# REQUEST FOR PROPOSALS
# EQUITY INVESTOR

## Hildebrandt Park

**Lansing, Michigan**

# Request for Proposals

June 7, 2021

Lansing Housing Commission ("LHC") and Chesapeake Community Advisors ("CCA") are seeking proposals from interested equity Investors in the form of an investor limited partner for the investment benefits and a 4% Low-Income Housing Tax Credits ("LIHTC") as part of the new ownership structure for the Hildebrandt Park redevelopment project in Lansing, MI.

LHC and CCA submitted a Direct Lending Application to Michigan State Housing Development Authority ("MSHDA") on August 14, 2020 for new construction/perm tax exempt bond loan mortgage financing in addition to utilizing the 4% Low Income Housing Tax Credit ("LIHTC"). MSHDA loan committee approval is anticipated for the new financing enclosed herein with an expected final board approval anticipated in mid-July, after which time per MSHDA LIHTC staff request we will submit essentially the same application materials to obtain a LIHTC reservation. At this time we would anticipate a closing in early October. It is important from a HUD RAD conversion perspective to assure this project closes before the end of October to assure LHC doesn't need to fund the new HAPC ("Housing Assistance Payment Contract") in 2022 from their operating and capital funds.

We are requesting proposals from interested Investors. For consideration in this equity investment opportunity, we request receipt of your proposal by July 2, 2021. Proposals will be evaluated, follow up conducted and discussions had so that an Investor selection can be made by the middle of July with the expectation of moving right into a signed LOI and beginning the due diligence process working toward closing.

Our selection process will be based on a combination of factors such as credit pricing, guarantee terms, ease of transaction, experience in working with MSHDA, nature of investor (direct, proprietary fund or multi investor fund, already closed or in process of raising capital), ability to close on a working capital line if to be placed in a multi fund not yet closed, pay-ins of equity and developer fee and prospects for a healthy long-term partnership including asset management and viable exit options with the desired intent to return 100% partnership interest back to LHC after the initial compliance period. In submitting your proposal, please include the tax credit proforma with all calculations necessary to understand your underwriting assumptions and details in the offer.

Please submit your written proposal to Doug Fleming at DFleming@lanshc.org along with a copy to John Schuster at jschuster@ccadev.com and John Kennedy at jkennedy@ccadev.com. Please direct any questions or comments you may have about this investment opportunity or the project in this RFP to John and John.

We appreciate your interest in this redevelopment that will help preserve much-needed quality affordable housing for families in the City of Lansing.

Doug Fleming

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# Request for Proposals

## DEVELOPMENT OVERVIEW

The Hildebrandt Park project (HUD PIC Development Number MI058000103) is the rehabilitation of one hundred (100) existing public housing units located in Lansing, Michigan. The community consists of 10 one-bedroom units, 33 two-bedroom units, 39 three-bedroom units, 13 four-bedroom units, and 5 five-bedroom units. This twenty one building project, originally built in 1968, is in need of updating to improve resident safety and energy efficiency. Units will receive new kitchens and bathrooms, flooring, doors, and windows, electrical upgrades and new fixtures along with new HVAC systems if not just recently replaced. Building exteriors to receive new exterior wall coverings, repaired and stained brick, additional aesthetic features along with new porches, patios and individual fencing, in additional to various site improvements for tenant amenities along with new asphalt and sidewalks. The rehabilitation will meet MSHDA Green Standards.

The project is the conversion of public housing through HUD's Rental Assistance Demonstration ("RAD") Program. This program will convert the current annual public housing operating and capital fund subsidies received into the form of new 20 year Section 8 HAPCs. The project owner and sponsor, the LHC, has received a Commitment to enter into a Housing Assistance Payments Contract ("CHAP") indicating acceptance into the RAD Program based on the current 2020 HUD RAD rents. The remaining 40% of the units will go through HUD Section 18 and RAD Blending process as part of the 60/40 program option allowing those 40% of units rents to be set at 110% of FMR under a new separate 20 year Section 8 PVC HAPC.

The project is structured to be financed with tax-exempt bonds through MSHDA's direct lending program as a first-lien construction to permanent mortgage, 4% LIHTC equity, seller note financing, sponsor loan financing, interim income and deferred developer fee.

The first-lien mortgage will be available during the projected 15-month construction period along with the interim income, sponsor loan, and seller note loan financing. Therefore, we have been able to structure the majority of the LIHTC equity to be received upon construction completion in order to meet MSHDA's unique requirement of having their tax exempt bond loan draw in full for a 6 month period prior to being paid down to the permanent loan amount. The official conversion of their loan to permanent status occurs at a later date after MSHDA performs certain internal reviews as part of their process. The first year of the credit delivery will be 2022.

## PROJECT DESCRIPTION

### Location


Hildebrandt Park is located in Lansing, the state capital of Michigan in Ingham County. The project is serviced by a Capital Area Transportation Authority (CATA) stop on the property. An on-site resident service coordinator provides referrals for supportive services, counselling, and conflict resolution for all residents living in the community.

### Ownership

The project sponsor, LHC, will, through a subsidiary, serve as the general partner of the new ownership entity. LHC brings decades of experience in providing housing to the population it continues to serve throughout the Lansing community. LHC has identified CCA as their development consultant. With significant experience, the team will ensure an impactful and thoughtful redevelopment with the necessary services to meet the needs of residents. This proposal seeks an Investor Limited Partner interested in the investment opportunity of the project for the tax benefits and the 4% LIHTCs.

### Property Management

Michigan Asset Group has been selected as the new third-party management agent for the Lansing Housing Commission's RAD portfolio including Hildebrandt Park Apartments and will take over day-to-day operations at closing. Michigan Asset Group is a full-service property management company which currently manages 40 LIHTC projects which contain over 1500 units.

### Local Support

The new project ownership entity, Hildebrandt Park Limited Dividend Housing Association Limited Partnership has entered into a Payment in Lieu of Taxes Agreement with the City of Lansing. The City approved a new Payment in Lieu of Taxes (PILOT) equal to 10% of **tenant-paid** rents less utilities.

**Development Team**

The complete proposed development and the various roles of each member are described below:

| DEVELOPMENT TEAM | |
|---|---|
| **Entity** | **Role** |
| *Lansing Housing Commission* | General Partner |
| | Developer |
| | Non-Profit Sponsor |
| *Chesapeake Community Advisors, Inc.* | Development Consultant |
| *Fusco, Shaffer & Pappas, Inc.* | Architect |
| *TBD* | General Contractor |
| *Michigan Asset Group* | Management Agent |

**Unit Mix and Rents**

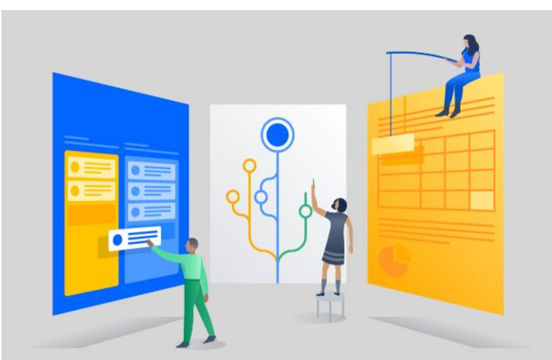
| | Current | Post-Closing | | | |
|---|---|---|---|---|---|
| | **Unit Mix** | **Unit Mix** | **Contract Rent** | **Utility Allowance** | **Gross Rent** |
| 1-Bedroom | 10 | 10 | $667 | $56 | $723 |
| 2-Bedroom | 33 | 33 | $820 | $62 | $882 |
| 3-Bedroom | 39 | 12 | $1,056 | $76 | $1,132 |
| 3-Bedroom | 0 | 27 | $1,212 | $76 | $1,288 |
| 4-Bedroom | 13 | 13 | $1,299 | $91 | $1,390 |
| 5-Bedroom | 5 | 5 | $1,310 | $105 | $1,415 |

### Income Targeting

LHC has planned all 100 units will be affordable housing units targeted to 60% of Area Median Income (AMI).

| INCOME TARGETING | | |
|---|---|---|
| **AMI** | **Unit Size** | **Number of Unit** |
| 0% - 60% (100 units) | 1-Bedroom | 10 |
| | 2-Bedroom | 33 |
| | 3-Bedroom | 39 |
| | 4-Bedroom | 13 |
| | 5-Bedroom | 5 |
| **Total** | | **100** |

## UNDERWRITING



### Project Timeline

The development team is looking for an experienced Investor Limited Partner who has current access to sufficient capital and can move quickly toward closing and admission into the new partnership. The development team expects to close in early October 2021 at this time with construction beginning immediately thereafter.  A 15-month construction period is currently anticipated.

### Income and Expenses

The underwriting rents are the same as shown in the above chart with a 5% vacancy rate.

Operating expenses were determined using trailing historical actual information along with discussion from new Management and LHC, along with completed operational project specific underwriting from the MSHDA direct lending team. The property will also benefit from a long term PILOT which sets annual tax liability at 10% of **tenant-paid** rents less utilities, which has been in place under current ownership for the long term.

**Financing**

The project is supported by financing which includes equity from the 4% LIHTC, tax-exempt bond financing, sponsor loan, seller note, and interim income.

The perm loan amount anticipated at $7.39 million amortizing over 40 years with a 40 years term. With many resources available during construction and to meet MSHDAs bond loan requirements, we are looking for an equity contribution pay-in schedule as follows:

| EQUITY PAY-IN SCHEDULE | | | |
|---|---|---|---|
| Closing | 10/01/2021 | $848,436 | 10% |
| 50% Completion | 05/01/2022 | $355,770 | 4% |
| 75% Completion | 09/01/2022 | $1,500,000 | 18% |
| 100% Completion | 01/01/2023 | $5,187,199 | 61% |
| Qualified Occupancy | 07/01/2023 | $542,951 | 6% |
| 8609's & K1/TR | 10/01/2023 | $50,000 | 1% |
| **Total** | | **$8,484,356** | **100%** |
| ***Note: The pricing is currently projected at 92 cents.*** | | | |

The proposal should clearly state pricing, pay-in schedule and all major business terms and pre-requisites that are expected to facilitate the pay in of capital at such times.

**Developer Fee**

An expected Developer Fee of $2,371,801 will be earned by LHC and CCA for development services provided which anticipated pay in assumptions are below;

| DEVELOPER FEE PAYMENTS | | | |
|---|---|---|---|
| Closing | 10/01/2021 | $830,130 | 35% |
| 50% Completion | 05/01/2022 | $355,770 | 15% |
| 100% Completion | 01/01/2023 | $592,950 | 25% |
| Qualified Occupancy | 07/01/2023 | $542,951 | 23% |
| 8609's & K1/TR | 10/01/2023 | $50,000 | 2% |
| Deferred Fee | | $0 | 0% |
| **Total** | | **$2,371,801** | **100%** |

**LIHTC Credit Delivery**

The first year of LIHTC credit delivery is anticipated to be 2022. The first full year of credit delivery is anticipated for 2023. An anticipated lease-up schedule for LIHTC delivery purposes is included in the attached.

**Investor Closing Costs**

No Investor Limited Partner closing costs, plans review or construction inspection fees are anticipated at the deal level and included in the development budget as an expense. Those should all be assumed as upper tier expenses. Please list which law firm will be representing you in closing the transaction.

**Tax Credit Adjustors**

Please provide your tax credit adjustor details including adjustors for annual credits changes and both early and late first and second year credit adjustments as well as the ability to purchase X amount of additional LIHTCs above the projected annual amount your firm would pay for if more LIHTCs were allocated.

**Profits, Losses, Tax Credits and Sale Distributions**

Operating profits, losses and tax credits are anticipated to be allocated 99.99% to the Investor Limited Partner, 0.01% to the General Partner. Net sales of refinancing proceeds in a capital event are anticipated to be distributed 50.10% to the Investor Limited Partner and 49.90% to the Managing General Partner, only after considering pay off of all liabilities, including the seller note loan in full.

**Annual Cash Flow**

Anticipated annual cash flow distributions are summarized below in the following priorities:

A. *Asset Management Fee*
   To the Investor Limited Partner an anticipated flat annual $3,500 asset management fee, contingent on cash flow and accrue if surplus cash is not available.

B. *Deferred Developer Fee*
   To retire any deferred Developer Fee payments that may be due.

C. *Separate Partnership Management and Incentive Management Fees to General Partner*

D. *90% of Balance to Payment of Seller Note Loan and Sponsor Note Loan*

E. The balance, if any, shall be distributed 49.90% to the General Partner and 50.10% to the Investor Limited Partner.

## GUARANTEES

**Construction**

The General Partner will agree to provide a corporate guarantee for lien-free completion of the improvements in a good and workmanlike manner substantially in accordance with the approved plans and specifications and in accordance with all federal, state and local law requirements and its covenant to pay any additional funds in excess of the sources of funds available under the construction loan and otherwise which are required to complete the project.

**Operating Deficits**

The General Partner will provide a corporate guarantee to fund any operating deficits up to a five-year period after stabilization has occurred in an amount not to exceed the operating reserve balance at closing which are more fully described below.

**Tax Credit Guarantees and Repurchase Conditions (if any)**

Subject to review of proposed terms and conditions, a limited tax credit guarantee will be provided. Please outline any conditions on which the General Partner will be required to repurchase the Limited Partner's interest.

Guarantees should be limited to those applicable limitations for a non-profit sponsor.

## RESERVES

**Gross Potential Rent Reserve**

A Gross Potential Rent Reserve of $102,563 will be capitalized and funded at closing, as required by MSHDA. The funding amount is set based on one month of gross potential rent.

**Operating Reserves**

An Operating Reserve equal to $560,082 will be funded at closing, as required by MSHDA. This reserve is part of the development budget and will be available for use prior to any operating deficit advances after stabilization occurs. Please provide details when this reserve would be released or spent down, at a minimum it's anticipated the reserves would be released to either pay any deferred fees or prior to any sale of the property or purchase of LP interests subject to MSHDA approval.

**Replacement Reserve**

A new replacement reserve account of $694,317 will be capitalized and funded at closing per MSHDA requirements. Additionally, $300 per unit per year is budgeted once MSHDA permanent loan conversion occurs. Prior to any sale of the property or purchase of LP interests, any remaining funds in the replacement reserve may be used to repair the property as deemed necessary by the General Partner.

## INVESTOR EXIT

**Exit and Put Options**

A put or option at the expiration of the year 15 initial compliance period for the General Partner to obtain ILP interests for $1 over all the existing debt amount is the ultimate disposition strategy that LHC is seeking. Please help provide details on how you think best to creatively structure exit scenarios to achieve such goal or at a minimum require General Partner to cover nominal expenses as part of regaining all interest in the partnership, FMV exit (considering all such debts including seller note loan), and ILP covering exit tax liability expenses which option would be in addition to the customary section 42 similar ROFR option for a not for profit sponsor.

An early exit option (after year 11 of the LIHTC period) would be welcomed. Please provide details if this concept is part of your proposal. Please detail any investor-required put/call options or otherwise.

**Investor Exit Costs**

We have assumed the Investor Limited Partner will secure its own tax opinion for the transaction. Any costs associated with the exit of the Investor Limited Partner at year 15 or earlier are anticipated to be paid by the Investor Limited Partner and not from the Owner's assets.