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Title: Fresno Revitalization Corporation and the City of Fresno in its capacity as Housing Successor to the Redevelopment Agency of the City of Fresno to:
1. Authorize the Executive Director to Execute a Subordination Agreement for the Sale of Fulton Village located at 1715 and 1759 Fulton Street (FRC and City Action)

Sponsors: Successor Agency to the Redevelopment Agency of th

Indexes:

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Attachments: 1. Subordination Agreement - CNB _ Fulton Village LLC.pdf

Date	Ver.	Action By	Action	Result
2/8/2018	1	City Council	approved	Pass

REPORT TO CITY COUNCIL

February 8, 2018

FROM: MARLENE MURPHEY, Executive Director
Successor Agency to the Redevelopment Agency of the City of Fresno

SUBJECT

Fresno Revitalization Corporation and the City of Fresno in its capacity as Housing Successor to the Redevelopment Agency of the City of Fresno to:

1. Authorize the Executive Director to Execute a Subordination Agreement for the Sale of Fulton Village located at 1715 and 1759 Fulton Street (FRC and City Action)

EXECUTIVE SUMMARY

The Fulton Village project located at 1715 and 1759 Fulton Street is being sold and in order to get financing, the Buyer's lender requires subordination of the Agency's loan. The Agency's Subordination Agreement (attached) has been negotiated to include a guaranty by the principals of the Buyer.

BACKGROUND

The Redevelopment Agency of the City of Fresno ("Agency") entered into an Owner Participation Agreement ("OPA") with FFDA Properties, LLC on December 23, 2009 for the 48 unit Fulton Village project located at 1715 and 1759 Fulton Street. A thirty year 1% low interest loan in the amount of

\$800,000 provided development assistance in consideration of 55 year affordability covenants.

The Fulton Village property is currently in escrow with Fulton Village, LLC ("Buyer"), a single asset limited liability company, currently in formation, with an estimated filing date of February 7, 2018. The purchase price of \$7,992,750 will be paid from a \$4,220,000 first trust deed loan from City National Bank ("CNB"); the \$800,000 Agency second trust deed loan; \$2,621,000 in 1031 exchange proceeds; and, \$351,750 of additional developer equity. The loan to value including both the first and second trust deed loans is 63% based upon a current appraisal obtained by CNB. Developer equity including the 1031 exchange proceeds is 37% of the property's value.

Sam Deutsch, one of the principals of the Buyer and one of the guarantor's (as discussed below), is a real estate investor who has purchased or constructed over 16 income producing properties, most of which are multi-family, since 1977. CNB has estimated that the real estate equity of those projects amounts to approximately \$37,000,000 and provide a very strong monthly cash flow. Sam Deutsch's son, Michael Deutsch, another principal of the Buyer, also has substantial real estate commitments and deposits with CNB. Both Sam and Michael Deutsch's have had a banking relationship with CNB since 2008.

The loan from CNB will contain the following terms: collateral will be a first trust deed on the subject property; collateral will be supplemented by a personal guaranty of Sam Deutsch and the Sam Deutsch Survivor's Trust (principals of the Buyer); mini perm structure with a 5 year maturity based upon a 30 year amortization; maximum loan to value of 65% (actual is 63%); minimum debt service coverage of 1.25 to 1.0 (actual is 1.44%); subject to re-margining - in the event the property does not meet the minimum debt service coverage requirement, the loan amount will be paid down or cash collateral will be required to reduce the loan amount whereby the property's net operating income can support a debt service coverage of 1.25 to 1.0 ("Re-Margining Requirement"); and, annual financial reporting requirements including property operating statements, rent roll, business tax returns, personal tax returns and personal financial statement. The loan from CNB has been conditionally approved subject to the Agency's agreement to subordinate its \$800,000 trust deed to the CNB trust deed by executing the attached Subordination Agreement ("Agency's Subordination Agreement").

The Agency's Subordination Agreement does not contain a cure provision that would allow the Agency to take possession of the property, cure a Buyer's default under a first trust deed loan, and then assume the first trust deed loan ("Cure Provision"). CNB would not accept the addition of the Cure Provision; however, the Agency successfully obtained the approval of Sam Deutsch and the Sam Deutsch Survivor's Trust to guaranty the Agency's \$800,000 second trust deed loan.

CONCLUSION/RECOMMENDATION

The Agency's subordinate position to CNB will benefit from the following:

1. The Agency will receive a Guaranty of its loan from both Sam Deutsch and the Sam Deutsch Survivor's Trust;
2. A cross default provision within the Agency's Subordination Agreement prevents the Buyer from paying CNB and not the Agency (and vice versa); and,
3. In the event the Buyer does not meet the minimum annual debt service requirement, CNB's Re-Margining Requirement includes the Agency's loan payment ensuring there is net operating income sufficient to make the Agency's monthly loan payment.

The Agency recommends approval to have the attached Agency Subordination Agreement:

1. executed by the Executive Director upon the filing of the formation documents for Fulton Village, LLC estimated to occur on or before February 7, 2018; and,
2. subsequently recorded concurrent with the recording of the Grant Deed for the Fulton Village property from FFDA Properties, LLC to the Buyer and the First Trust Deed in favor of CNB, and upon receipt of the executed Guaranty from Sam Deutsch and the Sam Deutsch Survivor's Trust for the benefit of the Agency.

ENVIRONMENTAL FINDINGS

N/A

LOCAL PREFERENCE

N/A

FISCAL IMPACT

N/A

Attachments:

Subordination Agreement