TDHCA
Cody Campbell
Director of Multifamily Programs
221 East 11th Street
Austin, TX 78701

### October 23, 2023

RE: Amendment Request to 2022 Multifamily Uniform Application #22227 (the "Application") – Lalita Senior Living (the "Project")

### Mr. Campbell:

Due to the unforeseen changes in construction costs, interest rates, and equity pricing that have occurred since submission of its original application, VDC Minnesota Southmost, LP respectfully submits the following amendment request for its Lalita Senior Living Application.

# **CURRENT PROJECT STATUS**

In recent weeks, the Project received its firm commitment for HUD financing, secured plat approval, and permits were approved by the City of Brownsville for site work and utility installation. Unfortunately, due to the continued rise in construction costs, a spike in interest rates, and reduced tax credit pricing, the Project is no longer feasible as it is currently designed. Therefore, we are requesting approval from TDHCA to amend our Application as follows: a) reduce the number of units from 102 to 78 and adjust the design and site layout accordingly, b) revise the unit mix, and c) redesign the clubhouse.

We have received a letter of continued support from the City Manager of Brownsville, as well as engagement confirmations from our lender and investor groups who are in support of these revisions.

### **EXPLANATION OF UPDATES**

## **Number of Units**

We are proposing a reduction in the number of units from 102 to 78. All sixteen (16) market rate units will be eliminated, with the goal of preserving as many affordable units as possible. The total reduction in affordable units is eight (8), which is less than 10% from our original application. Further details on the AMI unit mix breakdown are provided in the table below.

	Original	Revised	Difference
30% Units	9	8	(1)
50% Units	18	16	(3)
60% Units	59	54	(4)
Market	16	0	(16)
	102	78	(24)

### Design / Site Layout

One residential building has been eliminated with those units being stacked on the remaining building, taking it from 3-story to 4-story. The residential buildings will continue to be elevator-served and the number of elevators has not changed. The unit finishes and community amenities are the same as previously planned with the residents enjoying a clubhouse with pool, cabana, access to a social services manager, as well as business, laundry, and fitness facilities on-site. Community and unit amenities remain well above the required minimum thresholds with 21 community amenity points and 9 unit amenity points.

An implication of the layout change is a reduction in required land since the building footprint is smaller. The site acreage will be reduced by an estimated 1.28 acres, from 7.72 acres to 6.44 acres. After the property is platted, including a required public right-of-way dedication, the site acreage will be 5.09 acres and the resulting density is 15.3 units per acre (7.72 acres - 1.28 acres = 6.44, 6.44 minus 1.35 acres ROW = 5.09 acres 78/5.09 = 15.3 DUA) – the original Application reflected density of 13.2 DUA. The Project will maintain 1.5 spaces per unit parking ratio as per the original application.

#### **Unit Mix**

The unit mix will change from (51) 1-Bedroom Units and (51) 2-Bedroom Units to (34) 1-Bedroom Units and (44) 2-Bedroom Units (45% 1-BD and 55% 2-BD). The change in unit mix is driven by the way units stack within the residential structure.

# Club Updates

The Clubhouse is proposed to be redesigned and reduced to 4,674 sft from 5,772 sft. The primary reduction in the clubhouse area is due to the elimination of the mail room and pool equipment room, as each of these spaces have been moved to other areas of the site to better serve residents. Modest adjustments were made to the Club layout to improve functionality after the removal of the noted areas. Additionally, adding a maintenance room adjoining the Club helps to reduce sitework, foundation, exterior finish, and roofing costs which would otherwise be incurred in constructing a separate maintenance building.

# **BASIS FOR CHANGE**

### **Interest Rate Increases**

At the time the original application was submitted the interest rate assumption for the construction loan was 3.75% with permanent debt financing at 5.25%. Current interest rate assumptions for construction and permanent financing are 7%, thus reducing the amount of debt the project can support.

### Reduced Tax Credit Syndication Rate

The Syndication Rate has decreased to \$0.8525, while at Application the rate was at \$0.88. This has resulted in approximately a \$400,000 decrease in equity proceeds.

### Hard Cost and Labor Cost Increases

The original construction budget was estimated to be \$12,643,000 for 102 units (\$123,950/unit), however, due to upward pressure on both materials and labor from subcontractors, the current construction estimate is \$12,234,561 for 78 units (\$156,853/unit). This represents an increase of 26% per unit in pricing estimates over the past 18 months. Without reductions in construction costs the project cannot be made solvent.

# **ADDITIONAL CONSIDERATIONS**

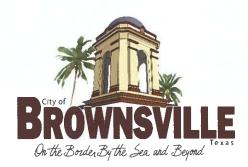
To help make the project feasible, the developer proposes deferring additional Development Fee of \$360,000, to over \$740,000 in total. The original application reflected less than \$380,000 as deferred development fee. This concession represents a significant, material component of funding allowing this Project to move forward.

### **CONCLUSION**

This development is a much needed community for the senior citizens of Brownsville and the surrounding area. We do not believe that the cost increases, interest rate increases, or stresses faced by the equity market could have been foreseen or were preventable. The assumptions made for the application were reasonable and based on the best information available at the time.

Thank you for your time and consideration.

Helen Ramirez City Manager





October 17, 2023

TDHCA Cody Campbell 221 East 11th Street Austin, Texas 78701

RE: Lalita Senior Living – TDHCA Amendment Application

Dear Mr. Campbell,

I write this letter on behalf of the City of Brownsville and its continued support for the Lalita Senior Living community, to be located at 2150 S. Minnesota Avenue in Brownsville, Texas.

Discussions with the developer reveal that higher interest rates and increased construction costs have resulted in the need to decrease the construction budget by an overall reduction in the number of units.

The City of Brownsville recognizes the demand for safe, clean, affordable housing for all members of the community, especially older residents. We believe this development will help meet the affordable housing need for citizens of modest means. We kindly ask that the Board approve the amendment request so the project may proceed.

Sincerely,

Helen Ramirez, AICP City Manager



October 20, 2023

Daniel Hendren

Development Manager | VERSA Development, LLC 4733 College Park, Ste. 200, San Antonio, TX 78249

RE: Lalita Apartments Development Changes

Daniel:

I wanted to let you know that we are aware of the changes that are taking place with Lalita Apartments in order to adapt to the changing construction cost and interest rate markets. The property will now be developed as an 78-unit complex instead of 102 as originally planned. For the purposes of the loan we are in support of this change as it is a reflection of the environment and working towards completing an important affordable housing development. We are fully engaged to make the changes and keep the loan process moving smoothly to a loan closing with minimal time lost.

If you have any questions regarding the information or the remaining PNC loan process please do not hesitate to call me at (415) 733-1533.

Thank You,

Mark S. Ragsdale Senior Vice President

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PNC Real Estate