CASE STUDY: CONVERSION TO PROJECT-BASED ASSISTANCE

WARREN WILLIAMS HOMES

Housing Authority Insurance Group

Council of Large Public Housing Authorities

Public Housing Authority Directors Association

National Association of Housing and Redevelopment Officials

Contents

1. Executive Summary

In furtherance of the discussion regarding the feasibility of converting the nation's public housing stock to project-based rental assistance or project-based vouchers ("Project-Based Assistance")[1] from the current Annual Contributions Contract ("ACC") program, the Council of Large Public Housing Authorities, the Public Housing Authorities Directors Association, the National Association of Housing and Redevelopment Officials, and the Housing Authority Insurance Group (collectively, the "Client") requested that Recap Real Estate Advisors ("Recap" or "we") investigate the costs and limitations of such a conversion using existing public housing authority properties as specific examples. More specifically, understanding market dynamics, property cash flow potential and capital availability as they relate to a potential conversion was of utmost importance. Without the ability to tap debt markets – and in some cases equity (such as Low-Income Housing Tax Credits or "LIHTC") markets – to provide a capital infusion to cure capital backlog ("Capital Backlog"), public housing properties undergoing the conversion process would potentially fall victim to chronic underfunding that is woefully inadequate to maintain the physical plant.

As part of the process, the Client convened a working group from amongst its members to assist with submitting candidate properties and selecting three that would undergo additional analysis as part of a case study. Recap, in conjunction with the Client's working group, devised selection criteria, as well as variability within each dimension, to avoid homogeneity within the case studies (please see **Exhibit D** for details). For instance, if one property selected was garden-style, then at least one other should be mid-rise or high-rise.

Warren Williams Homes ("Warren Williams" or the "Property") was selected by the working group to move onto the case study phase because of its construction (garden-style), tenant base (families) and per unit Capital Backlog as reported by the housing authority (considered "low" at $3,600 per unit). As part of the case study investigation, Recap's analysis included the evaluation of the Property's rental market and potential competition, current and future capital needs ("Future Capital Needs"), cash flow potential at various rent levels and its ability to produce mortgage debt and LIHTC equity investment to fund in-place capital needs. Furthermore, the ability of the local housing authority to operate a property subject to market dynamics and to serve as accountable stewards of the asset was also investigated. A site visit was conducted, at which time representatives of Recap met with representatives of the Housing Authority of Columbus, Georgia ("HACG"), toured the Property and conducted a market survey. Following the site visit, we assessed the amount of Capital Backlog and Future Capital Needs that could be cured upon conversion to Project-Based Assistance, we evaluated two scenarios – debt raise using a Federal Housing Administration ("FHA") loan program (223(f)) at both trailing 12-month funding levels ("Trailing 12-Month Funding Levels" or "T-12")[2] and projected market

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[1] A complete list of capitalized terms used in this report and their definitions can be found in **Exhibit E**.

[2] Trailing 12-Month Funding Levels were calculated using September 2010 to August 2011 data.

rental rates ("Projected Market Rental Rates"), and a tax-exempt bond financing with 4% LIHTC equity investment at Trailing 12-Month Funding Levels and Projected Market Rental Rates. Based upon the site visit and our analysis, we have concluded the following:

- Warren Williams would be a good candidate for conversion, based upon its ability to generate operating cash flow and corresponding levels of FHA debt. The amount of FHA debt raised coupled with available replacement reserve deposits, would be sufficient to satisfy the current Capital Backlog under both funding scenarios and approximately 49% and 100% of Future Capital Needs at Trailing 12-Month Funding Levels and Projected Market Rental Rates, respectively.
- The Property could benefit from a tax-exempt bond financing and LIHTC equity infusion, which, when coupled with available replacement reserve deposits, would cure all Capital Backlog under both funding scenarios and approximately 66% and 100% of Future Capital Needs at Trailing 12-Month Funding Levels and Projected Market Rental Rates, respectively.
- HACG and its professionals demonstrate the core competencies necessary to successfully operate a property. Experience with alternative funding sources, such involvement with properties partially funded by LIHTC equity, would make it a good candidate to seek funding from that source. These attributes make the housing authority a stronger candidate to sponsor a transaction in the eyes of debt and equity providers.

Greater detail regarding Warren Williams, the housing authority, data points utilized within our analysis, general methodologies and subsequent conclusions may be found within the narrative that follows this Executive Summary. Questions regarding the information presented herein should be directed to Thomas Davis, Senior Vice President, at tdavis@recapadvisors.com or (617) 338-9484.

2. Housing Authority Overview

"The mission of the Housing Authority of Columbus, Georgia is to be the foremost provider of quality, affordable housing in the Columbus region by developing, revitalizing, and managing contemporary housing communities." Along with operating 1,542 public housing units, HACG is involved in many different aspects of affordable housing within the greater Columbus area, including the administration of 2,400 Section 8 vouchers used at privately-owned properties. HACG also oversees the day to day management of several other smaller housing authorities in the region (385 units in total). The housing authority has partnered with developers to construct over 600 units of multifamily housing utilizing LIHTC equity and has additional mixed finance developments in the production pipeline. Ultimately, HACG would like to build a larger portfolio of mixed finance deals that would be self-managed and would provide additional cash flow to further its mission of providing affordable housing to low-income residents.

It is also apparent that the professionals at HACG fully understand proper multifamily real estate stewardship. Financial records and property-level data was well organized and requests were fulfilled in a timely fashion. The individuals overseeing both the day-to-day property management and maintenance, as well as longer term capital planning, demonstrated the core competencies, industry knowledge and level of professionalism that often escape seasoned managers and owners of conventional multifamily housing. Occupancy rates average approximately 99% in its housing portfolio and a recent survey of both tenants and Section 8 landlords continue to generate positive reviews. The most recent inspection of the housing authority's portfolio generated an average Department of Housing and Urban Development ("HUD") Real Estate Assessment Center score of 95/100, confirming Recap's observations regarding general operations and asset quality. A self guided tour of additional assets within HACG's housing portfolio furthered this notion – all were either on par or of better quality than privately owned product in the area. Aside from HACG's logo on the signage, one would not know that any of these properties were owned by a public housing authority.

3. Property Information

Warren Williams, located in Columbus, Georgia, consists of 160 apartments contained within 26 one (Phase 1) and two story buildings (Phase 2). In addition, there is a single story building that houses the management office, as well as two community rooms and two kitchens. Three of the Property's units are used for health services, a computer lab and resident services. Warren Williams primarily caters to families although some seniors do live at the Property (it does not specifically target seniors).

The Property's unit mix and count is as follows:

Unit Type	Total Units	Square Feet	Style
1Bed / 1 Ba	17	564	Flat
2 Bed / 1 Ba	103	788	Flat
3 Bed / 1 Ba	40	982	Townhome
Total / Average	160	813	

In unit amenities include individual patios or porches, floor coverings, window coverings, standard appliance package (stove, range hood and refrigerator), central heating and cooling, exterior storm/security doors, washer and dryer hookup and cable TV hookup. Common area amenities include a management office that contains two meeting rooms and two kitchens available for tenant use, playground, basketball court, computer lab, on-site health services and social programs available through local agencies. Although originally constructed in 1950, Warren Williams has undergone various renovation projects throughout the years, the most recent occurring between 2000 and 2004.

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Photos of the Property can be found in **Exhibit A.**

4. Market Information & Projected Market Rental Rates

As part of its scope of services under contract with the Client, Recap produced a Market Survey and Rent Comparable Study for the Warren Williams Homes dated November 11, 2011. As part of this work, we conducted a tour of the local apartment market and specifically identified those multifamily communities that would directly compete with Warren Williams for tenants under a Project-Based Assistance conversion scenario. Asking rents and occupancy information, as well as superior or inferior attributes of each property were recorded for inclusion within the report. Information regarding the dynamics of the apartment market was gleaned from both published sources, as well as conversations with local participants. Taken together, this allowed us to arrive at potential asking rents for Warren Williams assuming free market dynamics with no restrictions.

Based upon the adjustments undertaken based upon comparable property characteristics, it was determined that the Projected Market Rental Rates for Warren Williams are:

One Bedroom $585/month

Two Bedroom $695/month

Three Bedroom $795/month

It should be noted that the published 2012 Fair Market Rents ("FMR") for each floor plan are $588, $673 and $895, respectively. The two bedroom concluded rent is slightly above FMR, but only by 3.3%.

The rents concluded above represent a premium of approximately 20.6% over the Trailing 12-Month Funding Levels, which include tenant rent, operating subsidy and modernization funds. It should be noted that the tenant portion would remain the same under both scenarios (i.e. market rents equal tenant rent plus all subsidy).

5. Capital Needs

The Property has received numerous upgrades over the years, with the most recent occurring between 2000 and 2004. During the most recent renovation, exterior items such as brick re-pointing, soffit / fascia replacement, roof repairs/replacement and concrete flatwork were addressed. For unit interiors, appliances, cabinets & countertops, HVAC, appliances (as needed), VCT replacement and bathroom upgrades (as needed) were undertaken. In addition, new power feeds and switchgear were installed to increase the overall rating for each unit. The total cost of this work was estimated at $6 million. The Property's windows were upgraded to double-paned, insulated glass in the 1980's.

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As part of its submission, HACG provided a copy of a physical needs inspection that was completed in 2010 as part of the housing authority's ongoing asset management review process. Within this report, approximately $576,500 ($3,600 per unit) in Capital Backlog items, with window replacement the single largest item at $532,700. The only other significant item was $24,000 for the installation of GFCI devices in kitchens and bathrooms. For the following twenty years, this report identified an additional $1.6 million ($10,000 per unit) in ongoing capital needs. In total, this report concluded that Warren Williams would need $2,181,300 ($13,630 per unit) in capital improvements over the next twenty years to keep the physical plant in good working order.

A new capital needs assessment was commissioned to independently verify the conclusions reached by the 2010 report, as well as to account for additional ongoing replacements of building components. Furthermore, the validity of the report was called into question, as it did not contemplate replacement of key building and site components such as roofs, driveways, both of which would have well exceeded useful life during this time horizon.

The updated capital needs assessment, produced by a nationally recognized firm, concluded that the property's Capital Backlog is approximately $128,100 ($800 per unit), of which $24,500 relates to ADA/Section 504 compliance. The major difference in concluded Capital Backlog between the updated and original reports is the requirement to replace the Property's windows, as the inspector determined that the components had been properly maintained and overall, the windows were in good working order. It was determined that $4,177,500 ($26,110 per unit) would be required to fully satisfy the Capital Backlog and ongoing needs during the projected twenty year period. Major departures from the prior report include allowances for the replacement of site systems, windows, roofing and site paving/landscaping.

Please see **Exhibit G** for detail regarding these figures.

6. Capital Availability

As part of the case study scope, the Client requested that Recap investigate the availability of private capital to assist in curing capital backlog as part of any conversion scenario. More specifically, we entered into preliminary discussions with lenders offering first mortgage loans through GSE programs (Fannie Mae, Freddie Mac and FHA), as well as LIHTC investors. During these conversations, basic information regarding the case study property was conveyed. Furthermore, each participant had conducted business with public housing authorities in the past. Initial feedback from these capital sources is discussed below:

First Mortgage Debt (FHA Debt, No LIHTC):

From a purely real estate perspective, a lender would not underwrite a transaction on a property within a public housing portfolio any differently than one owned by a private investor. Each loan program's underwriting guidelines for determining cash flow available for debt service would determine, in conjunction with loan to value and debt service coverage restrictions, the amount of hard (i.e. must pay) debt the Property could support. While historical data and observed trends would likely drive the underwritten operating expenses, the rental revenue stream and affordability restrictions post conversion would impact projected revenues. The resultant Net Operating Income (“NOI”) would then be used to determine cash flow available to service the debt and therefore, the potential level of debt that the Property could support.

Like with any transaction sponsor evaluated as part of a mortgage underwriting, the experience and financial wherewithal of the housing authority plays a significant role in whether, and at what level, a loan is made. Most loans require a “warm body” to provide guarantees against certain events; the lack of this type of guarantor often results in the lender reducing proceeds to provide more cash flow cushion versus debt service or reduced proceeds versus value should a property need to be sold in a foreclosure situation. Oftentimes, partnering with an experienced affordable housing owner / operator will increase the lender’s overall comfort with respect to the sponsorship.

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LIHTC Equity Investment (4% LIHTC, Tax-Exempt Bonds):

During preliminary discussions, LIHTC investors echoed many of the same sentiments as the first mortgage lenders; from an underwriting perspective, the real estate would be viewed in the same light as that operated by a private affordable housing developer, but getting comfortable with the operational capabilities and financial wherewithal of the public housing authority as sponsor may be more difficult. From a sponsorship strength perspective, the housing authorities would almost always be viewed in a more positive light if some type of joint venture (whether co-general partners or otherwise) was formed with an experienced affordable housing developer, especially one with financial strength. Like with mortgage debt, LIHTC investment structures almost always involve some type of financial guaranty on the part of the general partner, so improved financial strength enhances the level of comfort with a proposed investment. Should a housing authority want to “fly solo” as a general partner and transaction sponsor, a successful development track record and sufficient levels of unrestricted cash available for guarantees would be a pre-requisite.

Banks and other financial institutions also act as LIHTC equity investors. In many cases, specific LIHTC equity investments allow the bank or financial institution to achieve aggregate Community Reinvestment Act (“CRA”) goals. Credit for CRA investment activity is tracked on a zip code / geographic basis. That said, in cases where second or tertiary apartment markets may prove less desirable from an investment perspective, required CRA hurdles might induce the bank or financial institution to enter into a transaction when it otherwise might not.

Although receipt of a 9% LIHTC allocation might be possible, this is a limited resource subject to an extremely competitive and largely over-applied allocation process. Given the perceived difficulty in being awarded 9% LIHTC, we have not included this equity source in our baseline analysis.[3] Instead, we analyzed a tax-exempt bond financing, which leads to a non-competitive allocation of 4% LIHTC. Tax-exempt bonds are much easier to obtain than 9% LIHTC, as they are typically under-applied for and are a much larger resource. If an applicant is awarded tax-exempt bonds, they are automatically allocated 4% LIHTC.

Based upon the discussions described above, we believe that there would be a market for first mortgage debt and LIHTC equity as it relates to the Property. Assumptions surrounding debt and equity infusions have been integrated into our financial underwriting, more specifically described in Section 7.

7. Financial Underwriting

The goal of our financial underwriting was to determine the prospective property-level NOI for two rental scenarios upon Project-Based Assistance conversion – one utilizing Trailing 12-Month Funding Levels based

[3] For illustrative purposes only, we have shown what the Property could potentially raise if it were allocated 9% LIHTC in Section 8.

upon existing subsidies (ACC) and one assuming that the subsidy level is increased to Projected Market Rental Rates (described in Section 4 above). The resulting cash flows were then used to determine the amount of debt that the Property could raise based upon standard FHA first mortgage loan terms. We also evaluated the potential for a tax-exempt bond financing with a 4% LIHTC equity investment. The total amount of debt and LIHTC equity produced was then compared to the amount of Warren Williams' Capital Backlog and the present value ("PV") of Future Capital Needs over a 20 year period. This comparison assisted in determining whether a conversion would be financially feasible based upon the desired outcome of satisfying both Capital Backlog and Future Capital Needs.

Our assumptions and methodologies employed are more specifically described in **Exhibits B and C**. A summary of the results of our financial underwriting for Warren Williams may be found in **Exhibit F**.

8. Conclusion

Based upon our due diligence of both the Property and its market, along with the resulting financial underwriting, we have concluded the following:

- The amount of capital raised from new FHA first mortgage financing, coupled with available replacement reserve deposits, would be more than sufficient to satisfy the Property's existing Capital Backlog under both funding scenarios and approximately 49% and 100% of the Property's Future Capital Needs at Trailing 12-Month Funding Levels and Projected Market Rental Rates, respectively, upon conversion to Project-Based Assistance.
- The amount of capital raised from new tax-exempt bond financing with 4% LIHTC equity investment, coupled with available replacement reserve deposits, would be more than sufficient to satisfy the Property's existing Capital Backlog under both funding scenarios and approximately 66% and 100% of the Property's Future Capital Needs at Trailing 12-Month Funding Levels and Projected Market Rental Rates, respectively, upon conversion to Project-Based Assistance.

	FHA Debt, No LIHTC		4% LIHTC, Tax-Exempt Bonds	
	T-12 Rents ($)	Market Rents ($)	T-12 Rents ($)	Market Rents ($)
Debt raised	394,424	2,582,828	310,266	2,031,727
LIHTC raised (4%)	n/a	n/a	595,930	1,031,075
PV of replacement reserve deposits	1,225,904	1,225,904	1,225,904	1,225,904
Total sources	1,620,328	3,808,732	2,132,099	4,288,707
Capital Backlog	128,054	128,054	128,054	128,054
PV of 20 year capital needs	3,036,635	3,036,635	3,036,635	3,036,635
Total uses	3,164,689	3,164,689	3,164,689	3,164,689
Surplus/shortfall	(1,544,361)	644,043	(1,032,590)	1,124,018

- Should HACG be successful in receiving a 9% LIHTC allocation for the Property, which as previously stated is possible but very difficult to obtain, would result in potential equity of $1,558,640 at Trailing 12-Month Funding Levels and $2,080,247 at Projected Market Rental Rates. If the Property were able to obtain a 9% LIHTC allocation, it would be done in conjunction with debt financing similar to the FHA loan shown above.
- Under the FHA Debt, No LIHTC scenario, rents at Trailing 12-Month Funding Levels would need to increase approximately 9.8% to cover all Capital Backlog and Future Capital Needs. When looking at a 4% LIHTC, Tax-Exempt Bond scenario, rents at Trailing 12-Month Funding Levels would need to increase approximately 6.7% to cover all Capital Backlog and Future Capital Needs.

All excess proceeds under any scenario could be available to HACG for use in other areas of its operation or reduce the amount of debt incurred and therefore, improve operating cash flow after debt service.

It should be noted that the conclusions reached above assume that the Property, nor the housing authority (with a pass-through to the Property), incurs any additional ongoing expenses as part of a conversion to Project-Based Assistance. Any material change to the overall expense structure could negatively impact the overall financial feasibility under both rental scenarios. Furthermore, any exogenous events impacting the debt or equity markets might alter the outcomes discussed above.

From an operational perspective, HACG appears to be well equipped to successfully operate multifamily housing in its local market. As mentioned above, the overall quality of product offered and level of professionalism of its staff stood out in comparison to other potentially competitive assets in the area.

Furthermore, its organizational structure, reputation and experience in other areas of multifamily operations (i.e. involvement with LIHTC) strengthens its position as a potential transaction sponsor. Our preliminary discussions with both debt and LIHTC equity providers indicate that housing authorities with strong track records, coupled with good underlying real estate, would be good candidates for tapping the capital markets upon conversion.

9. Exhibits

A. Subject Property Photos
B. Property-Level Projection Assumptions
C. Methodologies
D. Summary of Dimensions
E. Definitions of Terms Used
F. Financial Underwriting Summary
G. Capital Needs Summary

Exhibit A – Subject Property Photos

Exterior Elevation (Single Story Building)

Exterior Elevation (Single Story Building)

Typical Bedroom

Typical Kitchen (Rent Ready Unit)

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Typical Living Room

Community Room

Basketball Court

Playground

HACG Property (LIHTC)

HACG Property (Public Housing)

Privately Owned Property

Privately Owned Property

Exhibit B – Property-Level Projection Assumptions

In our projections, we have made the following assumptions:

1. ***Properties retain their 'Other Income',*** which is outside the ACC funding.
2. ***Vacancy stabilizes at 5%,*** a figure based upon standard lender underwriting.
3. ***No change in use or tenancy***. The properties will operate under Section 8 rental assistance (Project-Based Assistance), with use and tenancy similar to public housing and income levels dependent upon whether we are analyzing properties under trailing 12-month funding levels or 100% FMR.
4. ***A one-time 10% increase in operating expenses***, even if there is rehab, to account for marketing and competitiveness. This is conservative but appropriate in light of the unknowns associated with a conversion.
5. ***All existing social programs (including property tax abatements) continue***. Implied by keeping operating expenses structurally unchanged.
6. ***New financing available:***
   - ***FHA-insured market terms,*** which are presumed to be 4.5% (includes mortgage insurance premium), 35 years, 115% debt service coverage under the 223(f) program. The 223(f) program is a standardized loan program specifically for multifamily properties, which is a potential source for first mortgage debt.
   - ***Tax-exempt bond market terms,*** which are presumed to be 6.75%, 40 years, and 110% debt service coverage. Unlike the 223(f) program, tax-exempt bonds are not part of a standardized loan program, thus the terms of the bonds vary by issuer.
7. ***No restrictions on refinancing,*** so the post-conversion public housing authorities are placed in an equal position with their affordable and market competitors.
8. ***Capital needs***. Capital Backlog and Future Capital Needs are based upon capital needs assessments performed by a 3^{rd} party, On-Site Insight.
9. ***Annual new replacement reserve funding of $500 per apartment per year***, a figure based on standard lender underwriting and on the presumption that the new financing will deal with the Capital Backlog, returning the property into sound and market-competitive condition. However, in addition to a large Capital Backlog, many properties have large capital needs going forward, therefore, the annual replacement reserve contribution may not be able to fund these needs in full. It is important to note here that other financing programs, such as LIHTC, may be available for some properties, as well as the ability to refinance after the completion of the initial contract.
10. ***Transaction costs of the new loan***:
    - ***4.5% based upon 223(f) execution.*** If a Fannie Mae or Freddie Mac execution were elected, then transaction costs would be closer to 3.0% of the new loan.

- ***5.0% based upon tax-exempt bond execution with 4% LIHTC allocation.*** Transaction costs for tax-exempt bonds with 4% LIHTC allocations are typically high and consist of bond issuance fees, commitment fees, syndication expenses, processing fees, application fees, compliance monitoring fees, and other costs.

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Exhibit C – Methodologies

The following methodologies were used in our analysis:

1. ***Capital backlog.*** Immediate capital needs as determined by a 3rd party capital needs assessment.

2. ***Future capital needs.*** Capital needs not included in Capital Backlog as determined by a 3rd party capital needs assessment.

3. ***Capital Grants – 70610 / Modernization Funds.*** Housing authorities submitted FDS line item 70610 – Capital Grants as a data point, however, the working group felt as though the submitted data points were largely unreliable due to the sporadic nature of Capital Grant allocations and that they needed to be normalized. In order to do normalize this line item CLPHA submitted data points where the total amount of Capital Grants allocated to a given housing authority was divided by the total number of units within that housing authority to arrive at a normalized per unit, pro rata share of Capital Grants.

4. ***Trailing 12-month NOI.***

+ FDS line item 70000 Total Revenue (provided by housing authorities)
- FDS line item 70610 Capital Grants (provided by housing authorities)
+ Modernization funds (provided by CLPHA)

= Effective gross income

- Expenses (provided by housing authorities)

- 10% increase in expenses (calculated by Recap as explained in 4. of Exhibit B)

- $500 per unit, per year replacement reserve deposit (calculated by Recap as explained in 9. of Exhibit B)

= Total expenses

+ Effective gross income
- Total expenses

= Trailing 12-month NOI

5. ***FMR.*** HUD's published FMR, as corresponding to unit's bedroom size.

6. ***Projected Market Rental Rates NOI.***

+ Projected Market Rental Rates (calculated by Recap based on market study as explained in Section 4 of this report)

- 5% vacancy (calculated by Recap as explained in 2. of Exhibit B)

+ Other income (provided by housing authorities)

= Effective gross income

- Expenses (provided by housing authorities)

- 10% increase in expenses (calculated by Recap as explained in 4. of Exhibit B)

- $500 per unit, per year replacement reserve deposit (calculated by Recap as explained in 9. of Exhibit B)

= Total expenses

+ Effective gross income

- Total expenses

= Projected Market Rental Rates NOI

7. ***Mortgage constant.*** A ratio between the annual amount of debt servicing to the total value of the loan. This constant is used to calculate the highest loan value that could be received by an income producing property.

8. ***Available loan proceeds.***

+ NOI

x Mortgage constant (calculated by Recap as explained in 7. of this exhibit)

- Transaction costs

= Available loan proceeds

9. ***4% LIHTC raise.***

+ Construction costs (calculated by Recap)

+ Present value of Capital Backlog plus Future Capital Needs

- Present value of replacement reserve deposits

+ Soft costs (10% of construction costs) (calculated by Recap)

+ Financing costs (5% of construction costs) (calculated by Recap)

+ Reserve escrows (6 months of debt service plus 6 months of operating expense reserves) (calculated by Recap)

+ Developer fee (10% of construction costs) (calculated by Recap)

x 70% (estimate of costs included in basis)

= Qualified rehab basis

x 3.18% (credit rate for 4% LIHTC as of February, 2012)

x 10 (number of years credits are received)

= Total LIHTC amount

x $0.80 (estimated sale price of total LIHTC amount)

= Total equity amount attributed to property rehab

+ Acquisition costs (calculated by Recap)

+ NOI (calculated by Recap)

÷ Capitalization rate (estimated by Recap)

= Sale price of property

x 80% (estimate of value of property, not including land)

= Qualified acquisition basis

x 3.18% (credit rate for 4% LIHTC as of February, 2012)

x 10 (number of years credits are received)

= Total LIHTC amount

x $0.80 (estimated sale price of total LIHTC amount)

= Total equity amount attributed to property acquisition

+ Total equity amount attributed to property rehab

+ Total equity amount attributed to property acquisition

= Total LIHTC equity raise

10. 9% LIHTC raise.

+ Construction costs (calculated by Recap)

    + Present value of Capital Backlog plus Future Capital Needs

    - Present value of replacement reserve deposits

+ Soft costs (10% of construction costs) (calculated by Recap)

+ Financing costs (5% of construction costs) (calculated by Recap)

+ Reserve escrows (6 months of debt service plus 6 months of operating expense reserves) (calculated by Recap)

+ Developer fee (10% of construction costs) (calculated by Recap)

x 70% (estimate of costs included in basis)

= Qualified rehab basis

x 9% (credit rate for 9% LIHTC as of February, 2012)

x 10 (number of years credits are received)

= Total LIHTC amount

x $0.80 (estimated sale price of total LIHTC amount)

= Total equity amount attributed to property rehab

+ Acquisition costs (calculated by Recap)

    + NOI (calculated by Recap)

    ÷ Capitalization rate (estimated by Recap)

= Sale price of property

x 80% (estimate of value of property, not including land)

= Qualified acquisition basis

x 3.18% (credit rate for 4% LIHTC as of February, 2012) x 10 (number of years credits are received)

= Total LIHTC amount

x $0.80 (estimated sale price of total LIHTC amount)

= Total equity amount attributed to property acquisition

+ Total equity amount attributed to property rehab

+ Total equity amount attributed to property acquisition

= Total LIHTC equity raise

Exhibit D – Summary of Dimensions

	A.	B.	C.
Primary Criteria			
1. Capital Backlog	Roughly $15,000/unit	Roughly $25,000/unit	$45,000/unit or greater
2. Market size			
Population	>2,000,000	Roughly 500,000	<50,000
3. Market strength			
Unemployment	<7.0%	7.0% to 10.0%	>10.0%
Asking rents	Increasing	Stable	Decreasing
Rent concessions	None	Offered sporadically	Heavy
Vacancy	<5.0%	5.0% to 15.0%	>15.0%
Population growth	Increasing	Stable	Decreasing
4. Poverty level	<9.9%	10.0% to 30.0%	>30.0%
5. Bedroom size (tenancy)	Mostly 3 bedroom units or greater (large families)	Mostly 2 bedroom units (small families or mixed)	Mostly 1 bedroom or efficiency units (elderly)
Secondary Criteria			
6. Age	Placed in service before 1960	Placed in service between 1960 – 1996	Placed in service from 1996 –now
7. Size	>400 apartments	51 to 400 apartments	50 or fewer apartments
8. Construction type	High-rise (elevator)	Mid-rise (walkup)	Garden or townhouse

Exhibit E – Definitions of Terms Used

1.	ACC	Annual Contributions Contract
2.	Capital Backlog	Capital repairs that are needed immediately.
3.	Client	The Council of Large Public Housing Authorities, the Public Housing Authorities Directors Association, the National Association of Housing and Redevelopment Officials, and the Housing Authority Insurance Group.
4.	CRA	Community Reinvestment Act
5.	FHA	Federal Housing Administration
6.	FMR	HUD's published Fair Market Rent
7.	Future Capital Needs	Capital repairs needed in future years (not immediately).
8.	HACG	Housing Authority of Columbus, Georgia
9.	HUD	Department of Housing and Urban Development
10.	LIHTC	Low-Income Housing Tax Credits
11.	NOI	Net operating income, which is calculated as effective gross income minus total expenses. A more detailed description of NOI calculation can be seen in Exhibit C.
12.	Project-Based Assistance	Project-based rental assistance or project-based vouchers

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13. Projected Market Rental Rates	Recap concluded rents for the Property upon conversion to market - $585 per month for one bedroom floor plans, $695 per month for two bedroom floor plans, and $795 per month for three bedroom floor plans.
14. PV	Present value, which is the current worth of a future sum of money or stream of cash flows given a specified rate of return.
15. Recap or we	Recap Real Estate Advisors
16. Trailing 12-Month Funding Levels	Trailing 12-month operating fund, modernization fund, and tenant rent levels from September 2010 to August 2011
17. Warren Williams or Property	Warren Williams Homes

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