

NATIONAL HOUSING & REHABILITATION ASSOCIATION

2014 Spring Developers Forum

May 19-20, 2014 • The Ritz Carlton Hotel • Marina del Rey, CA

State-of-the-Art Tax-Exempt Bond Structures Case Study – Calden Court

Caleb Roope - The Pacific Companies
Eagle, ID

Wade Norris - Eichner Norris & Neumann PLLC
Washington, DC

SPONSORED BY:

Bank of America
Merrill Lynch



redcapital
group

STRATFORD
CAPITAL GROUP

TAX CREDIT GROUP
Marcus & Millichap

Calden Court – Project Description

- 216-unit new construction – South Gate, CA
- 4- and 5-stories over a concrete podium
- 246,385 total sq. ft. on a 6-acre, flat site
- 325 parking spaces (1.5 spaces per unit)
- 2-, 3- and 4-bedroom units
- 100% affordable tax-exempt bond / 4% LIHTC
- 10% at 50% AMI and 90% at 60% AMI

Calden Court – Project Description



Calden Court – Project Description



Calden Court – Project Description



Calden Court – Project Description



Calden Court – Project Description



Calden Court – Project Description



Calden Court – Sources & Uses (Cons.)

Sources	Amount	Uses	Amount
Bonds – Series A	\$45,100,000	Land	\$2,100,000
Bonds – Series B	\$21,000,000	Construction	\$60,900,000
Deferred Interest	\$785,000	Financing	\$2,840,000
4% LIHTC Equity	\$4,490,000	Soft Costs	\$5,400,000
Deferred Costs	\$1,225,000	Reserves	\$1,360,000
Def. Dev. Fee	\$2,500,000	Developer Fee	\$2,500,000
Total	\$75,100,000	Total	\$75,100,000

Calden Court – Sources & Uses (Perm.)

Sources	Amount	Uses	Amount
Bonds – Series A	\$23,000,000	Land	\$2,100,000
Bonds – Series B	\$21,000,000	Construction	\$60,900,000
Deferred Interest	\$785,000	Financing	\$2,840,000
4% LIHTC Equity	\$29,940,000	Soft Costs	\$5,400,000
Def. Dev. Fee	\$375,000	Reserves	\$1,360,000
		Developer Fee	\$2,500,000
Total	\$75,100,000	Total	\$75,100,000

Calden Court – Operating Details

Description	Amount	Unit/Year
Net Rental Income	\$2,913,715	\$13,489
Net Other Income	\$41,040	\$190
Operating Expenses	(\$1,099,440)	(\$5,090)
Reserves	(\$64,800)	(\$300)
Net Operating Income	\$1,790,515	\$8,289
Debt Service – Series A Bonds	(\$1,496,664)	(\$6,929)
Cash Flow	\$293,851	\$1,360

Calden Court – The “B” Bonds

- \$21,000,000 tax-exempt bonds, 2nd lien DOT
- Interest rate of 5%, compounded annually
- Cash flow note with a 32-year term
- Paid with 75% of residual receipts
- Paid after deferred developer fee and AMF's
- Bonds purchased on a draw-down basis
- Bonds were not needed to pass 50% test

Calden Court – The Issues

- Deal size narrowed potential capital providers
- Complications with interest rate lock / swap
- Timing, funding and subordination of B bonds
- Underwriting of the B bond buyer
- Guarantor structure
- B bonds passing “true debt” test
- Interest rate risk tolerance relative to dev. fee

Unique “Two Bank” Approach on Senior Debt

Designed by Caleb Roope and Mindy Rex at The Pacific Companies, Nelda Newton at Wells Fargo Bank, Tim Trout at Boston Private Bank, John McAlister at 1410 Partners and Paul Wiseman at Dougherty & Co.

Wells Fargo Bank, N.A. – Purchased \$45.1 Mil Senior Debt Pre-Conversion

- Preference for construction, not permanent exposure
- Maximize CRA credits over minimum investment period
- Maximize future deal opportunities with good borrower client without triggering excess loan-to-one-borrower concerns
- Draw-down funding structure eliminated construction period negative arbitrage on large new construction deal
- Pre-Conversion Interest Rate of one-month LIBOR (plus 1.75 spread) further minimized pre-Conversion phase interest expense

15

Boston Private Bank – Executed Forward BPA to Purchase \$23.0 Mil of Perm Senior Debt to remain outstanding if “Conversion” criteria satisfied

- ≥ 1.15 DSCR (90 days); $\leq 80\%$ LTV; 35-year amort to 14.5-year balloon
- 5.64% Permanent Rate
- Allowed lower perm rate through 3-year forward starting interest rate swap with notional amount equal to \$23.0 Mil perm debt amount; more efficient hedge than Bank’s committing to buy permanent phase fixed rate bonds and hedge balance sheet risk

Unique issues presented by Swap:

- Wells as Cons Lender must be swap party pre-Conversion, they control underlying real estate collateral as party at risk on bonds during this period
- Swap transferred to Boston Private during perm period if “Conversion” criteria satisfied, and Boston Private buys the \$23.0 Mil of Perm Bonds
- Allocation of risk/fees in unlikely event that Perm lender does not qualify as swap transferee under Dodd Frank standards at Conversion

- Summary on Senior Debt – Borrower got better result on large, complex deal, by having two senior debt providers each perform its preferred role in manner that allowed it to quote the most competitive terms for its phase
- Unique two bank senior debt structure combined with covering \$21.0 Mil of costs through issuance of Series B Sub Bonds versus cash payment
- → A truly creative “State-of-the-Art” tax exempt debt financing structure!