



# Continental Group Family Housing Privatization Project

## Continental Group Financial and Business Arrangements

August 31, 2010

# Continental Group

- Transaction Basics
- Basic Allowance for Housing (BAH)
- Financing Structure Overview
- Financing Framework
- Desired Financial Features
- Cash Flow Requirements
- Real Estate Taxes
- Financial Deal Terms - Government Concept
- Conclusion

# Transaction Basics

- Non-FAR transaction
- 50-Year land lease
- Improvements conveyed at closing
  - Housing Units
  - Certain ancillary facilities
  - Common areas, streets
  - Limited utility infrastructure
- Buy-out of Section 801 leased homes (Eielson AFB)
- Development and construction agreements
- Property management arrangement
- Financing transaction

# Basic Allowance for Housing (BAH)

- Amount allotted to each service member to cover the cost of housing, including utilities and renter's insurance
- Varies across installations as it is based on:
  - Geographic location
  - Pay grade
  - Dependency status
- Rent = BAH - 110% of Utility Allowance (Electric & Gas)
- For more information about BAH, refer to:  
<https://secureapp2.hqda.pentagon.mil/perdiem/bah.html>

# Financing Structure Overview

- **Private Loan**
  - Drawn down at start of Initial Development Period (IDP)
  - Priority lien holder
- **Construction Loan**
  - Funds development during the IDP
  - Taken out by GDL
- **Government Direct Loan (GDL)**
  - Cannot directly fund construction
  - GDL can be drawn in either single or phased takedowns based upon "Certificates of Compliance" for completed development

# Financing Framework

- **Project Owner provides Private Financing**
  - Required Equity Investment = 3.50% of Total Development Cost
  - Loan(s)
- **Government Direct Loan (GDL) is available**
  - Full details provided in RFO
    - Approximately \$241M
    - 40 Year Term; 5 Year Interest Only Period and 35 Year Amortization
    - Stepped Interest Rate increasing from 2.56% to 4.56% after 11 years
  - GDL is subordinate to and cannot exceed amount of the Private Debt
  - Cannot be used to finance construction
- **Multiple draws on GDL permitted based on completion status**
- **Minimum 1.15 Debt Service Coverage on combined Private Debt and GDL**

## Financing Framework (continued)

- Three (3) Letters of Interest from financial firms with proposal submittal
- Financing will be competed during Exclusive Negotiations
- Long-term Developer commitment to project
- Government Reinvestment Account to receive a minimum of 50% of net cash flow
- No cross-collateralization with other investments
- No Preferred Returns

# Desired Financial Features

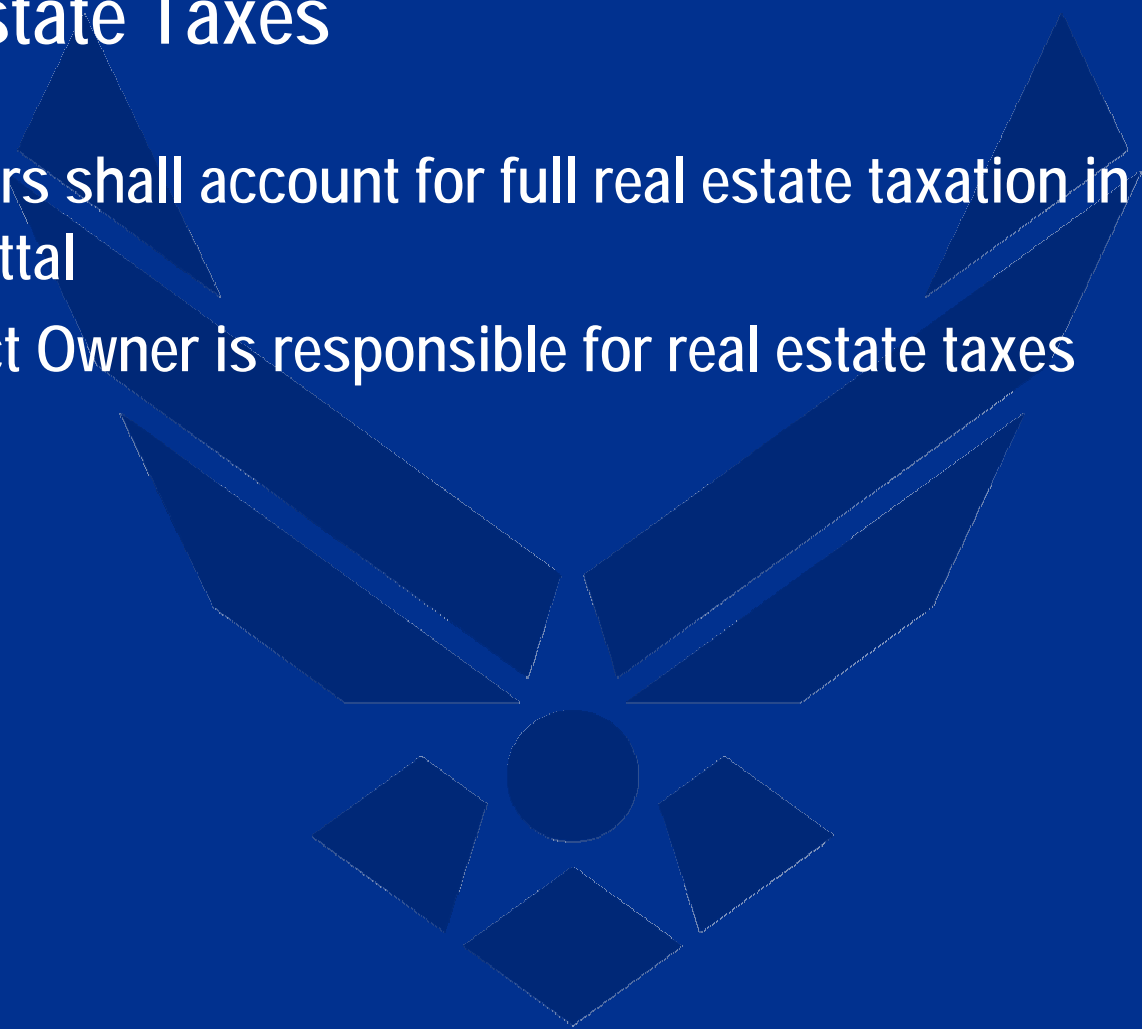
- 100% Private Sector Financing
- Minimize Use of GDL
- Higher % of Net Cash Flow to Fund the Reinvestment Account
- Fees Below Industry Benchmarks
- Higher Incentive Fees versus Base Fees, with defined metrics for achieving performance incentive
- Higher % of Net Proceeds to the Government on Sale or Refinancing of the Project

# Cash Flow Requirements

- Controlled by independent Lockbox Agent
- Established at closing to accumulate and distribute project income derived from operations to fund:
  - Operations of property in accordance with lease
  - Payment of debt service, fees and expenses
  - Demolition, renovation, construction and other community facilities
  - Reserve accounts
  - Lockbox subaccounts

# Real Estate Taxes

- Offerors shall account for full real estate taxation in pro forma submittal
- Project Owner is responsible for real estate taxes



# Financial Deal Terms - Government Concept

- **3.50% Developer Equity contribution minimum**
- **Stabilized debt coverage ratio (DCR)**
  - Minimum 1.50 (Private Loan)
  - Minimum 1.15 (Private Loan and GDL combined)
- **Private Loan**
  - 40-year term at 7.80%
- **Government Direct Loan**
  - 5-year interest only period; 40-year total term
  - Interest rate of 2.56% for years 1-11; steps up to 4.56% for remainder of term
  - Subordinate to Private Loan
- **Additional Terms**
  - 12-Month Cash Funded Debt Service Reserve
  - Real Estate Taxes
  - Eielson 801 Lease Buy-Out at closing: \$36.8M

# Financial Deal Terms – Offeror Proposals

- Offerors to deliver proposal meeting required scope and maximizes desired features while ensuring long-term financial sustainability



# Project Milestones

- Industry Forum Aug 2010
- Base Housing Tours Aug - Sep 2010
- Issue Solicitation Oct 2010
- Proposals Due (60 days) Dec 2010
- HRO Selection Feb 2011
- HRO Negotiation Feb - Sep 2011
- Transaction Closing Sep 2011