

Underwriting Memo – Tower Court Residences

HOME Investment Partnerships Program - Affordable Housing New Construction Project

1. Overview

Gorman & Company, LLC (Gorman) proposes to build one three-story, elevatored, 71-unit affordable rental housing development, for low-income seniors aged 62 and older and individuals with Intellectual or Developmental Disabilities (IDD) aged 18 and older. 75% of the units will serve seniors and 25% of the units will serve those with IDD. The development will include a mix of one-, two-, and three-bedroom apartments as well as surface parking, a walking path and gardens.

The development includes 52 one-bedroom units, 18 two-bedroom units, and one three-bedroom unit. All units will be occupied by seniors or individuals with IDD at or below 60%, 50% and 30% of the Area Median Income (AMI).

The total project cost is estimated at \$28,814,831. The primary funding source is Low Income Housing Tax Credits (LIHTC).

Gorman intends to form a limited liability company, Tower Court Naperville, LLC, which will be the owner of the project, and a limited liability company that will be the Manager Member (MM) of the owner. Gorman will own a 49% interest in the MM and Ray Graham Association (RGA) will own 51% interest in the MM. The partnership will ensure the project has appropriate supportive services available to residents wishing to access services.

Gorman was anticipating 15 units to be supported with project based rental subsidy under the Section 811 program, which allows persons with disabilities to live as independently as possible in the community by subsidizing rental housing opportunities which provide access to appropriate supportive services. However, IHDA has informed Gorman the project will not be awarded any 811 PBVs.

Individuals with disabilities, including those with IDD have diverse service needs and RGA offers person-centered services, which are tailored to the unique needs of each resident who chooses to participate. These optional services will include wraparound case management and direct services like financial literacy, along with a robust network of partners for referrals to other services such as behavioral, mental, and physical health care, education, and the arts.

2. Executive Summary

2.A Challenges/Opportunities Presented

Gorman seeks HOME funds of **\$2,400,336** of the total project costs of **\$28,814,831**. The development process, including site control, entitlements, financing, closing and construction monitoring will be handled as a fully integrated platform through Gorman & Company, LLC, which has been managing LIHTC properties since 1990. Site control will be obtained from the City of Naperville upon closing of the real estate transaction which has been agreed upon via an executed purchase and sale agreement. The City of Naperville is in support of the project. Gorman & Company LLC is working to secure other financing required for the project.

The proposed project site has been found to have known contaminants that are required to be remediated by the City of Naperville. Gorman is requiring an Environmental Protection Agency (EPA) approved site mitigation plan to have been followed, resulting in clean post-mitigation soil testing prior to closing on

the property. Upon completion of site mitigation, a No Further Remediation (NFR) letter will be requested from the EPA. Community Development Commission (CDC) staff will complete an Environmental Review Record (ERR) as required under 24 CFR Part 58. The HOME investment is contingent upon successful completion of the ERR and receipt of the U.S. Department of Housing and Urban Development's (HUD's) Authority to Use Grant Funds (AUGF) prior to the County committing HOME funds to the project.

The Purchase and Sale Agreement originally included local preference language requiring Gorman to prioritize City of Naperville residents as part of the tenant selection process. However, the CDC's Geographic Distribution Policy was implemented to promote greater locational choice for both low-income persons and minorities by encouraging affordable housing outside of communities of minority concentrations and within municipalities with insufficient affordable housing. A local preference would limit locational choice for eligible tenants residing outside of the City of Naperville. The Naperville City Council approved Amendment One to the Purchase and Sale Agreement in April 2025, which eliminated the local preference.

2.B Affordability

14 units within Tower Court Residences development will be HOME-assisted units. Of these, 11 will target households at or below 60% Median Family Income (MFI) at initial occupancy (High-HOME Units), and three units will be targeted to households at or below 50% MFI (Low-HOME Units). The 11 High-HOME units will be designated as eight one-bedroom units and three two-bedroom units. The Low-HOME units will consist of two one-bedroom units and one two-bedroom unit.

2.C Permanent Sources

Bank Loan	\$3,900,000
Low Income Housing Tax Credits	\$13,888,611
Illinois Housing Development Authority – Additional Tax Credits	\$4,710,304
Deferred Developer Fee	\$500,000
DuPage HOME Funds (Development Subsidy)	\$2,400,336
Federal Home Loan Bank Affordable Housing Program- <i>Pending</i>	\$2,000,000
City of Naperville Seller Note	\$1,415,580
Total	\$28,814,831

2.D Risks

Pertinent risk factors for this project are:

Market	Low - The project is located at the southeast corner of the intersection of Highway 59 and 103 rd Street on the far southern side of the City of Naperville, IL. A site and market study performed by Baker Tilly US, LLP concluded the proposed redevelopment is feasible from a market perspective and a market exists for the development as proposed. The prospect for long-term performance of the property is positive given the housing, demographic trends, and economic factors. Although the proposed development may directly compete for residents within comparable developments, the proposed development will not have a material negative impact on the existing housing market including LIHTC housing, other affordable housing properties (Section 8, 515, 236, and public housing), or market rate housing.
Construction	Low - similar to existing projects by the Developer.
Developer	Low - many years of experience; highly capitalized.
Community Opposition	Low - the City supports the project.

Financing	<p>Moderate - Developer applied for \$2M in FHLB AHP on 06/20/2025. Awards are not expected to be announced until December 2025. However, Developer will commit to a sponsor loan of \$2M to close in August of 2025.</p> <p>Approval of a HOME Agreement will be contingent upon securing funding sources.</p>
Underwriting Assumptions	<p>Low - 8% vacancy loss rate, as required by IDHA. Reserve at \$350 per unit annually, as required by IHDA. Debt Coverage Ratio (DCR) of 1.23 in year 1 and 1.21 in year 20 with \$276,331 in annual debt service payments. This may change as financing terms are finalized, including those for the DuPage County HOME loan.</p> <p>The project would create 14 HOME units at a cost of \$171,453 per unit, which is within HOME Program allowances.</p>
Other	<p>Moderate – ERR clearance required. Approval of a HOME Agreement will be contingent upon satisfactory completion of an ERR and HUD's AUGF.</p>

3. Property Description

The project consists of new construction of one three-story, elevatored, 71-unit affordable rental housing development, for low-income seniors aged 62 and older and individuals with IDD aged 18 and older. The City of Naperville is requiring 75% of the units to serve seniors (62+) and 25% of the units to serve those with IDD (18+). Since the project does not require those with IDD to be aged 62 or older, the project intends to meet the criteria as a property qualifying as Housing for Older Persons by designating at least 80% of units must be occupied by at least one person aged 55 or older, limiting the population under age 55 to only 20% of residents. Further, the Tenant Selection Plan includes a preference for individuals with disabilities, not limited to IDD, ensuring those with any sort of disability who are otherwise eligible may be served by the project including and in addition to the 25% IDD units.

The development will include a mix of one, two, and three-bedroom apartments as well as surface parking, a walking path and gardens. The development includes 52 one-bedroom units, 18 two-bedroom units, and one three-bedroom unit. All units will be occupied by seniors or individuals with IDD at or below 60%, 50% and 30% of the Area Median Income (AMI).

Current HOME Program guidelines allow rents up to \$1,443 per month for a one-bedroom unit, \$1,733 per month for a two-bedroom unit, and \$1,993 per month for a three-bedroom, all including utilities. As underwritten, the development proposes 13 one-bedroom units at \$567 all of which will be State Referral Network (SRN) units, 18 one-bedroom units at \$994, and 21 one-bedroom units at \$1,208 per month. The project will also contain two two-bedroom units at \$675, both of which will be State Referral Network (SRN) units, 10 two-bedroom units at \$1,188, and six two-bedroom units at \$1,445. There will be one three-bedroom unit at \$1,659 per month. Financing terms for the County's HOME loan are under negotiation and will be contingent upon confirmation of all other financing sources.

Gorman will pay for water & sewer and trash collection. Tenants will cover the electricity for lighting, cooking, heating, and air conditioning. The HOME units will use utility allowances for tenant-furnished utilities and other services as calculated using HUD methodology in effect.

4. Development Entity and Capacity

The development process, including site control, entitlements, financing, closing and construction monitoring will be handled by Mr. Ron Clewer, Illinois Market President at Gorman. Mr. Clewer has more than 20 years of leadership experience and over 20 years of multi-use real estate development and asset management experience. Gorman Property Management will hire new site management and leasing staff

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for this project. Candidates will be from the area, a common trait of Gorman's process. Candidates will be brought into Oregon, WI "Gorman U" for training and compliance. The regional manager with oversight will be Sonja Droste, Regional Director of Property Management.

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4.A Prior Developments

Gorman has been managing LIHTC properties since 1990 and has since expanded to managing over 6,500 income restricted units across six states. Gorman expanded into Illinois with its first project in 2004, a historic preservation and adaptive reuse of the former Moline High School into affordable housing in Moline, IL.

4.B Current Operational Capacity

Gorman will act as Developer and Owner under the HOME Agreement and will provide financial oversight, grant compliance, and contractor selection for the project. Construction management will be performed by the project manager, who is part of Gorman's staff. Operational and rental management will be handled by Gorman Property Management.

4.C Financial Strength

The most recent audit of Gorman and Subsidiaries and Affiliates indicates total assets over \$124 Million with net assets over \$72 Million. In addition, the ongoing property management and maintenance allow for continuation of an affordable and attractive property; therefore, turnover is low. The lack of affordable housing in the Naperville area and the low expected turnover enhances positive cash flow.

4.D Guaranty/Bonds

Gorman will be required to sign and abide by the terms of the HOME Agreement, Mortgage and Note, and a Regulatory Land Use Restrictions Agreement. In addition, contractors will be required to supply bonds at the level stated in the HOME Agreement.

5. Location and Market Dynamics

5.A Town/County Characteristics

According to the City of Naperville's website, which cites American Community Survey (ACS) data, the City encompasses 39.08 square miles, is located approximately 30 miles west of the City of Chicago and has a population of 149,540. Demographics are reported as: White (not Hispanic or Latino) - 65.1%, Asian - 20.6%, Hispanic or Latino - 6.5%, Two or More Races - 5.1%, Black - 4.3%, American Indian and Alaska Native - 0.2%, Native Hawaiian and Other Pacific Islander - 0.0%. The median home value is \$433,400 and the median household income is \$135,772. Median gross rents are reported as \$1,645. (Source: <https://www.naperville.il.us/about-naperville/demographics-and-key-facts/>).

The Primary Market Area (PMA) for the proposed development is generally bordered by 75th Street to the north, US Highway 30 to the west, West 135th Street to the South, and the DuPage River to the east. Based on the site's pedestrian linkages, convenient access to major thoroughfares, proximity to numerous major

employers, and discussions with property managers of potentially competing developments, it is likely that 20 to 25 percent of the residents that ultimately rent from the proposed development will originate from outside the PMA (most likely from other areas of DuPage, Will, and Kendall Counties).

5.B Property Location

The property is located on the southeast corner of the intersection of Highway 59 and 103rd Street on the far southern side of the City of Naperville, IL, in Will County. The City of Naperville is part of the DuPage County Consortium. As such, the City has elected to include their Will County areas as part of the DuPage County Consortium, allowing for HOME investment within Will County portions of the City of Naperville. An approximate address for the site is 4231 Tower Court, Naperville, IL 60564. The subject site is bordered by additional foliage and wooded land in all directions. IL Route 59 is less than 1/10th of a mile to the west and 103rd Street is approximately 0.2 miles north. With all surrounding streets appearing to be moderately to heavily traveled, the site is expected to have above average drive-by exposure and should experience adequate marketability. Nearby businesses include Angelo Caputo's Fresh Market, Amazon Fresh, TJ Maxx, and Dollar Tree. Naperville Bus Services Fixed Route 672 provides bus service to the nearest Metra train station. Nearby parks and/or recreational facilities include George Pradel Park and Fry Family YMCA. Nearby health care facilities include DuPage Medical Group and Walgreens Pharmacy. Lastly, there are three educational facilities nearby, Kendall Elementary School, Thomas G. Scullen Middle School, and Neuqua Valley High School. As such, the site appears to be well served by the amenities and services needed by seniors and IDD residents.

6. Physical Character and Issues

Gorman will be responsible for ensuring that the building complies with existing property standards per municipality and/or County CDC policies.

An Environmental Review Record (ERR) is required to be completed in accordance with 24 CFR Part 58. Community Development Commission (CDC) staff are in the process of preparing the ERR. Additional building requirements, including mitigation requirements, identified as result of the ERR will be incorporated into the HOME Agreement, building plans and specifications, as well as construction contracts.

7. Proposed Financial Structure

Total Development Costs are projected at \$28,814,831. Funding is anticipated to be provided from the following sources: 13.5% Bank Loan; 48.2% Illinois Housing Development Authority (IHDA) – Low Income Housing Tax Credits; 16.3% IHDA Additional Tax Credits; 8.3% DuPage County HOME funds, 1.7% Deferred Developer Fee; 7% Federal Home Loan Bank Affordable Housing Program grant; and 5% City of Naperville Seller Note.

Permanent Financing	Total	% of Total
Bank Loan	\$3,900,000	13.5%
Low Income Housing Tax Credits (IHDA)	\$13,888,611	48.2%
Additional Tax Credits (IHDA)	\$4,710,304	16.3%
Deferred Developer Fee	\$500,000	1.7%
DuPage HOME Funds (Development Subsidy)	\$2,400,336	8.3%
Federal Home Loan Bank Affordable Housing Program Grant	\$2,000,000	7.0%
City of Naperville Seller Note	\$1,415,580	5.0%
Total	\$28,814,831	100%

Gorman will execute a Mortgage and Note, as well as a Regulatory Land Use Restrictions Agreement (RLURA). The period of affordability for this HOME project will be twenty (20) years per HUD HOME regulations. Once all financing sources are finalized, and the term of the County HOME loan has been determined, the County may elect to impose an extended use period, separate and distinct from the regulatory HOME affordability period. Any extended use period will be incorporated into the HOME Agreement.

8. Underwriting

8.A Assisted Units / Rents

The Gorman project consists of 71 units of rental housing. The requested \$2,400,336 of HOME financing requires a minimum of 11 HOME units. The Developer has agreed to 14 HOME units; three Low- and 11 High-HOME rent units. The HOME agreement will stipulate the mix of HOME units. The tables below represent the preliminary HOME unit mix. HOME units are comparably distributed among non-HOME units.

Total Development Unit Mix	Units	% of Total Units		HOME Unit Mix	HOME Units	% of HOME Units
1-bedroom	52	73.2%		1-bedroom	10	71.4%
2-bedroom	18	25.4%		2-bedroom	4	28.6%
3-bedroom	1	1.4%		3-bedroom	0	0%
	71 total units	100%			14 HOME units	100%

	HOME Units	20% @ Low HOME	High HOME
1-bedroom	10	2	8
2-bedroom	4	1	3
3-bedroom	0	0	0
	14 HOME units	3	11

Gorman intends for the HOME assisted units to be floating; this is acceptable because the units are comparable. However, the unit mix, as outlined above, must be maintained during the 20-year HOME Program affordability period.

See the Units Information & Gross Revenue Potential attachment for a more detailed breakdown of units by bedroom size, income restriction and contract rent.

8.B Market Units/Rents

There are no market rate units proposed within the development.

8.C Trending

Rents are projected at a 2% inflation rate. The majority of operating expenses are projected at a 3% inflation rate with real estate taxes projected at a 4% inflation rate and the management fee projected at a 2% inflation rate. The DCR is 1.23 in year 1 and trends to 1.21 in year 20. However, this may change as financing terms are finalized, including those for the DuPage County HOME loan. Certain payments will be dependent on available cash flow, therefore, years one through eight anticipate to break even. Years nine through 20 show positive cash flow.

8.D Vacancy Rate

For underwriting purposes, the property is underwritten at an 8% total rent vacancy loss which is consistent with IHDA requirements.

8.E Other Income

Gorman anticipates receiving approximately \$14,200 annually from interest, revenue from craft classes, late fees, insufficient fund fees, and pet rent.

8.F Operating Expenses

Gorman will pay for the hot water electric, water, sewer, and trash collection. Tenants will cover the electric lighting, electric cooking, electric heating, and electric air utilities. Gorman will provide property management. See the Annual Operating Budget attachment of the underwriting template for a breakdown of underwritten operating expense projections.

8.G. Real Estate Taxes

Gorman anticipates paying \$75,000 of real estate taxes in year one, with trending increases of 4% annually.

8.H. Proposed Reserve Deposit

Proposed replacement reserve deposit is \$350/unit/year, totaling \$24,850 annually, with inflation projected at 3% annually. No interest is projected on the reserves balance. This produces positive capital reserves through year 20.

8.I. Other Proposed Reserves

The property is not expected to have any other operating reserves.

8.J Resulting Net Operating Income (NOI) for Debt Coverage Ratio (DCR)

The proposed unit mix at proposed rents; estimated rent loss; and underwritten expenses, and with the proposed reserve deposit, demonstrates that this project will produce stabilized Net Operating Income (NOI) of approximately \$338,626 in year one. After payment of debt service, cash flow is projected at \$62,295 in year one. However, this may change upon finalizing all financing terms, including those of the County HOME loan.

9. Additional Considerations

9.a HOME Repayment

The terms for the County's HOME loan of \$2,400,336 are in negotiation. The Developer has requested a cash flow loan, which is reasonable based upon the DCR and projected available cash flow. If a cash flow loan is determined best, a balloon payment of the HOME loan balance will be due at the end of the term. Once all financing sources are known, terms of the HOME loan will be presented to HS for approval. If any portion of the project is sold, transferred, or if the property is no longer used for the purposes stated in the HOME Agreement during the 20-year HOME affordability period, Gorman will be required to pay the full amount of the principal of the loan. The County may also elect to impose an extended use period, which would incorporate extended requirements associated with the HOME loan.

10. Conclusion

The proposed project aligns with HOME Program requirements and objectives of the County's Five-Year Consolidated Plan. The development also presents a favorable risk profile. CDC staff recommend a conditional commitment of \$2,400,336 in HOME funds for the proposed development. Approval of a HOME Agreement is contingent upon all other financing sources having been secured, an agreement of

the County's HOME loan terms, satisfactory completion of an ERR, and any other review and/or underwriting deemed necessary by CDC staff.

11. Attachments

- 0) HOME Rental Compliance Checks
- 1) HOME Rental Production Application
- 2) Utilities & Rent Limits
- 3) Unit Information & Gross Revenue Potential
- 4) Annual Operating Budget
- 5) Operating Cash Flow Projection
- 6) Development Budget
- 7) Construction Budget/Costs
- 8) Sources & Uses Summary
- 9) Capital Needs Assessment