ESIC Realty Partners, Inc.
Enterprise Community Investment:
New Markets Tax Credits & Mezzanine Debt
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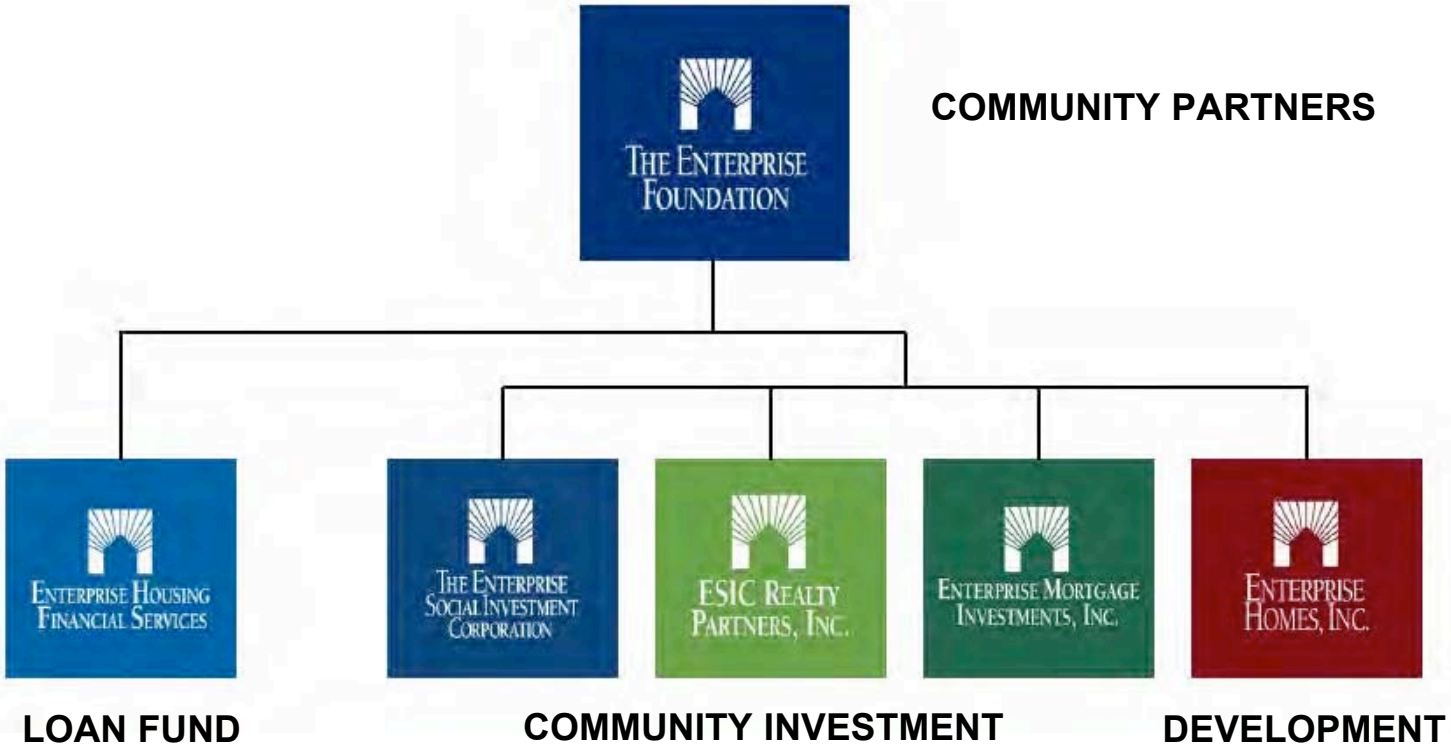
The Enterprise Family



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Overview of Enterprise

- **Mission**
  - To provide low-income communities with affordable housing and commercial services via community development finance tools
- **Nationwide Presence**
  - Active in more than 860 communities through regional offices
- **Capital Raising Capability**
  - Nearly $6 billion in capital raised for community development since 1982
- **Financing Products Offered**
  - New Markets Tax Credit financing for mixed-use commercial projects
  - Mezzanine financing for market-rate, mixed-income multifamily developments
  - Low-Income Housing Tax Credit syndication for affordable housing
  - Pre-development lending and lines of credit for affordable housing developers
  - Permanent mortgage financing for affordable multifamily developments

Products for Community Development

- **Financing enhanced with New Markets Tax Credits**
  - Subsidized debt and gap equity financing for commercial real estate projects
  - Lines of credit to community development organizations
  - Targeted to developers bringing commercial services, jobs, and social benefits to low-income communities
- **Mezzanine lending – ESIC Community Development Fund I**
  - Gap financing for developers of mixed-income multifamily projects
  - Targeted to developers who are building workforce housing projects in urban neighborhoods

New Markets Tax Credits

Subsidized Debt or Gap Financing for Commercial Projects

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Overview of New Markets Tax Credit Program

- **Community Renewal Tax Relief Act of 2000**

- **Creates a tax credit for investments in qualified businesses in qualified areas**

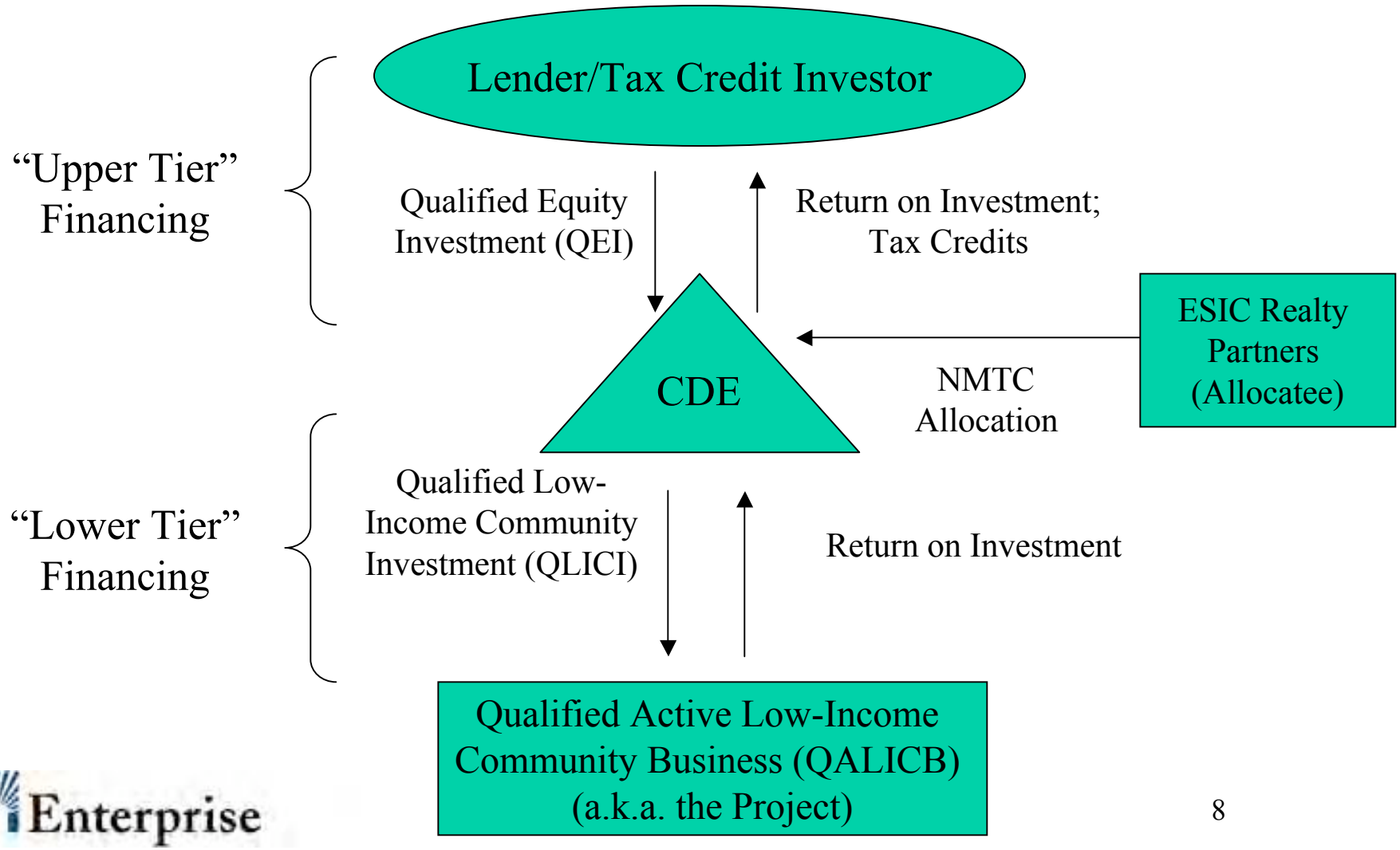
- **Credits for $15B in qualified investments available through 2007**

Enterprise has received $310 MM in allocation, 2nd highest in country, one of 2 groups to get awards in all three rounds. Over $200 MM of this has been funded, and all $310 MM is currently committed.

NMTC Highlights

What is the purpose?	Encourage the investment of private capital in low-income communities overlooked by investors.
What does investor get?	Investor receives a 39% tax credit over 7 years on the capital invested in a qualifying project.
What projects qualify?	Commercial real estate projects, or mixed-use with at least 20% commercial, located in low-income census tract.
What does developer get?	Lower interest rate on debt for 7 years, and/or tax credit equity to help fill gap to get project built.
How are deals structured?	Investment is made through a CDE, which is a partnership between the investor and the group with an NMTC allocation.

Unleveraged NMTC Structure



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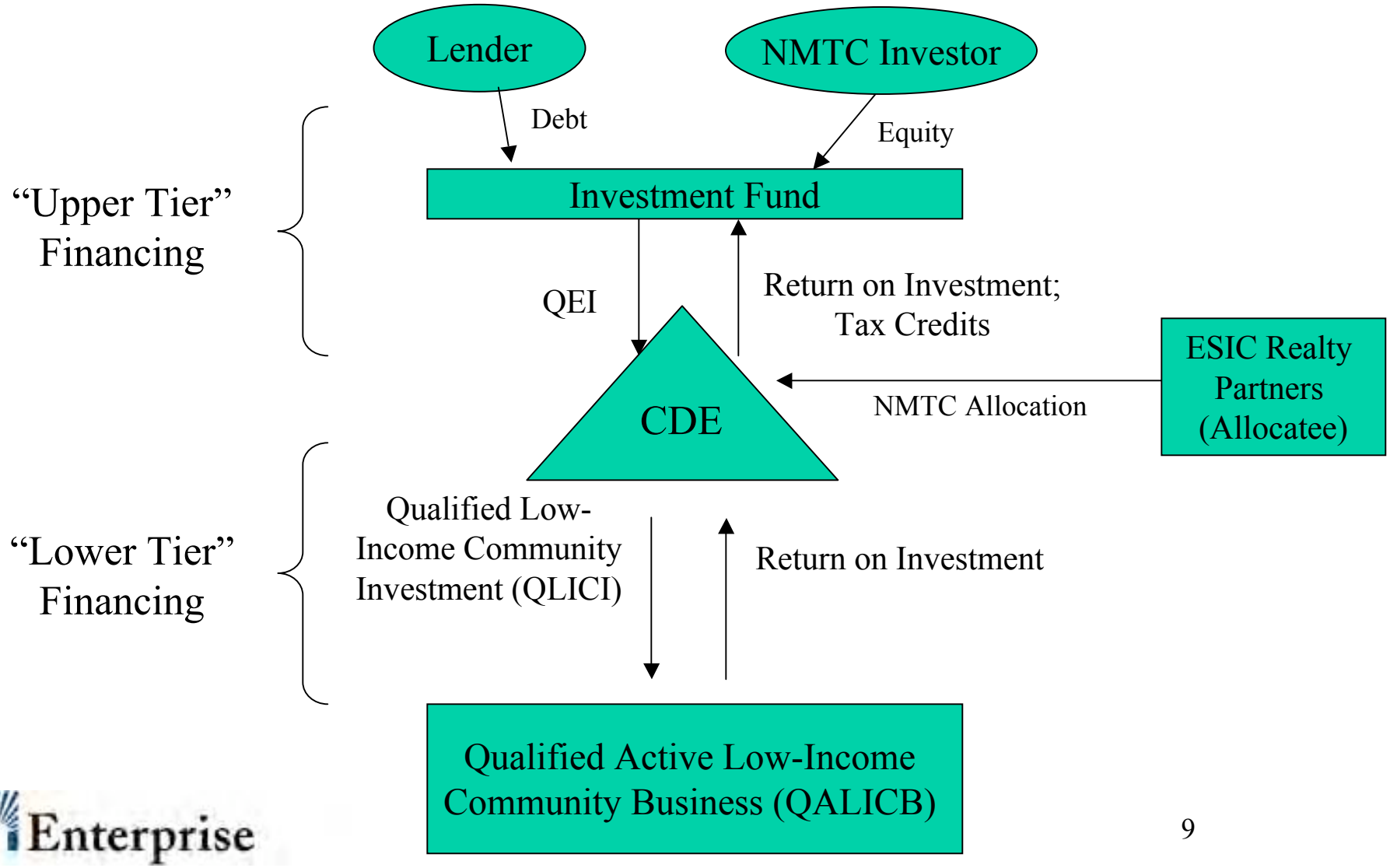
Leveraged NMTC Structure



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How NMTC Benefits Projects

Designed to enhance projects that have some positive economic return, but which may not be strong enough to support market-rate returns to debt or equity.

Gap Financing

- NMTC can be used to create additional "gap" equity
- Example
  - Assume $10M loan invested through a CDE
  - Generates $3.9M in tax credits
  - Investor pays discounted price for tax credits, structured as tax credit equity or "soft" second loan

Subsidized Debt

- A lender can pass on a portion of its NMTC benefit to the borrower through a reduction in the interest rate
- Can be used to lower debt service and subsidize rental rates for the first 7 years

What is a Qualifying Real Estate Investment?

- **Real estate is the most popular use of NMTCs**

- **Product Type:**
  - **All commercial (office, retail, industrial)**
  - **Mixed-use with at least 20% commercial, or**
  - **For-sale housing (allowed but doesn't work)**

- **Must be in qualified census tract: under 80% of AMI, over 20% poverty rate**

- **Higher distress test: under 60% of AMI, over 30% poverty, Empowerment Zone, others …**

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Ineligible Real Estate Activities

- **Residential rental property:**
  - **Buildings which derive over 80% of gross income from rental residential units**
- **Properties where no substantial improvements are made**
- **Ineligible property types – golf courses, race tracks, gambling facilities, liquor stores**

Important Considerations

- **Program favors large deals that will fund quickly, $5MM in financing through CDE, less than 6 months to closing**

- **7-year requirement: usually no pre-payment is possible before seventh year. At that point, most investors will want to get out, means big balloon payment**

- **Interest rate risk: you forego the benefit of locking in low rates now for 20 years, will need to refinance in 7 years**

- **Transaction costs: figure 5-7% for CDEs, higher legal and accounting costs, annual asset management and compliance costs**

Enterprise's Mission: to invest in real estate projects that revitalize underserved and emerging markets.

- **Preference for urban deals that help revitalize neighborhoods and provide needed services and jobs**

- **Preference for rehab of historic buildings, infill new construction, and redevelopment of brownfield sites**

- **Target asset classes include office, retail, light industrial, and mixed-use with rental housing component**

Old Post Office
St. Louis, MO

An $8.2M senior loan was provided for the acquisition and rehabilitation of a 240,000 square foot office building in the epicenter of the downtown St. Louis, Missouri, business district. Built in 1884, the Old Post Office building is one of only five Second Empire Style Federal Buildings of the period outside of Washington, DC. Originally intended to project federal authority and the permanence of the Union in a southern state, the building was the site of the signing of the Missouri Compromise and housed operations that helped finance the westward expansion. The St. Louis central business district has an imbedded 20% vacancy rate and has been the focus of the city's economic development efforts for several years. The vacant building, which had become GSA surplus, will now be home to the Missouri Court of Appeals and will provide space to Webster University for a downtown campus. Also, the public library will take space in the building. It is hoped that the new tenant base, in particular the university, will generate foot traffic and economic activity in the area. In addition to this project, $150M in new commercial, residential and cultural projects are underway in the immediate area. The significant cost gap in retaining this historic building for productive use was filled by combining Federal and State Historic Tax Credits with New Markets Tax Credits (NMTC). The NMTC resulted in a below-market rate to the borrower, and over $3M in federal NMTC to the investor, over seven years.

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Fashion Square
St. Louis, MO

This project is a $25M combination of equity and debt, along with federal and state historic tax credits, to acquire and rehabilitate an 11-story building in the heart of St. Louis's Loft District, a former garment district for the city. The project combines retail, office, and residential usage, as well as some garage parking, and will help to revitalize the Washington Street corridor that previously suffered from suburban flight and urban blight. The project will be one of the largest rehabs in the area, both in terms of cost and size and its residential component will help to bring more individuals and disposable income to this transitional neighborhood. The NMTC allocation generated $9.7M in credits for the investor.

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South Campus Gateway
Columbus, OH

The South Campus project includes a $12M construction and mini-permanent loan to the retail component of the South Campus Gateway project in Columbus, Ohio, being developed by a non-profit development group founded by The Ohio State University. The retail area consists of 229,000 square feet of space for 35 to 40 entertainment, restaurant, shopping and service venues. The South Campus Gateway is adjacent to the university campus, in an area that has a poverty rate greater than 40%, and a median household income below 60% of the area median. The area has been designated a Historically Underutilized Business Zone (HUBZone) by the Small Business Administration, and is considered a Hot Zone (Hot Zone), which is a geographic area designated by the CDFI Fund as having greater levels of economic distress. This loan closes the funding gap for the retail component of Gateway, which is considered to be among the largest mixed-use, urban redevelopment projects ever undertaken in central Ohio. The use of New Markets Tax Credits (NMTC) resulted in a below-market rate to the borrower, and over $4M in federal NMTC to the investor, over seven years.

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Shaker Square
Cleveland, OH

The Shaker Square project entails a $10.5M construction and mini-permanent loan to be used for acquiring and redeveloping Shaker Square in Cleveland, Ohio. Shaker Square is a mixed-use development project, and is located in a Hot Zone, which is a geographic area designated by the CDFI Fund as having greater levels of economic distress. The use of New Markets Tax Credits resulted in a below-market rate to the borrower, and over $4M in federal NMTC to the investor, over seven years.

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Belvedere Square
Baltimore, MD

The Belvedere project includes $11.5M in senior and subordinate loans to refinance an outstanding construction loan, and to pay costs for the rehabilitation of the Belvedere Square shopping center located in Baltimore, Maryland. Belvedere Square is a completed retail facility; the loan was made to stabilize the project and keep it from declining further. Belvedere is located in a Hot Zone, which is a geographic area designated by the CDFI Fund as having greater levels of economic distress. The use of New Markets Tax Credits resulted in a below-market rate to the borrower, and over $4M in federal NMTC to the investor, over seven years.

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33 East Main Street
Madison, WI

This project consists of a $16.9M investment for both construction and equity funds for this 9-story office tower in downtown Madison, Wisconsin. The investment is ERP's first leveraged fund transaction using New Markets Tax Credits, which maximizes the benefit of the credits by pooling capital from a tax credit investor and a lender. Another local recipient of NMTC also provided tax credits through a parallel financing structure. The project is the last phase of the redevelopment, begun in 1986, of a city block just across from the State Capital. It completes the last stage of Block 89, which consists of underground parking, two new office buildings and the renovation of two existing buildings. More than 200 construction jobs and over 600 permanent jobs will have been created by completion.

Maronda Manufacturing Monessen, PA

A $7,000,000 senior mini-perm loan was utilized to refinance the construction loan at completion of the Maronda Manufacturing Facility--a 240,000 SF commercial development in an industrial park that is known as Monessen Riverfront Development Phase 2. The resulting facility is one of several panelized home construction plants operated by Maronda Homes, one of the largest panelized home construction firms in the U.S. Once complete, the facility will employ 150 workers who will produce nearly 4,000 units of panelized homes annually. The development park is located on the grounds of the old Bethlehem Steel Rail Mill, and is in a Qualified Census Tract. The manufacturing facility will attract new employment and development to the depressed area.

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Mezzanine Lending

Gap Financing for
Market Rate Multifamily Projects

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Mezz Fund Overview

- **Single Investor Fund**
  - Enterprise is the underwriter and fund advisor
  - Major institutional investor provides capital

- **Target Asset Type**
  - Urban neighborhood focus
  - Affordable component without LIHTC
  - Condo or rental
  - Workforce housing price points
  - Mainly housing, but can have modest commercial component
  - New construction or rehabs

Typical Deal Terms

- **Investment Amount**
  - Mezzanine loan covers 80% of sponsor's equity gap
  - Investment size is usually $1 - $5MM
  - Equates to TDC of $5 - $20MM
- **Term**
  - 2 to 3 years for condos; 5 to 7 years for rental
- **Target Returns**
  - Total returns usually range from mid-teens to low-twenties
  - Flexibility based on affordability and other mission criteria
- **Financing Structure**
  - Mezzanine loan, funds at closing of construction loan
  - Secured by partnership interests

Mission Criteria

- **Affordability**
  - 20% of units affordable to 80% of AMI
  - Most units have price points/rents affordable to 80% to 120% of AMI
  - Price cap of $450,000 in most markets

- **Geography**
  - Smart growth/transit oriented/urban infill
  - Low/moderate income census tract
  - Minority census tract
  - Underserved area
  - Transitional neighborhoods

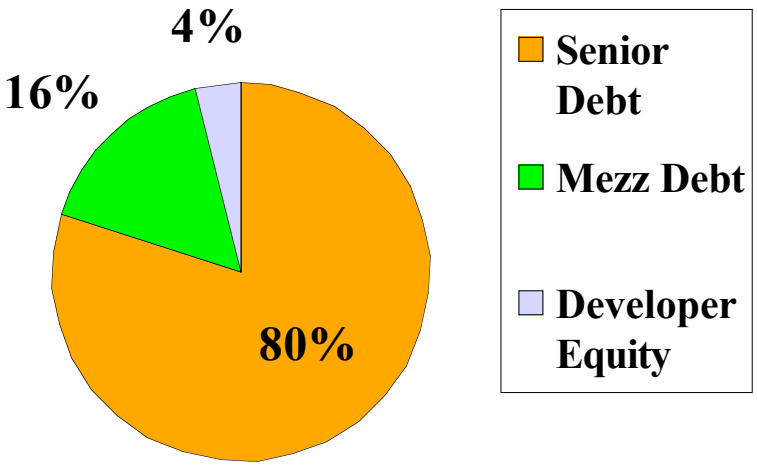
Developer Requirements

- **Equity in the Deal**
  - Real cash equity, including pre-paid expenses and land purchase
  - Developer fees are usually deferred
- **Net Worth and Liquidity**
  - Sufficient to support completion guaranty
  - Liquidity covenant often required
- **Environmental Indemnification**
  - Complete and total indemnification, non-negotiable
- **Payment and Performance Bond**
  - Usually required for GC or major subs

Financing Structure: For-Sale

- Senior lender typically loans up to lesser of 80% of cost or value
- ECDF Mezzanine will cover up to 80% of equity gap
- Developer must contribute real cash to the project
- Cash flow distribution priority:
  - Pay off senior loan
  - Pay off accrued interest and principal on mezzanine
  - Remaining proceeds to sponsor

Illustrative Financing



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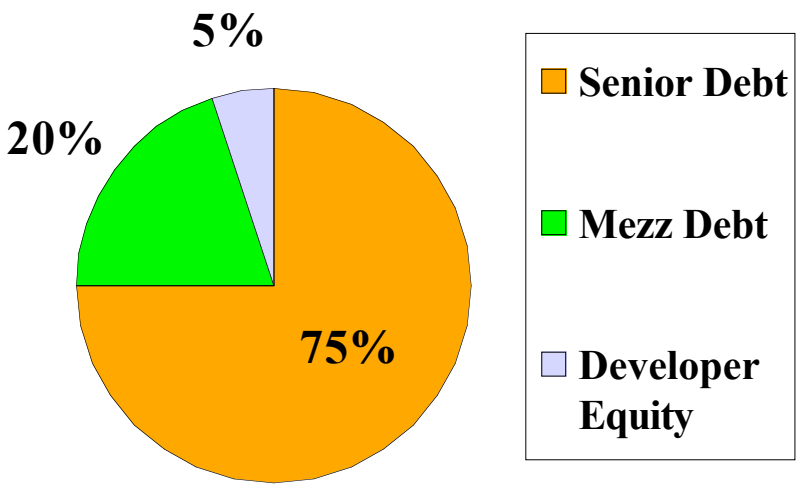
Financing Structure: Rental

- Construction lender typically sizes loan based on perm loan commitment
- Perm lender will value property as rental: 1.2x DSC and 75% LTV, up to 75% of cost
- ECDF Mezzanine will cover up to 80% of equity gap
- Cash flow distribution priority:
  - Senior debt service
  - Current preferred return on mezz
  - Matching return on developer equity
  - Accrued return on mezz upon sale or refinance; and/or percentage split of upside
  - Remaining proceeds to sponsor

Illustrative Financing



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The Dwyer
Harlem, NY

Project Type

Residential Condominium; New Construction

Square Footage

90,000 square feet, 52 units

Investment

$3.7 million

Description

The Dwyer, located at 258-264 St. Nicholas Avenue in Harlem, N.Y., is the redevelopment of a historic warehouse building known as the Dwyer Warehouse that has been mostly demolished. The project is essentially the new construction of a 10-story, 90,000 square foot development of 51 market-rate condominiums, one adjacent, four-story townhouse, 5,000 square feet of ground-floor commercial space and 7,000 square feet of below ground cultural arts space. The completed development will offer a mix of studio, one- and two-bedroom condominiums and a three-bedroom townhouse.

An affiliate of the International Communications Association, which has a long history of training African-Americans in the performance arts, will use the multipurpose cultural arts space. loor commercial space is expected to lease for retail.

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