

# Vallejo & Vallejo

Real Estate Appraisers and Counselors

## **UNDER 4% LIHTC/CDBG-DR PROGRAMS**

**PROPOSED REHABILITATION  
MIRADOR LAS CASAS APARTMENTS PROJECT  
A LOW-INCOME AFFORDABLE RENTAL PROJECT  
COMPRISED BY 290 2BR, 3BR AND 4BR UNITS**

**LOCATED SOUTH AND AT THE END OF EDUARDO CONDO AVENUE  
BETWEEN NORTE SUR AND E STREETS  
CANTERA SECTOR, SANTURCE WARD, SAN JUAN, PUERTO RICO**

### **Prepared**

**For** : Mr. Pablo Muñiz Reyes  
Executive Director  
Puerto Rico Housing Financing Authority  
PO Box 71361  
San Juan, PR 00936-8461

**By** : Luis E. Vallejo, MAI  
Real Estate Appraiser  
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**Date of Report** : October 15, 2020  
**Effective Date** : October 15, 2020  
**Prospective Date** : February 15, 2023

**PO Box 11922, San Juan, PR 00922-1922  
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# Vallejo & Vallejo

Real Estate Appraisers and Counselors

October 15, 2020

Mr. Pablo Muñiz Reyes  
Executive Director  
Puerto Rico Housing Financing Authority  
PO Box 71361  
San Juan, PR 00936-8461

Dear Mr. Muñiz:

In accordance with your request, we have prepared an appraisal report of the fee simple interest in the proposed rehabilitation of the Mirador Las Casas Apartments Project which is currently being operated under a Section 8 housing assistance payments (HAP) contract sponsored by the United States Department of Housing and Urban Development (HUD). The subject project, identified as Section 8 project number RQ46L000034, is located south and at the end of Eduardo Conde Avenue between Norte Sur and E Streets in the Cantera Sector of the Santurce Ward in the San Juan Municipality of Puerto Rico.

Please note, that given the proposed rehabilitation of the subject project, the existing units currently leased will have to be vacated in a building by building basis in coordination with project's contractor with the affected tenant(s) temporarily relocated. As such, the value of the fee simple interest is considered more in line with the appraisal assignment at hand.

The subject property consists of twenty one (21) 3-story buildings comprising 294 units of which 4 units (4BR) are currently being used as a Head Start Learning Center and 1 unit (4BR) is being used as the administrative office. However, considering that a new administration office will be built within the subject premises in the upcoming rehabilitation project, the 4BR unit currently being used as an office will be considered as part of the available apartment's inventory for purposes of this valuation analysis. Thus, the total number of units to be considered for residential use is 290 units, which will serve as basis for this appraisal report.

The subject buildings are identified as 1 through 21 and are built on an 11.48671 cuerda site. This subject project was built more than 50 years ago and is currently being operated under a Section 8 housing assistance payments (HAP) contract sponsored by the United States Department of Housing and Urban Development (HUD). The recreational facilities at the subject project include a basketball court, several playground areas, storage rooms, a maintenance office, an administrative office, a library/computer room and a communal center. In addition, the property includes 312 unmarked single parking spaces of which ten spaces are reserved for the handicapped.

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The following table illustrates the distribution of the 290 total residential apartment units at the subject property.

Unit Type	No. of Units	Size Square Feet
2BR-1BA	96	714
3BR-1BA	144	878
4BR-2BA	50	1,088
<b>Total</b>	<b>290</b>	

The subject buildings were built in the late 1960's being in fair to average physical condition and evidencing a low cost quality of construction. This apartment complex was built and has always been operated as a low income affordable rental housing project receiving limited amount of improvements over the past years and is in dire need of a full rehabilitation.

The subject project is under a housing assistance payments (HAP) contract of the US Department of Housing and Urban Development Office of Housing (HUD), with the Puerto Rico Housing Finance Corporation as the contract administrator, and San Jorge, LLC, as the current owner. It should be mentioned, that on November 1, 2016, the subject property owner signed a new 20 year contract with HUD, which runs up to October 31, 2036.

The subject project was recently optioned by a related party to the current owner, with the seller being San Jorge, LLC (current owner), and the buyer being El Mirador, LLC (new future owner). The date of option was September 10, 2020, with the sales price being \$15,000,000. Thus, for simplicity purposes, the optionee will be referred to as the new future owner throughout this appraisal report.

The new future owner intends to rehabilitate the subject project, including the replacement of the main sanitary sewer line from cast iron to pvc pipes, improvements to the primary and secondary electrical power systems, replacement of all telecommunication infrastructure, installation of a security camera system, installment of an electrical photovoltaic system and an emergency power generator, installment of a new 15,000 gallon drinking water storage tank and hydro pneumatic pressure system, replacement of all interior and exterior doors and windows, renovation of all bathrooms and kitchens, construction of new balconies and laundry areas in all units, replacement of interior and exterior electrical lighting being more energy efficient, renovations to the front and rear building façades, exterior and interior painting, a roof treatment, reconstruction of stairs and handrails up to code, construction of a new 1,300 square foot administration office, improvements to the computer room and community center, reconstruction of all walkways, construction of eleven new trash handling areas, resurfacing of the parking area, replacement of the perimeter fence, construction of two new bus stops, installation of landscaping, remodeling of "El Caño" basketball court, installation of new playground equipment in five different locations, construction of a new gymnasium and some rehabilitation work to the Head Start facilities.

These previously mentioned improvements will help the subject project achieve compliance with the Disabilities Act (ADA), the Fair Housing Act (FHA), the Uniform Federal Accessibility Standards (UFAS), the National Green Building Standard (NGBS) and the HOME Investment Partnerships Program (HOME) of the US Department of Housing and Urban Development (HUD).

Thus, this appraisal report will assume the extraordinary assumption, that the proposed rehabilitation at the subject project has been satisfactorily completed as per the plans and specifications submitted and stabilized, as of the prospective date of February 15, 2023.

Due to the income nature of the subject property, only the cost and the income methods of valuation were developed. The lack of similar affordable rental project transactions, along with the long-term nature of the LIHTC and Section 8 contracts, prevented the development of the sales comparison approach.

The subject's proposed rehabilitation project is scheduled to be built with funds to be provided by two federal program sources and a local bank, having the following preliminarily projected financial structure:

Permanent Loan	\$2,500,000
Tax Credits	\$18,094,853
CDBG-DR Loan	\$58,136,439
<b>Total</b>	<b>\$78,731,292</b>

Please note, that the previously mentioned preliminary projected funds provided by the Permanent Loan, Tax Credits and CDBG-DR Loan tend to fluctuate and may not be the same when they are officially granted to the project's new owner. Thus, no liability and/or responsibility is assumed by the appraisers in case of any future differences in this respect.

The purpose of this appraisal report was to form an opinion of the market value of the fee simple interest in the proposed rehabilitation of the subject Mirador Las Casas Apartments Project, assuming it is fully stabilized and operating as a subsidized rental housing project under the Section 8, LIHTC and CDBG-DR programs, as of the prospective date of February 15, 2023, and the market value of the "as is" subject project site, as the effective October 15, 2020, as defined in the report, subject to the assumptions, limiting conditions, and certifications, also included in the report. In addition, the cost approach (assuming LIHTC, CDBG-DR and local bank preliminary projected funds) of the subject improvements was also developed.

The intended use of this appraisal report is to assist the intended users in a decision making process regarding the compliance of the proposed rehabilitation of the subject project under the LIHTC and CDBG-DR programs. The intended users are San Jorge, LLC (current owner), El Mirador, LLC (new future owner), the Puerto Rico Housing Financing Authority (PRHFA) and the investors purchasing the tax credits.

The global outbreak of a “novel coronavirus” known as COVID-19 was recently officially declared a pandemic by the World Health Organization (WHO). It is currently unknown what direct, or indirect effect, if any, this event may have on the national economy, the local economy or the market in which the subject property is located. The reader is cautioned and reminded, that the conclusions presented in this appraisal report apply only as of the effective date indicated. The appraisers make no representation as to the effect on the subject property of this event, or any event subsequent to the effective date of the appraisal.

Furthermore, it is important for the client and intended users to understand, that any prospective values rendered herein reflect the analysis of market data current as of the earliest effective date of value. Prospective value opinions are intended to reflect the expectations and perceptions of market participants as of that time frame; therefore, this appraisal assignment cannot account for – and the appraisers cannot be held responsible for – unforeseen events that may occur and that may alter market conditions prior to the prospective date of value.

After a physical inspection of the subject project, and after a thorough investigation and analysis of the economic factors affecting values of competitive properties, it is our opinion, that the market values of the fee simple interest in the subject property, assuming the completion of its proposed rehabilitation as per the plans and specifications submitted, were concluded to be of:

<b>Market Value of the Proposed Rehabilitation of the Subject Project based on the Income Capitalization Approach as of the Prospective Date of February 15, 2023 (Tangible Component)</b> (FIFTEEN MILLION DOLLARS)	<b>:</b>	<b>\$15,000,000</b>
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<b>Value of the Tax Credits as of the Prospective Date of February 15, 2023 (Intangible Component)</b> (FOURTEEN MILLION DOLLARS)	<b>:</b>	<b>\$14,000,000</b>
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<b>Overall Market Value of the Proposed Rehabilitation of the Subject Project assuming both Tangible and Intangible Components as of the Prospective Date of February 15, 2023</b> (TWENTY NINE MILLION DOLLARS)	<b>:</b>	<b>\$29,000,000</b>
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<b>Market Value of the Proposed Subject Project based on the Cost Approach as of the Prospective Date of February 15, 2023</b> (SEVENTY EIGHT MILLION SEVEN HUNDRED THOUSAND DOLLARS)	<b>:</b>	<b>\$78,700,000</b>
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<b>“As Is” Market Value of the Subject Project Site as of the Effective Date of October 15, 2020</b> (ONE MILLION DOLLARS)	<b>:</b>	<b>\$1,000,000</b>
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The supporting data and the results of the investigation and analysis upon which these values are based, are contained in the accompanying appraisal report.

Very truly yours,

A handwritten signature in blue ink, reading "Luis Vallejo", written in a cursive style.

LUIS E. VALLEJO, MAI  
Real Estate Appraiser  
EPA 525 / CG 19

A handwritten signature in blue ink, reading "Antonio J. Puras", written in a cursive style.

ANTONIO J. PURAS, MAI  
Real Estate Appraiser  
EPA 798 / CG 233

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**SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS**

<b>Subject Property</b>	:	Mirador Las Casas Apartments Project.
<b>Location</b>	:	South and at the end of Eduardo Conde Avenue between Norte Sur and E Streets in the Cantera Sector of the Santurce Ward in the San Juan Municipality of Puerto Rico.
<b>Property Description</b>	:	The subject property refers to a low income affordable rental housing project comprised by 290 apartment units of 2BA-1BA, 3BR-1BA and 4BR-2BA distributed among 21 three (3) story buildings and 4 units being used as a Head Start for a total of 294 units. Please note, that one (1) of the 4BR units is currently being used as an administrative office.
<b>Proposed Rehabilitation</b>	:	The new future owner intends to rehabilitate the subject project, including the replacement of the main sanitary sewer line from cast iron to pvc pipes, improvements to the primary and secondary electrical power systems, replacement of all telecommunication infrastructure, installation of a security camera system, installment of an electrical photovoltaic system and an emergency power generator, installment of a new 15,000 gallon drinking water storage tank and hydro pneumatic pressure system, replacement of all interior and exterior doors and windows, renovation of all bathrooms and kitchens, construction of new balconies and laundry areas in all units, replacement of interior and exterior electrical lighting being more energy efficient, renovations to the front and rear building façades, exterior and interior painting, a roof treatment, reconstruction of stairs and handrails up to code, construction of a new 1,300 square foot administration office, improvements to the computer room and community center, reconstruction of all walkways, construction of eleven new trash handling areas, resurfacing of the parking area, replacement of the perimeter fence, construction of two new bus stops, installation of landscaping, remodeling of "El Caño" basketball court, installation of new playground equipment in five different locations, construction of a new gymnasium and some rehabilitation work to the Head Start facilities.



These previously mentioned improvements will help the subject project achieve compliance with the Disabilities Act (ADA), the Fair Housing Act (FHA), the Uniform Federal Accessibility Standards (UFAS), the National Green Building Standard (NGBS) and the HOME Investment Partnerships Program (HOME) of the US Department of Housing and Urban Development (HUD).

**Project Site Area** : 11.48671 cuerdas and/or 45,147.33 square meters (as submitted by the project's current owner).

**Site Shape** : Irregular, but with an adequate width and depth relationship for its functional development.

**Site Topography** : Level.

**Units Gross Livable Areas** :

Unit Type	No. of Units	Size Square Feet
2BR-1BA	96	714
3BR-1BA	144	878
4BR-2BA	50	1,088
<b>Total</b>	<b>290</b>	

**Zoning** : R-3, equivalent to R-I (Intermediate Residential).

**Highest and Best Use** : Current low-income residential rental project under an affordable rental use, as dictated by the existing HUD contract.

**Flood Conditions** : Zone X - minimum flooding.

**Property Rights Appraised** : Fee Simple Interest (Please note, that given the proposed rehabilitation of the subject project, the existing units currently leased will have to be vacated in a building by building basis in coordination with project's contractor with the affected tenant(s) temporarily relocated. As such, the value of the fee simple interest is considered more in line with the appraisal assignment at hand).

**Current Owner** : San Jorge, LLC.

**Exposure Time** : One (1) to two (2) years.

**Marketing Time** : One (2) to two (2) years.

## SCOPE OF WORK

This appraisal assignment required several steps. As such, some of the information, facts and documents available about the subject property were obtained from our file and/or requested and obtained from the client and/or the subject property new owner. This information included:

- Property deed
- Site legal description
- Survey plan
- Site plan
- Plans and Specifications (Proposed)
- Historical (audited) financial statements (2016 thru 2019)
- Yearly rental adjustments (2016 to 2020)
- Historical occupancy levels
- Waiting list
- Sources of and Uses of Funds
- Budget (As rehabilitated and completed)
- Cash Flow
- Proposed Project Description

Appraiser Antonio J. Puras physically inspected the subject project on October 15, 2020. We spoke with the project's administrator Ismael Lugo who gave us basic information regarding the subject project. Please note, that due to the on-going COVID-19 pandemic, and considering the safety of the residents and ourselves, we did not enter the individual subject model units. However, since the appraisers previously inspected this property back in July of 2019, and considering that no major interior rehabilitation works has been performed since, an interior inspection of the subject units was deemed academic.

Other issues regarding the subject property were discussed in telephone conversations and/or e-mail communications with the current owner representative/manager Mrs. Sharon Diaz and Mrs. Alexandra Domenech of Fernando L. Sumaza & Company, Inc.

After reviewing the physical, locational and economic characteristics of the property and of the immediate sector, the north central region market was surveyed, focusing on the low-income market data. The subject's characteristics were then placed in perspective of its market within the area, neighborhood and specific site analysis.

The valuation analysis consisted of developing the applicable approaches to value, which are described in the Appraisal Process section of the report. Only two of the three possible methods of valuation were developed; the cost approach and the income capitalization approach. The sales comparison approach was not developed due to the lack of similar affordable rental project recent transactions.

## INTRODUCTION

### Identification of the Property

The subject property consists of twenty one (21) 3-story buildings comprising 294 units of which 4 units (4BR) are currently being used as a Head Start Learning Center and 1 unit (4BR) is being used as the administrative office. However, considering that a new administration office will be built within the subject premises in the upcoming rehabilitation project, the 4BR unit currently being used as an office will be considered as part of the available apartment's inventory for purposes of this valuation analysis. Thus, the total number of units to be considered for residential use is 290 units, which will serve as basis for this appraisal report.

The subject buildings are identified as 1 through 21 and are built on an 11.48671 cuerda site. This subject project was built more than 50 years ago and is currently being operated under a Section 8 housing assistance payments (HAP) contract sponsored by the United States Department of Housing and Urban Development (HUD). The recreational facilities at the subject project include a basketball court, several playground areas, storage rooms, a maintenance office, an administrative office, a library/computer room and a communal center. In addition, the property includes 312 unmarked single parking spaces of which ten spaces are reserved for the handicapped.

The following table illustrates the distribution of the 290 total residential apartment units at the subject property.

Unit Type	No. of Units	Size Square Feet
2BR-1BA	96	714
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<b>Total</b>	<b>290</b>	

The subject buildings were built in the late 1960's being in fair to average condition and evidencing a low cost quality of construction. This apartment complex was built and has always been operated as a low income affordable rental housing project receiving limited amount of improvements over the past years and is in dire need of a full rehabilitation.

The subject project is under a housing assistance payments (HAP) contract of the US Department of Housing and Urban Development Office of Housing (HUD), with the Puerto Rico Housing Finance Corporation as the contract administrator, and San Jorge, LLC, as the current owner. It should be mentioned, that on November 1, 2016, the subject property owner signed a new 20 year contract with HUD, which runs up to October 31, 2036.

The subject project was recently optioned by a related party to the current owner, with the seller being San Jorge, LLC (current owner), and the buyer being El Mirador, LLC (new future owner). The date of option was September 10, 2020, with the sales price being \$15,000,000. Thus, for simplicity purposes, the optionee will be referred to as the new future owner throughout this appraisal report.

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Thus, this appraisal report will assume the extraordinary assumption, that the proposed rehabilitation at the subject project has been satisfactorily completed as per the plans and specifications submitted and stabilized, as of the prospective date of February 15, 2023.

Due to the income nature of the subject property, only the cost and the income methods of valuation were developed. The lack of similar affordable rental project transactions, along with the long-term nature of the LIHTC and Section 8 contracts, prevented the development of the sales comparison approach.

The subject’s proposed rehabilitation project is scheduled to be built with funds to be provided by two federal program sources and a local bank, having the following preliminarily projected financial structure:

Permanent Loan	\$2,500,000
Tax Credits	\$18,094,853
CDBG-DR Loan	<u>\$58,136,439</u>
<b>Total</b>	<b>\$78,731,292</b>

Please note, that the previously mentioned preliminary projected funds provided by the Permanent Loan, Tax Credits and CDBG-DR Loan tend to fluctuate and may not be the same when they are officially granted to the project’s new owner. Thus, no liability and/or responsibility is assumed by the appraisers in case of any future differences in this respect.

**Property Rights Appraised**

Please note, that given the proposed rehabilitation of the subject project, the existing units currently leased will have to be vacated in a building by building basis in coordination with project's contractor with the affected tenant(s) temporarily relocated. As such, the value of the fee simple interest is considered more in line with the appraisal assignment at hand.

**Purpose of the Appraisal**

The purpose of this appraisal report was to form an opinion of the market value of the fee simple interest in the proposed rehabilitation of the subject Mirador Las Casas Apartments Project, assuming it is fully stabilized and operating as a subsidized rental housing project under the Section 8, LIHTC and CDBG-DR programs, as of the prospective date of February 15, 2023, and the market value of the "as is" subject project site, as the effective October 15, 2020, as defined in the report, subject to the assumptions, limiting conditions, and certifications, also included in the report. In addition, the cost approach (assuming LIHTC, CDBG-DR and local bank preliminary projected funds) of the subject improvements was also developed.

The global outbreak of a "novel coronavirus" known as COVID-19 was recently officially declared a pandemic by the World Health Organization (WHO). It is currently unknown what direct, or indirect effect, if any, this event may have on the national economy, the local economy or the market in which the subject property is located. The reader is cautioned and reminded, that the conclusions presented in this appraisal report apply only as of the effective date indicated. The appraisers make no representation as to the effect on the subject property of this event, or any event subsequent to the effective date of the appraisal.

Furthermore, it is important for the client and intended users to understand, that any prospective values rendered herein reflect the analysis of market data current as of the earliest effective date of value. Prospective value opinions are intended to reflect the expectations and perceptions of market participants as of that time frame; therefore, this appraisal assignment cannot account for – and the appraisers cannot be held responsible for – unforeseen events that may occur and that may alter market conditions prior to the prospective date of value.

**Intended Use/User of the Appraisal**

The intended use of this appraisal report is to assist the intended users in a decision making process regarding the compliance of the proposed rehabilitation of the subject project under the LIHTC and CDBG-DR programs. The intended users are San Jorge, LLC (current owner), El Mirador, LLC (new future owner), the Puerto Rico Housing Financing Authority (PRHFA) and the investors purchasing the tax credits.

## DEFINITIONS

### Market Value<sup>1</sup>

Market value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by agencies that regulate federal financial institutions in the United States of America is:

*The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*

1. *Buyer and seller are typically motivated;*
2. *Both parties are well informed or well advised and acting in what they consider their own best interests;*
3. *A reasonable time is allowed for exposure in the open market;*
4. *Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
5. *The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

### Fee Simple Estate<sup>2</sup>

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

### Prudent and Competent Management<sup>2</sup>

An owner, operator, or management company, that maintains and uses real estate in a manner consistent with the manner in which typical buyers of similar properties would consider appropriate as measured by actual practices in the competitive market.

### Prospective Market Value as Completed and as Stabilized<sup>2</sup>

A prospective market value may be appropriate for the valuation of a property interest related to a credit decision for a proposed development or renovation project. According to USPAP, an appraisal with a prospective market value reflects an effective date that is subsequent to the date of the appraisal report. Prospective value opinions are intended to reflect the current expectations and perceptions of market participants, based on available data.

Two prospective value opinions may be required to reflect the time frame during which development, construction, and occupancy will occur. The prospective market value “as completed” reflects the property’s market value as of the time that development is expected to

<sup>1</sup>The Market Value definition was taken from Advisory Opinion No. 30 (AO-30) of the Uniform Standards of Professional Appraisal Practice – 2020-2021 Edition, published by the Appraisal Standards Board of the Appraisal Foundation.

<sup>2</sup>The Fee Simple Interest, Prudent and Competent Management, Prospective Market Value and Extraordinary Assumption definitions were taken from The Dictionary of Real Estate Appraisal 6<sup>th</sup> Edition (2015).

be completed. The prospective market value “as stabilized” reflects the property’s market value as of the time the property is projected to achieve stabilized occupancy. For an income-producing property, stabilized occupancy is the occupancy level that a property is expected to achieve after the property is exposed to the market for lease over a reasonable period of time and at comparable terms and conditions to other similar properties.

**Extraordinary Assumption<sup>2</sup>**

An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser’s opinions or conclusions. Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

**Exposure Time<sup>3</sup>**

Advisory Opinion No. 35 (AO-35) of USPAP states, that when exposure time is a component of the definition of value, appraisers must develop an opinion of the reasonable exposure time linked to the value opinion. Exposure time is defined as an opinion, based on supporting market data, of the length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market.

Given the retrospective market conditions, the exposure time of the subject property, as completed, is estimated to have been of approximately one (1) to two (2) years.

**Marketing Time<sup>4</sup>**

Advisory Opinion No. 7 (AO-7) of USPAP recognizes that some assignment conditions require the appraisers to analyze and report a reasonable marketing period for the subject property. Marketing time is defined as an opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value or at a benchmark price during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal.

Given the prospective market conditions, the marketing time of the subject property, as completed, is estimated to be of approximately one (1) to two (2) years.

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<sup>3</sup>The Exposure Time definition was taken from Advisory Opinion 35 (AO-35) of the Uniform Standards of Professional Appraisal Practice (2020-21 Edition), published by the Appraisal Standards Board of The Appraisal Foundation.

<sup>4</sup>The Marketing Time definition was taken from Advisory Opinion No. 7 (AO-7) of the Uniform Standards of Professional Appraisal Practice (2020-21 Edition), Published by the Appraisal Standards Board of The Appraisal Foundation.



<b>SUBJECT HISTORY AND HUD RENT CONTRACT SUMMARY</b>
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<b>Location</b>	South and at the end of Eduardo Conde Avenue between Norte Sur and E Streets in the Cantera Sector of the Santurce Ward in the San Juan Municipality of Puerto Rico.
<b>Section 8 Project Number</b>	RQ46L000034.
<b>Name</b>	Mirador Las Casas Apartments.
<b>Current Owner</b>	San Jorge, LLC.
<b>Sponsor</b>	U.S. Department of Housing and Urban Development (HUD).
<b>Name of Contract Administrator</b>	Puerto Rico Housing Finance Authority.
<b>Renewal Contract</b>	20 year term starting on November 1, 2016, and ending October 31, 2036.
<b>Project Type</b>	21, three (3) story buildings comprised by 290 units of 2BR, 2BR and 4BR's and 4 Head Start units for a total of 294 units.
<b>Project Program</b>	Provide housing assistance payments (HAP) on behalf of eligible families leasing decent, safe and sanitary units from the owner.

The subject project is under a housing assistance payments (HAP) contract of the US Department of Housing and Urban Development Office of Housing (HUD), with the Puerto Rico Housing Finance Corporation as the contract administrator, and San Jorge, LLC, as the current owner. It should be mentioned, that on November 1, 2016, the subject property owner signed a new 20 year contract with HUD, which runs up to October 31, 2036.

The subject project was previously purchased by the current owner on March of 2016 for \$9,000,000. However, the subject project was recently optioned by a related party to the current owner, with the seller being San Jorge, LLC (current owner), and the buyer being El Mirador, LLC (new future owner). The date of option was September 10, 2020, with the sales price being \$15,000,000. Thus, for simplicity purposes, the optionee will be referred to as the new future owner throughout this appraisal report.

The new future owner intends to rehabilitate the subject project, including the replacement of the main sanitary sewer line from cast iron to pvc pipes, improvements to the primary and secondary electrical power systems, replacement of all telecommunication infrastructure, installation of a security camera system, installment of an electrical photovoltaic system and an emergency power generator, installment of a new 15,000 gallon drinking water storage tank and hydro pneumatic pressure system, replacement of all interior and exterior doors and windows, renovation of all bathrooms and kitchens, construction of new balconies and laundry areas in all units, replacement of interior and exterior electrical lighting being more energy efficient, renovations to the front and rear building façades, exterior and interior painting, a roof treatment, reconstruction of stairs and handrails up to code, construction of a new 1,300 square foot administration office, improvements to the computer room and community center, reconstruction of all walkways, construction of eleven new trash handling areas, resurfacing of the parking area, replacement of the perimeter fence, construction of two new bus stops, installation of landscaping, remodeling of "El Caño" basketball court, installation of new playground equipment in five different locations, construction of a new gymnasium and some rehabilitation work to the Head Start facilities.



These previously mentioned improvements will help the subject project achieve compliance with the Disabilities Act (ADA), the Fair Housing Act (FHA), the Uniform Federal Accessibility Standards (UFAS), the National Green Building Standard (NGBS) and the HOME Investment Partnerships Program (HOME) of the US Department of Housing and Urban Development (HUD).

## U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

HUD's mission is to increase homeownership, support community development and increase access to affordable housing free from discrimination. To fulfill this mission, HUD will embrace high standards of ethics, management and accountability and forge new partnership, particularly with faith-based and community organizations, that leverage resources and improve HUD's ability to be effective on the community level.

### **HISTORY**

- 1937** U.S. Housing Act of 1937.
  
- 1965** Department of Housing and Urban Development Act of 1965 creates HUD as Cabinet-level agency.
  
- 1966** Robert C. Weaver becomes the first HUD Secretary, January 18.
  
- 1968** Riots in major cities follow assassination of Dr. Martin Luther King Jr. Civil Rights Act of 1968 (also known as the Fair Housing Act) outlaws most housing discrimination, gives HUD enforcement responsibility. Housing Act of 1968 establishes Government National Mortgage Association (Ginnie Mae) to expand availability of mortgage funds to moderate income families using government guaranteed mortgage-backed securities.
  
- 1969** Robert C. Wood receives recess appointment as HUD Secretary, January 7. George C. Romney is appointed HUD Secretary by President Richard M. Nixon, January 22.
  
- 1970** Housing and Urban Development Act of 1970 introduces Federal Experimental Housing Allowance Program and Community Development Corporation.
  
- 1972** Pruitt-Igoe public housing buildings in St. Louis are demolished.
  
- 1973** President Nixon declares moratorium on housing and community development assistance. James T. Lynn becomes HUD Secretary, February 2.
  
- 1974** Housing and Community Development Act consolidates programs into Community Development Block Grant (CDBG) program. Section 8 tenant-based certificates increase low-income tenants' choice of housing. Gerald R. Ford becomes president following Nixon's resignation.
  
- 1975** Carla A. Hills is appointed HUD Secretary, March 10.
  
- 1977** Patricia R. Harris is appointed HUD Secretary by President James E. Carter, January 23. Urban Development Action Grants (UDAG) give distressed communities funds for residential or nonresidential use.
  
- 1979** Moon Landrieu becomes HUD Secretary, September 24. Inflation hits 19 percent, seriously impacting home buying and home mortgage loans.

- 1980** Depository Institutions' Deregulation and Monetary Control Act of 1980 changes rules governing thrift institutions, expands alternative mortgages.
- 1981** Samuel R. Pierce Jr. is appointed HUD Secretary by President Ronald W. Reagan, January 23. Interest rates for FHA-insured mortgages peak at 15.17 percent (up from 7 percent in 1972).
- 1983** Housing and Urban-Rural Recovery Act of 1983 begins Housing Development Action Grant and Rental Rehabilitation programs.
- 1987** Stewart B. McKinney Act sets up programs to help communities deal with homelessness.
- 1988** Indian Housing Act gives HUD new responsibilities for housing needs of Native Americans and Alaskan Indians. Housing and Community Development Act allows sale of public housing to resident management corporations. Fair Housing Amendments Act makes it easier for victims of discrimination to sue, stiffens penalties for offenders.
- 1989** Jack F. Kemp is appointed HUD Secretary by President George H. W. Bush, February 13. Financial Institutions' Reform, Recovery, and Enforcement Act bails out failing thrift institutions.
- 1990** Cranston-Gonzalez National Affordable Housing Act emphasizes homeownership and tenant-based assistance, launches HOME housing block grant. Low-Income Housing Preservation and Residential Homeownership Act of 1990 fortifies Federal commitment to preservation of assisted low-income, multifamily housing.
- 1992** Federal Housing Enterprises' Financial Safety and Soundness Act of 1992 creates HUD Office of Federal Housing Enterprise Oversight to provide public oversight of FNMA and Federal Home Loan Mortgage Corporation (Freddie Mac).
- 1993** Henry G. Cisneros is named Secretary of HUD by President William J. Clinton, January 22. Empowerment Zone and Enterprise Community program becomes law as part of the Omnibus Budget Reconciliation Act of 1993.
- 1995** "Blueprint for Reinvention of HUD" proposes sweeping changes in public housing reform and FHA, consolidation of other programs into three block grants.
- 1996** Homeownership totals 66.3 million American households, the largest number ever.
- 1997** Andrew M. Cuomo is named by President Clinton to be Secretary of Housing and Urban Development, the first appointment ever from within the Department.

- 1998** HUD opens Enforcement Center to take action against HUD-assisted multifamily property owners and other HUD fund recipients who violate laws and regulations. Congress approves Public Housing reforms to reduce segregation by race and income, encourage and reward work, bring more working families into public housing, and increase the availability of subsidized housing for very poor families.
- 2000** America's homeownership rate reaches a new record-high of 67.7 percent in the third quarter of 2000. A total of 71.6 million American families own their homes - more than at any time in American history.
- 2001** Mel Martinez, named by President George W. Bush to be Secretary of Housing and Urban Development, is unanimously confirmed by the U.S. Senate on January 23, 2001.
- 2004** Alphonso Jackson, named by President George W. Bush to be Secretary of Housing and Urban Development, is unanimously confirmed by the U.S. Senate on March 31, 2004. Mr. Jackson is the first Deputy Secretary to subsequently be named Secretary.
- 2008** Steve Preston was sworn in as the 14th HUD Secretary on June 5, 2008. He was nominated by President George W. Bush and unanimously confirmed by the Senate.
- 2009** Shaun Donovan was sworn in as the 15th Secretary of the U.S. Department of Housing and Urban Development on January 26, 2009. President Obama named Donovan to lead the Department and the U.S. Senate confirmed his nomination to confront the challenges facing today's housing market.
- 2014** Julián Castro was sworn in as the 16th Secretary of the U.S. Department of Housing and Urban Development on July 28, 2014.
- 2017** Dr. Benjamin S. Carson, Sr., M.D. was sworn in as the 17th Secretary of the U.S. Department of Housing and Urban Development on March 2, 2017.

In recent news, on March 27, 2020, President Trump signed the CARES Act (Coronavirus Aid, Relief, and Economic Security Act) which a \$2 trillion economic relief package to the help the American people from the public health and economic impacts of COVID-19. After the President signed the CARES Act, Secretary Ben Carson directed the U.S. Department of Housing and Urban Development (HUD) to immediately begin allocating \$3.064 billion to help America's low-income families and most vulnerable citizens.

Shortly after the initial \$3 billion tranche, HUD announced a second wave of funding to help low-income Americans living in Public Housing and a third wave to help communities bolster coronavirus response and relief efforts.

The CARES Act is currently in its fourth wave of funding in which HUD allocated nearly \$77 million, supporting 8,300 additional vouchers. This 4<sup>th</sup> wave of relief funds will provide affordable housing to non-elderly people living with disabilities.

**COMMUNITY DEVELOPMENT BLOCK GRANT DISASTER RECOVERY  
PROGRAM (CDBG-DR)**

As stated in the Puerto Rico Department of Housing website, the Community Development Block Grant – Disaster Recovery (CDBG – DR) Program is responsible to assure decent affordable housing opportunities, provision of services, and assistance to the most vulnerable in our communities, and to the expansion and conservation of jobs.

The funds of this Program come from the Disaster Recovery Program for community development of the United States Department of Housing and Urban Development (HUD), to grant support disaster recovery activities, including housing redevelopment and rebuilding.

The Department of Housing of Puerto Rico has been designated as the entity responsible for administering this grant that will help in the recovery from disasters caused by hurricanes Irma and Maria in September of 2017. This includes long-term recovery, restoration of housing, economic infrastructure and revitalization.

The Action Plan corresponding to the first allocation of \$1.5 billion (\$1,507,179,000) was approved by the Department of Housing and Urban Development (HUD) on July 29, 2018. It includes an analysis of the first damage calculation and reports on the preliminary design of the 19 programs that will meet the urgent needs of housing, planning, economic recovery and infrastructure.

On August 14, 2018, a Federal Notice was published for the second allocation of \$8.2 billion. This Notice establishes the conditions for how these funds may be utilized. Under this premise, the draft of the Substantial Amendment to the approved Action Plan was developed and published on September 21, 2018, for public comment.

The Substantial Amendment draft to the Action Plan maintains the 19 initial programs established in the HUD approved action plan, with some changes to the programs and their budgets. Eight new programs were added for unmet needs.

On November 18, 2018, the Substantial Amendment to the Action Plan was submitted to HUD for final approval. Finally, on February 28, 2019, the Substantial Amendment to the Action Plan was approved by HUD.

**Puerto Rico Department of Housing CDBG-DR Programs and Guidelines<sup>5</sup>****Description**

The Government of Puerto Rico and the Puerto Rico Department of Housing (PRDOH) presented the CDBG-DR Gap program for Low Income Housing Tax Credits Program (LIHTC), financed with funds allocated by the United States Department of Housing and Urban Development (HUD).

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<sup>5</sup> This description was taken and includes excerpts from the PR Department of Housing CDBG-DR Program Guidelines/CDBG-DR Gap to LIHTC internet document dated 2/21/2019.

Puerto Rico faces an increased need for affordable rental housing stock in the aftermath of hurricanes Irma and María. The substantial reduction in available housing units caused by the storms' destruction, combined with a surge of displaced residents (both on and off the Island) in need of housing, represents a major hindrance to long-term recovery. One of its program, the Low Income Housing Tax Credits (**LIHTC**), established in 1986, has been instrumental in the creation of thousands of units.

Incentives are needed to spur development and replenish the current inventory of new, resilient, and affordable rental housing. Effective utilization of the Low-Income Housing Tax Credit (LIHTC) leverages such an incentive.

As the allocating agency, PRHFA, has been designated as the sub-recipient for the LIHTC Program, and accordingly, will administer the CDBG-DR funds to encourage the construction and/or rehabilitation of multifamily and/or elderly affordable rental housing by providing gap funding to augment other public and/or private financing for the affordable rental housing units under the LIHTC Program administered by PRHFA.

### **Purpose of the Program**

- Benefit Low to Moderate Income (**LMI**) populations below eighty percent (80%) Area Median Family Income (**AMFI**) according to HUD Modified Income Limits for Puerto Rico, by increasing the existence of multifamily and elderly housing.
- Increase the affordable housing stock with new construction and rehabilitation.
- Respond the need for housing, by providing gap financing to leverage LIHTCs and make projects financially feasible.
- Promote economic development and provide quality rental housing for households.

### **How Does It Works**

- Puerto Rico receives millions of dollars each year in low-income housing tax credits (LIHTC).
- PRHFA will select the projects proposed by qualified Developers to use LIHTCs.
- The Program will provide gap funding with CDBG-DR funds, to Developers with pre-approved LIHTC projects.
- The CDBG-DR Gap to LIHTC Program will consist of \$413M for the financing of multiple projects; the projects will be financed as funds become available.
- This financing will accelerate the pace of new and qualified construction and/or rehabilitation projects that are ready to be built.

### **Who Can Participate**

- Developers who propose projects under this program must be eligible for funding under the federal LIHTC Program.
- In addition, homes created or rehabilitated under this program will benefit any LMI, resident of Puerto Rico, by having inventory of affordable and resilient rental housing.
- Similarly, developers, individuals or legally established entities that provide rental housing may benefit.

### **Importance of the Program**

- The CDBG-DR Gap to LIHTC Program maximizes LIHTCs and thus extends the impact of the CDBG-DR Grant, while creating affordable rental housing units that are very necessary.

- The LIHTC program was described by HUD as “the most important resource for creating affordable housing in the United States today”; allows individuals and legal entities to claim federal tax credits in exchange for providing affordable rental housing.
- The proposed developments take into consideration the use of environmentally friendly methods and materials, in order to protect it. In addition, they have resistance and energy conservation measures; Energy Star equipment, photovoltaic panels, emergency power generators and windows with storm proof protection.
- In addition, the developments will include the installation of broadband infrastructure, in order to reduce the digital divide in mixed income communities and provide a platform for people and their families to participate in the digital economy and increase their access to economic opportunities.
- The urban location of these developments, which includes reasonable distance businesses, seeks to benefit the regional economy. It includes nearby places such as medical facilities, pharmacies, post offices, supermarkets, public transport and recreational areas of the municipalities.

### **Eligible Projects**

Phase 1: 9% LIHTCs (pre-approved, NOFA 2016)

Phase 2: 4% LIHTCs (to be awarded, NOFA 2020)

The proposed subject rehabilitation and new construction project is scheduled to conform with the 4% LIHTC program.

### **Description**

The Puerto Rico Department of Housing (PRDOH) will partner with the Puerto Rico Housing Finance Authority (PRHFA or AFV, for its Spanish acronym), to utilize CDBG-DR to provide gap funding to augment other public and private financing methods for the construction of affordable rental housing units under the LIHTC program administered by PRHFA. Under a typical LIHTC program, a developer secures a construction and/or permanent loan from a private lender or public agency, gap financing from a public or private source, and equity from private investors in exchange for LIHTC's.

This CDBG-DR funding will serve to meet any capital shortfalls (gaps) and speed the new construction/rehabilitation of qualified projects that are otherwise shovel-ready. The LIHTC program, described by HUD as “the most important resource for creating affordable housing in the United States today”, allows individuals and legal entities to claim federal income tax credits in exchange for delivering affordable rental housing. LIHTC offers two forms of tax credits, namely, 9% and 4% for new construction/rehabilitation, and 4% for new construction/rehabilitation projects that are partially financed with tax-exempt obligations. According to the Internal Revenue Code (IRC), over a 10-year period, the respective applicable tax credit percentages are those that yield credits with a present value equal to 70% and 30% of the qualified basis of a project. See 26 U.S.C. §42(b)(1)(B).

Puerto Rico receives millions of dollars each year in LIHTC's. PRDOH intends to optimize the use of CDBG-DR funds by providing gap funding and if needed, interim and permanent loans, to leverage available LIHTC's to create/rehabilitate affordable rental housing.



**National Objective**

Activities under the CDBG-DR Gap to LIHTC Program meet the national objective of benefitting low- and moderate-income persons through housing (LMI). See 24 C.F.R. §570.483(b)(3). The national objective will be achieved when a completed LIHTC project is occupied by at least 51% of low- and/or moderate-income households.

**Program Criteria**

The LIHTC program responds to the need for safe, quality, and affordable rental housing in Puerto Rico, which was a significant need prior to the hurricanes and which expanded dramatically because of them. A recorded 345,333 renter households applied for the Federal Emergency Management Agency Individual Assistance (FEMA IA) as a result of hurricanes Irma and Maria. The number of units with confirmed damage may increase as assessment of damage and inspections for code compliance post-storm continues. In the rental market recovery, there is a strong need to formalize the Island-wide rental market reporting and housing standard compliance. Aging buildings impacted by the storms will need to be addressed with a focus on resilience. More than 76% of the Island's rental stock was constructed before 1990. Before the hurricanes, there were 25,000 persons on the public housing waiting list and 7,955 (as of June 2014) on the Section 8 waiting list. There are more than 14,500 tenant households and more than 13,300 owned homes that are overcrowded by one (1) or more persons.

This CDBG-DR Gap to LIHTC Program will create rental housing stock to address rental housing needs at affordable rents. In addition, this Program will participate in eligible activities such as housing construction, acquisition, implementing Green Building Standards, and supplementing the existing LIHTC program. CDBG-DR Gap to LIHTC Program responds to the affordable housing needs in Puerto Rico that were impacted by the hurricanes. Currently, 935 units are in the existing 9% LIHTC pipeline and are expected to be completed within 24 months of each project start. CDBG-DR funds with 9% LIHTC will be leveraged to stretch both funding sources and to create projects that accomplish several goals.

Projects funded through the CDBG-DR Gap to LIHTC Program must maintain affordable housing in accordance with the 20-year affordability period outlined in the Federal Register Volume 83, Issue 28 (February 9, 2018), 83 FR 5844, or the affordability period required by LIHTC, whichever is longer.

**CDBG-DR – Implementation Plan**

Description of Competitive Selection Criteria: Eligible projects include rental housing developments that have been awarded/reserved 2018, 2019, 2020, and 2021 LIHTC's from the 2016 QAP cycle, Notice of Funds Availability 2016 (NOFA-2016). PRDOH will allocate CDBG-DR grants and/or loans to fill any existing financial gaps. Should any CDBG-DR funds remain after those projects' financial needs are satisfied, applications of 4% LIHTC's can be received and reviewed for CDBG-DR funding needs. See 26 U.S.C. §142. For CDBG-DR purposes, the term Award of LIHTC's means the date of execution of the Binding Commitment for a Certificate of Reservation for a Low-Income Housing Tax Credit Allocation and/or Carryover Allocation Agreements.



**Commitment and Expenditure Deadlines**

CDBG-DR funds may not be used in conjunction with PRHFA's HOME Program. Projects may receive HOME funds from other Participating Jurisdictions. CDBG-DR awards must meet LIHTC's rent, income, use and compliance monitoring limitations, as well as any other existing or future regulatory requirements.

**Process for the Disbursement of Funds**

The process for disbursement of funds requires that: CDBG-DR Program Guidelines CDBG-DR Gap to Low-Income Housing Tax Credit (LIHTC) February 21, 2019 (V 1.0) Page 9 of 31  
a. Submissions of certifications for payment will be allowed once a month.

**LOW INCOME HOUSING TAX CREDIT PROGRAM (LIHTC)**

The Low Income Housing Tax Credit Program (LIHTC) is an indirect federal subsidy which provides tax incentives for developers in the construction, acquisition and rehabilitation of affordable rental housing for low income and moderate income households. The LIHTC program was created under the Tax Reform Act of 1986 and is commonly referred to as Section 42 of the IRS code.

Under the LIHTC program, developers can claim tax credits on a dollar to dollar basis on their federal tax returns. These tax credits can be sold to investors to raise capital for their projects, which reduces the debt that the developer would otherwise have to borrow. A tax credit property can offer more affordable units because its debt is lower. The return investors receive is determined in part by market price of the tax credits which in normal economic conditions typically fluctuates in between \$0.60 to \$0.90 on the dollar.

Two types of LIHTCs are available depending on the nature of the construction project. The 9% credit is generally reserved for new construction, while the 4% credit is typically used for rehabilitation projects and new construction that is financed with tax-exempt bonds. Each year, for 10 years, a tax credit equal to roughly 4% or 9% of a project's qualified basis (cost of construction) is claimed.

LIHTCs are first allocated to each state according to its population. In 2019, states received an LIHTC allocation of \$2.75625 per person. The administration of the tax credit program is typically carried out by each state's Housing Financing (HFA).

In order to qualify for these credits, a project must comply with the requirements of a qualified low income project. Along this line, a project's sponsor/developer must set aside at least 40% of the units for households having incomes at or below 60% of the area's median income, or at least 20% of the units for households having incomes at or below 50% of the area's median income.

In addition, there is a third option in the income test option that allows owners to average the income of tenants. Under this option, the income test is satisfied if at least 40% of the units are occupied by tenants with an average income no greater than 60% of the average median income (AMI), and no individual tenant has an income exceeding 80% of AMI.

In addition to the income test, a qualified low income housing project must also meet the gross rent test by ensuring rents do not exceed 30% of the elected 50% or 60% of area median gross income, depending on which test option the project elected.

In exchange for tax credits, properties are required to comply with investment regulations for 15 years and meet affordable rent requirements for at least 30 years. Monitoring compliance involves regularly certifying that only targeted income eligible households live in assisted units and are paying associated rents and conducting quality inspections. Investors in projects that fail to comply can lose their tax benefit.

Household income limitations are determined based on the area's median gross income as determined by HUD. Each year, HUD adjusts the area's median household income based on several factors, such as the area's economy and household growth. Income restrictions are determined on a Metropolitan Statistical Area (MSA) or county level, and are determined for a household of 4 persons.

The following table lists the area median income level for the subject's MSA, as well as the income limits by percentage categories as established by HUD for FY-2020.

<b>San Juan-Guaynabo Metro Area / FY2020</b>					<b>Median Income - \$28,800</b>			
<b>Category</b>	<b>Percentage</b>	<b>1 Person</b>	<b>2 Person</b>	<b>3 Person</b>	<b>4 Person</b>	<b>5 Person</b>	<b>6 Person</b>	<b>7 Person</b>
Extremely Low	30%	\$7,400	\$6,500	\$8,350	\$9,250	\$10,000	\$10,750	\$11,500
Very Low	50%	\$10,850	\$12,400	\$13,950	\$15,450	\$16,700	\$17,950	\$19,200
Tax Credit	60%	\$13,020	\$14,880	\$16,740	\$18,540	\$20,040	\$21,540	\$23,040
Low Income	80%	\$17,300	\$19,800	\$22,250	\$24,700	\$26,700	\$28,700	\$30,650

If your income is less than 60% of the Area Median Income (AMI), you should not expect to pay more than the rent value for a unit in the table below. However, affordable residential communities that receive funding through the Low Income Housing Tax Credit program may have rental units that are not subject to income and rent limits. Rent limits for the LIHTC Program are determined so that a household making the maximum income for the expected household size of the unit would only pay 30% of their income for rent.

Rent for units in the LIHTC Program include a utility allowance which is determined by the average monthly cost of utilities paid directly by residents. This allowance has not been subtracted from the rents in the table below. These utility allowances are set on a property by property basis.

<b>% of AMI</b>	<b>Studio</b>	<b>1BR</b>	<b>2BR</b>	<b>3BR</b>
50%	\$271	\$290	\$348	\$401
60%	\$326	\$348	\$418	\$482

These rents reflect minimum figures that a proposed project under the LIHTC program can received. However, reportedly, in practice higher rental figures could be obtained depending on the final project's occupant mix.

**HOUSING CHOICE VOUCHER PROGRAM (SECTION 8)\***

Section 8 of the Housing Act of 1937 (42 U.S.C. § 1437f), often simply known as Section 8, as repeatedly amended, authorizes the payment of rental housing assistance to private landlords on behalf of approximately 3.1 million low-income households in the United States. The largest part of the section is the Housing Choice Voucher program which pays a large portion of the rents and utilities of about 2.1 million households. The U.S. Department of Housing and Urban Development manages the Section 8 programs.

The Housing Choice Voucher Program provides "tenant-based" rental assistance, so a tenant can move from one unit of at least minimum housing quality to another. It also allows individuals to apply their monthly voucher towards the purchase of a home, with over \$17 billion going towards such purchases each year (from ncsa.org analysis). The maximum allowed voucher is \$2,200 a month.

Section 8 also authorizes a variety of "project-based" rental assistance programs, under which the owner reserves some or all of the units in a building for low-income tenants, in return for a federal government guarantee to make up the difference between the tenant's contribution and the rent in the owner's contract with the government. A tenant who leaves a subsidized project will lose access to the project-based subsidy.

The United States Department of Housing and Urban Development and the United States Department of Veterans Affairs have created a program called Veterans Affairs Supportive Housing (VASH), or HUD-VASH, which distributes roughly 10,000 vouchers per year at a cost of roughly \$75 million per year to eligible homeless and otherwise vulnerable U.S. armed forces veterans. This program was created to pair HUD-funded vouchers with VA-funded services such as health care, counseling, and case management.

**HISTORY**

Federal housing assistance programs began during the Great Depression to address the country's housing crisis. In the 1960s and 1970s, the federal government created subsidy programs to increase the production of low-income housing and to help families pay their rent. In 1961, the Section 23 Leased Housing Program amended the U.S. Housing Act. This subsidy program, the predecessor to the modern program, was not a pure housing allowance program. Housing authorities selected eligible families from their waiting list, placed them in housing from a master list of available units, and determined the rent that tenants would have to pay. The housing authority would then sign a lease with the private landlord and pay the difference between the tenant's rent and the market rate for the same size unit. In the agreement with the private landlord, housing authorities agreed to perform regular building maintenance and leasing functions for Section 23 tenants, and annually reviewed the tenant's income for program eligibility and rent calculations.

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\*Taken from [www.wikipedia.com](http://www.wikipedia.com)

In the 1970s, when studies showed that the low income housing crisis was no longer substandard housing, but the high percentage of income spent on housing, Congress passed the Housing and Community Development Act of 1974, further amending the U.S. Housing Act of 1937 to create the Section 8 Program. In the Section 8 Program, tenants pay about 30 percent of their income for rent, while the rest of the rent is paid with federal money.

The Section 8 program initially had three subprograms - New Construction, Substantial Rehabilitation, and Existing Housing Certificate programs. The Moderate Rehabilitation Program was added in 1978, the Voucher Program in 1983, and the Project-based Certificate program in 1991. The numbers of units a local housing authority can subsidize under its Section 8 programs is determined by Congressional funding. Since its inception, some Section 8 programs have been phased out and new ones created, although Congress has always renewed existing subsidies.

HR1851, the Section 8 Voucher Reform Act of 2007 (SEVRA), was introduced in the House of Representatives to reform Section 8 of the United States Housing Act of 1937. It was passed by the House in July, 2007, and went to the Senate for study and consideration as Senate version, S. 2684, filed on March 3, 2008 by Senator Christopher Dodd, chair of Senate Banking Committee.

#### **SUMMARY OF THE PROGRAM**

Currently, the main Section 8 program involves the voucher program. A voucher may be either "project-based" (where its use is limited to a specific apartment complex; public housing agencies (PHAs) may reserve up to 20% of its vouchers as such.) or "tenant-based" (where the tenant is free to choose a unit in the private sector, is not limited to specific complexes, and may reside anywhere in the United States or Puerto Rico where a PHA operates a Section 8 program, though in practice such portability is very difficult).

Under the voucher program, individuals or families with a voucher find and lease a unit (either in a specified complex or in the private sector) and pay a portion of the rent (based on income, but generally no more than 30% of the family's income). There is an asset test in addition to earned income. Over a certain amount, HUD will add income even if the Section 8 tenant doesn't receive any interest income from, for example, a bank account. HUD calls this "imputed income from assets" and in the case of a bank account, HUD establishes a standard "Passbook Savings Rate" to calculate the imputed income from the asset. This makes the tenant's contribution higher since his gross income is made higher.

The PHA pays the landlord the remainder of the rent over the tenant's portion, subject to a cap referred to as "Fair Market Rent" (FMR) which is determined by HUD. Each year, the federal government looks at the rents being charged for privately owned apartments in different communities, as well as the costs of utilities (heat, electricity, etc.) in those communities. The Fair Market Rents are an estimate of the average gross rents (rents plus utilities) for medium-quality apartments of different sizes in a particular community. FMR is determined by several factors, including:

- the geographic area (city or county) where the unit is located (generally, a unit in a metropolitan area will have a higher FMR),
- the unit size (in terms of the number of bedrooms; generally, the more bedrooms the higher the FMR, while a studio apartment would be at the low end), and
- whether the owner or tenant will pay utilities (generally, FMR is higher for units where the owner pays utilities).

The landlord cannot charge a Section 8 tenant more than a reasonable rent and cannot accept payments outside the contract. In addition, landlords, although required to meet fair housing laws, are not required to participate in the Section 8 program. As a result, some landlords will not accept a Section 8 tenant. This can be attributed to such factors as:

- not wanting the government involved in their business, such as having a full inspection of their premises for HUD's Housing Quality Standards (HQS) and the possible remediations required,
- fear that a Section 8 tenant will not properly maintain the premises,
- a desire to charge a rent for the unit above FMR,
- unwillingness to initiate judicial action for eviction of a tenant (HUD) requires that Section 8 tenants can only be evicted by judicial action, even where state law allows other procedures).

However, other landlords willingly accept Section 8 tenants, due to:

- a large available pool of potential renters (the waiting list for new Section 8 tenants is usually very long, see below),
- generally prompt regular payments from the PHA for its share of the rent, and/or
- a perceived higher quality of tenants, since a tenant can be permanently removed from the Section 8 program if s/he damages the rental unit and/or fails to pay his/her share of the rent.

Whether voucher or project-based, all subsidized units must meet HQS, thus ensuring that the family has a healthy and safe place to live. This improvement in the housing stock is an important by-product of this program, both for the individual families and for the larger goal of community development.

In many localities, the PHA waiting lists for Section 8 vouchers may be thousands of families long, waits of three to five years to access vouchers is common, and many lists are closed to new applicants.

Families who participate in the program must abide by a series of rules and regulations, often referred to as "family obligations," in order to maintain their voucher, including accurately reporting to the PHA all changes in household income and/or family composition so the amount of their subsidy (and the applicable rental unit size limitation) can be updated accordingly. In recent years, the HUD Office of the Inspector General has spent more time and money on fraud detection and prevention. Currently, there are no time limits for family participation in the program, though occasionally reform bills are introduced in Congress that suggests time limiting the program.

### **LOW INCOME RENTAL HOUSING**

The development of low-income rental housing in Puerto Rico began approximately 40 years ago, when the Department of Housing and Urban Development (HUD) began a program to guarantee mortgages for low-income multi-family developments. HUD's mortgage guarantee program permitted longer loan terms of 20, 30, and even 40 years, at lower, sometimes subsidized interest rates, and with no personal guarantees. These favorable financing terms, together with HUD's granting of housing assistance payments (HAP), fostered the development of low-income rental multifamily residential projects.

Today, HUD's mission is to increase homeownership, support community development and increase access to affordable housing free from discrimination. There are currently over 55,000 residential units under Section 8 of HUD. Under the HAP contract of the Section 8 program, HUD provides housing assistance payments on behalf of qualified low-income tenants. Approximately 30,000 families in the Island receive millions of dollars in direct aid in the form of certificates and vouchers, while over 25,000 families receive Section 8 indirect aid through a separate, project-based program which distributes the aid to buildings instead of directly to tenants. Section 8 is credited with helping increase housing standards while making moderately priced apartments available.

In the HUD Housing Choice Voucher Program and the HUD certificate program, HUD pays rental subsidies so eligible families can afford decent, safe and sanitary housing. In the certificate program, the subsidy for most families is the difference between rent and 30 percent of the family's adjusted monthly income. In the voucher program, the subsidy is based on a local payment standard that reflects the cost to lease a unit in the local housing market. If the rent is less than the payment standard, the family generally pays 30 percent of adjusted monthly income for rent. If the rent is more than the payment standard, the family pays a larger share of the rent.

The maximum rent that HUD allows a tenant to pay on a subsidized apartment is called the market rent. The market rent on an apartment reflects a share of the total cost of operating the property. The difference between rent that the tenant pays and the market rent is the amount of assistance that is being received on that apartment. If a tenant's income increases such that he/she is paying market rent, no assistance will be received for that unit. HUD calls this circumstance termination of assistance.

Interest based subsidy programs such as Section 236 and 221 (a) receive subsidy in the form of reduced interest on the mortgage. Section 236 tenants pay basic rent or 30% of adjusted income, whichever is higher, but never more than market rent. Basic rent represents an amount of rent charge to cover all expenses on the apartment with the reduced interest on the mortgage. Market rent represents an amount of rent charge to cover all expenses on the apartment with no interest subsidy on the mortgage.

To receive tenant-based assistance, the family selects a suitable unit. After approving the tenancy, the Public Housing Agency (PHA) enters into a contract to make rental subsidy payments to the owner to subsidize occupancy by the family. The PHA contract with the owner only covers a single unit and a specific assisted family. If the family moves out of the leased unit, the contract with the owner terminates. The family may move to another unit with continued assistance so long as the family is complying with program requirements.

On and after the merger date, the PHA may only enter into a HAP contract for a tenancy under the voucher program, and may not enter into a new HAP contract for a tenancy under the certificate program. HUD publishes the fair market rents (FMR) for each market area in the United States. The PHA must adopt a payment standard schedule that establishes voucher payment standards amounts for each FMR area in the PHA jurisdiction. For each FMR area, the PHA must establish payment standards amounts for each unit size, which is measured by number of bedrooms (zero-bedroom, one-bedroom and so on).

The PHA may establish the payment standard amount for a unit size at any level between 90 percent and 110 percent of the published FMR for that unit size. The payment standard is the maximum monthly subsidy payment. The PHA shall pay a monthly housing assistance payment on behalf of the family that is equal to the lower of:

- 1) The payment standard minus the total tenant payment; or
- 2) The gross rent minus the total tenant payment.

As the original HUD's guaranteed loan terms are beginning to expire, these project-based Section-8 rental projects are being freed of the imposed HUD restrictions, such as prior written HUD approval for the conveyance, transfer or encumbrances of such properties. As a result, former low-income rental projects have been renovated, converted and sold as individual condominium units in the past.

The tenant-based voucher program has provided the means for the relocation of the families from the converted project-based developments, thus, serving as a transition for families within the Section 8 program. Moreover, the conversion and individual sellout of the former rental multi-family projects in the past, caused a scarcity of supply of low-income rental units.



## PUERTO RICO ECONOMIC ANALYSIS

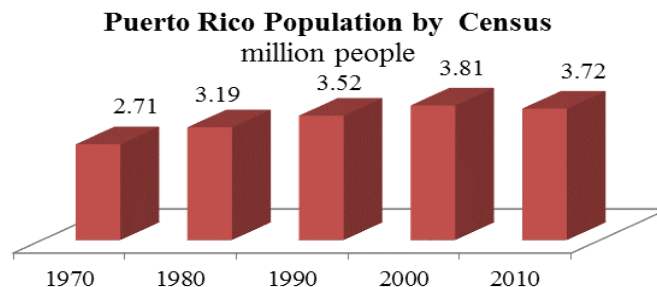
### Puerto Rico\*

Puerto Rico, the fourth largest of the Caribbean Islands, is 100 miles long and 35 miles wide, comprising a total area of about 3,500 square miles. In 1898 Spain ceded the Island to the United States in the aftermath of the Spanish American War. The United States granted Puerto Ricans US citizenship in 1917 and instituted Puerto Rico's current commonwealth status in 1952.



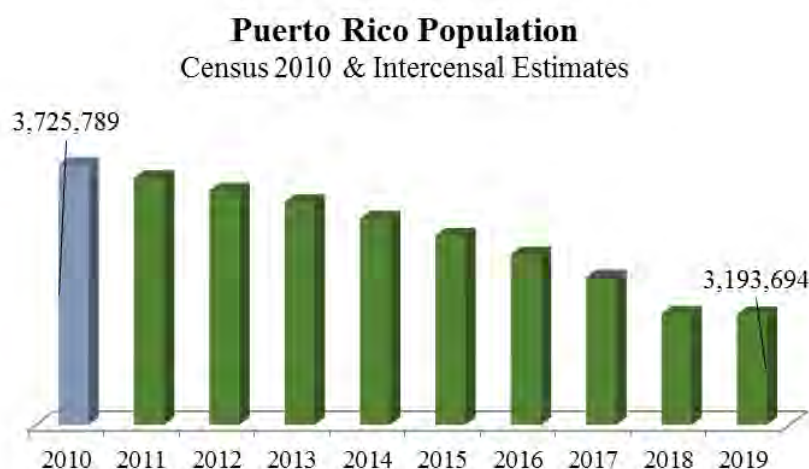
Puerto Rico had a population of 3,808,610 as per the 2000 Census, an increase of 8.1% over the 1990 Census count of 3,522,037 million. During the last years of the past decade, the Puerto Rico Planning Board had estimated the Island's population would reach 4.0 million persons by 2010. However, the 2010 Census data reported the first decennial demographic contraction ever, with an overall population of 3,725,789 million, which inferred a drop of -2.2%.

In spite of the constant population growth along the past decades, except for the last one, the annual growth rate along the past four decades had been decreasing, reflecting an annual growth rate of 1.8% during the 1970-1980 period, of 0.9% during the 1980-1990 period, of 0.8% during the 1990-2000 period, and more recently, a negative rate of -2.2% during the 2000-2010 period; as summarized in the following table. As per Census 2010, PR population declined to 3,725,789 persons in 2010, about 170,000 below the 2000 population.



Source: US Census Bureau

In addition, as per a recent population estimate performed by the Census Bureau, the population of Puerto Rico as of July 1, 2019, was of 3,193,694 persons, which is 14 % less than the 3,725,789 persons figure of the 2010 Census. However, 2019 marked the first year since 2010 without a decline in the Island population. Thus, it is reasonable to expect some stabilization of the PR population after the strong exodus sparked by hurricanes Irma and María in 2017. On the other hand, the demographic impact of the recent earthquakes that damaged many structures in southern Puerto Rico, is not clear yet.



*Source: US Census Bureau, Population Division*

A long-lasting 14 years old economic recession and the havoc wreaked by Hurricanes Irma and María fueled demographic contraction during the last decade. The US Census Bureau estimated a net migration of 428,421 Puerto Ricans to the US between 2010 and 2017.

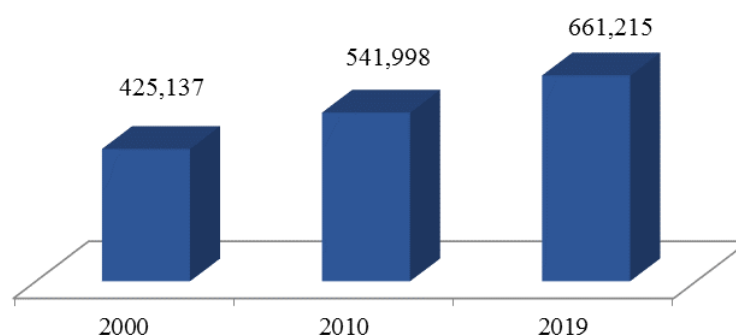
Young adults are more likely to migrate. Most migrants are located in the cohorts of people aged 10-40 years. This infers a high proportion of young professionals with their families leaving the Island looking for a better and more promising socioeconomic environment. Young adult migration also has negative effects for economic productivity and the housing demand, since first time home buyers mostly fall in the 25-40 year cohort. On the other hand, those who returned to Puerto Rico concentrate in the cohorts of 50 years or over.

Demographic contraction feeds economic recession. The deterioration of the economy fueled a new wave of migrants, but this reduction in the number of local consumers negatively impacts overall consumption; especially, in the retail sector.

In addition to the decline in total population, Puerto Rico is aging twice as fast as the United States. In 2000, the gap in median age in years between Puerto Rico and the US nearly vanished over the past decade. Median age in Puerto Rico was 32 years in 2000, compared with 37 years in the US. By 2010, median age in Puerto Rico reached 37 years, similar to that in the United States.

Moreover, the percent of population aged 65 years or more in Puerto Rico has surpassed that of the United States. Persons aged 65 years or older account for over 20.0% of total population now. This cohort added more than 115,000 people between 2000 and 2010, and reached 661,215 people in 2018.

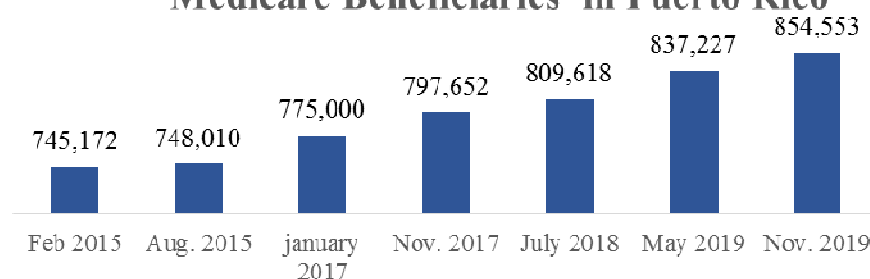
**Puerto Rico Population 65 years or over**  
Census 2010 & Intercensal Estimates



*Source: US Census Bureau, Population Division*

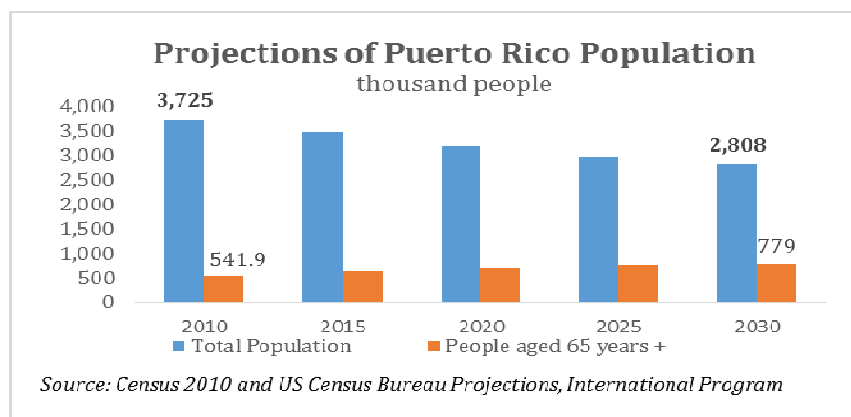
Puerto Rico has over 800,000 beneficiaries of Medicare, and 70% of them are affiliated to a Medicare Advantage plan. A large and increasing Medicare population confirms that Puerto Rico is experiencing an accelerated aging process. Elders are less prone to migrate, and they keep the local healthcare sector in motion.

**Medicare Beneficiaries in Puerto Rico**



*Source: Center for Medicare and Medicaid Center*

The Census Bureau has projected a scissor-like demographic path for Puerto Rico, with the total population falling below 3.0 million in 2030, but the elderly population soaring in the same period until closing in on 800,000 persons.

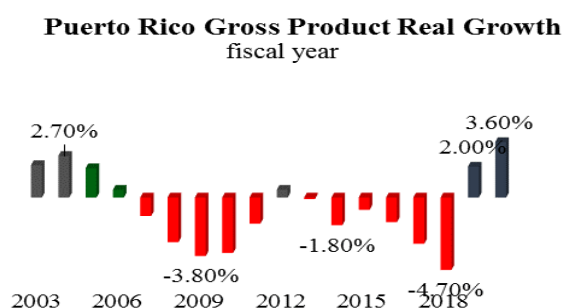


## An Overview of the Puerto Rico Economy

Most countries use Gross Domestic Product (GDP) as the most important macroeconomic indicator. In the case of Puerto Rico, due to some distortions related to exports by multinational companies, Gross National Product (GNP) captures better the size of local economic activity as well as earnings of Puerto Rico residents.

Puerto Rico national accounts are published with a one-year delay and refer to fiscal years, which run from July to June. Fiscal year 2019 ended on June 30<sup>th</sup>, but its results will be published in April 2020.

Since 2006, Puerto Rico has suffered a lengthy economic recession. To make matters worse, hurricanes Irma and María, in September 2017, caused a nosedive in the GNP of fiscal 2018. The Puerto Rico Planning Board has projected a recovery of 2.0% in fiscal 2019 as well as a further 3.6% growth in the ongoing fiscal 2020.



Source: Puerto Rico Planning Board, June 2019

However, the recent outbreak of coronavirus across the globe has also hit Puerto Rico in several ways. A one-month quarantine, that started on March 16<sup>th</sup>, is expected to last, at least,

up to April 12<sup>th</sup>. It is also important to note that Puerto Rico suffered several earthquakes and sequences in January, with an adverse economic shock over tourism and the economy of the southern Island.

Abexus Analytics, a novel consulting firm based in San Juan, has estimated a significant impact of the ongoing outbreak over the PR economy. According to Abexus model, a one-month paralysis will cause a GNP loss in the range of \$3 to \$4 billion.

### **Taking the Pulse of the Economy**

In order to track the behavior of the economy during the on-going calendar year, we can draw information from the Planning Board file of economic activity, which comprises foremost indicators to gauge the behavior of the economy. We have focused on several indicators that allow us to monitor the behavior of the economy. Each one provides information from different components of the overall economy. Data for most indicators are available up to December 2019, and comparisons are presented for the latest month available for the previous year.

For example, cement sales experienced a 29.3% jump in 2018 in respect to 2017, boosted by the reconstruction process and therefore, a surge in the demand for cement. However, it got off to a weak start in 2020, with an annual negative growth of 20% in January. As previously mentioned, the disrupting effect of the earthquake and its sequences could explain this negative performance.

Non-farm/payroll statistics, the best tool to connect employment with the overall economy, posted a positive, 1.5% growth in calendar 2019. Non-farm payroll has dived to about 873,000, well below the peak of 1,075,000 jobs in 2005. In a related context, unemployment rate went down from over 16% in 2018 to 10% in 2019.

Electricity consumption started 2020 with a 3.4% increase in January. It is important to note, that the Government of Puerto Rico has already announced and set in motion the privatization of the electric power industry, which still operates as a state monopoly; the Puerto Rico Electric Power Authority (PREPA). The electric infrastructure in Puerto Rico was severely damaged by the hurricanes. This industry is in such a terrible condition, that radical and bold measures, like its privatization, are a must to overhaul this important pillar of economic development in Puerto Rico.

After an appalling 2018, tourism bounced back in 2019. Hotel registrations of non-residents is the best indicator to gauge tourism, since it tells us how foreign tourists, whether from USA or any other country, sponsor Puerto Rico. It jumped 28.3% in 2019 after plunging in 2018. Data for 2020 is not available yet, but we expect a negative start due to adverse shock by the earthquake. We believe that tourism has a great potential in Puerto Rico, but this industry, which in PR relies heavily on cruise visitors, will likely bear the brunt of the worldwide pandemic.

Retail Sales figure is available to October 2019. It was down 4% compared to the same period, January-October, in 2018. This negative growth cast some doubts on the optimistic growth projected by the Planning Board for 2019-2020. More so, considering that Plaza Las Americas, our largest and most unique shopping mall, has now been shut down since March 16, 2020.

In spite of high fiscal stress, PR Treasury has managed to move in the right direction. Annualized net revenues to the general fund were up 4.0% by November of 2019. The fiscal situation of Puerto Rico remains fragile, but the austerity program and the overseeing by the Financial Oversight and Management Board for Puerto Rico (FOMB) are restoring fiscal discipline in Puerto Rico.

Indicator	Last Month Available	Unit	Accumulated last year	Accumulated this year	% change
Cement Sales	ene-20	thousand sacks	1,068	850	-20.4%
Total Non Farm Employment	dic-19	# workers	860.9	873.6	1.5%
Electricity Consumption	ene-20	Million Kw/H	1,167.9	1,207.2	3.4%
Non Resident Hotel & Paradores	dic-19	# registrations	1,766,559	2,265,987	28.3%
Unemployment Rate	dic-19	%	-16.8%	-10.1%	-39.9%
Retail Sales	oct-19	\$ million	\$27,764.0	\$26,666	-4.0%
General Fund Net Revenue	nov-19	\$ million	\$9,224.3	\$11,197.8	21.4%
Sales of New Housing Units	nov-19	units	1,381	648	-53.1%

Housing construction does not see the light at the end of the tunnel. In 2019, sales of new housing units plunged to 703 units, compared with 2,575 in 2012 and far from over 10,000 units in the mid 00s. On the other hand, sales of existing units is moving steadily around 10,000 annual units. This performance of the housing market mirrors the poor feasibility odds of new housing projects in Puerto Rico.

### Sales of Housing Units in Puerto Rico



Source: PR Commissioner of Financial Institutions

### Comments on PR fiscal and economic situation: what lies ahead

After many low-key years, Puerto Rico is now in the international spotlight. Besides its debt problem and persisting fiscal shortfalls, hurricanes Irma and María, that hit the Island during September 2017, wreaked a havoc that received worldwide attention.

On June 30, 2016, the president of the United States signed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) a bipartisan legislation that gave birth to the Fiscal Oversight and Management Board (FOMB). Since then, and maybe during a

further decade, the power of local authorities and elected officials has been severely restrained by the actions and decisions of the fiscal board.

PROMESA opened a new time for the economy of Puerto Rico. The fiscal board's main assignment was to fix the Commonwealth wrecked public sector, eliminate fiscal shortfalls, and return Puerto Rico's access to capital markets. The board has dealt with the thorny issue of Puerto Rico public debt.

The Puerto Rico economy has entered a long but positive process of radical restructuring. FOMB has laid out a fiscal plan up to fiscal year 2023 that highlights the imperative of balanced budgets by cutting excessive spending and strengthening revenue collection. The fiscal plan represents a road map to a downsized and more efficient public sector in Puerto Rico.

In spite of some criticism, Puerto Rico, under FOMB oversight, has made long strides in the restructuring of its public debt. In January 2018, the PR Government and bondholders of COFINA (for its acronym in Spanish) reached an agreement that was ratified by judge Laura Taylor Swain, who is overseeing debt restructuring in Puerto Rico. This agreement includes an estimated reduction of over \$17.5 billion in debt service by the Commonwealth and gives the central government an additional fraction of the sales tax revenue previously committed to pay COFINA bondholders. On the downside risks, the agreement assumes a debt service ramp-up upon a sustained economic growth in Puerto Rico for the next forty years, a concerning issue for some experts and economists. As of today, over 70% of more than \$70 billion in public debt has been restructured.

The fiscal plan comprises a comprehensive set of measures and reforms to modernize the PR economy and align it with most US states. Although those measures will likely yield positive results, there remain many challenges for an economy that has lost vitality and competitiveness for more than two decades.

The overhauling of the electric power system in Puerto Rico marks another turning point. In 2017, the PR government started a privatization process to encourage more competition, efficiency and resiliency in a system that was totally knocked out by hurricane María in 2017. The shortlist of private operators includes four companies all of them with experience and sound capitalization: Duke Energy, Exelon Corporation, Public Service Enterprise Group (PSEG) and a consortium headed by Quanta Services. As of today, there is not yet a comprehensive plan to overhaul the PR power system.

The reduction of the number of municipalities and cutting excessive spending by municipal governments is another pending task.

However, more upside risks have emerged. Puerto Rico is expected to receive over \$21 billion in CDBG funds during the next five years. Moreover, the outbreak of coronavirus pandemic that has upended the world economy and wiped out trillions in stock assets across the world, could open new economic opportunities for Puerto Rico.

Along these lines, there is a bipartisan effort to bring back to the US the production of drugs and pharma inputs that are currently manufactured in China. With a sound pharma industry

and thousands of engineers and highly qualified professionals, Puerto Rico has a great potential to usher back many of those products, a top priority for the US national security.

In summary, after a protracted recession, stagnation and fiscal imbalances, Puerto Rico is now taking steps in the right direction. An economic upturn could bring back to the Island many Puerto Ricans that have recently emigrated. This will further improve overall fiscal conditions and the prospects of long-term economic recovery.



### LOCATIONAL ANALYSIS

<b>LOCATION</b>	The subject property is located south and at the end of Eduardo Conde Avenue between Norte Sur and E Streets in the Cantera Sector of the Santurce Ward in the San Juan Municipality of Puerto Rico.
<b>BOUNDARIES</b>	North: Eduardo Conde Avenue. South: Martin Peña Channel. East: Los Corozos Lagoon. West: Villa Palmeras Community.
<b>LINKAGES</b>	The major thoroughfares providing access to the subject's immediate neighborhood are Eduardo Conde Avenue, PR-36 and PR-37.
<b>IMMEDIATE AREA DESCRIPTION</b>	The subject immediate area is generally known as Cantera, which is a low income community that includes two major public housing projects which are Las Margaritas I, II and III (900 units) and Las Casas (420 units). In 1992, <i>La Compañía para el Desarrollo Intergral de la Peninsula de Cantera</i> was established to transform the quality of life within this area. With the help of the central and municipal governments, private sector and federal funds, several subsidized housing projects were built, with those units being given to local families in need of housing (CHDO's). The participating families do not pay any type of mortgage and at end of 20 years, they receive a title to their properties. These projects include Parque Victoria (102 units), Paseo del Conde (106 units), Villas del Corozo, (34 units), Pelicanos (28 units) and Habitat (13 units). It was recently announced, that several sub sectors of the subject immediate area are scheduled to be redeveloped, including Puente Guano, Santa Elena, Condadito Final, Corea, Ultimo Chance, Bravos de Boston and Los Pinos.
<b>SERVICES</b>	The subject's general neighborhood is served by public utilities that are typical, such as potable water, electricity, telephone, sanitary and storm sewer systems. Other typical services such as police protection, fire fighting, street clean-up, garbage collection and postal services, are rendered by the commonwealth, municipal and federal governments.
<b>INFLUENCES</b>	Overall, the subject's neighborhood is negatively influenced by the sluggish market conditions affecting most of the Island's real estate. This scenario has created a softer than usual real estate market, which is evidenced by slower absorptions, decreases in prices and rents and increases in vacancy in the surrounding properties.
<b>CONCLUSIONS</b>	The subject neighborhood enjoys a central location within the Santurce Ward of the San Juan Municipality and is served by adequate routes of access and with readily availability of supporting facilities and services, including health facilities, commercial establishments, schools, etc. The subject's general neighborhood and the San Juan Municipality in general, has evidenced signs of reduced property values due to the on-going 14 year old current economic recession.

## LOCATION MAP



PO Box 11922, San Juan, PR 00922-1922  
E-Mail: [levallejo@vallejopr.com](mailto:levallejo@vallejopr.com)

<b>PROPERTY PRODUCTIVITY ANALYSIS</b>
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SITE DESCRIPTION	
<b>Area</b>	11.48671 cuerdas and/or 45,147.33 square meters (as submitted by the project's current owner).
<b>Street Frontage</b>	Norte Sur Street (West) and E Street (East).
<b>Street Access (Ingress and egress)</b>	Norte Sur Street (West) and E Street (East).
<b>Shape</b>	Irregular, but an adequate width and depth relationship for its functional development.
<b>Topography</b>	Level.
<b>Zoning District</b>	R-3, equivalent to R-I (Intermediate Residential).
<b>Soil Conditions</b>	Assumed stable.
<b>Flood Panel</b>	72000C0370J, last revised November 18, 2009.
<b>Flood Zone</b>	Zone 0.2 and X – minimal flood area.

### Locational Attributes

The subject property enjoys an adequate location within the Cantera Sector of the Santurce Ward in the San Juan Municipality. The subject buildings are distributed between Norte del Sur Street to the west and E Street to the east and provide both ingress and egress capabilities. The main artery leading into the subject immediate area is Eduardo Conde Avenue which intersects with both Norte Sur and E Streets.

The subject neighborhood enjoys all facilities provided by the federal, municipal and central governments. In addition, educational facilities, employment centers, shopping facilities, churches and hospitals are available within the general neighborhood and/or area.

### Physical Characteristics

The subject project site consists of an irregular shaped lot, but with an adequate width and depth relationship for its functional development. The subject project site's topography is level, which is considered adequate for its current residential apartment type use.

The site is already improved with all the typical on and off site improvements for a residential apartment type project, including utilities connection, filling, compacting, grading, asphalt paving, sidewalks, etc.

### Services

The subject project site is located within an urban area, which has been improved with the services necessary for the existing uses. However, the availability of capacity and/or connection rights to any or all other public utilities have not been determined by the appraisers.



### Zoning

The subject project site lies in an area zoned R-3, equivalent to R-I (Intermediate Residential), as it appears on the last revised Puerto Rico Planning Board Map (5E) for the San Juan Municipality. The R-I zoning district was established to classify urban areas having a medium density residential character located near major roads, commercial areas, schools and public transportation, having infrastructure already in place, including sanitary sewer, water and electricity.

The density permitted under this R-I zoning restriction is of 150 square meters per basic living unit (BLU). In the subject's case, its 45,147 square meters of land area provides for a rounded density figure of 301 BLU. As per the PR Planning Board current zoning regulation, a 2-bedroom unit equals 0.8 of a BLU, while a 3-bedroom unit equals 1.0 of a BLU and a 4-bedroom unit equals 1.2 of BLU. Thus, based on a total of 294 units, its BLU equivalency would be of 281 units  $[(96 \text{ units} \times 0.8 = 76.80 \text{ units}) + (144 \text{ units} \times 1.0 = 144 \text{ units}) + (50 \text{ units} \times 1.2 = 60 \text{ units}) = 281 \text{ BLU}]$ , which is just below the maximum amount of units allowed of 301 BLU.

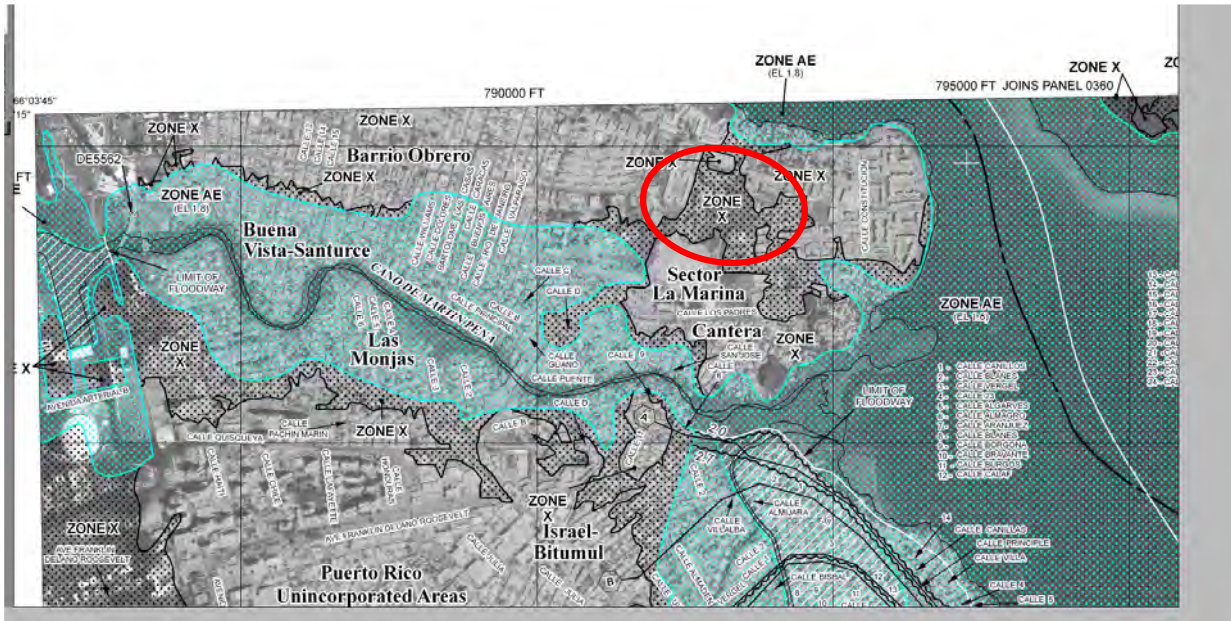
In conclusion, the subject project, consisting of a 294 unit low income affordable rental housing project, is in conformity with its current R-I zoning restriction.



### Flood Area

As per the Federal Emergency Management Agency (FEMA) flood insurance rate map no. 72000C0370J for the Commonwealth of Puerto Rico, last revised on November 18, 2009, the subject project site has been placed under a Zone X (0.2) and X, which is defined as an area of minimal flood hazard.

## FEMA Flood Map



## Subsoil

We have not performed, nor have we examined any subsoil studies prepared on the subject project site. Thus, for the purpose of this appraisal report, the subject land is assumed to be adaptable for normal usage without abnormal expenditures, other than typical of the immediate area.

## Easements, Expropriations and Encroachments

Other than the typical utility easements, we assume that the land subject of this appraisal report, is free of easements, encroachments and other contemplated expropriations.

## Environmental Impact

No site environmental impact studies were made in conjunction with this appraisal report. The value opinions contained herein could be impacted by subsequent environmental impact studies, research, investigation, and resulting governmental actions.

## Hazardous Materials

We have no knowledge of the possible existence of hazardous material that could have significant negative impact on the subject project site. Nevertheless, we are not qualified to detect any such substances. Therefore, the value opinions reported in this appraisal report are predicated on the assumption, that there is no such material affecting the subject project site.

## Tax Data and Assessed Valuation

Puerto Rico's Real Estate Tax Rates are based on two (2) separate factors, one is the rate fixed by the Legislature of Puerto Rico, standard for all parts of the Commonwealth, and the other, is the rate set by the municipality wherein a given property is located.

The law in Puerto Rico provides for a 10% discount on the property taxes, which are collected in two (2) yearly payments, if these are paid within 30 days following the mailing of the tax invoice. In addition, the law also grants property tax exemption for the first \$15,000 of assessed valuation on one (1) residence, if owner occupied. The current property tax rate for San Juan is 10.33%.

However, the subject project enjoys a tax exemption, as granted by the Department of the Treasury, which results from the subject project's nature to operate under the Section 8 of the Internal Revenue Code (IRC), with such benefit acknowledged for as long as continuous compliance is kept with relevant provision of the law, and with all administrative rules and regulations now in force, subsequently issued or promulgated.

Nevertheless, the value opinions reported for the subject property, disregards any existing tax liability that might be pending and no liability and/or responsibility is assumed by the appraisers in this respect.

<b>DESCRIPTION OF THE IMPROVEMENTS</b>
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<b>No. of Units</b>	294 (290 Residential Use)	<b>Project Site Area</b>	11.48671 cuerdas
<b>Model Type Units*:</b>		<b>Gross (Roofed) Construction Area**:</b>	
<b>2BR-1BA</b>	714 SF	<b>Apartments</b>	269,493 sq. ft.
<b>3BR-1BA</b>	878 SF	<b>Community Center</b>	2,415 sq. ft.
<b>4BR-2BA</b>	1,088 SF	<b>Library</b>	600 sq. ft.
		<b>Maintenance Office</b>	+875 sq. ft.
		<b>Total</b>	273,383 sq. ft.
<b>Construction Type</b>	Masonry	<b>Year Built</b>	Late 1960's
<b>Building Class</b>	C-Average	<b>Actual Age</b>	+/- 55 to 60 years old
<b>Exterior Facade</b>	RC & CB	<b>Effective Age</b>	35 to 40 Years
<b>Roof</b>	RC		
<b>Parking spaces</b>	312	<b>Total Economic Life</b>	60 Years
<b>Parking spaces per unit</b>	1.08		
<b>Balcony</b>	Yes		
<b>Ceiling Height</b>	8'3"	<b>Deferred Maintenance</b>	None
		<b>Functional Obsolescence</b>	No
		<b>External Obsolescence</b>	See comments

\*The individual areas of the three subject model type units were calculated by the appraisers using plans and specifications provided to us by the current owner.

\*\*The overall subject building areas were obtained from a previous appraisal report submitted to us by the subject current owner.

The subject property consists of twenty one (21) 3-story buildings comprising 294 units of which 4 units (4BR) are currently being used as a Head Start Learning Center and 1 unit (4BR) is being used as the administrative office. However, considering that a new administration office will be built within the subject premises in the upcoming rehabilitation project, the 4BR unit currently being used as an office will be considered as part of the available apartment's inventory for purposes of this valuation analysis. Thus, the total number of units to be considered for residential use is 290 units, which will serve as basis for this appraisal report.

The subject buildings are identified as 1 through 21 and are built on an 11.48671 cuerda site. This subject project was built more than 50 years ago and is currently being operated under a Section 8 housing assistance payments (HAP) contract sponsored by the United States Department of Housing and Urban Development (HUD). The recreational facilities at the subject project include a basketball court, several playground areas, storage rooms, a maintenance office, an administrative office, a library/computer room and a communal center. In addition, the property includes 312 unmarked single parking spaces of which ten spaces are reserved for the handicapped.

The following table illustrates the distribution of the 290 total residential apartment units at the subject property.

Unit Type	No. of Units	Size Square Feet
2BR-1BA	96	714
3BR-1BA	144	878
4BR-2BA	50	1,088
<b>Total</b>	<b>290</b>	

The subject buildings were built in the late 1960's being in fair to average physical condition and evidencing a low cost quality of construction. This apartment complex was built and has always been operated as a low income affordable rental housing project receiving limited amount of improvements over the past years and is in dire need of a full rehabilitation.

Interior finishes of all subject units include ceramic floors, wood kitchen cabinets, wood entry doors and jalousies windows. All units include a refrigerator, a range/oven, a water heater, a smoke alarm detector and a fire extinguisher. Also, each unit has space for a washing machine which is not included.

Construction Details	Description
<b>Foundation</b>	Reinforced concrete slab on compacted fill.
<b>Frame</b>	Reinforced concrete columns.
<b>Exterior walls</b>	Reinforced concrete and concrete blocks.
<b>Roof</b>	Reinforced concrete.
<b>Windows</b>	Aluminum jalousies.
<b>Flooring:</b>	Ceramic tiles.
<b>Doors:</b>	
<b>Entrance</b>	Wood -Solid
<b>Interior</b>	Wood -Semi-solid.
<b>Closets</b>	Aluminum (bi-fold) and/or plastic (sliding).
<b>Interior Walls</b>	Concrete.
<b>Exterior Walls</b>	Cement plaster.
<b>Ceiling</b>	Stucco and painted.
<b>Walls</b>	Cement or gypsum plastered and painted.
<b>Kitchen Cabinets</b>	Mica surface wood cabinets and counter tops.

The subject project is under a housing assistance payments (HAP) contract of the US Department of Housing and Urban Development Office of Housing (HUD), with the Puerto Rico Housing Finance Corporation as the contract administrator, and San Jorge, LLC as the current owner. It should be mentioned, that on November 1, 2016, the subject property owner signed a new 20 year contract with HUD which runs up to October 31, 2036.

The subject project was recently optioned by a related party to the current owner, with the seller being San Jorge, LLC (current owner), and the buyer being El Mirador, LLC (new future owner). The date of option was September 10, 2020, with the sales price being \$15,000,000. Thus, for simplicity purposes, the optionee will be referred to as the new future owner throughout this appraisal report.



The new future owner intends to rehabilitate the subject project, including the replacement of the main sanitary sewer line from cast iron to pvc pipes, improvements to the primary and secondary electrical power systems, replacement of all telecommunication infrastructure, installation of a security camera system, installment of an electrical photovoltaic system and an emergency power generator, installment of a new 15,000 gallon drinking water storage tank and hydro pneumatic pressure system, replacement of all interior and exterior doors and windows, renovation of all bathrooms and kitchens, construction of new balconies and laundry areas in all units, replacement of interior and exterior electrical lighting being more energy efficient, renovations to the front and rear building façades, exterior and interior painting, a roof treatment, reconstruction of stairs and handrails up to code, construction of a new 1,300 square foot administration office, improvements to the computer room and community center, reconstruction of all walkways, construction of eleven new trash handling areas, resurfacing of the parking area, replacement of the perimeter fence, construction of two new bus stops, installation of landscaping, remodeling of “El Caño” basketball court, installation of new playground equipment in five different locations, construction of a new gymnasium and some rehabilitation work to the Head Start facilities.

These previously mentioned improvements will help the subject project achieve compliance with the Disabilities Act (ADA), the Fair Housing Act (FHA), the Uniform Federal Accessibility Standards (UFAS), the National Green Building Standard (NGBS) and the HOME Investment Partnerships Program (HOME) of the US Department of Housing and Urban Development (HUD).

### **Physical Depreciation**

The subject property was built in the late 1960's and is currently fair to average physical condition. Over the years, a limited of amount of improvements have been made mostly to the interior of the units. Along this line, typical refurbishing is usually performed when a unit was vacated, including general painting, plastering, replacement of damaged doors and bathroom and kitchen fixtures. These replacements/renovations cure were part of its chronological age, and extend its economic life. However, due to the age of the subject project, its improvements have become obsolete and inefficient and are in dire need of rehabilitation.

### **Functional Obsolescence**

Functional obsolescence is a reduction in the utility of the structure or of one of its components, due to the decreased capacity of the structure or its components to perform the function for which it was intended.

The subject improvements were built as a walk-up residential apartment project with 2BR, 3BR and 4BR units, meeting the HUD specific requirements to provide housing for the use and occupancy by families of low and moderate income. Although the property adequately fulfills the function for which it was developed, its old age and current fair to average physical condition requires a significant amount of rehabilitation and modernization. Thus, the subject improvements are considered to have functional obsolescence, more specifically, it is considered a curable deficiency requiring substitution or modernization.

**External Obsolescence**

The subject project enjoys an adequate urban location within the Cantera Sector of the Santurce Ward in the San Juan Municipality with good access to main thoroughfares. However, the current private housing market activity in the entire Island has been affected by the lack of demand and an oversupply of residential units, mostly due to the on-going fourteen (14) plus year old recession currently affecting Puerto Rico.

The recession, in conjunction with surging construction costs, and a credit crunch in the lending sector, have put in question the feasibility of many residential, commercial and industrial projects throughout the Island. This in turn, has created a softer than usual real estate market with extended absorption rates, which translates into economic obsolescence for many properties.

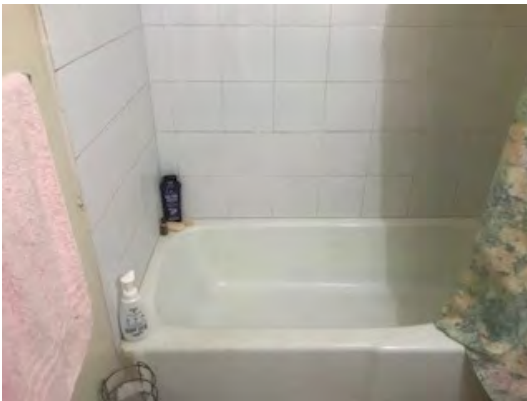
Nevertheless, since the existing subject project refers to a low income/affordable housing rental project which is fully subsidized by Section 8 vouchers and has historically enjoyed full occupancy, no economic obsolescence was identified.

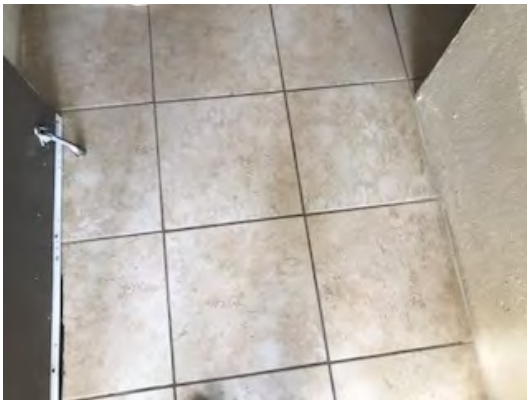
***SUBJECT EXTERIOR PHOTOS***





*SUBJECT INTERIOR PHOTOS*





## HIGHEST AND BEST USE ANALYSIS

### Introduction

Highest and best use is defined in the sixth edition of *The Dictionary of Real Estate Appraisal* (Appraisal Institute, Chicago, 2015), as follows:

*“The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.”*

The highest and best use analysis requires the appraiser to distinguish from among all possible uses, that use which would represent the highest value as of the effective date of appraisal.

### Highest and Best Use of land or a site as though vacant

<b>Legal permissibility test</b>	The subject project site is zoned R-I (Intermediate Residential), which basically allows for medium density residential developments.
<b>Physical possibility test</b>	The subject project site’s physical and locational characteristics, along with its access capabilities described in detail in the previous Property Productivity Analysis section of the report, supports a medium density residential development.
<b>Financial feasibility test</b>	<p>The general real estate industry, including all the real estate market segments, such as commercial/retail, office, industrial, residential, tourist, institutional, etc., are presently going through a stagnant period, evidencing longer absorption periods and increasing vacancies, along with aggressive marketing efforts and high operational costs.</p> <p>This in turn, has created diminished demand (limited number of potential users) for basically all types of properties, causing dislocations in the demand-supply equation. This scenario has created a softer than usual real estate market, which is evidenced by slower absorption paces, lower sales, values, rents and higher vacancy rates, among others. In fact, based on the current economic conditions, the feasibility on many proposed projects has been compromised by dramatic increases in construction costs, and a credit crunch from the banking sector which in general, has suffered substantial losses in their capitalization in the recent past.</p> <p>However, social interest residential projects located throughout the Island, in general, have maintained rather adequate sales and absorption rhythm, based on a higher demand for this type of product. Still, given the adverse economic conditions previously discussed throughout the report, and although the ideal improvement at the subject site “as if vacant” would be a social interest residential project, the lack of liquidity in the banking sector would most likely affect the feasibility of such a project. On the other hand, if a developer were to obtain additional funds through federal subsidy programs such as LIHTC, HOME and CDBG-DR programs, in addition to permanent loan structures from financial institutions or government agencies, the development of such type of project would be feasible.</p>
<b>Maximum productivity test and conclusion</b>	The analysis indicates, that under normal (typical) market conditions, a low cost residential apartment development would represent the maximum productive use for the “as if vacant” site. However, the current economic slowness with decreasing sales and lower occupancies affecting the general real estate market tend to suggest, that the subject “as if vacant” site scenario would remain dormant, until stronger market economics are evidenced. However, in the event that a developer could obtain additional funds through the LIHTC, HOME and CDBG-DR programs, as well as permanent loan structures, this would change the highest and best use conclusion from remain dormant to construct now.

### Highest and Best Use of Property as Improved (Restricted)

The subject project refers to the Mirador Las Casas Apartments project located in the Cantera Sector of the Santurce Ward in the San Juan Municipality consisting of 290 residential apartment units of 2BR, 3BR and 4BR's, distributed among 21 buildings of stories. Since the late 1960's, the subject project has been operating as a low income affordable rental housing project which is currently under a housing assistance payments (HAP) contract of the US Department of Housing and Urban Development Office of Housing (HUD).

The subject property is currently under an option to purchase agreement by related entities and the new future owner plans on rehabilitating the subject improvements at a reported cost of \$63,551,292, excluding the purchase of the building and land.

The subject's proposed rehabilitation project is scheduled to be built with funds to be provided by two federal program sources and a local bank, having the following preliminarily projected financial structure:

Permanent Loan	\$2,500,000
Tax Credits	\$18,094,853
CDBG-DR Loan	\$58,136,439
<b>Total</b>	<b>\$78,731,292</b>

Thus, if the new future owner obtains the previously mentioned preliminary projected funds, the subject's highest and best use "as improved" would be its proposed rehabilitation project, and its continue as an affordable low income rental operation under the Section 8 and LIHTC programs.

In summary, the proposed rehabilitation of the subject units suggest for a continuity of the subject project's restricted affordable residential use. Still, with restricted rent levels, as approved by HUD.

<b>Highest and Best Use As Though Vacant – Conclusion</b>	
Physical Use	Continue its operation as an affordable rental housing project as stipulated by its 20 year HUD agreement contract.
Timing of the Use Interim Use	Now. Not Applicable.
Most Likely Buyer	Owner User (Someone who has an established company with good management dedicated to the subsidized rental housing market).
Most Likely User	Owner User (Someone who has an established company with good management dedicated to the subsidized rental housing market).

## THE APPRAISAL PROCESS

Typically there are three (3) basic approaches that may be used by appraisers in the estimation of market value. These three approaches provide data from the market from three different areas when all are available. These three approaches are the **Cost Approach**, the **Sales Comparison Approach** and the **Income Capitalization Approach**.

The **Cost Approach** has as its premise, the valuation of the site of the property being appraised by comparison with other sites in the area that have sold in the recent past, making adjustments for differences to indicate a site value estimate. To this site value is added the estimated cost to reproduce or replace the improvements under appraisal, less any loss of value (depreciation) that might have transpired or taken place. This approach to value is based on the economic principle of substitution.

The **Sales Comparison Approach** has as its premise, a comparison of the property being appraised with others of a similar design, utility and use that have sold in the recent past. To indicate a value for the property under appraisal, adjustments are made to the comparables for differences with the subject of appraisal. This approach to value is also based on the economic principle of substitution.

The **Income Capitalization Approach**, as used for investment properties, has as its premise, the estimation of the amount of the net income the property under appraisal is generating, or could potentially generate, which when capitalized in a manner that is commensurate with the risk and the life expectancy of the improvements, will indicate the present value of the income stream. This approach to value is based on the economic principle of anticipation.

Normally, these three approaches will each indicate a different value. After all the factors in each of the approaches have been carefully weighed, the indications of value derived from each of the approaches are correlated to arrive at a final value opinion.

For this appraisal assignment, relative to the proposed rehabilitation of the subject project, the sales comparison approach was not developed due to the fact, that no sales of similar subsidized rental type projects within the Island have taken place during the past several years. On the other hand, it was developed to obtain the value of the “as is” subject project site.

The cost and the income capitalization (assuming LIHTC and CDBG-DR preliminary projected funds) approaches to value were developed, with the resulting figures reconciled into a final value conclusion. Please note, that the subject’s “as is” subject project site market value was reported in the cost approach section.



## COST APPROACH

### Valuation of the “As Is” Subject Project Site

Typically, there are six valuation procedures and/or techniques that may be used by appraisers to delineate land market value. These six procedures and/or techniques are sales comparison, allocation, extraction, subdivision development, land residual and ground rent capitalization. All these procedures and/or techniques are derived from the three basic approaches to value, which are the previously covered cost approach, sales comparison approach and income capitalization approach.

In the valuation of vacant sites, such as the “as is” subject project site, the most applicable approach and the one that typically tends to give the most reliable indication of value is the sales comparison approach, considering that a number of comparable and competitive transactions are available. Therefore, this is the approach that will be used to arrive at indications of value for the “as is” subject project site.

Consequently, for the purpose of arriving at an indication of the fee simple market value of the subject project site by the sales comparison approach, and considering its highest and best use, the most recent transactions of vacant sites purchased for social interest elderly and/or Section 8 apartment/condominium/house projects within competitive locations of the Island were gathered.

The different areas were visited and a visual inspection of the properties involved in the transactions was made. The data pertaining to the listed transactions was verified with at least one of the parties involved and the public records at the respective Property Registry offices and/or the CRIM office in San Juan. The transactions gathered are summarized in the following table and their detailed descriptions have been kept in our office files.

### SUMMARY OF COMPARABLE LAND SALES

SALE	PROJECT NAME / LOCATION	DATE OF SALE	AREA IN SQ. MTS.	NO. OF UNITS	SALES PRICE	PRICE PER SQ. MT.	PRICE PER UNIT
1	Galeria Urbana/Caguas	10/14	4,426	107	\$1,050,000	\$237	\$9,813
2	Valle Dorado/ Utuado	11/14	4,237	32	\$230,000	\$54	\$7,188
3	Hacienda Village / Caguas	4/15	76,289	91	\$252,000	\$3	\$2,769
4	Ciudad Lumen / Guaynabo	9/15	4,129	140	\$1,782,500	\$431	\$12,732
Option 1	Bahia Apartments / Cataño	Current	2,461	251	\$600,000	\$244	\$5,800
N/A	Subject Project Site	N/A	45,147	294	N/A	N/A	N/A

The appraisers have listed four closed/deeded sales and a sales option of vacant parcels of land purchased, or to be purchased, for the development of social interest elderly and/or Section 8 apartment/condominium/house projects lying within competitive locations of the Island. These transactions took place from 10/14 to the current date and will be used to derive the market value in fee simple of the subject project site by the sales comparison approach. The transactions gathered vary in size from 4,129 to 76,289 square meters and the properties sold within a \$3 to \$431 per square meter range and/or \$2,769 to \$12,732 per unit range.

Conventional appraisal methodology within the development of the sales comparison approach for the valuation of vacant parcels of land typically requires appraisers to fully describe each of the comparable sales in order to weigh their characteristics (superior, similar or inferior) against those of the property under appraisal, making adjustments to quantify for any differences.

However, the “as is” subject project site has a few unique characteristics, such as its specific location, its topography, its size, its shape, its current zoning restriction and its highest and best use. Consideration of all these factors makes subject project site different in specific terms to all the land transactions gathered, which in theory means, that the market data available is not truly, ideally comparable. By the same token, each of the listed transactions has its own unique characteristics. As a matter of fact, after pairing the transactions to one another, no specific and/or clear trends can be extracted for differences in passage of time, locations, sizes, topographies and number of units.

This situation reflects the typical imperfect nature of real estate markets, meaning that the market data available is not perfect enough, or sufficient enough, to derive specific adjustments between the specific characteristics of the transactions gathered and those of the subject of appraisal and consequently, requires the appraisers to interpret the available market data in a broad logical manner. In viewing the market data from a general standpoint, the reader can visualize, that the unitary prices per square meter of the listed transactions range from a low of \$3 to a high of \$431, while the prices per unit on a density basis, range from a low of \$2,769 to a high of \$12,732.

It is obvious from the foregoing, that the price per unit indications provide for a tighter, more consistent and therefore, more reliable trend. In addition, because of the differences in densities among the market data, it is most logical and reasonable, that the valuation analysis be developed on the price per unit indications, rather than on the price per square meter indications.

Based on the foregoing, and considering the subject’s large size, a figure near the lower end of the price per unit range provided by Sale 3 is suggested. Thus, considering that the subject is smaller than Sale 3 and is superior in terms of location, a slightly higher figure, say a rounded \$3,500 per unit figure, is comfortably concluded which provides for a rounded market value figure of \$1,000,000 (294 units x \$3,500 per unit = \$1,029,000).

Thus, in view of the preceding information and analysis, and with no evidence to the contrary, the market value in fee simple of the “as is” subject project site, as of October 15, 2020, was concluded to be of:

**\$1,000,000**  
**(ONE MILLION DOLLARS)**

**Estimation of the Reproduction Cost New of the Proposed Subject Improvements**

After the value of the “as is” subject project site has been estimated, the next step in the cost approach is the estimation of the reproduction cost new of the proposed rehabilitation of the subject project.

For the estimated RCN of the proposed rehabilitation of the subject project, the appraisers will use the cost estimate submitted by the project’s new future owner, inclusive of LIHTC and other federal funds related items, which will be compared to other similar type projects. Total soft costs include: professional fees, interim costs, syndication costs, developers fee and project reserves, which are typical for said type of projects. The submitted cost estimate by the sponsor/developer is summarized in the following table:

<b>Mirador Las Casas Apartments</b>	<b>294 units</b>	
	<b>\$ Amount</b>	<b>%</b>
<b>Total Hard Costs (Blds &amp; Site)</b>	<b>\$40,524,328</b>	<b>63.8%</b>
<b>Total Soft Costs including Financing</b>	<b>\$23,026,964</b>	<b>36.2%</b>
<b>Total Project Costs (excluding land &amp; Bld value)</b>	<b>\$63,551,292</b>	<b>100.0%</b>
<b>Total Project Costs (rounded to)</b>	<b>\$63,550,000</b>	
<b>Price per Unit = \$216,000 (Rd)</b>	<b>Price per SF = \$232</b>	

The foregoing figure estimate indicates a rounded \$63,550,000 total construction cost figure for the proposed rehabilitation at the subject project, resulting in rounded \$232 per square feet and/or \$216,000 per unit figures, excluding land & building cost, if divided by the reported project’s total gross (roofed) construction area of approximately 273,383 square feet. These \$232 per sq. ft. and \$216,000 per unit figures lie towards the lower end of the general \$211 to \$276 per square foot and \$216,800 to \$403,000 per unit unitary ranges as evidenced by the table below, which refers to proposed new type private subsidized projects built from the ground up. Thus, since the subject refers to a rehabilitation project, a figure below the lower end of the range is well supported. Please note, that the names of these listed competitive projects were not disclosed for confidentiality purposes.

<b>Competitive Projects Costs</b>						
<b>Location</b>	<b>Project Program Target</b>	<b>Type</b>	<b>No. of Units</b>	<b>CGA in SF</b>	<b>\$ P Cost* per SF</b>	<b>\$ P Cost* per Unit</b>
Dorado	Low Income Affordable Rental	Mid Rise CND	84	90,765	\$232	\$251,190
Humacao	Low Income Affordable Rental	Mid Rise CND	115	117,274	\$213	\$216,783
Trujillo Alto	Low Income Affordable Rental	High Rise CND	156	180,053	\$211	\$243,910
Cataño	Low Income Affordable Rental	High Rise CND	104	137,985	\$230	\$305,162
Caguas	Low Income Affordable Rental	Mid Rise CND	238	N/A	N/A	\$345,971
RP/San Juan	Low Income Affordable Rental	Mid Rise CND	94	N/A	N/A	\$359,692
Toa Alta	Low Income Affordable Rental	Single Fam & RH	116	144,041	\$259	\$321,985
Yabucoa	Low Income Affordable Rental	Single Family	149	217,391	\$276	\$403,000

\*\$ amount of project cost

Finally, for purposes of this appraisal report, the appraisers will assume, that the cost estimates provided by the project’s new future owner are true and correct and no liability and/or responsibility will be assumed in case of any changes.

Be aware, that the concluded cost figure already includes an entrepreneurial incentive of approximately 14.9%, which lies within the upper end of the 10% to 15% range for these types of projects. In summary,

<b>Summary of the Cost Approach (Including LIHTC and other Federal Funds Costs)</b>	
Reproduction Cost New	\$63,550,000
<b>Add: Land Value &amp; Building*</b>	<b>\$15,180,000</b>
<b>Total Cost Approach Value</b>	<b>\$78,730,000</b>
<b>Rounded to</b>	<b>\$78,700,000</b>

\*\$1,000,000 Land Value + \$14,000,000 Building Value (as provided by the Client based on the Option Price) + \$180,000 in closing fees.

As such, the market value of the fee simple interest in the proposed rehabilitation of the subject project by the Cost Approach, as of the prospective date of February 15, 2023, was concluded to be of:

**\$78,700,000**

**(SEVENTY EIGHT MILLION SEVEN HUNDRED THOUSAND DOLLARS)**

The global outbreak of a "novel coronavirus" known as COVID-19 was officially declared a pandemic by the World Health Organization (WHO). It is currently unknown what direct, or indirect, effect, if any, this event may have on the national economy, the local economy or the market in which the subject property is located. The reader is cautioned and reminded that the conclusions presented in this appraisal report apply only as of the effective date indicated. The appraiser makes no representation as to the effect on the subject property of this event, or any event, subsequent to the effective date of the appraisal.

Furthermore, it is important for the client and intended users to understand, that any prospective values rendered herein reflect the analysis of market data current as of the earliest effective date of value. Prospective value opinions are intended to reflect the expectations and perceptions of market participants as of that time frame; therefore, this appraisal assignment cannot account for – and the appraisers cannot be held responsible for – unforeseen events that may occur and that may alter market conditions prior to the prospective date of value.

## THE INCOME CAPITALIZATION APPROACH

### Introduction

The income capitalization approach considers the property under an income producing (rental) scenario, with its market value equal to the present worth of all future benefits produced by the real estate. In this case, a direct capitalization analysis will be performed. This model states that value is a function of income capitalized at an overall capitalization rate:  $V = I/R$ .

The Mirador Las Casas Apartments Project, comprised by 290 2BR, 3BR & 4BR units, has been historically operated as a low-income rental multi-family type project, under a Section 8 housing assistance payments (HAP) contract sponsored by HUD. Under the HAP contract of the Section 8 program, HUD provides housing assistance payments on behalf of qualified low-income tenants.

Now, the new future owner is proposing the rehabilitation of the subject project under the Low Income Housing Tax Credit (LIHTC) program.

As previously mentioned, this analysis will be performed on a direct capitalization method. Under the direct capitalization method, a single year's income expectancy is capitalized into an indication of value by an appropriate capitalization rate.

### Analysis of Tenancy

The subject property consists of twenty one (21) 3-story buildings comprising 294 units of which 4 units (4BR) are currently being used as a Head Start Learning Center and 1 unit (4BR) is being used as the administrative office. However, considering that a new administration office will be built within the subject premises in the upcoming rehabilitation project, the 4BR unit currently being used as an office will be considered as part of the available apartment's inventory for purposes of this valuation analysis. Thus, the total number of units to be considered for residential use is 290 units, which will serve as basis for this appraisal report.

The subject buildings are identified as 1 through 21 and are built on an 11.48671 cuerda site. This subject project was built more than 50 years ago and is currently being operated under a Section 8 housing assistance payments (HAP) contract sponsored by the United States Department of Housing and Urban Development (HUD). The recreational facilities at the subject project include a basketball court, several playground areas, storage rooms, a maintenance office, an administrative office, a library/computer room and a communal center. In addition, the property includes 312 unmarked single parking spaces of which ten spaces are reserved for the handicapped.

The subject project is under a housing assistance payments (HAP) contract of the US Department of Housing and Urban Development Office of Housing (HUD), with the Puerto Rico Housing Finance Corporation as the contract administrator, and San Jorge, LLC, as the current owner. It should be mentioned, that on November 1, 2016, the subject property owner signed a new 20 year contract with HUD which runs up to October 31, 2036.

The new future owner intends to rehabilitate the subject project, including the replacement of the main sanitary sewer line from cast iron to pvc pipes, improvements to the primary and secondary electrical power systems, replacement of all telecommunication infrastructure, installation of a security camera system, installment of an electrical photovoltaic system and an emergency power generator, installment of a new 15,000 gallon drinking water storage tank and hydro pneumatic pressure system, replacement of all interior and exterior doors and windows, renovation of all bathrooms and kitchens, construction of new balconies and laundry areas in all units, replacement of interior and exterior electrical lighting being more energy efficient, renovations to the front and rear building façades, exterior and interior painting, a roof treatment, reconstruction of stairs and handrails up to code, construction of a new 1,300 square foot administration office, improvements to the computer room and community center, reconstruction of all walkways, construction of eleven new trash handling areas, resurfacing of the parking area, replacement of the perimeter fence, construction of two new bus stops, installation of landscaping, remodeling of “El Caño” basketball court, installation of new playground equipment in five different locations, construction of a new gymnasium and some rehabilitation work to the Head Start facilities.

#### **POTENTIAL GROSS INCOME (PGI)**

*Potential gross income is the total income attributable to a real property at 100% occupancy before operating expenses are deducted.*

#### **Apartments Base Rent**

The following table lists the applicable contract rents for the three subject model type units for the past 5 year period. Please note, that these units exclude the individual unit water and electricity utilities, which are paid separately by each tenant.

<b>Year</b>	<b>Contract Rent</b>		
	<b>2BR</b>	<b>3BR</b>	<b>4BR</b>
<b>2020</b>	\$534	\$610	\$661
<b>2019</b>	\$464	\$532	\$604
<b>2018</b>	\$456	\$523	\$593
<b>2017</b>	\$450	\$516	\$585
<b>2016</b>	\$444	\$509	\$577

There are three methods to request a contract rent increase adjustment:

- a. OCAF – an operating cost adjustment factor established by HUD.

- b. Rent comparability study analysis – the contract rent for each unit size is set at comparable market rent.
- c. Budget for the project prepared by the owner and approved by the contract administrator in accordance with HUD requirements.

During the term of the renewal contract, the Contract Administrator shall annually, on the anniversary of the renewal contract, adjust the monthly contract rents in accordance with HUD requirements by using the OCAF and/or the budget methods. However, the comparability analysis adjustment could be applied each fifth year anniversary of the renewal contract by the contract administrator. This method is only applicable if the term of the renewal contract is longer than five years.

From 2016 to 2019, the subject's contract rents have been increasing annually at a rate of 1.1%. Then, for the next annual period adjustment which starts on November 1, 2020, the contract rental rates were significantly increased to \$534 (2BR), \$610 (3BR) and \$661 (4BR). Thus, these new rental rates which will go into effect next month will be used as the basis for the calculation of the subject's potential gross income.

It is important to note, that the appraisers will assume that these contract rents as established by HUD for all 290 units (excluding the 4 Head Start units) will continue in effect after the rehabilitation of the subject project is completed. Any change, would render the values reported in this analysis null and void.

In summary, the subject's yearly income rental as per the most recent established rents is calculated as follows:

Unit Type	No. of Units	Rent per month 2020 (up to 10/31/20)	Estimated Rent per month 2020 - 21 (after 11/1/2020)	Rent Potential for 1 months up to 10/31/20	Rent Potential for 11 months after 11/1/20	One Year Rent Potential (1 months actual rents 11 months revised rents)
2BR	96	\$464	\$534	\$44,544	\$563,904	\$608,448
3BR	144	\$532	\$610	\$76,608	\$966,240	\$1,042,848
4BR	50	\$604	\$661	+ \$30,200	+ \$363,550	+ \$393,750
<b>Total</b>	<b>289</b>			<b>\$151,352</b>	<b>\$1,893,694</b>	<b>\$2,045,046</b>

## ADDITIONAL INCOME

### Laundry, Late Charges & Miscellaneous

This item refers to laundry coin operated machines, late charges billed to tenants and miscellaneous revenue. The following table summarizes the subject historical late charge and miscellaneous income covering the last 4 calendar years from 2016 to 2019.

Calendar Year	2016 (audited)	2017 (audited)	2018 (audited)	2019 (audited)
<b>Additional Income</b>	\$1,946	\$9,113	\$20,624	\$4,985
<b>Per Unit</b>	\$7	\$32	\$71	\$17



From 2016 to 2019, late charges and miscellaneous revenue has ranged from \$7 to \$71 per unit. If we discard the \$73 per unit figure provided by year 2018, a tighter and more consistent \$7 to \$32 per unit figure is evidenced. Thus, a rounded mean figure of \$19 per unit is concluded which provides for a rounded \$5,510 value figure for the 2020-2021 period.

Therefore, the potential gross income for the subject can be summarized as follows:

Unit Type	Yr. 1
Apartments Base Rental	\$2,045,046
Additional Income	<u>\$5,510</u>
<b>Potential Gross Income</b>	<b>\$2,050,556</b>
<b>PGI per Unit</b>	<b>\$7,071</b>

### VACANCY AND COLLECTION LOSS

This is an allowance for reductions in potential income attributable to vacancies, tenant turnover, and non-payment of effective rent.

Vacancy in subsidized rental projects is typically non-existent, as a significant number of families in Puerto Rico depend on government assistance to meet their housing needs. This translates into a considerable demand for subsidized residential units, as evidenced by mostly 100% occupancy levels and substantial waiting lists.

In the case of subsidized rents, most of the contracted rent is paid by HUD in the form of tenants housing assistance payments (HAP), with the residual paid by the tenants as unit members carrying charges. In fact, the subject property has enjoyed almost 100% occupancies for the last five years. However, in order to consider those few short periods where units are vacant and being prepared for the next move in tenant, a vacancy of 2.0% will be considered which is at par with other vacancy rates of similar type section 8 rental projects located throughout the Island. As such, the effective gross income for the subject is summarized as follows:

Year	Yr. - 1
Potential Gross Income	\$2,050,556
Less: Vacancy & Collect. Loss	<u>(\$41,011)</u>
<b>Effective Gross Income</b>	<b>\$2,009,545</b>

### OPERATING EXPENSES

The following table presents a summary of the historical income and expense statements of the Mirador Las Casas Apartments Project for the last 4 years from 2016 thru 2019. However, the statements were adjusted to reflect only those expenses relevant to the income generating capacity of the real estate and eliminated the depreciation expense, the interest (debt) expense of the building, amortization and other related corporation expenses.



Expenses	2017 (Audited)		2018 (Audited)		2019 (Audited)	
	Total	Per Unit	Total	Per Unit	Total	Per Unit
Administrative	(\$215,872)	(\$747)	(\$216,243)	(\$748)	(\$116,808)	(\$404)
Utilities	(\$36,320)	(\$126)	(\$48,279)	(\$167)	(\$26,402)	(\$91)
Operating & Maint.	(\$204,352)	(\$707)	(\$251,775)	(\$871)	(\$288,710)	(\$999)
Payroll/ Mis Taxes	(\$29,101)	(\$101)	(\$46,950)	(\$162)	(\$27,099)	(\$94)
Insurance	(\$78,078)	(\$270)	(\$97,567)	(\$338)	(\$111,672)	(\$386)
Management Fee	(\$110,000)	(\$381)	(\$110,000)	(\$381)	(\$166,264)	(\$575)
Salaries	(\$130,198)	(\$451)	(\$115,048)	(\$398)	(\$110,046)	(\$381)
Advertising	(\$0)	(\$0)	(\$460)	(\$2)	(\$0)	(\$0)
<b>Total Expenses</b>	<b>(\$803,921)</b>	<b>(\$2,782)</b>	<b>(\$886,322)</b>	<b>(\$3,067)</b>	<b>(\$847,001)</b>	<b>(\$2,931)</b>

The operating expenses (OE) at the subject project include administrative, utilities (electricity, water & gas), operating & maintenance, payroll taxes, insurance, management fee, salaries and advertising. During 2017, the OE were of \$803,921 and increased to \$886,322 in 2018. Then in 2019, OE decreased to \$847,001 basically due to savings in the administrative expense category. As for 2020 proposed budget, OE are expected to increase to \$908,060. Thus, considering the more recent OE figures, a rounded \$900,000 amount will be considered.

#### RESERVES FOR REPLACEMENTS

As per the current owner/manager, the subject project does not carry a reserve for replacement budget. However, it is customary of projects such as the subject to carry a budget of at least \$200 per unit per annum. Thus, an allowance consistent with the market will be assumed at a rounded \$58,000.

#### NET OPERATING INCOME

*The actual or anticipated net income that remains after all operating expenses are deducted from effective gross income, but before mortgage debt service and book depreciation are deducted.*<sup>6</sup>

The reconstructed operating statement for the property, which is based on the estimated, house base rent and other income less vacancy & rent loss allowance, operating expenses and reserves for replacements, is summarized on the following table:

Year	Yr. - 1
Effective Gross Income	\$2,009,545
Less: Oper. Expenses	(\$900,000)
Less: Reserves for Repl.	(\$58,000)
<b>I<sub>o</sub></b>	<b>\$1,051,545</b>

<sup>6</sup>The I<sub>o</sub> definition as well as the other income definitions, were extracted from The Dictionary of Real Estate Appraisal - fifth edition, of the Appraisal Institute.

## CAPITALIZATION RATE ANALYSIS

In order to extract a capitalization rate from the market for the subject project, several methods were performed.

The first method analyzes the sale of the subject project back in March of 2016. The following table summarizes the most important details regarding this sale.

Project Name	Location	No. of Units	Sales Price	Sales Date	NOI	Cap Rate
Mirador Las Casas Apts.	Santurce, PR	294	\$9,000,000	March 2016	\$619,000	6.9%

This recent sale evidences a capitalization rate of 6.9%.

Another method for extracting a capitalization rate is the “Underwriter’s Method”, which takes into account current market information on financing parameters of local lending institutions. The formula for this method is as follows:

$$R_o = DCR \times R_m \times M$$

DCR stands for debt coverage ratio,  $R_m$  stands for the mortgage constant and M stands for the loan to value ratio. The following table lists the local financing loan terms for similar properties to the subject type.

LOAN TERMS (Local Market)	
Interest Rate	7.5%
Maturity	5 years (balloon)
Amortization Period	30 years
Loan-to-Value Ratio	75%
Debt Coverage Ratio (DCR)	Minimum of 1.20 with an average of 1.25.

Thus, assuming a mid-point DCR of 1.225, the capitalization rate via this method is as follows:

$$R_o = 1.225 \times .083906 \times .75 = 0.77089, \text{ or } 7.7\%$$

Another method of calculating capitalization rates is by way of a Band of Investment Method, that is a technique in which the capitalization rates attributable to components of a capital investment are weighted and combined to derive a weighted-average rate attributable to the total investment. The formula for this technique is as follows:

$$R_o = (M \times R_M) + (E \times R_E)$$

Using the same lending parameters previously mentioned, and considering an Equity Capitalization Rate of 6.20%, as extracted from the Realty Rates Investor Survey (2<sup>nd</sup> Quarter 2020), the capitalization rate via this method is as follows:

$$R_o = (.75 \times .083906) + (.25 \times .0620) =$$

$$R_o = .062930 + .01550 = 0.078430, \text{ or } 7.8\%$$

In addition, cap rates for similar type properties were also obtained from the two investor survey publications. In summary,

Publication	Cap Rate
PWC 4 <sup>th</sup> Qtr. 2019 (Apartments)	3.50% to 7.00%, <b>5.15% Ave.</b>
Realty Rates 2 <sup>nd</sup> Qtr. 2020 (Apartments)	3.96% to 12.31%, <b>7.84% Ave.</b>

In summary, the three methods performed to extract a capitalization rate from the market evidenced figures ranging from 6.9% to 7.8%. Based on the foregoing, and placing more weight to the capitalization rate evidenced by the local sale, a 7.00% capitalization rate is comfortably concluded.

Income divided by the overall capitalization rate is said to be equal to value. So, if the net operating income estimate for the subject project is divided by the overall capitalization rate of 7.00%, the indication of value by the income capitalization approach is obtained. Consequently,

$$\text{Value} = \frac{\text{Net Operating Income}}{\text{Overall Capitalization Rate}}$$

$$\text{Value} = \frac{\$1,051,545}{.0700}$$

$$\text{Value} = \$15,000,000 \text{ (Rd)}$$

### Intangible Value Estimate

As previously mentioned, the proposed rehabilitation of the subject project will partially be funded with tax credits under the LIHTC program. The maximum annual credit requested for the subject project was of \$27,838,235.22 to be allocated annually for up to 10 years providing for a \$2,783,824 yearly figure. These tax credits will be sold to a private investor at \$0.65 to the dollar, providing for a tax credit proceed of \$18,094,853.

Thus, in order to estimate the present value figure of this \$18,094,853 in tax credits, the appraisers will perform a yield capitalization method. The reported yield rates for tax credits of this nature typically range from 5% to 15%, depending on the overall perceived risks. As such, considering the low risk factor involved in projects under the LIHTC program, a figure in the lower end of the range, say 5%, is comfortably concluded. In summary,

Year	Tax Credits	Present Worth Factor (5%)	Present Worth (Rd)
1	\$1,809,485	.952381	\$1,723,319
2	\$1,809,485	.907029	\$1,641,255
3	\$1,809,485	.863838	\$1,563,102
4	\$1,809,485	.822702	\$1,488,667
5	\$1,809,485	.783526	\$1,417,779
6	\$1,809,485	.746215	\$1,350,265
7	\$1,809,485	.710681	\$1,285,967
8	\$1,809,485	.676839	\$1,224,730
9	\$1,809,485	.644609	\$1,166,410
10	\$1,809,485	.613913	\$1,110,866
Total			\$13,972,360
Rounded to			<b>\$14,000,000</b>

### Final Value Conclusion

Tangible Value	\$15,000,000
Intangible Value	+ \$14,000,000
<b>Total Value via Income Approach</b>	<b>\$29,000,000</b>

As such, the market value of the fee simple interest of the proposed rehabilitation of the subject project by the Income Capitalization Approach, as of the prospective February 15, 2023, was concluded to be of:-

**\$29,000,000**  
(TWENTY NINE MILLION DOLLARS)

**RECONCILIATION AND FINAL VALUE CONCLUSION**

In this appraisal assignment, the two (2) basic approaches to market value were developed. The results of the analysis were as follows:

<b>Cost Approach</b>	<b>:</b>	<b>\$78,700,000</b>
<b>Income Capitalization Approach</b>	<b>:</b>	<b>\$29,000,000</b>

In the cost approach, the appraisers first gathered and analyzed several sales of vacant parcels of land which were purchased for the development of low-cost social interest type projects within the general Island in order to estimate the market value of the “as is” subject project site. Then, the project’s overall costs were compared with other competitive type projects built and/or being built in competitive Island locations. The Cost Approach resulted in a rounded value of \$78,700,000 for the proposed rehabilitation of the subject project, inclusive of the federal agencies development requirements and also including an entrepreneurial profit of approximately 14.9%, which is within the range for these types of projects.

The income capitalization approach (ICA) was developed, considering existing and forecasted rents and additional incomes projected for the subject, based on the Section 8 and LIHTC program limits and/or other similar type subsidized rental projects located throughout the Island. After estimating the appropriate rent levels, adjusting for vacancy and collection loss, estimating for typical expenses and reserves for replacements for the subject type project and capitalizing the NOI at a market derived rate, the value via this approach was concluded at \$15,000,000. To this amount, the intangible value component (tax credits) was then added, which resulted in a discounted rounded value figure of \$14,000,000. Thus, adding both the tangible and intangible components resulted in a market value figure of \$29,000,000.

The vast difference in values between cost approach and the ICA results, is due to the fact, that the subject will be partly funded with \$58,136,439 in Community Development Block Grant – Disaster Recovery Programs (CDBG-DR) preliminary projected funds. As a test of reasonableness, if this amount was added to the \$29,000,000 ICA value concluded figure, it would result in a rounded value figure of \$87,100,000, which is above the rounded \$78,700,000 figure provided by the cost approach, suggesting that the proposed rehabilitation of the subject project is financially feasible.

Based on the foregoing, the market value of the fee simple interest in the proposed subject project, as of the prospective date of February 15, 2023, assumed completed and stabilized, was concluded to be of:

**\$29,000,000**  
**(TWENTY NINE MILLION DOLLARS)**

**CERTIFICATION**

I certify, that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions and conclusions were developed, and in this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- This appraisal report was prepared in accordance with the requirements of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended (12U.S.C 3331 et seq.) and any implementing regulations.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- I have made a personal exterior inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- As of the date of this report, I have completed the requirements of the continuing education program for Designated Members of the Appraisal Institute.



LUIS E. VALLEJO, MAI  
Real Estate Appraiser  
General Certification No. 19  
License No. 525

**CERTIFICATION**

I certify, that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
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- I have made a personal interior and exterior inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- As of the date of this report, I have completed the requirements of the continuing education program for Designated Members of the Appraisal Institute.



ANTONIO J. PURAS, MAI  
Real Estate Appraiser  
General Certification No. 233  
License No. 798

**GENERAL LIMITING CONDITIONS**

The appraisers will not be required to give testimony or appear in court because of having made this appraisal, with reference to the property in question, unless arrangements have been previously made thereof.

Any cause of action resulting between the appraisers and the client in conjunction with this appraisal, either directly or indirectly, will be limited in damages to the amount of the appraisal fee received for the assignment. Furthermore, it is agreed that you will indemnify Vallejo & Vallejo for any damages, costs, expense, and attorney's fees resulting from any cause of action by any interested party, other than the client, concerning the appraisal report.

Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with the proper written qualification and only in its entirety.

In the case where an improvement is considered, the distribution of the total valuation between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.

Disclosure of the contents of this report is governed by the By-Laws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report, or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales or any other media, without written consent and approval of the appraiser. Nor shall the appraisers, firm or professional organization of which the appraisers are members, be identified without prior written consent of the appraisers.

The physical condition of the improvements described herein is based on visual inspection only. No liability is assumed for the soundness of structural members, including roof "wear and leakage", foundation "settling or leakage", footings, exterior and interior walls, partitions, floors, or any other part of the structure, since no engineering tests were made of same and no termite inspection was conducted. Furthermore, we accept no legal responsibility for the efficiency of the plumbing and electrical systems, air conditioning equipment, or any major appliances. Unless otherwise noted, all of these items appeared adequate and operational.

In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the building, such as the presence of urea formaldehyde foam insulation or asbestos, and/or existence of toxic waste, which may be or may not be present on the property, has not been considered. The appraisers are not qualified to detect such substances. We urge the client to retain an expert in this field if desired.



**GENERAL ASSUMPTIONS**

This appraisal report has been made with the following general assumptions:

- 1) No responsibility is assumed for the legal description or matters including legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
- 2) The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated. All taxes are assumed to be current. In specific cases, at the request of the client, the appraisers may present data on past due ad valorem taxes. However, this data is not certified and is only a verbal confirmation by the tax authority. This data should not be relied upon by the client and has no effect on the final value estimate.
- 3) The property is appraised as though under responsible, adequately capitalized ownership and competent property management.
- 4) The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
- 5) All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
- 6) It is assumed, that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
- 7) It is assumed, that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report.
- 8) It is assumed, that all applicable zoning and use regulations and restrictions have been complied with, unless a non-conformity has been stated, defined, and considered in the appraisal report.
- 9) It is assumed, that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
- 10) It is assumed, that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
- 11) The availability of capacity and/or connection rights to any or all public utilities had not been determined by the appraiser. The value estimates reported herein are contingent upon and limited to said capacity and right of connection.

## Addendum

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- Qualification Data – Luis E. Vallejo
- Qualification Data – Antonio J. Puras