CHFA Capital Plan Property Assessment - Colonial Village

Property Identification

Colonial Village
NORWALK, CT

Total Current Unit Count:	200
Census Tract:	432.00
Connecticut Congressional District:	0

CHFA Property Identification #: 85136D
Current State Sponsored Housing Program: SH Mod Rental Sec 8 Rehab

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:	Garden/Townhouse
Number of buildings:	46
Maximum # of Stories:	2
Elevator?	None

Summary property description:
The Colonial Village property has 152 two-bedroom and 48 three-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as in-unit laundry, a playground, basketball and tennis courts, a business center/computer room and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 9,063,124
Capital Needs per Unit:	$ 45,316
Projected Year 1 (2014) Operating Income:	$ 485,355

Current operations at the property are projected to generate roughly $485,400 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 2022. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $9.06 million ($45,315 per unit) over the next 20 years.

Owner Comments to Property Assessment:

This property would benefit from architectural revitalization to become a market responsive affordable housing option, rather than only doing capital improvements. We have just reviewed preliminary ideas for architectural revitalization which present terrific possibilities, but it is too early in the process to prepare cost estimates.

Unbeknownst to the preparers of this report we have vacant land on this site that we will be developing for additional housing and it is advantageous for both local and financial reasons to advance this as one project. Financing will be needed to implement this vision, including possible State support for gap financing.

Construction will soon begin on a replacement for a Community Center that was demolished.

Section 8 budget scenarios need to be reviewed to maximize income potential to leverage maximum financing.

Current average income relative to the Area Median Income (AMI): 18%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	2,077	76%
Three-bedroom unit:	2,454	77%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	2,077	76%
Three-bedroom unit:	2,454	77%
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: $ -

As decribed above, the property is projected to generate negative NOI beginning in 2022. In order for the property to operate in a sustainable manner into the foreseeable future it would benefit from either greater revenues or reduced operating expenses. This property currently has a project-based Section 8 contract, which allow the residents to pay an affordable rent based on their income. Due to the strong current Section 8 rents and stable revenue source they provide, the property would likely just need to continually evalute its operating expenses to ensure its long term stability.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	200	200
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	200	200

While the 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 Section 8 contract. A Section 8 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 Section 8 contract are a viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the Section 8 contract subsidy, is used to generate enough income for the property to operate at a sustainable level.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	2,077	2,077
Three-bedroom unit:	2,454	2,454
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: $ -

Property used for market reference: Colonial Village

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	-	(5,863,420)
Recoverable Grant Scenario:	(5,336,698)	(15,498,795)
CHFA/FHA Scenario:	9,640,244	-
4% LIHTC Scenario:	11,485,058	-
9% LIHTC Scenario:	17,727,960	-

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	Colonial Village, continued

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:	1.122
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 1.122 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $9.06 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 $1,396,415 in NOI in the transaction completion year, which includes $425 per unit per year in replacement reserve deposits. After debt service, the property generates $421,981 in cash flow in the capital transaction's completion year, trending to $118,441 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 $16,956,000 in debt. The transaction results in no gap or State subsidy need. This compares to a needs gap of over $5,863,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $5,336,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	262,572
Current Routine Capital Needs:	878,875

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	**1,141,447**	-	-	-	-	-
2014	**86,371**	-	-	-	-	-
2015	**2,563,011**	-	-	-	-	-
2016	**120,042**	-	-	-	-	-
2017	**229,203**	-	-	-	-	-
2018	**256,145**	-	-	-	-	-
2019	**243,161**	-	-	-	-	-
2020	**252,055**	-	-	-	-	-
2021	**337,655**	-	-	-	-	-
2022	**268,840**	-	-	-	-	-

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	**453,868**	-	-	-	-	-
2024	**285,489**	-	-	-	-	-
2025	**156,627**	-	-	-	-	-
2026	**179,682**	-	-	-	-	-
2027	**418,874**	-	-	-	-	-
2028	**458,407**	-	-	-	-	-
2029	**444,384**	-	-	-	-	-
2030	**478,027**	-	-	-	-	-
2031	**471,447**	-	-	-	-	-
2032	**218,391**	-	-	-	-	-

Scenario Pro Formas

Colonial Village, continued

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	6,467,973	32,339.87	6,467,973	32,339.87	6,467,973	32,340	6,467,973	32,340	6,467,973	32,340
Vacancy/Loss	(72,426)	(362.13)	(72,426)	(362.13)	(323,399)	(1,617)	(452,758)	(2,264)	(452,758)	(2,264)
Other Income	26,238	131.19	26,238	131.19	26,238	131	26,238	131	26,238	131
Effective Gross Income	**6,421,786**	**32,108.93**	**6,421,786**	**32,108.93**	**6,170,813**	**30,854**	**6,041,454**	**30,207**	**6,041,454**	**30,207**
2023 ANNUAL EXPENSES										
Operating Expenses	4,525,867	22,629	4,846,956	24,235	4,765,770	23,829	4,759,302	23,797	4,759,302	23,797
Replacement Reserve Deposits	2,020,260	10,101	2,020,260	10,101	120,982	605	120,982	605	99,632	498
Total Operating Expenses	**6,546,127**	**32,731**	**6,867,216**	**34,336**	**4,886,752**	**24,434**	**4,880,284**	**24,401**	**4,858,934**	**24,295**
2023 NET OPERATING INCOME	**(124,341)**	**(622)**	**(445,430)**	**(2,227)**	**1,284,062**	**6,420**	**1,161,170**	**5,806**	**1,182,520**	**5,913**
Debt Service	-	-	-	-	974,433	4,872	860,317	4,302	889,203	4,446
2023 CASH FLOW	**(124,341)**	**(622)**	**(445,430)**	**(2,227)**	**309,628**	**1,548**	**300,853**	**1,504**	**293,317**	**1,467**

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	-	-	-	-	16,956,468	84,782	14,135,015	70,675	15,473,340	77,367
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	17,948,050	89,740	18,170,907	90,855
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	660,321	3,302	745,321	3,727	745,321	3,727	730,321	3,652
Cash Escrows	-	-	7,410,521	37,053	7,410,521	37,053	7,410,521	37,053	7,410,521	37,053
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	746,844	3,734	785,835	3,929	784,276	3,921
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	7,407,413	37,037	12,338,597	61,693
Other	-		-		-		-		-	
Total Sources of Funds	-	-	**8,070,842**	40,354	**25,859,154**	129,296	**48,432,155**	242,161	**54,907,962**	274,540
USES										
Acquisition Costs	-	-	-	-	502,354	2,512	18,450,404	92,252	18,673,261	93,366
Construction Costs	-	-	10,230,356	51,152	10,230,356	51,152	10,343,726	51,719	10,343,726	51,719
Soft Costs - Design & Construction	-	-	1,049,357	5,247	1,033,232	5,166	1,058,427	5,292	1,058,427	5,292
Soft Costs - Due Diligence	-	-	29,776	149	47,879	239	79,553	398	79,820	399
Soft Costs - Transaction Costs	-	-	680,821	3,404	760,821	3,804	964,512	4,823	964,512	4,823
Soft Costs - Financing	-	-	312,090	1,560	929,851	4,649	1,344,962	6,725	1,365,818	6,829
Soft Costs - Other	-	-	115,000	575	130,000	650	130,000	650	130,000	650
Soft Cost Contingency	-	-	109,352	547	145,089	725	165,869	829	164,549	823
Reserves	-	-	-	-	572,217	2,861	2,445,055	12,225	2,439,199	12,196
Developer Fee	-	-	880,787	4,404	1,867,110	9,336	1,964,588	9,823	1,960,689	9,803
Total Uses of Funds	-	-	**13,407,540**	67,038	**16,218,911**	81,095	**36,947,097**	184,735	**37,180,002**	185,900
TRANSACTION SURPLUS (GAP)	-	-	**(5,336,698)**	(26,683)	**9,640,244**	48,201	**11,485,058**	57,425	**17,727,960**	88,640

Scenario Pro Formas (continued)

Colonial Village, 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	-	-	7,895,260	39,476	7,895,260	39,476	7,895,260	39,476	7,895,260	39,476
Capital Needs Funded Using Subsidy	-	-	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	7,410,521	37,053	7,410,521	37,053	7,410,521	37,053	7,410,521	37,053	7,410,521	37,053
Replacement Reserves	41,473,435	207,367	39,276,759	196,384	2,352,054	11,760	2,352,054	11,760	1,936,986	9,685
Total Funds	**48,883,956**	**244,420**	**54,582,540**	**272,913**	**17,657,835**	**88,289**	**17,657,835**	**88,289**	**17,242,767**	**86,214**
USES										
Estimated Capital Needs	9,063,124	45,316	9,063,124	45,316	9,063,124	45,316	9,063,124	45,316	9,063,124	45,316
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**9,063,124**	**45,316**	**9,063,124**	**45,316**	**9,063,124**	**45,316**	**9,063,124**	**45,316**	**9,063,124**	**45,316**
YEAR 20 REPLACEMENT RESERVE BALANCE	**39,820,832**	**199,104**	**45,519,416**	**227,597**	**8,594,711**	**42,974**	**8,594,711**	**42,974**	**8,179,643**	**40,898**

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	-	-	0	-	0	-	0	-
Operating Deficit Subsidy Needed	5,863,420	29,317	10,304,121	51,521	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**5,863,420**	**29,317**	**10,304,121**	**51,521**	**-**	**-**	**-**	**-**	**-**	**-**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	0	-	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(142,025)	(710)	-	-	-	-	-	-
Transaction Capital Subsidy Needed	n/a	n/a	5,336,698	26,683	-	-	-	-	-	-
Total Capital Subsidy	**-**	**-**	**5,194,673**	**25,973**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL SUBSIDY NEEDED	**5,863,420**	**29,317**	**15,498,795**	**77,494**	**-**	**-**	**-**	**-**	**-**	**-**