HUD 220: NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION OF MIXED USE PROJECTS IN URBAN RENEWAL AREAS

Ziegler
CAPITAL :: INVESTMENTS :: ADVICE

GENERAL TERMS

Eligible Properties:	Mixed use market rate, affordable(1) or rental assisted(2) properties in urban renewal and concentrated development areas. Age restricted projects are not eligible.
Eligible Borrowers:	Single-asset, special purpose entity (for profit or not-for-profit)
Territory:	Nationwide and Puerto Rico
Term & Amortization:	Actual construction period plus the maximum of 40 years or 75% of the remaining economic life of the property, whichever is less. Fully amortizing with interest only payable during construction.
Maximum Loan Amount:	For loans less than $75 million, the lesser of: 1. 85%, 87%, or 90% of replacement cost for market rate, affordable(1) or rental assisted(2) properties, respectively; 2. Statutory per unit limits; 3. The amount of debt that can be serviced by 85% (1.176x), 87% (1.15x), or 90% (1.11x) of net operating income for market rate, affordable(1) or rental assisted(2) properties, respectively; 4. 100% of mortgageable transaction costs less the portion of grants, public loans and tax credits applied to mortgageable costs.
Interest Rate:	Fixed, subject to market conditions.
Prepayment Options:	To be determined at time of interest rate lock. Typical options include a 2-year lockout with penalty of 8% in the 3rd year, declining 1% each year thereafter and reaching zero after the 10th year.
Timing:	**Call Ziegler for current timing.**
Assumability:	Yes, subject to FHA approval.
Personal Liability:	Non-recourse loan subject to carve-outs for fraud and misrepresentation.
Secondary Financing:	Allowable, subject to FHA criteria.

ADDITIONAL PARAMETERS

Repairs Threshold (Substantial Rehabilitation):	Must meet one of the following criteria: 1. Exceeds in aggregate cost a sum equal to the $15,000 per dwelling unit limit times the applicable High Cost Factor times the number of dwelling units proposed for the property after completion of any construction; or 2. Replacement of two or more building systems
Commercial Space:	Limited to 25% of total net rentable area and 30% of effective gross project income.
Required Third Party Reports:	Market Study, Appraisal, Phase I ESA, and Architectural Plans, Specifications and Cost Review
Davis Bacon Wages:	Payment of prevailing wages is required by HUD.
Cost Certification:	The borrower must submit a cost certification prepared by an independent CPA upon completion of construction or substantial rehabilitation.
Builder and Sponsor's Profit and Risk Allowance (for-profit borrowers):	For new construction, BSPRA equal to 10% of all costs other than land can be utilized for sponsors with an identity of interest general contractor. For substantial rehabilitation, BSPRA is 10% of the above costs exclusive of the as-is value of the existing structure.

ADDITIONAL PARAMETERS (Continued)

Developer's Fee (not-for-profit borrowers):	Developer's fee is 8% of first $5 million and 2% thereafter.
Post-closing Reporting:	Annual audited financial statements.
Occupancy Requirements:	Maximum underwritten physical occupancy of 93% for market rate projects and between 93%-97% based on affordable housing criteria.
Rate Lock Deposit:	0.5% of the mortgage amount set forth in the firm commitment. Required after client's acceptance of firm commitment and prior to rate lock. The rate lock deposit will be held until closing and it will be returned shortly thereafter.
Extension Fees:	A fee is required to extend the closing date if the mortgage loan does not close within the timeframe agreed to by the borrower when the mortgage loan was rate locked. This fee is determined at the time of the rate lock.

ADDITIONAL FEES & EXPENSES (CAPITALIZED WITHIN THE LOAN)

HUD Exam Fee (Application Fee):	0.3% of the mortgage amount. For market rate new construction or substantial rehabilitation transactions, 1/2 of the application fee is due with the submission of the pre-application package and the other 1/2 is due with the application for firm commitment. For affordable new construction or substantial rehabilitation transactions, the entire amount is paid at the firm commitment stage.
HUD Inspection Fee:	For new construction, the inspection fee is 0.5% of the mortgage amount. For substantial rehabilitation, the inspection fee is 0.5% of the total for all improvements (plus BSPRA, if applicable).
HUD Mortgage Insurance Premium:	Per year of construction, or part thereof, the initial mortgage insurance premium is 0.70%, 0.35%, or 0.25% of the mortgage amount for market rate, affordable(3) or broadly affordable(4) and green/ energy efficient properties, respectively. Thereafter, 0.70%, 0.35%, or 0.25% annually, payable in monthly installments for market rate, affordable(3) or broadly affordable(4) and green/energy efficient properties, respectively.
Other Fees:	Borrower must pay for third-party reports (e.g., Appraisal, Market Study, Phase I ESA, Architecture and Cost Review), survey, and for ZFC's legal fees associated with closing. An upfront deposit will be required to cover these costs and will be reimbursable at closing.

REQUIRED ESCROWS

Reserve for Replacement:	Ongoing annual deposits to the reserve for replacement are required for all projects and will be determined during loan underwriting.
Additional Escrows:	Property taxes, insurance, MIP and replacement reserves.
Working Capital (Cash or Letter of Credit):	The working capital escrow requirement for new construction is 4% of the mortgage amount, half of which will be a construction contingency for cost overruns and approved change orders. The working capital escrow requirement for substantial rehabilitation is 2% of the mortgage amount. Working capital funds are not mortgageable and the unused portion may be released to the borrower.

REQUIRED ESCROWS (Continued)

Initial Operating Deficit (Cash or Letter of Credit):	For all new construction and for substantial rehabilitation projects in which there will be significant resident displacement resulting in negative cash flow during the rehabilitation period, the operating deficit escrow will be the greater of: 1. What the appraisal and underwriting analysis determines to be appropriate; or 2. 3% of the mortgage amount; or 3. 4 months debt service (P+I+MIP) for a garden apartment, or 6 months debt service (P+I+MIP) for an elevator building; or 4. HUD Minimum Initial Operating Deficit (IOD) and Debt Service Reserves for Large Loans (5) IOD funds are not mortgageable and the unused portion may be released to the borrower.

(1) – Meets HUD's definition of Affordable Housing

(2) – 90% or greater rental assistance

(3) – Inclusionary Zoning, 10%-90% LIHTC, or 10%-90% Section 8

(4) – 90%+ LIHTC or 90%+ Section 8

(5) – Loans between $25 million and $75 million are required to escrow no less than 9 month's debt service. Loans greater than $75 million are required to escrow 12 month's debt service

REQUESTED ITEMS FOR PRELIMINARY ANALYSIS

- Description of project, location, unit mix, year built (if applicable), physical characteristics, elevator, etc.
- Details on commercial space, if any
- Any third party reports that have been completed
- Last three years of detailed operating statements and interim year-to-date including occupancy data (if applicable, substantial rehabilitation only)
- Detailed operating pro forma
- Detailed description and cost estimate of any construction/repairs to be completed
- Description of ownership structure, experience of sponsor, experience of management agent