



CITY OF HOUSTON - CITY COUNCIL

Meeting Date: 12/12/2017

District D

Item Creation Date: 11/28/2017

HCD17-117 Village at Palm Center Condominium Consent Agreement

Agenda Item#:

Background:

In order to address a technical issue in the project's financing, the Housing and Community Development Department (HCDD) recommends Council approve an amendment to the Amended and Restated Loan Agreement executed October 11, 2017 between the City of Houston and Nautical Affordable Housing, Inc., joined by Houston 5110 Griggs Road Residential, LP.

The amendment will allow the Village at Palm Center (VPC) to be converted into a condominium regime with a condominium unit that will include the residential portion of the project and a second condominium unit that will include the retail portion of the project. Each condominium unit will include undivided ownership (in proportion to the size of the unit) of certain common elements that are shared by the units. VPC includes 222 market-rate and LIHTC residential units (Residential Unit), 16,304 sq/ft of retail space (Retail Unit) and a podium parking structure which is shared by the Residential Unit and the Retail Unit. In connection with the condominium conversion, the City will release its lien against the Retail Unit, whose construction was not funded by the City, and will subordinate its lien against the land and the improvements to the condominium declaration. In exchange, the City's loan will be secured by a lien against the residential condominium unit, including a 96.042% interest in the common elements. The conversion to a condominium regime will allow the residential development to be evaluated for compliance with so-called "50% Test," which requires that at least 50% of such project's aggregate basis are financed by volume cap tax-exempt bonds.

The VPC transaction closed in October of 2014, financed in part by equity raised from 4% tax credits, a loan of \$20,000,000 in volume-cap tax exempt bond proceeds, and a \$15,300,000 "performance based" loan provided by the City of Houston. In October 2017, Council approved an \$1,500,000 increase in the city's loan to \$16,800,000 to fund a portion of the cost overruns for VPC.

The cost overruns amount for the project have led to a potential risk that the tax-exempt financing may not account for 50% of the aggregate basis for the overall project, including its residential and retail components. If less than 50% of the aggregate basis in a project is financed by Bonds, then the project fails the 50% Test and the tax credits generated by the portion of the project's aggregate basis not financed by Bonds are forfeited entirely.

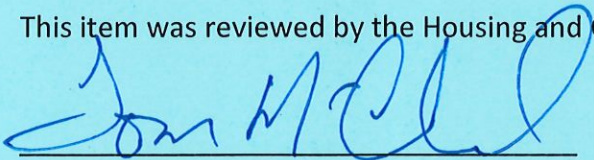
Instituting a condominium regime at the VPC will create two condominium units: a Retail Unit and a Residential Unit, each having a separate legal description and an undivided interest in the common elements. Upon institution of a condominium regime, the proceeds of the Bonds and of the City's loan and the housing tax credits will apply only to the Residential Unit and the basis in the Residential Unit will be used to calculate and meet the 50% Test.

Creation of the condominium regime will require all lenders to consent to the by-laws and to subordinate their liens so that a subsequent foreclosure of their liens will not terminate the condominium regime. The City's affordability and use restrictions will remain against the Residential Unit.

The Bond lender and the City will execute partial releases of their liens against the Retail Unit, which was not funded by their loans. The City's existing affordable housing covenants and restrictions will not be applicable to the Retail Unit. However, the city instituted prohibitions of certain inappropriate businesses will continue to apply to the Retail Unit.

HCDD is currently reviewing a Section 108 loan request from the VPC owner to finance of up to \$2.2M of the Retail Unit. This request is currently being underwritten by HCDD and any request for funding will be sent to Council under separate cover.

This item was reviewed by the Housing and Community Affairs Committee on November 28, 2017.



Tom McCasland, Director

Prior Council Action:

09/27/17, (O) 2017-734

06/18/14, (O) 2014-636

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