CHFA Capital Plan Property Assessment - Holinko Estates

Property Identification

Holinko Estates
MANSFIELD, CT

Total Current Unit Count:	35
Census Tract:	8813.00
Connecticut Congressional District:	2

<u>CHFA Property Identification #:</u> 92051D
<u>Current State Sponsored Housing Program:</u> 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:	5
Maximum # of Stories:	2
Elevator?	None

<u>Summary property description:</u>
The Holinko Estates property has 21 two-bedroom, 13 three-bedroom and 1 four-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as a refrigerator and stove, common laundry, and an outdoor playground/tot lot.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	2,664,490
Capital Needs per Unit:	$	76,128
Projected Year 1 (2014) Operating Income:	$	51,517

Current operations at the property are projected to generate roughly $51,500 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 2031. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $2.66 million ($76,128 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): 35%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	580	30%
Three-bedroom unit:	615	28%
Four-bedroom unit:	715	29%
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	580	30%
Three-bedroom unit:	615	28%
Four-bedroom unit:	715	29%
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

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: n/a

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	18	18
25-50% of AMI	14	14
50% of AMI or greater	3	3
Total number of units	35	35

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:		
One-bedroom unit:		
Two-bedroom unit:	580	580
Three-bedroom unit:	615	615
Four-bedroom unit:	715	715
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

Transitional rental operating subsidy necessary to protect current residents and permit a five-year transition to income tier occupancy: n/a

Property used for market reference: Holinko Estates

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(308,574)	(313,549)
Recoverable Grant Scenario:	(4,187,848)	(4,007,869)
CHFA/FHA Scenario:	(4,970,268)	(4,577,780)
4% LIHTC Scenario:	(3,510,538)	(3,413,851)
9% LIHTC Scenario:	(871,508)	(781,750)

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:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	-
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	308,574
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 $308,574 over the course of the next 20 years.

While on its face, the "Current Scenario" approach tends to need less subsidy and is less disruptive from the perspective of the residents and the current operations, it does have downsides. This approach would require the State to have a much more active role in supervising both capital and operating budgets, in order to ensure that the subsidy is only what is minimally needed to keep the property well maintained. 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 has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields $51,517 in NOI in the current year, which includes $0 per unit per year in replacement reserve deposits, trending to $13,067 fifteen years thereafter. The transaction results in a capital subsidy need of $308,000 and $4,975 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:	3,923
Current Routine Capital Needs:	181,156

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	**185,078**	-	-	-	-	-
2014	**165,169**	-	-	-	-	-
2015	**94,771**	-	-	-	-	-
2016	**92,696**	-	-	-	-	-
2017	**86,084**	-	-	-	-	-
2018	**233,377**	-	-	-	-	-
2019	**61,860**	-	-	-	-	-
2020	**60,488**	-	-	-	-	-
2021	**322,261**	-	-	-	-	-
2022	**74,457**	-	-	-	-	-

		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	**86,862**	-	-	-	-	-
2024	**87,422**	-	-	-	-	-
2025	**71,043**	-	-	-	-	-
2026	**104,247**	-	-	-	-	-
2027	**108,038**	-	-	-	-	-
2028	**66,876**	-	-	-	-	-
2029	**93,101**	-	-	-	-	-
2030	**82,493**	-	-	-	-	-
2031	**336,974**	145,538	-	57	-	-
2032	**251,193**	163,036	-	4,918	-	-

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	338,546	9,672.74	379,048	10,829.93	379,048	10,830	379,048	10,830	379,048	10,830
Vacancy/Loss	(2,238)	(63.94)	(2,238)	(63.94)	(18,952)	(541)	(26,533)	(758)	(26,533)	(758)
Other Income	6,068	173.38	6,068	173.38	6,068	173	6,068	173	6,068	173
Effective Gross Income	**342,376**	**9,782.17**	**382,878**	**10,939.36**	**366,163**	**10,462**	**358,583**	**10,245**	**358,583**	**10,245**
2023 ANNUAL EXPENSES										
Operating Expenses	249,800	7,137	268,944	7,684	262,513	7,500	262,134	7,490	262,134	7,490
Replacement Reserve Deposits	61,938	1,770	61,938	1,770	21,172	605	21,172	605	17,436	498
Total Operating Expenses	**311,738**	**8,907**	**330,882**	**9,454**	**283,684**	**8,105**	**283,305**	**8,094**	**279,569**	**7,988**
2023 NET OPERATING INCOME	**30,638**	**875**	**51,996**	**1,486**	**82,479**	**2,357**	**75,277**	**2,151**	**79,013**	**2,258**
Debt Service	-	-	-	-	50,956	1,456	42,519	1,215	47,999	1,371
2023 CASH FLOW	**30,638**	**875**	**51,996**	**1,486**	**31,523**	**901**	**32,758**	**936**	**31,014**	**886**

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	-	-	-	-	886,704	25,334	620,044	17,716	835,255	23,864
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	15,169	433	30,044	858	30,044	858	27,419	783
Cash Escrows	-	-	725,174	20,719	635,766	18,165	635,766	18,165	627,572	17,931
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	281,797	8,051	289,646	8,276	288,166	8,233
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	2,069,674	59,134	4,500,083	128,574
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**740,343**	21,153	**1,834,311**	52,409	**3,645,174**	104,148	**6,278,494**	179,386
USES										
Acquisition Costs	-	-	-	-	1,050,000	30,000	1,050,000	30,000	1,050,000	30,000
Construction Costs	-	-	3,951,774	112,908	3,946,691	112,763	3,990,427	114,012	3,990,427	114,012
Soft Costs - Design & Construction	-	-	433,665	12,390	426,903	12,197	437,278	12,494	437,278	12,494
Soft Costs - Due Diligence	-	-	13,992	400	24,496	700	26,299	751	26,299	751
Soft Costs - Transaction Costs	-	-	35,669	1,019	115,669	3,305	258,742	7,393	258,742	7,393
Soft Costs - Financing	-	-	118,137	3,375	422,602	12,074	426,170	12,176	424,527	12,129
Soft Costs - Other	-	-	20,125	575	22,750	650	22,750	650	22,750	650
Soft Cost Contingency	-	-	31,079	888	50,621	1,446	52,799	1,509	51,545	1,473
Reserves	-	-	-	-	40,353	1,153	167,131	4,775	168,019	4,801
Developer Fee	-	-	323,750	9,250	704,494	20,128	724,116	20,689	720,414	20,583
Total Uses of Funds	**-**	**-**	**4,928,191**	140,805	**6,804,578**	194,417	**7,155,712**	204,449	**7,150,002**	204,286
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(4,187,848)**	(119,653)	**(4,970,268)**	(142,008)	**(3,510,538)**	(100,301)	**(871,508)**	(24,900)

Scenario Pro Formas (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	-	-	3,049,775	87,136	3,045,852	87,024	3,045,852	87,024	3,045,852	87,024
Capital Needs Funded Using Subsidy	308,574	8,816	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	616,109	17,603	616,109	17,603	616,109	17,603	616,109	17,603	616,109	17,603
Replacement Reserves	1,739,807	49,709	1,204,162	34,405	411,610	11,760	411,610	11,760	338,973	9,685
Total Funds	**2,664,490**	**76,128**	**4,870,046**	**139,144**	**4,073,571**	**116,388**	**4,073,571**	**116,388**	**4,000,934**	**114,312**
USES										
Estimated Capital Needs	2,664,490	76,128	2,664,490	76,128	2,664,490	76,128	2,664,490	76,128	2,664,490	76,128
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**2,664,490**	**76,128**	**2,664,490**	**76,128**	**2,664,490**	**76,128**	**2,664,490**	**76,128**	**2,664,490**	**76,128**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**2,205,556**	**63,016**	**1,409,080**	**40,259**	**1,409,080**	**40,259**	**1,336,443**	**38,184**

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	63,461	1,813	63,461	1,813	63,461	1,813	63,461	1,813
Operating Deficit Subsidy Needed	4,975	142	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Operating Subsidy	**4,975**	**142**	**63,461**	**1,813**	**63,461**	**1,813**	**63,461**	**1,813**	**63,461**	**1,813**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	308,574	8,816	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(243,440)	(6,955)	(455,948)	(13,027)	(160,148)	(4,576)	(153,219)	(4,378)
Transaction Capital Subsidy Needed	n/a	n/a	4,187,848	119,653	4,970,268	142,008	3,510,538	100,301	871,508	24,900
Total Capital Subsidy	**308,574**	**8,816**	**3,944,408**	**112,697**	**4,514,319**	**128,981**	**3,350,389**	**95,725**	**718,289**	**20,523**
TOTAL SUBSIDY NEEDED	**313,549**	**8,959**	**4,007,869**	**114,511**	**4,577,780**	**130,794**	**3,413,851**	**97,539**	**781,750**	**22,336**