

CHFA Capital Plan Property Assessment - Adams Apts, Comhall Conv

Property Identification

Adams Apts, Comhall Conv
WETHERSFIELD, CT

Total Current Unit Count: 30
Census Tract: 4922.00
Connecticut Congressional District: 1

CHFA Property Identification #: 85220D, 85222D

Current State Sponsored Housing Program: SH Elderly

This property was originally financed in phases and appears 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. While CHFA still considers them two separate properties, the owner currently treats them as one property for purposes of budgeting, financial reporting and capital needs.

Property Description

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

Summary property description:

The Adams Apts property has 21 efficiency or studio and 9 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as central air conditioning and semi-private outdoor space and common laundry. The property shares a community room at 60 Lancaster Road with the Devlin residents.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 1,271,813

Capital Needs per Unit: \$ 42,394

Projected Year 1 (2014) Operating Income: \$ (4,690)

Current operations at the property are projected to generate negative \$4,700 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 \$1.27 million (\$42,393 per unit) over the next 20 years.

Owner Comments to Property Assessment:

Owner comments to the Capital Needs Assessment:

- The capital needs completed on the Admin Bldg (since they are pro-rated across all properties) should be removed from the Capital Needs Assessment.
- Exterior lighting is slated to be replaced by CL&P.
- There is no common area bathroom on the property.

RECAP Response: The comment period for issues related to the CNAs occurred when the draft CNAs were distributed to the person designated by the owner to review the CNA several months ago, so we are not able to revise CNAs at this time. However, given that the CNA impacts the property analysis, Recap has included the owner comments regarding the CNA to the property assessment so their concerns will be noted.

Revenue Adjustments Prior to a Recapitalization Transaction

Adams Apts, Comhall Conv, continued

Current average income relative to
the Area Median Income (AMI): 16%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	244	16%
One-bedroom unit:	270	17%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	244	16%
One-bedroom unit:	270	17%
Two-bedroom unit:		
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

Adams Apts, Comhall Conv, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	29	29
25-50% of AMI	1	1
50% of AMI or greater	0	0
Total number of units	30	30

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:	244	244
One-bedroom unit:	270	270
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: James Devlin Court

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(759,817)	(1,179,600)
Recoverable Grant Scenario:	(1,978,325)	(3,157,009)
CHFA/FHA Scenario:	(1,649,473)	(3,062,373)
4% LIHTC Scenario:	(1,160,203)	(2,622,703)
9% LIHTC Scenario:	(288,766)	(1,715,945)

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

Adams Apts, Comhall Conv, continued

Recommended Transaction Option:	Current	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.
Recommended Transaction Year	n/a	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 \$755,243 over the course of the next 20 years.
Replacement Reserve Deposit PUPY:	494	
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 low rental revenue and/or 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:	759,817	
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 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 \$11,889 in NOI in the current year, which includes \$500 per unit per year in replacement reserve deposits, trending to negative \$42,767 fifteen years thereafter. The transaction results in a capital subsidy need of \$755,000 and \$590,000 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

Adams Apts, Comhall Conv, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 16,002
 Current Routine Capital Needs: 71,143

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	87,145	-	-	-	-	-
2014	95,153	58,720	-	4,690	-	-
2015	66,211	50,795	-	6,139	-	-
2016	63,891	47,858	-	7,661	-	-
2017	103,672	86,998	-	9,258	-	-
2018	174,379	157,039	-	10,934	-	-
2019	39,354	21,320	-	12,692	-	-
2020	46,190	27,434	-	14,534	-	-
2021	28,271	8,766	-	16,464	-	-
2022	24,118	3,832	-	18,486	-	-

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	17,637	-	-	20,603	-	-
2024	15,050	-	-	22,819	-	-
2025	123,827	90,656	-	25,137	-	-
2026	119,568	95,836	-	27,562	-	-
2027	22,302	-	-	30,098	-	-
2028	62,170	34,123	-	32,748	-	-
2029	59,640	32,945	-	35,519	-	-
2030	57,916	30,153	-	38,413	-	-
2031	42,215	13,341	-	41,436	-	-
2032	23,103	-	-	44,592	-	-

Scenario Pro Formas

Adams Apts, Comhall Conv, 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	120,461	4,015.37	204,008	6,800.28	204,008	6,800	204,008	6,800	204,008	6,800
Vacancy/Loss	(3,546)	(118.21)	(3,546)	(118.21)	(10,200)	(340)	(14,281)	(476)	(14,281)	(476)
Other Income	21,754	725.12	21,754	725.12	21,754	725	21,754	725	21,754	725
Effective Gross Income	138,668	4,622.28	222,216	7,407.20	215,562	7,185	211,481	7,049	211,481	7,049
2023 ANNUAL EXPENSES										
Operating Expenses	138,174	4,606	149,285	4,976	146,012	4,867	145,808	4,860	145,808	4,860
Replacement Reserve Deposits	21,098	703	21,098	703	14,945	498	14,945	498	14,945	498
Total Operating Expenses	159,271	5,309	170,382	5,679	160,956	5,365	160,752	5,358	160,752	5,358
2023 NET OPERATING INCOME	(20,603)	(687)	51,834	1,728	54,605	1,820	50,729	1,691	50,729	1,691
Debt Service	-	-	-	-	34,523	1,151	37,089	1,236	32,380	1,079
2023 CASH FLOW	(20,603)	(687)	51,834	1,728	20,082	669	13,640	455	18,349	612

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	-	-	-	-	600,755	20,025	530,309	17,677	563,454	18,782
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	900,000	30,000	900,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	20,015	667	30,515	1,017	30,515	1,017	30,515	1,017
Cash Escrows	-	-	103,672	3,456	103,672	3,456	103,672	3,456	103,672	3,456
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	122,247	4,075	129,374	4,312	128,803	4,293
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	818,288	27,276	1,653,773	55,126
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	123,688	4,123	857,190	28,573	2,512,159	83,739	3,380,218	112,674
USES										
Acquisition Costs	-	-	-	-	-	-	900,000	30,000	900,000	30,000
Construction Costs	-	-	1,641,377	54,713	1,641,377	54,713	1,659,567	55,319	1,659,567	55,319
Soft Costs - Design & Construction	-	-	187,432	6,248	184,845	6,161	189,160	6,305	189,160	6,305
Soft Costs - Due Diligence	-	-	10,970	366	19,970	666	22,571	752	22,571	752
Soft Costs - Transaction Costs	-	-	40,515	1,351	120,515	4,017	241,350	8,045	241,350	8,045
Soft Costs - Financing	-	-	51,021	1,701	161,748	5,392	191,564	6,385	189,951	6,332
Soft Costs - Other	-	-	17,250	575	19,500	650	19,500	650	19,500	650
Soft Cost Contingency	-	-	15,359	512	25,329	844	29,413	980	28,930	964
Reserves	-	-	-	-	27,762	925	95,802	3,193	95,947	3,198
Developer Fee	-	-	138,088	4,603	305,618	10,187	323,436	10,781	322,008	10,734
Total Uses of Funds	-	-	2,102,013	70,067	2,506,663	83,555	3,672,361	122,412	3,668,983	122,299
TRANSACTION SURPLUS (GAP)	-	-	(1,978,325)	(65,944)	(1,649,473)	(54,982)	(1,160,203)	(38,673)	(288,766)	(9,626)

Scenario Pro Formas (continued)

Adams Apts, Comhall Conv, 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	-	-	1,266,730	42,224	1,266,730	42,224	1,266,730	42,224	1,266,730	42,224
Capital Needs Funded Using Subsidy	759,817	25,327	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	108,755	3,625	108,755	3,625	108,755	3,625	108,755	3,625	108,755	3,625
Replacement Reserves	410,167	13,672	410,167	13,672	290,548	9,685	290,548	9,685	290,548	9,685
Total Funds	1,278,738	42,625	1,785,652	59,522	1,666,033	55,534	1,666,033	55,534	1,666,033	55,534
USES										
Estimated Capital Needs	1,271,813	42,394	1,271,813	42,394	1,271,813	42,394	1,271,813	42,394	1,271,813	42,394
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	1,271,813	42,394	1,271,813	42,394	1,271,813	42,394	1,271,813	42,394	1,271,813	42,394
YEAR 20 REPLACEMENT RESERVE BALANCE	6,926	231	513,839	17,128	394,220	13,141	394,220	13,141	394,220	13,141

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	1,549,960	51,665	1,549,960	51,665	1,549,960	51,665	1,549,960	51,665
Operating Deficit Subsidy Needed	419,783	13,993	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	419,783	13,993	1,549,960	51,665	1,549,960	51,665	1,549,960	51,665	1,549,960	51,665
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	759,817	25,327	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(371,277)	(12,376)	(137,060)	(4,569)	(87,460)	(2,915)	(122,781)	(4,093)
Transaction Capital Subsidy Needed	n/a	n/a	1,978,325	65,944	1,649,473	54,982	1,160,203	38,673	288,766	9,626
Total Capital Subsidy	759,817	25,327	1,607,049	53,568	1,512,413	50,414	1,072,743	35,758	165,985	5,533
TOTAL SUBSIDY NEEDED	1,179,600	39,320	3,157,009	105,234	3,062,373	102,079	2,622,703	87,423	1,715,945	57,198