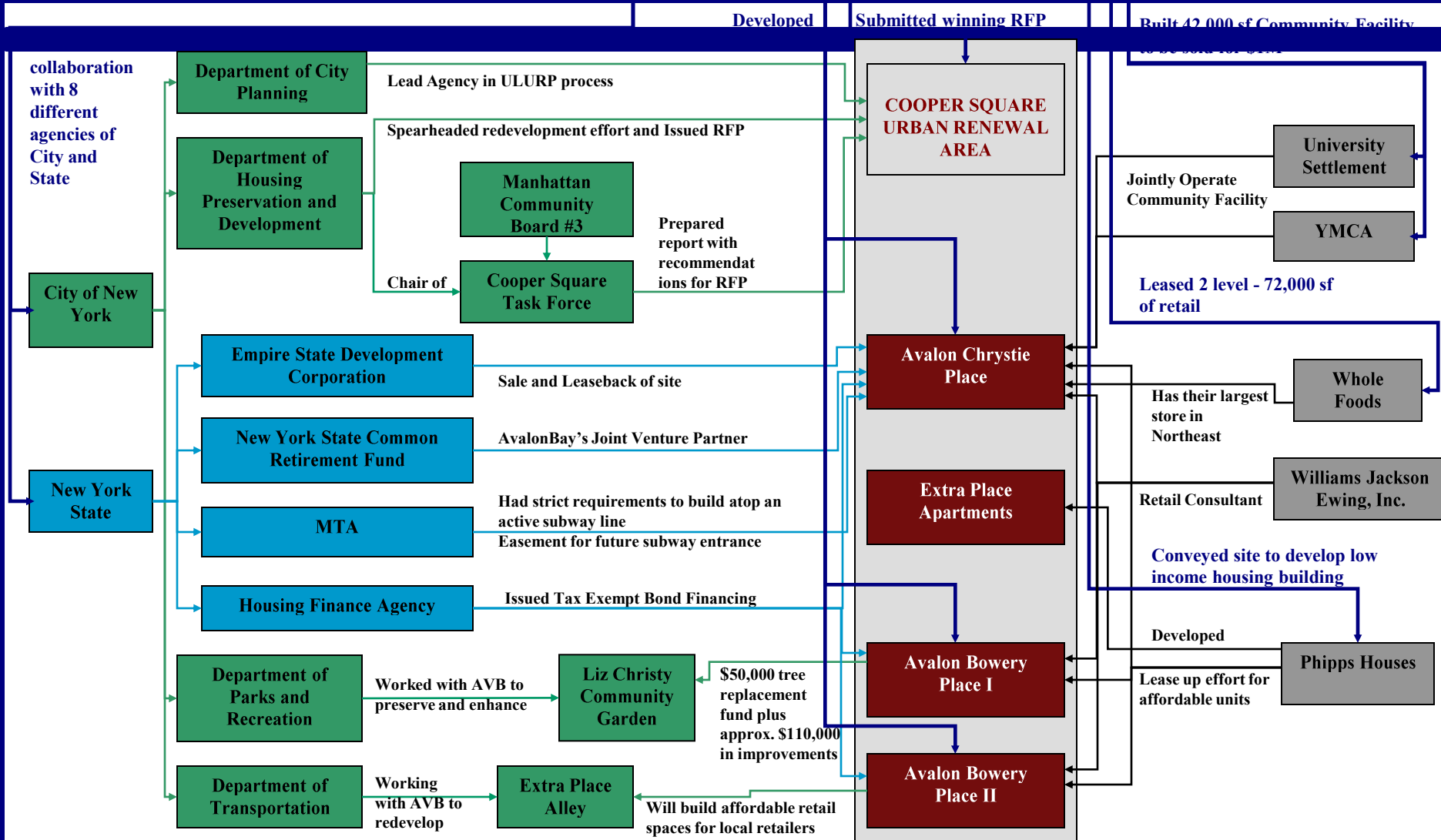




**Private Investment in TOD: A Lender's Perspective**  
**October 20, 2010**

# Deal Complexity - Stakeholders

## AvalonBay Communities



# The Story of The Day – Everything has Changed

- Construction was on time and on schedule
- Demand for the Real Estate remained strong  
(for rentals in coastal markets)
  - ↳ But Rents are lower
  - ↳ Underwriting Standards more severe
- Permanent Financers
  - ↳ 2 for housing, ? for everything else
- Reference Rates are Historically Low

# A Case Study

- 590 Apartments in New York City
- Ground Broken in 2006
- 20% reserved for very low income households
  - ↳ \$20-30,000 per year
- Simple and fair ground lease structure
  - ↳ Reasonable rate of return for Agency
  - ↳ Gives developer 20 years of stability
  - ↳ Allows Agency to capture land appreciation in a transparent way

# Developer and Agency are both in Trouble !

- Agency Leveraged 13 years of Rent for needed capital
  - ↳ Interest Rate is Reasonable, but restructuring lease violates loan covenant
  - ↳ Prepayment penalty over \$3 Million
  - ↳ Pays \$2.5 Million Per Year
- Developer cannot continue to credit enhance bonds
  - ↳ Alternative is to pay down a huge amount of bonds that were costly to issue and have a 32 year term
- Agency needs to prepay loan and get more capital
- Developer needs to achieve debt service coverage

# NYC TOD – A Mutual Solution

NYC TOD	Estimated	Actual	Restructured
Total Development Cost	\$ 250,000,000	\$ 240,000,000	\$ 298,203,275
Ground Rent Payments *	\$ 5,400,000	\$ 5,400,000	\$ -
Initial Debt **	\$ 200,000,000	\$ 200,000,000	\$ 200,000,000
LOC Fee	1.20%	2.80%	0.00%
Bond Interest Rate	2.00%	0.60%	3.60%
Net Income	\$ 15,000,000	\$ 8,921,667	\$14,321,667
Unlevered Return	6.00%	3.72%	4.80%
* Flat for 20 years, then 6% of land value for successive 10 year periods			
** Tax exempt 32 year bonds, backed by Letter of Credit			

# Key Elements of Restructuring

- Up front capital infusion for Agency.
  - ↳ Repaid over 40 years with a 5% cost of funds
- Rent for Developer reduced immediately and at key points in the future.
  - ↳ Over the long term, Developer also pays 5% for the deferred costs
- Agency avoids prepayment fee
- Developer achieves required DSCR on a 40 year projection

# NYC TOD

<b>NYC TOD</b>			
1/0/1900			
590 units			
residential	\$20,000,000		estimate, 2010 budget=\$20,117,000
vacancy	(\$1,000,000)	5.0%	
concessions	(\$400,000)	2.0%	
model/down	(\$34,896)	0.2%	2010 budget
associate disc.	\$0	0.0%	2010 budget
bad debt	(\$184,665)	0.9%	2010 budget
Other Income	\$807,351		mission payment, length of bonds, in ground lease
Omit	\$0		includes various fees (amenity, app, late)
Omit	\$0		2010 budget
parking	\$501,424		2010 budget, 2009 was \$330,000
EGI	\$19,689,215		
admin	\$490,045	\$831	2010 budget
mgt. fee	\$389,393	\$660	2.00%
marketing	\$296,556	\$503	2010 budget
payroll	\$1,075,227	\$1,822	2010 budget
utilities	\$1,012,339	\$1,716	2010 budget
R&M	\$1,183,296	\$2,006	2010 budget except Common Areas repair/cleaning (assumed \$500/unit) and elevator (assume \$36k)
insurance	\$107,584	\$182	2010 budget, but 2009 was \$108,622
RE tax	\$162,456	\$275	2010 budget
Landscaping	\$200,000	\$339	Ground Lease
PILOST Pmt	\$303,153	\$514	Ground Lease
replacement res.	\$147,500	\$250	
ground lease	\$0	\$0	Deal with Agency
	\$5,367,548	\$9,098	
NOI	\$14,321,667		



# Loan Sizing

Swap			Cap			Underwriting Rate		
SIFMA 10yr	3.10%		SIFMA 5yr	4.50%		SIFMA+2%	3.00%	
Freddie/Bank	2.75%	estimate	Freddie/Bank	2.50%	estimate	Freddie/Bank	2.50%	estimate
bond fees	0.30%		bond fees	0.30%		bond fees	0.30%	
rate	6.15%		rate	7.30%		rate	5.80%	
constant	6.73%	40yr	constant	7.72%	40yr			
DCR	1.15		DCR	1.05				
loan	<b>\$185,088,513</b>		loan	<b>\$176,675,000</b>				
without modification	\$115,300,689							
NOI	\$14.321,667							

# A Complicated Solution (1 of 4)

NYC TOD									
Restructure of Ground Lease									
Developer Loan to Agency									
	9/1/2010	9/1/2011	9/1/2012	9/1/2013	9/1/2014	9/1/2015	9/1/2016	9/1/2017	9/1/2018
	1	2	3	4	5	6	7	8	9
Estimated Land Value	\$68,160,000	\$69,864,000	\$71,610,600	\$73,400,865	\$75,235,887	\$77,116,784	\$79,044,703	\$81,020,821	\$83,046,341
Est. Land Value Per FAR	\$120	\$123	\$126	\$129	\$132	\$136	\$139	\$143	\$146
Land Value Trend		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Developer Payments to Agency:									
Ground Rent less Debt Service Offsets									
Ground Rent Due Under Lease	\$5,400,000	\$5,400,000	\$5,400,000	\$5,400,000	\$5,400,000	\$5,400,000	\$5,400,000	\$5,400,000	\$5,400,000
Agency Loan Interest	-\$1,611,231	-\$1,571,792	-\$1,505,382	-\$1,460,651	-\$1,446,684	-\$1,445,018	-\$1,457,269	-\$1,484,132	-\$1,526,339
Agency (Principal Reduction) or Int. Accrued	-\$3,288,769	-\$3,828,208	-\$3,394,618	-\$2,779,349	-\$2,533,316	-\$2,254,982	-\$1,962,731	-\$1,655,868	-\$1,323,661
Borrower Net Payment to Agency	\$500,000	\$0	\$500,000	\$1,160,000	\$1,420,000	\$1,700,000	\$1,980,000	\$2,260,000	\$2,550,000
Proposed Property Payments to Agency*	\$500,000	\$0	\$500,000	\$1,160,000	\$1,420,000	\$1,700,000	\$1,980,000	\$2,260,000	\$2,550,000
Payment Annual Change %				132%	22%	20%	16%	14%	13%
*Lesser of Ground Rent Due or DCR based DSCR:		1.055							
Rent Reduction	\$4,900,000	\$5,400,000	\$4,900,000	\$4,240,000	\$3,980,000	\$3,700,000	\$3,420,000	\$3,140,000	\$2,850,000
NPV: \$58,203,275									

# A Complicated Solution (2 of 4)

	9/1/2010	9/1/2011	9/1/2012	9/1/2013	9/1/2014	9/1/2015	9/1/2016	9/1/2017	9/1/2018
	1	2	3	4	5	6	7	8	9
Upfront Amount	\$32,224,619								
Agency Loan Starting Balance	\$32,224,619	\$31,435,850	\$30,107,642	\$29,213,025	\$28,933,676	\$28,900,360	\$29,145,378	\$29,682,646	\$30,526,779
Agency Total Interest & Principal Payments	\$4,900,000	\$5,400,000	\$4,900,000	\$4,240,000	\$3,980,000	\$3,700,000	\$3,420,000	\$3,140,000	\$2,850,000
Interest at 5% (Arrears)	-\$1,611,231	-\$1,571,792	-\$1,505,382	-\$1,460,651	-\$1,446,684	-\$1,445,018	-\$1,457,269	-\$1,484,132	-\$1,526,339
Available for Principal or Accrued Interest	\$3,288,769	\$3,828,208	\$3,394,618	\$2,779,349	\$2,533,316	\$2,254,982	\$1,962,731	\$1,655,868	\$1,323,661
Agency Loan Ending Balance	\$28,935,850	\$27,607,642	\$26,713,025	\$26,433,676	\$26,400,360	\$26,645,378	\$27,182,646	\$28,026,779	\$29,203,118
Additional Principal (Agency Bonds DS)	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
Starting Balance For Next Period	\$31,435,850	\$30,107,642	\$29,213,025	\$28,933,676	\$28,900,360	\$29,145,378	\$29,682,646	\$30,526,779	\$31,703,118
NPV of Additional Principal: \$25,978,656									
NPV Rate: 5.00%									
NPV+Upfront Amount: \$58,203,275									
Underwriting:									
NOI Excluding Lease Payments		\$14,317,276	\$14,697,020	\$15,356,335	\$15,619,713	\$15,887,033	\$16,158,333	\$16,433,654	\$16,713,032
Property Lease Payments to Agency		\$0	-\$500,000	-\$1,160,000	-\$1,420,000	-\$1,700,000	-\$1,980,000	-\$2,260,000	-\$2,550,000
NOI Including Lease Payments		\$14,317,276	\$14,197,020	\$14,196,335	\$14,199,713	\$14,187,033	\$14,178,333	\$14,173,654	\$14,163,032
Debt Service - Cap, Then Conventional		\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436
DSCR		1.050	1.041	1.041	1.041	1.040	1.040	1.039	1.038

# A Complicated Solution (3 of 4)

Developer Loan to Agency	6% of Land Value				421-a Phase-In				Full Taxes
	Lease Adjust.				Starts				
	9/1/2026	9/1/2027	9/1/2028	9/1/2029	9/1/2030	9/1/2031	9/1/2032	9/1/2033	
	17	18	19	20	21	22	23	24	25
Estimated Land Value	\$101,183,903	\$103,713,501	\$106,306,338	\$108,963,997	\$111,688,097	\$114,480,299	\$117,342,306	\$120,275,864	\$123,282,761
Est. Land Value Per FAR	\$178	\$183	\$187	\$192	\$197	\$202	\$207	\$212	\$217
Land Value Trend	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Developer Payments to Agency:									
Ground Rent less Debt Service Offsets									
Ground Rent Due Under Lease	\$6,171,034	\$6,171,034	\$6,171,034	\$6,171,034	\$6,171,034	\$6,171,034	\$6,171,034	\$6,171,034	\$6,171,034
Agency Loan Interest	-\$2,155,300	-\$2,178,724	-\$2,216,396	-\$2,269,830	-\$2,340,667	-\$2,420,200	-\$2,446,210	-\$2,456,020	-\$2,358,821
Agency (Principal Reduction) or Int. Accrual	\$468,478	\$753,436	\$1,068,685	\$1,416,724	\$1,590,667	\$520,200	\$196,210	-\$1,943,980	-\$3,391,179
Borrower Net Payment to Agency	\$4,484,212	\$4,745,746	\$5,023,323	\$5,317,928	\$5,421,034	\$4,271,034	\$3,921,034	\$1,771,034	\$421,034
Proposed Property Payments to Agency*	\$4,484,212	\$4,745,746	\$5,023,323	\$5,317,928	\$5,421,034	\$4,271,034	\$3,921,034	\$1,771,034	\$421,034
Payment Annual Change %	12%	6%	6%	6%	2%	-21%	-8%	-55%	-76%
*Lesser of Ground Rent Due or DCR based									
Rent Reduction	\$1,686,823	\$1,425,289	\$1,147,711	\$853,106	\$750,000	\$1,900,000	\$2,250,000	\$4,400,000	\$5,750,000
NPV: \$58,203,275									

# A Complicated Solution (4 of 4)

	6% of Land Value				421-a Phase-In				
	Lease Adjust.				Starts				Full Taxes
	9/1/2026	9/1/2027	9/1/2028	9/1/2029	9/1/2030	9/1/2031	9/1/2032	9/1/2033	9/1/2034
	17	18	19	20	21	22	23	24	25
Agency Loan Starting Balance	\$43,106,009	\$43,574,487	\$44,327,923	\$45,396,608	\$46,813,332	\$48,403,998	\$48,924,198	\$49,120,408	\$47,176,429
Agency Total Interest & Principal Payment	\$1,686,823	\$1,425,289	\$1,147,711	\$853,106	\$750,000	\$1,900,000	\$2,250,000	\$4,400,000	\$5,750,000
Interest at 5% (Arrears)	-\$2,155,300	-\$2,178,724	-\$2,216,396	-\$2,269,830	-\$2,340,667	-\$2,420,200	-\$2,446,210	-\$2,456,020	-\$2,358,821
Available for Principal or Accrued Interest	-\$468,478	-\$753,436	-\$1,068,685	-\$1,416,724	-\$1,590,667	-\$520,200	-\$196,210	\$1,943,980	\$3,391,179
Agency Loan Ending Balance	\$43,574,487	\$44,327,923	\$45,396,608	\$46,813,332	\$48,403,998	\$48,924,198	\$49,120,408	\$47,176,429	\$43,785,250
Additional Principal (Agency Bonds DS)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Starting Balance For Next Period	\$43,574,487	\$44,327,923	\$45,396,608	\$46,813,332	\$48,403,998	\$48,924,198	\$49,120,408	\$47,176,429	\$43,785,250
NPV of Additional Principal: \$25,978,656									
NPV Rate: 5.00%									
NPV+Upfront Amount: \$58,203,275									
Underwriting:									
NOI Excluding Lease Payments	\$19,098,538	\$19,719,210	\$20,041,132	\$20,367,488	\$20,698,305	\$19,583,139	\$18,414,784	\$18,061,817	\$15,911,633
Property Lease Payments to Agency	-\$4,484,212	-\$4,745,746	-\$5,023,323	-\$5,317,928	-\$5,421,034	-\$4,271,034	-\$3,921,034	-\$1,771,034	-\$421,034
NOI Including Lease Payments	\$14,614,326	\$14,973,464	\$15,017,809	\$15,049,560	\$15,277,271	\$15,312,105	\$14,493,749	\$16,290,783	\$15,490,599
Debt Service - Cap, Then Conventional	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436	\$13,639,436
DSCR	1.071	1.098	1.101	1.103	1.120	1.123	1.063	1.194	1.136

# AvalonBay

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