

REGENCY WALK TRANSACTION SUMMARY

Summary: The proposed transaction will permit the sale of the Regency Walk Apartments to a qualified operator and will result in a \$1,900,000 payment of HUD Program Income to the City.

Discussion: In 2008, the City loaned \$10,150,000 of federal Disaster Recovery funds to Regency Walk, LLC to provide a second lien loan ("City Loan") to assist with the repair and rehabilitation of Regency Walk Apartments (now known as Sandpiper Apartments and Vista Apartments) located vicinity of 10301 and 10400 Sandpiper ("Property").

In September, 2013, the Director of the City's Housing and Community Development Department consented to the sale of the Property to entities affiliated with Variant Holdings, Inc. ("Variant") in exchange for certain benefits to the City, including a 20% participation in the profits from a future sale ("Profits Participation").

In August, 2015 the City entered into an agreement ("2015 Agreement"), by which it agreed to consent to the transfer of the Property to entities affiliated with the Lynd Group and Kohlberg Kravis and Roberts ("Lynd/KKR"), who were to acquire the entire portfolio of Variant.

In January, 2016, the Property was put in Bankruptcy. The Bankruptcy Court approved the sale of some properties to entities not affiliated with Lynd/KKR, thereby preventing the satisfaction of the requirements of the 2015 Agreement. Because the transfer requirements set forth in the 2015 Agreement cannot be satisfied, it should be terminated.

The Bankruptcy Court has approved the sale of 7 properties to affiliates of Lynd/KKR and Birch Owner 2 LLC, including the Sandpiper Project and the Vista Project. The proposed Loan Assumption and Modification Agreement ("2016 Agreement") reflects the transaction approved by the Bankruptcy Court. The 2016 Agreement:

1. provides that the new owners of the Property will assume all obligations related to the City Loan;
2. provides that the City will waive prior defaults (a commercial necessity);
3. increases the permitted amount of a commercial loan (not funded by the City) which, subject to HCDD consent, will be secured by a senior lien against the Property;
4. requires that an affiliate of Lynd/KKR and Birch Owner 2 LLC, to make at least \$7,000,000 of capital improvements to the affordable Houston-Area properties being acquired; and

The amount of the Profits Participation to be paid to the City from the current transaction will be about \$1,900,000 as HUD Program Income.