AMERINAT®

October 19, 2022

Mr. Todd Fowler
Special Assets Director
Florida Housing Finance Corporation
227 North Bronough Street, Suite 5000
Tallahassee, FL 32301-1329

RE: Palmetto Ridge Estates ("Development")
MMRB 2007 Series A/RRLP 2005-321HR/4% HC 2007-507C
First Mortgage Refinancing / Subordination of the Multifamily Mortgage Revenue Bonds ("MMRB") Land Use Restriction Agreement ("LURA"), Rental Recovery Loan Program ("RRLP") Loan Documents and Extended Low-Income Housing Agreement ("ELIHA")

Dear Mr. Fowler:

Florida Housing Finance Corporation ("Florida Housing" or "FHFC") has requested that AmeriNat® ("AmeriNat" or "Servicer") review the requests, dated May 2, 2022 and August 15, 2022 from a representative of Palmetto Ridge Estates Limited Partnership ("Borrower"), requesting FHFC consent to refinance of the First Mortgage and subordination of the existing MMRB LURA, RRLP Loan Documents and ELIHA. The MMRB will be redeemed with the proceeds of the new first mortgage.

AmeriNat reviewed the request, performed certain due diligence, and formulated a recommendation. For purposes of this analysis, AmeriNat reviewed the following due diligence:

- Correspondence from representatives of the Borrower regarding approval of the request detailed above
- Credit Underwriting Report ("CUR") dated July 14, 2006, CU Updated Letters dated May 22, 2007, September 8, 2008, March 23, 2009, October 16, 2014 and October 11, 2021
- Borrower's financial statements dated December 31, 2019, 2020 and 2021
- FHFC Occupancy Reports for 2018 - 2022
- FHFC Past Due Report dated September 22, 2022
- FHFC Noncompliance Report dated June 9, 2020
- MMRB LURA dated August 24, 2007
- RRLP LURA dated August 24, 2007
- ELIHA dated May 21, 2008
- Audited financial statements for the Development for years 2019 through 2021.
- A Term Sheet ("Term Sheet") from CBRE Capital Markets, Inc. for financing (undated)
- Appraisal Report from CBRE Multifamily Capital, Inc., dated June 23, 2022
- Refinance Source and Use of Funds Schedule
- Development's Operating Pro Forma for the trailing 12 months as of July 31, 2022
- Rent Roll for the Development dated as of August 25, 2022

Background

The Development is a 192-unit multifamily rental development located in Titusville, Brevard County, Florida. The Development consists of eight three-story buildings, community center / clubhouse, pool, and playground. Palmetto Ridge Estates Limited Partnership, is a Florida limited partnership formed August 8, 2005, specifically to own and operate the Development.

On October 11, 2021, FHFC consented to the transfer of the ownership interests of Palmetto Ridge Estates from affiliates of America International Group, Inc. ("AIG") to affiliates of Blackstone Real Estate Income Trust, Inc. (“BREIT”).

The Development was financed with FHFC MMRB of $11,500,000, FHFC RRLP loan of $7,400,000, which consist of a RRLP loan of $5,000,000 (Non-ELI loan of $3,750,000 and ELI base loan of $1,250,000) and a Supplemental loan of $2,400,000, City of Titusville SHIP loan of $90,000 and 4% Low Income Housing Tax Credits, and closed August 24, 2007.

Operation of the Development is restricted by terms and conditions detailed in the MMRB LURA, RRLP LURA and ELIHA. According to the RRLP LURA, the set asides are to be not less than 25% of the units (48 units) are set aside for tenants earning 35% or less of the Area Median Income (“AMI”) and 75% of the units (remaining units) are set aside for tenants earning 60% or less of the AMI. These AMI restrictions are in place for the first 20 years of the set aside term of 50 years. For the subsequent 30 years, 100% of the units will be set aside for tenants earning 60% or less of the AMI for the remaining 30 years of the 50-year period. The MMRB LURA set-aside is 85% of the units (164 units) set aside for tenants earning 60% or less of the AMI for 50 years. The ELIHA set asides are to be not less than 25% of the units (48 units) are set aside for tenants earning 35% or less of the AMI and 75% of the units (144 units) are set aside for tenants earning 60% or less of the AMI for 30 years.

The table below is a summary of the Development’s audited financial statements for the years 2019 through 2021, and the 12-month trailing unaudited financial statement as of July 31, 2022 that includes the Development’s Gross Potential Rental Revenue, Vacancy and Loss Percentage, Net Operating Income, and Debt Service Coverage (“DSC”):

	T-12 as of July 31, 2022 (unaudited)	Audit 2021	Audit 2020	Audit 2019
Gross Potential Rental Revenue	$1,671,661	$1,627,666	$1,596,273	$1,548,126
Vacancy and Loss Percentage	4.5%	1.21%	2.47%	2.87%
Net Operating Income	$693,088	$543,980	$409,726	$483,739
DSC – 1st mortgage	2.93x	2.299x	1.698x	2.108x
DSC – all mortgages and fees	2.53x	1.821x	1.350x	1.661x

Refinancing Overview

The Borrower proposes to refinance the current First Mortgage with a Fannie Mae fixed rate mortgage loan ("Loan") in connection with a multi-property, cross collateralized Fannie Mae Credit Facility. An undated, executed, Term Sheet from CBRE Capital Markets, Inc. for financing was provided for review.

The Loan is in the estimated amount of $7,827,000. A loan term sheet was provided, along with an email update regarding the loan terms. The term would be 10 years, with 35-year amortization, and 10 years of interest only payments. The interest rate is estimated to be 5.5%. The basis of the interest rate is not included in the Term Sheet. The loan-to-value is not to exceed 65% as determined by Fannie Mae, and the required minimum DSC is 1.20x.

The refinance will result in a cash out to the Borrower of approximately $8,897,891 per the Borrower's source and use. The proceeds of the new First Mortgage will redeem the MMRB and pay off the existing First Mortgage loan, pay related financing fees, and closing costs. The existing First Mortgage loan balance was $2,686,000 and the accrued interest on the RRLP loan was $24,863.02, as of September 1, 2022. The remaining FHFC loans are at 0% interest. Only the First Mortgage is being refinanced, and all other loans will remain outstanding. An updated source and use with current outstanding principal and interest amounts is noted as a follow-up item below.

At the time of original FHFC loan underwriting, the combined (First Mortgage and all FHFC debt) market loan to value ("LTV") was 107.4%. Based on a current appraisal (detailed below), the combined new First Mortgage loan and all outstanding FHFC debt LTV is 42%. The Debt Service Coverage ("DSC") on the proposed First Mortgage is 2.43x and 2.17x for all debt, inclusive of FHFC loan fees (perm loan servicing, and compliance and financial monitoring). The redemption of the MMRB & closing of the transaction will be determined at a later date.

Refinancing of the existing first mortgage loan is permitted under the underlying RRLP Loan Documents if the criteria outlined in Rule Chapter 67ER06-13 thru 67ER06-24 is met, the original combined loan to value ratio for the superior mortgage and the RRLP mortgage is maintained or improved, and a proportionate amount of the increase in the superior mortgage is used to reduce the outstanding RRLP Loan balance. Rule Chapter 6767ER06-13 thru 67ER06-24 states that the "Board shall approve requests for mortgage loan refinancing only if Development Cash Flow is improved, the Development's economic viability is maintained, the security interest of the Corporation is not adversely affected, and the Credit Underwriter provides a positive recommendation."

As required by Rule, subsequent to construction completion, with any increase in a mortgage superior to FHFC's mortgage, the original combined loan to value ratio for the superior mortgage and the FHFC mortgage be maintained or improved, and a proportionate amount of the increase in the superior mortgage be used to reduce the outstanding FHFC loan balance (first to accrued interest then to principal). As noted above, the LTV requirement is met. The required pay down of the FHFC debt is estimated to be $1,996,805 based on the following:

Loan Paydown	
$7,400,000	Original RRLP mtg
$11,500,000	Original first mtg
$7,827,000	New first mtg (est.)
$2,686,000	First mtg balance
$41,052	Refi costs (est.)
$5,099,948	Net increase
$5,099,948	Net increase
39.15%	FHFC mtg proportionate debt
$1,996,805	RRLP paydown (est.)

Appraisal

AmeriNat received and reviewed a satisfactory appraisal dated June 23, 2022 with a valuation date of June 15, 2022 prepared for CBRE Multifamily Capital, Inc. ("CBRE") by CBRE Valuation & Advisory Services.

According to the appraisal, the Development is achieving the maximum 2022 net HC rents. Also, the Development will benefit from a 100% ad valorem property tax exemption beginning in 2024 and throughout the remainder of the Extended Use Period in the ELIHA. This is a result of the Development meeting certain requirements of the Affordable Housing Property Exemption (FL Statute 196.1978) that originally allowed for a 50% ad valorem property tax exemption for qualifying affordable housing properties within Florida. However, the State of Florida recently passed a new bill in May 2021, which went into effect on July 1, 2021 that increased the ad valorem property tax exemption to 100%.

The appraisal concluded the following values of the leased fee interest as of June 15, 2022 (1st mortgage and all debt loan to values, respectively):

As-Is with HC Restrictions & Tax Exemption - $19,000,000 (41%, 80%)
As-Is with HC Restrictions & Without Tax Exemption - $15,300,000 (51%, 100%)
Hypothetical Without Restrictions Leased Fee Interest - $36,300,000 (22%, 42%)

Based upon the conclusions made in the appraisal and the survey of comparable properties, the proposed operating pro forma is as follows (except the actual property management fee of 5% is used):

FINANCIAL COSTS:				Year 1	Year 1 Per Unit
OPERATING PRO FORMA					
INCOME:	Gross Potential Rental Income			$2,055,204	$10,704
	Other Income				$0
	Miscellaneous			$59,572	$310
	Gross Potential Income			$2,114,776	$11,014
	Less:				
	Physical Vac. Loss	Percentage:	2.00%	$42,296	$220
	Collection Loss	Percentage:	1.00%	$21,148	$110
	Total Effective Gross Income			$2,051,333	$10,684
EXPENSES:	Fixed:				
	Real Estate Taxes			$14,613	$76
	Insurance			$109,440	$570
	Variable:				
	Management Fee	Percentage:	5.00%	$102,567	$534
	General and Administrative			$57,600	$300
	Payroll Expenses			$245,760	$1,280
	Utilities			$251,520	$1,310
	Marketing and Advertising			$8,640	$45
	Maintenance and Repairs/Pest Control			$129,600	$675
	Grounds Maintenance and Landscaping			$25,920	$135
	Reserve for Replacements			$57,600	$300
	Total Expenses			$1,003,260	$5,225
	Net Operating Income			$1,048,073	$5,459
	Debt Service Payments				
	First Mortgage - CBRE /FNMA			$430,485	$2,242
	Second Mortgage - FHFC			$37,500	$195
	First Mortgage Fees - CBRE /FNMA			$0	$0
	Second Mortgage Fees - FHFC			$15,862	$83
	Total Debt Service Payments			$483,847	$2,520
	Cash Flow after Debt Service			$564,226	$2,939
	Debt Service Coverage Ratios				
	DSC - First Mortgage plus Fees			2.43x	
	DSC - Second Mortgage plus Fees			2.17x	
	DSC - All Mortgages and Fees			2.17x	
	Financial Ratios				
	Operating Expense Ratio			48.91%	
	Break-even Economic Occupancy Ratio (all debt)			70.47%	

Additional Information

As of July 31, 2022, the Development had three vacant units or 98.44% occupancy. Per the FHFC Occupancy Reports, historical occupancy in August for each of the past four years has been reported as follows:

August 2020	100%	August 2019.................	95.31%
August 2018	95.83%	August 2017..................	97.92%

According to the FHFC Noncompliance Report dated June 9, 2020, no noncompliance items exist for the proposed Development Team.

According to the FHFC Past Due Report dated September 22, 2022, no past due items exist for the proposed Development Team.

Recommendations

AmeriNat recommends that FHFC consent to and approve the refinance of the First Mortgage and subordination of the existing MMRB LURA, RRLP Loan Documents & ELIHA, and modification of any other loan documents that are required to effectuate the transaction, subject to the following:

1. An updated source and use with current outstanding principal and interest amounts prior to closing
2. Paydown of the RRLP loan
3. Review of final First Mortgage loan terms and confirmation that all FHFC underwriting requirements for approval have been met
4. Payment of any outstanding arrearages to Florida Housing, its Legal Counsel, Servicer or any Agent or Assignee of Florida Housing for past due issues applicable to the Development Team (Borrower or Developer or Principal, Affiliate or Financial Beneficiary, as described in Rule Chapter 67-21.0025 (5), 67-48.0075 (5) F.A.C., of a Borrower or a Developer), if applicable.
5. Payment of all costs and fees to Florida Housing, its Legal Counsel and Servicer, as applicable.
6. Consent of lenders or tax credit syndicator, as applicable.
7. Receipt of a non-refundable MMRB LURA, RRLP Loan Documents and ELIHA subordination fee of $1,000 each on the date of the closing, if applicable
8. Repayment of MMRB first mortgage and redemption of the underlying MMRB
9. Confirmation of refinancing fees and closing costs prior to closing
10. Satisfactory resolution of any outstanding past due and/or noncompliance.
11. Prepayment of any required compliance monitoring fee, and servicing fees, if applicable.
12. Review and approval of all Loan Documents by Florida Housing, its Legal Counsel and Servicer.
13. Transfer of existing tax, insurance, replacement reserve and debt service reserve escrow accounts or establishment of new accounts in like or greater amounts satisfactory to FHFC prior to closing, if applicable.
14. Confirmation of approval by all other lenders, if applicable
15. Any other requirement of Florida Housing, its Legal Counsel and Servicer.

16. FHFC requires the Owner to waive the right to a Qualified Contract under the ELIHA, such waiver to be in form and substance acceptable to FHFC

Please do not hesitate to contact me if you need further assistance.

Sincerely,

TA Louloudes

Tom Louloudes
Multifamily Credit Underwriter Manager