

October 6, 2023

VIA E-MAIL

Aaron Eaquinto
Dallas Public Facility Corporation
1500 Marilla Street, Room 6CN
Dallas, Texas 75201

Mr. Eaquinto,

Hilltop Securities (HTS) has prepared an initial underwriting assessment from the developer provided proforma and sources & uses for Bishop Ridge development. I hereby certify that Hilltop Securities has experience underwriting affordable multifamily residential developments and do not have a financial interest in the proposed development, developer, or public facility user for this proposed development. Below is a summary of the analysis completed.

Rent Subsidy- The developer has included 10% of the units at 60% AMI, 40% of the units at 80% AMI and the remaining units will be at a fair market rate. The year 1 rents subsidy is currently estimated at \$722,844. Using a 3% escalator on future rents, a 15-year rent subsidy of \$ 13,444,113 is expected. The 80% rents provided by the developer show a 5% - 7% discount to market on the efficiency units. However, the total discount to market for all 80% units is expected to be 17.6%.

• **Estimated GP Revenues-** The term sheet/ MOU indicates the following fees are expected to be returned to Dallas Public Facility Corporation (DPFC). A summary of fees received over 15 years is included in HTS analysis.

- PFC Structuring Fee (Received at Closing) \$279,000
- Annual Rent Payment \$223,200 beginning commencing 6 months after stabilization and increasing 2.5% years 2-10 and Dallas-Ft. Worth CPI, with a cap of 3.0% per year for years 11-75.
- Sale or Refinance Fee (Not Included in GP Revenue Summary)

• **Estimated Property Taxes** – two 15 year property tax estimates have been completed.

1. Based on 80% of the total cost of the development
2. Based on the 2022 assessed value per DCAD.

The remaining analysis that included 15 year estimated property taxes one year from the 2023 assessed value, a half value from the 80% of the construction cost for one year, and the remaining 13 years are the 80% of construction cost estimate. Hilltop believes this will give an accurate representation of how the property will be valued during the rest of construction through completion if the property were to stay on the tax rolls.

• **Rent Subsidy and PTA Comparison** – Comparing the rent saving generated by the property and the fees to be earned by DPFC over a 15-year period against the estimated property taxes over a 15-year period a Public Benefit Percentage of 75.84% is generated, not including the sale or refinance fee.

- **15-year Proforma with Property Taxes** – Including the estimated taxes to the operating expenses will likely cause stress issues which would not provide a comfortable Debt Service Coverage (DCR) needed for this project to be financed. Industry minimum DCR is 1.15. If a property tax abatement is not received the years 3 to 7 of the transaction will be under the 1.15 DCR threshold. Additionally, year 2 will be under a 1.00 DCR, possibly causing a default on required debt payments. Accordingly, we do not believe the development with the proposed affordability requirements would be feasible without the participation of DPFC and the property tax exemption.

15 Year Pro Forma with Property Taxes

Proforma																Total
Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
Effective Gross Income from Operations	\$ -	\$ 2,810,705	\$ 5,198,774	\$ 6,213,768	\$ 6,401,199	\$ 6,593,844	\$ 6,791,861	\$ 6,995,414	\$ 7,204,671	\$ 7,419,806	\$ 7,640,998	\$ 7,868,430	\$ 8,102,292	\$ 8,342,780	\$ 8,590,096	96,174,638
Operating Expenses	\$ -	\$ 440,351	\$ 807,613	\$ 867,095	\$ 890,612	\$ 914,129	\$ 937,646	\$ 961,163	\$ 984,680	\$ 1,008,197	\$ 1,031,714	\$ 1,055,231	\$ 1,078,748	\$ 1,102,265	\$ 1,125,782	13,205,226
Estimated Property Taxes (2.51038% MIL Rate)	61,068	1,381,328	1,422,768	1,465,451	1,509,415	1,554,697	1,601,338	1,649,378	1,698,860	1,749,825	1,802,320	1,856,390	1,912,081	1,969,444	2,028,527	23,662,892
Operating Expenses With Taxes	61,068	1,821,679	2,230,381	2,332,546	2,400,027	2,468,826	2,538,984	2,610,541	2,683,540	2,758,022	2,834,034	2,911,621	2,990,829	3,071,709	3,154,309	36,868,118
Total Developer's Estimated Debt Service	\$ -	\$ 1,411,016	\$ 2,832,546	\$ 3,383,147	\$ 3,705,347	\$ 3,705,347	\$ 3,705,347	\$ 3,705,347	\$ 3,705,347	\$ 3,705,347	\$ 3,705,347	\$ 3,705,347	\$ 3,705,347	\$ 3,705,347	\$ 3,705,347	48,385,526
Net Operating Income	\$ (61,068)	\$ 989,026	\$ 2,968,393	\$ 3,881,222	\$ 4,001,172	\$ 4,125,018	\$ 4,252,877	\$ 4,384,873	\$ 4,521,131	\$ 4,661,784	\$ 4,806,964	\$ 4,956,809	\$ 5,111,463	\$ 5,271,071	\$ 5,435,787	\$ 59,306,520
Additional Income Needed to Achieve 1.15 DCR	\$ 61,068.26	\$ 633,642.75	\$ 289,035.10	\$ 9,397.30	\$ 259,976.83	\$ 136,131.28	\$ 8,272.19	\$ (123,723.66)	\$ (259,982.31)	\$ (400,634.52)	\$ (545,814.76)	\$ (695,660.16)	\$ (850,313.46)	\$ (1,009,922.02)	\$ (1,174,637.70)	\$ (3,663,165)
DCR		0.70	1.05	1.15	1.08	1.11	1.15	1.18	1.22	1.26	1.30	1.34	1.38	1.42	1.47	
CF Available for Waterfall after Hard Debt	(61,068)	(421,990)	135,847	498,075	295,825	419,671	547,530	679,526	815,784	956,437	1,101,617	1,251,462	1,406,116	1,565,724	1,730,440	10,920,994
Annual Lease Payment 624 N. Lancaster	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Lease Payment 627 N. Lancaster	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Lease Payment 405 N. Ewing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Lease Payment 1303 E. Jefferson	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Lease Payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Cash Flow	(61,068)	(421,990)	135,847	498,075	295,825	419,671	547,530	679,526	815,784	956,437	1,101,617	1,251,462	1,406,116	1,565,724	1,730,440	10,920,994
Cumulative Net Cash Flow	(61,068)	(483,059)	(347,212)	150,863	446,688	866,359	1,413,889	2,093,415	2,909,199	3,865,635	4,967,252	6,218,714	7,624,830	9,190,554	10,920,994	