



AGENDA MEMORANDUM

Action Item for the Corpus Christi Housing Finance Corporation Meeting
July 29, 2025

DATE: July 29, 2025

TO: President and Board of Directors
Corpus Christi Housing Finance Corporation

THROUGH: Peter Zaroni, General Manager

FROM: Daniel McGinn, AICP, Interim Assistant City Manager
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Authorize the Sale of Costa Tarragona I and II

CAPTION:

Resolution authorizing the sale of the Costa Tarragona I and Costa Tarragona II Apartments to HKSK Corp. (or its permitted assigns), consenting to the assignment of the respective ground leases for such apartments, and approving various other matters required in connection with such sale.

SUMMARY:

The Corpus Christi Housing Finance Corporation (CCHFC) needs to consider approval of the terms of the sale of the Costa Tarragona Apartments Phase I and Phase II to HKSK Corp. for a total sales price of \$17.1 million. Approval would authorize proceeding with a Letter of Intent, the execution of Purchase and Sale Agreements for the two projects, assignment of the Ground Lease Agreements, and closing the transactions.

The buyer has indicated that it will be setting up new entities in which the CCHFC will be asked to participate in order to continue the affordability of the apartments and the existing property tax exemptions. The terms and conditions of that participation will be the subject of a future meeting of the CCHFC once other due diligence requirements have been satisfied by the buyer.

BACKGROUND AND FINDINGS:

The CCHFC participated in the development and construction of the Costa Tarragona Apartments Phase I in 2005 and Phase II in 2011. The apartments are located at 2240 N. Padre Island Drive at the interchange with I-37. In each case, the CCHFC owns the land which is leased to a limited partnership under a Ground Lease Agreement. The general partner of each entity is solely controlled by the CCHFC. The limited partners include the tax credit investors and NRP Group, which was the developer and operator of the apartments. This structure permitted the apartments

to qualify for a property tax exemption, and as a result they never have been on the property tax rolls since the original development. All of the apartment units (100%) are restricted to being leased to persons who make below 60% of Area Median Income (AMI).

Costa Tarragona I has 250 units, and Costa Tarragona II has 96 units. They have been managed jointly as a single project, but due to the different development dates and tax credit investors, they have to comply with separate affordability covenants and timetables. Although the tax credit periods have expired, both projects are subject to affordability covenants requiring that all of the units continue to be reserved for low-income tenants. The tax credit investor for Costa Tarragona I has triggered the requirement under the limited partnership agreement that the property be sold. Due to the relationships of the two Phases in Costa Tarragona, both projects should be sold in the same transaction.

The NRP Group has been the managing agent for both Costa Tarragona I and Costa Tarragona II and assisted the CCHFC in retaining Berkadia Real Estate Advisors, LLC as a real estate broker with experience in marketing apartments subject to low-income housing affordability restrictions. After listing both apartment projects for sale and soliciting proposals from over thirty qualified buyers, more than five proposals were received. Best and final offers were requested from three firms, and the proposal from HKSK Corp. was determined to be the best proposal offering \$17.1 million for both properties, to be divided with \$13.3 million for the Costa Tarragona I Apartments and \$3.8 million for the Costa Tarragona II Apartments. These amounts will provide for the payment of outstanding bond and other indebtedness remaining from the construction of the apartments and should net the CCHFC at least \$1 million. The final net proceeds will need to be determined based on finalization of the defeasance of the 2005 revenue bonds and payment of all outstanding obligations.

In order to proceed with the sale as proposed, the CCHFC needs to authorize the approval of a Letter of Intent for the sale and purchase, the respective Purchase and Sale Agreements for Costa Tarragona I Apartments and Costa Tarragona II Apartments, the completion of the required due diligence by the buyer as well as obtaining various required regulatory approvals, and upon the conclusion of the same the closing of the sale of such apartment projects according to the approved terms. The Resolution provided incorporates the above approvals needed.

Based on the approval by the Board of Directors at the January meeting to proceed with soliciting offers of sale with the continued involvement of the CCHFC as the ground lessor and participant in the purchasing entities, the buyer will finalize its plans for the structure of the new entity or entities. Once those plans are finalized, another CCHFC meeting will be scheduled to consider approval of the terms and conditions of the CCHFC's participation in the new entity or entities formed by the buyer.

ALTERNATIVES:

The CCHFC may decline to accept the offer from HKSK Corp. and seek other options for the disposition of the properties.

FISCAL IMPACT:

There is no current-year fiscal impact for this item.

Funding Detail:

Fund: NA

Organization/Activity: NA

Department: NA

Project # (CIP Only): NA

Account: NA

RECOMMENDATION:

Staff recommends the approval of the Resolution authorizing the sale of Costa Tarragona I and II.

LIST OF SUPPORTING DOCUMENTS:

Resolution

Letter of Intent from HKSK Corp.

Purchase and Sale Agreement for the sale of Costa Tarragona I

Purchase and Sale Agreement for the sale of Costa Tarragona II