



AVANTI LEGACY DEL SOL

September 10, 2024

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

RE: Avanti Legacy Del Sol (TDHCA #23015) – 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, H4 Development Inc. ("Sponsor") respectfully requests an allocation of 2024 credits in exchange for the return of 2023 credits for the Avanti Legacy del Sol 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 del Sol 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 Del Sol 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. Unfortunately, recent market shifts have significantly impacted these estimates.

Market volatility has caused the permanent loan rate to increase to 6.82%, resulting in an additional \$200,000 in total interest costs. Additionally, equity pricing has dropped to \$0.85, leading to an approximately \$1,000,000 reduction in equity. Because the Development is in a Tier 1 county, it has also faced an abnormal increase in insurance premiums to \$1,050 per unit, drastically decreasing the available loan proceeds. Collectively, these changes have contributed to a project budget shortfall of approximately \$1.5 million.

The combined effects of higher interest rates, increased insurance costs, and lower equity pricing have reduced the Development's debt capacity, jeopardizing the project's financial feasibility. Without

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critical modifications to the deal structure and design, the project cannot proceed 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 Housing Authority of the City of Brownsville 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 2,827 square feet;
- 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 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 20 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).

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



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31, 2026. Currently, Developer expects financial closing to occur on or before December 2, 2024. 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 cost 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 del Sol 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
 - Rent Schedule
 - Annual Operating Expenses
 - 15 Year Rental Housing Operating Pro Forma
 - Development Cost Schedule
 - Schedule of Sources of Funds
- Exhibit C – Support Letter from State Representative and City of Brownsville
- Exhibit D – Project Timeline

Sincerely,

Enrique Flores, IV

Authorized Signatory of Avanti Legacy Del Sol, LP



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September 10, 2024

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

RE: Avanti Legacy del Sol (TDHCA #23015) – Request for Ownership Transfer

Dear Mr. Banuelos,

In accordance with Section 10.406(a) of the Post Award and Asset Management Requirements, please accept this letter as our formal request for an ownership transfer to change the ownership structure to reflect the admission to Applicant of The Brownsville Housing Opportunity Corporation (“BHOC”) as a new general partner.

The Economic Issues

The Development Team has been diligently working on designing and finalizing Avanti Legacy del Sol, a project that was proposed and awarded with high hopes and meticulous planning. During the initial application, our underwriting assumed an insurance cost of \$550 per unit and an equity pricing of \$0.90.

However, we now find ourselves facing an unexpected and dramatic challenge. Like many developers today, we have experienced a significant and unforeseen rise in insurance costs. Despite extensive searching and negotiations, the best insurance rate we could secure is \$1,050 per unit—an astonishing 150% increase from our initial estimate. This substantial hike has dramatically impacted our financial projections. Moreover, we are grappling with a decline in equity pricing to \$0.85, resulting in a loss of approximately \$1 million in projected equity for the project.

This dual blow of skyrocketing insurance costs and reduced equity pricing has put us in a precarious position. Due to these adverse developments, the project, without a significant modification to the deal structure, is no longer financially feasible.

Ownership Transfer

To combat the unexpected and significant economic changes, the Development Team put in effort to come up with creative solutions. As a result, we are respectfully requesting a change to the ownership structure to reflect the admission of the BHOC as a new member owning 100% of the new general partner entity, thereby providing property tax exemption to the Development. Property tax exemption will allow the Development to be financially feasible. With the additional income earned by the

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Development, the Applicant is able to increase permanent loan debt that helps cover the financing gap.

The City of Brownsville continues to strive to provide affordable housing to its community. With the community's lack of affordable housing development prospects, it's imperative we provide senior affordable housing units to this underserved community. To meet its housing demands, the Housing Authority of the City of Brownsville agreed to partner with the Applicant to ensure the viability of this Development.

In an effort to ensure transparency, the City of Brownsville has approved an amendment providing the city's continued support for the Development, including its request for property tax exemption. The resolution was approved in a public city council meeting on August 20, 2024, and is included under Exhibit A.

Satisfaction of HUB Requirements through Special Limited Partner

Under the legal analysis for the 100% property tax exemption, BHOC must own 100% of the general partner. A new general partner entity will be formed that will be 100% controlled by BHOC. The current members of the general partner will transfer into a new entity, Avanti Legacy del Sol I, LLC, which will become a special limited partner owning 0.0049% of the Limited Partnership. See organization charts for more detail. H4 Development, Inc. (the "HUB") is the managing member of Avanti Legacy Del Sol I, LLC, and a historically underutilized business. Although the HUB will no longer be a part of the general partner, the HUB will continue to be an active and participatory partner in the deal.

Section 11.9(b)(2) of the QAP requires that the HUB participate in the general partner entity, receive certain cash flow and developer fee, and materially participate in the development. The HUB's participation through the general partner will no longer be possible in light of the property tax exemption requirements described above. However, the HUB will nevertheless continue to materially participate in the development as initially proposed, except that this participation would now occur through Avanti Legacy del Sol I, LLC, as the special limited partner. In such capacity, the HUB will still be: (1) regularly, continuously, and substantially involved in providing services integral to the Development Team; and (2) involved with the Development Services or in the provision of on-site tenant services during the Development's Affordability Period.

Furthermore, "General Partner" is defined in the QAP to include "the functional equivalent of a general partner." In this instance, it is anticipated that the Applicant's operating agreement will provide that Avanti Legacy del Sol I, LLC, as special limited partner, will have the substantial management and control authority typically associated with a general partner. In this way, the HUB will continue to materially participate, and Avanti Legacy del Sol I, LLC will be the functional equivalent of a general partner.

We believe these changes in the ownership structure comply with the intent and purpose of the elected Sponsorship Characteristics for the reasons described above. Consequently, we request a waiver of



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the requirement for the HUB to participate through the general partner, allowing the Sponsor Characteristic requirements to be met through the special limited partner instead.

Conclusion

The addition of an affiliate of the City of Brownsville as a general partner is the solution needed to make this Development financially feasible. Additionally, although the HUB is no longer a member of the general partner, the HUB will continue to act essentially as a general partner and materially participate in the development. The lower total development cost allows the Development Team to address lender and investor concerns and ensures that quality, affordable housing is provided to a community in need.

After your review of this amendment request, should you have any questions or require additional information, please do not hesitate to contact us at your convenience.

Sincerely,

Enrique Flores, IV

Authorized Signatory of Avanti Legacy Del Sol, LP



ERIN ELIZABETH GÁMEZ



TEXAS STATE REPRESENTATIVE
DISTRICT 38

August 1, 2024

Cody Campbell, Director of Multifamily Programs
Texas Department of Housing and Community Affairs
221 E. 11th Street
Austin, TX 78701

Re: TDHCA #23015 Avanti Legacy del Sol, Brownsville, Texas

Dear Mr. Campbell,

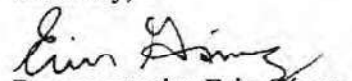
As State Representative for the area, I would like to express my continued support for Avanti Legacy del Sol in Brownsville, Texas. This apartment community for seniors is in my district and provides much-needed affordable housing to elderly families living on low to moderate incomes.

I firmly believe that we need more affordable housing options in District 38. Unfortunately, building affordable housing is extremely difficult. With high interest rates, rising construction costs, and decreasing equity pricing, developments with 9% housing tax credits have suffered. However the people behind the Avanti Legacy del Sol have not given up. They have partnered with the Housing Authority of the City of Brownsville to make the deal financially feasible through the use of property tax abatement. This partnership, which I support, will allow the Applicant to build Avanti Legacy del Sol with the available capital sources and without the need for supplemental credits thanks to the partnership's unique tax-exempt position. The Developers of the transaction should be commended for their efforts to identify non-traditional resources to subsidize the development costs of the apartment community.

Citizens of Brownsville deserve the opportunity to live in a safe and comfortable environment, and Avanti Legacy del Sol will provide this opportunity for elderly households in my district. Additionally, the demand for affordable senior housing in Brownsville is significant and growing. As our senior population continues to increase, it is imperative that we address this need promptly. By approving the material amendment requested for Avanti Legacy del Sol, the TDHCA Board will be supporting a project that not only meets current housing demands but also anticipates future needs, ensuring long-term stability and support for our elderly residents.

Please feel free to call me my office at 512-463-0606 or reach me by email at Erin.Gamez@house.texas.gov, if you have any questions.

Sincerely,


Representative Erin Gámez
House District 38

RESOLUTION NO. 2023-016

A RESOLUTION OF THE CITY OF BROWNSVILLE, TEXAS, AUTHORIZING THE CITY MANAGER TO AMEND THE RESOLUTION OF SUPPORT FOR THE PROPOSED DEVELOPMENT OF AN AFFORDABLE RENTAL HOUSING PROJECT LOCATED NEAR THE NORTHWEST CORNER OF RUBEN M. TORRES BOULEVARD AND LAREDO ROAD, NAMED AVANTI LEGACY DEL SOL.

WHEREAS, the City Manager is authorized to amend the Resolution of Support for the proposed development of an affordable rental housing community for seniors located near the northwest corner of Ruben M. Torres Boulevard and Laredo Road, named Avanti Legacy del Sol; and

WHEREAS, on January 7, 2023, the City of Brownsville approved a Resolution of Support for Avanti Legacy del Sol in relation to its application to the Texas Department of Housing and Community Affairs for the 2023 Competitive 9% Housing Tax Credits; and

WHEREAS, Competitive 9% Housing Tax Credits were awarded to Avanti Legacy del Sol, but since then, significant economic changes have adversely affected its development, including increases in construction costs, interest rates, and property insurance; and

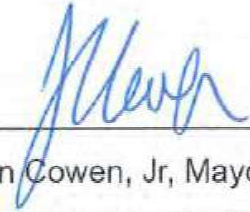
WHEREAS, Avanti Legacy del Sol is proposing to enter into partnership with the Brownsville Housing Opportunity Corporation, a nonprofit subsidiary of the Housing Authority of the City of Brownsville to collaborate on the development and implement a property tax exemption by including the Brownsville Housing Opportunity Corporation as the new General Partner for the transaction.

NOW, THEREFORE, BE IT RESOLVED that the City of Brownsville, represented by its governing body, reaffirms its support for the proposed Avanti Legacy del Sol apartments, located near the northwest corner of Ruben M. Torres Boulevard and Laredo Road, Brownsville, Texas. Further, the City strongly endorses the partnership with the Brownsville Housing Opportunity Corporation of the Housing Authority of the City of Brownsville, to obtain a property tax exemption to ensure the development of this critically needed affordable housing.

BE IT FURTHER RESOLVED, that the Avanti Legacy del Sol provides for the creation of needed affordable housing and will additionally support the City's efforts to promote a more vital economy and that the City, acting through its governing body hereby

authorizes, empowers, and directs City Manager of the City of Brownsville, Texas to certify this Amended Resolution to the Texas Department of Housing and Community Affairs.

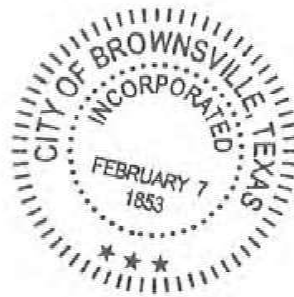
DULY PASSED, ADOPTED AND APPROVED by the City Commission of the City of Brownsville, Texas on the 20th day of August 2024.



John Cowen, Jr, Mayor
City of Brownsville, Texas



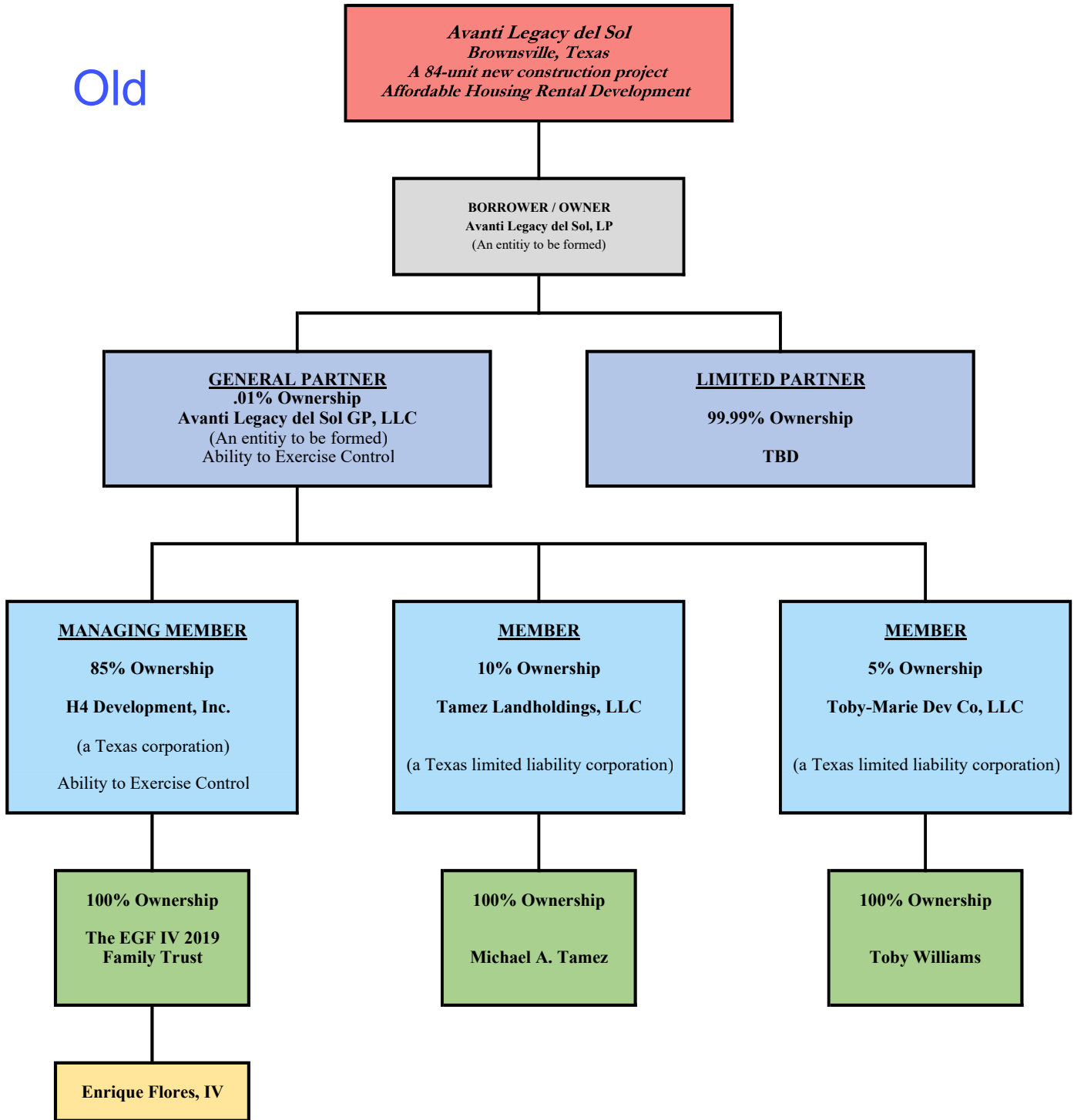
Marina Zolezzi, Acting City Secretary



AVANTI LEGACY DEL SOL, LP

Project Ownership Organizational Summary

Old



PROJECT OWNERSHIP ORGANIZATIONAL SUMMARY

New

