NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

M E M O R A N D U M

To: The Chairperson and Members

From: Eric Enderlin
President

Date: September 28, 2021

Re: Approval of a Co-Lending Construction Loan and a Permanent Loan for PACT Boulevard-BSA-FP

I am pleased to recommend that the Members approve the origination of a construction loan (the "Construction Loan") in an amount not expected to exceed $437,079,500 and a permanent loan (the "Permanent Loan" and together with the Construction Loan, the "Loans") in an amount not expected to exceed $368,005,000 for the acquisition, rehabilitation and permanent financing of the PACT Boulevard-BSA-FP development (the "Project").

During the construction period, JPMorgan Chase Bank, N.A. ("Chase") is expected to purchase approximately two-thirds of the Construction Loan. Chase's interest in the Construction Loan will be funded pursuant to a participation agreement between the Corporation and Chase. The Corporation's retained share of the Construction Loan, in an amount not expected to exceed $145,693,166, is expected to be funded with available funds in the Multi-family Housing Revenue Bonds Bond Resolution (the "Open Resolution") and/or the Corporation's unrestricted reserves. The Corporation's expected funding of the Construction Loan is further described in the memorandum entitled "Multi-Family Housing Revenue Bonds, 2021 Series I and J; and Approval of Mortgage Loans" to be presented to the Members concurrently herewith.

The Permanent Loan is expected to be insured under the Corporation's Risk-Sharing program with the U.S. Department of Housing and Urban Development ("HUD") and sold to the Federal Financing Bank (the "FFB"), a federal corporation under the supervision of the U.S. Department of the Treasury. The Loans will provide construction and permanent financing for the Project defined herein.

The Permanent Loan will be sold to the FFB as part of FFB's newly reauthorized New Construction / Substantial Rehab Insured Upon Completion Program (referred herein as the "Forward FFB Execution"). The Members originally approved the Corporation's participation in the FFB program and the use of the Risk Sharing program for FFB in September 2014.

This memorandum will provide a description of the Loans, the Project and the Borrower, and a discussion of the structure, security, and risks.

The Loans

The Loan proceeds will be used by Boulevard Together Owner LLC, a New York limited liability company (the "Borrower"), to finance the acquisition, rehabilitation, and permanent financing of the Project, which is comprised of three New York City Housing Authority ("NYCHA") developments known as Boulevard Houses, Belmont Sutter Area and Fiorentino Plaza. The Project consists of the conversion of 1,673 units in 29 tenant-occupied NYCHA public housing buildings to Section 8 supported multi-family housing in Brooklyn, as further described herein. The Project is part of the "Permanent Affordability Commitment Together" or "PACT" strategy outlined in the 2018 NYCHA 2.0 strategic plan, which describes how the City of New York (the "City") will reinvest and reposition public housing through Section 8 conversions.

The Construction Loan is anticipated to be originated by the Corporation and funded by both the Corporation and Chase in an amount not expected to exceed $437,079,500 at a variable interest rate set as a spread to LIBOR with an anticipated term of 36 months.

The Permanent Loan is expected to have a 40-year term, a 40-year amortization schedule, and an interest rate of 4.50%. The Permanent Loan will be used to repay the Construction Loan and provide permanent financing for the Project in an amount not expected to exceed $368,005,000. The Permanent Loan will be subsequently sold to the FFB and will be insured through the Corporation's FHA Risk Share Program.

Project Description

The Project is comprised of 1,673 units (inclusive of two units for superintendents' use and two units for tenant associations' use) across 29 buildings in the East New York neighborhood of Brooklyn.

Three percent of the total units (47 units) will convert to Section 8 through HUD's RAD program. RAD is designed by HUD to be "cost neutral" and simply shifts federal public housing operating and capital subsidy into a federal Section 8 rental subsidy contract. Given that public housing subsidies are dwindling, RAD rents are significantly lower than Fair Market Rent ("FMR").

Eleven percent of the total units (184 units) will convert to Section 8 through the Section 18 disposition process alone, accessing Tenant Protection Vouchers ("TPVs") with FMR rents for 100% of such units. To qualify for 100% Section 18 and corresponding TPVs, a property must meet HUD's definition of "obsolescence". This development is expected to meet the required threshold.

The remaining 1,438 units are part of NYCHA's former "City/State Developments" and will convert to Section 8 through the Part 200 process, tapping into NYCHA's allocation of Project Based Vouchers ("PBVs"). These units comprise a portion of Boulevard Houses, and as part of the transactions currently presented for approval, this development will be released from existing HDC mortgages.

Pursuant to the Section 8 contracts (the "HAP Contracts"), the Project will be reserved for households earning no more than 50% of Area Median Income ("AMI") which is currently $59,650 for a family of four. The Project is approximately 91.5% occupied, with a majority of households earning below 50% of AMI. Approximately 3% of the existing tenants (50 families) are expected to be over-income but will be allowed to remain in residence. Upon vacancy, units will be rented to households earning no more than 50% of AMI. In addition to income restrictions under the HAP Contracts, the Project will be subject to the terms of a regulatory agreement to be executed by the Corporation and the Borrower (the “HDC Regulatory Agreement”). The occupancy restrictions under the HDC Regulatory Agreement will require units to be reserved for households earning no more than 60% of AMI and remain in effect for as long as the term of the ground lease and for a minimum of forty (40) years from the date of Construction Loan closing (the “Occupancy Restriction Period”). The Project will go through a substantial tenant-in-place rehabilitation of its 1,673 units that will address a 20-year capital need, as prescribed by HUD. The scope of work consists of an extensive rehabilitation program that is expected to bring significant quality of life improvements to residents of the Project, improve the Project’s energy efficiency performance and enhance the Project. Specific improvements include: upgraded kitchens and bathrooms; new flooring and painting; new hydronic heating systems consisting of energy efficient boilers and hot water heaters; upgrades to the buildings’ piping systems; window replacements; roof replacement; façade restoration; broadband infrastructure installation; exterior site work and recreational facility upgrades; and lead testing and abatement.

A fact sheet with a brief description of the Project is attached (see “Exhibit A”).

<u>Historic Tax Credits</u>

Chase Community Equity, LLC, a subsidiary of Chase, will be the Historic Tax Credit Equity investor (“HTC Investor”), and is expected to invest a total of approximately $133.1 million in exchange for Federal Historic Tax Credits (“FHTC”) and State Historic Tax Credits (“SHTC”, collectively the “HTCs”).

The buildings in the Project qualifying for HTCs are eligible because they are listed as contributing buildings in a local historic district certified by the Secretary of the Interior and are in an eligible census tract.

The transaction will be structured to include an HTC pass-through master lease between the Borrower and the Master Tenant (as hereinafter defined) (the “HTC Master Lease”). Through this structure, equity flows from the HTC Investor into the Property and the HTC Investor receives certain payments from cash flow. Once the Property is placed in service, the Master Tenant will operate the Property, receive rent and make rent payments back to the Borrower, which are sufficient to cover the financing and economic requirements of the Borrower, including mortgage payments, replacement reserves, insurance, and distributions. In addition, the Master Tenant will also own a small percentage of the Borrower.

The Corporation will enter into a Subordination, Non-Disturbance and Attornment Agreement with regard to the HTC Master Lease that preserves certain enforcement rights but prevents actions that would cause a recapture of the HTCs during the 5-year compliance period that begins on the date the project is placed in service. In addition, the Corporation expects to engage a special servicer who will facilitate preserving the HTC while also protecting the Corporation’s interests in certain default scenarios.

Borrower and Developer Description

In September 2019, NYCHA issued a request for proposal for a co-developer partner for the Project. The developer selected is Boulevard Together Owner LLC, a joint venture between entities controlled by Hudson Companies, Property Resources Corporation and Duvernay and Brooks (the "Development Team").

It is expected that a recently formed entity, Boulevard Together Owner LLC ("Borrower"), will be the borrower on the Loans and hold the beneficial leasehold ownership interests in the Project and property. The managing member of the Borrower is Boulevard Together MM LLC ("Managing Member"); and the non-managing member of the Borrower is Boulevard Together Master Tenant LLC ("Master Tenant"), whose managing member is also Boulevard Together MM LLC. The Borrower will split ownership of the Managing Member, with 50% ownership and managing member control rights in the Managing Member held by the Development Team, and 50% ownership held by a joint venture between NYCHA and the New York City Housing Partnership, with NYCHA having a 79% interest in the non-managing member of the Managing Member. In the Managing Member's joint venture operating agreement, the Development Team will agree to provide day-to-day decision making; and NYCHA will receive various financial benefits, including an acquisition payment, development fee, and cash flow. NYCHA will maintain certain control and decision rights by retaining the aforesaid fee ownership of the land and by acting as a member of the Borrower entities described above.

While NYCHA will retain fee ownership of the property, the Borrower will be the beneficial lessee under a 99-year NYCHA ground lease. Lisa Management and PRC Management Corporation will take over property management responsibilities for the portfolio.

NYCHA will guarantee certain resident protections, including automatic lease renewal, succession rights and the right to a hearing to resolve grievances. In addition, residents will pay no more than 30% of their incomes toward rent, with the balance covered by Section 8.

The general contractor of the rehabilitation work (the "General Contractor") will be a joint venture between Broadway Builders LLC and Melcara Corporation.

Structure and Security of Construction Loan

The Construction Loan will be a senior mortgage loan secured by a leasehold mortgage. At Construction Loan closing, the Corporation will enter into a participation agreement with Chase which will obligate Chase to fund approximately two-thirds of the Construction Loan and include customary co-lending terms. The Corporation's funding of the Construction Loan is further described in the memorandum entitled "Multi-Family Housing Revenue Bonds, 2021 Series I and J; and Approval of Mortgage Loans" to be presented to the Members concurrently herewith.

Chase will service the Construction Loan and will monitor construction through a to-be-selected third-party monitor. The third-party monitor will complete an upfront Plan and Cost Review in addition to ongoing construction monitoring reports. The Corporation will rely on this monitor's expertise. The General Contractor will provide a completion guaranty, and the major subcontractors or their subcontractors will provide Payment and Performance Bonds. The Borrower has requested a waiver from HUD to reduce the amount of the Payment and Performance

Bonds from a 100% bonding obligation in the amount of the General Contractor Agreement to approximately an 80% bonding obligation in the amount of the major subcontractor agreement.

<u>Structure and Security of FFB Permanent Loan</u>

At permanent conversion, the Construction Loan will be repaid by the Permanent Loan. The Permanent Loan will be structured as a senior mortgage loan secured by a leasehold mortgage. The Permanent Loan is expected to be enhanced with mortgage insurance arranged by the Corporation under its Risk Sharing agreement with HUD. It is expected that the Corporation will assume 50% of the default risk through this program.

On or after permanent conversion, FFB is expected to purchase a beneficial ownership interest in the Permanent Loan. FFB will receive a pass-through rate established by FFB, which will not exceed the interest rate on the Permanent Loan and is expected to approximate the rate that the market is then providing on a comparable Ginnie Mae security.

In the event the permanent conversion occurs prior to the purchase of the Permanent Loan by FFB, the Permanent Loan may be initially funded with the Corporation's unrestricted reserves.

<u>Risks and Risk Mitigation</u>

The primary risks associated with the Project are (1) construction completion risk; and (2) payment default by the Borrower. Corporation staff believes these risks are mitigated by several factors. Construction completion risk is mitigated by the Development Team's experience renovating similar tenant-in-place rehabilitation projects, the completion guaranty to be provided by the General Contractor, Payment and Performance Bonds provided by the major subcontractors, and the third-party construction monitoring overseen by Chase. Payment default risk is mitigated by the Section 8 contract payments, the Development Team's history in operating and managing similar projects, conservative underwriting incorporating low loan-to-value ratios, and strong debt service coverage and income to expense ratios, the Corporation's ongoing asset management and monitoring of the development, and the Risk Sharing mortgage insurance. The Corporation will be obligated to cover 50% of the total loss following a claim on the Risk Sharing mortgage insurance. Corporation staff believes these are all acceptable risks.

<u>Managing Interest Rate Volatility</u>

The Permanent Loan will be executed under the Forward FFB Execution, which was suspended in 2019 and reauthorized in September 2021. The Permanent Loan interest rate will not be established until permanent conversion. The Corporation expects to use a multi-faceted portfolio hedging approach to protect against interest rate volatility associated with this forward commitment. Currently the Corporation has certain existing interest rate swaps purchased in connection with its previous forward financing commitments. If interest rates remain low and the Corporation is able to fulfill most of its forward commitments at a favorable cost of funds, these interest rate swaps may become available, and can be repurposed to provide effective hedging against the Corporation's new forward commitments. Working with its Hedge Advisor, Mohanty Gargiulo LLC, the Corporation has reviewed its portfolio-wide interest rate risks and determined that a combination of its existing hedging portfolio and the spread built into the anticipated rate of the

Permanent Loan provide enough protection from interest rate movements for this forward commitment. In the event the rate environment changes inordinately and requires the purchase of additional hedging instruments, the proposed terms of the new interest rate hedging instruments will be presented to the Members for approval.

Deposits and Fees

The Borrower will pay the Corporation its costs of financing in an amount not to exceed 1%, plus an up-front commitment fee equal to 0.75% of the Loans.

The Borrower will pay the fees of the custodian, plus any additional funds that are required to compensate the Corporation for its management of the Loans.

The Borrower will pay Chase an up-front origination fee equal to 0.50% of the Construction Loan.

The Corporation will also charge the Borrower an annual servicing fee of at least 0.20% on the outstanding principal balance of the Permanent Loan or other applicable fees. The Corporation will receive an upfront premium, and an ongoing premium of 0.375%, which is the Risk-Sharing mortgage insurance premium paid by the Borrower and included in the interest rate. The Borrower will also pay a required FFB deposit equivalent to two months' principal and interest payments.

FFB Custodian

To be determined.

Hedge Advisor

Mohanty Gargiulo LLC

Action by the Members

The Members are requested to authorize (a) the financing of a Construction Loan for the Project, in an amount not expected to exceed $437,079,500; (b) the sale of approximately two-thirds of the Construction Loan to Chase through a participation agreement; (c) the funding of the Corporation's retained share of the Construction Loan, in an amount not to expected to exceed $145,693,166, with available funds in the Open Resolution and/or the Corporation's unrestricted reserves; and (d) the execution by an Authorized Officer of the Corporation of mortgage-related documents and any other documents necessary to accomplish the financing.

The Members are requested to approve i) the making of a Permanent Loan in an aggregate amount not to exceed $368,005,000, which may be initially financed with the Corporation's unrestricted reserves until purchase of the Loan by the FFB, for the permanent financing of the Project, and ii) the execution by an Authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financing.

Exhibit A

PACT Boulevard – Belmont Sutter Area – Fiorentino Plaza
Brooklyn, New York

Project Location:	Boulevard Houses: 785, 797 Schenck Avenue, 2150 Linden Boulevard 817, 829 Schenck Avenue 2156 Linden Boulevard 807 Schenck Avenue 725 Stanley Avenue 2202 Linden Boulevard 830 Ashford Street 765 Stanley Avenue 804, 812, 816, 828 Ashford Street 842, 854 Ashford Street, 773 Stanley Avenue 845, 857 Schenck Avenue 881, 893 Schenck Avenue 726, 738, 740 Stanley Avenue 357, 359 Wortman Avenue 756, 758, 772 Stanley Avenue 361, 363 Wortman Avenue 872, 884 Ashford Street 908, 920 Ashford Street Belmont Sutter Area: 455, 459, 463 Barbey Street 418, 422, 426 Jerome Street 610, 616 Belmont Avenue Fiorentino Plaza: 2155 Pitkin Avenue 2165 Pitkin Avenue 2185, 2181, 2189 Pitkin Avenue 330, 340 Miller Avenue 320 Miller Avenue 2211 Pitkin Avenue 2215 Pitkin Avenue 2219, 2221 Pitkin Avenue
HDC Program:	NYCHA PACT
Project Description:	The project consists of the substantial rehabilitation of 29 buildings containing 1673 residential units in the East New York neighborhood of Brooklyn. 100% of the units will be converting from Section 9 Public Housing to Section 8 Project-Based Vouchers and will be affordable to households earning no more than 50% of AMI.
Total Rental Units:	1669 (plus two units for superintendents and two units for Tenant Association use)

Apartment Distribution:	Unit Size	No. of Units
	1 bedroom	620
	2 bedroom	794
	3 bedroom	227
	4 bedroom	32
	Total Units*	1673

* Total Units are inclusive of two superintendent units and two Tenant Association units

Expected Construction Financing Amount: $397,345,000, of which $264,896,667 will be funded by JPMorgan Chase Bank, N.A. and $132,448,333 will be funded by HDC.

Expected Permanent Financing Amount: $334,550,000

Expected HDC Subordinate Mortgage: N/A

Expected Total Development Cost: $589,953,896

Owner: Boulevard Together Owner LLC, whose principals are Aaron Koffman (Hudson Boulevard LLC); Frank Linde and John Chatzky (PRC Boulevard LLC); and Brian Heegar (D&B Boulevard LLC).

Developer: The Hudson Companies, whose principals are Sally Gilliland, David Kramer, William Fowler and Aaron Koffman; Property Resources Corporation, whose principals are Frank Linde, John Chatzky, Ben Linde and Matt Linde; and Duvernay & Brooks, whose principals are Joni Brooks, Gale, Kaufman, Emily Alison, Olusegun Obasanjo and Brian Heegar.

Credit Enhancer: Construction – Unenhanced
Permanent – HUD FHA Risk Share 50/50