NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Gary Rodney
President

Date: November 25, 2014

Subject: Multi-Family Mortgage Revenue Debt Obligations (535 Carlton Avenue) and Multi-Family Mortgage Revenue Bonds (535 Carlton Avenue)

I am pleased to recommend that the Members authorize the Corporation to enter into a loan agreement (the "Funding Loan Agreement") with Citibank, N.A. ("Citibank") and to issue one or more of the Corporation's Multi-Family Mortgage Revenue Debt Obligations (535 Carlton Avenue) (the "Obligations") evidencing the Corporation's obligation under the Funding Loan Agreement to make payments due on a loan (the "Funding Loan"), the proceeds of which will be used by the Corporation to finance a construction mortgage loan (the "Mortgage Loan") for the construction of a 298-unit multi-family rental housing development (the "Project") and to pay certain costs related thereto, in an amount not expected to exceed $75,000,000.

The Members are also asked to authorize the Corporation to issue the Corporation's Multi-Family Mortgage Revenue Bonds (535 Carlton Avenue) (the "Bonds") to refund a portion of the Funding Loan Obligations for the permanent phase financing of the Project and to enter into a forward bond purchase agreement with Citibank regarding the sale of the Bonds which are expected to be issued in 2017.

This Project will be the second residential building financed by the Corporation to be constructed as part of the Pacific Park development (formerly known as Atlantic Yards). The borrowers, Pacific Park 535 Carlton, LLC (the "Moderate/Middle Borrower") and PP 535 Carlton TC, LLC (the "Low-Income Borrower," and together, the "Borrower"), as described in greater detail below, will be entities formed from a joint venture between a subsidiary of Shanghai-based Greenland Group and a subsidiary of Forest City Enterprises, Inc.

Interest on the Obligations and Bonds is anticipated to be exempt from Federal, state and local income tax. The Obligations will qualify as tax-exempt private activity volume cap bonds with a combination of new private activity bond volume cap and "recycled" bond volume cap in accordance with the Housing and Economic Recovery Act of 2008 ("HERA"). The private activity volume cap and recycled volume cap are expected to be allocated in three or more

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tranches pursuant to a supplement to the Funding Loan Agreement (each a "Supplement") for each such tranche. The Bonds will qualify as tax-exempt private activity volume cap bonds as a result of the refunding of the Obligations.

This memorandum will provide a description of the Project and the Borrower, and a discussion of the structure, security, and risks of the Obligations and Bonds.

Project Description

The Project consists of the new construction of an 18-story residential building to be located at 535 Carlton Avenue in the Prospect Heights section of Brooklyn. The Project will contain 298 rental units (66 studio units, 129 one-bedroom units, 88 two-bedroom units, and 15 three-bedroom units) financed under the Corporation's Mixed Income Program plus one superintendent's unit. All of the units in the Project will be affordable units. Ninety of the units (30% of the project) will be reserved for tenants earning no more than 60% of Area Median Income ("AMI"), which is currently $50,340 for a family of four (the "Low Income Units"). Of those 90 units, 15 will be reserved for tenants earning no more than 40% of AMI, which is currently $33,560 for a family of four. Fifty-nine of the units (20% of the project) will be reserved for moderate-income households earning between 80% to 145% of AMI, which is currently $67,120 to $121,655 for a family of four (the "Moderate Income Units"). The remaining 149 units (50% of the project) will be reserved for middle-income households earning up to 165% of AMI, which is currently $138,435 for a family of four (the "Middle Income Units," and together with the Moderate Income Units, the "Moderate/Middle Units"). The Project is also expected to contain a fitness center, bike storage, children's play area and roof terraces, and approximately 9,600 square feet of commercial space.

Additionally, the development will include two cellar levels containing approximately 71,458 gross square feet of parking to provide approximately 320 parking spaces (the "Parking Garage"). The development will also include approximately 25,000 gross square feet of open space (the "Open Space") that will eventually be part of 8 acres of publicly accessible open space to be included in the development of the larger Pacific Park project. The Parking Garage and the Open Space will be constructed using Borrower funds, not Corporation funds. Both the Parking Garage and Open Space will be subject to the lien of the Corporation's mortgage during construction but will each be released from the lien of the mortgage upon creation of a condominium ownership structure to be approved by the Corporation. The Open Space is ultimately expected to be owned and maintained by a conservancy or other not-for-profit organization, subject to the Corporation's consent. The Parking Garage is expected to be transferred to an entity approved by the Corporation after construction completion.

At construction closing, the Borrower will enter into a development lease with the New York State Urban Development Corporation doing business as Empire State Development Corporation, the current fee owner of the development site. $17,000,000 of the approximate total of $300,000,000 in site acquisition and infrastructure costs for the entire 22-acre Pacific Park development site will be applied to the Project. Once construction is complete, title to the premises will transfer to the Borrower for a nominal sum.

Following initial occupancy, rents on the Project will be subject to Rent Stabilization. Pursuant to the terms of a regulatory agreement to be executed by the Corporation and the Borrower (the "Regulatory Agreement"), the occupancy restrictions will remain in effect for as long as the Bonds are outstanding and for a minimum of thirty (30) years from the date the Project is first occupied (the "Occupancy Restriction Period"). All of the tenants in occupancy at the expiration of the Occupancy Restriction Period will be protected by the terms of the HDC Regulatory Agreement, which mandates that the tenants be offered continuous lease renewals in accordance with Rent Stabilization. The Project is expected to receive a 25-year 421-a tax abatement.

The Project will receive an additional loan (the "Subordinate Loan") from the Corporation's unrestricted reserves of $11,785,000 or $85,000 per Low Income Unit and Moderate Income Unit that has rents set for tenants earning 80% of AMI, plus $65,000 per Moderate Income Unit that has rents set for tenants earning 130% of AMI. The Subordinate Loan will not be credit enhanced and will bear interest at a rate of 1%, with scheduled amortization based on a 2% constant payment beginning at the earlier of 36 months after construction loan closing or conversion to permanent financing.

The Project will benefit from the Borrower's contribution of approximately $55,000,000 in equity during construction including the site acquisition cost recognized by the Corporation. It is anticipated that $16,750,000 of the Borrower's equity will be repaid from the proceeds generated by the syndication of Low-Income Housing Tax Credits.

A fact sheet with a brief description of the Project is attached (see "Exhibit A").

Developer and Borrower Description

The developer is expected to be Atlantic Yards Venture, LLC doing business as Greenland Forest City Partners ("GFCP"). GFCP is a joint venture between Greenland USA, a subsidiary of the Greenland Group, and Forest City Ratner Companies ("Forest City") which is a subsidiary of Forest City Enterprises, Inc., a publicly traded real estate company. GFCP was formed in June 2014 for the purpose of developing the remaining undeveloped parcels of the Pacific Park development site. GFCP currently has approximately $670 million in assets and is controlled by a five-member board of managers, three of whom are selected by a Greenland USA entity and two of whom are selected by a Forest City entity.

Forest City Enterprises, Inc., a publicly traded real estate company, owns and manages more than 48,000 multi-family units in 23 states and the District of Columbia. This will be Forest City's third project to receive financing from the Corporation. The previous projects were 8 Spruce Street (f.k.a. Beekman Tower) and 461 Dean Street.

The Members approved the financing of 461 Dean Street in December of 2012. That project has since incurred significant construction delays which have led to a multi-million dollar litigation between Forest City and SKANSKA, the contractor. The dispute is in large part due to factors attributed to the modular design that required greater precision than standard construction practices. However, Forest City has successfully removed SKANSKA as construction manager though the exercise of its buy-out right under its operating agreement, and although the above described litigation will continue, it will not prevent the project from being competed. To date, Forest City has control of the modular factory and the construction site and expects construction to resume in January of 2015. The Bank of New York Mellon, the credit enhancer for the Corporation's Multi-Family Mortgage Revenue Bonds (461 Dean Street), 2012 Series A, has entered into a forbearance agreement with Forest City and there has been no interruption in payment of debt service on the bonds. A second tranche of bonds for 461 Dean Street, which was authorized by the Members in December 2012, is not expected to be issued until construction resumes.

Established in 1992, Shanghai-based Greenland Group is a state-owned company with an industrial structure focusing on energy, finance, and real estate. The Greenland Group is involved in construction projects in more than 70 cities and provinces in China as well as in Korea, Australia, and the United States. They are the second largest developer in China with more than $58 billion in assets at the end of 2013. It owns and operates properties in 26 provinces in China and 9 other countries. Greenland USA acquired a 70% interest in the remaining undeveloped sites at Pacific Park. This will be Greenland's second investment in the United States. Greenland recently commenced construction of a $1 billion, 6.3-acre development in downtown Los Angeles, which includes a 19-story, 350-room Indigo boutique hotel, and a 38-story residential tower.

<u>Borrower Structure</u>

There will be two separate borrowers, as noted above, in order to reduce the amount of private activity volume cap required for the Project but both entities will be obligated under the Mortgage Loan. The Moderate/Middle Borrower of the Project will be Pacific Park 535 Carlton, LLC, a Delaware limited liability company, which is 100% owned by Atlantic Yards Venture, LLC, doing business as Greenland Forest City Partners, whose two managing members are (i) FC Atlantic Yards, LLC, having a 30% interest, which is an entity 100% controlled by Forest City Enterprises, Inc. and (ii) Greenland Atlantic Yards, LLC, having a 70% interest, which is an entity 100% controlled by Greenland Holding Group Overseas Investment Company Limited. The Low-Income Borrower of the Project will be PP 535 Carlton TC, LLC. The managing member of the Low-Income Borrower, which will hold a 99.5% interest in the Low-Income Borrower, is PP 535 Carlton TC Manager, LLC. The sole member of PP 535 Carlton TC Manager, LLC is the Moderate/Middle Borrower. Pacific Park, Inc., a Delaware Corporation, will own the remaining 0.5% of the Low-Income Borrower. GFCP owns 100% of Pacific Park, Inc. The Guarantor for the Project will be GFCP.

<u>Construction Phase Financing and the Funding Loan Agreement</u>

The Corporation expects to enter into a variable-rate, pass-through Funding Loan Agreement with Citibank, as evidenced by the Funding Loan Obligations, the proceeds of which will be used by the Corporation for the purpose of providing funds to finance the construction phase of the Mortgage Loan for the Project. The Funding Loan Obligations are expected to bear interest at a floating rate expected to be re-set periodically, based on 100% of the most recent Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index, plus a spread for Citibank expected to be 2.00%.

The Members are asked to authorize a not-to-exceed interest rate of 15% for the variable-rate Obligations; however, based on recent rates for the SIFMA index, at construction loan closing, the Mortgage Loan is expected to have an approximate rate of 2.50% and the related Obligation is expected to have an approximate rate of 2.05%. The approximate maturity date for the Mortgage Loan and the Obligations is expected to be December 31, 2058, however, the Obligations are expected to be refunded by the issuance of Bonds by the Corporation, as described below.

During the construction phase, the Funding Loan Agreement shall provide that, if the Borrower fails to pay any amount due and owing under the Mortgage Loan or otherwise required by the Funding Loan Agreement, then upon notice after an opportunity to cure any defaults, Citibank shall have (i) the option to fund such amount or (ii) the obligation to purchase the related notes and mortgages from the Corporation, resulting in the cancellation of the Funding Loan Agreement and the Obligations. If Citibank fails to pay the purchase price, the note and mortgages will be assigned to Citibank and the Obligations and Funding Loan Agreement will be cancelled.

The private activity bond volume cap and recycled bond volume cap are expected to be allocated in three or more tranches pursuant to a supplement to the Funding Loan Agreement (each a "Supplement") for each such tranche. In the event the Corporation is unable to allocate the future private activity bond volume cap or recycled bond volume cap, Citibank may fund the balance of the Mortgage Loan until such time as the Corporation can make such allocation. The Corporation is seeking authorization for the Obligations to be issued as taxable in that event.

Permanent Phase Financing and the 2017 Bonds

The Bonds are expected to be issued as unrated, term rate bonds to be directly purchased by Citibank pursuant to a forward bond purchase agreement between the Corporation and Citibank. The Members are asked to authorize a not-to-exceed interest rate of 15% for the Bonds; however, the Bonds are expected to bear interest during the initial term rate term at a fixed rate equal to the current 10-year Thomson Municipal Market Data (MMD) AAA Curve bond rate currently estimated to be 2.10% plus a spread of 2.00%. The Bonds are expected to have a final maturity of December 31, 2058, however, the initial term rate term is expected to end on December 31, 2024.

Similar to other multi-modal transactions undertaken by the Corporation, the Bond Resolution and other agreements to be entered into in connection with the financing provide that the Bonds may be converted to (i) a Weekly Rate, (ii) a Term Rate (with a semi-annual term or any multiples thereof), (iii) an Index Rate or (iv) a Fixed Rate, all at the option of the Mortgagor with the approval of the credit enhancer and the Corporation pursuant to the terms of the Bond Resolution.

The Bonds will be secured by a mortgage purchase agreement with Citibank ("MPA" or "Mortgage Purchase Agreement") that is expected to have an initial term equal to 10 years from construction closing. Similar to the terms of the Funding Loan Agreement, the MPA will provide that if the Trustee has not received any amount due and owing under the Bonds or otherwise required by the Resolution, upon notice after an opportunity to cure any defaults, Citibank shall have (i) the option to pay such amount or (ii) the obligation to purchase the note and mortgage from the Corporation resulting in the redemption of the Bonds. Even if Citibank fails to pay the purchase price, the note and mortgage will be assigned to Citibank and the Bonds will be retired under the terms of the Resolution.

The Bond Resolution permits the substitution of letters of credit and confirming letters of credit or the provision of alternate forms of credit enhancement, provided that the Corporation provides the Trustee certain items detailed in the Bond Resolution including, but not limited to, (i) an opinion of bond counsel stating that the substitute letter of credit or alternate form of credit enhancement meets the requirements of the Bond Resolution and will not adversely affect the tax exemption relating to such bonds, and, if applicable (ii) a letter from the nationally recognized rating agency or agencies then rating the Bonds stating that (a) in the case of a substitute letter of credit, the substitute letter of credit will not result in a reduction or withdrawal of the rating on the Bonds, if any or (b) in the case of an alternate security, such alternate form of credit enhancement will provide the Bonds with an investment grade rating. The Mortgagor must pay all costs incurred by the Trustee and the Corporation in connection with the provision of a substitute letter of credit, confirming letter of credit or alternate form of credit enhancement.

Under the terms of the Bond Resolution, a change in either (i) the security for the Bonds or (ii) the method of establishing the interest rate on the Bonds, will result in a mandatory tender of the Bonds for purchase at par plus accrued interest.

Risks and Risk Mitigation

The primary risk associated with the Funding Loan and the Bonds is the potential failure of Citibank to honor its obligation to purchase the notes and mortgages upon a payment default by the Borrower. However, Corporation staff believes that this risk is mitigated by the terms of the Funding Loan Agreement during the construction phase of the Mortgage Loan and the MPA during permanent phase of the Mortgage Loan which provides for an automatic assignment of the applicable notes and mortgages to Citibank and the cancellation of the Obligations or Bonds, as applicable, if Citibank fails to honor its obligation. Citibank is currently rated A/A-1 by Standard & Poor's and A2/P1 by Moody's Investors Service.

In an effort to alleviate the exposure of the Corporation's subordinate debt to the availability of permanent credit enhancement on the Mortgage Loan, the Borrower will be required to escrow additional principal payments beginning at permanent conversion. The additional payments will go into an escrow account until such time as the Borrower secures enhancement through year 20 of the Project. The escrow will be drawn on to pay down the Subordinate Loan in the event the Borrower cannot secure an additional term of enhancement after the term of the MPA expires or any subsequent enhancement period expires prior to year 20 of the Project.

Fees

The Borrowers will be obligated to pay the Corporation its costs of issuance for the Obligations equal to approximately 1.25% of the Obligations plus an up-front fee equal to 1.00% of the Obligations. In addition, the Corporation will receive an annual administrative and servicing fee that is expected not to exceed 0.45% of the Mortgage Loan, and will be included in the interest rate on the Mortgage Loan.

In addition to interest it will receive on the Funding Loan during construction and on the Bonds during the permanent period, Citibank will receive an origination fee equal to 0.75% of the Mortgage Loan.

Fiscal Agent and Bond Trustee

U.S. Bank National Association

Bond Counsel

Hawkins Delafield & Wood LLP

Pricing Advisor

Caine Mitter & Associates Inc.

Action by the Members

The Members are requested to approve an authorizing resolution that provides for (i) the execution of the Funding Loan Agreement, (ii) the execution of a multi-year issuance agreement in connection with the Obligations, (iii) the execution of Supplements to the Funding Loan Agreement regarding the multi-year allocation of volume cap and recycling authority, (iv) the Obligations to be issued as "drawn down", (v) the adoption of the Bond Resolution, (vi) the execution of the forward bond purchase agreement regarding the sale of the Bonds, (vii) the execution of the Mortgage Purchase Agreement with respect to the Bonds, and (viii) the execution of mortgage related documents and any other documents necessary to accomplish the issuance of the Obligations and the Bonds and the financing of the Mortgage Loan.

In addition, the Members are requested to approve the making of a subordinate loan to be funded by the Corporation's unrestricted reserves in an amount not to exceed $11,785,000, and the execution by an Authorized Officer of the Corporation of mortgage-related documents and any other documents necessary to accomplish the subordinate financing.

Exhibit A

535 Carlton Avenue
Brooklyn, New York

Project Location:	535 Carlton Avenue Brooklyn, NY Block 1129, Lot 1
Project Description:	The new construction of an 18-story building with 298 low, middle and moderate-income residential units and approximately 9,600 square feet of retail space
Total Rental Units:	298 (plus one unit reserved for the superintendent)
Apartment Distribution:	

Unit Size	No. of Units
Studio	66
1 bedroom	129
2 bedroom	88
3 bedroom	15
Total Units	298

Moderate Income Units *(rents set at 30% of 160% AMI):*	149
Middle Income Units *(rents set at 30% of 80% AMI and 130% AMI):*	59
Low-Income Units *(rents set at 30% of 57% of AMI):*	75
Very Low-Income Units *(rents set at 30% of 37% of AMI):*	15
Superintendent Unit:	1
HDC Estimated Tax-Exempt Obligations Amount:	$73,000,000
Credit Enhancement:	Funding Loan Agreement with Citibank, N.A.
Owner:	**Pacific Park 535 Carlton, LLC**, a Delaware limited liability company which is 100% owned by **Atlantic Yards Venture, LLC**, (whose Managing Members are **FC Atlantic Yards, LLC (30%)**, an entity 100% controlled by Forest City Enterprises, Inc. and **Greenland Atlantic Yards, LLC (70%)**, an entity 100% controlled by Greenland Holding Group Overseas Investment Company Limited).
Underwriter/Remarketing Agent:	N/A