

ABC APARTMENTS

FUNDING & CLOSING MEMO

OVERVIEW

ABC Apartments (“ABC” or the “Property”) is a **xx**-Unit multifamily property located at **-Address-**. The Property is currently covered by a Project-Based Section 8 contract, which is under a **x**-Year Option 1 Mark-up-to-Market Renewal expiring in **-Year-**.



- Additional Details -

PURCHASE & SALE AGREEMENT

Below, please find a summary of the salient contract terms:

- Purchase Price = **\$xx**
- Deposit = **\$xx**
- Escrow Agent for Deposit = **\$xx**
- Deposit Refundability:
 - **\$xx** hard upon signing of contract, except in the case of the following:
 - Seller Default
 - Inability to provide good and marketable title
 - Material misrepresentations in the due diligence and marketing materials
 - Inability to obtain approval from HUD, provided however, if the only requirement is that we spend **\$xx** then we need to agree to that.
 - Refusal to permit invasive testing or a Phase II
 - Failure to satisfy liens in full.
 - An additional **\$xx** shall become non-refundable after the end of the Due Diligence Period, provided however, that it shall be refundable in the case of the conditions set forth above.
 - Remainder of the Deposit become non-refundable after obtaining all approvals necessary to close.
- Due Diligence Period:
 - 45 days from the execution of the Purchase & Sale Agreement.
- Approval Time Period:
 - **-Regulator-** package to be submitted 15 days after the end of the Due Diligence Period.
 - Purchaser has 4 months from end of the Due Diligence Period to obtain approvals necessary to transfer Section 8 Contract, close and recapitalize the Property.
 - Purchaser has Two 2-month extensions to obtain approvals if Purchaser is acting in good faith.
 - If Purchaser extends then **\$xx** more of the Deposit becomes non-refundable for each extension, subject to the refundability conditions set forth above.
- Closing:
 - 30 days after the receipt of all approvals.

HUD & SECTION 8 CONTRACT

ABC is currently covered by an Option 1 **x**-year Renewal Contract.

Below is a breakdown of the current rents, section 8 rents for competitive properties and market/unrestricted rents.

Unit Type:	# of Units:	Current HAP Rents	Avg. Section 8 Rents at Comps	Avg. Market (Unrestricted) Rents	Requested Rents
1 BR	x	\$xx	\$xx	\$xx	\$xx
2 BR	x	\$xx	\$xx	\$xx	\$xx
3 BR	x	\$xx	\$xx	\$xx	\$xx

We are requesting that HUD provides rents at **x%** of FMR, which is in-line with other Section 8 rental comps in the area

and also in-line with the “as renovated” market comps. As such, we do not anticipate a problem obtaining this rental increase. Additionally, the fact that the Property has a failing REAC Score makes it more likely that HUD will cooperate with us in order to facilitate a rehab.

PILOT

ABC’s current taxes are \$xx per annum. -Company- approached the Mayor of Irvington about obtaining a PILOT for the Property, so that it could operate more efficiently. The Mayor said he would support the use of a PILOT and we have been working with the Mayor’s staff in order to secure definitive confirmation of the amount of the PILOT, structure and approval period.

Per our conversation with the Mayor’s staff on -Date-, we expect that the following will be approved by City Council during the term of our due diligence period.

- A x% reduction in the minimum tax payment, which would result in annual taxes of \$xx
- Taxes will be based on an x.xx% PILOT of Gross Income, with a minimum of \$xx, but no greater than minimum for first 5 years regardless of the income calculation.
- Approval from City Council within the 45 day Due Diligence Period.

FINANCING

-Company- has underwritten the deal using three financing scenarios. Below the financing scenarios are listed in order of preference.

Option 1: Taxable Debt to be replaced by Tax Exempt Bonds

- **Status:**
 - Per -Company- call with -Executive Director- of -Agency-, the Agency is willing to provide -Company- with taxable financing at the time of the property closing, along with a letter that will get HUD and an equity investor comfortable with the fact that the debt will be replaced by Tax-Exempt Bonds in time for the property to meet it’s x% Test and receive x% Tax Credit Equity.
- **Next Steps:**
 - Our -Attorney- will be sending -Executive Director- a letter confirming our discussion, setting forth our timeline, confirming the debt needed, etc.
 - -Company- has reached out to -Equity Syndicator- who has agreed to purchase the equity utilizing this structure.
 - -Company- will determine ultimate debt structure for transaction.
 - -Company- needs to assemble and submit a Tax Exempt Bond Application.
 - -Agency- will issue an Approval of the Bond Application and ultimate Bond Proceeds in the normal course of business (within 90 days of submission), this will enable us to know that we have approval of the applicable prior to closing on the Taxable Structure.
- **Tax Exempt Bond Application Requirements:**
 - Application
 - This is the application provided by the Agency that must be filled out.
 - Letters of Support – Debt and Equity
 - Sources/Uses, Pro Forma, Income/Expense
 - Third Party Reports:
 - Market Study
 - Appraisal

Company
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- Phase 1
- PCNA
- Guarantor Financials
- Entity Formation Documents
- Good Standing Certificates
- NJ Division of Tax Clearance Certificate
- Agency Corporate & Personal Certification and Questionnaire
- Information on ownership entities and “owners”
- Criminal Background Search (done by Agency)
- \$x Bond Application Fee

Option 2: Loan with Conventional Equity

Option 3: Bridge Loan to Tax Exempt Bond Transaction

UNDERWRITING

Below are the salient points of the two financing options based on this level of taxes.

	Tax Exempt Bonds x% Rents	Tax Exempt Bonds x% Rents	FHA 223(f) x% Rents	FHA 223(f) x% Rents	Bridge Loan
Debt Amount					
Interest Rate					
Term					
DSCR					
Amortization					
Expenses Per Unit					
Cash Developer Fee					
Cash Flow Per Annum					
Cash to Close					
Year 1 Return					
Avg. Cash-on-Cash Return					
IRR (15 years)					

PROPOSED SCOPE OF WORK & DEVELOPMENT PLAN

-Company- has created the following Scope of Work:

1. **Units:**

- a. Replacement of Kitchens & Bathrooms
- b. Replacement of windows and exterior doors
- c. Replacement of plumbing fixtures with low flow fixtures
- d. Replacement of lighting fixtures with Energy Star fixtures
- e. Repainting units

2. **Building:**

- a. Updating hallway floors, stair treads, painting and lighting
- b. Implementation of security system that can be remotely monitored.
- c. Repainting & Repointing of Exterior Façade

3. **Property:**

- a. Providing new playground equipment for tenant use.
- b. Installing benches, gazebo and other passive outdoor recreational opportunities.
- c. Repaving and/or sealing existing pavement and walkways.
- d. Implementing a remote monitored property-wide security system with cameras.
- e. Installing new security gate at front of property.

RISKS/MITIGANTS

Risk 1 – Obtaining a PILOT

- Having -Agency- Debt on the Property Provides for a Statutory Exemption, however, municipalities must accept this and issue the PILOT, it is not “as of right”.
- **Mitigant:** -Company- has had multiple meetings with the City regarding the use of a PILOT. The Mayor has provided his approval for the PILOT and the CFO has approved the amount of the PILOT. While a resolution from the Board is needed, the City has said that it can be obtained during our 45 day due diligence period.

Risk 2 – HUD Approval of Rents

Company
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EXHIBIT A:

WIRE TRANSFER INSTRUCTIONS FOR DEPOSIT

XYZ, INC.
Settlement Trust Account

Bank Name:

ABA No.:

Account Name:

Account Number:

ATTN:

Reference:

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EXHIBIT B:
CRIME STATISTIC REPORT