

CHFA Capital Plan Property Assessment - Sunny Acres

Property Identification

Sunny Acres
PLAINFIELD, CT

Total Current Unit Count: 40
Census Tract: 9072.00
Connecticut Congressional District: 2

CHFA Property Identification #: 85145D
Current State Sponsored Housing Program: SH Elderly

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: 7
Maximum # of Stories: 1
Elevator? None

Summary property description:

The Sunny Acres property has 28 efficiency or studio and 12 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, central air conditioning, and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 1,826,667

Capital Needs per Unit: \$ 45,667

Projected Year 1 (2014) Operating Income: \$ 19,497

Current operations at the property are projected to generate roughly \$19,500 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 2024. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$1.83 million (\$45,666 per unit) over the next 20 years.

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

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	240	17%
One-bedroom unit:	265	17%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	435	30%
One-bedroom unit:	466	30%
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: 21

Rental operating subsidy necessary in 2014 to
generate revenue equal to raising the base rent
as proposed: \$ 51,737

Total rental operating subsidy necessary
assuming a turnover-based leasing strategy: \$ 302,326

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This can happen in one of two ways - either the property could get operating subsidy from the state or federal government, or it could charge higher rents. A higher rent structure burdens low-income households to pay a greater percentage of their income for housing and it will require that the property serve tenants with modestly higher incomes.

Currently, base rents are set by the owner of each property, often in consultation with CHFA staff. While there varying definitions of affordability, this study considers a rent which exceeds 30% of a household's adjusted gross income to be burdensome on the household's monthly budget. In the table to the left, the base rent is identified for each unit size. The table also identifies the minimum household income level for which the base rent would be considered "affordable." The household income level is presented as a percentage of the local Area Median Income.

There are strong reasons to keep the base rents low, as low base rents provide affordable housing options for the state's lowest income residents and reduce the burden of operating subsidies on the State budget. However, if the property's revenue stream (including any available operating subsidy and any cross-subsidy from higher income residents) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, the property itself is at risk.

The Capital Plan is intended to identify the real estate needs of the State Sponsored Housing Portfolio. In order to ensure a minimum revenue stream and in order to implement programmatic consistency regarding base rent levels, this analysis assumes that all base rents are adjusted in 2014 to equal the greater of a) the current base rent or b) 30% of the adjusted gross income of a household at 30% of AMI for the applicable household size, provided these levels do not exceed the local market. This base rent adjustment would represent a significant increase for some households. The analysis identifies the number of households that would be affected by such a change and the amount of operating subsidy needed to protect these households. If the owners elect not to raise the base rents as assumed in this analysis, the property is more likely to experience tight operating budgets towards the end of the Capital Plan subsidy period and will be less able to access leverage funding such as private debt.

Protecting the 21 Elderly/Disabled Households at risk in the event of a base rent increase is clearly a major concern. In 2014, the base rent increase creates the need for operating subsidy of \$51,736 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

This 2014 rental operating subsidy would recur annually, with inflation increases, for the next 20 years if the State determines that, as a policy matter, the property should continue serving households with an income profile equivalent to the current residents at the property. An alternative formulation assumes that, upon turnover, new residents would move in for whom the proposed base rent is affordable and tenant protection operating subsidies would no longer be necessary. This turnover strategy requires less operating subsidy from the State, but also reduces the number of units of housing available to the lowest income residents of the community. The total tenant protection operating subsidy associated with the increase in the base rent assuming that, on turnover, the units are leased to households able to pay the new base rent without assistance is \$302,326.

Revenue Adjustments Concurrent with a Recapitalization Transaction

Sunny Acres, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	21	21
25-50% of AMI	18	18
50% of AMI or greater	1	1
Total number of units	40	40

With the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy, the property should operate under a sustainable revenue picture for the foreseeable future. As a result, no additional revenue adjustments from income mixing are recommended in connection with the transaction.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	435	435
One-bedroom unit:	466	466
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: \$ -

Transitional rental operating subsidy necessary
to protect current residents and permit a five-
year transition to income tier occupancy: \$ -

Property used for market reference: Maple Courts

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,094,265)	(1,205,907)
Recoverable Grant Scenario:	(2,346,259)	(2,153,251)
CHFA/FHA Scenario:	(1,911,890)	(2,044,296)
4% LIHTC Scenario:	(1,350,833)	(1,477,506)
9% LIHTC Scenario:	(321,334)	(421,087)

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

Sunny Acres, continued

Recommended Transaction Option:	4% LIHTC	<p>The capital plan recommends using the 4% low income housing tax credit scenario to finance the capital needs at this property. The debt-only scenario leaves significant capital needs unaddressed, while the use of 9% tax credits at this property would be an inefficient use of the scarce 9% resource given the competing needs within the portfolio and within the State as a whole. The 4% LIHTC scenario, however, covers the capital needs appropriately while minimizing the need for State capital subsidies. This analysis has suggested a potential transaction year of 2015 based on a series of criteria outlined in the capital plan report. In short, the transaction year has been informed by the distribution of critical capital needs year-by-year at the property (i.e., roof, mechanical, structural components) and by the need to distribute the timing of capital transaction for properties within the State Sponsored Housing Portfolio over a period of years in order to manage scarce State-wide resources.</p> <p>This property has been underwritten assuming replacement reserve deposits of \$350 per unit per year, and assuming hard construction capital needs of \$1.83 million.</p>
Recommended Transaction Year	2015	
Replacement Reserve Deposit PUPY:	350	
Debt Service Coverage in Transaction Year:	1.720	
Debt Service Coverage in Transaction Year 15:	1.102	
Pre-Transaction Capital Subsidy Needed:	-	<p>The property is able to cover its capital needs from current replacement reserves through the date of the capital transaction, so no interim State support is needed.</p>
Transaction Capital Subsidy Needed:	1,350,833	

Summary of Recommended Transaction

Under the 4% LIHTC scenario, the property yields \$64,702 in NOI in the transaction completion year, which includes \$350 per unit per year in replacement reserve deposits. After debt service, the property generates \$22,084 in cash flow in the capital transaction's completion year, trending to \$4,333 fifteen years thereafter. Post-transaction, distribution of cash flow is governed by the terms of the transaction documents and, to the extent not restricted by the documents, could be used at the owner's discretion for ongoing capital needs, owner's working capital or the owner's other priorities. The transaction raises \$621,000 in debt and \$974,000 in equity. The transaction results in a gap of \$1,350,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$1,205,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over \$2,346,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs

Sunny Acres, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 35,669
 Current Routine Capital Needs: 83,268

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	118,937	-	-	-	-	-
2014	180,717	-	-	-	51,737	-
2015	40,088	-	1,350,833	-	47,494	-
2016	33,115	-	-	-	43,061	-
2017	51,242	-	-	-	38,432	-
2018	60,034	-	-	-	33,601	-
2019	58,500	-	-	-	28,561	-
2020	86,164	-	-	-	23,305	-
2021	166,004	-	-	-	17,829	-
2022	65,635	-	-	-	12,124	-

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	72,795	-	-	-	6,183	-
2024	70,322	-	-	-	-	-
2025	20,153	-	-	-	-	-
2026	22,769	-	-	-	-	-
2027	122,474	-	-	-	-	-
2028	106,259	-	-	-	-	-
2029	44,209	-	-	-	-	-
2030	155,152	-	-	-	-	-
2031	231,040	-	-	-	-	-
2032	121,059	-	-	-	-	-

Scenario Pro Formas

Sunny Acres, 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	218,466	5,461.65	292,503	7,312.58	292,503	7,313	292,503	7,313	292,503	7,313
Vacancy/Loss	(3,168)	(79.20)	(3,168)	(79.20)	(14,625)	(366)	(20,475)	(512)	(20,475)	(512)
Other Income	14,005	350.13	14,005	350.13	14,005	350	14,005	350	14,005	350
Effective Gross Income	229,303	5,732.57	303,340	7,583.51	291,883	7,297	286,033	7,151	286,033	7,151
2023 ANNUAL EXPENSES										
Operating Expenses	199,148	4,979	214,315	5,358	207,333	5,183	207,040	5,176	207,040	5,176
Replacement Reserve Deposits	28,101	703	28,101	703	19,926	498	19,926	498	19,926	498
Total Operating Expenses	227,249	5,681	242,416	6,060	227,259	5,681	226,967	5,674	226,967	5,674
2023 NET OPERATING INCOME	2,054	51	60,924	1,523	64,624	1,616	59,066	1,477	59,066	1,477
Debt Service	-	-	-	-	42,460	1,062	42,617	1,065	39,506	988
2023 CASH FLOW	2,054	51	60,924	1,523	22,164	554	16,449	411	19,560	489

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	-	-	-	-	738,865	18,472	621,668	15,542	687,459	17,186
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,200,000	30,000	1,200,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	8,167	204	22,167	554	22,167	554	22,167	554
Cash Escrows	-	-	71,927	1,798	71,927	1,798	71,927	1,798	71,927	1,798
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	140,557	3,514	148,444	3,711	147,821	3,696
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	974,690	24,367	1,936,605	48,415
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	80,093	2,002	973,515	24,338	3,038,896	75,972	4,065,978	101,649
USES										
Acquisition Costs	-	-	-	-	-	-	1,200,000	30,000	1,200,000	30,000
Construction Costs	-	-	1,910,685	47,767	1,910,685	47,767	1,931,859	48,296	1,931,859	48,296
Soft Costs - Design & Construction	-	-	216,134	5,403	213,122	5,328	218,145	5,454	218,145	5,454
Soft Costs - Due Diligence	-	-	11,793	295	21,293	532	24,758	619	24,758	619
Soft Costs - Transaction Costs	-	-	28,667	717	108,667	2,717	232,099	5,802	232,099	5,802
Soft Costs - Financing	-	-	59,713	1,493	191,011	4,775	228,412	5,710	227,135	5,678
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	16,965	424	28,005	700	32,383	810	31,855	796
Reserves	-	-	-	-	35,230	881	124,962	3,124	125,907	3,148
Developer Fee	-	-	159,395	3,985	351,391	8,785	371,111	9,278	369,553	9,239
Total Uses of Funds	-	-	2,426,353	60,659	2,885,405	72,135	4,389,730	109,743	4,387,312	109,683
TRANSACTION SURPLUS (GAP)	-	-	(2,346,259)	(58,656)	(1,911,890)	(47,797)	(1,350,833)	(33,771)	(321,334)	(8,033)

Scenario Pro Formas (continued)

Sunny Acres, 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	-	-	1,474,568	36,864	1,474,568	36,864	1,474,568	36,864	1,474,568	36,864
Capital Needs Funded Using Subsidy	1,094,265	27,357	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	71,927	1,798	71,927	1,798	71,927	1,798	71,927	1,798	71,927	1,798
Replacement Reserves	660,476	16,512	546,324	13,658	387,397	9,685	387,397	9,685	387,397	9,685
Total Funds	1,826,667	45,667	2,092,818	52,320	1,933,892	48,347	1,933,892	48,347	1,933,892	48,347
USES										
Estimated Capital Needs	1,826,667	45,667	1,826,667	45,667	1,826,667	45,667	1,826,667	45,667	1,826,667	45,667
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	1,826,667	45,667	1,826,667	45,667	1,826,667	45,667	1,826,667	45,667	1,826,667	45,667
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	266,151	6,654	107,224	2,681	107,224	2,681	107,224	2,681

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	302,326	7,558	302,326	7,558	302,326	7,558	302,326	7,558
Operating Deficit Subsidy Needed	111,642	2,791	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	111,642	2,791	302,326	7,558	302,326	7,558	302,326	7,558	302,326	7,558
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,094,265	27,357	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(495,334)	(12,383)	(169,920)	(4,248)	(175,653)	(4,391)	(202,572)	(5,064)
Transaction Capital Subsidy Needed	n/a	n/a	2,346,259	58,656	1,911,890	47,797	1,350,833	33,771	321,334	8,033
Total Capital Subsidy	1,094,265	27,357	1,850,925	46,273	1,741,970	43,549	1,175,180	29,380	118,761	2,969
TOTAL SUBSIDY NEEDED	1,205,907	30,148	2,153,251	53,831	2,044,296	51,107	1,477,506	36,938	421,087	10,527