

July 1, 2024

Bobby Wilkinson
Executive Director
221 East 11th Street
Austin, TX 78701

RE: #24166 Braniff Lofts Appeal

Mr. Wilkinson,

We are appealing the REA underwriting report that has recommended not to award credits to #24166 Braniff Lofts. The appraisal submitted with the application unfortunately did not present the values in a way that was clear enough to justify the acquisition credits claimed in the application. While there was a valuation of \$19,160,000 stated in the original Appraisal, it was not broken out clearly or correctly to identify the valuation of the building solely on the Preservation Historic Tax Credits, which the existing building is currently entitled to.

To give some background, the proposed development Braniff Lofts consists of a site in a high opportunity area in Dallas with a 60,000 sf existing building which is currently listed on the national historic register. The Braniff Lofts application is for Supportive Housing that will be owned by a local Dallas nonprofit, PWA Coalition of Dallas Inc, which has extensive housing experience. Supportive Housing applications are difficult transactions that have unique financing conditions and requirements, and if awarded, Braniff Lofts would be the first Supportive Housing application to be awarded in Region 3 since 2014.

The original appraisal that was submitted did not clearly allocate other values associated with the historic structure that would indicate the building's value for a historic adaptive reuse development. The difficulty in properly valuing historic structures is known throughout the appraisal industry and there are specialized resources that help to guide the appraisal community to assign proper value to historic structures. This difficulty, when combined with the fact that this project is considered "new construction," resulted in an appraisal that did not explicitly indicate the building's current value separate from the land value.

The appraisal did not discuss the fact that because this is a landmarked building and has been listed in the national register, it would be an extremely difficult and arduous process to demolish the building. In instances such as this, the highest and best use of the property is an adaptive reuse of the building thus conferring value to the existing structures. The Appraisal Institute guidelines are cited below:

Modification of the Highest and Best Use Principle

Because demolition is not legal or practical, or because preservation will be subsidized by incentives in addition to being socially, culturally, and architecturally the preferred alternative, it may be more difficult for an appraiser to conclude that new construction is the highest and best use of a property. Thus, appraisers should be guided by the principle of economic use in all appraisal assignments, but they must modify its traditional application where social or cultural constraints effectively rule out demolition as an alternative.

Please note that the appraisal as originally submitted did include a separate value for the favorable financing, as is required by the QAP, which was sufficient to support the amount of acquisition costs in basis. However, the appraiser did not break that value down further to separate out the historic tax credits, which is the source of favorable financing that will be transferred to the new owner and provides the intrinsic value to the existing historic building.

In the instance of our appraisal, the value of certain items was not properly assigned, and this led to the REA conclusion of \$0 value for our historic structure. A revised appraisal has been uploaded to the TDHCA FTP site that substantiates a separate value for the existing historic structure and can be used to support the value of acquisition credits indicated in the Application. Please see page #3 of the Appraisal (page #6 of the PDF), which concludes that the Present Value of Historic Preservation Tax Credits is equal to \$7,590,000. Note that this amount (\$7,590,000) is the value of the existing historic structure, based upon the source of favorable financing that will be transferred to the new owner, which is explicitly allowable under the current QAP. Page #128 of the Appraisal (page #137 of the pdf) includes the breakdown of the Value of the Historic Preservation Tax Credits. Finally, page #137 of the Appraisal (page #146 of the pdf) states that the As-Is Replacement Cost of the existing structure is equal to \$8,585,552, which undoubtedly indicates that there is more than enough intrinsic value to the existing building in order to substantiate the amount of eligible acquisition cost included in the Application.

Thank you for consideration. Please contact me with any questions.

Sincerely,

Jessica Krochtengel
Managing Member
Sycamore Strategies, LLC