CHFA Capital Plan Property Assessment - Twenty One

Property Identification

Twenty One
CANTON, CT

Total Current Unit Count:	40
Census Tract:	4641.02
Connecticut Congressional District:	5

CHFA Property Identification #: 85014D
Current State Sponsored Housing Program: SH Elderly 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:	Elderly/Disabled
Structure Type:	Low rise (1-4 floors)
Number of buildings:	6
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The Twenty One property has 30 efficiency or studio and 10 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as central air conditioning, semi-private patios, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 2,009,823
Capital Needs per Unit:	$ 50,246
Projected Year 1 (2014) Operating Income:	$ 11,520

Current operations at the property are projected to generate roughly $11,500 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 and results in negative NOI beginning in 2020. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $2.01 million ($50,245 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 21%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	436	29%
One-bedroom unit:	502	31%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	436	29%
One-bedroom unit:	502	31%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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

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.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	40	40
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	40	40

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:	436	436
One-bedroom unit:	502	502
Two-bedroom unit:		
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: TWENTY ONE

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,440,464)	(1,686,651)
Recoverable Grant Scenario:	(3,120,632)	(3,488,586)
CHFA/FHA Scenario:	(3,421,111)	(3,725,141)
4% LIHTC Scenario:	(2,759,617)	(3,302,912)
9% LIHTC Scenario:	(1,430,895)	(1,973,111)

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

Twenty One, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	-
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	1,440,464
Transaction Capital Subsidy Needed:	-

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.

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 $1,440,464 over the course of the next 20 years.

While the "Current Scenario" approach is the least costly approach from the perspective of the state, and is the least disruptive approach from the perspective of the residents and the current operations, it does have downsides. This approach would require the State to have a much more active role in supervising both capital and operating budgets, in order to ensure that the subsidy is only what is minimally needed to keep the property well maintained. This level of oversight would correspond to a loss of owner autonomy.

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

Under the Current scenario, the property yields $11,520 in NOI in the current year, which includes $0 per unit per year in replacement reserve deposits, trending to negative $24,667 fifteen years thereafter. The transaction results in a capital subsidy need of $1,440,000 and $246,000 in operating deficit subsidy, all of 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 future subsidy need or to repay the state for prior subsidy payments.

Summary of Capital Needs & State Subsidy Needs

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	42,334
Current Routine Capital Needs:	331,436

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.

		Capital Subsidy		Operating Subsidy		
Year	**Annual Capital Needs (per CNA)**	Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2013	**373,770**	373,770	-	-	-	-
2014	**206,976**	176,322	-	-	-	-
2015	**77,920**	48,309	-	-	-	-
2016	**71,051**	42,554	-	-	-	-
2017	**18,577**	-	-	-	-	-
2018	**284,900**	250,121	-	-	-	-
2019	**12,760**	-	-	-	-	-
2020	**23,262**	-	-	932	-	-
2021	**23,587**	-	-	3,413	-	-
2022	**81,960**	41,292	-	6,021	-	-

		Capital Subsidy		Operating Subsidy		
Year	**Annual Capital Needs (per CNA)**	Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2023	**28,604**	1,371	-	8,763	-	-
2024	**47,352**	19,030	-	11,644	-	-
2025	**89,066**	59,610	-	14,669	-	-
2026	**158,649**	128,015	-	17,844	-	-
2027	**207,457**	175,598	-	21,174	-	-
2028	**68,363**	35,230	-	24,667	-	-
2029	**87,042**	52,583	-	28,328	-	-
2030	**54,076**	18,239	-	32,164	-	-
2031	**44,394**	7,123	-	36,181	-	-
2032	**50,057**	11,296	-	40,387	-	-

Scenario Pro Formas

Twenty One, continued

Income and Expense Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
2023 ANNUAL INCOME	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**
Gross Potential Rent	264,766	6,619.14	311,546	7,788.64	311,546	7,789	311,546	7,789	311,546	7,789
Vacancy/Loss	(7,378)	(184.46)	(8,485)	(212.13)	(15,577)	(389)	(21,808)	(545)	(21,808)	(545)
Other Income	2,038	50.95	2,038	50.95	2,038	51	2,038	51	2,038	51
Effective Gross Income	**259,425**	**6,485.63**	**305,099**	**7,627.47**	**298,007**	**7,450**	**291,776**	**7,294**	**291,776**	**7,294**
2023 ANNUAL EXPENSES										
Operating Expenses	240,955	6,024	231,332	5,783	227,736	5,693	227,425	5,686	227,425	5,686
Replacement Reserve Deposits	27,233	681	27,233	681	19,926	498	19,926	498	19,926	498
Total Operating Expenses	**268,189**	**6,705**	**258,565**	**6,464**	**247,663**	**6,192**	**247,351**	**6,184**	**247,351**	**6,184**
2023 NET OPERATING INCOME	**(8,763)**	**(219)**	**46,534**	**1,163**	**50,344**	**1,259**	**44,424**	**1,111**	**44,424**	**1,111**
Debt Service	-	-	-	-	31,494	787	25,271	632	25,291	632
2023 CASH FLOW	**(8,763)**	**(219)**	**46,534**	**1,163**	**18,850**	**471**	**19,153**	**479**	**19,134**	**478**

Sources and Uses Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
SOURCES	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**
Hard Debt										
Commercial Debt 1	-	-	-	-	548,033	13,701	335,001	8,375	440,090	11,002
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	737,630	18,441	737,630	18,441
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	35,697	892	49,697	1,242	49,697	1,242	49,697	1,242
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	182,942	4,574	190,646	4,766	189,881	4,747
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,174,450	29,361	2,397,621	59,941
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**35,697**	892	**780,673**	19,517	**2,487,424**	62,186	**3,814,918**	95,373
USES										
Acquisition Costs	-	-	-	-	462,370	11,559	1,200,000	30,000	1,200,000	30,000
Construction Costs	-	-	2,481,861	62,047	2,481,861	62,047	2,509,364	62,734	2,509,364	62,734
Soft Costs - Design & Construction	-	-	277,007	6,925	273,095	6,827	279,620	6,991	279,620	6,991
Soft Costs - Due Diligence	-	-	12,478	312	22,533	563	25,451	636	25,451	636
Soft Costs - Transaction Costs	-	-	56,197	1,405	136,197	3,405	265,139	6,628	265,139	6,628
Soft Costs - Financing	-	-	76,192	1,905	275,937	6,898	299,972	7,499	298,797	7,470
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	22,244	556	36,688	917	40,294	1,007	39,646	991
Reserves	-	-	-	-	29,747	744	124,585	3,115	127,094	3,177
Developer Fee	-	-	207,350	5,184	457,356	11,434	476,616	11,915	474,702	11,868
Total Uses of Funds	**-**	**-**	**3,156,328**	78,908	**4,201,784**	105,045	**5,247,041**	131,176	**5,245,814**	131,145
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(3,120,632)**	(78,016)	**(3,421,111)**	(85,528)	**(2,759,617)**	(68,990)	**(1,430,895)**	(35,772)

Scenario Pro Formas (continued)

Twenty One, 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	-	-	1,915,372	47,884	1,915,372	47,884	1,915,372	47,884	1,915,372	47,884
Capital Needs Funded Using Subsidy	1,440,464	36,012	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	569,359	14,234	529,451	13,236	387,397	9,685	387,397	9,685	387,397	9,685
Total Funds	**2,009,823**	**50,246**	**2,444,823**	**61,121**	**2,302,769**	**57,569**	**2,302,769**	**57,569**	**2,302,769**	**57,569**
USES										
Estimated Capital Needs	2,009,823	50,246	2,009,823	50,246	2,009,823	50,246	2,009,823	50,246	2,009,823	50,246
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**2,009,823**	**50,246**	**2,009,823**	**50,246**	**2,009,823**	**50,246**	**2,009,823**	**50,246**	**2,009,823**	**50,246**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**435,000**	**10,875**	**292,946**	**7,324**	**292,946**	**7,324**	**292,946**	**7,324**

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	735,886	18,397	735,886	18,397	735,886	18,397	735,886	18,397
Operating Deficit Subsidy Needed	246,186	6,155	-	-	0	-	71	2	91	2
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**246,186**	**6,155**	**735,886**	**18,397**	**735,886**	**18,397**	**735,957**	**18,399**	**735,976**	**18,399**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,440,464	36,012	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(367,931)	(9,198)	(431,856)	(10,796)	(192,662)	(4,817)	(193,761)	(4,844)
Transaction Capital Subsidy Needed	n/a	n/a	3,120,632	78,016	3,421,111	85,528	2,759,617	68,990	1,430,895	35,772
Total Capital Subsidy	**1,440,464**	**36,012**	**2,752,700**	**68,818**	**2,989,256**	**74,731**	**2,566,955**	**64,174**	**1,237,135**	**30,928**
TOTAL SUBSIDY NEEDED	**1,686,651**	**42,166**	**3,488,586**	**87,215**	**3,725,141**	**93,129**	**3,302,912**	**82,573**	**1,973,111**	**49,328**