CHFA Capital Plan Property Assessment - 96-98 Martin Street

Property Identification

96-98 Martin Street
HARTFORD, CT

Total Current Unit Count:	6
Census Tract:	5012.00
Connecticut Congressional District:	1

CHFA Property Identification #: 91080D
Current State Sponsored Housing Program: SH Moderate Rental

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:	1
Maximum # of Stories:	3
Elevator?	None

Summary property description:
The 96-98 Martin Street property has 6 three-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as resident provided air conditioning, as well as outdoor space.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	388,347
Capital Needs per Unit:	$	64,725
Projected Year 1 (2014) Operating Income:	$	(3,091)

Current operations at the property are projected to generate negative $3,100 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 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 $0.39 million ($64,724 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 9%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:		
Three-bedroom unit:	700	31%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:		
Three-bedroom unit:	700	31%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

Number of current households that would be impacted by the proposed increase in Base Rent: 0

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ -

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

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This property currently has tenant-based vouchers, which allow the residents to pay an affordable rent based on their income, but generally only yields the base rent amount as revenue. Currently, contract rents are set by the voucher issuing agency.

Low base rent levels maximize affordability for households in the community. However, if the property's revenue stream (including any available operating subsidy) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, necessary repairs and maintenance will get deferred. An extended period of deferred maintenance can put the property itself at risk, which would be a significant blow to the availability of affordable housing in the area.

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, 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.

The figures to the left indicate the additional rental operating subsidy which would be necessary in 2014 to cover this base rent increase as well as the total 20 year impact given that this subsidy need will recur annually, with inflation increases. Since the rental assistance payment protects the residents of the property, none of the actual households would be impacted by the increase in the base rent and the property would continue to serve the current resident demographic.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	5	6
25-50% of AMI	1	0
50% of AMI or greater	0	0
Total number of units	6	6

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:		
Three-bedroom unit:	700	1,085
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: $ -

Additional rental operating subsidy necessary to sustain Rental Assistance Payments based on the adjusted base rent: $ 302,710

Property used for market reference: Enfield Magnolia

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 tenant-based voucher (TBV) payment. A TBV 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 tenant-based vouchers are their only viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the TBV subsidy, is used to generate enough income for the property to operate at a sustainable level.

The TBV 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 TBV 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):	(388,347)	(535,615)
Recoverable Grant Scenario:	(545,741)	(755,696)
CHFA/FHA Scenario:	(591,964)	(883,055)
4% LIHTC Scenario:	(522,949)	(807,741)
9% LIHTC Scenario:	(85,417)	(365,176)

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 gehe 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 re 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 bee for all properties.

Recommended Transaction and Transaction Assumptions

Recommended Transaction Option:	Recoverable Grant
Recommended Transaction Year	2014
Replacement Reserve Deposit PUPY:	-
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	545,741

The capital plan recommends using the recoverable grant scenario to finance the capital needs at this property. Given the small size of the property, the transaction costs associated with any of the other financing structures outweigh the additional funds which could be achieved by leveraging FHA debt or low income housing tax credit equity.

This analysis has suggested a potential transaction year of 2014 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.

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.

Summary of Recommended Transaction

Under the Recoverable Grant scenario, the property yields $12,200 in NOI in the transaction completion year, which includes $0 per unit per year in replacement reserve deposits. The property generates $12,200 in cash flow in the capital transaction's completion year, trending to $9,062 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. If there is a recoverable grant, repayment of the recoverable grant would be specified in the transaction documents as a priority use of the funds. The transaction does not support debt or equity leverage. The transaction results in a gap of $545,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $535,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	20,100
Current Routine Capital Needs:	40,817

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	**60,917**	-	-	-	-	-
2014	**3,143**	-	545,741	3,138	-	-
2015	**4,526**	-	-	-	14,137	-
2016	**7,687**	-	-	-	14,420	-
2017	**3,434**	-	-	-	14,708	-
2018	**4,762**	-	-	-	15,003	-
2019	**3,644**	-	-	-	15,303	-
2020	**14,102**	-	-	-	15,609	-
2021	**72,635**	-	-	-	15,921	-
2022	**15,182**	-	-	-	16,239	-

		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	**10,280**	-	-	-	16,564	-
2024	**3,144**	-	-	-	16,895	-
2025	**4,971**	-	-	-	17,233	-
2026	**14,995**	-	-	-	17,578	-
2027	**17,049**	-	-	-	17,929	-
2028	**51,029**	-	-	-	18,288	-
2029	**19,339**	-	-	-	18,654	-
2030	**5,044**	-	-	-	19,027	-
2031	**56,658**	-	-	-	19,407	-
2032	**15,805**	-	-	-	19,795	-

Scenario Pro Formas

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	62,666	10,444.34	97,132	16,188.73	97,132	16,189	97,132	16,189	97,132	16,189
Vacancy/Loss	(26,111)	(4,351.81)	(39,302)	(6,550.35)	(39,302)	(6,550)	(39,302)	(6,550)	(39,302)	(6,550)
Other Income	-	-	-	-	-	-	-	-	-	-
Effective Gross Income	**36,555**	**6,092.53**	**57,830**	**9,638.38**	**57,830**	**9,638**	**57,830**	**9,638**	**57,830**	**9,638**
2023 ANNUAL EXPENSES										
Operating Expenses	43,943	7,324	46,835	7,806	45,648	7,608	45,648	7,608	45,648	7,608
Replacement Reserve Deposits	-	-	-	-	3,629	605	3,629	605	2,989	498
Total Operating Expenses	**43,943**	**7,324**	**46,835**	**7,806**	**49,278**	**8,213**	**49,278**	**8,213**	**48,637**	**8,106**
2023 NET OPERATING INCOME	**(7,388)**	**(1,231)**	**10,995**	**1,833**	**8,552**	**1,425**	**8,552**	**1,425**	**9,193**	**1,532**
Debt Service	-	-	-	-	5,793	965	6,166	1,028	6,520	1,087
2023 CASH FLOW	**(7,388)**	**(1,231)**	**10,995**	**1,833**	**2,760**	**460**	**2,386**	**398**	**2,673**	**446**

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	-	-	-	-	100,803	16,801	19,274	3,212	113,451	18,909
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	180,000	30,000	180,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	11,626	1,938	14,176	2,363	14,176	2,363	13,726	2,288
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	36,389	6,065	40,807	6,801	40,671	6,779
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	300,982	50,164	647,511	107,919
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	**-**	**-**	**11,626**	1,938	**151,368**	25,228	**555,239**	92,540	**995,359**	165,893
USES										
Acquisition Costs	-	-	-	-	-	-	180,000	30,000	180,000	30,000
Construction Costs	-	-	402,774	67,129	402,774	67,129	407,238	67,873	407,238	67,873
Soft Costs - Design & Construction	-	-	55,426	9,238	54,791	9,132	55,850	9,308	55,850	9,308
Soft Costs - Due Diligence	-	-	8,283	1,381	16,083	2,681	16,605	2,767	16,605	2,767
Soft Costs - Transaction Costs	-	-	32,126	5,354	112,126	18,688	221,011	36,835	221,011	36,835
Soft Costs - Financing	-	-	13,074	2,179	45,613	7,602	54,103	9,017	55,151	9,192
Soft Costs - Other	-	-	3,450	575	3,900	650	3,900	650	3,900	650
Soft Cost Contingency	-	-	5,618	936	11,626	1,938	14,895	2,483	14,781	2,463
Reserves	-	-	-	-	5,446	908	22,569	3,762	24,562	4,094
Developer Fee	-	-	36,615	6,103	90,972	15,162	102,017	17,003	101,678	16,946
Total Uses of Funds	**-**	**-**	**557,366**	92,894	**743,332**	123,889	**1,078,188**	179,698	**1,080,776**	180,129
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(545,741)**	(90,957)	**(591,964)**	(98,661)	**(522,949)**	(87,158)	**(85,417)**	(14,236)

Scenario Pro Formas (continued)

96-98 Martin Street, 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	-	-	310,840	51,807	310,840	51,807	310,840	51,807	310,840	51,807
Capital Needs Funded Using Subsidy	388,347	64,725	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	-	-	-	-	70,562	11,760	70,562	11,760	58,110	9,685
Total Funds	**388,347**	**64,725**	**310,840**	**51,807**	**381,402**	**63,567**	**381,402**	**63,567**	**368,950**	**61,492**
USES										
Estimated Capital Needs	388,347	64,725	388,347	64,725	388,347	64,725	388,347	64,725	388,347	64,725
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**388,347**	**64,725**	**388,347**	**64,725**	**388,347**	**64,725**	**388,347**	**64,725**	**388,347**	**64,725**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**(77,507)**	**(12,918)**	**(6,945)**	**(1,158)**	**(6,945)**	**(1,158)**	**(19,397)**	**(3,233)**

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	302,710	50,452	302,710	50,452	302,710	50,452	302,710	50,452
Operating Deficit Subsidy Needed	147,268	24,545	3,138	523	9,943	1,657	10,643	1,774	9,112	1,519
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**147,268**	**24,545**	**305,848**	**50,975**	**312,653**	**52,109**	**313,353**	**52,226**	**311,822**	**51,970**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	388,347	64,725	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(95,893)	(15,982)	(21,563)	(3,594)	(28,561)	(4,760)	(32,063)	(5,344)
Transaction Capital Subsidy Needed	n/a	n/a	545,741	90,957	591,964	98,661	522,949	87,158	85,417	14,236
Total Capital Subsidy	**388,347**	**64,725**	**449,848**	**74,975**	**570,401**	**95,067**	**494,388**	**82,398**	**53,354**	**8,892**
TOTAL SUBSIDY NEEDED	**535,615**	**89,269**	**755,696**	**125,949**	**883,055**	**147,176**	**807,741**	**134,624**	**365,176**	**60,863**