

Memorandum

**INTERAGENCY MEMORANDUM
DO NOT DISCLOSE**



CITY OF DALLAS

DATE November 5, 2004

TO Honorable Mayor and Members of the City Council

SUBJECT November 10, 2004 Agenda Item #83
Homes of Pecan Grove
(Odyssey Residential Holdings, L.P. and Associated Entities)

On October 27th, the Council deferred action on Item #77, Homes of Pecan Grove while the Housing Department completed due diligence on the Developer, Odyssey Residential Holdings, L.P and its associated entities. This project was one of the eight tax credit projects that the Council was asked to consider. The following represents a synopsis of that review.

- Odyssey Residential Holdings, LP is the General Partner/Developer in the Homes of Pecan Grove LLP. Saleem Jafar and Family own 100% of this LP. The guaranties required by the Lender and Investment Companies include Jafar, Bill Fisher, and Naples Investment Company. Naples Investment Company, in turn, is owned by the family of Bill Fisher with a daughter as the general partner. Almost 100% of the net worth shown for Naples Investment Company is attributed to Odyssey Residential Construction L.P. which is the construction company for the various projects of the Odyssey development company.
- The L.P. has commitments on Homes of Pecan Grove for the Construction Loan and Bond Financing from CharterMac and the tax credit investment purchase from Related Capital Company, which is affiliated with CharterMac. This company is a large New York based investment banking house.
- The financial statements for these various entities have, in my opinion, some deficiencies. Additionally, the financial statements, as presented, do not support the three guaranties pledged to Charter Mac and Related Capital in my opinion, especially when you consider that Odyssey has received bond reservations on four more projects in the Houston and San Antonio area. This means that this start up company could have as many as nine projects (2000+ units), without any more reservations or allocations by the State, for which their guaranties would be applicable.
- Charter Mac has provided the start up capital for Odyssey Residential Holdings, L.P. by loaning the L.P. \$2.6M of the \$3.5 buy out of the interests that Provident Realty had in four projects that are currently being developed. None of these four projects include the City of Dallas property, Homes of Pecan Grove. The developer has indicated that pledged developer fees from these four projects will be sufficient to extinguish the debt.

**GOVERNMENT
EXHIBIT
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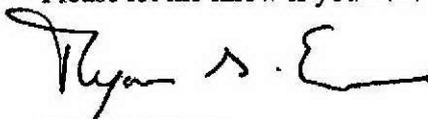
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It is in my opinion, that the financial statements of the three guarantors does not support a \$2.6 million loan; therefore, there is other consideration being given to the lender and investor. Odyssey will not provide us with the terms and conditions of the loan citing a Confidentiality Agreement. The LP also owes \$900K to Provident Realty and that note is also to be paid from the developer fees from the previously mentioned four projects. It is the Developer's contention that the fees from these projects will be enough to pay the debt and still provide enough working capital to operate the LP General Partner. This writer does not share the same opinion.

- Therefore, should this project encounter financial difficulty and the guarantors cannot make the project whole, then Related Capital as the 99.99% limited partner would be required to step in with a new GP and fix the problem. Historically, the investor limited partner has routinely removed the General Partner in a tax credit project if that project is experiencing financial difficulties beyond the guarantor's ability to cure and replaced them with one of their financially sound developers.

In conclusion, the City has no monetary risk in the project. Given the commitments from the Related and CharerMac companies, the project will be built and will be of excellent quality. The City's primary risk is one of code, building inspection, and vandalism should the project encounter financial difficulties and the lender/investor has to proactively activate their remedies to their respective contracts. The opportunity for Odyssey to have nine tax credit projects, and possibly more, being either in construction or lease up at the same time raises concerns. Those concerns are associated with the start-up nature of this company, its limited working capital relative to number of projects, and whether the project could encounter difficulty without intervention from its lender/investor.

Please let me know if you need additional information.



Ryan S. Evans
Assistant City Manager

c: Mary K. Suhm, Interim City Manager
Shirley Acy, City Secretary
Madeleine B. Johnson, City Attorney
Judge Jay Robinson
Ramon F. Miguez, P.E., Assistant City Manager
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