



300 Colorado Street  
Suite 2100  
Austin, TX 78701  
Telephone: 512-305-4700  
Fax: 512-305-4800  
www.lockelord.com

Cynthia L. Bast  
Direct Telephone: 512-305-4707  
Direct Fax: 512-391-4707  
cbast@lockelord.com

June 28, 2024

VIA E-MAIL: [bobby.wilkinson@tdhca.texas.gov](mailto:bobby.wilkinson@tdhca.texas.gov)

Mr. Bobby Wilkinson  
Executive Director  
Texas Department of Housing and Community Affairs  
221 East 11th Street  
Austin, Texas 78701

RE: Appeal of Underwriting Analysis  
Solano Apartments, Webster, Texas (the "**Property**")  
TDHCA No. 24457

Dear Mr. Wilkinson:

This letter appeals the conclusions of the Underwriting Report issued for the Property on June 21, 2024. The Property is an existing multifamily rental complex without affordability restrictions. Through the proposed financing with tax-exempt bonds and low-income housing tax credits, the Property will be converted to an affordable housing use, with long-term restrictions.

The Property is sponsored by an affiliate of the Harris County Housing Finance Corporation ("**HCHFC**") in partnership with an affiliate of Lone Star Capital ("**LSC**"). An affiliate of LSC owns the Property currently, making this is an "identity of interest" transaction under 10 TAC § 1.302(e)(1)(A)(ii). Accordingly, the Application included an appraisal, prepared in accordance with 10 TAC § 11.304. The appraisal presented two current, as-is values for the Property – one value if the Property is subject to ad valorem taxes and one value if the Property is exempt from ad valorem taxes. Under appraisal methodologies, whether a property is responsible for ad valorem taxes makes a very significant difference in value. Specifically, the appraisal noted the following:

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As a result of our investigation and analysis, it is our opinion that, subject to the limiting conditions and assumptions contained herein, the estimated value of the underlying land, as if vacant, of the fee simple interest, as of February 21, 2024, is:

**TWO MILLION ONE HUNDRED TWENTY THOUSAND DOLLARS**  
**(\$2,120,000)**

As a result of our investigation and analysis, it is our opinion that, subject to the limiting conditions and assumptions contained herein, the estimated market value "As Is" of the fee simple interest, as of February 21, 2024, is:

**TWENTY-SEVEN MILLION NINE HUNDRED THOUSAND DOLLARS**  
**(\$27,900,000)**

As a result of our investigation and analysis, it is our opinion that, subject to the limiting conditions and assumptions contained herein, the estimated hypothetical market value "As Is Assuming Real Estate Tax Exemption" of the fee simple interest, as of February 21, 2024, is:

**THURTY-FIVE MILLION SEVEN HUNDRED THOUSAND DOLLARS**  
**(\$35,700,000)**

The appraisal concludes that, if the Property is taxable, its current as-is value is \$27,900,000; if the Property is not taxable, its current as-is value is \$35,700,000. When a seller is obtaining an appraisal, it is commonplace to receive both opinions, as buyers who have the ability to operate a property with a tax exemption will pay more for a property than those that cannot do so. Both are legitimate, as-is values, not prospective or speculative, simply dependent upon how a third party purchaser would expect to operate the property.

The identity of interest rule mandates that, for purposes of acquisition costs, TDHCA staff must utilize the lesser of the value presented in the site control documents or the as-is value presented by the appraisal. The value presented in the site control documents is \$32,000,000. According to the rule, TDHCA must compare that value to either (i) \$27,900,000 if the purchaser will be paying ad valorem taxes or (ii) \$35,700,000 if the purchaser will not be paying ad valorem taxes.

In the Underwriting Report, TDHCA compared the value in the site control documents (\$32,000,000) to the as-is value of the Property as taxable (\$27,900,000) and utilized the lesser value for calculation of eligible basis. This is incorrect. The Property will be Controlled by HCHFC, making it eligible for an ad valorem tax exemption. The tax exemption is noted in the Application. Therefore, TDHCA should have compared the value in the site control documents (\$32,000,000) to the as-is value of the Property as tax exempt (\$35,700,000) and utilized the lesser value for calculation of eligible basis.

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We believe this error in the Underwriting Report reflects a simple misunderstanding of the two as-is values presented in the appraisal. With this clarification, we respectfully request that you grant this appeal and direct a recalculation in the Underwriting Report. Thank you very much.

Sincerely,



Cynthia L. Bast

cc: Lone Star Capital