

June 3, 2024

VIA EMAIL DELIVERY

Cody Campbell  
Texas Department of Housing and Community Affairs  
221 East 11th Street  
Austin, Texas 78701-2410

Re: Request for an Extension of the Placed in Service date for Paige Estates (the "Development")

TDHCA Nos. 21121, 23932

Dear Cody:

We represent Paige Estates, L.P. ("Owner"), which applied for and received \$1,122,000 in Housing Tax Credits in 2021 for a 64-unit senior development in Waco, Texas. The Development also applied for and received Supplemental Credits in the amount of \$135,000 under the 2023 QAP. As part of that QAP, TDHCA's Board made a finding of force majeure and extended the placed in service date to December 31, 2025.

#### **Background**

At the time of Application, total costs were projected to be \$13,075,980. The permanent loan rate was assumed to be 5.00%, credits were priced at \$0.89, and a Deferred Developer Fee of \$247,067 was projected. Since the Housing Tax Credits were awarded, costs have increased significantly and are now expected to be \$17,075,561, a 36.6% increase. Actions by the Federal Reserve to increase interest rates have the projected interest rate for this transaction now at 8.5% and credit pricing has dropped to \$0.85. The Development now has a Deferred Developer Fee of \$710,095 repayable in 11 years, a 287% increase in deferred fee.

The Owner has continued to push forward with the development to bring needed affordable housing to Texas residents, hoping that market conditions would change or some other means of achieving financial feasibility would be found. It has proceeded with the Development and expended considerable funds to accomplish the following:

- Acquisition of the land
- Completion of most environmental and remediation work
- Completion of architectural and engineering plans
- Application for building permits

Most significantly, the Owner is in the process of finalizing a partnership with the Waco Housing Authority to step in as a partner on this deal. The partnership will enable the development to be tax-exempt, eliminate the sales tax on construction materials, and receive project-based vouchers. The Owner has also applied for and been approved for ARPA funds administered by the City of Waco. These partnerships will allow the development to achieve financial feasibility. All of these efforts have been undertaken in good

faith with full intent to complete the project; however, these efforts have taken time that has delayed the start of construction and our ability to meet the placed in service deadline.

Although already in process, admitting a new partner to the Development and completing due diligence for new funding is expected to take anywhere from 4 to 6 months. This would place the closing and beginning of construction somewhere between September and November of 2024. These dates would make it impossible to meet the placed in service date of December 31, 2025 as construction is expected to take 16 months.

Accordingly, the Development is requesting that the Board repeat its previous action of confirming that this development meets the requirements of the Force Majeure provisions in Section 11.6(5) of the QAP and extend the Placed in Service Deadline to December 31, 2026.

### **Support for Force Majeure Conditions**

Pursuant to Section 11.6(5) of the QAP, a Force Majeure event includes Acts of God; changes in law, rules, or regulations; and supplier failures or materials or labor shortages that make construction activity impossible or materially impede its progress. TDHCA is aware of the general construction market conditions that have changed dramatically since Applications were submitted in the first quarter of 2021. The disruptions that started with the pandemic have not eased or only eased marginally. While certain materials costs have stabilized, other materials and labor costs have accelerated. The CBRE Producer Price Index for Construction Materials saw increases of almost 19% in 2021, 14% in 2022, and 5% in 2023. Although inflation has slowed, the cumulative impact of the past three years of inflation cannot be understated. The Federal Reserve has increased interest rates to levels that have not been seen in decades. The interest rate hikes have been compounded by decreases in credit pricing as investors demand higher returns. Insurance quotes have almost doubled, drastically increasing overall operating costs. The combination of these factors establishes grounds for continuing the Board's finding of Force Majeure and accompanying relief. The owner was not able to anticipate or control the factors that have made the Development financially infeasible.

### **Factors for Consideration**

In accordance with Section 11.6(5) of the QAP, we believe Owner meets TDHCA's requirements for the relief sought, in that:

1. Owner has proven up delays resulting from force majeure events, including supplier failures and materials and labor shortages that continue after origination during the COVID-19 pandemic, along with the interest rate changes imposed by the Federal Reserve. The delays materially impede Owner's ability to engage in construction activity.
2. When Owner submitted its Tax Credit Application in early 2021, it had no way of knowing what was to come with market conditions that are now commonly referred to as "unprecedented."
3. Owner has endeavored to mitigate the delays by acquiring the land, commencing predevelopment activity, and securing financing and partnerships necessary to achieve financial feasibility.

We believe Owner has satisfied TDHCA's requirements for a reallocation of Tax Credits under Section 11.6(5) of the QAP and requests that this matter be considered at the next available Board meeting with a recommendation for approval. We respectfully request the extension of the Placed in Service date to allow us to take advantage of those funds and get this shovel-ready development closed and under construction. If any additional information is required, please feel free to contact us.

Sincerely,

A handwritten signature in blue ink, appearing to read "B. H. Kimes", with a stylized flourish at the end.

Brian H. Kimes  
Executive Vice President