

**APPENDIX B**

**MARK TO MARKET ESTIMATE -- MARKET RENTS, CONTINUED PROJECT-BASED ASSISTANCE**

**Family Property, Rural  
Hyde Park**

**80 Units**

**Smallville NC**

	Actual 1997	Budget 1998	Estimated NOI at Market, Project Based		PAE's Conclusion
			Range of Expert Opinion		
			Low NOI	High NOI	
Gross Rent Potential	565,440	565,440	408,000	456,000	???
Vacancy Loss	(960)	(1,176)	(24,500)	(18,200)	???
Non-Revenue Units	0	(6,036)	(6,000)	0	???
Bad Debt Loss	(557)	(156)	(2,500)	(1,000)	???
Other Income	11,884	7,380	7,500	7,500	???
<b>Effective Gross Income</b>	<b>\$575,807</b>	<b>\$565,452</b>	<b>\$382,500</b>	<b>\$444,300</b>	<b>???</b>
<b>Non-Discretionary Expenses:</b>					
Utilities	(28,820)	(30,105)	(30,000)	(30,000)	???
Real Estate Taxes	(20,680)	(21,000)	(21,000)	(21,000)	???
Property Ins. & Misc. Taxes	(13,937)	(13,474)	(17,000)	(17,000)	???
<b>Controllable Expenses:</b>					
Marketing Expenses	(1,214)	(880)	(1,000)	(1,000)	???
Administrative Salaries	(44,407)	(45,922)	(27,500)	(25,000)	???
Property Mgmt Fee	(41,305)	(38,626)	(35,000)	(26,500)	???
Other Administrative	(23,874)	(26,527)	(27,000)	(25,000)	???
Maintenance Salaries	(45,358)	(45,741)	(48,000)	(37,500)	???
Maintenance Expense	(52,303)	(39,635)	(42,500)	(40,000)	???
Payroll Taxes and Benefits	(11,385)	(13,084)	(10,800)	(8,900)	???
<b>Other Expenses:</b>					
Protection Expense/Security	(4,024)	0	0	0	???
Neighborhood Network	0	0	0	0	???
Other Non-Housing Services	0	0	0	0	???
<b>Reserves and Capital Exps</b>	<b>(29,407)</b>	<b>(44,949)</b>	<b>(60,000)</b>	<b>(37,500)</b>	<b>???</b>
<b>Total Operating Expenses</b>	<b>(\$316,714)</b>	<b>(\$319,943)</b>	<b>(\$319,800)</b>	<b>(\$269,400)</b>	<b>???</b>
<b>Net Operating Income</b>	<b>\$259,093</b>	<b>\$245,509</b>	<b>\$62,700</b>	<b>\$174,900</b>	<b>???</b>
<b>Immediate Repairs</b>			<b>\$100,000</b>	<b>\$200,000</b>	<b>???</b>
<b>Operating Statistics:</b>					
Average Rent PUPM	\$589	\$589	\$425	\$475	???
Vacancy % of Gross Potential	0.2%	0.2%	6.0%	4.0%	???
Bad Debts % of Gross Potential	0.1%	0.0%	0.6%	0.2%	???
Management Fee PUPM	\$43	\$40	\$36	\$28	???
Op-X before Reserves PUPA	\$3,591	\$3,437	\$3,248	\$2,899	???
Op-X before Reserves % of EGI	50%	49%	68%	52%	???
Reserves & Cap-X PUPA	\$368	\$562	\$750	\$469	???

See Assumptions on following page

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**Assumptions (Revenue):**

The property has no commercial space.  
 Management proposes setting aside a unit for staff (budgeted but not implemented for 1998).  
 Low-NOI and High-NOI estimates of gross potential rents represent different expert judgments based on the same comparable properties (applying different comparability adjustments).

**Assumptions (Expenses):**

Current staffing is two administrative plus two maintenance. The due diligence team concluded that the second administrative person is not necessary for efficient operation of the property.  
 The I-of-I management company is willing to manage at \$35,000 if project based assistance is continued.  
 Real estate taxes are assessed based on a comparable sales method (and thus should not change).  
 1997 actual maintenance includes some capital items expensed for financial statement purposes.  
 Insurance premiums are projected to increase \$3,000 for 1999.  
 Payroll taxes and benefits are projected at the percentage of salaries budgeted for 1999.  
 Neither the owner nor the due diligence team sees a need for protection services at this property.  
 Neither the owner nor the due diligence team sees a need for non-housing services at this property.

**Assumptions (Reserves and Capital Expenditures):**

The owner's 30 year PCA calls for :	\$60,000	Reserve deposit plus
immediate repairs of	\$100,000	
An earlier 7 year PCA calls for a	\$37,500	Reserve deposit plus
immediate repairs of	\$200,000	
The current Reserve balance is	\$80,000	

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**Projection of Net Cash Flow:**

Net Operating Income	\$259,093	\$245,509	\$62,700	\$174,900	???
1st Mtg Debt Service (P + I + MIP)	(212,282)	(212,282)	(40,600)	(113,264)	???
Cash Flow After 1st Mortgage	46,811	33,227	22,100	61,636	???
To Second Mortgage	75%		16,575	46,227	???
To Owner	25%		5,525	15,409	???

**Underwriting for the Post-Restructuring First Mortgage Loan:**

Estimated Value at a capitalization rate of	10.5%	n/a	n/a	597,100	1,665,700	???
Supportable First Mortgage:						
Loan Program	FHA 221d4	FHA 221d4	FHA 223f	FHA 223f		
Interest Rate	10.70%	10.70%	7.50%	7.50%		???
MIP	0.50%	0.50%	0.50%	0.50%		???
Term (years)	23.3	22.3	30.0	30.0		???
At minimum DSCR of	1.17	n/a	n/a	669,900	1,868,600	???
At maximum LTV of	85%	n/a	n/a	507,500	1,415,800	???
Pre-M2M 1st Mtg Balance (Dec 31)	1,759,235	1,742,284				
Post-M2M Supportable 1st Mortgage			507,500	1,415,800		???
As % of pre-M2M 1st Mortgage		100%	29%	81%		???
Actual DSCR			1.54	1.54		???
Actual LTV			85%	85%		???

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**Calculation of FHA Claim Payment:**

Reduction in 1st Mortgage			1,234,784	326,484	
FHA Share of Immediate Repairs	80%		80,000	160,000	
Required Initial Deposit to Reserve for Replacement			80,000	80,000	
Minus Existing Reserve Balance			(80,000)	(80,000)	
FHA Share of Transaction Costs			50,000	50,000	
FHA Claim Payment			1,364,784	536,484	???

**Rough Evaluation of Cost-to-Government**

NPV of 2nd Mortgage Payments		188,428	525,518
NPV of Section 8 Savings		1,789,800	1,244,100
Minus FHA Claim Payment		(1,364,784)	(536,484)
Net Savings to Government		613,444	1,233,134

**Assumptions for Evaluating Cost-to-Government:**

Annual Section 8 Savings equals 157,440 109,440  
 NPV based on discount rate of 6.11% and term of 20 years.

NPV of 2nd mortgage payments is limited to the amount of the FHA claim

This analysis is for illustration purposes only and is deliberately simplified.

Analyses that will be done for actual restructurings will be much more rigorous and may use entirely different methodologies than shown here.