

# Reorganization & Recapitalization of a 21 Property California Portfolio

## Real Estate Development Services (REDS)



National Housing & Rehabilitation Association  
**2016 Spring Developers Forum**

Thank you to our sponsors:

Bank of America  
Merrill Lynch



ROCKPORT  
MORTGAGE  
CORPORATION

CBRE

cinnare  
ADVANCING COMMUNITIES

red capital  
group

STRATFORD  
COMMUNITY GROUP

## Reorganization & Recapitalization of an Existing 21 Property LIHTC California Portfolio

### Overview:

- 21 LP Interests acquisition – 3,347 Units
- 6 Refinances – 855 Units
- 7 Sales – 1,464 Units
- Balance of the assets were held with existing debt structure in place but with LP buyout

### Goals:

- To acquire the LP interest in all 21 deals from a single investor
- To maintain ownership of assets in portfolio desired to be held long term
- To take advantage of current disposition market with low interest rates and low cap rates
- To place long term debt and secure long term cash flow on assets desired to be held long term

**LP Buyout Price:** \$36,000,000

**Market Value:** \$295,950,000

**Equity Net of Outstanding Debt at Time of Transaction:** \$120,000,000

National Housing & Rehabilitation Association

## 2016 Spring Developers Forum

Thank you to our sponsors:



# Unique Challenges Posed by Subject Transaction

**LP allowed only 120 days to complete buyout upon procuring upper tier investor consent**

**Solutions to challenges:**

**Surround yourself with the best team:**

- Lenders
- Accountants
- Brokers
- Reliable and experienced buyers matched with assets' needs (resyndication, recapture indemnities, HUD renegotiations, cash on cash buyers, etc.)

**Recognize Road Blocks Early On:**

**Some assets had debt with lock out provisions**

- Had to negotiate early pre-payment/waiver of lockouts
- Had to negotiate fair but viable prepayment penalties

**Some assets required hold period prior to being eligible for resyndication**

- Matched up Buyers with Lenders who were able to provide bridge financing to a resyndication and forward rate locks on new bond issuances
- Facilitated partnership interest sales to preserve 10-year hold period
- Sold to non-profits who are exempt from 10-year hold rule

National Housing & Rehabilitation Association

## 2016 Spring Developers Forum

Thank you to our sponsors:





# Unique Challenges Posed by Subject Transaction

## Recognize Road Blocks Early On (Cont.):

### Consents/Approvals Required:

- Bondholder consent to lockout waiver
- Lender consent to lockout waiver
- TCAC, CalHFA, CSDCA, HUD, various subordinate lender and municipality consents required
- Bond redemption waivers required (lockout; redemption on interest payment date; 90-day notice provisions)

### Waivers/accommodations obtained by Lender for Buyers:

- 85% LTC bridge financing
- Forward rate lock of up to 30-months on bonds yet to be allocated
- Expandability features on final bond amount at the time of resyndication
- Section 8 Transition Reserve waivers
- Waiver to allow closing on non-compliant regulatory agreements

National Housing & Rehabilitation Association

## 2016 Spring Developers Forum

Thank you to our sponsors:



# Initial Steps to Assess Recapitalization of a Multiple Asset Transaction

## Determine Highest and Best Use and Value for Each Asset Within Your Portfolio

- Nature of the market where asset is located (employment; job growth; AMI growth; CRA demand)
- Existing cash flow from asset versus net cash equity obtained through sale
- Analyze asset as a resyndication versus a traditional cash-on-cash sale to determine highest price and optimal buyer

## Closely Examine Partnership Agreement to Determine Critical Items and Match Them to Your Objectives (sell, refinance, resyndicate):

- Forced sale right (yes/no)
- Return of Capital provisions (yes/no)
- Exit taxes (yes/no)
- Capital Account restoration (yes/no)
- Willingness of LP to sell prior to year 15 (yes/no)

## Approach the LP and Obtain Consent Before Spending Additional Time or Money on Disposition or Refinancing Asset

- Utilize the points above to understand the motivations of your LP

## How can one transaction help facilitate another

- Sell the distressed assets that will require more time and effort and require a resyndication as their highest and best use
- Retain and conduct a cash out refinance on assets that are in better condition and do not require as much rehab and are desired to be held long term
- Acquire LP interests and refinance assets with bridge financing with an eye toward internal resyndication at a later date
- Know your capacity and limitations as it relates to workload, expertise, and carrying costs

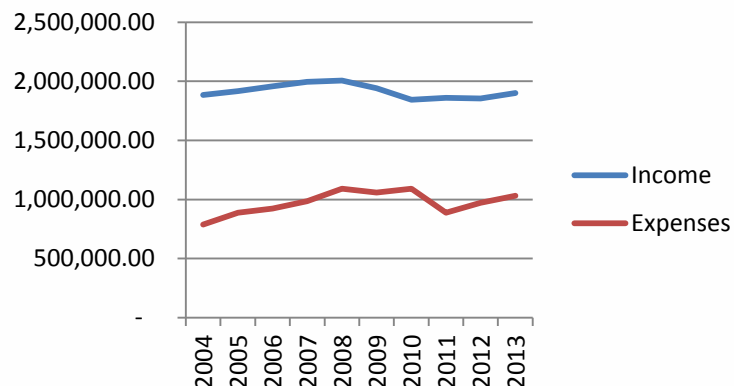
National Housing & Rehabilitation Association  
**2016 Spring Developers Forum**

Thank you to our sponsors:

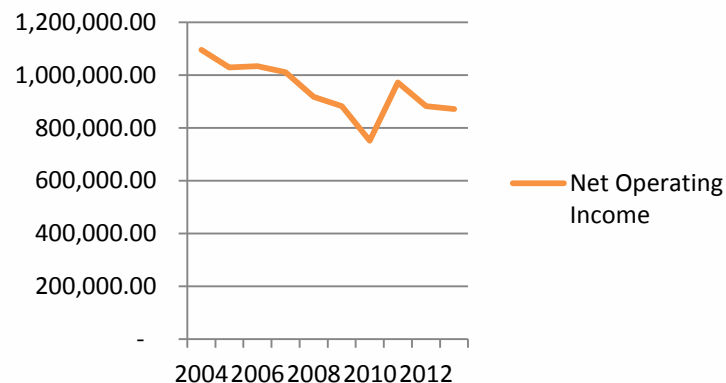


## Example Property: Emerald Pointe

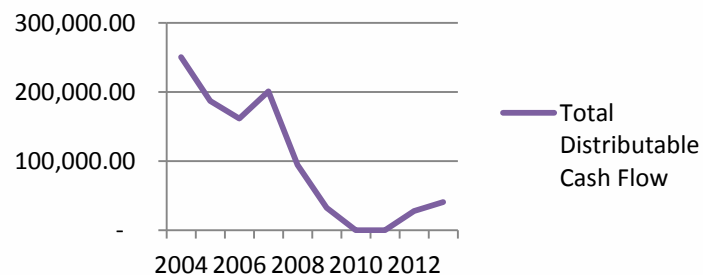
### Income vs. Expenses



### Net Operating Income



### Total Distributable Cash Flow



### Value



National Housing & Rehabilitation Association  
**2016 Spring Developers Forum**

Thank you to our sponsors:

Bank of America  
Merrill Lynch

JLL

ROCKPORT  
MORTGAGE  
CORPORATION

CBRE

cinnare  
ADVANCING COMMUNITIES

red  
capital  
group

STRATFORD

## Overall Transaction Benefits to Sponsor

### 21 Transactions at the Same Time Created Significant Synergies:

- Legal cost savings
- Negotiated entire transaction under one purchase agreement vs. 21 separate agreements
- Transaction cost savings across the board (broker fees; financing fees; legal fees; title fees; professional reports)
- Significantly increased portfolio cash flow through reduced interest rates while taking on additional debt
- Scale of the larger transaction attracted a much larger pool of buyers, the best in class industry professionals (bankers, brokers, buyers), and garnered top priority within the LP's organization

### Benefits to Sponsor:

- Increased liquidity both up front and post closing
- Increased property cash flow by refinancing at significantly lower rates
- Reduced property operating expenses (elimination of annual audits, partnership legal expenses, property inspections, asset management fees, etc.)
- Reduced overhead and reporting requirements internally for Owner
- Post closing the Owner received 100% of cash flow including LP's portion
- Gained 100% control of the partnership interests and asset with no LP consents required
- 100% control allowed for estate planning

National Housing & Rehabilitation Association

## 2016 Spring Developers Forum

Thank you to our sponsors:

