The Long Beach Housing Development Company
Affordable Housing For All

M E M O R A N D U M

Date: November 7, 2012

To: Board of Directors
The Long Beach Housing Development Company

From: Amy J. Bodek, President

Subject: Loan Agreement between The Long Beach Housing Development Company and Immanuel Community Housing, L.P. for the Development of Immanuel Church into a Senior Affordable Housing Project (CD 2)

RECOMMENDATIONS

1. Approve a loan of up to $850,000 in HOME funds to Immanuel Community Housing, L.P. to provide gap financing for the development of Immanuel Church into a 25-unit affordable senior rental project;

2. Authorize the President or designee to negotiate and enter into a Loan Agreement with Immanuel Community Housing, L.P.; and,

3. Authorize the President or designee to execute any and all documents necessary to implement the Loan Agreement.

DEVELOPER BACKGROUND

Immanuel Community Housing, L.P. was created by Thomas Safran & Associates (TSA) to develop the existing Immanuel Church, located at 3215 E. Third Street, into a 25-unit affordable senior rental project. TSA has over 35 years of experience with the development of affordable and mixed income housing, including historic adaptive reuse. The company specializes in both family and senior housing, and has developed thirty-seven affordable housing projects totaling over 3,500 units, all in Southern California. The firm currently has four projects under construction. The firm takes a hands-on approach to project and property management with on-site managers and corporate property staff regularly engaged with residents. TSA projects typically incorporate services including life-long learning, arts, wellness/exercise, and social activities. Every project developed by TSA has been the product of public-private joint venture, and TSA prides itself on being a flexible development partner.

PROJECT DESCRIPTION

TSA is proposing to adaptively reuse the vacant Immanuel Church as a 25-unit affordable senior (55+) rental project. TSA owns the church and is

333 West Ocean Blvd.
3rd Floor
Long Beach, CA 90802
Tel: (562) 570.6949
Fax: (562) 570.6215
www.LBHDC.org

in negotiations to purchase an adjacent parcel, located at 304 North Obispo, which currently contains a single family home that will be moved or demolished to provide parking for the project. The site map is attached as Exhibit A. The development will include 25 1-bedroom units, ranging in size from 531 to 799 square feet. TSA plans to reserve 19 units for very-low income seniors, 5 for low income seniors, and 1 unrestricted unit for an on-site manager. The existing sanctuary space will be preserved and repurposed as a community room complete with a kitchen, library and fully restored pipe organ. On-site amenities will include a secured entry with intercom, a fitness room, and laundry facilities. Social services will be provided on-site including adult education and health and wellness programs.

TSA has been working with both the Cultural Heritage Commission (CHC) and Development Services staff for several months. It is anticipated that the project will be reviewed by both the CHC and Planning Commission in early 2013.

REQUEST FOR FINANCIAL ASSISTANCE

TSA submitted a request for LBHDC financial assistance for the project. Staff requested Keyser Marston Associates (KMA) to review TSA's proforma. KMA's analysis indicates that the total project development cost is estimated at $8,361,000, potential available funding sources at $7,458,000, and financial gap at $903,000. The KMA analysis is attached as Exhibit B.

Due to the reduction in available funding for new projects, the LBHDC has a maximum of $850,000 in HOME funds to contribute to this project, which leaves a remaining gap of $53,000. TSA has agreed to defer additional developer fee to cover that gap.

TSA intends to apply for 9% Tax Credits in March 2013. The tax credit process is competitive and it is necessary for TSA to show a committed source of funding to score well on the application.

Staff recommends approval of a HOME loan of $850,000, contingent upon the competitively awarded 9% Tax Credits and Affordable Housing program (AHP) funds. If approved, the loan will be structured as a residual receipts note with a 1% simple interest rate and a 55-year term.

If the developer obtains funding as planned, all HOME funds will be disbursed during the construction phase of the project, and it is expected that the project will break ground in September 2013.

Exhibits: A - Area map, site plan, and existing photos
B - KMA Financial Gap Analysis

AJB:PU:MS

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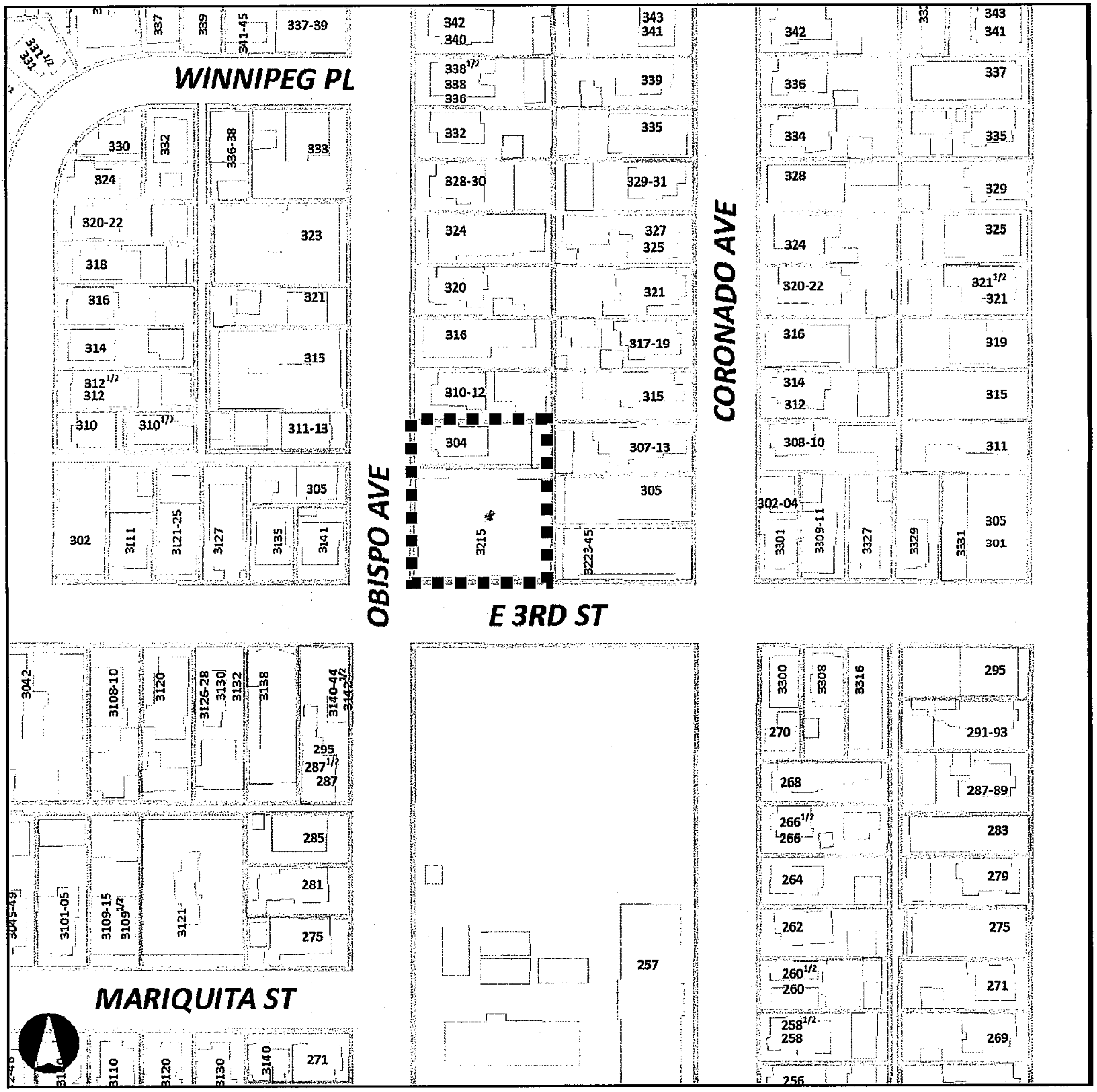
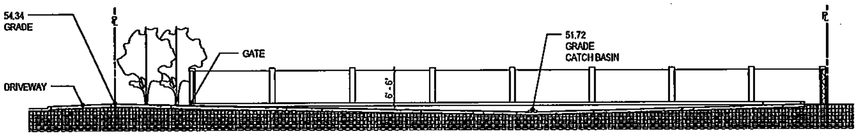
Exhibit A

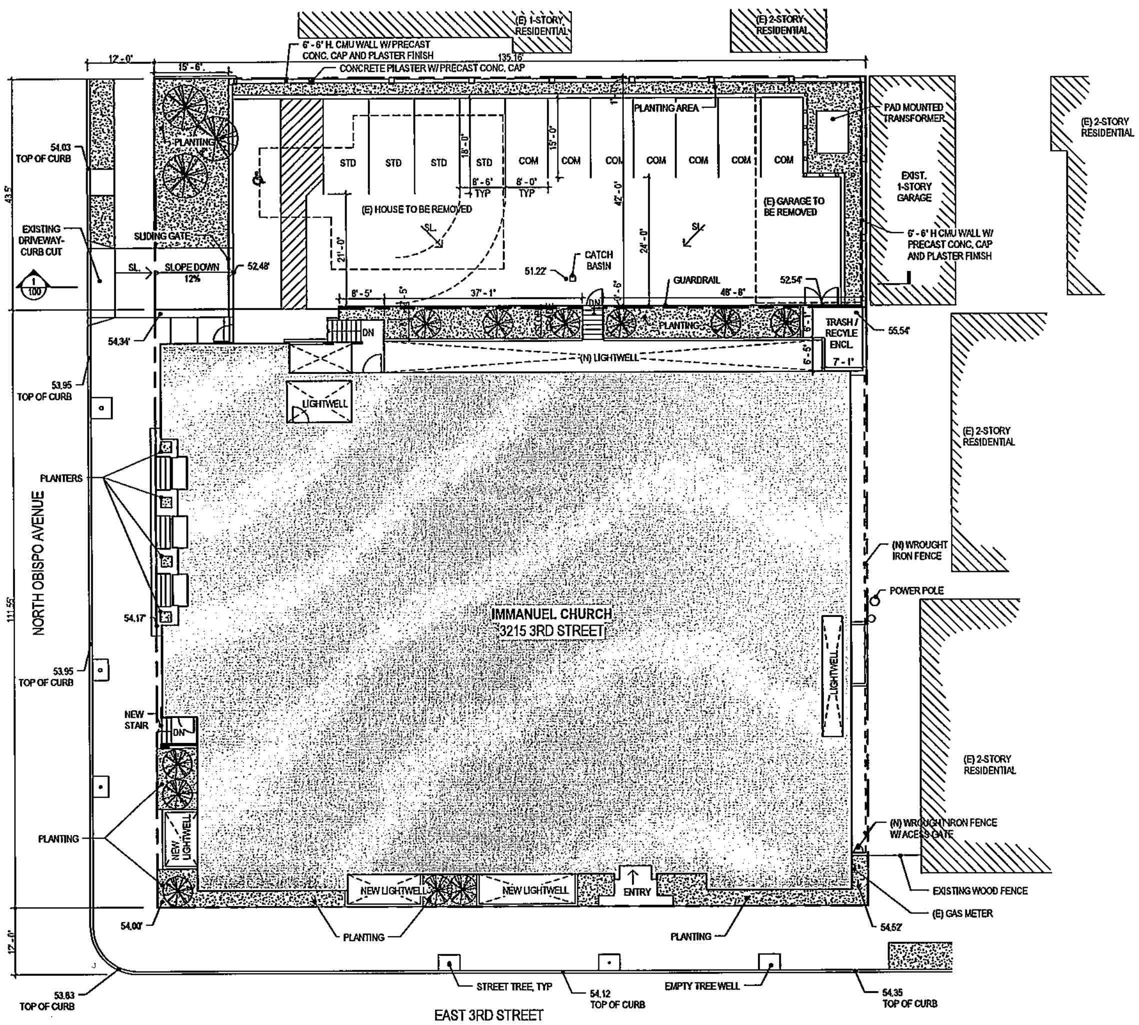
Immanuel Senior Housing Site





DRIVEWAY AND PARKING LOT SECTION
3/32" = 1' - 0"

UNIT INFORMATION		
Name	Number	Area
UNIT	101	610 SF
UNIT	102	799 SF
UNIT	104	622 SF
UNIT	105	612 SF
UNIT	106	659 SF
UNIT	108	531 SF
UNIT	109	572 SF
UNIT	110	579 SF
UNIT	111	577 SF
UNIT	112	611 SF
UNIT	201	885 SF
UNIT	202	659 SF
UNIT	204	627 SF
UNIT	205	626 SF
UNIT	206	671 SF
UNIT	207	625 SF
UNIT	208	682 SF
UNIT	301	750 SF
UNIT	302	583 SF
UNIT	303	558 SF
UNIT	304	644 SF
UNIT	305	633 SF
UNIT	306	686 SF
UNIT	307	625 SF
UNIT	308	700 SF
Grand total: 25		



GROSS BUILDING AREA:

1ST FLOOR = 11,016 SF
2ND FLOOR = 11,543 SF
3RD FLOOR = 8,447 SF
TOTAL = +/-31,006 SF

SITE PLAN
3/32" = 1' - 0"

A100

IMMANUEL SENIOR HOUSING

3215 3RD STREET
LONG BEACH, CA 90814
FEBRUARY 03, 2012
AUGUST 31, 2012 - REVISION
SEPTEMBER 28, 2012 - REVISION

THOMAS SAFRAN & ASSOCIATES

Killefer Flammang Architects

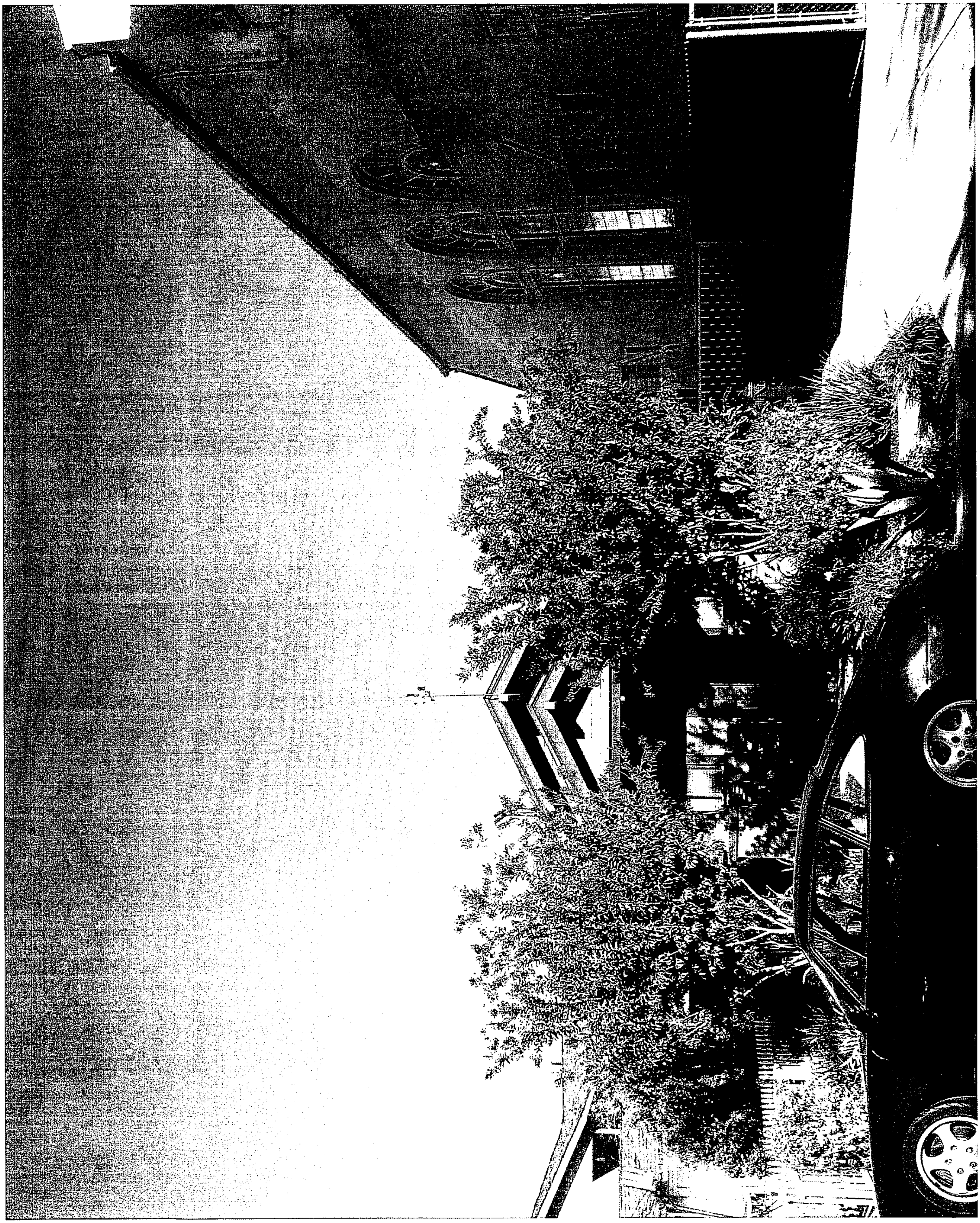


Exhibit B

KEYSER MARSTON ASSOCIATES

ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Patrick Ure, Housing Development Officer
City of Long Beach

From: Julie Romey
Tim Bretz

cc: Meggan Sorensen

Date: October 11, 2012

Subject: Immanuel Senior Housing: Subsidy Layering Review

At your request, Keyser Marston Associates, Inc. (KMA) prepared a subsidy layering review for the 25-unit Immanuel Senior Housing Project (Project) proposed to be developed by Thomas Safran & Associates (Developer). The purpose of the KMA analysis is to quantify the maximum amount of HOME Program funds, in combination with other governmental assistance, which is necessary to provide the proposed affordable housing units. The HOME Program (HOME) funds are received by the City of Long Beach (City) from the United States Department of Housing and Urban Development (HUD).

EXECUTIVE SUMMARY

Proposed Scope of Development

The Developer is proposing to adaptively reuse an existing church building as a 25-unit apartment building. The apartments will consist solely of one-bedroom units, and will be restricted to very-low and low income senior citizen households. One unit will be reserved for an on-site manager. The Project is proposed to be developed on a 21,000 square foot site located at the northeast corner of East 3rd Street and North Obispo Avenue (Site).

500 SOUTH GRAND AVENUE, SUITE 1480 ➤ LOS ANGELES, CALIFORNIA 90071 ➤ PHONE 213 622 8095 ➤ FAX 213 622 5204

WWW.KEYSERMARSTON.COM

Financial Gap Analysis

KMA estimates the total development costs at $8.36 million. It is currently anticipated that the Developer will receive funding for a portion of the Project costs from the following sources:

1. A conventional loan;

2. The Federal Low Income Housing Tax Credits (Tax Credits) that are competitively awarded by the California Tax Credit Allocation Committee (TCAC);

3. A loan awarded by the Federal Home Loan Bank of San Francisco's Affordable Housing Program (AHP); and

4. Deferred Developer Fees.

The KMA analysis results in a financial gap of $903,000, which is $53,000 higher than the Developer's $850,000 financial assistance request. This represents an approximately 6% differential; however, the City will limit the financial assistance amount to $850,000. It is anticipated that the City's financial contribution will consist solely of HOME funds.

HOME Layering Analysis

The results of the HOME layering analysis can be summarized as follows:

1. The KMA HOME layering analysis demonstrates that the proposed $850,000 in HOME Program assistance is necessary to provide the proposed affordable housing units. This request assumes the following:

    a. The City will provide 100% of the assistance at construction loan closing to take out the acquisition loan;

    b. The City assistance will be structured as a residual receipts loan with a 1% simple interest rate;

    c. The Project will be awarded the competitively awarded 9% Tax Credits with a 22% tie-breaker score; and

    d. The Project will also receive the competitively awarded AHP funds.

2. Assuming that $850,000 in HOME funds assistance is provided, the HOME Program regulations require six units to be designated as HOME units.

3. The HOME Program regulations impose Davis Bacon wage requirements on projects that include 12 or more designated HOME units. Given that only six units must be designated as HOME units, Davis Bacon wage standards are not applicable to the Project per the HOME program.

4. The HOME Program regulations require that at least 20% of the units assisted with HOME funds be affordable to very-low income households. Given that 76% of the units in the Project will be restricted to very-low income households, the Project will fulfill this requirement.

PROJECT DESCRIPTION

The proposed scope of development can be described as follows:

1. The Site is comprised of approximately 21,000 square feet of land area.

2. The Project will adaptively reuse an existing church building by converting the space into apartments for senior citizen households.

3. The Project is proposed to include 25 one-bedroom apartment units. The average size of the units is 648 square feet.

4. The 25-unit Project represents a density of 52 units per acre.

5. The gross building area (GBA) for the project is 31,006 square feet, which includes:

   a. Gross residential area totaling 16,829 square feet;

   b. Community room space totaling 4,510 square feet; and

   c. Circulation and common area space totaling 9,667 square feet.

6. The Developer is proposing to allocate the units to the following income categories as defined by HUD:

Very-Low Income Units	19
Low Income Units	5
Unrestricted Manager's Unit	1
Total Units	25

7. The Developer is proposing to provide the following social services for a minimum of ten years:

a. Adult Education; and

b. Health & Wellness or Skill Building.

FINANCIAL GAP ANALYSIS

HOME funds can only be used to assist a project if a layering analysis validates that the assistance amount is required to make the project financially feasible. The City engaged KMA to quantify the financial gap associated with providing affordable housing in the Project. KMA prepared a pro forma analysis to assist in evaluating the Developer's proposal. The analysis is located at the end of this memorandum, and is organized as follows:

Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Financial Gap Calculation
Table 4:	HOME Unit Designation

Estimated Development Costs (Table 1)

KMA reviewed the Developer's development cost estimates, and then independently prepared a pro forma analysis for the Project. The resulting development costs are estimated as follows:

Property Assemblage Costs

The Site consists of the following two adjacent parcels:

<u>3215 East 3rd Street</u>

The Developer purchased the parcel located at 3215 East 3rd Street (3rd Street Parcel) in June 2011 for $1.15 million. This parcel contains an existing church building, which will be converted into apartment units. The parcel contains 15,052 square feet of land area. Based on an appraisal report prepared by Stringer Appraisals and dated July 20, 2012, the market value of the 3rd Street Parcel is estimated at $1,150,000, or $76 per square foot of land area. As such, the acquisition cost for the 3rd Street Parcel is set at $1.15 million.

<u>304 North Obispo</u>

The Developer is in negotiations to purchase the parcel located at 304 North Obispo (Obispo Parcel), which is directly north of the 3rd Street Parcel. The Obispo Parcel contains a single-family home, which will be demolished. The parcel contains 5,937 square feet of land area. The Developer has not obtained an appraisal for the Obispo Parcel. However, the Developer estimates that the purchase price of the Obispo Parcel will be $590,000, or $99 per square foot of land area.

<u>Total Acquisition Costs</u>

As such, the total acquisition costs for the Project are estimated at $1.74 million, or $83 per square foot of land area. However, if the appraisal for the Obispo Parcel warrants a change in acquisition costs, the KMA analysis will need to be updated accordingly.

Direct Costs

The direct costs assume that the Project will not be subject to Federal Davis Bacon or State of California prevailing wage requirements. The direct costs applied in the analysis can be summarized as follows:

1. The Developer provided a $16,000 allowance for any off-site improvement costs. City Planning Department staff should verify that this assumption is appropriate.

2. The Developer provided a $124,000 allowance for demolition of the existing residential unit on the Obispo Parcel and internal demolition for the adaptive reuse.

3. The on-site improvement costs are estimated at $12 per square foot of land area, or $260,000.

4. The Developer estimates the residential building costs at approximately $98 per square foot of GBA, or $3.04 million. A contractor's cost estimate prepared by JR Van Dijs Inc. confirms the residential building cost estimate. However, KMA recommends that the City require the Developer to obtain at least three construction bids to verify the cost estimates.

5. A $25,000 allowance for furnishings, fixtures and equipment is provided.

6. A 14% allowance for contractor fees and general requirements.

7. An allowance for general liability insurance and construction bonds at 2% of construction costs is provided.

8. A direct cost contingency allowance equal to 5% of other direct costs is provided.

KMA and the Developer estimate the total direct costs at $4.21 million, which equates to $168,600 per unit.

Indirect Costs

KMA utilized the following assumptions for estimating the indirect costs:

1. The architecture, engineering and consulting costs are estimated at 10% of direct costs.

2. The Developer estimated the public permits and fees costs at $294,000, or $11,800 per unit. City staff should verify the accuracy of this estimate.

3. The taxes, insurance, legal and accounting costs are estimated at 3% of direct costs, or $126,000.

4. A $20,000 allowance for marketing and leasing costs is provided.

5. The Developer Fee is set at $768,000 by the Developer, which is slightly lower than the maximum amount allowed for the Project by TCAC.

6. An indirect cost contingency allowance equal to 5% of other indirect costs is provided.

KMA estimates the total indirect costs at $1.71 million. In comparison, the Developer estimates the total indirect costs at $1.80 million, which represents a $93,000 differential. This is primarily caused by a difference in cost estimates for architecture, engineering and consulting costs, and taxes, insurance, legal and accounting costs.

Financing Costs

The financing costs for the Project are estimated as follows:

1. The Developer included a $152,000 allowance for acquisition loan interest. The acquisition loan is in the amount of $862,500 and has a 6.5% interest rate. The interest is to be paid monthly and the Developer assumes that the loan will be outstanding for 33 months. However, KMA assumed that the loan will be taken out at the construction loan closing which will be required to occur by the end of 2013, which equates to 30 months, or $140,000.

2. The construction and absorption period interest costs are estimated at $318,000 for a $6.15 million construction loan. These costs are based on the following assumptions:

   a. The construction period interest costs are based on a 4.50% interest rate, an 18-month construction period, and a 60% average outstanding balance; and

b. The absorption period interest costs are based on a three-month absorption period with a 100% average outstanding loan balance.

3. The financing fees are set at 2.0 points for both the construction and permanent loans and 1% for the acquisition loan. This equates to $155,000.

4. The capitalized operating reserve is estimated at $50,000. This allowance is equal to three months of operating expenses and debt service payments.

5. The Tax Credit fees are estimated at $33,000 based on the following assumptions:

   a. A $2,000 application fee;

   b. A $410 per unit monitoring fee; and

   c. Four percent (4%) of gross Tax Credit proceeds for one year.

KMA estimates the total financing costs at $696,000. In comparison, the Developer estimates the total financing costs at $668,000. This represents a $28,000 differential.

Total Development Costs

As shown in Table 1, KMA estimates the total development costs at $8.36 million, which is $65,000 less than the Developer's $8.43 million estimate. This represents a less than 1% differential, and is considered inconsequential for a Project of the proposed scope.

Stabilized Net Operating Income (Table 2)

The Project's funding sources include Tax Credits, AHP and HOME funds. Each of these funding sources imposes specific income and affordability standards. To that end, the Project's income and affordability standards must comport with the more stringent of the following income and affordability standards:

1. AHP income and affordability restrictions necessary to make the Project competitive for AHP's application process.

2. Income Restrictions: Both the Tax Credit Program and the HOME Program apply the household income restrictions defined under United States Code, Title 26, Section 142(d)(2)(B).

3. Affordability Restrictions: The rents applied to the units must reflect the more stringent of:

a. The Tax Credit rents published annually by TCAC; and

b. Low and High HOME rents published annually by HUD.

Net Operating Income

The rents applied to all of the units must reflect the most restrictive requirements imposed by the proposed funding sources. Based on 2012 income information distributed by HUD and TCAC, the rents, net the appropriate utility allowance, are estimated as follows:[1]

Income Restriction	TCAC Rents	HOME Rents	Applicable Rents
Low HOME/TCAC @ 30% Median	$434	$761	$434
Low HOME/TCAC @ 40% Median	$593	$761	$593
Low HOME/TCAC @ 50% Median	$751	$761	$751
High HOME/TCAC @ 60% Median	$909	$981	$909

KMA estimates the Project's gross rental income at $220,800, which includes laundry and miscellaneous income averaging $7 per unit per month. After applying a 5% vacancy and collection allowance, KMA estimates the resulting effective gross income (EGI) at $209,800.

The operating expenses are estimated as follows:

1. The general operating expenses are estimated at approximately $4,300 per unit per year, which is the minimum amount allowed by TCAC.

2. KMA assumes the Developer will apply for the property tax abatement that is accorded to non-profit housing organizations that own income-restricted apartments. As such, the property tax liability is limited to assessment overrides, which are estimated by the Developer at $1,400 per year.

3. The City imposes a $125 per unit annual affordable housing monitoring fee. The Developer did not assume the City would impose the affordable housing monitoring fee.

4. The Developer estimates the social services costs at $6,500 per year.

5. The annual capital replacement reserve deposit is estimated at $300 per unit per year.

[1] The monthly utility allowance for one-bedroom units is estimated at $40.

As shown in Table 2, the residential operating expenses are estimated to total $126,000, or approximately $5,040 per unit. When the Project's EGI is reduced by the operating expenses, KMA estimates the stabilized net operating income (NOI) at $83,800. In comparison, the Developer estimates the Project's NOI at $86,300.

Financial Gap Calculation (Table 3)

The financial gap is estimated by deducting the available outside funding sources from the Project's total development costs. The outside funding sources anticipated to be received by the Project are described in the following sections of this analysis:

Total Available Funding Sources

Supportable Debt

To estimate the maximum conventional permanent loan that can be supported by the Project, KMA assumed that the loan would be underwritten at a 115% debt service coverage ratio, a 5.25% interest rate, and a 35-year amortization period. Based on these assumptions, KMA estimates that the $83,800 in NOI can support a $1.17 million permanent loan. In comparison, the Developer estimates that the Project's NOI can support a $1.20 million permanent loan.

Tax Credit Proceeds

Tax Credit Basis

It can be assumed that the Project's eligible Tax Credit basis is equal to the lesser of the depreciable costs for the 25 Tax Credit units, or the basis limits established by TCAC. KMA calculated the eligible Tax Credit basis as follows:

1. The Project's depreciable costs are estimated at $5.95 million, and the threshold basis limits applied by TCAC equal $5.54 million.

2. The threshold basis limits are less than the depreciable costs. As such, the Project's eligible Tax Credit basis is set at $5.54 million.

3. To further increase the competitiveness of the Project's Tax Credit application, the Developer can voluntarily reduce the Project's requested eligible Tax Credit basis. For the purposes of this analysis, the Developer did not reduce the requested Tax Credit basis. However, the Developer stated that if other funding sources are secured for the Project it is likely that they will request fewer Tax Credits in order to increase the Project's competitiveness.

Tax Credit Proceeds

KMA estimates the net Tax Credit proceeds as follows:

1. KMA calculated the gross Tax Credit amount supported by the Project at $5.40 million, based on the following assumptions:

    a. The Project is located in a designated "Difficult to Developer" census tract. This allows the requested eligible basis to be increased by 30%.

    b. The current Tax Credit application sets the annual Tax Credit rate at 7.5% for new construction projects.[2] This rate is applied over the 10-year Tax Credit period.

    c. 100% of the Project's building area is located in units that qualify for Tax Credits.

2. The net syndication value supported by the Tax Credit is ultimately determined based on competitive market conditions and on the timing of the disbursements. Based on currently available information, the Developer estimates the proceeds at $1.05 per gross Tax Credit dollar.

Based on the preceding calculations, KMA estimates the net Tax Credit equity at $5.67 million. This amount is equal to the Developer's estimate.

AHP Loan

The Developer intends to apply for a $240,000 loan of AHP funds. However, these funds will not be available until the permanent financing.

Deferred Developer Fee

The Developer is proposing to defer $467,000 of the Developer Fee included in the Project budget. This represents over 50% of the total Developer Fee, which is the maximum amount allowed to be permanently deferred by TCAC. Therefore, KMA assumes that $384,000, or 50% of the total Developer Fee, will be deferred.

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[2] Based on discussions with TCAC staff, TCAC considers adaptive reuse projects as new construction projects.

Total Available Funding Sources

As shown in Table 3, KMA estimates the total outside available funding sources at $7.46 million. This amount is $35,000 lower than the Developer's estimate, which is attributed to the Developer's higher permanent loan amount.

It is important to understand that the volatility in the financial markets makes it difficult to accurately predict the underwriting standards that will ultimately be applied to the conventional loan and the Tax Credits. Thus, it is possible that the proceeds will vary from the amounts estimated in this analysis. Furthermore, the Developer intends to apply for additional funding sources. If the amount of available funding sources changes substantially, it may be necessary to update the KMA analysis.

Financial Gap Calculation

Based on the assumptions outlined in this analysis, KMA calculates the financial gap as follows:

Total Development Costs	$8,362,000
(Less) Total Available Funding Sources	(7,458,000)
Financial Gap	$903,000
Per Unit	$36,100

Based on the results of the preceding financial analysis, it is the KMA conclusion that the Project exhibits a $903,000 financial gap. In comparison, the Developer has requested $850,000 in HOME funds from the City. This represents an approximately 6% differential; however, the City will limit the financial assistance amount to $850,000.

HOME PROGRAM REQUIREMENTS

The proposed assistance package consists of a contribution of HOME funds. Thus, the Project must comply with the HOME Program layering requirements and subsidy limits.

Layering Requirements

HOME Program regulations require projects to provide a layering analysis demonstrating that the HOME assistance is required to provide affordable housing. Based on the results of the preceding analysis, it is the KMA conclusion that the Project supports the Developer's request for $850,000 in local public assistance. As such, the proposed package complies with the HOME layering requirement.

HOME Unit Designation

HUD establishes two tests for quantifying the number of designated HOME units that must be included in the Project. One test is referred to as the Development Cost Test, and the other test is called the Subsidy Limit Test. These tests can be described as follows:

Development Cost Test

The Development Cost Test calculates the minimum number of HOME units based on the percentage of the Project's total costs that are funded with HOME Program assistance. The calculation for the Project is:

1. $850,000 in HOME Program assistance is assumed to be provided.
2. KMA estimated the cost for the Project at $8.36 million.
3. Based on the preceding assumptions, the HOME Program assistance is equal to 10% of the Project costs.
4. Under the Development Cost Test, 10% of the 25 units must be designated as HOME units. This equates to three units.

Subsidy Limit Test

HUD establishes subsidy limit tests based on the number of bedrooms included in the HOME-assisted units. The 2012 subsidy limit for one-bedroom units in Los Angeles County is $152,251.

Based on $850,000 in HOME Program assistance and the identified subsidy limits, the Project must include at least six HOME-designated units.

Designated HOME Units

The HOME units allocation tests generate an obligation to provide three units and six units, respectively. To adhere to both HOME unit designation requirements, it will be necessary to designate six units as HOME units.

The HOME Program also requires that at least 20% of the units assisted with HOME funds be affordable to very-low income households, and the balance of the units be reserved for low income households. The Project includes 19 units that comply with the HUD very-low income standard and five units that comply with the HUD low income standard. Thus, it is clear that the Project fulfills the income targeting requirements imposed by HUD.

CONCLUSIONS / RECOMMENDATIONS

The following summarizes the findings of the KMA analysis:

1. The Developer's request for $850,000 in financial assistance from the City is warranted by the Project's economic characteristics. This request assumes the following:

    a. The City will provide 100% of the assistance at construction loan closing to take out the acquisition loan;

    b. The City assistance will be structured as a residual receipts loan with a 1% simple interest rate;

    c. The Project will be awarded the competitively awarded 9% Tax Credits with a 22% tie-breaker score; and

    d. The Project will also receive the competitively awarded AHP funds.

2. The Project complies with both layering tests imposed by HUD.

3. To comply with the subsidy limits imposed by HUD, six units must be designated as HOME units.

4. It is important to note that the Developer intends to secure additional outside funding sources. Thus, it may be necessary to revise the KMA analysis if the funding sources are altered substantially.

5. The City should request that the Developer provide a revised pro forma which includes the payment of the City's affordable housing monitoring fee. In addition, the Developer should provide a cash flow analysis which demonstrates the repayment of the deferred Developer Fee.