NYC HDC
NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

Marc E. Jahr
President

MEMORANDUM

To: The Chairperson and Members

From: Marc Jahr
President

Date: August 1, 2012

Subject: Approval of a Loan for Ocean Village and Declaration of Intent

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I am pleased to recommend that the Members approve the origination from unrestricted reserves of a construction loan in an amount not to exceed $110,000,000 to finance the acquisition, rehabilitation and preservation of Ocean Village, a 1,093 unit Mitchell-Lama ("ML") development (the "Development"). The financing is expected to be structured in two phases ("Phase I" and "Phase II") with approximately $43,000,000 to be funded during Phase I and the balance to be funded during Phase II. Members are asked to authorize the entire loan amount for Phase I with the expectation that the loan will eventually be funded with a combination of taxable and tax-exempt bond financing as part of one or more future Open Resolution issuances and the Corporation will be reimbursed for any advances made from unrestricted reserves. The bond financing of this development will require further authorization by the Members at a later date.

It is expected that Ocean Village Development will be financed in accordance with the Corporation's ML Restructuring Program ("MLRP"), a program which seeks to preserve middle-income housing across all five boroughs. Since December of 2004, the Corporation has successfully refinanced or provided subsidy loans for over 40 ML properties totaling approximately 28,650 units. The MLRP has preserved the affordability of projects that might have otherwise exited the ML program and provided construction financing for needed repairs. Many ML developments that have not yet refinanced have significant deferred repair needs; Ocean Village is emblematic of such a project with considerable capital needs, the completion of which will impact over a thousand families, including both long-term and new tenants. It is expected that the HDC Regulatory Agreement for Ocean Village will require the Development to remain affordable to tenants earning up to 60% of the Area Median Income ("AMI") for 25% of the units and up to 80% of AMI for 75% of the units for up to 35 years.

The Development was originally financed with a mortgage loan provided by the New York State Urban Development Corporation ("UDC"), presently known as the Empire State Development Corporation ("ESDC" or "ESD"). Despite the current borrower's relationship with ESD, the Corporation is best positioned to finance the Development's acquisition and rehabilitation based on the breadth of the Corporation's existing Mitchell Lama Restructuring Program, capacity to allocate a large amount of recycled tax-exempt bonds to the project and ability to provide long term credit enhancement for the loan by participating in HUD's FHA Risk Share Program. In order to facilitate a smooth transition throughout the project's construction period and given the Corporation's existing close relationship with the New York City Department of Housing Preservation and Development ("HPD"), New York State Homes and Community Renewal ("HCR") has agreed to transfer ML supervisory responsibilities to HPD.

A description of the Development and its history, mortgagor and management, financing plan, risks and risk mitigation and the requested action by the Members follows.

Property Description

Ocean Village, also known as Arverne Houses, is a multi-family mixed-use rental property located in the Arverne section of the Far Rockaway neighborhood in Queens. Constructed between 1972 and 1974, the Development consists of eleven buildings, including two 19-story high rise towers, two 11-story mid rise buildings and seven 4-story low rise buildings located on Rockaway Beach Boulevard and the oceanfront boardwalk along Shore Front Parkway, between Beach 56th and Beach 59th Streets. The Development contains a total of 1,093 residential apartments, approximately 24,000 square feet of commercial space, as well as approximately 16,000 square feet of vacant space that is expected to be redeveloped as community and/or management office space.

For more information on the Development, please see Attachment "A."

Property History

The Development was originally financed with a Section 236 assisted, non-insured mortgage. As a project assisted under Section 236 of the National Housing Act, Ocean Village receives monthly Interest Reduction Payment ("IRP") subsidies from the United States Department of Housing and Urban Development ("HUD"). The Development also benefits from HUD Rent Supplement subsidy for approximately 103 units. The ML supervision of the Development is currently performed by HCR.

Similar to Ocean Gate, another UDC financed ML property that closed on rehabilitation financing from the Corporation in 2007, Ocean Village has experienced financial difficulties since early in its operations. In the case of Ocean Village, UDC and its subsidiary, the New York State Mortgage Loan Enforcement and Administration Corporation began foreclosure actions in 1984 and subsequently established a workout agreement that capitalized outstanding interest arrears and established a designated minimum annual debt service payment of $675,000, with the remainder accruing. The Development has remained current on the minimal payments to avoid foreclosure, but the interest has otherwise accrued. UDC's original mortgage was $42,198,000. The total outstanding principal and interest arrearages now total approximately $139 million.

The Development is now nearly 40 years old and has not received rent increases sufficient to make most required repairs. While management did complete substantial window replacement and elevator overhauls, deferred capital needs now total approximately $55 million. Further, the Development has been operating at a loss since 2008 and has accrued well over $2 million in outstanding charges for water and sewer, shelter rent taxes and other arrears. The Development's operating and building reserves are depleted. Water infiltration has created mounting physical issues including mold growth, which is most serious in apartments located at grade but below the water table. The confluence of physical and financial distress is most clearly demonstrated by a residential vacancy rate of nearly 30%. With a total of 315 vacant units as of July 2012, including more than 90 units held off-line for health and safety issues, and no funds available for repairs or marketing, the Development is in need of significant rehabilitation.

Currently, Arverne Houses, Inc, organized pursuant to Article II of the Private Housing Finance Law, holds legal title and Arverne Associates LP (also known as DCA Arverne Houses), a New York Limited Partnership, holds beneficial title to the Development. The 99% Limited Partner of Arverne Associates is MSD Associates, a New York General Partnership. Existing owner's counsel is in the process of collecting written consent from at least 60% of the members of MSD Associates prior to any financing closing. RY Management manages the building.

Mortgagor and Management

The new Mortgagor will be comprised of Arverne Preservation LLC, a New York State limited partnership, and HP Arverne Preservation Housing Company Inc. An entity controlled by L&M Development Partners ("L&M") will hold a 99% interest in the Mortgagor, with the remainder controlled by the existing owners.

Due to the deteriorating physical and financial condition of the Development, as a condition to providing financing, the Corporation is requiring a new General Partner and Managing Agent in good standing with the Corporation with a significant affordable housing development experience and a strong management track record. The existing owner agreed to partner with L&M Development Partners. L&M (and its predecessor organizations) has been an active developer of residential and mixed-use real estate in New York City for twenty years, during which time the company has developed over 5,400 apartment units, condominiums, and row houses. L&M has closed on HDC financing for over 30 developments totaling more than 3,000 units and over $350 million. The principals of L&M are Ron Moelis and Sandy Lowenthiel. L&M Builders Group LLC will be the general contractor and C&C Affordable Management LLC, the management arm of L&M, is expected to serve as managing agent.

Financing Plan

Members are asked to authorize a mortgage loan in the amount not to exceed $110,000,000 to be initially partially funded with unrestricted reserves of the Corporation with the expectation that the mortgage loan will eventually be funded with a combination of taxable and tax-exempt bond financing as part of one or more future Open Resolution issuances (as further described below) and will be funded in two phases (as further described below) with approximately $43,000,000 to be funded during Phase I and the balance to be funded during Phase II. The bond financing of this development would require further authorization by the Members at a later date.

Anticipated Future Bond Financing

A portion of the loan in the approximate amount of $30,000,000 is expected to be supported by ongoing IRP payments and will initially be funded with the Corporation's unrestricted reserves with the expectation that the Corporation will later be reimbursed with the taxable bond proceeds of a future taxable issuance in the Open Resolution. The taxable bond financing of this development would require further authorization by the Members at a later date.

An additional portion of the loan will initially be funded with the Corporation's unrestricted reserves with the expectation that the Corporation will later be reimbursed with recycled tax-exempt proceeds from either the Corporation's Multifamily Housing Revenue Bonds, 2012 Series C, ("2012 Series C") authorized by the Members on April 16, 2012 or the proceeds of a future recycled tax-exempt issuance in the Open Resolution.

Finally, it is expected that any additional unfunded portion of the loan will eventually be funded with recycled tax-exempt proceeds from either the Corporation's 2012 Series C or the proceeds of a future recycled tax-exempt issuance in the Open Resolution. The future tax-exempt bond financing for this Development would require further authorization by the Members at a later date.

Phase I Financing

The Corporation expects to close on Phase I later this month and to make the loan in the entire amount not expected to exceed $110,000,000. Members are asked to authorize the full loan amount required to rehabilitate the Development to allow the Corporation to allocate recycled proceeds within the time constraints associated with recycled bonds. Advances on the loan during Phase I are expected to be capped at approximately $43,000,000 and the funding of the balance of the loan will be contingent upon Phase II closing conditions being met.

A portion of the Phase I financing is expected to be used to finance the most pressing rehabilitation needs of the Development. The purpose of the phased financing is to undertake immediate roof and façade repairs to stop water damage and to rehabilitate the Development's approximately 315 vacant units to ensure that they meet HUD Housing Quality Standards ("HQS") inspections in Phase I as a precursor to Phase II. The Phase I construction and rent-up of the vacant units is expected to take approximately 15 months.

An additional portion of the Phase I financing is expected to be used for a $16 million payment to reduce ESD's outstanding debt. A second payment in the amount of $10 million will be due to ESD in Phase II. In connection with the Phase I financing, the Corporation expects to acquire a 100% participation interest in the remaining balance of the ESD mortgage loan, as reduced by the Phase I and Phase II payments respectively, as well as assignment of servicing rights.

Phase II Financing

The Corporation expects to close on the Phase II construction financing in the fall of 2013 in conjunction with a Section 236 decoupling, at which point the balance of loan proceeds not advanced during Phase I will be made available for rehabilitation completion. The Phase II scope will entail tenant-in-place renovation of the remaining approximately 778 residential apartments, interior lobby upgrades, exterior landscaping, fencing and repairs, and other systems repairs not completed during Phase I.

An additional portion of the Phase II financing is expected to be used for a $10 million payment to further reduce ESD's outstanding debt. The remaining ESD debt of approximately $113 million will be subordinated and the Corporation's loan will be senior to the recast ESD debt.

It is expected that HUD will approve a rent increase in conjunction with the 236 decoupling, and Enhanced Vouchers will be made available for all tenants with incomes up to 95% of AMI in units that pass HQS inspection. It is estimated that approximately 98% of existing tenants will be eligible for Enhanced Vouchers, which will allow tenants to pay 30% of their income towards rent to minimize the impact of rent increases on tenants.

The project's Rent Supplement Contract makes it eligible to receive Project Based Section 8 vouchers for all units covered by the Rent Supplement Contract under HUD's recently created Rental Assistance Demonstration ("RAD") program. Additional residential units not covered under the Rent Supplement Contract, up to a total of approximately 50% of all units, may also be eligible for Project Based Vouchers. Unless extended, HUD's RAD authority to project base vouchers will expire in September 2013. The Phase I construction closing and schedule is motivated by the building's pressing needs, the practicality of completing roof and façade work during waning warm weather months, and the desire to try to take advantage of RAD to provide the Development with long-term revenue stability.

Risks and Risk Mitigation

Construction completion and rent-up risk are mitigated by L&M Builders and C&C Management's significant experience. In order to further limit the Corporation's construction risk during Phase I, the Corporation is requiring that the Mortgagor secure equity or other funds totaling $13 million, representing approximately 50% of the Phase I costs that exceed the amount financeable with proceeds of the IRP supported loan. Additionally, the developer will also provide a construction completion guarantee. Finally, as with other developments funded under the MLRP, the Corporation's Engineers will approve the scope and monitor construction and Asset Management will service the construction loans.

While the Development must overcome an unusually high vacancy rate, it is expected that the Phase I renovations and availability of rental assistance, as well as marketing efforts, will draw tenants to the Development. The possible loss of Enhanced Voucher income over time is reduced by the potential to project base units under RAD.

The HDC mortgage loans are very conservatively underwritten to minimize the Corporation's long term risk, applying an average discount of approximately 12% to the market study rents to size debt for Phase II, and applying a very limited discount to historic operating costs despite the extensive scope of work. Finally, it is expected that the Corporation will limit its risk exposure to only 10% of the permanent loan, or approximately $7 million, by arranging FHA mortgage insurance pursuant to the HUD's HFA Risk Share Program.

Action by the Members

The Members are being requested to approve i) the making of a construction loan in an aggregate amount not to exceed $110,000,000, from the Corporation's unrestricted reserves, to finance the rehabilitation and preservation of Ocean Village, a 1,093 unit Mitchell-Lama development, pursuant to the ML Restructuring Program and the ML Repair Loan Program, ii) the execution by an authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financing, iii) the execution of a participation agreement with the Empire State Development Corporation relating to purchasing a participation interest in the Development's existing mortgage loan debt and any other documents necessary to accomplish the acquisition.

The Members are further being requested to approve an official intent of the Corporation for tax code purposes which can enable certain expenditures incurred as early as 60 days prior to the date of such approval to qualify for tax-exempt bond financing. The Corporation expects to finance the Project by the issuance of its obligations in an aggregate principal amount presently anticipated not to exceed $110,000,000 all or a portion of which would be issued on a tax-exempt basis at a later date. The Corporation's agreement to issue bonds may only be expressed in the Corporation's bond purchase agreement, which requires further authorization by the Members. This approval shall constitute the official intent of the Corporation with respect to such Project for purpose of the Internal Revenue Code and otherwise.

Attachment "A"

Ocean Village
Queens, NY

Project Location:	57-17 Shore Front Parkway 57-07 Shore Front Parkway 146 Beach 59th St., 141 Beach 56th St. 132-138 Beach 59th St., 129-135 Beach 56th Pl. 122-130 Beach 59th St., 119-125 Beach 56th Pl. 116-118 Beach 59th St., 105-115 Beach 56th Pl. 102-112 Beach 59th St. Arverne, NY Block 15926, Lot 1
HDC Program:	Mitchell Lama Preservation
Project Description:	Ocean Village consists of a two-phase rehabilitation and refinancing of 11 buildings with 1,093 residential rental units. Residential SF: 876,431 Commercial SF: 40,000 Basement SF: 165,745 526 surface parking spaces
Total Units:	108 Studios 268 1 BR 395 2 BR 258 3 BR 32 4 BR 32 5 BR 1093 Total Units* *Total units are inclusive of two 2-bedroom and two 3-bedroom Superintendents' Units
Estimated HDC Mortgages:	$80,000,000 (Non-IRP) $30,000,000 (IRP Supported)
Tax Abatement:	10% Shelter Rent PILOT
Developer:	L&M Development
Architect:	OCV Architects
General Contractor:	L&M Builders