

STAFF REPORT

Broadstone Walk Loan Lien Position Request

October 11, 2022 Town Council Meeting



The DHIC, Inc. Broadstone Walk affordable housing project will include a total of 164 residential affordable housing rental units, affordable to those who earn between 40% - 60% of the Raleigh, NC Metropolitan Statistical Area (MSA) Area Median Income (AMI) as published by the U.S. Department of Housing and Urban Development (HUD). This project will be the largest one-hundred percent (100%) affordable housing rental project in Town history. Town Council approved a loan to DHIC, Inc. for a total of \$1,850,000 for construction and permanent financing from the Town's Affordable Housing Fund (AHF) for the Broadstone Walk affordable housing project. In addition, DHIC, Inc. was awarded a four-percent (4%) Low-Income Housing Tax Credit (LIHTC) from the North Carolina Housing Finance Agency (NCHFA). However, in order to finalize underwriting and loan closing for the entire Broadstone Walk affordable housing project, the LIHTC investor, Enterprise Housing Partners XLI Limited Partnership (EHP 41) and syndicator, Enterprise Housing Credit Investments (EHCI) are requesting a loan lien position change from the Town from third lien to fourth lien position.

In regards to this LIHTC project, EHP 41 can only take tax credits proportionate to the allocation of losses it receives every year. In addition, EHP 41 can only take losses against its capital account along with any minimum gain allocated. Under the current loan lien position structure for the project, EHP 41 would start to go negative in year ten which would be the second to last year of the tax credit period. Consequently, there would not be sufficient minimum gain for EHP 41 to take its share of tax credits for the remaining two years of the tax credit period. However, to create the necessary minimum gain, EHP 41 and EHCI are requiring that the unrelated, non-recourse Town loan be shifted down from third lien to fourth lien position. As a result, the Town's loan will be subordinate to the following loans; 1) Bellwether (First Lender), 2) Wake County (Second Lender) and 3) General Partner (Third Lender). The lien position change will not affect the Town's loan repayment priority out of cash flow or capital proceeds for any of the loans. The Town's loan repayment priority will remain in third position behind the following; 1) Bellwether (First Lender) and 2) Wake County (Second Lender). The scheduled loan closing deadline for the Broadstone Walk affordable housing project is on or around October 13, 2022.

Should the project be able to successfully obtain project underwriter approval and loan closing, the Town would execute regulatory and loan documentation with DHIC, Inc. The Town's funding to DHIC Inc. will also require a 30-year affordability restriction period to ensure rents remain affordable long-term, which is consistent with the North Carolina Finance Agency (NCHFA) LIHTC regulations.

Staff Recommendation:

Planning staff recommends approval of the Town's loan lien position change as required by EHP 41 and EHCI from third lien to fourth lien position in order for the DHIC, Inc. Broadstone Walk affordable housing project to receive underwriter approval and be able to successfully close by the deadline of on or around October 13, 2022.