National Housing & Rehabilitation Association

Annual Meeting

February 27 – March 2      Miami, FL

Sponsors:
SAG Preservation Portfolio

- Acquisition/Rehab - existing 515 projects
- 7 Properties located in 3 counties in Washington (Kitsap, Island, Snohomish)
- 3 - Senior/Disabled & 4 - Family
## Sources & Uses

### Sources of Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Proceeds</td>
<td>$22,100,000</td>
</tr>
<tr>
<td>515 Loan Proceeds</td>
<td>$7,853,508</td>
</tr>
<tr>
<td>538 Loan Proceeds</td>
<td>$19,595,000</td>
</tr>
<tr>
<td>Tax Credit Equity</td>
<td>$11,746,656</td>
</tr>
<tr>
<td>Kitsap Home Funds</td>
<td>$283,633</td>
</tr>
<tr>
<td>CTED (Assumption)</td>
<td>$321,000</td>
</tr>
<tr>
<td>Seller Note</td>
<td>$2,925,000</td>
</tr>
<tr>
<td>Deferred Development Fee</td>
<td>$2,524,763</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$67,349,560</strong></td>
</tr>
</tbody>
</table>

### Uses of Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition Costs</td>
<td>$18,228,914</td>
</tr>
<tr>
<td>Rehabilitation Costs</td>
<td>$14,964,768</td>
</tr>
<tr>
<td>Soft Costs</td>
<td>$3,217,055</td>
</tr>
<tr>
<td>Reserves</td>
<td>$2,781,560</td>
</tr>
<tr>
<td>Costs of Issuance</td>
<td>$535,816</td>
</tr>
<tr>
<td>Development Fee</td>
<td>$5,521,446</td>
</tr>
<tr>
<td>Payment of Bond Principal</td>
<td>$22,100,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$67,349,560</strong></td>
</tr>
</tbody>
</table>
Strategies for Success

• Look for basis
  – Land value appraisals
  – Certain Bond costs in basis
  – Seller Note

• Renegotiate existing income set-aside with HFA

• Real Estate Tax Exemptions

• Cash backed- Tax Exempted Bonds – No Negative Arb.

• Trusted Financing Team
Importance of Appraised value to the Preservation of RD 515 Properties

• **Acquisition Price - per USDA - should be based on Appraised Values as follows:**
  
  • As Is Restricted Value
  
  • + Favorable Financing Value of Existing 515 Loan
  
  • + Transferred Replacement Reserve Account Balance
Importance of Appraised value to the Preservation of RD 515 Properties

• For the portfolio;
  – Acquisition Price $21,805,396
  – Appraised Value - $22,426,329 or 103% of Acquisition Price
  – Appraised Value – As-is Restricted Value
    • $ 8,950,000 or 40% of the total Appraised Value
  – Appraised Value – Favorable Financing Value of Existing 515 Loans
    • $10,741,000 or 48% of total Appraised Value
  – Appraised Value – Transferred Replacement Reserve Account
    • $2,735,239 or 12% of total Appraised Value
## Importance of Appraised value to the Preservation of RD 515 Properties

- **Actual Portfolio Capital Stack**
  - New 538: $6,186,095 (12%)
  - Transfer of 515: $18,110,325 (36%)
  - New 515: $11,224,891 (23%)
  - Total Debt: $35,521,311 (71%)
  - LIHTC Equity: $11,953,800 (24%)
  - Use of RR: $1,079,786 (2.5%)
  - Deferred Fee: $1,195,504 (35%) (2.5%)
  - Total Equity: $14,229,900 (29%)
Importance of Appraised value to the Preservation of RD 515 Properties

- Portfolio Capital Stack w/o benefit of including favorable financing value of the transferred 515 in acquisition basis:
  - New 538 $6,186,095 12%
  - Transfer of 515 $18,110,325 36%
  - New 515 $11,224,891 23%
  - Total Debt $35,521,311 71%
  - LIHTC Equity $9,131,660 18%
  - Use of RR $1,079,786 2.5%
  - Deferred Fee $3,413,821 (100%) 6.8%
  - Total Equity $13,625,267 27.4%

Shortfall of $600,000+
Importance of Appraised value to the Preservation of RD 515 Properties

• Typical Appraisal language for the value of the 515

• Based on the data, analyses and conclusions presented in the attached report, it is our opinion that the Value of the Interest Credit Subsidy from the Existing USDA RD Section 515 Loan of the subject property, as of ........, is as follows:
Importance of Appraised value to the Preservation of RD 515 Properties

- Rev. Rul. 76-75 involved a HUD Section 236 interest reduction payment. That IRP reduces the interest rate from a market rate of interest down to 1% and makes it possible to lower debt service and make the project affordable for lower income tenants. The question addressed by the IRS was whether that IRP was includable in income as rent. The IRS held it is.

- The key holding, on the last page, said, in essence, that the 236 interest reduction payments “are treated as if they were received by the taxpayer as rent ...”.