these programs were eliminated due to four factors: HUD income limits, geographical region, foreclosure activity, and prior utilization.
- While the Housing and Recovery Act of 2008 temporarily suspends the inclusion of BAH in the HUD income limits calculation, this statue is not currently expected to be extended beyond its expiration in 2011.
- The table on the following page summarizes housing programs evaluated.

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Executive Summary

Agency	Programs Identified	Programs Eliminated due to HUD Income Limits	Programs Eliminated due to Geography	Programs Eliminated due to Foreclosure Activity	Programs Eliminated due to Prior Utilization
Department of Housing and Urban Development	1	7	4	1	
Freddie Mac		5			
Fannie Mae		6			
Federal Home Loan Banks	1	1			
Military Housing Privatization Initiative					1
State of Texas Department of Housing and Community Affairs		6			
Texas State Affordable Housing Corporation		4			
Total Programs Analyzed	2	29	4	1	1

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Source: Consultant's Research

Executive Summary

- Of the 37 analyzed programs, only two programs, HUD Section 221 (d)(3) and (d)(4) and the Federal Home Loan Bank ("FHLB") Community Investment Program (CIP), can potentially assist in offering solutions for the El Paso, TX MSA.
- The Section 221 (d)(3) and (d)(4) programs have a proven track record; however, the program's window of opportunity may be limited due to over-utilization.
- The CIP has never been utilized in the El Paso, TX MSA and there is the potential for a long learning curve with eligible banks. To further explore the viability of this program, discussions should be initiated with local FHLB institutions with real estate lending programs (such as First National Bank of Fabens and Bank of the West).
- In order to open up more Federal and State programs for utilization, proactive discussions with Federal legislators should be initiated regarding the exclusion of the BAH when calculating HUD income limits for the Armed Forces. Planning for the rental supply pipeline in 2012 and beyond can be influenced if the exclusion provision can be modified in a timely manner.
- Discussions with Federal legislators should also explore legislative changes to fix the lagging BAH adjustments relative to market rent.

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Executive Summary

- As the second phase of the scope of work, the consultant will evaluate the financial feasibility of the use of the identified programs to stimulate new multifamily housing construction.
- The feasibility analysis will also consider alternative structures, as may be required, to cover any development funding gap.

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Shortage of Relatively Affordable Rental Housing

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Shortage of Relatively Affordable Rental Housing for Military Families

- The City of El Paso and regional officials continue to study and plan for the impacts of 2005 BRAC and the 2007 "Grow the Army" initiatives that will fuel unprecedented growth in the military population within the region.
- The Regional Growth Management Plan identifies the lack of supply of affordable housing units for military families that are dependent on the BAH as a long-term regional problem.
- The report titled, "Fort Bliss, Texas - 2008 Housing Market Analysis", completed by Robert D. Niehaus, Inc. estimates a private sector housing shortfall of 6,946 rental units by 2013 (for accompanied personnel or military families).
- According to data provided by the Team Bliss Base Transformation Office, the primary characteristics of the incoming growth at Fort Bliss are:
  - Almost 55% of incoming military personnel will be in the E1 to E5 pay grade with an average of 4 years in service.
  - Demographics of the E1 to E5 pay grades indicate large numbers of young families with small children. These families are highly dependent on the BAH.
- As a result of the unprecedented growth, it is expected that significant demand for existing rental housing will cause rental rates to increase faster than the BAH.

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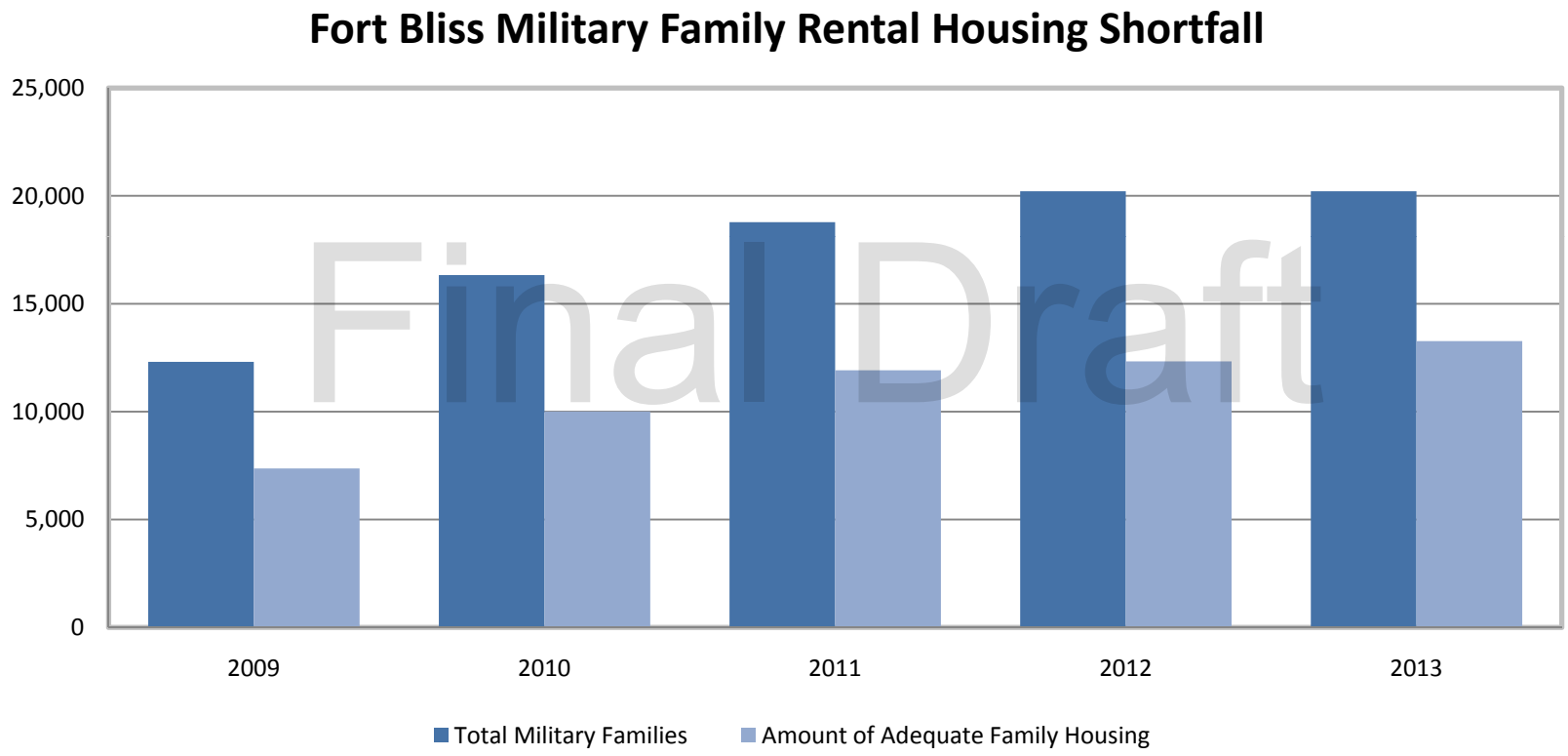
Source: Regional Growth Management Plan, Draft 10/09

Future Rental Housing Needs of Military Families

The following chart displays the anticipated rental housing shortfall for military families at Fort Bliss by year (2009 through 2013). This data is based on the 2008 Housing Market Analysis.



Source: Fort Bliss, Texas -- 2008 Housing Market Analysis, Robert D. Niehaus, Inc., Consultant's Calculations

Explanation of Total Compensation of Military Families in E1 to E5 Pay Grades

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Annual Pay of E1 to E5 Pay Grades

The U. S. House of Representatives and the U. S. Senate have agreed to include a 3.4% across-the-board military pay raise in the 2010 Defense Authorization Act.

The 2010 pay increase would be the 11th consecutive year of military raises that are slightly larger than average private-sector wage hikes. These increases are part of a long-running effort to continue closing the so-called "pay gap" that grew when Congress capped raises in the 1990s.

Pay Grade[1]	2009 Pay	2010 Pay [2]
E1	$16,794	$17,364
E2	$18,824	$19,464
E3	$22,316	$23,075
E4	$25,531	$26,399
E5	$28,019	$28,972

1 Average of 4 years of service.
2 Estimated based on the 3.4% increase.

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According to the Department of Housing and Urban Development, the 2009 Average Median Income ("AMI") in the El Paso, TX MSA is $39,700.

Sources: Military Pay Tables, Army Times (06/12/09), Department of Housing and Urban Development, Consultant's Calculations

Basic Allowance for Housing

The BAH is provided to military personnel to offset the costs of housing for individuals who cannot be accommodated for housing on-post. The BAH factors in location, pay grade, and dependents. BAH is measured in terms of the local market rates for rental housing. The calculation includes rental housing, utilities (electric, gas, oil, water and sewer), and renter's insurance.

1. An outside contractor, Runzheimer International, is employed to collect data on an annual basis within the 400 Military Housing Areas (MHAs). The MHAs are defined in sets of zip codes. Data is collected in the Spring and Summer when housing markets are considered "most active." Data collection is targeted at a 95% confidence level or higher.
2. Inadequate units such as mobile homes, efficiency apartments, furnished-units, income-subsidized projects, age-restricted projects, and seasonal units are not included in the survey process.
3. Utility information is gathered through the American Community Survey conducted by the Bureau of the Census.
4. Renter's insurance is correlated with income levels and dwelling types.

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Source: Department of Defense, "Primer on Basic Allowance for Housing for the Uniformed Services 2009", July 2009

Breakdown of BAH for El Paso, TX MSA

	E1-E4 with Dependents	E5 with Dependents
BAH 2009 for El Paso, TX MSA	$892	$917
Less: Utilities	($91)	($91)
Less: Renters Insurance	($30)	($30)
Net BAH 2009	$771	$796

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The Net BAH 2009 covers between 75 to 78% of market rent for a newly constructed apartment in the East, Northeast, and Northwest submarkets of El Paso. This data is based on a market study of approximately 1,000 units conducted in October 2009.

- E1 to E4 pay grade with dependents would pay an estimated $269 per month out-of-pocket for a 2 bedroom/2 bath apartment with an average square feet of 1,176.
- E5 pay grade with dependents would pay an estimated $244 per month out-of-pocket for a 2 bedroom/2 bath apartment with an average square feet of 1,176.

Note: For an E-1 to E-4 pay grade with dependents, the housing type that the BAH is calculated for is a 2 bedroom unit. For an E-5 pay grade with dependents, the housing type that is assumed for calculation is a 2 bedroom townhome unit.

Sources: Military Pay Tables, American Community Survey (US Census, 2008), Consultant's Calculations

Total Compensation E1 to E5 Pay Grades

- Excluding the BAH, the base pay of E1 to E3 pay grades is 60% or below the AMI in the El Paso, TX MSA. This designation would allow some of these individuals (based on family size) to qualify for rental housing in projects developed under Federal and State affordable housing programs.
- Federal and State affordable housing programs consider BAH as income when determining income eligibility for residency.

FY-2009	E1	E2	E3	E4	E5
Base Pay[1]	$16,794	$18,824	$22,316	$25,531	$28,019
BAH	$10,704	$10,704	$10,704	$10,704	$11,004
Total Compensation	$27,498	$29,528	$33,020	$36,235	$39,023
El Paso, TX MSA - AMI	$39,700	$39,700	$39,700	$39,700	$39,700
Base Pay as % of AMI	42%	47%	56%	64%	71%
Total Comp. as % of AMI	69%	74%	83%	91%	98%

1 Average of 4 years of service.

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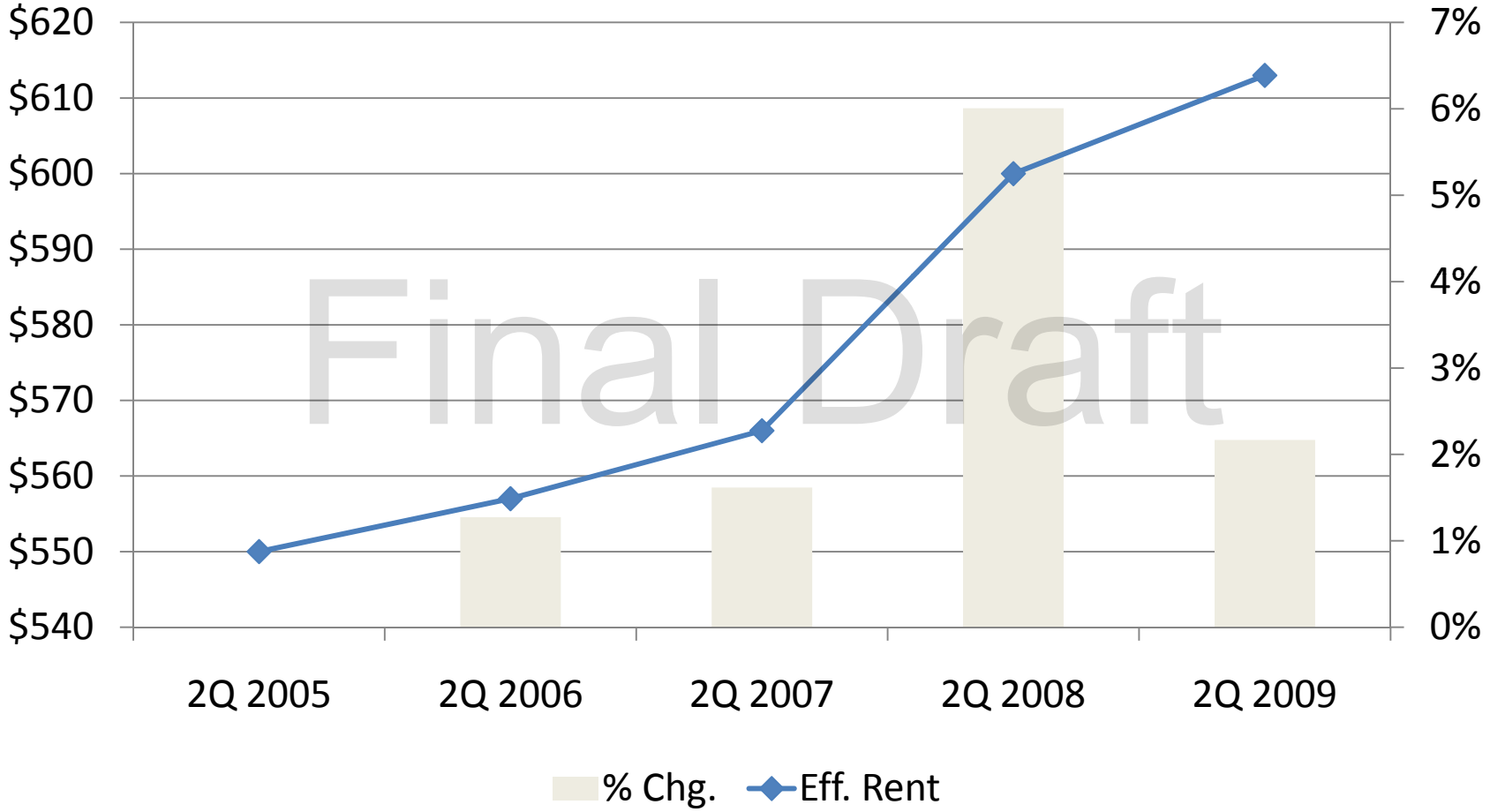
Sources: Military Pay Tables, Department of Housing and Urban Development, Consultant's Calculations

Market Rents in El Paso, TX MSA

Effective rents have increased at an average of 2.8% per year over the four-year period.



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Sources: M/PF Research, Survey of 13,000 market rate apartment units in EL Paso, TX (2Q09)

Changes in BAH vs. El Paso Apartment Market Rent Growth

	% Change in BAH		% Chg. Rent
Year	E1-E4 w/Dependents	E5 w/Dependents	El Paso, TX MSA
2006	0.4%	0.6%	1.3%
2007	2.3%	0.0%	1.6%
2008	0.0%	0.0%	6.0%
2009	10.9%	4.7%	2.2%
Four-Yr. Avg.	3.4%	1.3%	2.8%

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- On a year-over-year basis, changes in the BAH have lagged effective rent changes recorded in the El Paso apartment market.
- In 2008, changes in the BAH did not compensate for the strong rent growth which occurred in the El Paso apartment market.
- Over the four-year comparison period, BAH for E1 to E4 pay grades have kept pace with effective rent changes. Changes in BAH for E5 have fallen behind market rent increases.

Sources: Military Pay Tables, M/PF Research, Consultant's Calculations

Federal Affordable Housing Eligibility Requirements Compared to Total Compensation of Military Families in E1 to E5 Pay Grades

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Definition of HUD Income Limits

Many Federal and State affordable housing programs are designed to providing funding for "very low income persons" and "low income persons." The income eligibility requirements for the large majority of the programs are linked to the HUD income limits. Fiscal Year 2009 HUD income limits, specific to the El Paso, TX MSA, are displayed in the following chart.

El Paso, TX MSA Income Limits										
FY 2009 MTS Income Limit Area	Median Income	FY 2009 MTS Income Limit Category	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
El Paso, TX MSA	39,700	50% Income Limits	$15,950	$18,250	$20,500	$22,800	$24,600	$26,450	$28,250	$30,100
		60% Income Limits	$19,140	$21,900	$24,600	$27,360	$29,520	$31,740	$33,900	$36,120

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Note: As stated in the Code of Federal Regulations, the following items must be included in the income calculations to determine eligibility -- income from wages, salaries, tips, etc., business income, interest and dividend income, retirement and insurance income, unemployment and disability income, welfare assistance, alimony, child support, and gift income, and *Armed Forces income including all regular pay, special pay and allowances*.

Source: U.S. Department of Housing and Urban Development

Total Compensation vs. HUD Income Limits

The following table compares total compensation for E1 to E5 pay grades to HUD income limits in the El Paso, TX MSA for 50% and 60% of AMI for a four-person household.

FY-2009	E1	E2	E3	E4	E5
Base Pay[1]	$16,794	$18,824	$22,316	$25,531	$28,019
BAH	$10,704	$10,704	$10,704	$10,704	$11,004
Total Compensation	$27,498	$29,528	$33,020	$36,235	$39,023
El Paso, TX MSA 50% Income Limit (4-Person HH)	$22,800	$22,800	$22,800	$22,800	$22,800
El Paso, TX MSA 60% Income Limit (4-Person HH)	$27,360	$27,360	$27,360	$27,360	$27,360

1 Average of 4 years of service.

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If BAH were excluded, E1 to E3 pay grades would meet the HUD income limits to be an eligible resident in a Federally-funded affordable housing rental community. However, because the BAH must be included in the HUD income limits calculation, none of the E1 through E5 pay grades qualify for residency.

Sources: Military Pay Tables, Department of Housing and Urban Development, Consultant's Calculations

Temporary Exclusion of BAH in Income Calculation

On July 30, 2008, President Bush signed into law the Housing and Economic Recovery Act of 2008 which includes substantial changes to the administration of the Low Income Housing Tax Credit Program ("LIHTC") including Section 3005 which is summarized below:

Section 3005 (Exclusion of Basic Allowance for Housing)

The Act excludes military employees' BAH from the definition of income. This income exclusion is only for Tax Credit properties located in a county or an adjacent county with a qualified military installation. A qualified military installation is defined as any military installation or facility that has no less than 1,000 members of the Armed Forces assigned to it by June 1, 2008. Fort Bliss in El Paso County is considered a qualified military installation.

This law applies to new and existing Housing Tax Credit developments and is used for income eligibility determinations made between July 31, 2008 and December 31, 2011. This change does not apply to Tax-Exempt Bond properties unless the property also receives Housing Tax Credits.

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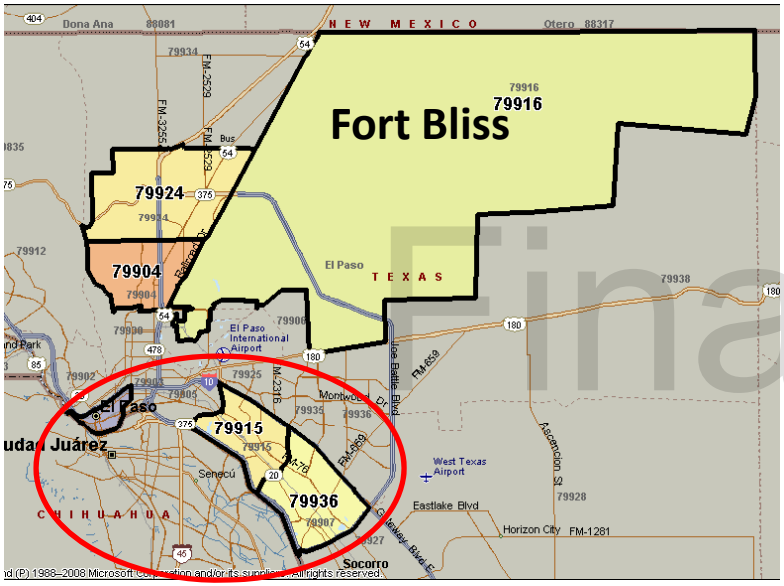
Sources: National Multi-Housing Council, Housing and Economic Recovery Act of 2008

Inventory of Affordable Housing is Inadequate and Not in Ideal Locations for Military Families

70% of the LIHTC Unit Concentration in red highlighted area.



According to the HUD LIHTC database, there are 3,230 affordable housing units "in service" in the El Paso, TX MSA. An analysis of the location of these units indicates that almost 70% are located in four zip codes along the Texas-Mexico border in the Central submarket.

There are a total of 377 units located in the zip codes nearest Fort Bliss (79924 and 79904) which is located in the Northeast submarket.

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According to officials at Fort Bliss, military families favor housing located in the East, Northeast, and the Northwest submarkets of El Paso. These locations are preferred because of the availability of retail, off-base employment opportunities, and newly constructed schools.

Source: Department of Housing and Urban Development LIHTC Database

Federal Programs to Stimulate Development in El Paso, TX MSA

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Program Identification Process

The consultant identified 37 Federal and State affordable housing programs targeted for multifamily development. Of the programs considered, *only two* were found to be viable options for stimulating development in the El Paso, TX MSA. The major reason for elimination breaks down as follows:

Elimination Criteria	# Programs
Income Limitations	29
Geography	4
Foreclosure	1
Already Used	1
Identified	2
# Programs Considered	37

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Based on conversations with the national advocacy group for the apartment industry, the National Multi-Housing Council, it is unlikely that the temporary exclusion of the BAH from HUD income limits will be extended. As such, new developments constructed based on a Federally funded program with the HUD income limits will not meet the direct need for military family rental housing for E1 to E5 pay grades in the long-term. This assumption is the basis of elimination of the 29 programs highlighted above.

Sources: National Multi-Housing Council, Consultant's Research

Program Identification

The following Federal programs may be used to stimulate the construction of relatively affordable rental housing to meet the needs of the growing population of Army personnel and their families relocating to Fort Bliss in the El Paso, TX MSA.

Program A: Federal Housing Administration Insured Financing HUD Section 221(d)(3) and (d)(4)

Program B: Federal Home Loan Bank - Community Investment Program (CIP)

The details of each identified program and the possible benefits to the City of El Paso are outlined in the following pages.

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Sources: Consultant's Research

Identified Programs to Stimulate Development in El Paso, TX MSA

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Program A

Federal Housing Administration

INSURED FINANCING

Section 221(d)(3) & (d)(4)

FHA INSURED FINANCING
Section 221(d)(3) and 221(d)(4)

Program Overview

Section 221(d)(3) and Section 221(d)(4) insures lenders against losses caused by mortgage defaults. Section 221(d)(3) is used by nonprofit sponsors, and Section 221(d)(4) is used by profit-motivated sponsors and developers. The primary difference between the (d)(3) and (d)(4) programs is the amount of insured mortgage available. Under Section 221(d)(3), nonprofit sponsors or cooperatives can receive an insured mortgage up to 100% of HUD/FHA estimated replacement cost. For-profit sponsors using Section 221(d)(4) may receive a maximum mortgage of 90% of the HUD/FHA replacement cost estimate.

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Both of these programs assist the private industry in the construction or rehabilitation of rental housing. They do this by making capital readily available to developers. Moreover, the program allows for long-term mortgages that can be financed with Government National Mortgage Association (GNMA) Mortgage-Backed Securities. The interest rate is a low fixed-rate spread over the 10-year Treasury. There is no maximum loan amount.

All families are eligible to occupy completed dwelling units and are subject to normal tenant selection criteria.

Source: U.S. Department of Housing and Urban Development

FHA INSURED FINANCING
Section 221(d)(3) and 221(d)(4)

Proven Track Record

According to a representative from the HUD Fort Worth Field Office, there are currently four operating projects in the El Paso, TX MSA that were financed using the Section 221(d)(4). In addition, two projects have been "invited" to participate in the program and there are several other applications pending.

Due to the increased participation of HUD via Section 221(d)(4) in the El Paso apartment market, the program's window of opportunity may be limited. HUD officials indicate that they evaluate each potential project independently and have some reservations about the number of units entering the market simultaneously resulting in an over reliance on rental concessions.

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Source: U.S. Department of Housing and Urban Development

FHA INSURED FINANCING
Section 221(d)(3) and 221(d)(4)

Simplified Application Process

Section 221(d)(3) and (d)(4) is eligible for Multifamily Accelerated Processing (MAP). The applicant works with a MAP-approved lender who submits all required exhibits for the pre-application stage. HUD then reviews the lender's exhibits. Based on the exhibits, HUD will either invite the lender to apply for a Firm Commitment for mortgage insurance or decline the application. The lender then submits the Firm Commitment application to the local Multifamily Hub or Program Center for review. The application is reviewed to establish whether the proposed loan is a tolerable risk.

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All applications submitted by non-MAP lenders will be processed by HUD Field Office personnel under Traditional Application Processing. The applicant has a pre-application conference with the local HUD Multifamily Hub or Program Center to determine preliminary viability. The applicant must then present a site appraisal and market analysis application (for new construction projects), or feasibility application (for substantial rehabilitation projects). At this time, the sponsor submits a Firm Commitment application. If the proposed development/rehabilitation meets program requirements, the local Multifamily Hub or Program Center issues a commitment to the lender for mortgage insurance.

Source: U.S. Department of Housing and Urban Development

FHA INSURED FINANCING
Section 221(d)(3) and 221(d)(4)

Military Impacted Areas

Under the Section 221 (d)(3) and (d)(4), FHA will not insure loans for multifamily housing on military bases. Additionally, by law, HUD may NOT insure any mortgage in a military impacted area, except pursuant to Section 238(c) of the National Housing Act, as amended by Section 309 of the Housing and Community Development Act of 1977 (Public Law 95-128, enacted October 12, 1977).

Notice H 97-53 (HUD) states, "1. FHA will not insure loans for multifamily on-base housing under any circumstances, and 2. FHA State/Area Offices can insure multifamily loans for off-base new construction/substantial rehabilitation upon specific authorization from Headquarters under Section 238(c) of the National Housing Act which authorizes mortgage insurance under various HUD programs in military impacted areas. These are areas where the impact of a military installation on the local economy, especially the housing market, might normally preclude eligibility for FHA mortgage insurance."

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NOTE: El Paso County is NOT a designated military impacted area.

Source: U.S. Department of Housing and Urban Development

FHA INSURED FINANCING
Section 221(d)(3) and 221(d)(4)

Benefits to El Paso Rental Housing Market

1) Section 221 (d)(3) and (d)(4) financing does not have any income limit restrictions to be eligible for residency.
2) Section 221 (d)(3) and (d)(4) financing is currently being utilized in the El Paso apartment market; hence, HUD has already established a working knowledge of the market conditions forecasted for the El Paso, TX MSA.

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Program Concerns and Limitations

1) While El Paso County is not considered an designated military impacted area, the HUD Field Office indicated that they have some concerns regarding the instability in the market related to deployments.
2) HUD prefers communities that are 250 units or less.
3) Davis-Bacon wages are required which increases the costs of construction.
4) The program's window of opportunity may be limited due to recent heavy participation of HUD in the apartment market.

Source: U.S. Department of Housing and Urban Development

Federal Programs to Stimulate Development in El Paso, TX MSA

Final Draft

Program B

Federal Home Loan Banks

Community Investment Program

Federal Home Loan Banks Program

Overview

The Federal Home Loan Banks are 12 regional cooperative banks that U.S. lending institutions use to fund housing and economic activities. FHLBs were designed to be regionally focused and operated. This structure allows each FHLB to be receptive to their community's credit needs. However, the 12 FHLBs collectively use their combined size and strength to acquire funding at the lowest possible cost for member institutions.

More than 8,100 lenders are members of the FHLB System. This represents approximately 80% of the insured lending institutions in the country. Community banks, thrifts, credit unions, commercial banks, community development financial institutions, insurance companies, and state housing finance agencies all qualify for membership of the FHLB System.

This cooperative structure allows lender institutions to advance credit to communities at competitive prices. The primary purpose of the FHLB is to provide member institutions with liquidity. FHLB loans to member institutions – called "advances" – are a nearly instantaneous way for members to secure liquidity.

Final Draft

Source: Federal Home Loan Banks Grants

Community Investment Program

Program Overview

The Community Investment Program (CIP) is a program administered through the FHLB. The CIP is designed to provide favorably-priced advances (loans) to aid member institutions in funding affordable housing in their communities. Funds are available each year to assist in lending for housing-related programs targeted towards households earning up to 115% of the AMI. All member institutions eligible to receive advances (loans) from the FHLB can also make a CIP advance (loan) request. CIP advances (loans) can be used in conjunction with other Federal and State programs.

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Source: Federal Home Loan Banks Grants

Community Investment Program

Eligible Activities

According to the FHLB of Dallas, CIP advances (loans) can be used for the:

- Purchase, refinance, construction or rehabilitation of individual owner-occupied housing properties that benefit families with incomes at or below 115% of the AMI.
- Purchase, refinance, construction or rehabilitation of projects involving multiple units of owner-occupied housing in which at least 51% of all families have incomes at or below 115% of the AMI.
- Purchase, refinance, construction or rehabilitation of rental properties where at least 51% of all tenants have incomes at or below 115% of the AMI. For refinancing, any equity proceeds of the refinancing must be used to rehabilitate the rental properties or to preserve affordability for current residents.
- Purchase State housing finance agency bonds or mortgage-backed securities, representing pools of loans that could be funded directly with CIP advances.
- Fund low-income housing tax credits or investments in lender consortia, provided the underlying mortgages could be funded directly with CIP advances.
- Make loans to entities that in turn lend funding for eligible housing projects.

Final Draft

Source: Federal Home Loan Banks Grants

Community Investment Program

Unproven Track Record

The consultant spoke with Capital bank, Bank of the West, and the First National Bank of Fabens in regard to the CIP. Each bank was unfamiliar with the program, but were not opposed to learning more about how the program works. Due to this, there is the potential for a prolonged learning curve associated with implementing this program in El Paso.

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Source: Federal Home Loan Banks Grants

Community Investment Program

Program Requirements

- The applicant must be a member institution of the FHLB System.
- At the time the advance (loan) is approved, the CIP advances (loans) may not exceed, the lesser of 15% of an institution's total assets, or $200 million.
- Member institutions must meet the FHLB's standard capital stock and collateral requirements.
- Member institutions are required to use their own underwriting standards.
- On rental housing developments, member institutions must agree to limit their rate mark-up to 400 basis points over the "preferred rate" issued by the regional FHLB office.
- The CIP advance (loan) may only be used for financing mortgage loans that have closed in the past 90 days, or that will be originated in the next 180 days from the date of the commitment.

Final Draft

Source: Federal Home Loan Banks Grants

Community Investment Program

Application Process

The CIP application can be obtained via the FHLB website. This application is completed by the member institution. Additional requirements varies depending on the member bank.

Member institutions in El Paso (and surrounding areas) include:

- Capital Bank SSE
- Bank of the West
- First National Bank of Fabens
- Government Employees Credit Union
- Firstlight Federal Credit Union
- United Bank El Paso Del Norte

Final Draft

Source: Federal Home Loan Banks Grants

Community Investment Program

Benefits to El Paso Rental Housing Market

1) This program could be beneficial for the El Paso, TX MSA because it offers financing for households earning up to 115% of AMI. Moreover, only 51% of all tenants are required to have incomes at or below 115% of the AMI. This higher income limit restriction will allow developers to construct housing for military families that have a wide range in rank.
2) The CIP can offer the member institutions favorably priced advances (loans) to aid in the funding of relatively affordable rental housing.
3) Two member institutions in El Paso (First National Bank of Fabens and Bank of the West) have relatively large portfolios in real estate implying more familiarity with the product type.

Program Concerns and Limitations

1) The program is available but has never been utilized in El Paso.
2) Member banks in the El Paso region do not have experience with this program and are unfamiliar with the correct procedures in regard to the CIP.
3) When interviewed, member institutions seem interested in CIP but prefer that developers initiate the process which does not provide a great amount of certainty in successful implementation.
4) There is not a certain monetary amount set aside each year for the program.

Final Draft

Source: Federal Home Loan Banks Grants

Appendices

The following appendices contain descriptions of the Federal and State affordable housing programs that were eliminated. Underlined areas in each program description are requirements that will cause complete disqualification or potential setbacks for developers.

Final Draft

Federal Housing Programs

Department of Housing and Urban Development

- Community Development Block Grants
  - Eight different programs available
- Section 8 Housing Choice Voucher Program
- HOME
- Low Income Housing Tax Credit (LIHTC)
- Multifamily Tax Subsidy Projects

Freddie Mac

- Targeted Affordable Housing Program
  - Five different programs available

Fannie Mae

- Affordable Housing Solutions
  - Six different programs available

Military Housing Privatization Initiative

Federal Home Loan Banks

- Affordable Housing Program

Final Draft

State Housing Programs

Texas Department of Housing and Community Affairs Programs

- Multifamily HOME Programs
- Housing Tax Credit (HTC)
- Tax Credit Exchange
- Tax Credit Assistance
- Housing Trust Fund (HTF)
- Multifamily Bond Program
- Multifamily Preservation

Texas State Affordable Housing Corporation

- Multifamily Direct Lending Program
- Affordable Communities of Texas Initiative
- Multifamily Bond Finance
- Multifamily 501(c)(3) Bond Program

Final Draft

Appendix A

Final Draft

Department of Housing and Urban Development

Community Development Block Grants

Overview

The Community Development Block Grant (CDBG) program is a program that provides communities with resources to address a broad range of community development needs. The CDBG program's goal is to provide decent affordable housing, to offer services to the most vulnerable in a community, and to generate jobs through the development and retention of businesses. The annual CDBG appropriation is allocated between States and local jurisdictions called Non-Entitlement and Entitlement communities, respectively.

Final Draft

There are eight programs offered under the umbrella of CDBG. These programs include Entitlement Communities Grants, State-Administered CDBG, Section 108 Loan Guarantee Program, HUD administered Small Cities, Insular Areas, Disaster Recovery Assistance, Neighborhood Stabilization Program, and Colonias.

Source: U.S. Department of Housing and Urban Development

Community Development Block Grants

General Program Requirements

Over the course of a 1, 2, or 3-year period, as selected by the grantee, not less than 70% of CDBG funds must be allocated to activities that benefit low- and moderate-income persons.

Additionally, each activity must meet at least one of the following national objectives for the program:

- Prevent or eliminate slums or blight.
- Address urgent community development needs which exist because current conditions pose a severe and immediate threat to the health of the community for which other funding is not readily available.

Final Draft

Source: U.S. Department of Housing and Urban Development

Community Development Block Grants

Program 1: Entitlement Communities Grants
HUD awards grants to entitlement community grantees to perform a wide range of community enhancement activities with a focus on revitalizing neighborhoods, economic development, and providing improved community services and facilities.

Entitlement communities individually formulate programs and funding priorities; however, each grantee must give maximum feasible precedence to activities which benefit low- and moderate-income persons.

Final Draft

The CDBG offers annual grants on a formula basis to entitled cities and counties to develop viable urban communities by providing suitable living environments and increasing economic opportunities for low- and moderate-income persons. Ineligible activities include the acquisition, construction, or reconstruction of buildings for the general conduct of government, political activities, certain income payments, and construction of new housing by local governments.

Elimination based on income requirements.

Source: U.S. Department of Housing and Urban Development

Community Development Block Grants

Program 2: State-Administered CDBG

HUD believes that states are in the best position respond to the needs of local governments. Due to this fact, Congress amended the Housing and Community Development Act of 1974 (HCD Act) in 1981 to allow each state the opportunity to administer CDBG funds for non-entitlement areas.

Non-entitlement area are regions of general local government which do not receive CDBG funds directly from HUD as part of the entitlement program. Non-entitlement areas are defined as cities with populations of less than 50,000 (except cities that are designated principal cities of Metropolitan Statistical Areas) and counties with populations of less than 200,000.

Final Draft

Elimination based on geography requirements.

Source: U.S. Department of Housing and Urban Development

Community Development Block Grants

Program 3: Section 108 Loan Guarantee Program

The Section 108 Loan Guarantee Program is a viable source of financing that can be used for the economic development, housing rehabilitation, public facilities rehabilitation, or construction for the benefit of low- to moderate-income persons, or to aid in the prevention of slums.

This program allows communities to transform a small portion of their CDBG funds into federally guaranteed loans large enough to tackle physical and economic revitalization projects that can possibly renew entire neighborhoods. However, Section 108 loans are not risk-free, local governments borrowing Section 108 funds must pledge their current and future CDBG allocations to cover the loan amount as collateral.

Final Draft

Elimination based on income requirements.

Source: U.S. Department of Housing and Urban Development

Community Development Block Grants

Program 4: HUD-Administered Small Cities

Due to the State of Hawaii deciding not to participate in the State-Administered CDBG program, HUD will administer the Non-Entitlement CDBG grants in Hawaii. HUD administers these funds in the same manner as the CDBG Entitlement Communities Grant Program. HUD will allocate the non-entitled grants in Hawaii using a formula based on population, poverty, and housing overcrowding as the basis for distributing funds (the poverty factor carries a double weight).

In order to be eligible for these program funds, Non-Entitlement CDBG grantees in Hawaii must submit a consolidated plan to the Hawaii Field Office. Three counties in Hawaii qualify for this program - Hawaii, Kauai, and Maui.

Final Draft

Elimination based on geography requirements.

Source: U.S. Department of Housing and Urban Development

Community Development Block Grants

Program 5: Insular Areas

The Insular Areas Program offers grants to four designated areas: American Samoa, Guam, Northern Mariana Islands, and the Virgin Islands. HUD annually distributes $7 million of CDBG funds to the Insular Areas in proportion to the populations of these Territories. The Insular Areas Program is administered by the Puerto Rico and Hawaii HUD Field Offices.

HUD monitors grantees' performance to make certain that they have continuing ability to carry out funded activities in accordance with the CDBG objectives.

Final Draft

Elimination based on geography requirements.

Source: U.S. Department of Housing and Urban Development

Community Development Block Grants

Program 6: Disaster Recovery Assistance Neighborhood Stabilization

HUD provides grants to help states, counties, and cities recover from Presidentially-declared disasters. These grants are designed to aid low-income areas, and are subject to availability of funds.

As a general rule, grantees must use a minimum of half of the Disaster Recovery Assistance funds for activities that benefit low-and moderate-income persons.

Final Draft

Eligible activities are:

1) Those in which all or the majority of people who benefit have low- or moderate-incomes.
2) Those that benefit an area or service group in which at least 51% of the population are of low- or moderate-income.

Elimination based on geography requirements.

Source: U.S. Department of Housing and Urban Development

Community Development Block Grants

Program 7: Neighborhood Stabilization Program

The Neighborhood Stabilization Program (NSP) was instituted for the purpose of stabilizing communities that have experienced excessive amounts of foreclosures and abandonment. NSP1, a term that refers to the NSP funds, certified under Division B, Title III of the Housing and Economic Recovery Act of 2008, provides grants to states and specific local governments on a formula basis.

NSP2, a term that references the NSP funds authorized under the American Recovery and Reinvestment Act of 2009. These funds offer grants to all states, local governments, nonprofits, and a conglomerate of nonprofit entities on a competitive basis. The Recovery Act also established the NSP-TA. This is a $50 million allotment made available to national and local technical assistance providers to support NSP grantees.

Final Draft

Elimination based on foreclosure activity in El Paso, TX MSA.

Source: U.S. Department of Housing and Urban Development

Community Development Block Grants

Program 8: Colonias Program

Texas, Arizona, New Mexico, and California allocate up to 10% of their State-Administered CDBG funds for use in designated colonias. For the purposes of the Colonias Program, the definition of a colonia is any community in the U.S.-Mexico border regions of Arizona, California, New Mexico, and Texas that has a lack of potable water, insufficient sewage systems, and sanitary housing.

The Colonias' allocated funds can be used for activities eligible under the CDBG that meet the needs of colonias. The majority of the funds have been spent on water, sewer, and housing assistance. The border region is defined as the area within 150 miles of the U.S.-Mexico border exclusive of Metropolitan Statistical Areas with populations exceeding one million.

Final Draft

Elimination based on income requirements.

Source: U.S. Department of Housing and Urban Development

Section 8 Housing Choice Voucher Program

Program Overview

The Section 8 Housing Choice Voucher Program was designed for assisting very low-income families, the elderly, and the disabled to afford housing in the private market. Housing assistance is given on behalf of the participating family (individual); hence, participants are able to choose their own housing. Their options include single-family homes, townhouses, and apartments. As long as the choice of housing meets the specific requirements of the program, the participant is not limited to units located in subsidized housing properties. Housing choice vouchers are managed locally by Public Housing Authorities ("PHAs"). The PHAs receive funds from HUD and administer the vouchers to participants.

Final Draft

Generally, eligible families cannot have an income that exceeds 50% of the median income for the county or metropolitan area in which the family opts to live. Legally, a PHA is required to allocate 75% of its vouchers to applicants whose incomes do not surpass 30% of the AMI.

Elimination based on income requirements.

Source: U.S. Department of Housing and Urban Development

HOME Investment Partnerships Program

Program Overview

HOME was designed exclusively to create affordable housing for low-income families. Each year, the programs allocates approximately $2 billion among the states and localities around the nation. Participating Jurisdictions ("PJs") must match every dollar of HOME funds used, with the exception of administrative costs, with 25 cents from non-federal sources. The program allows states and local governments to use HOME funds for an assortment of purposes including grants, direct loans, loan guarantees and other forms of credit enhancement, and rental assistance/security deposits.

Final Draft

For rental housing, a minimum of 90% of benefiting families must have incomes that do not exceed 60% of the HUD income limits restriction.

Elimination based on income requirements.

Source: U.S. Department of Housing and Urban Development

Low Income Housing Tax Credit

Program Overview

Created by the Tax Reform Act of 1986, the LIHTC program provides State and local LIHTC-allocating agencies approximately $5 billion in annual budget authority to distribute tax credits. These credits can be use for the acquisition, rehabilitation, or new construction of rental housing. Federal housing tax credits are distributed to developers of eligible projects who sell the credits to interested investors to raise capital (or equity) for their projects. This allows the developer to reduce the amount of debt they would otherwise have to borrow. Investors receive a dollar-for-dollar credit against their annual Federal tax liability for 10 years.

Final Draft

Development must be residential and operate under rent and income restrictions for 30 years or longer. The income thresholds (referred to as the 20/50 rule and the 40/60 rule) for residency are as follows: (1) At least 20% or more of the residential units in the development are both rent restricted and occupied by individuals whose income is 50% or less of AMI (2) At least 40% or more of the residential units in the development are both rent restricted and occupied by individuals whose income is 60% or less of the AMI.

Elimination based on income requirements.

Source: U.S. Department of Housing and Urban Development

Multifamily Tax Subsidy Projects

Program Overview

The Multifamily Tax Subsidy Projects are projects financed with tax-exempt housing bonds distributed to eligible residential rental development, under Section 142 of the Internal Revenue Code and LIHTC (both of which are subject to HUD-determined income limits).

A qualifying rental housing project satisfies the 20/50 rule or the 40/60 rule.

Elimination based on income requirements.

Final Draft

Source: U.S. Department of Housing and Urban Development

Appendix B

Final Draft

Freddie Mac

Freddie Mac Targeted Affordable Housing Programs

Overview

Freddie Mac strives to finance rental properties that are affordable to families with low- and very low- incomes and rental projects that are located in traditionally underserved areas.

The Targeted Affordable Housing Programs offered include the following:

- Bond Credit Enhancement – 4% LIHTC
- Bond Credit Enhancement With Other Affordability Components
- 9% LIHTC-Mortgage Forward Commitment
- Cash Mortgages With Other Affordability Components

Final Draft

Source: Freddie Mac

Bond Credit Enhancement (4% LIHTC)

Program Overview

The Freddie Mac Bond Credit Enhancement - 4% LIHTC product was designed to provide favorable financing solutions for developers who intend to create and preserve affordable housing. Freddie Mac offers financing for the new construction, substantial rehabilitation and moderate rehabilitation of affordable LIHTC multifamily projects that are funded exclusively, or in part, by the sale of fixed- or variable-rate tax-exempt bonds.

This program offers various financing alternatives. Additionally, fixed-rate loans with HUD Risk Sharing may be granted more favorable loan-to-value terms.

Final Draft

Eligible properties include affordable multifamily housing subject to the LIHTC.

Elimination based on income requirements.

Source: Freddie Mac

Bond Credit Enhancement (Other Affordability Components)

Program Overview

The Freddie Mac Bond Credit Enhancement is a program specifically for fixed- or variable-rate multifamily housing bonds with other affordability components (without 4% tax credits). This enhancement program enables Freddie Mac to act as a liquidity provider and credit enhancer on newly issued or refunded bonds.

Eligible transactions include the replacement of existing credit enhancement facility or new credit enhancement facility for tax-exempt bonds for refundings, acquisition or rehabilitation.

Final Draft

Eligible properties include affordable multifamily housing subject to the LIHTC.

Elimination based on income requirements.

Source: Freddie Mac

9% LIHTC Mortgage-Forward Commitment

Program Overview

Freddie Mac provides financing for affordable multifamily projects that have received a 9% LIHTC. The 9% LIHTC-Mortgage Forward Commitment is specifically for new construction or substantial rehabilitation of affordable multifamily properties with the 9% LIHTC.

The 9% LIHTC-Mortgage Forward Commitment provides cash for development projects reducing the amount of borrowed debt. This allows developers to offer affordable rents to residents. Additionally, loans with HUD Risk Sharing may be given more favorable loan-to-value and debt coverage ratio terms.

Final Draft

Eligible properties include affordable multifamily housing subject to the LIHTC.

Elimination based on income requirements.

Source: Freddie Mac

Cash Mortgages
(Other Affordability Components)

Program Overview

Freddie Mac offers financing for affordable multifamily projects that have regulatory restrictions on at least 20% of the units. The property can restrict either the rent or income as along as 20% is restricted.

Freddie Mac Cash Mortgages offer a financing solution for affordable housing properties at every stage of development. This mortgage product provides cash for development projects reducing the amount of borrowed debt and allows property owners to offer affordable rents. Additionally, loans with HUD Risk Sharing may be granted more favorable loan-to-value and debt coverage ratio terms.

Final Draft

Eligible properties include affordable multifamily housing subject to the LIHTC.

Elimination based on income requirements.

Source: Freddie Mac

Tax-Exempt Bond Securitization

Program Overview

The Freddie Mac Tax-Exempt Bond Securitization (TEBS) implementation allows capital market efficiencies to aid the affordable housing market. The TEBS offers owners of privately placed multifamily housing revenue bonds the possibility of exchanging those bonds for a AAA Freddie Mac securities plus a small unrated residual security.

Through the TEBS, bond owners are able to free up capital to use again. The capital is used for new affordable production by exchanging the unenhanced bonds for senior Class A Certificates that are sold to the public and subordinate Class B Certificates which are kept by the bond owner and pledged to Freddie Mac.

Final Draft

Eligible properties include affordable multifamily housing subject to the LIHTC.

Elimination based on income requirements.

Source: Freddie Mac

Appendix C

Final Draft

Fannie Mae

Fannie Mae Affordable Housing Solutions

Overview

One of Fannie Mae's goals is to preserve, as well as to further advance affordable housing initiatives. Affordable housing is defined as housing in which tenants are not paying more than 30% of their income for shelter.

Fannie Mae offers the following Affordable Housing Solutions:

- Tax-Exempt Bond Credit Enhancement
- Variable Rate Bond Credit Enhancement - Subordinated Swap
- Low-Income Housing Tax Credits
- Funded Forward Commitment
- Unfunded Forward Commitment
- 15-Year Rate Cap

Final Draft

Source: Fannie Mae

Tax-Exempt Bond Credit Enhancement

Program Overview

Under the Tax-Exempt Bond Credit Enhancement Program, Fannie Mae offers credit enhancement for tax-exempt bonds issued for the financing of new construction, acquisitions, refinancing, or moderate/substantial rehabilitation of multifamily housing.

Eligible transactions include deals structured as new money issues, refunding or credit substitutions (Fannie Mae takes the place of the existing credit enhancer without the issuance of any new bonds). Fannie Mae offers credit enhancement for up to 30 years. The minimum loan is $3 million and the minimum term is 15 years.

Final Draft

Fannie Mae's defines affordable as projects that meet or exceed the income and occupancy restrictions of the LIHTC.

Elimination based on income requirements.

Source: Fannie Mae

Variable Rate Bond Credit Enhancement (Subordinated Swap)

Program Overview

The Variable Rate Bond Credit Enhancement Program allows borrowers a Subordinated Interest Rate Swap product to "fix" the interest rate on Tier 2, Tier 3, and Tier 4 Delegated Underwriting and Servicing ("DUS") Variable Rate Bond Credit Enhancement transactions. This allows interest rate swaps to act as the Fannie Mae qualified interest rate hedge for variable rate tax-exempt and taxable Bond Credit Enhancement transitions (that are DUS originated). The minimum term for subordinated swaps is 15 years.

Final Draft

Fannie Mae's defines affordable as projects that meet or exceed the income and occupancy restrictions of the LIHTC.

Elimination based on income requirements.

Source: Fannie Mae

Low Income Housing Tax Credit

Program Overview

Fannie Mae works with nonprofit and for-profit housing sponsors to increase the accessibility of funds to affordable multifamily housing. They accomplish this by making equity investments in properties that qualify for the LIHTC. By making equity investments in affordable multifamily housing, Fannie Mae has extended and widened affordable housing opportunities for low-income persons.

Fannie Mae's defines affordable as projects that meet or exceed the income and occupancy restrictions of the LIHTC.

Final Draft

Elimination based on income requirements.

Source: Fannie Mae

Funded Forward Commitment

Program Overview

The Funded Forward Commitment Program can be used for both the construction and permanent financing for properties that meet the 9% LIHTC. Projects that receive the 9% LIHTC receive credit equal to 9% of qualified costs each year for 10 years. For illustration purposes, in a rehabilitation project with $200,000 in qualified costs, tax credits can equal $180,000 over a 10-year period.

Eligible borrowers include creditworthy, single asset U.S. borrower with all U.S. principals. Subject to proper structuring of the borrowing entity, it is possible for a foreign borrower to have ownership interest.

Final Draft

Standard terms are 24- or 30-months plus one allotted 6-month extension.

Fannie Mae's defines affordable as projects that meet or exceed the income and occupancy restrictions of the LIHTC.

Elimination based on income requirements.

Sources: National Association of Housing and Redevelopment Officials, Fannie Mae

Unfunded Forward Commitment

Program Overview

For properties that qualify for the 9% LIHTC, and are undergoing new construction or substantial rehabilitation, Fannie Mae provides a forward rate lock and commitment for the funding of a permanent mortgage.

Eligible borrowers include creditworthy, single asset U.S. borrower with all U.S. principals. Subject to proper structuring of the borrowing entity, it is possible for a foreign borrower to have ownership interest.

Final Draft

The standard term is 24-months plus one allotted 6-month extension. Fannie Mae will consider other terms on a project-by-project basis.

Fannie Mae's defines affordable as projects that meet or exceed the income and occupancy restrictions of the LIHTC.

Elimination based on income requirements.

Source: Fannie Mae

15-Yr. Structured Interest Rate Cap

Program Overview

The 15-Year Structured Interest Rate Cap Program for multifamily affordable housing provides participating borrowers with an economical method of hedging the interest rate on variable-rate tax-exempt bond credit enhancement deals with the 4% LIHTC. Qualifying properties include multifamily properties that qualify for the variable-rate tax-exempt bond financing using 4% LIHTCs on a minimum of 40% of the property's units.

At the origination of the cap, the estimated amount of the interest rate cap must be equivalent to outstanding principal balance of the bonds. The 15-Year cap structure is attractive to tax credit participants, because this provides a hedge for interest rate during the tax credit compliance period.

Final Draft

Fannie Mae's defines affordable as projects that meet or exceed the income and occupancy restrictions of the LIHTC.

Elimination based on income requirements.

Source: Fannie Mae

Appendix D

Final Draft

Military Housing Privatization Initiative ("MHPI")

Military Housing Privatization Initiative

Overview

On February 10, 1996, the Military Housing Privatization Initiative (MHPI) was enacted as part of the National Defense Authorization Act for fiscal year 1996. The MHPI is a public-private program whereby the public sector engages private sector developers to develop, own, operate, maintain, improve and presume responsibility for military family housing. This initiative only occurs when economically beneficial and national security is not adversely affected. Under the MHPI authority, the Department of Defense (DoD) can partner with the private sector in an effort to revitalize military family housing by utilizing a variety of financial tools including: direct loans, loan guarantees, equity investments, and conveyance or leasing of property or facilities.

Final Draft

The National Defense Authorization Act for Fiscal Year 1996 provided the DoD with an array of authorities that allow them to acquire private-sector financing and expertise to improve military housing. These powers can be used independently or in combination. Congress made the MHPI legislative authorities permanent in 2004.

Sources: Office of Deputy Undersecretary of Defense, Balfour Beatty Communities

Military Housing Privatization Initiative

Legislative Authorities Made Permanent in 2004

- Guarantees both loan and rental - DoD can guarantee mortgage payments directly or via an intermediary. Additionally, they can provide a limited guarantee against BRAC, major force reductions, or major deployments. The DoD also offers guarantees for mortgage insurance. Finally, they have the power to guarantee rent and occupancy levels as specified in an agreement.
- Conveyance or leasing of existing property and facilities - DoD can convey or lease military family housing units to private citizens for purposes of using profits to finance the privatization projects.
- Differential lease payments - This authority allows DoD to pay the difference between the negotiated rent and BAH in order to make private sector housing available to service members.
- Investments (both limited partnerships and stock or bond ownership) - The investment authority permits the DoD to invest in nongovernmental entities involved in the acquisition or construction of family housing (and supporting facilities).
- Direct loans - DoD can offer a direct loan. The land, title, and improvements remain with the developer.

Final Draft

Source: Office of The Deputy Under Secretary of Defense Installations and Environment

Military Housing Privatization Initiative

Eligibility

The MHPI awarded funding to Fort Bliss in 2005. As a result, the Balfour Beatty Community was constructed. The Balfour Beatty Project in Fort Bliss supplied El Paso with over 3,000 housing units in 15 various neighborhoods.

The Office of the Deputy Under Secretary of Defense stated that once a privatization initiative has been completed at particular base, the MHPI does not return to that area for additional assistance unless "major" changes have occurred since the initiative.

Final Draft

Elimination based on prior usage of the program.

Sources: Office of Deputy Undersecretary of Defense, Balfour Beatty Communities

Appendix E

Final Draft

Federal Home Loan Banks

Federal Home Loan Banks

Overview

The Federal Home Loan Banks (FHLB) are 12 regional cooperative banks that U.S. lending institutions use to fund housing and economic activities. FHLBs were designed to be regionally focused and operated. This structure allows each FHLB to be receptive to their community's credit needs. However, the 12 FHLBs collectively use their combined size and strength to acquire funding at the lowest possible cost for members. More than 8,100 lenders are members of the FHLB System. This represents approximately 80% of the insured lending institutions in the country. Community banks, thrifts, credit unions, commercial banks, community development financial institutions, insurance companies, and state housing finance agencies all qualify for membership of the FHLB System.

Final Draft

This cooperative structure allows lender member institutions to advance credit to communities at competitive prices. The primary purpose of the FHLB is to provide their members with liquidity. FHLB loans to members – called "advances" – are a nearly instantaneous way for member institutions to secure liquidity.

Source: Federal Home Loan Banks Grants

Affordable Housing Program

Program Overview

The Affordable Housing Program (AHP) is a program administered through the Federal Home Loan Banks (FHLB). FHLBs give approximately 10% of their net income each year to the AHP, which offers subsidized advances and grants for community housing initiated by member banks. The AHP was designed to assist member institutions in developing affordable owner-occupied and rental housing for very low- to moderate-income families. This program provides direct grants and subsidized loans to support members in meeting their community's specific affordable housing needs. These members partner with local housing organizations, also called project sponsors, to develop AHP projects. Project sponsors can be nonprofit organizations, state or local governments ,or profit-motivated developers.

Final Draft

AHP allocations are designed to aid members in financing the purchase, construction, and/or rehabilitation of single-family, rental, transitional, and single-room housing in their respective communities. Funds may only be used to benefit low income households, defined as households whose incomes are at or below 80% of the AMI.

The AHP requires that 20% of a project be occupied and affordable for very low income households (as defined by HUD income limits restriction). Additionally, all funds must be used for affordable units, defined as units where rent does not exceed 30% of the income of a household.

Source: Federal Home Loan Banks Grants

Affordable Housing Program

Eligible Activities

AHP funds may be used to:

- Pay for closing costs or down payments
- Buy down interest rates or principal amounts
- Refinance an existing loan (only if the equity proceeds are used for the development of AHP-eligible housing)
- Aid with rehabilitation or construction costs
- Homebuyer education and counseling costs qualify, if the household purchases an AHP-assisted unit

Final Draft

The AHP operates through a district-wide competition. A 100-point scoring system is used to evaluate applications. Those achieving the highest scores will receive first priority for funding.

Elimination based on income requirements.

Source: Federal Home Loan Banks Grants

Appendix F

Final Draft

State of Texas

Texas Department of Housing and Community Affairs

Multifamily HOME Programs

Program Overview

In 2009, the Texas Department of Housing and Community Affairs (TDHCA) announced the availability of approximately $18,090,030 in funding from the HUD-funded HOME Program. These funds are for the development of rental housing specifically for low-income Texans including new construction, rehabilitation, and acquisition of affordable housing. By Texas law, 95% of HOME funds must be allocated to communities, typically rural, that do not collect HOME funds directly from HUD. The remaining 5% of funds are required to serve persons with disabilities and is available statewide.

Final Draft

Unless a developer is notified of additional restrictions, initial occupancy income restrictions demand that at least 90% of the units are affordable to persons below 60% AMI. Furthermore, 20% of the units must be affordable to households below 50% AMI. During the remainder of the affordability period, at least 20% of HOME assisted units must be affordable to persons earning 50% or less than the AMI. All remaining units must be affordable to households earning 80% or less than the AMI.

Elimination based on income requirements.

Source: Texas Department of Housing and Community Affairs

Housing Tax Credit Program

Program Overview

The Housing Tax Credit (HTC) Program is administered through the U.S. Treasury Department to provide tax credits to nonprofits, profit-motivated developers, and investors. The program is designed to benefit low income families at or below 60% AMI. The program's purpose is to promote the development and conservation of rental housing for low income families, offer participation of for-profit and nonprofit organizations in the program, maximize the amount of units added to the State's housing supply, and prevent any losses in the State's current supply of affordable housing. HTC is regionally distributed in thirteen state-service regions, and further allocated in each of the thirteen region's rural and urban/exurban categories. The TDHCA is the only entity in the State of Texas with the power to distribute tax credits under this program.

Final Draft

Each eligible tax credit development must include a minimum percentage of rent restricted units to be set aside. A qualified housing project means that either the 20/50 rule or the 40/60 rule is satisfied. It is important to note that tax credits may only be claimed on the rent restricted units that have been specifically set-aside for program.

Elimination based on income requirements.

Source: Texas Department of Housing and Community Affairs

Tax Credit Exchange Program

Program Overview

The Texas Tax Credit Exchange Program permits developments that have had allocated tax credits from 2007 through September 2009 to return their credits and potentially collect a cash grant in its place.

The State of Texas has decided to only exchange awardees willing to return and exchange their entire allocation of tax credits. Additionally, the State will limit the amount of a cash grant to an eligible exchange awardee to the lesser of (1) the gap of funds necessary to making the transaction financially feasible without any fee deferral or (2) a price per returned credit between $0.77 and $0.85.

Final Draft

Elimination based on income requirements.

Source: Texas Department of Housing and Community Affairs

Tax Credit Assistance Program

Program Overview

Tax Credit Assistance Program ("TCAP") offers funding through the HOME Program. The goal is to compensate for the current devaluation of HTCs due to the economic stability of the markets. The devaluation of the HTCs are jeopardizing the financial strength of affordable rental developments awarded HTCs in 2007 through 2008, as well as present program applicants.

The current economic crisis has reduced demand for tax credits; as a result, the pricing of tax credits has drastically fallen and many approved developments now lack the complete funding needed for project completion. This devaluation also undermines the ability to develop housing with 2009 HTCs.

Final Draft

Eligible recipients for this funding include previously-awarded 2007/2008 HTC applicants and applicants for 2009 HTCs. Awards made with this funding are required to meet HTC use, income, and rent restrictions.

Elimination based on income requirements.

Source: Texas Department of Housing and Community Affairs

Housing Trust Fund

Program Overview

The Housing Trust Fund (HTF), the only State-authorized program for affordable housing, receives funding from the State of Texas (multifamily bond issuance fees and loan repayments). The HTF provides below market interest rate loans to nonprofit organizations, local government entities, PHAs, Community Housing Development Organizations, and profit-motivated entities. This program is designed to serve low income households. HTF funds can be used for the acquisition, rehabilitation, and new development of affordable housing.

Final Draft

To be eligible for tax credits, the proposed development must involve new construction, or significant rehabilitation of existing residential units (at least $12,000/unit in direct hard costs). The amount of tax credits that may be applied varies for each project depending on: the amount and type of additional funding sources are available, the total amount of qualified development costs estimated to be incurred, the percentage of rent restricted units set aside in the development plans or number of eligible tenants, and position in communities that qualify as Difficult Development Areas and Qualified Census Tracts. This program requires that developers allot at least 50% of funds to benefit individuals and families earning less than 60% of AMI.

Elimination based on income requirements.

Source: Texas Department of Housing and Community Affairs

Multifamily Bond Program

Program Overview

The Multifamily Bond Program distributes both taxable and tax-exempt mortgage revenue bonds to fund loans to nonprofit and profit-motivated developers. The earnings of the bonds are used to finance the construction, acquisition, or rehabilitation of multifamily properties. This program was designed to primarily benefit low income households. To qualify for the Multifamily Bond Programs, a housing project must satisfy the 20/50 rule or the 40/60 rule.

The TDHCA accepts applications monthly for the program and is used in conjunction with the HTC Program to maximize the distribution of State allocations.

Final Draft

Elimination based on income requirements.

Source: Texas Department of Housing and Community Affairs

Appendix G

Final Draft

State of Texas

Texas State Affordable Housing Corporation

Affordable Communities of Texas Initiative

Program Overview

This initiative principally focuses on the acquisition of vacant or foreclosed housing units, land and other properties that can be used to supply decent and affordable housing. The program funds may be used to preserve, rehabilitate, or erect housing for homeownership, rental, or cooperative housing. Funds may additionally be used to clear vacant or blighted structures, preserve vacant lots, and manage land banked properties owned by the Corporation or local partners. To qualify for the ACT initiative, housing project must satisfy the 20/50 rule or the 40/60 rule.

Final Draft

Elimination based on income requirements.

Source: Texas State Affordable Housing Corporation

Multifamily Direct Lending Program

Program Overview

The Multifamily Direct Lending Program offers long-term financing to nonprofit and profit-motivated developers with the intention of increasing and preserving the stock of affordable rental housing. This program focuses on both new construction and rehabilitation of affordable rental housing. These funds can be combined with private activity bonds, housing tax credits, and other financing to fill financial gaps.

Final Draft

The Multifamily Direct Lending Program offers:

- Short-term (24-months) or long-term (30 year) financing
- Rates as low as 4.5% for qualified projects
- The option of being subordinated to other Federal or State financing programs

To qualify for the Multifamily Direct Lending Program, the housing project must satisfy the 20/50 rule or the 40/60 rule.

Elimination based on income requirements.

Source: Texas State Affordable Housing Corporation

Multifamily Private Activity Bond Program

Program Overview

Pursuant to §2306.565(b) of the Texas Government Code, the Texas State Housing Corporation's Board has identified target areas of housing need within the State of Texas. The Corporation will only accept applications in response to the RFP that fulfill at least one of the following Targeted Housing Needs:

1. *At-Risk Preservation and Rehabilitation* - The conservation and rehabilitation of existing affordable rental housing developments
2. *Rural Housing*
3. *Senior and Assisted Living Developments*
4. *Hurricane Ike Housing Relief* - Counties affected by hurricanes Ike and Dolly, as identified in Federal Emergency Management Agencies disaster declarations FEMA – 1791 – DR, Texas and FEMA – 1780 – DR, Texas.

Final Draft

This program seeks to provide housing to a combination of eligible households including low-, very-low, and extremely-low income persons. For a project to qualify for the Multifamily Private Activity Bond Program, it must satisfy the 20/50 rule or the 40/60 rule.

Elimination based on income requirements.

Source: Texas State Affordable Housing Corporation

Multifamily 501(c)(3) Bond Program

Program Overview

The Multifamily 501(c)(3) Program issues non-profit 501(c)(3) bonds to eligible applicants for the purpose of acquiring, rehabilitating or constructing new affordable rental housing projects. 501(c)(3) bonds are restrictive in their usefulness in funding affordable housing developments. The proceeds of the bonds are given to developments in the form of long-term (30 to 40 years) amortizing loans. The interest rates are lower than conventional financing but the cost of issuing the bonds often limit their usefulness to large (200+ unit) multifamily developments. In addition, developments financed with 501(c)(3) bonds are not eligible to use HTCs.

Final Draft

To qualify for the Multifamily 501(c)(3) Bond Program, the proposed housing project must satisfy the 20/50 rule or the 40/60 rule.

Elimination based on income requirements.

Source: Texas State Affordable Housing Corporation

Multifamily Development Feasibility and Alternative Structure Analysis

Phase 2 Summary and Findings

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Prepared for City of El Paso

December 29, 2009

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Scope of Work – Phase 2

The consultant was engaged by the City of El Paso to perform a review and analysis of Federal and State affordable housing programs that could be used to stimulate the construction of rental housing to meet the needs of the growing population of Army personnel and their families relocating to Fort Bliss in the El Paso, TX MSA. In Phase 1 of the project, the consultant identified two programs that could potentially benefit the City of El Paso, the HUD 221(d)(4) programs and the Community Investment Program (CIP). During Phase 2 of the project, the consultant developed a model to evaluate the financial feasibility of multifamily development in El Paso using the two identified programs and other potential subsidies.

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To accomplish this objective, the following field work was performed:

- Interviewed local, state, and national developers and construction companies;
- Interviewed Fort Worth HUD Field Office personnel;
- Interviewed the Federal Home Loan Bank of Dallas;
- Interviewed lenders and other industry service providers who participate in the the HUD 221 (d)(4) program;
- Collected information on the City of El Paso's required permits and taxes and other State taxes;
- Analyzed various financial incentive programs to stimulate private sector development.

Executive Summary

The consultant evaluated the feasibility of apartment development using two separate (but interrelated) methodologies. The analysis is intended solely to show the order-of-magnitude subsidies that would be required to stimulate development considering current market conditions. Actual development feasibility and subsidy requirements (if any) would vary based on a wide-variety of market-related and project-specific factors that would affect financial outcomes.

Land Residual Analysis

- The consultant analyzed the feasibility of multifamily development based on the land residual value analysis using a hypothetical multifamily development of 250 units.
- Based on our analysis, a profit-motivated developer expecting a 11% return-on-cost would have an economic shortfall equal to approximately $5.8 million, or $23,200 per unit, before land cost. Land cost is assumed to total about $10,700 per unit, resulting in a total shortfall of $33,900.
- The shortfall indicates that current market conditions do not support multifamily development.

Financial Model

- The consultant calculated a base model using current market conditions which resulted in a leveraged internal rate of return ("IRR") of 5.6%. The national multifamily development community indicates that current equity return requirements for investing in El Paso (which is considered a secondary apartment market) are in the neighborhood of 20% to 25%.

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Executive Summary

Financial Model (cont.)

- Using the discounted cash flow analysis and incorporating a 23% investment requirement, required concessions total approximately $6.8 million, or $27,200 per unit, after land cost.
- Based on the consultant's analysis, the subsidy requirements can only be met by providing no-cost land, cash subsidies, and/or abatement of taxes and fees. A feasible scenario that the consultant modeled required no-cost land and a ten-year abatement of all ad valorem property taxes.
- Recognizing that a full ten-year tax abatement of all ad valorem taxes is unlikely, the consultant has derived a combination of city tax abatements, ISD appraised value limitations (as provided by Tax Code Chapter 313), and fee reductions modeled after incentives offered in the downtown El Paso reinvestment zone that may be utilized. These assumptions drive the IRR to 18.6% (versus the market expected range of 20% to 25%). Using the 23% IRR, the unmet subsidy in this scenario is about $1,700,000, or $6,800 per unit.

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Concession Analysis

- The concessions that provide the most impact on investment returns are no-cost land and tax abatements from El Paso ISD.

Executive Summary

Sensitivities of Rental Rates and Construction Costs

- Rental rate increases over the next couple of years in El Paso may reduce the required subsidy if construction costs do not increase commensurately.

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General Project Assumptions

- **Multifamily Development Opportunity**
  - 250 units
  - 246,500 net rentable square feet
  - Garden-style, 3-story walk-up
  - 15 apartment buildings, surface parking
  - 175 covered parking spaces (1.43 per unit)
  - Office, clubhouse, pool
  - Unit electric, phone, and cable paid by resident
  - Common area electricity and water/sewer/trash pick-up paid by property
  - 16.67 acres
  - 15 units per acre (based on newer properties in the El Paso market whose densities range from 10 to 22 units per acre)
  - 8% 1-bedrooms, 64% 2-bedrooms, 28% 3-bedrooms
  - Impact fees based on development located in the Northeast Service area as defined by the City of El Paso

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Source: Consultant's assumptions

Land Residual Analysis

- Land residual valuation methodology was employed to determine the price that a profit-motivated developer could pay for raw land in the El Paso market.
- The current rent levels (derived from the 2009 BAH net of utilities and renters insurance + 20% out of pocket) and construction costs do not support traditional multifamily development in the El Paso market based on this analysis.
- The economic shortfall is calculated at $5.8 million or $23,200, before land cost.
- Land costs are assumed to total about $10,700 per unit, resulting in a total shortfall of $33,900.

El Paso Multifamily Development	
Cost to Build	
Hard Cost/Unit	$ 66,300
Soft Cost/Unit	$ 24,300
Required Return on Cost	11.0%
Stabilized Operating Assumptions	
Monthly Rent/Unit	$ 969
Rent/Sq Ft	$ 0.983
Stabilized Occupancy	94%
Stabilized Operating Expenses as a % of EGI	36%
Development Pro Forma	
Hard Cost (excluding land)	$ 16,585,000
Soft Cost (including operating deficit)	$ 6,085,800
Total Dev't. Costs w/o Land	$ (22,670,800)
Stabilized Cash Flow from Operations	
Gross Potential Income	$ 3,085,100
Effective Gross Income	$ 2,954,100
Stabilized Operating Expense	$ (1,060,100)
Reserves	$ (39,800)
NOI	$ 1,854,200
Land Residual Analysis	
Required Return on Cost	11.0%
Stabilized Net Operating Income	1,854,200
Total Construction Budget (based on required return)	16,856,400
Less: Development Costs (excl. land)	(22,670,800)
Economic Shortfall (excl. land)	(5,800,000)
Economic Shortfall (excl. land) - $/unit	$ (23,200)
Land Cost - $/unit	$ (10,700)
Total (Economic Shortfall plus Land Costs)	$ (33,900)

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Source: Consultant Research & Calculations

HUD 221 (d)(4) Program Assumptions

- Considering the identified programs in Phase 1 of the project, the consultant researched the loan terms for both the HUD 221 (d)(4) and CIP and found that the current financing terms for the HUD 221 (d)(4) were the most favorable and had the highest possibility of execution in the El Paso market.
- The following financing terms were input into the base financial model:

HUD Financing Terms	
Loan to Cost	**80%**
Base Interest Rate	6.25%
HUD Rate	0.45%
Curtail Rate	0.64%
Total Interest Rate	**7.34%**
Amortization Period	**30**
DCR	**1.11**
Loan Fees	**2.50%**

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Note: The 221 (d)(4) converts to permanent loan at completion for no extra cost.

Source: Johnson Capital, HUD Lender

Financial Model Assumptions

- **Unit Mix**

  The unit mix was devised after an analysis of the City of El Paso and the Team Bliss Transformation Office data. The assumptions are based on the primary characteristics of the expected growth at the base.

  - Over half of the growth will be of military personnel in the E1 to E5 pay grades with an average of four years in service.
  - The military personnel in these pay grades are commonly described as "young families with small children." Data indicates that these families are highly dependent on the BAH.

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Assumed Unit Mix

Unit Type	Number of Units	Percentage of Units	Square Footage
1 BD-1BA	20	8%	600
2BD- 2BA	160	64%	975
3BD- 2BA	40	16%	1,100
3BD- 2.5BA	30	12%	1,150
Totals	250	100%	*986
* Weighted Average			

Note: For an E1 to E4 pay grade with dependents, the unit type for which the BAH is calculated is a 2-bedroom apartment. For an E-5 pay grade with dependents, the unit type that is assumed for calculation is a 2-bedroom townhome.

Source: Department of Defense, "Primer on Basic Allowance for Housing (BAH) for the Uniformed Services 2009", July 2009 and Consultant Calculations

Financial Model Assumptions

- **Rental Revenue**

  The consultant established the rents for the base model using the net BAH 2009 (which excludes utilities and renter's insurance) for E1 to E4 pay grades. The consultant's research indicates that the net BAH typically covers between 75% to 78% of market rent for a newly constructed apartment in the East, Northeast, and Northwest submarkets of El Paso. The 2-bedroom rents were established as net BAH + 20% covered by out-of-pocket income. The remaining floor plans were adjusted based on the change in square footage.

- **Administrative and Other Revenue**

  The consultant's assumptions for administrative and other revenue were based on our proprietary database of multifamily revenue comparables. The details on each line item may be referenced in Appendix A.

- **Non-Revenue Units**

  The consultant maintains relationships with all large third party multifamily property managers across the United States. The current trends related to non-revenue units are that owners are not providing free rent to employees, but rather a specified discount off the market rent to the lead maintenance supervisor and possibly the manager (if not a homeowner). The consultant assumed that there are zero employee non-revenue units and one model unit (2BD/2BA).

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Source: Consultant Research & Calculations

Financial Model Assumptions

- **Garage, Carport, Parking, and Storage Revenue**

  In the El Paso apartment market, carports are a common amenity for newer communities; however, garages, preferred parking spaces, and extra storage units are not standard. The current market rates for carports are $10 to $25 per month in addition to monthly rent. Based on this information, the consultant incorporated 175 carports in to the model, with a revenue of $15 per carport per month.

- **Operating Expenses**

  The consultant's assumptions for controllable and non-controllable operating expenses were based on our proprietary database of multifamily expense comparables. The details on each line item may be referenced in Appendix A.

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- **Exit Capitalization Rate**

  The consultant interviewed market participants regarding current capitalization rates. Capitalization rates for the El Paso market ranged from 8 to 11%. Based on the 10-year holding period, the consultant assumed a 9% exit capitalization rate.

- **Discount Rate**

  The consultant reviewed published data from 2Q 09 Realty Rates and Korpacz 3Q09 to arrive at an indicated discount rate of 12%.

Source: Consultant Research & Calculations

Financial Model Assumptions

- **Cash Flow Assumptions**

  Based on historical figures observed from comparable developments, the consultant assumed the following growth rates:

  Rental Revenue: Starting rates based on 2009 Net BAH; grown by 3% to opening[1]

  Administrative and Other Revenue: 3% per year

  Expenses Other than Utilities: 3% per year

  Carport: 3% per year

  Real Estate Taxes: 2% per year

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[1]*Rental revenue growth rate is slightly lower than the 2010 change in BAH recently approved and published by the Department of Defense (3.6% for El Paso).*

Source: Consultant Research & Calculations

Financial Model Assumptions

- **Annual Vacancy & Lease-Up**

  Based on historical apartment market data provided by MPF Research, the consultant assumed a stabilized occupancy rate of 94%.

  Additionally, the consultant assumed a lease-up period of 14 months which includes turnover of leases beginning 6 months into the initial lease-up. Details of the lease-up are displayed to the right.

- **Annual Carport Vacancy**

  The consultant assumed a stabilized occupancy rate of 95% for the carports.

- **First Move-Ins**

  First move-ins are projected to occur in January 2011.

Lease-Up Period

	New Leases	Renewals	Move-Outs	New leases Needed	%Occ.
Jan-11	20				8%
Feb-11	20				16%
Mar-11	20				24%
Apr-11	20				32%
May-11	25				42%
Jun-11	25				52%
Jul-11	25	3	7	7	60%
Aug-11	20	3	7	7	67%
Sep-11	20	3	7	7	73%
Oct-11	15	3	7	7	78%
Nov-11	15	4	9	9	82%
Dec-11	10	4	9	9	84%
Jan-12	15	5	7	7	89%
Feb-12	10	5	7	7	94%

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Source: Consultant Research & Calculations

Construction Budget Assumptions

- **Land Costs**

  The consultant interviewed brokers and multifamily developers to obtain an understanding of current pricing for multifamily zoned land. Data collected suggests pricing typically between $3 and $4 per square foot. The consultant assumed the midpoint of $3.50 per square foot.

- **Hard Costs**

  The consultant interviewed construction companies, architects, and multifamily developers to obtain an understanding of current hard cost for a typical garden-style apartment community. To account for HUD's requirements of Davis-Bacon wages[1], a $2 per square foot premium was added to market cost estimates to arrive at $67 per net rentable square feet.

- **Soft Costs and Year 1 Operating Deficit**

  Data collected indicates that soft costs are typically 20% to 30%of the total hard cost calculation. The consultant calculated soft costs based on the midpoint of 25% of total hard costs. Permits and impact fees are included in this calculation and were derived from El Paso Schedule C as of August 12, 2009. A Year 1 operating deficit of $1,500,000 was added to the soft cost estimates.

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[1] The Davis-Bacon Act of 1931- Federal law which requires all federal government construction contracts, and most contracts for federally assisted construction(over $2,000) to include provisions for paying workers on-site no less than the locally prevailing wages and benefits paid on comparable projects.

Source: Consultant Research & Calculations

Investment Hurdles

Scenario 1

- The consultant's base model, which is calculated using current market condition inputs (outlined in the previous slides) and HUD 221(d)(4) financing assumptions, results in a leveraged IRR of 5.6%.

Scenario 2

- National multifamily developers are currently estimating leveraged IRRs of 20% to 25% for multifamily development in the El Paso market, which is considered a secondary apartment market.
- In order to meet a defined investment hurdle of 23% (midpoint of the consultant's research), concessions of $6.8 million, or about $27,200 per unit, would be required to incentivize development. According to our analysis, two concessions that bridge this gap are providing no-cost land and a ten-year full ad valorem tax abatement. <u>However, a ten-year full ad valorem tax abatement is highly unlikely.</u>

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<u>Source</u>: Consultant Research & Calculations

Investment Hurdles

Scenario 3

- A scenario that has a higher likelihood of execution in El Paso results in an investment return of 18.6%. The combination of concessions to achieve this return include the following:
  (1) no-cost land;
  (2) fee reduction program modeled based on downtown El Paso reinvestment zone tables;
  (3) ten-year tax abatement on City of El Paso taxes;
  (4) eight-year appraised value limitation on school district taxes as offered by the Tax Code Chapter 313.
- The total concession for this scenario aggregates to $5.1 million or approximately $20,400 per unit.
- Using the 23% IRR, the unmet subsidy in this scenario is about $1,700,000, or $6,800 per unit.

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Note: The appraised value limitation application process must be fully approved by the governing school board and filed with the State of Texas Office of the Comptroller of Public Accounts and the appraisal district. Appendix B provides details of Tax Code Chapter 313 and the application for Subchapters B or C.

Source: Consultant Research & Calculations

Investment Hurdles

Special Note on School District Taxes

- According to Texas Tax Code Chapter 312, a school district is no longer authorized to enter into tax abatement agreements. However, a school district's authority to limit appraised values is found in the Texas Economic Development Act located in Chapter 313 of the Texas Tax Code (a strategy recommended for Scenario 3 on previous slide).
- The following chart illustrates the total 2009 ad valorem tax burden by taxing entity for a multifamily development in the City of El Paso.

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Taxing Entity	2009 Rate Per $100 in Value	% of Total Tax Burden
City of El Paso	$ 0.633	25%
El Paso County	$ 0.338	14%
El Paso I.S.D.	$ 1.235	50%
El Paso Community College District	$ 0.106	4%
University Medical Center	$ 0.179	7%
Total Tax Rate	$ 2.491	100%

- The ISD taxes represent 50% of the ad valorem tax burden in the City of El Paso. This percentage of burden is higher than most major metropolitan areas within the State of Texas: Houston (45%), Dallas (49%), San Antonio (49%), and Austin (55%).

Source: Consultant Research & Calculations

Investment Hurdles

- The scenarios are summarized in the table below:

Underwriting Assumptions	Stabilized Year 3		10-Yr. Hold	Concession Analysis		
	Cash Flow After Debt	Return on Cost	Leveraged IRR	Total Incentives	Per Unit Incentives	Unmet Subsidy Per Unit
Scenario 1: Current Market Conditions	$179,300	7.3%	5.6%	$0	$0	$0
Scenario 2: IRR of 23%	$559,900	9.9%	23.0%	$6,800,000	$27,200	$0
Scenario 3: IRR of 18.6%	$395,700	9.2%	18.6%	$5,100,000	$20,400	$6,800

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The analysis is intended solely to show the order-of-magnitude subsidies that would be required to stimulate development considering current market conditions. Actual development feasibility and subsidy requirements (if any) would vary based on a wide-variety of market-related and project-specific factors that would affect financial outcomes. The applicability of various subsidy programs should be confirmed.

Source: Consultant Research & Calculations

Concession Analysis

- As illustrated in the table below, the concessions that provide the greatest impact to investment returns are no-cost land and El Paso ISD tax abatements.

Concession	Scenario 1 5.6% IRR	Scenario 2 23% IRR	Scenario 3 18.6% IRR
Land at no-cost	$ -	$ 10,670	$ 10,670
Fee Reductions	$ -	$ -	$ 10
100% Ad Valorem Tax Abatement (all taxing entities)	$ -	$ 16,500	$ -
100% Ad Valorem Tax Abatement (City of El Paso)	$ -	$ -	$ 1,720
8-Yr. Appraised Value Limitation (El Paso ISD)	$ -	$ -	$ 8,000
Debt Service Savings	$ -	$ -	$ -
Total Concession Per Unit	$ -	$ 27,200	$ 20,400

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The analysis is intended solely to show the order-of-magnitude subsidies that would be required to stimulate development considering current market conditions. Actual development feasibility and subsidy requirements (if any) would vary based on a wide-variety of market-related and project-specific factors that would affect financial outcomes.

Source: Consultant Research & Calculations

Sensitivities—Rent & Construction Costs

- The financial modeling scenarios included in this analysis incorporate current market conditions for rental rates and construction costs in the assumptions. The tables on the following page illustrate the impact of changing rental rates and construction costs on the investment returns.
- Based on these sensitivities, it is apparent that as market rental rates increase as a function of imbalances that may affect the market fundamentals in El Paso, investment returns will improve.
- However, these improvements in investment returns could be offset by rising construction pricing as the pipeline begins to fill with potential projects.

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Source: Consultant Research & Calculations

Sensitivities—Rent & Construction Costs

Underwriting Assumptions	Factor Changed	Stabilized Year 3		10-Yr. Hold
	Rent Adjustment	Return on Cost	Loan to Cost Ratio	Leveraged IRR
Rental Rates				
$969 per mo./$0.983 psf	0%	7.3%	80.0%	5.6%
$998 per mo./$1.012 psf	3%	7.6%	83.0%	7.7%
$1,017 per mo./$1.032 psf	5%	7.9%	86.0%	9.3%
$1,036 per mo./$1.052 psf	7%	8.1%	88.0%	11.0%

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Underwriting Assumptions	Factor Changed	Stabilized Year 3		10-Yr. Hold
	Cost Adjustment	Return on Cost	Loan to Cost Ratio	Leveraged IRR
Construction Costs (Hard & Soft)				
$97 psf	0%	7.3%	80.0%	5.6%
$101 psf	5%	7.0%	77.0%	4.0%
$105 psf	10%	6.8%	74.0%	2.6%

The analysis is intended solely to show the order-of-magnitude subsidies that would be required to stimulate development considering current market conditions. Actual development feasibility and subsidy requirements (if any) would vary based on a wide-variety of market-related and project-specific factors that would affect financial outcomes.

Source: Consultant Research & Calculations

Appendix A

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Financial Model Assumptions

The analysis is intended solely to show the order-of-magnitude subsidies that would be required to stimulate development considering current market conditions. Actual development feasibility and subsidy requirements (if any) would vary based on a wide-variety of market-related and project-specific factors that would affect financial outcomes.

Administrative & Other Revenue Assumptions

Administrative & Other Revenue		
Category	**Unit**	**Comments**
Laundry/Washer/Dryer	$ 25	Assumed property will have 20 rented laundry machines. Based on similar properties, each machine makes $75/month, with the profit to the property of $25/month (the remainder is paid to the company that lends the machines. This equals a laundry revenue of $25/unit/year.
Pet Rent/Fees	$ 75	The consultant assumed that approximately 25% of the residents would have pets, and that pet rent is $25/month (typical in El Paso rental market). This equals $75/unit/year.
Deposit Forfeitures	$ 38	This value was based on comparable properties' deposit forfeiture figures.
Late Fees	$ 144	Based on comparable properties, late fees charged are typically $2,000 - $4,000. The consultant assumed late fee charges would be $3,000 collected per month. This equals $144/unit/year.
Miscellaneous Fees/Revenue	$ 50	This figure accounts for any additional fees such as vending income, application fees, access cards, lease violation fines, etc. The consultant assumed that miscellaneous fees/revenue will be approximately $1,050/month. This equals $50/unit/year.

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Source: Consultant Research & Calculations

Operating Expense Assumptions

Operating Expense Assumptions			
Revenue Item	**$/Unit/YR**		**Comments**
Advertising & Promotion	$	400	Figures were based on comparable properties' operating expenses.
General & Administrative	$	80	Figures were based on comparable properties' operating expenses. The consultant assumes that G&A includes any association dues or subscriptions, postage, answering service, checks, office equipment/supplies, uniforms, training, internet service, telephone, pagers, and other similar expenses.
Personnel	$	1,000	Assuming a 250 unit apartment complex, the needed personnel includes a property manager, an assistant manager, a leasing agent, a lead maintenance man, two porters, and a housekeeper.
Repairs & Maintenance	$	180	Figures were based on comparable properties' operating expenses, but were slightly decreased because the subject property would be newly build and need less maintenance.
Turnover Costs	$	120	Figures were based on comparable properties' operating expenses. The consultant assumed that there would be 10 move-outs per month and that it will cost $150 to turn each unit.
Contract Services	$	190	Includes landscaping, trash pick up, and pest control.
Utilities	$	100	Includes common area electricity, water/sewer/trach pick-up and pest control.
Real Estate Taxes	$	1,495	The consultant referred to the City of El Paso Tax assessor rate, and to similar recently built complexes' 2008 and 2009 tax bills. The consultant modeled tax figures based on per unit assesment figures of comparable properties. The consultant assumed the subject will be built in El Paso County and will be zoned to El Paso ISD. Taxes were assumed to be $60,000 per unit.
Insurance	$	175	Figures were based on comparable properties' operating expenses. This figure includes adequate property insurance and liability insurance required.
Capital Reserves	$	150	Figures were based on comparable properties' capital reserves.

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Source: Consultant Research & Calculations

Financial Model—Scenario 1

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Economic Occupancy		41.4%	90.7%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%
Revenue & Collections											
Gross Scheduled Income		$ 2,907,960	$ 2,995,199	$ 3,085,055	$ 3,177,606	$ 3,272,935	$ 3,371,123	$ 3,472,256	$ 3,576,424	$ 3,683,717	$ 3,794,228
Loss to Lease		-	-	-	-	-	0	0	0	0	-
Gross Potential Income		$ 2,907,960	$ 2,995,199	$ 3,085,055	$ 3,177,606	$ 3,272,935	$ 3,371,123	$ 3,472,256	$ 3,576,424	$ 3,683,717	$ 3,794,228
Economic Loss											
Vacancy		(1,412,299)	(194,438)	(185,103)	(190,656)	(196,376)	(202,267)	(208,335)	(214,585)	(221,023)	(227,654)
Non-Revenue Units		(11,436)	(11,779)	(12,132)	(12,496)	(12,871)	(13,257)	(13,655)	(14,065)	(14,487)	(14,921)
Bad Debt Expense		(9,090)	(20,530)	(21,507)	(22,152)	(22,816)	(23,501)	(24,206)	(24,932)	(25,680)	(26,450)
Concessions		(272,258)	(51,586)	(20,263)	(20,871)	(21,497)	(22,142)	(22,806)	(23,490)	(24,195)	(24,920)
Total Economic Loss		(1,705,083)	(278,334)	(239,005)	(246,175)	(253,560)	(261,167)	(269,002)	(277,072)	(285,385)	(293,946)
Net Rental Income		$ 1,202,877	$ 2,716,865	$ 2,846,050	$ 2,931,431	$ 3,019,374	$ 3,109,955	$ 3,203,254	$ 3,299,352	$ 3,398,332	$ 3,500,282
Services & Other Income		22,398	103,635	108,039	108,039	108,039	108,039	108,039	108,039	108,039	108,039
Effective Gross Income		$ 1,225,275	$ 2,820,500	$ 2,954,089	$ 3,039,470	$ 3,127,413	$ 3,217,994	$ 3,311,293	$ 3,407,391	$ 3,506,371	$ 3,608,321
Operating Expenses											
Controllable Expenses											
Advertising & Promotion		$ 100,000	$ 103,000	$ 106,090	$ 109,273	$ 112,551	$ 115,927	$ 119,405	$ 122,987	$ 126,677	$ 130,477
General & Administrative		20,000	20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335	26,095
Personnel		250,000	257,500	265,225	273,182	281,377	289,819	298,513	307,468	316,693	326,193
Repairs & Maintenance		45,000	46,350	47,741	49,173	50,648	52,167	53,732	55,344	57,005	58,715
Turnover Costs		18,000	18,540	19,096	19,669	20,259	20,867	21,493	22,138	22,802	23,486
Contract Services		47,500	48,925	50,393	51,905	53,462	55,066	56,717	58,419	60,172	61,977
Utilities (Net of Reimbursements)		25,000	25,750	26,523	27,318	28,138	28,982	29,851	30,747	31,669	32,619
Subtotal Controllable		$ 505,500	$ 520,665	$ 536,285	$ 552,373	$ 568,945	$ 586,013	$ 603,593	$ 621,701	$ 640,352	$ 659,563
Non-Controllable Expenses											
Management Fee @ 3%		$ 36,758	$ 84,615	$ 88,623	$ 91,184	$ 93,822	$ 96,540	$ 99,339	$ 102,222	$ 105,191	$ 108,250
Insurance		43,750	45,063	46,414	47,807	49,241	50,718	52,240	53,807	55,421	57,084
Real Estate Taxes		373,700	381,174	388,797	396,573	404,505	412,595	420,847	429,264	437,849	446,606
Subtotal Non-Controllable		$ 454,208	$ 510,851	$ 523,834	$ 535,564	$ 547,568	$ 559,853	$ 572,425	$ 585,292	$ 598,461	$ 611,939
Total Operating Expenses		$ 959,708	$ 1,031,516	$ 1,060,119	$ 1,087,938	$ 1,116,513	$ 1,145,866	$ 1,176,019	$ 1,206,994	$ 1,238,814	$ 1,271,502
Net Operating Income		$ 265,567	$ 1,788,983	$ 1,893,969	$ 1,951,532	$ 2,010,900	$ 2,072,128	$ 2,135,274	$ 2,200,397	$ 2,267,558	$ 2,336,819
Less Capital Reserves		(37,500)	(38,625)	(39,784)	(40,977)	(42,207)	(43,473)	(44,777)	(46,120)	(47,504)	(48,929)
Oper. Cash Flow before Debt		$ 228,067	$ 1,750,358	$ 1,854,186	$ 1,910,555	$ 1,968,694	$ 2,028,656	$ 2,090,497	$ 2,154,277	$ 2,220,054	$ 2,287,890

FINAL DRAFT

Source: Consultant Research & Calculations

Financial Model—Scenario 1

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Acquisition & Reversion											
Acquisition Costs	$ (25,338,842)										
Gross Sales Price @ 9% Cap Rate											26,183,628
Cost of Sale of 1.5%											(392,754)
Net Sales Proceeds	$ (25,338,842)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 25,790,874
Cash Flow before Debt	$ (25,338,842)	$ 228,067	$ 1,750,358	$ 1,854,186	$ 1,910,555	$ 1,968,694	$ 2,028,656	$ 2,090,497	$ 2,154,277	$ 2,220,054	$ 28,078,763
Debt Service											
Principal	$ 20,271,074										(17,533,092)
Loan Fees/Prepayment Penalties	(506,777)										-
Debt Service		$ (1,674,868)	$ (1,674,868)	$ (1,674,868)	$ (1,674,868)	(1,674,868)	(1,674,868)	(1,674,868)	(1,674,868)	(1,674,868)	(1,674,868)
Subtotal Debt Service	$ 19,764,297	$ (1,674,868)	$ (1,674,868)	$ (1,674,868)	$ (1,674,868)	$ (1,674,868)	$ (1,674,868)	$ (1,674,868)	$ (1,674,868)	$ (1,674,868)	$ (19,207,960)
Cash Flow After Debt	$ (5,574,545)	$ (1,446,801)	$ 75,490	$ 179,317	$ 235,687	$ 293,826	$ 353,787	$ 415,629	$ 479,409	$ 545,186	$ 8,870,803
Return on and of Equity											$ 5,067,768
Net Cash After Equity Retirement											$ 3,803,035
Performance Measures											
Return on Cost		0.90%	6.91%	7.32%	7.54%	7.77%	8.01%	8.25%	8.50%	8.76%	9.03%
Debt Coverage Ratio (CF before Debt/Debt Service)		0.14	1.05	1.11	1.14	1.18	1.21	1.25	1.29	1.33	1.46
Unleveraged IRR (10 Yr.)	7.09%										
Leveraged IRR (10 Yr.)	5.63%										
Unleveraged Net Present Value @ 12%	$ 17,934,736										

FINAL DRAFT

Source: Consultant Research & Calculations

Financial Model—Scenario 2

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Economic Occupancy		41.4%	90.7%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%
Revenue & Collections											
Gross Scheduled Income		$ 2,907,960	$ 2,995,199	$ 3,085,055	$ 3,177,606	$ 3,272,935	$ 3,371,123	$ 3,472,256	$ 3,576,424	$ 3,683,717	$ 3,794,228
Loss to Lease		-	-	-	-	-	0	0	0	0	-
Gross Potential Income		$ 2,907,960	$ 2,995,199	$ 3,085,055	$ 3,177,606	$ 3,272,935	$ 3,371,123	$ 3,472,256	$ 3,576,424	$ 3,683,717	$ 3,794,228
Economic Loss											
Vacancy		(1,412,299)	(194,438)	(185,103)	(190,656)	(196,376)	(202,267)	(208,335)	(214,585)	(221,023)	(227,654)
Non-Revenue Units		(11,436)	(11,779)	(12,132)	(12,496)	(12,871)	(13,257)	(13,655)	(14,065)	(14,487)	(14,921)
Bad Debt Expense		(9,090)	(20,530)	(21,507)	(22,152)	(22,816)	(23,501)	(24,206)	(24,932)	(25,680)	(26,450)
Concessions		(272,258)	(51,586)	(20,263)	(20,871)	(21,497)	(22,142)	(22,806)	(23,490)	(24,195)	(24,920)
Total Economic Loss		(1,705,083)	(278,334)	(239,005)	(246,175)	(253,560)	(261,167)	(269,002)	(277,072)	(285,385)	(293,946)
Net Rental Income		$ 1,202,877	$ 2,716,865	$ 2,846,050	$ 2,931,431	$ 3,019,374	$ 3,109,955	$ 3,203,254	$ 3,299,352	$ 3,398,332	$ 3,500,282
Services & Other Income		22,398	103,635	108,039	108,039	108,039	108,039	108,039	108,039	108,039	108,039
Effective Gross Income		$ 1,225,275	$ 2,820,500	$ 2,954,089	$ 3,039,470	$ 3,127,413	$ 3,217,994	$ 3,311,293	$ 3,407,391	$ 3,506,371	$ 3,608,321
Operating Expenses											
Controllable Expenses											
Advertising & Promotion		$ 100,000	$ 103,000	$ 106,090	$ 109,273	$ 112,551	$ 115,927	$ 119,405	$ 122,987	$ 126,677	$ 130,477
General & Administrative		20,000	20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335	26,095
Personnel		250,000	257,500	265,225	273,182	281,377	289,819	298,513	307,468	316,693	326,193
Repairs & Maintenance		45,000	46,350	47,741	49,173	50,648	52,167	53,732	55,344	57,005	58,715
Turnover Costs		18,000	18,540	19,096	19,669	20,259	20,867	21,493	22,138	22,802	23,486
Contract Services		47,500	48,925	50,393	51,905	53,462	55,066	56,717	58,419	60,172	61,977
Utilities (Net of Reimbursements)		25,000	25,750	26,523	27,318	28,138	28,982	29,851	30,747	31,669	32,619
Subtotal Controllable		$ 505,500	$ 520,665	$ 536,285	$ 552,373	$ 568,945	$ 586,013	$ 603,593	$ 621,701	$ 640,352	$ 659,563
Non-Controllable Expenses											
Management Fee @ 3%		$ 36,758	$ 84,615	$ 88,623	$ 91,184	$ 93,822	$ 96,540	$ 99,339	$ 102,222	$ 105,191	$ 108,250
Insurance		43,750	45,063	46,414	47,807	49,241	50,718	52,240	53,807	55,421	57,084
Real Estate Taxes											
Subtotal Non-Controllable		$ 80,508	$ 129,677	$ 135,037	$ 138,991	$ 143,063	$ 147,258	$ 151,579	$ 156,029	$ 160,612	$ 165,333
Total Operating Expenses		$ 586,008	$ 650,342	$ 671,322	$ 691,364	$ 712,008	$ 733,271	$ 755,172	$ 777,730	$ 800,965	$ 824,896
Net Operating Income		$ 639,267	$ 2,170,157	$ 2,282,767	$ 2,348,106	$ 2,415,405	$ 2,484,723	$ 2,556,121	$ 2,629,661	$ 2,705,407	$ 2,783,425
Less Capital Reserves		(37,500)	(38,625)	(39,784)	(40,977)	(42,207)	(43,473)	(44,777)	(46,120)	(47,504)	(48,929)
Oper. Cash Flow before Debt		$ 601,767	$ 2,131,532	$ 2,242,983	$ 2,307,129	$ 2,373,198	$ 2,441,250	$ 2,511,344	$ 2,583,540	$ 2,657,903	$ 2,734,496

FINAL DRAFT

Source: Consultant Research & Calculations

Financial Model—Scenario 2

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Acquisition & Reversion											
Acquisition Costs	$ (22,670,792)										
Gross Sales Price @ 9% Cap Rate											31,294,786
Cost of Sale of 1.5%											(469,422)
Net Sales Proceeds	$ (22,670,792)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 30,825,364
Cash Flow before Debt	$ (22,670,792)	$ 601,767	$ 2,131,532	$ 2,242,983	$ 2,307,129	$ 2,373,198	$ 2,441,250	$ 2,511,344	$ 2,583,540	$ 2,657,903	$ 33,559,860
Debt Service											
Principal	$ 20,403,713										(17,647,816)
Loan Fees/Prepayment Penalties	(510,093)										-
Debt Service		$ (1,685,827)	$ (1,685,827)	$ (1,685,827)	$ (1,685,827)	(1,685,827)	(1,685,827)	(1,685,827)	(1,685,827)	(1,685,827)	(1,685,827)
Subtotal Debt Service	$ 19,893,620	$ (1,685,827)	$ (1,685,827)	$ (1,685,827)	$ (1,685,827)	$ (1,685,827)	$ (1,685,827)	$ (1,685,827)	$ (1,685,827)	$ (1,685,827)	$ (19,333,643)
Cash Flow After Debt	$ (2,777,172)	$ (1,084,061)	$ 445,705	$ 557,156	$ 621,301	$ 687,371	$ 755,423	$ 825,517	$ 897,713	$ 972,075	$ 14,226,217
Return on and of Equity											$ 2,267,079
Net Cash After Equity Retirement											$ 11,959,137
Performance Measures											
Return on Cost		2.65%	9.40%	9.89%	10.18%	10.47%	10.77%	11.08%	11.40%	11.72%	12.06%
Debt Coverage Ratio (CF before Debt/Debt Service)		0.36	1.26	1.33	1.37	1.41	1.45	1.49	1.53	1.58	1.74
Unleveraged IRR (10 Yr.)	11.43%										
Leveraged IRR (10 Yr.)	22.91%										
Unleveraged Net Present Value @ 12%	$ 21,825,995										

FINAL DRAFT

Source: Consultant Research & Calculations

Financial Model—Scenario 3

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Economic Occupancy		41.4%	90.7%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%
Revenue & Collections											
Gross Scheduled Income		$ 2,907,960	$ 2,995,199	$ 3,085,055	$ 3,177,606	$ 3,272,935	$ 3,371,123	$ 3,472,256	$ 3,576,424	$ 3,683,717	$ 3,794,228
Loss to Lease		-	-	-	-	-	0	0	0	0	-
Gross Potential Income		$ 2,907,960	$ 2,995,199	$ 3,085,055	$ 3,177,606	$ 3,272,935	$ 3,371,123	$ 3,472,256	$ 3,576,424	$ 3,683,717	$ 3,794,228
Economic Loss											
Vacancy		(1,412,299)	(194,438)	(185,103)	(190,656)	(196,376)	(202,267)	(208,335)	(214,585)	(221,023)	(227,654)
Non-Revenue Units		(11,436)	(11,779)	(12,132)	(12,496)	(12,871)	(13,257)	(13,655)	(14,065)	(14,487)	(14,921)
Bad Debt Expense		(9,090)	(20,530)	(21,507)	(22,152)	(22,816)	(23,501)	(24,206)	(24,932)	(25,680)	(26,450)
Concessions		(272,258)	(51,586)	(20,263)	(20,871)	(21,497)	(22,142)	(22,806)	(23,490)	(24,195)	(24,920)
Total Economic Loss		(1,705,083)	(278,334)	(239,005)	(246,175)	(253,560)	(261,167)	(269,002)	(277,072)	(285,385)	(293,946)
Net Rental Income		$ 1,202,877	$ 2,716,865	$ 2,846,050	$ 2,931,431	$ 3,019,374	$ 3,109,955	$ 3,203,254	$ 3,299,352	$ 3,398,332	$ 3,500,282
Services & Other Income		22,398	103,635	108,039	108,039	108,039	108,039	108,039	108,039	108,039	108,039
Effective Gross Income		$ 1,225,275	$ 2,820,500	$ 2,954,089	$ 3,039,470	$ 3,127,413	$ 3,217,994	$ 3,311,293	$ 3,407,391	$ 3,506,371	$ 3,608,321
Operating Expenses											
Controllable Expenses											
Advertising & Promotion		$ 100,000	$ 103,000	$ 106,090	$ 109,273	$ 112,551	$ 115,927	$ 119,405	$ 122,987	$ 126,677	$ 130,477
General & Administrative		20,000	20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335	26,095
Personnel		250,000	257,500	265,225	273,182	281,377	289,819	298,513	307,468	316,693	326,193
Repairs & Maintenance		45,000	46,350	47,741	49,173	50,648	52,167	53,732	55,344	57,005	58,715
Turnover Costs		18,000	18,540	19,096	19,669	20,259	20,867	21,493	22,138	22,802	23,486
Contract Services		47,500	48,925	50,393	51,905	53,462	55,066	56,717	58,419	60,172	61,977
Utilities (Net of Reimbursements)		25,000	25,750	26,523	27,318	28,138	28,982	29,851	30,747	31,669	32,619
Subtotal Controllable		$ 505,500	$ 520,665	$ 536,285	$ 552,373	$ 568,945	$ 586,013	$ 603,593	$ 621,701	$ 640,352	$ 659,563
Non-Controllable Expenses											
Management Fee @ 3%		$ 36,758	$ 84,615	$ 88,623	$ 91,184	$ 93,822	$ 96,540	$ 99,339	$ 102,222	$ 105,191	$ 108,250
Insurance		43,750	45,063	46,414	47,807	49,241	50,718	52,240	53,807	55,421	57,084
Real Estate Taxes		155,250	158,355	161,522	164,752	168,048	171,408	174,837	178,333	181,900	185,538
Subtotal Non-Controllable		$ 235,758	$ 288,032	$ 296,559	$ 303,743	$ 311,111	$ 318,667	$ 326,415	$ 334,362	$ 342,512	$ 350,872
Total Operating Expenses		$ 741,258	$ 808,697	$ 832,844	$ 856,117	$ 880,056	$ 904,680	$ 930,009	$ 956,063	$ 982,865	$ 1,010,434
Net Operating Income		$ 484,017	$ 2,011,802	$ 2,121,245	$ 2,183,353	$ 2,247,357	$ 2,313,315	$ 2,381,284	$ 2,451,327	$ 2,523,507	$ 2,597,887
Less Capital Reserves		(37,500)	(38,625)	(39,784)	(40,977)	(42,207)	(43,473)	(44,777)	(46,120)	(47,504)	(48,929)
Oper. Cash Flow before Debt		$ 446,517	$ 1,973,177	$ 2,081,461	$ 2,142,376	$ 2,205,151	$ 2,269,842	$ 2,336,507	$ 2,405,207	$ 2,476,003	$ 2,548,958

FINAL DRAFT

Source: Consultant Research & Calculations

Financial Model—Scenario 3

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Acquisition & Reversion											
Acquisition Costs	$ (22,669,298)										
Gross Sales Price @ 9% Cap Rate											29,171,406
Cost of Sale of 1.5%											(437,571)
Net Sales Proceeds	$ (22,669,298)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 28,733,835
Cash Flow before Debt	$ (22,669,298)	$ 446,517	$ 1,973,177	$ 2,081,461	$ 2,142,376	$ 2,205,151	$ 2,269,842	$ 2,336,507	$ 2,405,207	$ 2,476,003	$ 31,282,793
Debt Service											
Principal	$ 20,402,368										(17,646,653)
Loan Fees/Prepayment Penalties	(510,059)										-
Debt Service		$ (1,685,716)	$ (1,685,716)	$ (1,685,716)	$ (1,685,716)	(1,685,716)	(1,685,716)	(1,685,716)	(1,685,716)	(1,685,716)	(1,685,716)
Subtotal Debt Service	$ 19,892,309	$ (1,685,716)	$ (1,685,716)	$ (1,685,716)	$ (1,685,716)	$ (1,685,716)	$ (1,685,716)	$ (1,685,716)	$ (1,685,716)	$ (1,685,716)	$ (19,332,369)
Cash Flow After Debt	$ (2,776,989)	$ (1,239,199)	$ 287,461	$ 395,745	$ 456,660	$ 519,435	$ 584,126	$ 650,791	$ 719,491	$ 790,287	$ 11,950,423
Return on and of Equity											$ 2,266,930
Net Cash After Equity Retirement											$ 9,683,494
Performance Measures											
Return on Cost		1.97%	8.70%	9.18%	9.45%	9.73%	10.01%	10.31%	10.61%	10.92%	11.24%
Debt Coverage Ratio (CF before Debt/Debt Service)		0.26	1.17	1.23	1.27	1.31	1.35	1.39	1.43	1.47	1.62
Unleveraged IRR (10 Yr.)	10.30%										
Leveraged IRR (10 Yr.)	18.61%										
Unleveraged Net Present Value @ 12%	$ 20,209,410										

FINAL DRAFT

Source: Consultant Research & Calculations