



AVANTI LEGACY LYON

October 16, 2024

Rosalio Banuelos
Multifamily Asset Division
Texas Department of Housing and Community Affairs
221 E. 11th Street
Austin, TX 78701

RE: Avanti Legacy Lyon (TDHCA #23019) – Request for Material Amendment & Return of 2023 Credits and Request for 2024 Allocation of Credits Pursuant to Section 11.6(5) Force Majeure

Dear Mr. Banuelos,

Pursuant to §11.6(5) of the 2023 Qualified Action Plan, Crimson Bulldog Development, Inc. ("Sponsor") respectfully requests an allocation of 2024 credits in exchange for the return of 2023 credits for the Avanti Legacy Lyon Development. This letter is not a request for additional tax credits but rather a request to ensure compliance with the 10% test and placed-in-service deadlines, which we anticipate extending to July 1, 2025, and August 31, 2026, respectively, with a 2024 housing tax credit commitment.

Additionally, in accordance with Section 10.405 of the Post Award and Asset Management Requirements, we respectfully submit this letter as a formal request for a material amendment to reduce the square footage of the clubhouse, adjust unit sizes, and remove unit balconies for the Avanti Legacy Lyon development ("Development"), in response to significant financial challenges arising from recent market shifts.

The Economic Issues

The Development Team has been diligently working to advance Avanti Legacy Lyon as originally proposed and awarded. At the time of application, underwriting projected a permanent loan of \$3,650,000 at an interest rate of 5.00%, insurance costs at \$550 per unit, and equity pricing at \$0.90. However, recent volatility in the construction industry, insurance industry, and capital markets has significantly impacted these estimates, resulting in record-high building costs and market shifts that jeopardize the project's financial feasibility.

Market volatility has driven the permanent loan rate up to 6.82%, resulting in an additional \$200,000 in interest costs. Equity pricing has also dropped to \$0.85, causing a \$1,000,000 reduction in equity. Meanwhile, as the development is located in a Tier 1 county, insurance premiums have surged to \$1,050 per unit—a staggering 91% increase. This sharp rise in costs has reduced the project's debt capacity and overall loan proceeds, further undermining its financial projections.

Avanti Legacy Lyon, LP
3933 Steck Avenue, Suite B120, Austin, TX 78759
Phone (512) 982-1342 | Fax (512) 900-2860
contact@madhousedevelopment.net



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Additionally, like many developers today, we are facing a significant and unforeseen spike in construction costs and extended project timelines. For example, the delivery time for electrical gear alone is now estimated at 12 months, necessitating a 4-6 month extension of the construction schedule. This delay leads to increased overhead costs, higher contractor fees due to their prolonged presence on-site, as well as additional interest on the construction loan and delayed equity installments.

Collectively, the triple blow of higher interest rates, skyrocketing construction and insurance costs, and reduced equity pricing has created a budget shortfall of approximately \$1.5 million. Without critical modifications to the deal structure and design, Avanti Legacy Lyon is no longer financially feasible as originally envisioned.

Proposed Design Modifications

In response to these economic challenges, the Development Team has proactively explored all possible solutions. After extensive value engineering, we have identified targeted design adjustments to help mitigate the financial impact. However, given the magnitude of the market shifts, design changes alone cannot fully offset the financial shortfall.

To address these challenges effectively, we propose a two-pronged strategy. First, we are requesting a change to the ownership structure to include an affiliate of the Cameron County Housing Authority as a member of the Applicant's general partner (submitted under separate cover). This allows the Development to benefit from tax abatement.

Second, we are requesting a material amendment to the Application to implement several key design changes, including reducing the square footage of the clubhouse, adjusting unit sizes, and removing unit balconies. Specifically, these changes include:

1. Reducing the clubhouse square footage from 3,504 to 2,282;
2. Removing the resident services room;
3. Reducing the corridor square footage from 16,440 to 10,292 square feet (difference is 6,148 square feet);
4. Removing carports from the site plan;
5. Removing an elevator;
6. Replacing the pool with other affordable outdoor amenities like a picnic area and bocce ball court;
7. Reducing parking provided from 110 spaces to 90 spaces, which is still code compliant;
8. Reducing the amount of masonry to approximately 10%;
9. Removing balconies from the units; and
10. Reducing the total net rentable area from 70,719 to 68,573 square feet (approximately a 3% reduction). The unit sizes were reduced as follows:
 - a. Type A Units: from 675 square feet to 655 square feet (difference is 20 square feet);
 - b. Type A-HC Units: from 681 square feet to 655 square feet (difference is 26 square feet);
 - c. Type B Units: from 933 square feet to 906 square feet (difference is 27 square feet); and
 - d. Type B-HC Units: from 956 square feet to 906 square feet (difference is 50 square feet).



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By making the changes referenced above, we anticipate a construction cost savings of approximately \$716,500—a significant step toward balancing the project's sources and uses, as detailed in Exhibit B.

Force Majeure Request

The restructuring of ownership mentioned above along with the necessary redesign has extended the project's pre-development and construction timelines. These unforeseen circumstances were not anticipated when we submitted our application in 2023, and we believe they constitute a force majeure event as defined in §11.6(5) and request an extension of the placed-in-service deadline to December 31, 2026. Currently, the Developer expects financial closing to occur on or before January 31, 2025. With a 16- to 18-month construction schedule and a 6-month buffer requested by our investor, the development is only feasible with a December 31, 2026, placed-in-service deadline. Please see Exhibit E for a more detailed timeline to completion.

The combination of unexpected insurance costs increases, and declining equity pricing has created challenges well beyond our control. Additionally, the restructuring required to address these financial issues has naturally contributed to the need for additional time. These factors together justify the request for an extension to ensure the project's successful completion. Given these challenges, the project requires a credit refresh to remain viable and continue providing much-needed housing for our seniors in Texas. Madhouse Development has a proven track record of delivering high-quality, affordable housing, and Avanti Legacy Lyon is a crucial part of this ongoing mission.

Conclusion

The requested changes and, consequently, the request for additional time, are essential to making the Development feasible. The Developer anticipates that these changes will result in a deferred developer fee higher than originally proposed, reflecting our commitment to ensuring the project's success despite challenging financial conditions. Our primary objective is not to secure additional fees but to reduce total development costs, address lender and investor concerns, and deliver much-needed affordable housing to the community.

We firmly believe that the proposed changes (1) do not negatively impact the site's design, (2) improve the Development's financial outlook, and (3) would not have adversely affected the selection of the Development in the 2023 award cycle. We appreciate your consideration of this amendment request and are available to provide any further information or clarification as needed.

Enclosed please find the revised application documents for staff's consideration:

- Exhibit A – Architectural Plans
- Exhibit B – Financial Exhibits
 - Tab 23 – Building Unit Configuration
 - Tab 24 – Rent Schedule
 - Tab 25 – Utility Allowances
 - Tab 26 – Annual Operating Expenses
 - Tab 27 – 15 Year Rental Housing Operating Pro Forma



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- Tab 29 – Site Work Cost
- Tab 30 – Development Cost Schedule
 - GC Proposal
- Tab 31 – Financing Narrative & Schedule of Sources of Funds
 - Bank Term Sheet
- Exhibit C – Support Letter from State Representative and City of Brownsville
- Exhibit D – Project Timeline

Sincerely,

Enrique Flores

Enrique Flores

Authorized Signatory of Avanti Legacy Lyon, LP