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MEMORANDUM

TO: Ms. Lisa Wong, Town Manager, Winchester, MA
FROM: Lynne D. Sweet, Principal, LDS Consulting Group, LLC
RE: Peer Review of Financial Pro-Forma
DATE: September 9, 2021

LDS was hired to peer review the Pro Forma submitted by Civico (the "Developer") to the Town of Winchester in connection with the proposed Waterfield lot development. The Developer is proposing to construct a 60-unit mixed income rental development, 40 parking spaces, preserve an existing building and provide retail and shared office spaces on an approximate one-acre lot located at 25-27 Waterfield Road, Winchester, Massachusetts (the "Proposal" or "Project"). More detailed information relating to the residential component is summarized below:

Unit Type	AMI	# Units	Sq. Footage	Bathrooms	Gross Rent	UA	Net Rent
Studio	30%/PBV	1	500	1	$ 1,887	$ 57	$ 1,830
One	30%/PBV	1	690	1	$ 2,090	$ 83	$ 2,008
Two	30%/PBV	3	900	2	$ 2,542	$ 115	$ 2,427
Three	30%/PBV	1	1100	2	$ 3,168	$ 169	$ 3,000
Two	50%/PBV	1	900	2	$ 2,542	$ 115	$ 2,427
Three	50%/PBV	1	1100	2	$ 3,168	$ 169	$ 3,000
Studio	60% Self	5	500	1	$ 1,344	$ 114	$ 1,230
One	60% Self	2	690	1	$ 1,440	$ 165	$ 1,275
Two	60% Self	15	900	2	$ 1,728	$ 230	$ 1,498
Three	60% Self	2	1100	2	$ 1,995	$ 337	$ 1,658
Studio	80% Self	2	500	1	$ 1,792	$ 114	$ 1,678
One	80% Self	3	690	1	$ 1,920	$ 165	$ 1,755
Two	80% Self	3	900	2	$ 2,304	$ 230	$ 2,074
Studio	Market	4	500	1	$ 2,660	$ 337	$ 2,323
One	Market	12	690	1			$ 2,500
Two	Market	2	900	2			$ 3,000
Three	Market	2	1100	2			$ 3,400

The affordable rents are based on HUD Area Median Income ("AMI"). Income for the affordable units will be based on the HUD Boston-Quincy-Cambridge Market Area Median

Income (which includes the Town of Winchester). Tenants pay for gas heat, gas hot water, electric for unit and cooking.

The retail space is estimated to be 2,500 leasable. The existing Chamber of Commerce Building will be utilized as community space.

At this point, the town has negotiated a $1,000,000 purchase price, a 10% return to the town on the supplemental base lease and 15% of new sale/refinance proceeds.

The developers will be requesting a separate allocation of $500,000 of Affordable Housing Trust ("AHT") funds. The AHT will have the ability to dictate the terms of this allocation. Therefore, some or all of it may be able to be repaid back in the future to replenish AHT funds.

Please note that we have attached for educational purposes as Exhibit A, a glossary of terms used in connection with rental housing and affordable housing, and as Exhibit B information on rental development financing and affordable housing financing.

LDS reviewed the following documentation:

1. **Town of Winchester Housing Production Plan**
2. **Town of Winchester Master Plan**
3. **October 2019 RFQ and 11/22/2019 Addendum**
4. **July 1, 2020, RFP**
5. **Civico Proposal**
6. **Draft Land Disposition Agreement**
7. **Site, Floor and Unit Plans**
8. **Construction Budget**
9. **Financial Pro-Formas dated 6/9/2021**
10. **Facts on Petition**
11. **Waterfield Lot 2.10.2020 PowerPoint**
12. **Appraisal dated October 30, 2020**
13. **Summary Grid of development proposals**
14. **MassHousing Financial Assessment dated 9/16/2021**
15. **Parking Maps**
16. **MHP Operating Cost per unit 2014**
17. **MHP Determinates of Operating Expenses Report June 2011**
18. **Multifamily Rental Housing Operating Expenses November 12, 2015**
19. **2020-2021 DHCD QAP**
20. **Questions from Task Force members**

I. **The Town has asked LDS to answer the following questions as they relate to the proposed development:**

a. Are the financial estimates as it relates to development costs provided by Civico Development reasonable?
b. Are the financial estimates as it relates to operating costs provided by Civico Development reasonable?
c. Are the financial estimates as it relates to revenue provided by Civico Development reasonable?
d. Are the financial estimates as it relates to sources and uses by Civico Development reasonable? Therefore, is the $1M purchase price and terms noted in the Land Disposition Agreement reasonable compensation to the town for the property?

II. **LDS found the following key findings:**

Please note detailed analysis can be found further in the report:

1. LDS found the financial estimates as it relates to the total development costs, net of the cost of the parking garage, provided by Civico Development to be reasonable. We do, however, a few things were left out and feel that given the passage of time, some costs will increase.
2. LDS found the financial estimates as it relates to operating costs provided by Civico Development reasonable, however the real estate tax estimate appeared to be low which would reduce net operating income. We have also suggested that the parking cost payback terminate after 15 years.
3. LDS found the financial estimates as it relates to income provided by Civico Development reasonable. However, there is an error on the chamber of commerce income trending, the parking revenue seems to high, and the affordable rents should be updated and proper passive house utility allowances applied. The outcome of these matters will impact how much debt the property can carry.
4. LDS found the $1 million purchase price, terms relating to future income, and major financial events like year 15 recapitalization and/or sale, reasonable. **However, we suggest that if the 80% units were designated at 60% units, Civico Development would be able to obtain additional sources of funding/subsidy and may be able to pay an additional $250,000 in up front purchase price. We would also like to see addition detail on the "other state funds".**

One item to keep in mind is that these numbers are estimates only, based on the time that Civico applied for financing, and based on the size of the building being proposed. For example, total development costs have increased as much as $100,000 since COVID submitted their response to the RFP. Furthermore, the development has not been fully engineered, items like soil testing, capacity testing etc. will need to be done to ensure the development can be built as planned. **Therefore, as with any development, the numbers are constantly updated as the**

process unfolds. For example, items that may impact the development costs could be once soil testing is done, or when the mechanical engineering is done. They may find that there are units that may be lost, or additional costs due to either the passage of time or need to reword the structure. On the plus side, there are federal funds coming to Massachusetts through the cares act, and we have state legislature interested in supporting affordable housing, therefore, there may be new sources of funding available as well.

A. Are the development cost estimates (uses) provided by the Developer reasonable?

A review of the documentation provided by Civico Development demonstrates that the project has a per unit total development cost of $448,420. This is in line with the per unit cost for developments in metro areas that have a high degree of affordability in Massachusetts. If the project were being built in Boston, it would be closer to $500,000 due to union issues etc.

The per unit development cost does not include the $2,812,603 cost associated with the 40 public parking spaces. This is because if the project did not have to build the additional 40 parking spaces, the residential spaces would be built at grade, rather than having to dig down to offer the public spaces at grade and the residential spaces below grade. That is a cost of approximately $70,000 per space**. So essentially, the cost to building the public parking, $2,812,603, should be considered part of the purchase price to the town.** The cost of the maintenance and source to pay for it are yet to be determined. However, it is anticipated that the revenue and cost of operation and maintenance will be due to and/or the responsibility of the developer.

Items that drive up the per unit development cost for these types of deeply affordable developments include but are not limited to the following:

1. Multiple Funding Sources
    a. The sources of funding are highly sought after, therefore, they all have a set of scoring criteria that a development must meet to be competitive.
    b. Many have separate funding rounds and applications. For most sources you must apply multiple times. Therefore, there are substantial up-front fees to not only prepare the applications, but in most instances, you need to be shovel ready, meaning permits in hand and drawings complete. Therefore, the upfront costs to get to a construction closing are substantial higher than a straightforward market development because it takes 2-3 years to get to closing.
        i. This means multiple application fees, closings etc.
        ii. Additional legal fees
        iii. Addition recording fees due to affordability documentation
        iv. It also means different levels of design review
2. There are costs associated with conducting and advertising lotteries and meeting fair housing and accessibility laws.
3. On the operations side, there is a lot of regulatory over site by the funding sources
    a. Yearly income verifications
    b. Yearly rent approvals

c. Yearly reporting of overall finances so audit fees
d. Increased reserve requirements

Hard Costs (Site Work and Construction Costs)
The site works costs at $1,009,359 or $16,822 per unit are reasonable for this project as they include items such as landscaping, which is minimal, and the utilities that are already available at the lot line.

The per square foot building/construction cost is $271 per square foot which only includes the residential building square footage. If you included the parking square footage, it would $210 per square foot which is industry standard at this point and time. **We note that the construction costs also include building permit fees of $204,298 which we typically see in soft costs.** As noted previously, my analysis of costs does not include the cost to construct the parking garage.

Soft Costs (Anything that is not a hard cost, developer fee or reserve)
- **As noted previously, these typically would contain the building permit fees.**
- **The survey and permit numbers seem to be very low at $10,000. Numbers such as costs for peer reviewers, tie in fees for water and for sewer etc. are typically used in this line item.**
- The architectural fees include passive house consulting and design services and are therefore higher than the typical 5% for developments without this component.
- As noted previously, legal fees tend to be higher. The is because not only multiple sources of funding, but the syndication costs related to the tax credits and the additional legal work required due to investor documentation such a tax opinion etc.
- **The marketing and lease up numbers seemed low as they did not appear to include the costs for a lottery and the associated advertising, which will be different from marketing the market rate units since this work is typically performed by an outside consultant.**
- The construction interest includes costs for both the predevelopment loan interest of $70,000 and the construction interest of $15M for 20 months at 3.5%.
- The developer will be responsible for real estate taxes from acquisition on, they often increase once the property has been transferred and/or rezoned and will be charged partially during construction.

Developer Fee
Please see Exhibit B which has a detailed description of the developer fee that is allowed by the state and how it is calculated. In general, this is a number prescribed by the state which is basically 15% of the first $3M, 12.5% of the next $3M-$5M, and 10% of the remaining costs. Some numbers are taken out of this total like a % of the acquisition cost and some soft costs. Developers typically get this fee during construction and often donate a portion to make up for a gap in funding. In this instance, the developer is pledging to donate $600,000 in developer fee to cover a portion of the cost of building the 40 garage spaces for the town however, the

developer is looking for that fee to be paid back with interest, to the extent there is excess cash flow per the standard affordable housing deal structure.

Reserves

The lenders will require that the developer have at least six months of yearly operating cost in a reserve account that is funded at construction closing. In addition, the developers typically also fund an initial capital reserve that is based on a per unit cost to save for future capital needs**. We did not see this reserve.**

Income

The affordable rent limits are set yearly by HUD based on incomes in the spring of every year. There is a difference in the way that persons in a household are counted between DHCD and MHP/MassHousing. Regarding the 60% and 80% self-pay rents, they appear to be from 2020 and need to be updated to 2021. Furthermore, the utility allowances use gas heat and hot water, and if the goal is passive house standards, they should be all electric. **We would like to see these numbers updated.** The 50% and 30% subsidized rents are set based on Fair Market Rents which change in the fall of every year and tend to be a negotiation. The market rate rents appear to be achievable based on recent in-house market studies our office has performed for properties of this size located in downtowns and next to commuter rail stations.

The developer has allocated minimal income from the retail and is essentially building the retail on spec. Most retailers will not commit to lease space until the building it built, and then will require a build out to their specifications. Therefore, this is someone what of a gamble and it may be some time until revenue is achieved. The chamber of commerce line item shows $25,000 year one, then $6,752 year 2 so there is an issue with trending. In any event, it is also unclear as to who will be pay $25,000 a year for this space as it is noted to be community space? The $6,752 seems more reasonable, and not sure that will cover carrying cost.

Regarding parking, there currently is a line item of revenue of $108,000 year one. Given our understanding that the Town wants the 40 spaces dedicated to retail shoppers and/or employees, and not commuters, this number appears to be unachievable. With $10 a month or $1.00 an hour, income is more likely to be in the $5,000-$10,000 range. This is not going to cover the $30,000 cost to operate and maintain the garage. **Once we have a better understanding of the revenue stream for parking, we can further analysis the cost to building the parking against the income and cost to maintain the space.**

Operations

The real estate taxes appear to be on the low side. **<u>We would expect a mixed income development such as this to utilize a cap rate of 7.5% rather than 9.5%, therefore, the taxes based on today's rate would be $166,468 rather than $127,000</u>**. We would like to see updated pro-formas with this amount to see how it impacts revenue and cash flow. However, $9,500 per unit is an acceptable per unit operation cost.

Sources
The developer has listed the following potential sources of funding:
Permanent Loan
Federal Low Income Housing Tax Credits
State Low Income Housing Tax Credits
Other State Funds
Town of Winchester Affordable Housing Trust Funds

As noted previously, the state and federal funds are awarded through competitive rounds. **We would like to see addition detail on the "other state funds".**

We note that the state does require local support of a development. It is not enough to obtain zoning support and/or discount priced land, they want to see actual cash in a deal. Several recent projects we have seen, Benfield Farm in Carlise (26 units age restricted mixed income rental) and Christopher House in Lincoln (83 units of mixed income assisted living, town owners site), had $3,000,000 of local funding.

How do tax credits bring equity into a development?
They essentially bring a form of equity into the project that allows fills a gap and allows the developer to lower their debt costs in exchange for charging lower rents which are secured by an income restriction on the property. An outside investor puts money into the developer in exchange for a tax credit. The credit is taken over a 10-year period, and there is a 5 year look back period. Therefore, capital events typically take place in year 15.

In this case, the 80% income limits are not able to leverage as much soft debt or equity as units at 60% of AMI. Furthermore, the town already has two developments that have units at 80% of AMI. **Therefore, we suggest the town consider making the 8 units at 80% of AMI 60% units, therefore the developer might be able to afford upwards of $250,000 in additional purchase price.**

Net Operating Income
The developer is looking to regain the $600,000 of donated developer fee which is to cover the portion of the cost of building the parking garage**. We suggest that this fee be terminated once the $600,000 plus interest has been repaid.** This would be most likely in year 15, when the project would also most likely be capitalized.

The town has asked for 10% supplemental base lease payment based on excess cash flow, which, as planned, could total $561,616 over the first 20 years. This is going to have to be a negotiation with the tax credit investor as they may have rights in line before the town.

The town has also negotiation a 15% return in the event of a recapitalization or sale. Again, this is going to have to be negotiation with the investor as they will have rights in line before the town.

Conclusion

Based on our research, industry experience and financial data provided by the developer, we believe that the development, income, and operating costs, are reasonable by industry standards and have made a number of suggestions on improving the numbers to make them more accurate and potentially increase the income to the town.

Exhibit A: Glossary of Terms

Glossary of Affordable Housing Terms

Affordable Housing – Affordable housing is housing with rent levels or sales prices limited to that which is affordable to a household with income less than a specified limit, so that the household pays no more than 30% of its income for housing costs. It can have a rental subsidy (see definition below), or it can be built with some type of capital subsidy, therefore lowering carrying costs and allowing the landlord to charge less rent. Affordable or private pay units charge rent based on 30% of income, but the tenant must pay all of that rent and typically will need to be employed and pass a criminal background check.

Area Median Income ("AMI") – 100% of the gross median household income for a specific Metropolitan Statistical Area, county or non-metropolitan area established annually by HUD. AMI is tied to the income limit in a particular location. HUD starts by calculating income limits based on median family income which is a four-person household. It then adjusts for household size. It then adjusts for income limit. Extremely low income is 30% of AMI, very low income is 50% of AMI, and low income is 80% of AMI.

Assisted Housing – Housing where federal, state or other programs ***subsidize*** the monthly costs to tenants.

Contract Rent – The rent set by HUD under a rental assistance (or rental subsidy) contract. It is the total monthly rent payable to the landlord which includes the rent subsidy paid on behalf of the tenant and the actual rent paid by the tenant.

Chapter 40B – The State's comprehensive permit law, enacted in 1969, which established an affordable housing goal of 10% for every community. A state statute, which enables local Zoning Boards of Appeals to approve affordable housing developments under flexible rules if at least 20%-25% of the units have long-term affordability restrictions. Also known as the Comprehensive Permit Law.

Effective Rent – Base rent less concessions

Fair Market Rents (FMRs) – Maximum rents allowed by HUD under subsidized housing programs. Updated and published annually, FMRs represent HUD's estimate of the actual market rent for an apartment in the conventional marketplace. HUD sets FMRs by unit size (0-bedroom, 1-bedroom, etc.) and regions within each state. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service.

Gross Rent – The monthly housing cost set by HUD which includes all tenant payments, subsidies and utilities.

Income Limit – Maximum household income by county or Metropolitan Statistical Area, adjusted for Household size and expressed as a percentage of the AMI for the purpose of establishing an upper limit for eligibility for a specific housing program. Income limits for federal, state and local rental housing programs typically are established at 30%, 50%, 60% or 80% of AMI. HUD publishes income limited each year for Households with 1-8 persons.

Local Preference – The state can allow up to 70% local preference for affordable units if a town demonstrates a need for those units. The local preference includes people living and working in the town or having children attending schools in the town. This means that the first time when a development has a lottery to lease their affordable units, up to 70% of those units will have a local preference over applicants not meting the requirements of the local preference. Certain exceptions apply regarding households with disabilities and minority balancing.

Market Rent – The rent that an apartment, without rent or income restrictions or rent subsidies, would command in the marketplace. Typical factors that influence market rent are location, condition of unit and community amenities

Median Income – A central point in a sample of household incomes where half of the income range is above the median point and half of the income range is below the median point.

Mixed Income Housing – Developments that include housing for various income levels. In urban neighborhoods, it is a tool to deconcentrate poverty. In suburban neighborhoods, it is a design principle that designates a percentage of housing to different price ranges.

Mixed Use – Development projects that combine different types of development such as residential, commercial, office, industrial and institutional into one project. Mixed-use redevelopment of neighborhoods promotes comprehensive revitalization through retention or addition of housing, services and jobs.

Net rent – Gross rent less tenant paid utilities

Project based rent assistance – Rental assistance from any source that is allocated to the property or a specific number of units in the property and is available to each income eligible tenant or the property or an assisted unit.

Rental Subsidy – Monthly income received by an owner/landlord on behalf of a tenant to pay the difference between the apartment's contract rent and the amount paid by the tenant towards rent.

Restricted Rent – The rent that the project can attain based on income restrictions and funding limitations.

Tenant Paid Utilities – The cost of utilities (not including cable, telephone or internet) necessary for the habitation of a dwelling unit, which are paid by the tenant.

Unrestricted Rents – Rents that are not subject to any income or rent restriction.

Unrestricted Units – Units that are not subject to any income or rent restrictions.

Utility Allowance – This is the allowance a landlord is required to give to a tenant for tenant paid utilities that are not included in base rent. For example, the HUD rent is $1,500, and the cost for electricity of the unit and electric cooking is $150, the landlord would charge the tenant $1,350.

Subsidized Rental Housing – Housing for moderate to low-income individuals and households supported by government funding. Households pay 1/3 of their income towards rent the first year and the government pays the remainder if it is public housing or there is some form of rental assistance.

Pre-Development Funds: The following are agencies that provide low cost or no cost pre-development funding and/or technical assistance. This pre-development phase is usually the first step in the process when you are trying to secure land or buildings for affordable housing and need resources to pay for such items as market research, zoning review, permitting review, option fees and legal fees for site control.Usually funds are dispersed at pre-determined milestones as the development progresses, and at the time of construction funding, funds are paid back to the funding source. For this reason, these types of funds are sometimes referred to as revolving funds.

Rental Housing Soft Second and Grant Funding: They are called soft seconds or grants because in most instances that do not need to be repaid if you follow the terms of the loan and affordability remains in place.

Equity Financing/ Low Income Housing Tax Credit – A program to generate equity investment in affordable rental housing authorized pursuant to Section 42 of the Internal Revenue Code, as amended. The program requires that a certain percentage of units built be income restricted and rents in these units be restricted accordingly.

Exhibit B: Affordable Housing Finance Basics

Overview of Affordable Housing Costs and Finance

Main components:

1) **Acquisition Cost**
2) **Sources**
    a. **Predevelopment Funds**
    b. **Equity**
    c. **Soft Debt**
    d. **Hard Debt**
        i. **Construction**
        ii. **Permanent**
    e. **Other Sources: rebates etc.**
3) **Uses**
    a. **Hard Costs**
        i. **Construction**
        ii. **Site work**
    b. **Soft Costs**
        i. **Items such as financing fees, engineering fees, building permit fees etc. not relations the bricks and mortar, carrying costs**
        ii. **Developer Fees**
        iii. **Reserves**
4) **Income**
5) **Operating Costs**

Sources

Pre-Development Funds:

The pre-development phase is usually the first step in the process when you are trying to secure land or buildings for affordable housing and need resources to pay for such items as environmental testing, soil testing, market research, zoning review, permitting review, option fees and legal fees for site control. Usually, funds are dispersed at pre-determined milestones as the development progresses, and at the time of construction funding, funds are paid back to the funding source. For this reason, these types of funds are sometimes referred to as revolving funds. Some are required to be repaid at construction closing and some are forgiven.

Rental Housing Soft Debt:

This type of funding, in most instances, has no requirement for repayment if you follow the terms of the loan which often include leaving the affordability in place. In most instances, the debt is deferred or forgiven. In some instances, the loan earns interest and may be repayable from net cash flow and/or proceeds of sale. There are many affordable housing programs. Some are only available to non-profits or public agencies. Most are awareded through competitive funding rounds.

For example, the Waterfield development, because of its affordability component, could be eligible for the following programs:

HOME Funds (local and state)

Affordable Housing Trust Funds (Local and State)
Housing Stabilization Funds (state)
FHLBB Affordable Housing Funds (Federal Home Loan Bank)
Community Based Housing (state for DMH and DDS)
Commercial Area Transit Node Program (CATNHP) (state)
Facilities Consolidation Funds (state for DDS or DMH units)
Workforce Housing (state)
FHLBB Affordable Housing Funds (Federal Home Loan Bank) Can be grant funds

Equity Financing/ Low Income Housing Tax Credit ("LIHTC)

The Low-Income Housing Tax Credit provides a tax incentive to construct or rehabilitate affordable rental housing for low-income households. The Low-Income Housing Tax Credit (LIHTC) subsidizes the acquisition, construction, and rehabilitation of affordable rental housing for low- and moderate-income tenants. The LIHTC was enacted as part of the 1986 Tax Reform Act and has been modified numerous times. Since the mid-1990s, the LIHTC program has supported the construction or rehabilitation of about 110,000 affordable rental units each year (though there was a steep drop-off after the Great Recession of 2008–09)—over 2 million units in all since its inception.

The federal government issues tax credits to state and territorial governments. State housing agencies then award the credits to private developers of affordable rental housing projects through a competitive process. Developers generally sell the credits to private investors to obtain funding. Once the housing project is placed in service (essentially, made available to tenants), investors can claim the LIHTC over a 10-year period and there is a five year look back period

This program generates equity investment in affordable rental housing. It essentially fills the gap between the amount of hard debt that is needed, the soft debt obtained, and the amount of funds needed to develop a project. This is because the rents are lower than market due to the affordability restriction.

Essentially, the state awards the credits in a very completive process, and the developer sells the credits to an investor who buys them An example of how the tax credit amount is calculated is as follows:

Allowable Development Costs	$	25,000,000
9% credit at current rate 8.35	$	2,087,500
Sale of credit at .94	$	1,962,250
Over 10 Years	$	19,622,500

Hard Debt: Construction and Permanent Funds:

For rental apartments, you need to obtain funding for both the construction and the permanent loan once the project has been built. You may go to one source for both, or different sources. Unlike soft debt, these loans are repayable with principal and interest, and amortized.

Construction loans typically run for a few years from construction through stabilization (90% sustained occupancy) and are interest only. Permanent debt then goes into place and can be for 5-40 years.

<u>Grant Funds/Rebates/Other Sources:</u>
Utility Company rebates for energy efficiency projects
Tax credits for clean energy/solar
Grants for EV charging stations
Mass Clean Energy Center funds
MassWorks(state public infrastructure)

<u>Developer Fees</u>
The developer fee is **compensation to the project developer** for the time and resources spent to develop the project. This is basically the incentive for developers (often for-profit developers) to develop affordable housing. This is because LIHTC projects, due to the low rents, typically give off very little cash flow.

The maximum allowable Developer's Fee and Overhead consists of the sum of "Developer's Fee Payable", "Developer's Fee Loaned" and "Developer's Fee Contributed" as defined below:

Developer's Fee Payable: Developer's Fee Payable equals that portion of the Developer's Fee and Overhead which can be drawn from available capital resources. The maximum allowable Developer's Fee Payable is calculated as follows:

- 5% of project acquisition cost; plus
- 15% of the first $3 million of Fee-Based Development Costs; plus
- 12.5% of Fee-Based Development Costs between $3 and $5 million; plus
- 10% of Fee-Based Development Costs in excess of $5 million.

The Developer's Fee Payable will be reduced from the maximum allowable Developer's Fee Payable to the extent that capital resources are insufficient to pay the maximum.

For transactions receiving funding from the Department of Housing and Community Development (DHCD) together with Low Income Housing Tax Credits, the Maximum Developer Fee and Overhead calculation and Developer's Fee Payable must be in accordance with DHCD's Tax Credit Qualified Allocation Plan.

Note that, in accordance with DHCD policy, 80% of those capitalized reserves which are anticipated to be released during the first five years, and all development consultant fees, are considered part of the Developer's Fee Payable.

The 80% factor applied to capitalized reserves is intended to approximate the present value of such reserves which might not be released for up to five years. The five-year holding period is assumed to begin on the first day that the development has achieved sustaining occupancy.

Developer's Fee Loaned: Developer's Fee Loaned (also often referred to as deferred developer's fee) equals the amount, if any, by which the Developer's Fee Payable (including development consultant fees and the present value estimate of capitalized reserves) is less than the maximum allowable Developer's Fee Payable.

Developer's Fee Loaned may be counted as Owner's Equity for purposes of calculating Limited Dividend (see Limited Dividend Policy for Definitions of Owner's Equity and Limited Dividend). **Developer's Fee Contributed**: The estimated present value of capitalized reserves, if any, by which Developer's Fee Payable is reduced, as described above, will be counted as Developer's Fee Contributed.

Timing of Payment of Developer's Fee and Overhead
Up to 50% of Developer's Fee Payable may be paid at construction loan closing, up to 40% at final loan closing, and the remaining amount of the fee may be paid at sustaining occupancy (i.e., projected full occupancy at pro-forma rents). Modifications to this payment schedule may be made on a case-by-case basis to reflect requirements of a project's equity investor provided that, in the state's discretion, sufficient performance-based incentives are maintained to achieve timely construction completion, final closing and rent-up of the project.