CHFA Capital Plan Property Assessment - Walter Crabtree Apts & William St. Onge Apartments

Property Identification

Walter Crabtree Apts & William St. Onge Apartments
PUTNAM, CT

Total Current Unit Count:	40
Census Tract:	9031.00
Connecticut Congressional District:	2

CHFA Property Identification #: 85153D, 85155D
Current State Sponsored Housing Program: SH Elderly

These properties were originally financed separately and appear in CHFA's records as two separate properties. However, lenders and investors are likely to favor larger transactions given the efficiencies of scale and Recap has elected to analyze these properties as a unitary whole. Recap also recommends that the owner and CHFA merge the properties for purposes of reporting, accounting and ownership.

Property Description

Tenancy Type:	Elderly/Disabled
Structure Type:	Low rise (1-4 floors)
Number of buildings:	10
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The Walter Crabtree Apts &William St. Onge Apts property has 21 efficiency or studio and 19 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, owner-provided air conditioning, semi-private outdoor space, and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,089,317
Capital Needs per Unit:	$ 27,233
Projected Year 1 (2014) Operating Income:	$ (4,924)

Current operations at the property are projected to generate negative $4,900 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 this shortfall continues to grow. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.09 million ($27,232 per unit) over the next 20 years.

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.

Current average income relative to the Area Median Income (AMI): 22%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	370	26%
One-bedroom unit:	378	24%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	370	26%
One-bedroom unit:	378	24%
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

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	33	33
25-50% of AMI	7	7
50% of AMI or greater	0	0
Total number of units	40	40

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	370	370
One-bedroom unit:	378	378
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: Wm. St. Onge & Robert Bulger A

While the revenue generated by the increase in the base rent improves the property's income and expense picture, it is insufficient for the property to operate sustainably for the foreseeable future. (The capital plan analysis considers sustainable operations to be a level of operating income sufficient to cover operating expenses and servicing of any capital leverage necessary to maintain the physical asset for the next 15-20 years without routine capital subsidies from the State.) However, as noted above, the property receives a project-based rental assistance payment. A RAP arrangement provides operating support to the property while permitting residents to pay based on what they can afford, so income mixing is neither needed nor appropriate. For extremely low income households, properties with a RAP are their only viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the RAP subsidy, is used to generate enough income for the property to operate at a sustainable level.

The rental assistance payment ensures that the property receives the base rent. However, since the base rent increase suggested above is insufficient over the long term, the only alternative is to increase the base rent again in conjunction with the recapitalization transaction. (An income-tier structure in this situation would only serve to reduce housing options to the lowest income households, without increasing revenue to the property.)

An increase in the base rent at a property with a rental assistance payment translates into an increase in the operating subsidy necessary to sustain the property over time.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(279,291)	(850,690)
Recoverable Grant Scenario:	(1,661,267)	(2,656,538)
CHFA/FHA Scenario:	(1,568,975)	(2,640,492)
4% LIHTC Scenario:	(1,227,556)	(2,296,071)
9% LIHTC Scenario:	(339,715)	(1,408,240)

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	Walter Crabtree Apts & William St. Onge Apartments, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	492
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	279,291
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 $279,291 over the course of the next 20 years.

At this time, the "Current Scenario" is the only approach which reasonably covers the property’s capital needs given the low rental revenue 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.

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 does not have a stable operating revenue and expense picture and is at-risk of experiencing long term structural operating deficits unless it is able to access significant operating subsidy. Under the Current scenario, the property yields negative $4,924 in NOI in the current year, which includes $492 per unit per year in replacement reserve deposits, trending to negative $45,478 fifteen years thereafter. The transaction results in a capital subsidy need of $279,000 and $571,000 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.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	152,989

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	**152,989**	-	-	-	-	-
2014	**48,481**	-	-	4,924	-	-
2015	**55,579**	-	-	7,015	-	-
2016	**26,448**	-	-	9,211	-	-
2017	**55,549**	-	-	11,517	-	-
2018	**58,368**	25,122	-	13,936	-	-
2019	**35,227**	11,297	-	16,475	-	-
2020	**17,527**	-	-	19,136	-	-
2021	**9,565**	-	-	21,925	-	-
2022	**32,685**	-	-	24,848	-	-

		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	**53,057**	7,150	-	27,908	-	-
2024	**18,803**	-	-	31,112	-	-
2025	**135,410**	94,818	-	34,465	-	-
2026	**58,905**	27,414	-	37,973	-	-
2027	**85,726**	52,976	-	41,642	-	-
2028	**54,638**	20,577	-	45,478	-	-
2029	**39,982**	4,559	-	49,486	-	-
2030	**51,294**	14,454	-	53,675	-	-
2031	**50,790**	12,477	-	58,051	-	-
2032	**48,294**	8,448	-	62,621	-	-

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	214,840	5,371.00	299,398	7,484.96	299,398	7,485	299,398	7,485	299,398	7,485
Vacancy/Loss	(6,771)	(169.29)	(7,994)	(199.86)	(14,970)	(374)	(20,958)	(524)	(20,958)	(524)
Other Income	613	15.31	613	15.31	613	15	613	15	613	15
Effective Gross Income	**208,681**	**5,217.03**	**292,017**	**7,300.41**	**285,041**	**7,126**	**279,053**	**6,976**	**279,053**	**6,976**
2023 ANNUAL EXPENSES										
Operating Expenses	208,594	5,215	223,195	5,580	217,420	5,436	217,121	5,428	217,121	5,428
Replacement Reserve Deposits	27,995	700	27,995	700	19,926	498	19,926	498	19,926	498
Total Operating Expenses	**236,590**	**5,915**	**251,191**	**6,280**	**237,347**	**5,934**	**237,047**	**5,926**	**237,047**	**5,926**
2023 NET OPERATING INCOME	**(27,908)**	**(698)**	**40,826**	**1,021**	**47,694**	**1,192**	**42,006**	**1,050**	**42,006**	**1,050**
Debt Service	-	-	-	-	19,819	495	13,304	333	13,305	333
2023 CASH FLOW	**(27,908)**	**(698)**	**40,826**	**1,021**	**27,876**	**697**	**28,702**	**718**	**28,701**	**718**

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	-	-	-	-	344,871	8,622	137,226	3,431	231,523	5,788
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	-	-	22,334	558	36,334	908	36,334	908	36,334	908
Cash Escrows	-	-	305,047	7,626	293,482	7,337	293,482	7,337	293,482	7,337
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	115,146	2,879	122,493	3,062	122,028	3,051
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	846,756	21,169	1,641,490	41,037
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**327,381**	8,185	**789,833**	19,746	**2,636,290**	65,907	**3,524,857**	88,121
USES										
Acquisition Costs	-	-	-	-	-	-	1,200,000	30,000	1,200,000	30,000
Construction Costs	-	-	1,540,032	38,501	1,540,032	38,501	1,557,098	38,927	1,557,098	38,927
Soft Costs - Design & Construction	-	-	176,631	4,416	174,203	4,355	178,252	4,456	178,252	4,456
Soft Costs - Due Diligence	-	-	11,348	284	20,848	521	24,309	608	24,309	608
Soft Costs - Transaction Costs	-	-	42,834	1,071	122,834	3,071	242,691	6,067	242,691	6,067
Soft Costs - Financing	-	-	49,020	1,225	138,973	3,474	174,254	4,356	174,036	4,351
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	15,142	379	24,143	604	28,463	712	28,069	702
Reserves	-	-	-	-	23,909	598	126,547	3,164	129,047	3,226
Developer Fee	-	-	130,641	3,266	287,864	7,197	306,233	7,656	305,070	7,627
Total Uses of Funds	**-**	**-**	**1,988,647**	49,716	**2,358,807**	58,970	**3,863,846**	96,596	**3,864,572**	96,614
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(1,661,267)**	(41,532)	**(1,568,975)**	(39,224)	**(1,227,556)**	(30,689)	**(339,715)**	(8,493)

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	-	-	1,188,517	29,713	1,188,517	29,713	1,188,517	29,713	1,188,517	29,713
Capital Needs Funded Using Subsidy	279,291	6,982	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	265,758	6,644	265,758	6,644	265,758	6,644	265,758	6,644	265,758	6,644
Replacement Reserves	544,268	13,607	544,268	13,607	387,397	9,685	387,397	9,685	387,397	9,685
Total Funds	**1,089,317**	**27,233**	**1,998,543**	**49,964**	**1,841,672**	**46,042**	**1,841,672**	**46,042**	**1,841,672**	**46,042**
USES										
Estimated Capital Needs	1,089,317	27,233	1,089,317	27,233	1,089,317	27,233	1,089,317	27,233	1,089,317	27,233
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,089,317**	**27,233**	**1,089,317**	**27,233**	**1,089,317**	**27,233**	**1,089,317**	**27,233**	**1,089,317**	**27,233**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**909,226**	**22,731**	**752,355**	**18,809**	**752,355**	**18,809**	**752,355**	**18,809**

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	1,216,533	30,413	1,216,533	30,413	1,216,533	30,413	1,216,533	30,413
Operating Deficit Subsidy Needed	571,399	14,285	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**571,399**	**14,285**	**1,216,533**	**30,413**	**1,216,533**	**30,413**	**1,216,533**	**30,413**	**1,216,533**	**30,413**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	279,291	6,982	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(221,261)	(5,532)	(145,016)	(3,625)	(148,017)	(3,700)	(148,008)	(3,700)
Transaction Capital Subsidy Needed	n/a	n/a	1,661,267	41,532	1,568,975	39,224	1,227,556	30,689	339,715	8,493
Total Capital Subsidy	**279,291**	**6,982**	**1,440,006**	**36,000**	**1,423,959**	**35,599**	**1,079,539**	**26,988**	**191,707**	**4,793**
TOTAL SUBSIDY NEEDED	**850,690**	**21,267**	**2,656,538**	**66,413**	**2,640,492**	**66,012**	**2,296,071**	**57,402**	**1,408,240**	**35,206**