MEMORANDUM

TO: HALANDALE BEACH CRA
DANIEL ROSEMOND, EXECUTIVE DIRECTOR

FROM: J. KEVIN LAWLER
N-K VENTURES LC

SUBJECT: REVIEW AND EVALUATION OF AN UNSOLICTED PROPOSAL FROM ALTANTIC PACIFIC COMMUNITIES LLC/CATHOLIC HEALTH SERVICES, INC – FOSTER-DIXIE REDEVELOPMENT PROPERTY

DATE: AUGUST 17,2016

This memorandum report sets forth a review and evaluation of an unsolicited proposal from Atlantic Pacific Communities LLC and Catholic Health Services, Inc. ('the Co-Developers") for the development of the CRA's Foster-Dixie property. The development proposal involves 90 units of affordable, independent lifestyle apartments for persons of 55 years of age or older and 6,000 square of stand-alone retail/commercial space.

Experience/Capability

The Co-Developers have a substantial and an impressive portfolio of completed projects and properties under management. Atlantic Pacific Communities ("APC") has developed 9,223 units in 84 projects and has 707 units in 5 projects currently under construction. Catholic Health Services ("CHS") has 2,413 units in 17 properties in Miami-Dade and Broward Counties under management.

As proposed, APC would have the responsibility for pre-development and development of the proposed project. CHS through a wholly owned subsidiary, Catholic Housing Management, would be responsible for day to day property management of the project upon completion and lease-up. APC would be responsible for asset management and compliance. The Co-Developers have experienced staff resources and staff capabilities.

Proposed Development Program

The proposed development program for the CRA's Foster-Dixie property is a 'green building strategy' comprised of:

4-Story Mid Rise Apartments	**80 units**
1-Story Low Rise Apartments	**10 units**
Commercial/Retail Space Building	**6,000 sf**
Parking	**180 Spaces**

'The 90 rental units would be exclusively for persons of 55 years of age or older. Two-thirds of the units (60 units) would be one bedroom/one bath and the remaining one-third (30 units) would be two-bedrooms/tow bathes. Eighty-one (81) of the units would be for households with incomes at or below 60 percent of the Area Medium Income ("AMI") and nine (9) of the units would be dedicated to households at or below 33 percent of the AMI.

Unit Type	AMI	Units	Sq. Ft.
1BR/1BA	60%	54	750
1BR/1BA	33%	6	750
2BR/2BA	60%	27	950
2BR/2BA	33%	3	950

The apartment units would include contemporary features including full kitchen appliances, washer/dryer hook-ups, cable and Internet connections, window treatments, walk-in closets, and Energy Star appliances and lighting. Property-wide amenities would include a multi-purpose room with kitchenette, exercise facility, library/computer room and an on-site laundry room.

The 4-story 80 unit building would require a height variance. The West RAC zoning district has a 3-story height limitation.

Financing Plan/Capacity

The Co-Developer's propose to finance the project dominantly through Low Income Housing Tax Credits (LIHTC") secured through a competitive application process from the Florida Housing Finance Corporation ("FHFC").

Project Financing	Budget	% Budget	Per Unit
Permanent First Mortgage*	$2,224,728	8.95%	$24,448
CRA Local Government Match	$535,000	2.15%	$5,879
Limited Partner Equity	$22,032,797	88.62%	$242,119
Deferred Developer Fee	$69,222	0.28%	$761
Total Project Financing	**$24,861,747**	**100%**	**$273,207**

*$14M Construction Loan

APC's project portfolio reflects extensive use of LIHTCs. The process to secure LIHTCs for project financing is highly competitive. FHFC received 58 eligible applications for LIHTCs under its RSA allocation (large counties) and selected 7 of these for an allocation of $ 12.8 million in 2016. FHFC's preliminary allocation for RSA's for 2017 indicates a slight increase from 59.0 percent in 2016 to 59.9 percent in 2017.

The Co-Developers have requested CRA financial support in securing a LIHTC award though a 'match' funding commitment of $535,000. The Co-Developer's proposal regarding the 'match' funds is unclear. In one instance the 'match' is referred to as a 'loan' and in another it is referred to as a 'contribution'.

The Co-Developer's proposal includes a preliminary Commitment Letter from Wells Fargo, NA for construction and small tranche of permanent financing and an 'expression of interest' indicating that should APC be securing in securing an award of LIHTCs from FHFC, Wells Fargo would be interested funding from the LIHTCs on a highly favorable basis.

Neither of the Co-Developer submitted financial statements as part of their unsolicited proposal. The proposal indicates that APC has substantial financial capacity and will be providing the requisite completion, environmental, operating deficits and Tax Credit Recapture guarantees.

CRA Investment/Returns

The Co-Developers proposal would require a net investment from the CRA on the order of $4.88 million, just slightly less than the CRA purchase price basis in the 3.97-acre assemblage.

CRA Net Investment

Foster- Dixie Land Basis	$5,046,730
Proposed Land Purchase Price	$(700,000)
CRA Contribution for LIHTCs	$535,000
CRA Net Investment	$4,881,730

The timing and the purchase price for the CRA's Foster-Dixie property are ambiguous. The proposal does not indicate when conveyance and closing would occur. The proposal indicates on page 6 and again on page 40:"*Current projections estimate that a land payment of $700k can be paid to the CRA"*. The language of the proposal strongly suggests that the purchase price is be subject to change as the project cost, revenues and financing parameters are refined and finalized. The change in the purchase price is probably more heavily weighed to a downward rather than an upward adjustment.

In contrast, the cash contribution $535,000 for the LIHTCs is highly precise. The derivation of the contribution amount and the timing of funding are not specified in the proposal.

The total development cost of the project are estimated at $24.8 million:

Project Costs	Budget	% Budget	Per Unit
Hard Costs	$14,890,000	59.91%	$163,626
Hard Cost Contingency	$728,250	2.93%	$8,003
Financing Costs	$1,483,443	5.97%	$16,302
Soft Costs	$3,423,032	13.77%	$37,681
Land	$700,000	2.82%	$7,692
Reserves	$344,491	1.39%	$3,786
Developer Fee	$3,280,763	13.22%	$36,117
Total Project Costs	**$24,861,747**	**100%**	**$273,207**
Estimated Adjusted Net[1] Project Costs	**$19,500,000**	**--**	**$216,666**

The Co-Developers' estimate of total development costs contains a number of additive line item costs that are particular to using LIHTCs as the main tranche of financing. For the purpose of calculating the potential leverage ratio associated with the Co-Developers project, these additional costs have been subtracted, resulting in an estimated public to private leverage ratio of 4.0. This leverage ratio is likely to be overstated for capturing the

[1] Less land and all costs associated with LIHTC financing including development fees.

value increment via the property's assessed value as the below AMI unit rental rates are likely to yield a substantially lower valuation by the Broward County Assessor.

The Co-Developers proposal indicates they are prepared to be responsive to the City's Community Benefit Program. However, the proposal does not address a specific percentage commitment to local hire and business purchases. The Co-Developers have provided several examples of how they have engaged the local community in other projects and thus are likely to be comfortable in committing and executing a to be negotiated Community Benefits Program.

Conclusions/Recommendations

1. APC and CHS are a well qualified and well experienced development team They also have in depth staff/external resources and appear to have substantial financial capacity. If selected for the CRA's Foster-Dixie development opportunity, there is a high probability the project would be implemented and operated as proposed.
2. There are two (2) areas for substantial concern with this proposed project. The first is the project site design and layout. The second is the use of LIHTCs as the primary source of financing.
3. The project site plan and proposed uses raises the issue of 'best fit' for the CRA's vision of a 'gateway' statement for the Foster-Dixie corridor and the objective for 'highest and best use' of the 3.97-acre property. As currently designed, a substantial percentage of the property would be used for surfacing parking. Though schematically rendered to appear as heavily landscaped, an estimated 60 + percent of surface area of the property would be dedicated to a low intensity surface use; the location and allocation of the surface parking also appears to be mismatched to residential buildings, particularly for 55 and older residents. The proposed 4- story, 80-unit mid-rise building is inconsistent with the West RAC zoning for the property. Lastly, it is doubtful that a 55 and older affordable and low-income rental housing development will have a transformative impact on the Foster Road corridor.
4. The reliance on LIHTC's as the dominant tranche of project financing poses elevated risks to the CRA. These are:
   - The award of LIHTCs has a high degree of uncertainty. The award process is high competitive. If the project does not receive the required LIHTCs in the 2016-2017-allocation cycle, then commencement of development will be delayed. The CRA would then need to decide to continue with APC/CHS project team for another LIHTC cycle or re-market the property to other developers.
   - The pricing of LIHTC's is subject to changes in market conditions. The 'expression of interest' letter from Wells Fargo accompanying the proposal indicates preliminary pricing at $1.13 per LIHTC. A current survey by Affordable Housing Finance indicates the nation-wide average for midyear 2016 is $1.03 per LIHTC, up from $0.97 a year earlier. If LIHTCs price below $1.13, then there will be a dual pressures -- compression on the development costs and sourcing a 'gap' tranche of financing. The CRA is thus potentially vulnerable in the receiving the modest payment for its land and as well as increasing its investment as a 'gap'-funding source of capital.