

CHFA Capital Plan Property Assessment - Forest Court

Property Identification

Forest Court
FARMINGTON, CT

Total Current Unit Count: 36
Census Tract: 4603.01
Connecticut Congressional District: 5

CHFA Property Identification #: 81001D

Current State Sponsored Housing Program: SH Moderate Rental Section 8

This is a single, stand-alone property. As there are no other adjacent properties under common ownership, there are no opportunities for consolidation to achieve greater efficiencies of scale.

Property Description

Tenancy Type: Family
Structure Type: Low rise (1-4 floors)
Number of buildings: 3
Maximum # of Stories: 2
Elevator? None

Summary property description:

The Forest Court property has 18 one-bedroom and 18 two-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as common laundry, a playground, and a basketball court.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 1,829,724

Capital Needs per Unit: \$ 50,826

Projected Year 1 (2014) Operating Income: \$ 97,057

Current operations at the property are projected to generate roughly \$97,100 in net operating income (NOI, or revenue after operating expenses) in Year 1 (2014). With incomes and expenses trending at 2% and 3% respectively, which is a standard affordable housing industry convention, the NOI figure decreases annually yet remains positive through the time horizon studied. However, the property cannot leverage debt financing or adequately address its future basic capital needs, projected to be approximately \$1.83 million (\$50,825 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Forest Court, continued

Current average income relative to
the Area Median Income (AMI): 27%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	886	55%
Two-bedroom unit:	903	47%
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	886	55%
Two-bedroom unit:	903	47%
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

The Capital Plan is recommending that the property continue operating as it is currently structured, without a consolidated recapitalization transaction. Consequently, the Capital Plan does not recommend a specific revenue adjustment. The owner should note, however, that the rental income is not projected to meet the property's expenses over the next 20 years and may struggle to cover future capital needs. The owner may want to consider an adjustment in the property's base rent in order to avoid future budget problems.

Number of current households that would be
impacted by the proposed increase in Base Rent: n/a

Rental operating subsidy necessary in 2014 to
generate revenue equal to raising the base rent
as proposed: n/a

Additional rental assistance payments subsidy
over a 20 year period due to revised base rent: n/a

Revenue Adjustments Concurrent with a Recapitalization Transaction

Forest Court, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	18	18
25-50% of AMI	15	15
50% of AMI or greater	3	3
Total number of units	36	36

Since the Capital Plan is recommending that the property continue operating as it is currently structured, without a consolidated recapitalization transaction, the analysis does not assume any changes to the property's income mix.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	886	886
Two-bedroom unit:	903	903
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

Rental operating subsidy in the transaction year
which would be necessary to generate additional
revenue equal to that generated by income
mixing: n/a

Additional rental operating subsidy necessary to
sustain Rental Assistance Payments based on
the adjusted base rent: n/a

Property used for market reference: Maple Village

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(247,356)	(247,356)
Recoverable Grant Scenario:	(2,859,024)	(2,853,132)
CHFA/FHA Scenario:	(2,958,978)	(2,936,117)
4% LIHTC Scenario:	(2,544,113)	(3,188,962)
9% LIHTC Scenario:	(1,156,435)	(1,808,903)

The Capital Plan analysis considers five scenarios and the prospect under each scenario to address the property's capital and operational needs. Each scenario's capacity to address the property's capital needs is listed to the left, as represented by the Replacement Reserve (RM&R) balance at the end of 20 years. Also at left is the total gap, including both operating subsidy needs and capital subsidy needs, over the 20 year study period.

- The first scenario, the "Current Scenario" assumes the property continues operating as it currently is operated - no material change in the base rent and no implementation of income mixing strategies to shift the property's revenue picture. Consequently, there is no adverse impact on residents or on the opportunity to serve the income demographic currently holding tenancies. The current scenario uses the baseline capital needs as the anticipated capital investment for purposes of identifying the surplus or gap. However, the current scenario - unlike the other four scenarios - does not include any allowance for soft costs (architecture or design, relocation, developer overhead, etc.) or for general contractor overhead and profit (as it is assumed each trade would come to the site independently, without the need for overarching coordination).

- The second scenario, the "Recoverable Grant Scenario" assumes any revenue adjustments described above (i.e., if the analysis suggested an increase in base rent and/or introduction of a mixed-income framework, or the equivalent revenue from federal or state operating subsidy). The Recoverable Grant Scenario envisions a streamlined allocation of funds from the State to the property, implemented with standardized documents and minimal legal or due diligence transaction costs. The Recoverable Grant would be repaid to the State to the extent possible from cash flow. The Recoverable Grant Scenario is most frequently selected when the transaction is too small to warrant the transaction costs associated with alternative financing or if the market is too weak to support debt or equity leverage.

- The three remaining scenarios - "CHFA/FHA," "4% LIHTC" and "9% LIHTC" correspond to three different leverage transaction structures. Each scenario includes transaction costs appropriate to the nature of the transaction. (For example, legal fees in the two LIHTC scenarios are higher than in the CHFA/FHA scenario.) Typically, the CHFA/FHA scenario would generate the least amount of funds for capital improvements and the 9% LIHTC scenario would generate the greatest amount, with the 4% LIHTC scenario falling in between. The CHFA/FHA scenario is a debt-only scenario, using either CHFA or FHA-insured financing. The two LIHTC scenarios assume both debt and a syndication of low income housing tax credits. The 4% tax credits rely on the use of tax exempt bond financing and are generally available when needed. (The analysis assumes that the tax exempt bonds will be used for construction funding in order to generate the tax credits, but may not remain outstanding at the full amount after permanent debt conversion.) The 9% tax credits are a competitive and scarce resource so cannot be assumed to be available for all properties.

Recommended Transaction and Transaction Assumptions

Forest Court, continued

Recommended Transaction Option:	Current	
Recommended Transaction Year	n/a	The Capital Plan is recommending that the property continue operating as it is currently structured (i.e., the current scenario described above), as this approach requires the least amount of subsidy from the State over time as compared to the other capital leverage transactions. In the absence of a consolidated recapitalization transaction, however, the property will need additional resources on a continuing basis.
Replacement Reserve Deposit PUPY:	-	The Capital Plan recommends that the property receive annual grants as needed to cover the gap between the property's capital need budget and the property's ability to pay those costs. These grants, identified as "Pre-Transaction Subsidy" (since no consolidated transaction is proposed), would total \$247,356 over the course of the next 20 years.
Debt Service Coverage in Transaction Year:	-	
Debt Service Coverage in Transaction Year 15:	-	At this time, the "Current Scenario" is the only approach which reasonably covers the property's capital needs given the small size of the property and the current programmatic assumptions. However, it is neither a sustainable nor an efficient strategy as it requires the State to have a much more active role in supervising both capital and operating budgets. This level of oversight would correspond to a higher degree of accountability by the owner to the State.
Pre-Transaction Capital Subsidy Needed:	247,356	
Transaction Capital Subsidy Needed:	-	The "Current Scenario" would also require the property to self-manage improvements as they become necessary - the budget does not anticipate the availability of a general contractor. In other words, the property management staff would bring in the specific tradespeople as necessary to repair or replace the components as they fail. Since this is consistent with current property management practices, this burden should be manageable for the owner.

Summary of Recommended Transaction

This property has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields \$97,057 in NOI in the current year, which includes \$0 per unit per year in replacement reserve deposits, trending to \$63,635 fifteen years thereafter. The transaction results in a capital subsidy need of \$247,000, which would need to be covered by State capital subsidy. Given that the "Current Scenario" assumes a heavy dependence on state subsidy on an ongoing annual basis, any cash flow should presumably be escrowed to offset ture subsidy need or to repay the state for prior subsidy payments.

Summary of Capital Needs & State Subsidy Needs

Forest Court, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 62,900
 Current Routine Capital Needs: 126,162

The chart below indicates the year-by-year capital investment needs at the property as projected by On-Site Insight. One should note, however, that On-Site Insight used a state-wide cost basis generated from the RS Means database for capital needs. Some high-cost communities can experience a premium of 10%-15% in excess of the State-wide figures. The chart also indicates the timing of State capital and operating subsidy needs assuming the transaction scenario described above.

Year	Annual Capital Needs (per CNA)	Capital Subsidy		Operating Subsidy		
		Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2013	189,062	64,062	-	-	-	-
2014	66,628	-	-	-	-	-
2015	155,946	29,856	-	-	-	-
2016	101,622	7,484	-	-	-	-
2017	58,461	-	-	-	-	-
2018	70,973	-	-	-	-	-
2019	159,242	16,766	-	-	-	-
2020	56,072	-	-	-	-	-
2021	76,037	-	-	-	-	-
2022	43,825	-	-	-	-	-

Year	Annual Capital Needs (per CNA)	Capital Subsidy		Operating Subsidy		
		Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2023	191,834	35,334	-	-	-	-
2024	87,583	10,950	-	-	-	-
2025	80,931	7,249	-	-	-	-
2026	113,032	42,495	-	-	-	-
2027	92,009	24,818	-	-	-	-
2028	41,125	-	-	-	-	-
2029	64,137	-	-	-	-	-
2030	61,888	-	-	-	-	-
2031	54,864	-	-	-	-	-
2032	64,454	8,344	-	-	-	-

Scenario Pro Formas

Forest Court, continued

Income and Expense Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
2023 ANNUAL INCOME										
Gross Potential Rent	543,285	15,091.25	598,959	16,637.76	598,959	16,638	598,959	16,638	598,959	16,638
Vacancy/Loss	(5,344)	(148.45)	(5,892)	(163.66)	(29,948)	(832)	(41,927)	(1,165)	(41,927)	(1,165)
Other Income	-	-	-	-	-	-	-	-	-	-
Effective Gross Income	537,941	14,942.80	593,068	16,474.10	569,011	15,806	557,032	15,473	557,032	15,473
2023 ANNUAL EXPENSES										
Operating Expenses	458,543	12,737	464,972	12,916	450,858	12,524	450,259	12,507	450,259	12,507
Replacement Reserve Deposits	-	-	-	-	21,777	605	21,777	605	17,934	498
Total Operating Expenses	458,543	12,737	464,972	12,916	472,635	13,129	472,036	13,112	468,193	13,005
2023 NET OPERATING INCOME	79,398	2,206	128,095	3,558	96,376	2,677	84,996	2,361	88,839	2,468
Debt Service	-	-	-	-	53,399	1,483	40,935	1,137	46,167	1,282
2023 CASH FLOW	79,398	2,206	128,095	3,558	42,978	1,194	44,062	1,224	42,672	1,185

Sources and Uses Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
SOURCES										
Hard Debt										
Commercial Debt 1	-	-	-	-	929,208	25,811	593,859	16,496	803,368	22,316
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	587,361	16,316	626,844	17,412
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	63,861	1,774	79,161	2,199	79,161	2,199	76,461	2,124
Cash Escrows	-	-	123,209	3,422	123,209	3,422	123,209	3,422	123,209	3,422
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	177,568	4,932	184,718	5,131	184,181	5,116
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,139,292	31,647	2,322,049	64,501
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	187,071	5,196	1,309,147	36,365	2,707,601	75,211	4,136,113	114,892
USES										
Acquisition Costs	-	-	-	-	625,436	17,373	1,212,797	33,689	1,252,279	34,786
Construction Costs	-	-	2,368,562	65,793	2,368,562	65,793	2,394,810	66,523	2,394,810	66,523
Soft Costs - Design & Construction	-	-	264,932	7,359	261,199	7,256	267,426	7,428	267,426	7,428
Soft Costs - Due Diligence	-	-	12,142	337	22,193	616	24,729	687	24,777	688
Soft Costs - Transaction Costs	-	-	84,361	2,343	164,361	4,566	292,210	8,117	292,210	8,117
Soft Costs - Financing	-	-	72,554	2,015	279,520	7,764	296,714	8,242	298,978	8,305
Soft Costs - Other	-	-	20,700	575	23,400	650	23,400	650	23,400	650
Soft Cost Contingency	-	-	22,734	632	37,534	1,043	40,816	1,134	40,362	1,121
Reserves	-	-	-	-	41,999	1,167	237,016	6,584	237,853	6,607
Developer Fee	-	-	200,108	5,559	443,921	12,331	461,795	12,828	460,453	12,790
Total Uses of Funds	-	-	3,046,095	84,614	4,268,125	118,559	5,251,714	145,881	5,292,549	147,015
TRANSACTION SURPLUS (GAP)	-	-	(2,859,024)	(79,417)	(2,958,978)	(82,194)	(2,544,113)	(70,670)	(1,156,435)	(32,123)

Scenario Pro Formas (continued)

Forest Court, continued

Coverage of Capital Needs Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
FUNDS										
Transaction Rehab	-	-	1,827,934	50,776	1,827,934	50,776	1,827,934	50,776	1,827,934	50,776
Capital Needs Funded Using Subsidy	247,356	6,871	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	125,000	3,472	125,000	3,472	125,000	3,472	125,000	3,472	125,000	3,472
Replacement Reserves	1,457,368	40,482	-	-	423,370	11,760	423,370	11,760	348,657	9,685
Total Funds	1,829,724	50,826	1,952,934	54,248	2,376,304	66,008	2,376,304	66,008	2,301,591	63,933
USES										
Estimated Capital Needs	1,829,724	50,826	1,829,724	50,826	1,829,724	50,826	1,829,724	50,826	1,829,724	50,826
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	1,829,724	50,826	1,829,724	50,826	1,829,724	50,826	1,829,724	50,826	1,829,724	50,826
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	123,209	3,422	546,579	15,183	546,579	15,183	471,867	13,107

Subsidy Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
OPERATING SUBSIDY										
Base Rent Operating Subsidy Needed	n/a	n/a	914,498	25,403	914,498	25,403	914,498	25,403	914,498	25,403
Operating Deficit Subsidy Needed	0	-	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	-	-	914,498	25,403	914,498	25,403	914,498	25,403	914,498	25,403
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	247,356	6,871	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(920,391)	(25,566)	(937,358)	(26,038)	(269,649)	(7,490)	(262,030)	(7,279)
Transaction Capital Subsidy Needed	n/a	n/a	2,859,024	79,417	2,958,978	82,194	2,544,113	70,670	1,156,435	32,123
Total Capital Subsidy	247,356	6,871	1,938,634	53,851	2,021,620	56,156	2,274,464	63,180	894,405	24,845
TOTAL SUBSIDY NEEDED	247,356	6,871	2,853,132	79,254	2,936,117	81,559	3,188,962	88,582	1,808,903	50,247