CHFA Capital Plan Property Assessment - 16 School St

Property Identification

16 School St
NORWALK, CT

Total Current Unit Count:	34
Census Tract:	434.00
Connecticut Congressional District:	0

CHFA Property Identification #: 95094D
Current State Sponsored Housing Program: SH Affordable Housing

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:	5
Maximum # of Stories:	2
Elevator?	None

Summary property description:

The 16 School St property has 20 two-bedroom and 14 three-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as in-unit laundry and semi-private outdoor space.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,928,645
Capital Needs per Unit:	$ 56,725
Projected Year 1 (2014) Operating Income:	$ 74,474

Current operations at the property are projected to generate roughly $74,500 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 2039. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.93 million ($56,724 per unit) over the next 20 years.

Owner Comments to Property Assessment:

We believe the need for affordable housing that for families earning less than 25% of the AMI is critical in this high cost region of the State. There are 361- 2 bedroom and 137- 3 bedroom housing applicants on NHA's public housing waiting list. The supply of housing for those at this income cohort is severely inadequate and most difficult to provide although we recognize this is a policy decision for the State. 16 of the 34 families would be unable to afford the proposed base rents.

Given the high cost of construction in Norwalk, a more detailed review needs to be completed to ascertain if FHA/CHFA financing is viable, as it was very close to a break-even point and may need State support for gap when increased construction costs are utilized.

Current average income relative to the Area Median Income (AMI): 30%

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 greaterheir income for housing and it will require that the property serve tenants with modestly higher incomes.

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	460	17%
Three-bedroom unit:	580	18%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	824	30%
Three-bedroom unit:	952	30%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

Number of current households that would be impacted by the proposed increase in Base Rent: 16

Protecting the 16 Family 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 $114,829 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ 114,830

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: $ 671,015

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 $671,015.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	16	16
25-50% of AMI	14	14
50% of AMI or greater	4	4
Total number of units	34	34

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:		
One-bedroom unit:		
Two-bedroom unit:	824	824
Three-bedroom unit:	952	952
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: $ 0

Property used for market reference: 16 School St

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(230,828)	(230,828)
Recoverable Grant Scenario:	(2,502,196)	(876,792)
CHFA/FHA Scenario:	12,894	-
4% LIHTC Scenario:	1,149,196	-
9% LIHTC Scenario:	2,847,934	-

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

Recommended Transaction Option:	CHFA/FHA
Recommended Transaction Year	2014
Replacement Reserve Deposit PUPY:	425
Debt Service Coverage in Transaction Year:	1.200
Debt Service Coverage in Transaction Year 15:	1.627
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	-

The capital plan recommends using the debt-only scenario to finance the capital needs at this property. The property has positive NOI which can leverage debt sufficient to cover the long-term capital needs without the complexity of a tax credit transaction.

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.

This property has been underwritten assuming replacement reserve deposits of $425 per unit per year, assuming debt service coverage is maintained over 1.627 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $1.93 million.

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 CHFA/FHA scenario, the property yields $242,732 in NOI in the transaction completion year, which includes $425 per unit per year in replacement reserve deposits. After debt service, the property generates $73,351 in cash flow in the capital transaction's completion year, trending to $106,172 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 $2,947,000 in debt. The transaction results in a gap of $000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $230,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $2,502,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs — 16 School St, continued

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	16,524
Current Routine Capital Needs:	292,966

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	**309,490**	-	-	-	-	-
2014	**53,992**	-	-	-	114,830	-
2015	**58,667**	-	-	-	105,413	-
2016	**113,627**	-	-	-	95,575	0
2017	**487,730**	-	-	-	85,301	-
2018	**116,653**	-	-	-	74,577	-
2019	**89,349**	-	-	-	63,391	-
2020	**95,572**	-	-	-	51,727	-
2021	**45,283**	-	-	-	39,571	-
2022	**58,260**	-	-	-	26,908	-

		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	**48,040**	-	-	-	13,723	-
2024	**49,481**	-	-	-	-	-
2025	**55,072**	-	-	-	-	-
2026	**36,927**	-	-	-	-	-
2027	**51,505**	-	-	-	-	-
2028	**44,409**	-	-	-	-	-
2029	**45,742**	-	-	-	-	-
2030	**51,874**	-	-	-	-	-
2031	**48,527**	-	-	-	-	-
2032	**68,445**	-	-	-	-	-

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	332,289	9,773.22	559,279	16,449.39	559,279	16,449	559,279	16,449	559,279	16,449
Vacancy/Loss	(1,250)	(36.78)	(1,250)	(36.78)	(27,964)	(822)	(39,150)	(1,151)	(39,150)	(1,151)
Other Income	44,143	1,298.31	44,143	1,298.31	44,143	1,298	44,143	1,298	44,143	1,298
Effective Gross Income	**375,182**	**11,034.75**	**602,172**	**17,710.93**	**575,458**	**16,925**	**564,272**	**16,596**	**564,272**	**16,596**
2023 ANNUAL EXPENSES										
Operating Expenses	268,165	7,887	298,273	8,773	293,313	8,627	292,754	8,610	292,754	8,610
Replacement Reserve Deposits	48,300	1,421	48,300	1,421	20,567	605	20,567	605	16,937	498
Total Operating Expenses	**316,465**	**9,308**	**346,573**	**10,193**	**313,880**	**9,232**	**313,320**	**9,215**	**309,691**	**9,109**
2023 NET OPERATING INCOME	**58,717**	**1,727**	**255,598**	**7,518**	**261,578**	**7,693**	**250,952**	**7,381**	**254,582**	**7,488**
Debt Service	-	-	-	-	169,381	4,982	166,589	4,900	164,903	4,850
2023 CASH FLOW	**58,717**	**1,727**	**255,598**	**7,518**	**92,197**	**2,712**	**84,363**	**2,481**	**89,678**	**2,638**

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	-	-	-	-	2,947,463	86,690	2,670,432	78,542	2,869,537	84,398
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	3,338,040	98,178	3,375,926	99,292
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	34,697	1,021	49,147	1,446	49,147	1,446	46,597	1,371
Cash Escrows	-	-	366,764	10,787	366,764	10,787	366,764	10,787	366,764	10,787
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	168,657	4,961	179,553	5,281	178,769	5,258
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,806,112	53,121	3,305,404	97,218
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**401,461**	11,808	**3,532,032**	103,883	**8,410,048**	247,354	**10,142,997**	298,323
USES										
Acquisition Costs	-	-	-	-	-	-	3,338,040	98,178	3,375,926	99,292
Construction Costs	-	-	2,280,276	67,067	2,280,276	67,067	2,305,545	67,810	2,305,545	67,810
Soft Costs - Design & Construction	-	-	255,523	7,515	251,929	7,410	257,924	7,586	257,924	7,586
Soft Costs - Due Diligence	-	-	11,936	351	21,136	622	26,872	790	26,918	792
Soft Costs - Transaction Costs	-	-	55,197	1,623	135,197	3,976	262,195	7,712	262,195	7,712
Soft Costs - Financing	-	-	69,822	2,054	253,521	7,456	339,324	9,980	340,448	10,013
Soft Costs - Other	-	-	19,550	575	22,100	650	22,100	650	22,100	650
Soft Cost Contingency	-	-	20,601	606	34,194	1,006	40,755	1,199	40,091	1,179
Reserves	-	-	-	-	99,141	2,916	219,214	6,447	216,995	6,382
Developer Fee	-	-	190,751	5,610	421,643	12,401	448,883	13,202	446,922	13,145
Total Uses of Funds	**-**	**-**	**2,903,658**	85,402	**3,519,137**	103,504	**7,260,852**	213,554	**7,295,063**	214,561
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(2,502,196)**	(73,594)	**12,894**	379	**1,149,196**	33,800	**2,847,934**	83,763

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	-	-	1,759,799	51,759	1,759,799	51,759	1,759,799	51,759	1,759,799	51,759
Capital Needs Funded Using Subsidy	230,828	6,789	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	366,764	10,787	366,764	10,787	366,764	10,787	366,764	10,787	366,764	10,787
Replacement Reserves	2,008,291	59,067	939,023	27,618	399,849	11,760	399,849	11,760	329,288	9,685
Total Funds	**2,605,883**	**76,644**	**3,065,586**	**90,164**	**2,526,412**	**74,306**	**2,526,412**	**74,306**	**2,455,850**	**72,231**
USES										
Estimated Capital Needs	1,928,645	56,725	1,928,645	56,725	1,928,645	56,725	1,928,645	56,725	1,928,645	56,725
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,928,645**	**56,725**	**1,928,645**	**56,725**	**1,928,645**	**56,725**	**1,928,645**	**56,725**	**1,928,645**	**56,725**
YEAR 20 REPLACEMENT RESERVE BALANCE	**677,239**	**19,919**	**1,136,941**	**33,439**	**597,767**	**17,581**	**597,767**	**17,581**	**527,206**	**15,506**

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	671,015	19,736	671,015	19,736	671,015	19,736	671,015	19,736
Operating Deficit Subsidy Needed	0	-	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	0	0	0	0	0	0	0	0
Total Operating Subsidy	**-**	**-**	**671,015**	**19,736**	**671,015**	**19,736**	**671,015**	**19,736**	**671,015**	**19,736**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	230,828	6,789	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(2,296,419)	(67,542)	(671,015)	(19,736)	(671,015)	(19,736)	(671,015)	(19,736)
Transaction Capital Subsidy Needed	n/a	n/a	2,502,196	73,594	-	-	-	-	-	-
Total Capital Subsidy	**230,828**	**6,789**	**205,777**	**6,052**	**(671,015)**	**(19,736)**	**(671,015)**	**(19,736)**	**(671,015)**	**(19,736)**
TOTAL SUBSIDY NEEDED	**230,828**	**6,789**	**876,792**	**25,788**	**-**	**-**	**-**	**-**	**-**	**-**