



CITY OF HOUSTON - CITY COUNCIL

Meeting Date: 6/21/2016

District K

Item Creation Date: 5/3/2016

HCD16-53 Regency Walk LLC

Agenda Item#:

Background:

The Housing and Community Development Department recommends the termination of a Loan Assumption and Modification Agreement ("Prior Assumption Agreement") and execution of an alternate Loan Assumption and Modification Agreement ("Assumption Agreement"). The Assumption Agreement will amend the existing \$10,150,000 performance-based loan ("City Loan") of federal CDBG-DR Funds from the City to Regency Walk, LLC to permit the sale of Regency Walk, a 606-unit property in Braes Oaks, to affiliates of Birch Owner 2 LLC and to increase the maximum permitted senior loan amount from \$11,000,000 to \$25,800,000. **No further City funding is required.** Birch Owner 2 LLC, an affiliate of Lynd Residential Properties ("Lynd") and KKR, proposes to purchase, through its affiliates, a portfolio of six Houston-area properties, including Regency Walk. In return for the approval, the City will realize the following benefits:

- **Approximately \$2 million in program income from a profits participation in this sale.**
- Birch Owner 2 LLC will invest at least \$7,000,000 in capital improvements across the portfolio of the Houston-area properties (approximately 2,200 units).
- The new owners of Regency Walk will assume the City Loan and will maintain the rent restrictions for the remainder of the 15-year period set in the Land Use Restriction Agreement ("LURA") related to the City Loan. In addition the new owners will subject an additional five apartment units to the LURA.

The City Loan, authorized pursuant to Ordinance No. 2008-797, was to rehabilitate two properties, Arbor Square Apartments and Sandpiper Apartments, located at 10301 Sandpiper and 10400 Sandpiper, which were to be managed as one apartment complex known Regency Walk. The City of Houston's loan proceeds were used only for hard costs for this extensive renovation, which was completed in March of 2013. Of 606 total units, 309 are rent-restricted for a period of 15 years. The property has been operating successfully with a 96% occupancy rate.

In September 2013, Regency Walk LLC sold this property to affiliates of Variant Holdings LLC, as part of a portfolio that included 12 properties in the Houston area. In exchange for its consent, the City received a 20% profits participation in any future capital events.

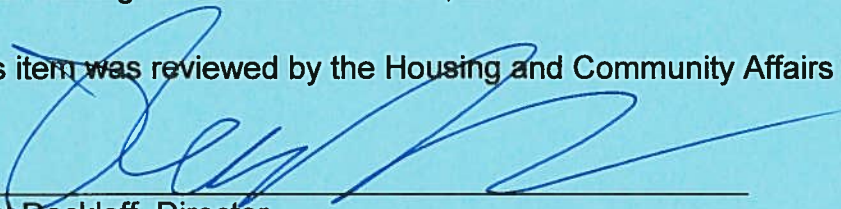
In August 2014, Variant Holdings, LLC filed for bankruptcy. In March 2015, the Bankruptcy Court ordered the debtor to cause its affiliates to sell their assets. Pursuant to Ordinance 2015-694, the City entered the Prior Assumption Agreement to permit the sale of Regency Walk to affiliates of Birch Owner, LLC, also an affiliate of Lynd. After months of litigation regarding the Court's order, the individual property owners were put into bankruptcy in January, 2016, and the Court ordered that the

portfolio properties be offered for sale through an auction. The Court approved the sale of some of the properties to other parties, thereby making it impossible to satisfy certain conditions of the Prior Assumption Agreement. The sale of six properties to Birch Owner 2, LLC has been approved by the Court, with the sale of the Regency Walk properties being subject to City approval. Because the conditions of the Prior Assumption Agreement can no longer be satisfied, it will be formally terminated prior to the City's execution of the Assumption Agreement.

Birch Owner 2 LLC brings a manager with a strong investment partner to a number of older properties, many of which have been neglected and mismanaged for many years.

Lynd is a 36-year-old national real estate operating enterprise handling all phases of multifamily development. Operating in 17 states and 50 metropolitan areas, and with over 34,000 units under management, Lynd ranks in the Top 50 Property Management firms by the National Multifamily Housing Council. KKR is a 41-year-old leading multinational investment firm with over \$99 billion under management as of March 31, 2015.

This item was reviewed by the Housing and Community Affairs Committee on May 24, 2016.



Neal Rackleff, Director

Prior Council Action:

(O) 2008-0797 - 09/10/08

(O) 2015-0694 - 07/22/15

Contact Information:

Roxanne Lawson

832.394.6282