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July 1, 2024

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Kent Piotrkowski
Lone Star Capital Group, LLC
One World Trade Center, Suite 47A
New York, NY 10007

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

Dear Mr. Piotrkowski:

On June 21, 2024, the Department posted the underwriting report for the above Application recommending an annual tax credit allocation of \$1,985,388, as determined by eligible basis. This amount is \$188,472 below your requested annual amount of \$2,173,860.

According to the underwriting report, the Underwriter limited acquisition costs to the "as-is" value determined in the appraisal per §11.302(e)(1)(A)(ii):

"ii) For an identity of interest acquisition or when required by the Uniform Relocation Assistance and Acquisition Act of 1970 the underwritten acquisition cost will be the lesser of the amount reflected in the Site Control documents for the property or the appraised value as determined by an appraisal that meets the requirements of §11.304 of this chapter (relating to Appraisal Rules and Guidelines). An appraisal is not required if the land or building are donated to the proposed Development, and no costs of acquisition appear on the Development Cost Schedule."

The Underwriter limited the eligible building acquisition cost to the appraised "as-is" value of the buildings per §11.302(e)(1)(A):



“(C) Eligible Basis on Acquisition of Buildings. Building acquisition cost included in Eligible Basis is limited to the appraised value of the buildings, exclusive of land value, as determined by an appraisal that meets the requirements of §11.304 of this chapter (relating to Appraisal Rules and Guidelines). If the acquisition cost in the Site Control documents is less than the appraised value, Underwriter will utilize the land value from the appraisal and adjust the building acquisition cost accordingly.”

Solano is currently a market rate property and therefore §11.304(c)(10)(D) applies:

“(D) For all other existing Developments, the appraisal must include the "as-is" value.”

The Novogradac appraisal dated March 4, 2024 states the following:

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)

It should be noted that the Subject currently operates as an unrestricted market rate property that is subject to a full real estate tax burden. At the direction of the client, we have included a hypothetical value that is based on the hypothetical condition that the Subject is fully exempt from real estate taxes. Please refer to the complete Assumptions and Limiting Conditions in the Addenda of this report.

The Department underwrote \$27,900,000 “as-is” value for the acquisition cost and \$25,780,000 as the eligible building acquisition cost. This is based on the total “as-is” value of \$27,900,000 minus the “as is” \$2,120,000 land value stated in the submitted appraisal. The Application’s cost schedule assumed the \$32,000,000 contract price as the acquisition cost and \$29,880,000 as eligible building acquisition. This is based on the \$32,000,000 contract price minus the \$2,120,000 “as-is” land value. These different acquisition assumptions resulted in the reduced credit recommendation stated above.

The Applicant timely appealed the underwriting report, contending that the Department should have underwritten the \$32,000,000 contract price and eligible building cost of \$29,880,000 using the hypothetical market value “As Is Assuming Real Estate Tax Exemption” of \$35,700,000 that supports the

higher costs. The appeal response states that since the Application contemplates that the Harris County Housing Finance Corporation will control the property making it eligible for an ad valorem tax exemption, the higher hypothetical values should be used.

At the time of Application, the Exclusive Option Agreement executed on February 19, 2024 shows K&M NASA Webster LLC, HWPO51 LLC , and LSC Solano, LLC, collectively, as tenants-in-common, as "Seller." None of these three entities qualifies for a property tax exemption at this time, as further confirmed in the appraisal, which states:

"It should be noted that the Subject currently operates as an unrestricted market rate property that is subject to a full real estate tax burden. At the direction of the client, we have included a hypothetical value that is based on the hypothetical condition that the Subject is fully exempt from real estate taxes."

Since the property does not currently qualify for the tax exemption at the time of Application, the Application was correctly underwritten in accordance with the 2024 QAP which resulted in a reduction of recommended tax credits. Accordingly, the appeal is denied.

If you are not satisfied with this decision, you may file a further appeal with the Board of Directors of the Texas Department of Housing and Community Affairs. Please review §11.902 of the 2024 QAP for full instruction on the appeals process. Please note that §11.902(g) of the 2024 QAP and Tex. Gov't Code §2306.6715(d) limit Board review of an Application on appeal to the original Application and those documents contained within the Application.

Sincerely,

A handwritten signature in blue ink that reads "R D Wil II". The signature is stylized with a large "R" and "D", and a double underline on the "I" of "Wil".

Bobby Wilkinson
Executive Director