



**Berkeley Housing Authority**

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Office of the Executive Director

Item 6A  
NEW BUSINESS  
March 8, 2012

To: Honorable Chairperson and  
Members of the Berkeley Housing Authority Board

From: Tia M. Ingram, Executive Director

Subject: DISPOSITION DEVELOPMENT AND LOAN AGREEMENT – BHA 75  
UNITS OF FAMILY RENTAL UNITS

RECOMMENDATION

Authorize the Executive Director to execute the Disposition Development and Loan Agreement with “Berkeley 75 Housing Partners, L.P.”, the sole purpose entity created by the Related Companies of California (“Related”) that will rehabilitate, own and operate the BHA portfolio.

BACKGROUND

In July 2009, the Board adopted the recommendation of our consultant, EJP Consulting Group, and we embarked on a project to transfer ownership of the 75 units of large family rental units to an entity that would: (1) rehabilitate the units to modern standards, (2) preserve all 75 units as long-term affordable rental units for households with annual incomes at or below 50% AMI, and (3) generate a revenue stream to off-set Federal cuts to the BHA Section 8 program.

In September 2011, the Board adopted the staff recommendation to enter into exclusive negotiations with the Related. The ENRA enabled the developer to *begin* its due diligence – examining various elements of the project in great detail; refining its proposal; and finalizing the business terms reflected in the DDLA.

A number of Housing Authorities across the Country have completed disposition projects, transferring some or all of their Public Housing inventory to a new owner or an affiliate of the Housing Authority. This project is unique in that (1) BHA is disposing of 100% of its public housing inventory; (2) the portfolio is made up of only 75 units, all 3- and 4-bedroom, on 15 sites spread across the City; (3) there is a combination of Federal and State (Rental Housing Construction Program [RHCP]) funded units; (4) many units sit on land that is not owned by the BHA but instead subject to long-term ground leases with BUSD and the City; and (5) in particular, rent control regulations, which add an additional layer of regulations that must be considered in determining options available to current residents, and options further residents will have as their income and household composition change. Reconciling the various regulations, and committing them into the DDLA and various regulatory agreements has been challenging. This is a very complex transaction, which is reason that the BHA sought a development partner for assistance.

*Tia M. Ingram*  
*PM*

The Disposition Development and Loan Agreement (DDLA) before you this evening is (1) consistent with the goals for the project: all 75 units will have a complete modernization; all 75 units will remain affordable rentals for a minimum of 99 years; and BHA will receive both up-front proceeds from the sale of the buildings and share in on-going cash flow and (2) reflects the terms of the original Related fee proposal and the agreements from negotiations over the past several month. Attachment 1 is a simplified summary of the key business terms proposed for the contract. While the final financial terms will not be known until we determine how many residents need to be relocated; how many residents opt to stay (with or without Section 8 project-based rental assistance); and the rehabilitation final scope of work– all these issues are accounted for in the financial analysis, and changes can easily be made and reflected in a revised bottom line.

Notwithstanding the tremendous work done by staff, our consultants and Related, considerable work remains to be done. If the DDLA is authorized, the due diligence efforts will continue at a heightened level:

Related will:

- a. make an initial payment to BHA in the amount of \$100,000. As negotiated the funds will be held in escrow until the initial relocation interviews are completed;
- b. continue its due diligence, including issues pertaining to the RHCP loan and issues pertaining to ownership of the land/ground leases;
- c. continue exploring and applying to various entities for project financing; and
- d. begin expending considerable resources to develop a final rehabilitation scope for the project, including but not limited to pre-construction destructive testing, conducting environmental evaluations for hazardous materials, and developing construction plans.

BHA will:-

- a. authorize Overland, Pacific and Cutler (OPC) to begin engaging residents in the formal relocation process;
- b. begin recertifying current households – examining all factors for continued rental assistance including household composition, income, and assets and allowable program expenses;
- c. begin briefing families, and as appropriate, issuing Section 8 Tenant-based vouchers – and facilitating a new rental lease/contract with private market landlords for units in the City of Berkeley, or facilitating transfer of the voucher to the jurisdiction chosen by the family;
- d. seek commitments from non-profit housing developers/managers in the City of Berkeley to give first preference to households transitioning from Public Housing for new vacancies; and

- e. suspend processing of applications from the Section 8 tenant based voucher wait list until September to avoid increasing competition for Berkeley vacancies during the critical initial phase of relocation activities.

Overland, Pacific and Cutler (OPC) will:

- a. begin one-on-one interviews with current residents to determine their housing options, and calculate relocation benefits;
- b. update and intensify the identification of currently available re-housing options for families ready to relocate to privately owned housing; and
- c. facilitate, through various services, the relocation of families that are (i) not eligible to occupy 3- or 4 bedroom unit (or the limited 2-bedroom units created through the rehabilitation), or (ii) express a desire to move to private market housing.

Related and BHA will:

- a. organize and facilitate meetings with residents to introduce "Related," share the rehabilitation scope and describe how the rehabilitation work will be performed - making it clear how long residents will need to be out of their unit, and brief residents on the benefits and operation of the Section 8 Voucher program; and
- b. engage legal advocates, and other community based organization to ensure they are properly informed of project development.

### STATUS

Execution of the DDLA commits both parties to continue making best faith efforts to complete the transaction; results in both parties acting on that faith by taking the actions identified above; yet, allows either party to withdraw from the project if the business terms and/or financial plan change substantially without any penalty. The DDLA contains several milestones to ensure the project stays on track.

Given that the complexity of the project, and the fact that the Board only meets once per month, it may be necessary to respond to evolving issues between meetings. I am comfortable responding to these issues, in consultation with our consultants and the Board authorized LIPH Feasibility Committee, and reporting any significant changes to the full Board at the next meeting.

### FINANCIAL IMPLICATIONS OF RECOMMENDATION

\$400,000. Receipt of the initial payment by Related of \$100,000 towards the acquisition, and City of Berkeley release of the \$300,000 General Fund allocation are both conditioned on execution of the DDLA.

### CONTACT PERSON

Tia M. Ingram, Executive Director, (510) 981-5471

### Attachments

1. Resolution
2. Proposed Business Terms

BERKELEY HOUSING AUTHORITY  
RESOLUTION NO. 12-\_\_\_\_\_

**AUTHORIZING THE EXECUTIVE DIRECTOR TO ENTER INTO A DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT ('DDLA') WITH BERKELEY 75 HOUSING PARTNERS, L.P.**

WHEREAS, the Berkeley Housing Authority executed a Memorandum of Agreement with the U.S. Department of Housing and Urban Development ("HUD") that required the BHA to rehabilitate its sixty-one (61) Low Income Public Housing ("LIPH") rental units to an acceptable level by August 2009 or submit an Inventory Renewal Application to HUD; and

WHEREAS, BHA's annual Capital Fund allocation from HUD was insufficient to fund the required repairs of the LIPH units; and

WHEREAS, BHA engaged EJP Consulting Group to study options for continuing to operate the LIPH units and its fourteen (14) units developed and regulated under the California Department of Housing and Community Development's Rental Housing Construction Program ("RHCP"), collectively "the Units" within the fiscal constraints of its funding, and concluded it was not feasible to do so by the August 2009 deadline; and

WHEREAS, BHA submitted an Inventory Removal Application to HUD in December 2009, and received approval from HUD in December 2010 (the "HUD Disposition Approval"), the first step in conveying ownership of the LIPH units; and

WHEREAS, in April 2011, BHA adopted a set of goals and principles designed to ensure the rehabilitation of the Units and preserve them long-term as rental housing affordable to households at or below fifty percent (50%) of Area Median Income; and

WHEREAS, on May 2, 2011, BHA issued a Request for Proposals ("RFP") for a developer to acquire and rehabilitate the Units and preserve them long-term as affordable rental housing; and

WHEREAS, on September 8, 2011 the BHA Board of Commissioners, pursuant to Resolution No.11-38, authorized the Executive Director to enter into an Exclusive Negotiating Rights Agreement ("ENRA") with The Related Companies of California, LLC ("Related"), one of two developers that submitted a proposal in response to the RFP; and

WHEREAS, the purpose of the ENRA was to provide a time frame for the BHA and Related to negotiate the terms of a Disposition, Development and Loan Agreement ("DDLA"), pursuant to which the Units would be acquired by a Related-affiliated entity that will rehabilitate the units and preserve them as rental housing affordable to households at or below fifty percent (50%) of Area Median Income; and

WHEREAS, Related has formed Berkeley 75 Housing Partners, L.P., to enter into the DDLA with the BHA, to lease the land and to own the improvements, and to rehabilitate the Units; and

WHEREAS, the BHA desires to enter into the DDLA with Berkeley Housing Partners, L.P. ("Developer"), pursuant to which Developer will acquire a leasehold interest in the land and a fee interest in the improvements and will rehabilitate the Units as rental housing affordable to

households with incomes at or below fifty percent (50%) of Area Median Income (the "Project");  
and

WHEREAS, the Project will address the goals and principles of the BHA and the HUD  
Disposition Approval by preserving the Units as affordable rental housing; and

WHEREAS, by the Staff Report accompanying this Resolution the BHA Board of  
Commissioners has been provided with additional information upon which the actions approved  
in this Resolution are based; and

WHEREAS, the Project is categorically exempt from the California Environmental Quality Act  
("CEQA") pursuant to the following exemption: Class 1, "Existing Facilities", CEQA  
Guidelines Section 15301, as it involves no expansion of an existing use; and

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE  
BERKELEY HOUSING AUTHORITY, that the above Recitals are true and correct and serve as  
the basis, in part, for the findings and actions of the BHA set forth below.

BE IT FURTHER RESOLVED, that the DDLA and all exhibits thereto are hereby approved, and  
that the Executive Director is hereby authorized and directed to execute the DDLA on behalf of  
the Authority. A copy of the DDLA, when executed, shall be placed on file in the office of the  
Executive Director/Secretary.

BE IT FURTHER RESOLVED, that the Executive Director is hereby authorized to execute such  
further documents and take such further actions as may be necessary or appropriate to carry out  
the BHA's obligations pursuant to the DDLA.

The foregoing Resolution was adopted by the Board of Commissioners of the Berkeley Housing  
Authority on March 8, 2012 by the following vote:

Ayes:

Noes:

Abstain:

Absent:

Attest: \_\_\_\_\_

Tia M. Ingram, Secretary

# ATTACHMENT 2

## Related California and Berkeley Housing Authority Disposition, Development and Loan Agreement

### PROPOSED BUSINESS TERMS

<b>DDLA References</b>	<b>Related California and BHA Agreed upon terms</b>	
<p><b>Ground Lease and Sale of Building Improvements</b></p> <p>Recitals M,N,O;</p> <p>Sec. 1.1(f) Definitions;</p> <p>Sec. 2.2 Purchase Price;</p> <p>Sec. 2.3 Payment of Purchase Price</p> <p>Section 3.2 Conveyance of Improvements;</p> <p>Article 5: Authority Loan Provisions;</p> <p>Article 8: Additional HUD Provisions;</p> <p>Exhibit D: Financing Plan</p> <p>Exhibit G: Terms of Authority Ground Lease</p>	<p>1. Long-term (99-year) ground lease from BHA to Berkeley 75 Housing Partners, L.P., the Related ownership entity. Sale of improvements (i.e. buildings) to Related ownership entity.</p> <p>2. Current City and BUSD ground leases amended and assigned directly to Related ownership entity.</p> <p>3. Based upon the most recent draft of the appraisal, the appraised value of the improvements is \$15,546,000. The land under the existing affordability restrictions has no value per the appraisal.</p> <p>4. Related will make an acquisition payment for the building improvements of \$4,100,000 (or \$5,543,000 with contingent financing) based upon the following pay-in schedule:</p> <ul style="list-style-type: none"> <li>• DDLA signing: \$100,000 (approx 3/12) Monies to be held in escrow until Related approves Relocation Report in approx. mid-April 2012. [Relocation Contingency—See Sec. 2.3(a)]</li> <li>• Construction Closing: \$3,200,000 (\$3,950,000 with AHP funds) (approx. 11/12)</li> <li>• Conversion: \$800,000 (\$1,493,000 with State Tax Credits and AHP) (approx 3/14)</li> </ul> <p>The difference between the appraised value of the improvements and the upfront payments will be provided to the project in the form of a BHA seller's note (estimated at \$10,700,000 at the Applicable Federal Rate) to be paid out of residual cash flow. (See below.) There will be no ground lease payments.</p> <p>5. Copy of Financing Plan attached to DDLA. This will be resubmitted to BHA for review and approval after completion of rehabilitation scope of work about 90 days after signing DDLA and again about 2 months before the start of construction.</p>	

Related California and Berkeley Housing Authority Disposition, Development and Loan Agreement

PROPOSED BUSINESS TERMS

<p><b>Development Program</b></p> <p>Sec. 2.5 Rehabilitation Scope of Work and Construction Plan;</p> <p>Article 4: Rehabilitation of Improvements;</p> <p>Exhibit E: Form of Rehabilitation Scope of Work.</p>	<ol style="list-style-type: none"> <li>1. Acquisition/rehabilitation of 75 units, affordable to households at or below 50% AMI. Unit mix in current Related proposal: 4 2 bedroom/2 bath units; 44 3 bedroom/2 bath units; 27 4-bedroom/2 bath units.</li> <li>2. Rehabilitation scope of work in DDLA: \$8,310,774 (\$110,810 per unit) in hard cost, including additional modernization and green building improvements beyond the BASIS capital needs assessment recommendations.</li> <li>3. BHA to review rehabilitation scope of work 90 days after signing of DDLA and again about 2 months before the start of construction. BHA to approve material changes to Scope of Work during construction period.</li> </ol>	
<p><b>Affordability Restrictions</b></p> <p>Exhibit F: Terms of Authority Regulatory Agreement</p>	<ol style="list-style-type: none"> <li>1. Recorded BHA Regulatory Agreement restricting household income at initial occupancy to &lt;50% AMI for all units for 99 years. (Additional rent and income restrictions included in 99-year ground leases, HAP contract, tax credit and bond regulatory agreements, HOME and AHP Agreements, etc.)</li> </ol>	
<p><b>Schedule</b></p> <p>Section 1.1 (hhh) Definitions; Exhibit B: Schedule of Performance</p>	<ul style="list-style-type: none"> <li>• DDLA Executed: 3/12</li> <li>• Preparation of Relocation Report: 4/12</li> <li>• Resident Outreach and Permanent Relocation: 4/12 – 7/12</li> <li>• Complete CNA and rehab scope of work; revise financing plan: 6/12</li> <li>• Federal and State LIHTC applications 7/12</li> <li>• FHLBSF AHP application 10/12</li> <li>• HUD and City Approvals: 10/12</li> <li>• Financing commitments and closing: 10/12</li> <li>• Construction Start: 11/12</li> <li>• Construction Complete: 6/13</li> <li>• Lease-Up Complete: 9/13</li> <li>• Permanent Loan Conversion: 3/14</li> </ul>	

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	<p>Schedule subject to change based upon relocation schedule and the State tax credit application deadlines. If 75% of permanent relocation is not completed by July 2012, then the next available application date is March 2013, shifting the schedule back 8 months—unless we decide to forgo the addition of State tax credits (Bond and 4% tax credit application is monthly.)</p>
<p><b>Developer Fee</b> Section 5.7 Developer Fee</p>	<p>1. Developer fee set at allowable CTCAC limit. Any fee above \$1,860,000 will be deferred and paid out of residual cash flow, with first call on funds. Total fee currently shown at \$2,500,000, with \$640,000 deferred.</p>
<p><b>Developer Guarantees</b></p>	<p>1. Related California will provide all necessary guarantees to investor and lenders, such as completion, lease-up, stabilized occupancy, etc. BHA will not provide any guarantees typically required of developers by investor.</p>
<p><b>BHA Project Based Vouchers</b> Recital T; Sec. 2.15 Authority Responsible for HUD and Project-Based Section 8 Approvals</p>	<p>1. BHA to provide 75 project-based vouchers with a 15-year HAP contract with an option to renew for another 15 years. 2. BHA will execute AHAP contract with ownership entity at closing. Project subject to Federal prevailing wages as well as other HUD cross-cutting regulations. 3. Note supported by PBV voucher payments will be paid off at the end of first 15-year HAP contract period; BHA will renegotiate the number of vouchers needed to provide same level of affordability for 2<sup>nd</sup> 15 years. 4. BHA will change its Administrative Plan to relax the occupancy standard for 4 and more bedroom units in order to ensure marketing ability of these units.</p>
<p><b>Financing</b> Sec. 1.1(ff) Definitions; Sec. 2.6 Financing Plan;</p>	<p>1. Proposed Financing Structure: tax-exempt bond debt combined with 4% LIHTC, subordination of original RHCP debt and \$400,000 in City of Berkeley HOME funds. 2. BHA will place \$763,689 of its proceeds in escrow at closing to allow for RHCP refinancing, which may lag behind the project closing. If for some reason the refinancing does not occur, the funds will be used to pay off</p>



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<p>Sec. 2.7 Tax Credit Reservation; Financing; Sec. 2.8 Other Approved Financing; Sec. 5.3(7)(c); Exhibit D: Financing Plan</p>	<p>RHCP loan.</p> <ol style="list-style-type: none"> <li>Two levels of bond debt: \$4,526,000 in primary debt, based upon 35-year note underwritten at 50% AMI rents; \$6,183,961 in secondary debt based upon 15-year note sized on the difference between 50% AMI rents and FMR rents. Related split the debt into two loans because the project-based voucher contract is only for 15 years. Once the HAP contract expires, the project will still be affordable to households &lt; 50% AMI.</li> <li>Tax credit equity of \$10,473,928, based upon allocation of \$997,904 @ \$1.05.</li> <li>Related to seek additional contingent financing of FHLBSF AHP funds (\$750,000) and State Tax Credits (\$693,000). Any additional proceeds will be paid to BHA to reduce Seller's Note.</li> <li>Financing Plan is attached to DDLA. It will be revised about 90 days after signing DDLA, once the rehab scope of work is finalized, and again about 60 days prior to financial closing.</li> </ol>
<p><b>Participation in Cash Flow</b> Sec. 1.1 (d) and (ff) Definitions; Article 5: Authority Loan Provisions; Sec. 5.4 Repayment Schedule</p>	<ol style="list-style-type: none"> <li>BHA will receive 60% of residual cash flow after payments of 1) deferred developer fee, 2) Special Limited Partner fee [to Investor] of approx. \$5,000 annually and 3) Partnership Management Fee [to Related and AHA] of \$20,000 annually and 4) RHCP mandatory payment of 0.42% of loan amount annually. BHA will also receive an annual asset management fee of \$5,000 annually, escalating at 3%, out of the priority cash flow. The 60% BHA share will also be used to cover HOME loan payments (if required) and RHCP loan servicing (if required).</li> <li>Year 4 residual cash flow (after payment of deferred fee) estimated at \$171,915.</li> </ol>
<p><b>General Contractor and 3<sup>rd</sup> Party Consultants</b> Sec. 2.11 Construction Contract</p>	<ol style="list-style-type: none"> <li>Named general contractor: Portrait Homes Construction. Related also named CRM Construction Management as owner's rep. Architect: Saida Sullivan Architects; PGA Design, Landscape Architect.</li> <li>General Conditions (not including GC bond and insurance): 7.0%; Overhead: 2.0% Profit: 5.0%.</li> </ol>

## Related California and Berkeley Housing Authority Disposition, Development and Loan Agreement

### PROPOSED BUSINESS TERMS

<p><b>Termination for Infeasibility</b> Sec. 2.14 Property Inspection; Sec 9.2 No Fault of Parties</p>	<p>1. BHA and Related California will have rights to terminate the agreement for certain infeasibility conditions with no financial penalty to either party. Related has 90 days to thoroughly inspect properties and make go/no go decision based upon unforeseen conditions.</p>
<p><b>M/WBE Requirements</b></p>	<p>1. Saida and Sullivan Design Partners, PGA and CRM are either minority or women business enterprises. 2. Related proposes outreach efforts to bring on LBE / MBE / WBE / DBE sub-contractors including using contacts from other projects in the area and working with potential sub-contractors to assist with payroll, bonding and other issues that might otherwise prevent participation.</p>
<p><b>Section 3</b> Sec. 6.8 Section 3 and Economic Opportunity Exhibit H: Section 3 Clause</p>	<p>1. Related proposes to engage residents and seek out residents who might fit with job opportunities associated with the project. 2. Related will coordinate with City of Berkeley's First Source program and the BHA to ensure proper training and identify training programs.</p>
<p><b>Cost Savings</b> Sec. 5.4(f)</p>	<p>1. Cost savings to be determined at project stabilization and equal to the amount of permanent project sources in excess of permanent project uses. Saving will be split 50%/50% between Related and BHA and used to reduce Seller's Note and Deferred Developer Fee.</p>
<p><b>Property Management</b> Sec 2.10 Management Plan and Procedures; Sec. 6.6 Management Agent;</p>	<p>1. Related California has named its Identity of Interest property manager: Related Management Company. 2. Proposed Management Fee of 3.0% of Estimated Gross Income, shown as \$50,092 in year one. 3. Related will submit its initial operating budget to BHA for review 90 days after signing DDLA and annually 30 days prior to the new fiscal year.</p>

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<p>Periodic Reports; Sec. 6.7 Approval of Management Plan Modifications</p>	<p>4. Property will be professionally managed and maintained at a high standard at all times. BHA can require the Developer to replace the Management Agent with another Agent acceptable to the BHA for non-performance:</p>	
<p>Reserves Sec. 3.8 Section 8 Transition Reserve</p>	<p>1. Total reserves in budget: \$1,427,683.</p> <p>2. Any Reserve required by the investor and lender to insure against the loss of Section 8 will be held in a separate account and used only in the event that Section 8 shortfalls result in the debt service coverage going below 1.15. At the end of the required reserve period (15 years), this reserve will be liquidated and used to pay off a portion of the BHA Seller's Note.</p> <p>3. Related also includes a replacement reserves to be funded as an operating expense at \$356 per unit per year.</p>	
<p>Ownership Structure Sec. 1.1(a) Definitions</p>	<p>1. Related California to create sole purpose Limited Partnership to own the property. An affiliate entity of Affordable Housing Access, a 501(c)(3) corporation, will act as the sole member of an LLC that is the Managing General Partner of the ownership entity for property tax abatement purposes. A Related entity LLC will be the Administrative General Partner and will in effect be the Manager of the project.</p>	
<p>Relocation Sec. 4.13 Relocation; Sec. 5.5 Conditions Precedent to Conveyance Exhibit B: Schedule of</p>	<p>1. Permanent Relocation – BHA will pay for and coordinate permanent relocation of households, under a separate contract with OPC prior to the transfer of the property to the Related ownership entity. Related proposes to work closely with BHA on this process and make available units at other properties owned by the Related team.</p> <p>2. Related will not submit funding applications until all residents have executed Relocation Agreements and 75% of residents who will permanently relocate have done so.</p> <p>3. BHA to provide Certification to HUD prior to the property Transfer that all permanent relocation has been</p>	

**Related California and Berkeley Housing Authority Disposition, Development and Loan Agreement**  
**PROPOSED BUSINESS TERMS**

<p><b>Performance</b></p>	<p>completed.</p> <p>4. Temporary Relocation – Related will pay for and be responsible for temporary relocation after the transfer of the property and during rehabilitation. Related to minimize disruptions for tenants during the rehabilitation. It provided a detailed plan with a variety of temporary relocation options, including moving to a hotel, staying with family and receiving a cash payment, or moving to one of 3 units in the development which will be set aside for temporary relocation.</p> <p>5. Related will contract with OPC for relocation services, and provided a detailed relocation budget.</p>
<p><b>Supportive Services</b> Sec 6.9 Resident Services Plan and Resident Services Budget.</p>	<p>1. BHA will pay for supportive services program out of sales proceeds and annual residual payments from ownership entity.</p> <p>2. Supportive services will be provided by Project Access, an affiliate of AHA. Project Access will hire an Outreach Specialist to act as a roaming resource for the units.</p> <p>3. Project Access will submit a Supportive Services budget for review by the Authority six month after construction commencement, and annually with the Related annual operating budget for review.</p> <p>4. Project Access proposes to start engagement with residents early and do outreach and assessment and create a support plan. It will implement an ongoing program of outreach, follow up and support that will transition into operations as units are renovated and the properties come on line.</p>