



EAST WEST ADVISORS LLC

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LOS ANGELES, CALIFORNIA 91423

April 14, 2024

Via Electronic Mail

chi.incoming@hud.gov

Alex Roman
U.S. Department of Housing & Urban Development
Ralph Metcalfe Federal Building
77 West Jackson Blvd
Chicago, IL 60604

Re: Amanda Brooke (the "**Project**")
Normal, Illinois
Property ID #800005699
Section 8 Contract No. IL06H121160
Option 1-A Rent Increase
Assignment of HAP Contract

Dear Mr. Roman:

We are consultants to FH Amanda Brooke LLC (the "**Purchaser**"), the proposed owner of the Project referenced above. On behalf of the Purchaser, I am writing to you today to request (i) an early termination of the existing project-based Section 8 HAP contract (the "**HAP Contract**"); (ii) a new MAHRA HAP contract under Option 1-A of the Section 8 Renewal Policy Guide (the "**Guide**"); and (iii) an assignment of the HAP Contract from the current Project owner (the "**Seller**") to the Purchaser.

The Purchaser has been selected by the Seller to purchase the Project, and we look forward to working with your office on the successful long-term preservation of this affordable housing resource. The Purchaser intends to renovate the aging structure and preserve the affordability for 100% of the apartment units.

In order to facilitate this preservation transaction, this letter is provided to request your approval of: (i) the assignment and assumption of the HAP Contract between the Seller and the Purchaser; (ii) the collateral assignment of the HAP Contract for the benefit of Purchaser's lender; (iii) 2530 Previous Participation Clearance for the Purchaser and its principals; (iv)

the termination of the existing HAP Contract and a 20-year contract renewal of the HAP Contract to go into effect as of the acquisition closing; and (v) an Option 1-A rent increase whereby the new as-is rents would go into effect upon contract execution.

We provide the following information in support of these requested HUD approvals. Please note that the following is based upon information shared with me by the Purchaser and its principals – much of which East West Advisors LLC cannot verify independently.

The Proposed Owner

As mentioned above, the Purchaser is a newly formed entity called FH Amanda Brooke LLC. The Purchaser's parent company and sponsor is Forward Housing Preservation LLC ("**Forward Housing**").

Forward Housing is an affiliate of R4 Capital LLC, a national affordable housing investment firm founded in 2011, which manages more than \$7 billion of multifamily equity and debt investments. R4's portfolio includes ownership interests in 442 affordable properties in 48 U.S. states and territories, including more than 54,000 low-income Housing tax credit units and more than 21,000 units covered by project-based Section 8 contracts.

Drawing on the expertise of R4 Capital and its own dedicated staff, Forward Housing is committed to the long-term stewardship of the properties it acquires. Forward Housing approaches each community with care and creativity to ensure the long-term success of the asset and more importantly its residents.

The Purchaser operates on a December 31 fiscal year.

Purchaser's Previous Participation & 2530 Approval

Previous Participation Certification for the Purchaser and its managing general partner will be submitted via APPS once the access keys arrive from REAC, hopefully within the week.

Purchaser's team has extensive experience in the acquisition, operation, and recapitalization of affordable rental housing as described above. This experience includes for- and non-profit ownership and/or redevelopment of HUD-assisted properties around the country. An organizational chart for the Purchaser is included at TAB 1. Organizational documents for the Purchaser are included at TAB 2.

In prior transactions, HUD regional offices have requested evidence of financial wherewithal for the relevant nonprofit that

supports the Purchaser and nonprofit corporate structure. In those transactions, we have provided HUD (to HUD's satisfaction), audited financial statements and a corporate resume for sponsors or their parent organization. Included at TAB 3, please find copies of the 2023 financial statements for R4 Capital LLC, the parent company of Forward Housing. Finally, included at TAB 4, please find a copy of the Forward Housing corporate resume and REO schedule.

The Purchaser will gain title to the Project at the time of the prepayment (in full) of the existing Project financing. Therefore, the procedures for a Transfer of Physical Assets as described in HUD Handbook 4350.1, Chapter 13 are inapplicable.

Finally, a copy of the Purchase and Sale Agreement and its assignment (the "**PSA**") is enclosed at TAB 5.

The Property Manager

The Purchaser intends to retain ARCO Management of Illinois, LLC ("**Arco**") as the property manager of the Project. Arco is an experienced manager of multifamily properties. Additional résumé material for Arco is enclosed at TAB 6.

Enclosed at TABs 7-12, please find the following documents: proposed management agreement; proposed management plan for the Project; Owner/Management Agent Certification (Form HUD-9839-B); Tenant Selection Plan; Affirmative Fair Housing Marketing Plan (Form HUD-935.2); and Management Entity Profile (Form HUD-9832). Arco submitted its 2530 in APPS. Please see Submission ID #282104.

Project Description & Assignment of the HAP Contract

The Project is located in Normal, Illinois. The Project has 120 dwelling units, and the HAP Contract benefits all 120 units. The HAP Contract has been renewed under MAHRA and is currently on a multi-year Option 4 contract.

A copy of the current HAP Contract is enclosed at TAB 13. The draft HAP assignment is enclosed at TAB 14. The draft Consent to Collateral Assignment of HAP Contract for Financing is attached at TAB 15.

Mark-Up-to-Market Pursuant to Option 1-A

The Purchaser requests that HUD enter into a new Option 1 HAP Contract with a term of 20 years commencing on the first day of

the first month following the closing of the acquisition based upon the Project's as-is condition.

The Purchaser commissioned a rent comparability study for the Project. Current contract rent potential is well below both as-is market rent potential and the 2025 FMR rent potential. Enclosed as TAB 16, please find a copy of the study which outlines the market rent potential as follows:

<u>Unit Size</u>	<u>Current Rent</u>		<u>Proposed Increase</u>		<u>Proposed Rent</u>		<u>Current Utility Allowance</u>	<u>Proposed Utility Allowance</u>
	Basic	Market	Basic	Market	Basic	Market		
1-Bedroom	\$740	\$0	\$295	\$0	\$1,035	\$0	\$99	\$99
2-Bedroom	\$838	\$0	\$447	\$0	\$1,285	\$0	\$137	\$137
3-Bedroom	\$945	\$0	\$585	\$0	\$1,530	\$0	\$175	\$175

No Use Restrictions

The Project does not have any low-income use restriction that cannot be unilaterally terminated. In addition, the Project's most recent REAC and MOR scores are passing scores. Therefore, the Project qualifies for participation under Option 1-A.

No Third-Party RCS

Section 9-23(C) of the Guide eliminates the need for a HUD-commissioned RCS when the owner's proposed gross rent potential ("**GRP**") is less than 150% of the Small Area FMR ("**SAFMR**") GRP for the Project's zip code as published annually by the Department. We hereby make this waiver request.

In the case of the Project, the proposed rents satisfy this test outlined in Section 9-14 of the Guide. Please refer to page 3 of the enclosed RCS where the Purchaser's appraiser determines that the concluded rents satisfy the 150% test. HUD may process this proposed rent increase without commissioning an independent third-party RCS.

HAP Contract Renewal Documentation

The contract renewal request is enclosed as TAB 17. The Mark-Up-to-Market Eligibility Worksheet is enclosed as TAB 18.

Necessity for the Proposed Rent Increase

As stated in the tenant notice, the proposed increase is needed for the following reasons:

1. Support Project operations and cover debt service;
2. Encourage owner participation in the Section 8 program through HUD's mark-up-to-market rent increase protocol; and
3. Protect Project residents from Congressional volatility in the annual appropriations process through a long-term contract renewal.

Utility Analysis

Our recent acquisition experience informs us that HUD occasionally expects a fresh utility analysis in connection with an acquisition and accompanying contract rent increase. In cases like this where the Project is poised to undergo a *major* rehabilitation, we request that HUD delay its utility analysis requirement until a date sometime after the acquisition and rehabilitation when the utility consumption data will be more accurate. As a part of our typical rehabilitation, we include several improvements that directly and dramatically impact utility consumption (e.g., energy star-rated appliances; water-saving fixtures, more efficient HVAC; better insulation; new windows and doors). Any utility analysis we conduct today will be woefully inaccurate and outdated once the Purchaser performs the contemplated rehabilitation. Therefore, we request that HUD eliminate any utility analysis requirement in connection with this immediate transaction. The last utility analysis was completed in October of 2024.

Acquisition Financing

The Purchaser intends to finance the purchase and rehabilitation of the Project using the proceeds from a new mortgage loan from Greystone Servicing Company LLC. The current anticipated loan amount is approximately \$7,163,000 based upon the proposed operating income and a new operating budget. This new mortgage loan should have a 30-year amortization term and an anticipated interest rate of about 6.48%. The DSCR will be no less than 1.20x. Enclosed please find a preliminary mortgage loan term sheet from the new lender at TAB 19.

A preliminary statement of anticipated sources and uses for the acquisition is enclosed at TAB 20. The current 10-year operating

proforma is enclosed at TAB 21. In connection with its loan to the Purchaser, the lender will require assignment of the HAP Contract as security for financing. Accordingly, we hereby request HUD's consent to that collateral assignment be documented in accordance with the draft consent mentioned above.

Project Physical Condition & Scope of Rehabilitation

The Project scored 93 on the most recent NSPIRE/REAC inspection in June 2023.

The Project requires rehabilitation and updating. A current physical needs assessment is enclosed as at TAB 22. The Purchaser shall arrange to have its PCNA professional upload the report to the PCNA eTool. The Purchaser will perform all the critical needs described in the PCNA. Enclosed at TAB 23 is a copy of the current scope of work. As part of its acquisition and rehabilitation, the Purchaser intends to perform approximately \$1,500,000 (about \$12,500.00 per unit in hard costs) in rehabilitation work to improve the Project.

Expected Closing Date

The parties are aiming to close Purchaser's acquisition of the Project on or before July 1, 2025. Accordingly, we respectfully request your approval of this proposal at your earliest opportunity. The Direct Deposit form for the Purchaser (Form 1199A) is in process and will be submitted under separate cover. TAB 24 is a placeholder.

The Purchaser's Escrow and Title Agent for this closing is Christine Favara Monti at Advantage Title Company for this transaction. Her contact information is as follows:

CHRISTINE FAVARA MONTI

Executive Vice President

National Counsel

Advantage Title Group Agency, LLC

201 Old Country Road, Suite 200

Melville, New York 11747

631.424.6100 | Cell: 646.279.0320 | cmonti@advantagetitle.com

For purposes of processing this application, please do not hesitate to contact Randall Kelly with your questions and comments. He will be your primary point of contact for the Purchaser and may be reached at (202) 255-9186 and randy@ewallc.com.

We thank you and your multifamily staff in advance for your time and assistance with this transaction.

Sincerely,

EAST WEST ADVISORS LLC, a Delaware limited liability company

By: 
Randall Kelly, Member

Cc: Illinois Housing Development Authority

Attachment: Index of Exhibits

Index of Exhibits

- Tab 1 - Organizational Chart for Purchaser
- Tab 2 - Purchaser's Articles of Organization;
Purchaser's Operating Agreement;
Purchaser's IRS EIN Letter;
Purchaser's Authorizing Resolution
- Tab 3 - Sponsor's Financial Statement
- Tab 4 - Sponsor's Corporate Resume & REO Schedule
- Tab 5 - PSA & Assignment
- Tab 6 - Management Agent's Resume Materials
- Tab 7 - Proposed Management Agreement
- Tab 8 - Proposed Management Plan
- Tab 9 - Management Agent Certification (Form HUD-9839-B)
- Tab 10 - Tenant Selection Plan
- Tab 11 - Affirmative Fair Housing Marketing Plan
- Tab 12 - Management Entity Profile (Form HUD-9832)
- Tab 13 - Existing HAP Contract
- Tab 14 - Draft HAP Assignment & Redline
- Tab 15 - Draft Consent to HAP Assignment & Redline
- Tab 16 - Owner Cover Letter, Checklist, & RCS
- Tab 17 - Contract Renewal Paperwork
- Tab 18 - Mark-Up-to-Market Eligibility Worksheet
- Tab 19 - Loan Term Sheet
- Tab 20 - Sources & Uses Statement
- Tab 21 - 10-Year Proforma
- Tab 22 - PCNA & eTool Receipt
- Tab 23 - Scope of Work
- Tab 24 - 1199A Direct Deposit Form
- Tab 25 - Rent Increase Notice to Tenants
- Tab 26 - Certificate of Good Standing
- Tab 27 - Draft Deed
- Tab 28 - Proposed Tenant Lease