HilltopSecurities
A Hilltop Holdings Company

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Mr. Eaquinto,

Hilltop Securities (HTS) has prepared an initial underwriting assessment from the developer provided proforma and sources & uses for The Marcus and The Power – Light developments. 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, 41% 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 $747,480. Over a 15-year period the rents subsidy is estimated to be $13,902,316 using a 3% escalator on future rents. AMI set asides are evenly distributed throughout the different units. A sizeable advantage to market rents is received through all affordable unit types except for the 80% efficiency units, these units are only received a 4% discount to the market efficiency units.

- **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)
  - Annual Rent Payment
  - General Contractor Fee (Half Received at Closing and Half Received at Certificate of Occupancy)
  - Sale or Refinance Fee (Not Included in GP Revenue Summary)

- **Estimated Property Taxes** – A breakout of all taxing entities using the 2023 assessed value and mileage rates obtained from DCAD and assumes a 3% increase annually as well as a breakout of all taxing entities using 80% of the total cost and increasing 3% are included in the HTS analysis. The total cost of the development is just over $90 million. Using 80% of this amount creates a post completion estimated taxes of just over $1.8 million to be abated. The current combined property taxes of both properties as they exist today are estimated at just over $21,000.

- **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 68.36% is generated, not including the sale or refinance fee. Also note the 15-year property taxes are using the 2023 assessed value taxes for year 1 as the development will not be completed by year end and an increase to the assessed value is not expected.

- **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 first 7 years of the transaction will be under the 1.15 DCR threshold. Additionally, after payment of required fees outside of the operating expenses The Marcus/ Power – Light shows a cumulative negative cash flow until year 11. 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.