NORSTAR

TO: Jennifer Hall, Executive Director
Ann Arbor Housing Commission

FROM: Richard Higgins, Norstar

RE: Swift Lane: Recommendations for Funding (LIHC, Construction Debt and Permanent Debt)

DATE: June 5, 2018

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Following MSHDA's notice of the 9% Low Income Housing Tax Credit ("LIHTC") allocation for the Swift Lane project, Norstar solicited proposals from the financial markets to provide tax credit equity. The following will provide a summary of the bidding process to date.

**LIHTC EQUITY**

Seventeen (17) LIHTC syndicators were invited to provide equity proposals including: RBC Capital Markets, Stratford Capital Group, Regions/First Sterling, The Richman Group, Red Stone Equity Partners, Cinnaire Capital, Goldman Sachs, National Equity Fund, Inc., Raymond James, KeyBank, Insite Capital, Hunt Capital, Bank of America, Huntington Bank, Hudson Housing Capital, PNC and R4 Capital.

As outlined in the attached Solicitation Results Chart provided for the project, Norstar received seven (7) Letters of Interest ("LOIs") offering varying terms. Each of the LOIs that was received is attached to this memo. Norstar evaluated each submission on various key issues which included, but were not limited to, credit price, guaranty requirements (especially the operating deficit guaranty), timing of the delivery of tax credits and the required size of the operating reserve. Each of these key issues is outlined below for your reference.

Credit Price: this is the amount to be paid for each LIHTC by the investor. The higher the price to be paid per credit results in a greater sum of gross equity available to the project. We received offers that ranged from $0.88 up to $0.92 per credit – please see the attached chart for a summary of all tax credit bids. However, the prices must be reduced to the extent the investor requires payment of due diligence fees.

Guaranty Requirements:  this relates to the requirements placed on Ann Arbor Housing Commission and Norstar to provide financial-related assurances to the investor.  These requirements typically relate to construction completion, operating deficits, and LIHTC shortfalls.  The operating deficit guaranty was of particular interest during this review process.

Operating Reserve: this is the amount required to be capitalized for the project in the event that it was unable to meet any of its financial operating costs.  This will provide comfort to the investor and permanent lender that there is an established source created in order to meet potential operating shortfalls.  Please be advised that the development proforma that was featured in this bidding process contemplated an operating reserve in the amount of $272,000. Offers and counter-offers ranged from $272,000 to $320,000.

Projected Delivery of Tax Credits:  this was an important variable to consider, as some investors required different dates of delivery (e.g. 2019, various amounts in 2020).

Norstar has reviewed all seven LIHTC bids and have narrowed the selection down to two: Regions/First Sterling ("Regions") and RBC Capital Markets ("RBC").  Below is a summary of the primary terms of each:

***Review of Regions Submission***

- Pricing: Regions is willing to pay $0.92 per credit, with a total equity pay-in of $13,677,664. The original development proforma submitted in the MSHDA application assumed a price of $0.95 per credit with a total equity pay-in at $14,125,087. Their proposal includes a due diligence/legal fee to be paid at the closing in the amount of $35,000 and an annual reporting fee to be paid out of the cash flow waterfall in the amount of $5,000.

- Guaranty Requirements: Regions's proposed guaranty structure is outlined below:

    1. Net Worth/Liquidity: for the period of its guarantees, Norstar shall maintain a net worth of $5,000,000 and a minimum liquidity of $1,000,000. Until the achievement of stabilized operations and perm closing, the AAHC shall maintain unrestricted net assets of $2,000,000 with unrestricted liquidity of no less than $1,000,000. After this period, the AAHC net worth requirement will expire and the liquidity requirement will be reduced to the AAHC's portion of the developer fee (but no less than $750,000). If we agree to go with Regions, we will make a final push to eliminate the $2,000,000/$1,000,000 requirements for AAHC.

    2. Turnkey Completion: Norstar will guaranty the construction completion, achievement of stabilized occupancy, 100% tax credit delivery and perm closing. Any operating costs during this period will be the obligation of the AAHC;

    3. Operating Deficit Guaranty: AAHC will agree to fund any operating deficits that arise after the achievement of stabilized operations for a period of five years up to an aggregate amount of six months of operating expenses, replacement reserves and debt service. These deficits will be funded first from deferring any payments due to the managing member, secondly from the operating reserve, and third from AAHC operating deficit loans.

    4. Repurchase Guaranty: AAHC Developer will provide this; however, Norstar will guaranty any construction-related repurchase obligations

and the delivery of a valid cost certification;

5. Year One Timing: the AAHC will provide this guaranty to the extent any loss in credit is due to the inability to lease the premises. Norstar shall provide this guaranty as it relates to the completion of construction and delivery of the buildings;

- Operating Reserve: $297,448;

- Tax Credit Delivery: we are obligated to deliver partial credits to Regions in 2020 ($205,237);

- Pay-In Schedule: Regions has proposed twenty-five percent (25%) of total equity to be paid in prior to/at 100% completion – fifteen percent (15%) at the closing table and ten percent (10%) upon construction of completion. Seventy-percent (70%) is payable at permanent loan closing and stabilization.

**COMMENTS ON THE LOI**

1. Has the highest tax credit price and highest net equity;

2. Has a more attractive credit delivery schedule for 2020;

3. The pay-in structure is back-ended in nature. Norstar will continue its dialogue with Regions in an attempt to improve this if they are selected as the preferred equity provider.

***Review of RBC Submission***

- Pricing: RBC is willing to pay $0.9125 per credit. This credit price raises $13,567,518. Their proposal includes a due diligence/legal fee to be paid at the closing in the amount of $50,000 and an annual asset management fee to be paid out of the cash flow waterfall in the amount of $5,000.

- Guaranty Requirements: RBC's proposed guaranty structure is outlined below (please refer to Section 6 of their LOI for further details):

  1. Construction Completion: Norstar will guaranty 100% completion and be responsible for all development costs necessary to achieve completion, close on perm financing and fund all required reserves;

  2. Operating Deficit Guaranty: AAHC will agree to fund any operating deficits that arise commencing with the date of stabilization and ended on the release date, which is five years from the date of achievement of stabilized occupancy. This will be capped at $305,000;

  3. Repurchase Guaranty: Norstar and AAHC will provide in accordance with the enumerated milestones therein;

  4. Environmental Indemnification: this is the standard indemnification with respect to the presence of any hazardous substances on the project site;

- Operating Reserve: $303,401;

- Tax Credit Delivery: we are obligated to deliver a partial credits to RBC in 2020 ($859,588), with full credits commencing in 2021;

- Pay-In Schedule: RBC has proposed 80% of total equity to be paid in prior to/at 100% completion – 15% at the closing table and 65% upon the issuance of TCO, preliminary cost cert, etc.

**COMMENTS ON THE LOI**

1. Proposes $110,000 less in equity than Regions;

2. Has an aggressive credit delivery schedule for 2020 ($859,588) which may result in the loss of credits/equity if there are delays;

3. Has a larger pay in during the construction period.

**Recommendation for Tax Credit Equity Investor**

After careful review and consideration of the bids from RBC and Regions, Norstar is recommending the selection of **Regions** to provide the tax credit equity for the redevelopment. As mentioned earlier, Norstar will continue to negotiate the liquidity and pay-in terms with them with the intention of improving the offer.

**Recommendation for Construction Lender**

Norstar is recommending the selection of **JPMorgan Chase Bank, N.A**. to provide the construction debt for the redevelopment because (i) they provided the debt on Maple Towers, River Run and West Arbor, and (ii) they will sponsor the application for AHP funds with the Federal Home Loan Bank of Pittsburgh ($750,000). As you know, this arrangement has resulted in success for the prior three phases. JPM is currently updating their LOI from the MSHDA 9% application – this will be provided to you under separate cover.

**Recommendation for Permanent Lender**

Norstar is recommending the selection of **Cinnaire Investment** to provide the permanent debt for the redevelopment because (i) they provided the permanent loans on all three prior phases, and ii) there is a strong familiarity with their legal, underwriting and closing teams. Cinnaire is currently updating their LOI from the MSHDA 9% application – this will be provided to you under separate cover.

NORSTAR

Please let us know if you have any questions or require additional information.  We look forward to discussing this recommendation with you at your convenience.

Thank you.