



Arx Advantage, LLC

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June 2, 2025

Via Electronic Mail

Mr. Bobby Wilkinson
Texas Department of Housing and Community Affairs
221 East 11th Street
Austin, Texas

Re: 25035 Fredericksburg Seniors

Dear Mr. Wilkinson:

We represent Fredericksburg RD Housing, LP, the “Applicant”, for the above referenced Application submitted for the 2025 Housing Tax Credit Application Cycle.

On May 27, 2025, the Applicant received a Real Analysis Underwriting Report (“Report”) reducing the Applicant’s requested tax credit allocation amount from \$603,701 to \$587,092 for an adjustment of \$16,609 in annual credits or \$166,090 in total allocation.

Background

The appraised values for United States Department of Agriculture Rural Development (“USDA”) transfer applications are permitted (in the rules) to combine what is termed “favorable financing” for the federal debt that is on the property with physical value of the property to determine the appraised value to be used in the Report analysis (Exhibit A).

The Report’s final analysis states the Applicant understated the land value and overstated the building acquisition value; therefore, overstating the requested credit request.

The Flaw

In using the values stated in the appraisal, staff used the percentage of land and building as a percentage of the physical property value; however, when considering the “favorable financing”, the same percentages were used even though, the financing was not used in the same percentages (Exhibit B). Example, the USDA loan financed approximately 20% of land cost and the HOME loan financed 100% of building rehabilitation with NO land cost, yet the staff’s land percentage of 49.21% is being applied to the favorable financing amounts. If you applied appropriate percentages to the favorable financing, the land value would not be overstated, and the building would not be understated. The Applicant’s credit request would be acceptable.

Conclusions

In discussing staff's recommendations, before the Report was published, staff asked the Applicant "why he did not just include an owner note to make up the difference?" The answer is simple; an owner note is basically the same as a "cash out" and that is exactly what the TDHCA Board has been concerned about for the last couple of years. The Applicant did not want to do that, nor was it needed to make the financing work. The Applicant could have manipulated the costs and used the full value stated in the appraisal of \$2,032,000; however, the Applicant did not need to use the full value to make the numbers work and only stated a value of \$1,588,149.

With this Report, the Applicant is being penalized for NOT manipulating and cheating the system to acquire more tax credits than is really needed. The Applicant is only requesting the amount of tax credits the development is eligible for and should be awarded.

Finally, granting this request, this will further the policies of the Department in providing for the housing needs of individuals and families of low, very low and extremely low income and families of moderate income and maximize the number of suitable, affordable residential rental units by preserving existing housing in an area of Texas where affordable housing is not readily available as the best use of the credits and not some scheme to fit in a box and artificially increase the credit request for no financially feasible reason.

Should the Executive Director deny this appeal, the Applicant requests to be placed on the next available Board agenda.

Thank you for your consideration.

Sincerely,



Robbye G. Meyer

Cc: Murray Calhoun
Jason Rabalais

| MARKET VALUE CONCLUSIONS | | | |
|--|--|-----------------------------------|-------------------------|
| Appraisal Premise | Interest Appraised | Date of Value | Value Conclusion |
| "As Is Market Value, within 7 CFR Part 3560.752(b)(1)(ii), Premised Upon A Hypothetical Condition As-If Unsubsidized Conventional Housing in compliance with 7 CFR Part 3560.656(c)(1)(i)" | Fee Simple Estate (subject to short term leases) | February 6, 2025 | \$4,800,000 |
| "As Is Market Value, Subject to Restricted Rents within 7 CFR Part 3560.752(b)(1)(i)" | Fee Simple Estate (subject to short term leases) | February 6, 2025 | \$1,270,000 |
| "Prospective Market Value, Subject to Restricted Rents within 7 CFR Part 3560.752(b)(1)(i)" | Fee Simple Estate (subject to short term leases) | February 8, 2027 prospective date | \$1,490,000 |
| Insurable Value | Fee Simple | February 6, 2025 | \$2,622,063 |
| Land Only - Unencumbered | Fee Simple | February 6, 2025 | \$625,000 |
| Estimated Value of USDA Favorable Financing | Fee Simple | February 6, 2025 | \$470,000 |
| Estimated Value of TDHCA Favorable Financing | Fee Simple | February 6, 2025 | \$292,000 |
| Estimated Value of Tax Credits | Fee Simple | February 6, 2025 | \$478,500 |

Extraordinary Assumptions: The appraiser viewed the interior of four units. We assume that the remaining units in the complex are of similar condition and utility. The net rentable area (NRA) was determined based upon the unit sizes provided by the property representative. Our value conclusion is subject to revision if a subsequent survey indicates building area significantly varies from the above NRA. We have assumed there are no profit limitations in place. If there are profit limitations in place, our value conclusion is subject to revision. Our use of the extraordinary assumptions and hypothetical conditions might have affected the assignment results.

Hypothetical Conditions: The appraiser was instructed to value the subject property, in its current condition, as if there are no income restrictions or subsidies in place and the property is operating as a conventional complex (“unrestricted rents”) and if the subject has been renovated with no income restrictions or subsidies in place, operating as a conventional complex (“prospective market rents to be adopted by USDA as restricted rents”) and if the subject has been renovated with income restrictions and subsidies in place, operating as a USDA RD Project. Additionally, the appraiser was instructed to value the subject site, as if vacant, unencumbered by a Project Restricted Use Provisions (RUPS) or a Land Use Restrictive Agreement (LURA).

Exhibit B

robbye arxadvantage.net

From: Robert Castillo <Robert.Castillo@tdhca.texas.gov>
Sent: Friday, May 23, 2025 9:10 AM
To: robbye arxadvantage.net
Cc: Bin Ni
Subject: 25035 Fredericksburg Seniors

Robbye,

I have attached a screen shot of what I was explaining. The appraisal supports up to \$1M for the land \$1.032M for building acquisition assuming using the full value.

The acquisition of \$1,588,146 is supported but we're assessing 49.21% of that is the land value and 50.79% is the building acquisition.

The land is now \$781,568 and building acquisition is \$806,578. The land value is understated and the building acquisition is overstated in the application.

| Allocation of Favorable Financing Value | | | contract cost w/ financing allocated | | |
|---|--------------------|--------------------|---|-------------|------------------------|
| | Appraised value | Allocated | | | |
| land | \$625,000 | \$1,000,000 | \$781,568 | 49.21% | Percentage of value |
| bldgs | \$645,000 | 1032000 | \$806,578 | 50.79% | |
| Property Value | \$1,270,000 | | | | |
| favorable financing | \$762,000 | | | \$1,588,146 | Acquisition F |
| Total Value | \$2,032,000 | \$2,032,000 | \$1,588,146 | | |

| ACQUISITION | | |
|------------------------------------|--------------------|------------------|
| Site acquisition cost | 625,000 | |
| Existing building acquisition cost | 963,146 | 963,146 |
| Closing costs & acq. legal fees | 0 | |
| Other (specify) - see footnote 1 | | |
| Other (specify) - see footnote 1 | 0 | 0 |
| Subtotal Acquisition Cost | \$1,588,146 | \$963,146 |

Thank You,
Bobby Castillo
 Manager
 Real Estate Analysis Division
 Texas Department of Housing and Community Affairs
 221 E. 11th Street | Austin, Texas 78701
 512.475.0322