

CHFA Capital Plan Property Assessment - Quarry Heights, Quarry Heights Ext

Property Identification

Quarry Heights, Quarry Heights Ext
PORTLAND, CT

Total Current Unit Count: 70
Census Tract: 5602.00
Connecticut Congressional District: 1

CHFA Property Identification #: 85150D, 85151D

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. Recap also recommends that the owner and CHFA merge the properties for purposes of reporting, accounting and ownership.

Property Description

Tenancy Type: Elderly/Disabled
Structure Type: Low rise (1-4 floors)
Number of buildings: 9
Maximum # of Stories: 2
Elevator? None

Summary property description:

The Quarry Heights property has 70 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, central air conditioning, and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 2,804,126

Capital Needs per Unit: \$ 40,059

Projected Year 1 (2014) Operating Income: \$ (472)

Current operations at the property are projected to generate negative \$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 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 \$2.8 million (\$40,058 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Quarry Heights, Quarry Heights Ext , continued

Current average income relative to the Area Median Income (AMI): 21%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	240	15%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	240	15%
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

Quarry Heights, Quarry Heights Ext , continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	53	53
25-50% of AMI	17	17
50% of AMI or greater	0	0
Total number of units	70	70

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:	240	240
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: Quarry Heights

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,357,516)	(2,962,348)
Recoverable Grant Scenario:	(4,408,565)	(6,799,509)
CHFA/FHA Scenario:	(3,154,592)	(6,451,207)
4% LIHTC Scenario:	(2,044,912)	(5,467,470)
9% LIHTC Scenario:	(220,467)	(3,612,024)

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

Quarry Heights, Quarry Heights Ext , 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 \$2,357,516 over the course of the next 20 years.
Replacement Reserve Deposit PUPY:	173	
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 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:	2,357,516	
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 \$472 in NOI in the current year, which includes \$173 per unit per year in replacement reserve deposits, trending to negative \$49,761 fifteen years thereafter. The transaction results in a capital subsidy need of \$2,358,000 and \$605,000 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

Quarry Heights, Quarry Heights Ext , continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 0
 Current Routine Capital Needs: 279,204

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	279,204	166,904	-	-	-	-
2014	156,287	144,205	-	8,056	-	-
2015	212,669	200,104	-	10,594	-	-
2016	164,372	151,305	-	5,676	-	-
2017	83,274	69,684	-	8,477	-	-
2018	66,532	52,398	-	11,417	-	-
2019	26,270	11,571	-	14,502	-	-
2020	52,455	37,168	-	17,737	-	-
2021	27,870	11,972	-	21,128	-	-
2022	149,179	132,644	-	24,681	-	-

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	164,893	147,697	-	28,402	-	-
2024	160,354	142,470	-	32,297	-	-
2025	325,608	307,009	-	36,374	-	-
2026	89,009	69,666	-	40,639	-	-
2027	115,336	95,220	-	45,099	-	-
2028	174,221	153,300	-	49,761	-	-
2029	160,601	138,842	-	54,634	-	-
2030	104,098	81,470	-	59,724	-	-
2031	107,221	83,687	-	65,041	-	-
2032	184,672	160,197	-	70,592	-	-

Scenario Pro Formas

Quarry Heights, Quarry Heights Ext , 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	296,694	4,238.49	543,775	7,768.22	543,775	7,768	543,775	7,768	543,775	7,768
Vacancy/Loss	(14,560)	(208.00)	(14,560)	(208.00)	(27,189)	(388)	(38,064)	(544)	(38,064)	(544)
Other Income	5,023	71.76	5,023	71.76	5,023	72	5,023	72	5,023	72
Effective Gross Income	287,157	4,102.25	534,239	7,631.98	521,610	7,452	510,734	7,296	510,734	7,296
2023 ANNUAL EXPENSES										
Operating Expenses	298,363	4,262	325,075	4,644	318,965	4,557	318,422	4,549	318,422	4,549
Replacement Reserve Deposits	17,196	246	17,196	246	34,871	498	34,871	498	34,871	498
Total Operating Expenses	315,559	4,508	342,271	4,890	353,836	5,055	353,293	5,047	353,293	5,047
2023 NET OPERATING INCOME	(28,402)	(406)	191,968	2,742	167,773	2,397	157,442	2,249	157,442	2,249
Debt Service	-	-	-	-	102,279	1,461	100,698	1,439	96,565	1,380
2023 CASH FLOW	(28,402)	(406)	191,968	2,742	65,495	936	56,743	811	60,877	870

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	-	-	-	-	1,779,790	25,426	1,581,519	22,593	1,680,364	24,005
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,075,694	29,653	2,075,694	29,653
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	39,242	561	63,742	911	63,742	911	63,742	911
Cash Escrows	-	-	54,611	780	54,611	780	54,611	780	54,611	780
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	256,917	3,670	268,093	3,830	266,955	3,814
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,734,297	24,776	3,454,981	49,357
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	93,853	1,341	2,155,061	30,787	5,777,957	82,542	7,596,348	108,519
USES										
Acquisition Costs	-	-	-	-	24,306	347	2,100,000	30,000	2,100,000	30,000
Construction Costs	-	-	3,558,722	50,839	3,558,722	50,839	3,598,159	51,402	3,598,159	51,402
Soft Costs - Design & Construction	-	-	391,775	5,597	386,166	5,517	395,522	5,650	395,522	5,650
Soft Costs - Due Diligence	-	-	15,270	218	26,300	376	32,338	462	32,338	462
Soft Costs - Transaction Costs	-	-	59,742	853	139,742	1,996	279,073	3,987	279,073	3,987
Soft Costs - Financing	-	-	110,026	1,572	362,952	5,185	424,240	6,061	421,560	6,022
Soft Costs - Other	-	-	40,250	575	45,500	650	45,500	650	45,500	650
Soft Cost Contingency	-	-	30,853	441	48,033	686	53,238	761	52,275	747
Reserves	-	-	-	-	75,639	1,081	224,567	3,208	225,001	3,214
Developer Fee	-	-	295,779	4,225	642,293	9,176	670,233	9,575	667,389	9,534
Total Uses of Funds	-	-	4,502,419	64,320	5,309,652	75,852	7,822,869	111,755	7,816,815	111,669
TRANSACTION SURPLUS (GAP)	-	-	(4,408,565)	(62,980)	(3,154,592)	(45,066)	(2,044,912)	(29,213)	(220,467)	(3,150)

Scenario Pro Formas (continued)

Quarry Heights, Quarry Heights Ext , 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	-	-	2,746,437	39,235	2,746,437	39,235	2,746,437	39,235	2,746,437	39,235
Capital Needs Funded Using Subsidy	2,357,516	33,679	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	112,300	1,604	112,300	1,604	112,300	1,604	112,300	1,604	112,300	1,604
Replacement Reserves	334,311	4,776	334,311	4,776	677,945	9,685	677,945	9,685	677,945	9,685
Total Funds	2,804,126	40,059	3,193,048	45,615	3,536,683	50,524	3,536,683	50,524	3,536,683	50,524
USES										
Estimated Capital Needs	2,804,126	40,059	2,804,126	40,059	2,804,126	40,059	2,804,126	40,059	2,804,126	40,059
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	2,804,126	40,059	2,804,126	40,059	2,804,126	40,059	2,804,126	40,059	2,804,126	40,059
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	388,922	5,556	732,556	10,465	732,556	10,465	732,556	10,465

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	3,830,773	54,725	3,830,773	54,725	3,830,773	54,725	3,830,773	54,725
Operating Deficit Subsidy Needed	604,832	8,640	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	604,832	8,640	3,830,773	54,725	3,830,773	54,725	3,830,773	54,725	3,830,773	54,725
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,357,516	33,679	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,439,829)	(20,569)	(534,157)	(7,631)	(408,216)	(5,832)	(439,216)	(6,275)
Transaction Capital Subsidy Needed	n/a	n/a	4,408,565	62,980	3,154,592	45,066	2,044,912	29,213	220,467	3,150
Total Capital Subsidy	2,357,516	33,679	2,968,737	42,411	2,620,435	37,435	1,636,697	23,381	(218,749)	(3,125)
TOTAL SUBSIDY NEEDED	2,962,348	42,319	6,799,509	97,136	6,451,207	92,160	5,467,470	78,107	3,612,024	51,600