



**Louisiana Housing Corporation**  
2415 Quail Drive, Baton Rouge, Louisiana 70808

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## **Memorandum**

**Date:** **October 12, 2018**

**To:** **Appeal's Board**

**From:** **LHC/Housing Development Division**

**Subject:** **OC Haley School Redevelopment / Orleans Parish / 33 Units**

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## **Background**

OC Haley School is a (9%) Housing Credit project located in New Orleans, La competing in the 2018 funding round. Currently the development does not meet LHC underwriting standards.

## **Issue**

Currently the development has not been cleared by the underwriters as feasible and viable and is therefore ineligible to be funded.

## **Analysis of the Issues:**

There are three unresolved issues preventing this development from meeting LHC's underwriting standards.

## **Recommendations:**

Upon further review, staff makes the following recommendations:

We accept the underwriter's report that the development is not feasible or viable and recommend this development be ineligible for funding consideration.

**To:** LHC Tax Credit Department  
**From:** Renaissance Property Group, LLC  
**Re:** OC Haley School Redevelopment Project  
**Date:** October 9, 2018

In the Underwriter's Closing Comments regarding the Underwriting Review of the above-captioned 2018 LIHTC application, one issue remains outstanding: the "preferred return" annual cash distribution paid to the Federal Historic Rehab Tax Credit ("HRTC") investor equal to 2% of its invested equity in the project. The Underwriter's objection is summarized in the following sentence: "Underwriter was unable to locate evidence in the 2018 QAP that this fee is allowable within the QAP guidelines."

First, we will reiterate that the "preferred return" is a requirement of Monarch Private Capital, the Federal HRTC investor, which is providing a crucial source of funding for the Project. The Monarch Letter of Intent states: "Preferred Return: A 2% Preferred return of federal equity will be payable annually to Monarch." Thus, the application must take account of this financial obligation of the partnership in order to include the related equity in the pro forma. It does not appear that the Underwriter disputes this fact.

Rather, the basis for the Underwriter's continuing comment is that the QAP doesn't explicitly contemplated a "preferred return". We acknowledge that; however, we have personal knowledge that LHC has closed project financings in the past which involved "preferred returns". Additionally, we note that LHC routinely allows the payment of various fees required in project financings, despite not being explicitly described in the QAP, such as bond trustee and issuer fees, IDB administrative fees relative to PILOTs and syndicator asset management fees.

Further, we would like to reiterate that the "preferred return" payable to Federal HRTC investors is not merely a matter of economic bargaining, but of Federal tax law. As previously stated, the Internal Revenue Code generally requires transactions to have "substantial economic effect", and in HRTC transactions, tax lawyers have long taken the position that HRTC investors must receive some cash return on their investments in order for HRTC transactions to pass this test safely. Note that this is often not required where a HRTC investor is also being allocated a significant percentage of the LIHTC generated by a project. However, at the time of our application submission we were unable to conclude terms with any single investor for both LIHTC and HRTC investments.

Finally, we suggest that any lingering uncertainty regarding technical issues such as the one raised in the Closing Comments be deferred until the post-award F & V Analysis

Sincerely,  
  
Renaissance Property Group, LLC

## UNDERWRITING REVIEW

### 2018 Qualified Allocation Plan

<b>Project</b>	<b>OC Haley School Redevelopment</b>			<b>Reviewed:</b> Challenge Response		
<b>Funding Type</b>	Tax Credit Only	<b>Parish:</b>	Orleans			
<b>Type of Construction:</b>	Historic Rehabilitation / Multi Family		<b>Building Style:</b>	Elevator		
<b>Occupancy Type:</b>	Elderly					
<b>Total Number of Units:</b>	33	<b>Total Square Feet:</b> 28,576				
<b>Hard Constr/Rehab Cost:</b>	\$5,512,500	<b>Cost per SF:</b>				
<b>Credits Requested:</b>	\$732,303					
<b>Syndication Proceeds:</b>	\$6,370,339	<b>Equity Pricing:</b>	\$0.87			
<b>Permanent Mortgage:</b>	Rate: 6.00%		Term: 30			
<b>Gap/Soft Funding:</b>	HOME Request: \$0 CDBG Request: \$0 NHTF Request: \$0					
<b>Market Study Comments:</b>	based on report by Novogradac July 31, 2018					
<b>MK1 - Capture rate:</b>	3.00%					
<b>MK2 - Absorption rate:</b>	3 comparable properties - 16 to 25 units per month / overall 19.7 units per month / anticipate a good response due to the subject based on the reasonable capture rates in the Demand Analysis Report. Analyst believes all 33 units could be absorbed within 2 months of completion.					
<b>MK3 - Vacancy rate:</b>	Comparable properties - Total LIHTC 0.4% / Total Market Rate 3.0% / Overall Total 2.2%. Analyst reports comparables maintain waiting list and believes the subject property will maintain a stabilized vacancy rate of 3% or less.					
<b>MK4 - Effect on other 9% projects:</b>	The project is not expected to adversely impact other LIHTC properties.					
<b>MK5 - Rents:</b>	Subject's proposed affordable rents at 20, 50 and 60 percent of AMI are achievable at maximum allowable limits.					

**Underwriting Result:**

Does Not Meet LHC Underwriting Standards
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If not met, see notes on page 2.

*NOTE: Evaluation of Threshold Requirements related to scoring, design and construction must be verified by the Corporation and is not part of this Underwriter's Review. The Applicant and Corporation represent that the Threshold Requirements have been met.*

## UNDERWRITING REVIEW

### 2018 Qualified Allocation Plan

#### *OC Haley School Redevelopment*

##### **Underwriting Notes:**

###### Ref# Comments affecting underwriting determination

- 9 The debt service ratio appears to exceed QAP limits. Please verify/clarify the debt service ratio.
- 30 Total Development Costs per unit appear to exceed QAP guidelines for the specified development type and location. Please review and clarify development costs.
- 30-1 The application identifies \$3,034,732.77 for extraordinary costs to be excluded from the TDC/unit calculation. Applicant submitted a request that the costs related to the adaptive-reuse of this historic structure be classified as "Extraordinary Site Costs" and request that the Projects noncompliance be waived as "Extraordinary Site Costs".
- 47 The proposed credit pricing is not as favorable as observed in other project applications. A re-evaluation of the credit request is recommended.
- AU1 Application for rehab project does not contain audited operating results. Applicant states no audited financials, property has been vacant for many years (no operations) thus seller prepared no financials.

## UNDERWRITING REVIEW - CLOSING COMMENTS

### 2018 Qualified Allocation Plan

#### *OC Haley School Redevelopment*

#### **Applicant's Challenge Response:**

Ref#      Applicant Comments

9            Reponse attached

30, 30 -1 Response attached

47            Response attached

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#### **Underwriter's Closing Comments**

Ref#      Underwriter Comments

9            The applicants repsonse indicates that the project must pay a preferred return to a historic tax credit investor of 2% as a priority payment to reduce the debt service coverage test ratio to meet QAP. Underwriter was unable to locate evidence in the 2018 QAP that this fee is allowable within the QAP guidelines.

30, 30-1 Based on the applicants response it appears the project falls within TDC limits but not below the 15% critieria.

47            Based on the applicants representation, it appears the market place may be in a short term adjustment period. At this time there is no dispute or additional information required at this time.