CHFA Capital Plan Property Assessment - Spencer Village & Spencer Village Extension

Property Identification

Spencer Village & Spencer Village Extension
MANCHESTER, CT

Total Current Unit Count:	80
Census Tract:	5151.02
Connecticut Congressional District:	0

CHFA Property Identification #: 85090D, 85091D
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:	Row House
Number of buildings:	15
Maximum # of Stories:	2
Elevator?	None

Summary property description:

The Spencer Village property has 80 efficiency or studio units. Generally, the property consists of relatively small units. It features amenities such as owner provided air-conditioning, common laundry, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	2,361,617
Capital Needs per Unit:	$	29,520
Projected Year 1 (2014) Operating Income:	$	(19,568)

Current operations at the property are projected to generate negative $19,600 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 $2.36 million ($29,520 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 20%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	345	23%
One-bedroom unit:		
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	345	23%
One-bedroom unit:		
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
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

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: n/a

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.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	65	65
25-50% of AMI	14	14
50% of AMI or greater	1	1
Total number of units	80	80

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:	450	450
One-bedroom unit:		
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: Spencer Village

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(648,008)	(2,104,762)
Recoverable Grant Scenario:	(4,165,715)	(6,106,829)
CHFA/FHA Scenario:	(4,003,673)	(5,684,036)
4% LIHTC Scenario:	(2,979,870)	(4,655,880)
9% LIHTC Scenario:	(1,183,802)	(2,859,771)

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	Spencer Village & Spencer Village Extension, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	823
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	648,008
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 $648,008 over the course of the next 20 years.

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.

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 $19,568 in NOI in the current year, which includes $823 per unit per year in replacement reserve deposits, trending to negative $111,644 fifteen years thereafter. The transaction results in a capital subsidy need of $658,008 and $1,456,755 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:	51,232
Current Routine Capital Needs:	151,536

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	**202,768**	96,551	-	-	-	-
2014	**62,362**	-	-	19,568	-	-
2015	**105,852**	33,963	-	24,316	-	-
2016	**100,444**	29,265	-	29,301	-	-
2017	**152,631**	78,605	-	34,536	-	-
2018	**100,369**	23,381	-	40,028	-	-
2019	**120,932**	40,864	-	45,790	-	-
2020	**81,837**	-	-	51,831	-	-
2021	**88,683**	650	-	58,162	-	-
2022	**111,912**	21,848	-	64,796	-	-

		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	**283,408**	189,740	-	71,743	-	-
2024	**172,242**	74,827	-	79,017	-	-
2025	**50,373**	-	-	86,631	-	-
2026	**51,885**	-	-	94,597	-	-
2027	**89,815**	-	-	102,930	-	-
2028	**296,453**	58,314	-	111,644	-	-
2029	**79,980**	-	-	120,753	-	-
2030	**87,569**	-	-	130,274	-	-
2031	**60,148**	-	-	140,223	-	-
2032	**61,953**	-	-	150,615	-	-

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	444,705	5,558.82	574,096	7,176.20	574,096	7,176	574,096	7,176	574,096	7,176
Vacancy/Loss	(32,695)	(408.69)	(32,695)	(408.69)	(32,695)	(409)	(40,187)	(502)	(40,187)	(502)
Other Income	6,506	81.33	6,506	81.33	6,506	81	6,506	81	6,506	81
Effective Gross Income	**418,517**	**5,231.46**	**547,907**	**6,848.84**	**547,907**	**6,849**	**540,415**	**6,755**	**540,415**	**6,755**
2023 ANNUAL EXPENSES										
Operating Expenses	396,592	4,957	423,988	5,300	413,735	5,172	413,360	5,167	413,360	5,167
Replacement Reserve Deposits	93,667	1,171	93,667	1,171	39,853	498	39,853	498	39,853	498
Total Operating Expenses	**490,260**	**6,128**	**517,655**	**6,471**	**453,587**	**5,670**	**453,213**	**5,665**	**453,213**	**5,665**
2023 NET OPERATING INCOME	**(71,743)**	**(897)**	**30,252**	**378**	**94,320**	**1,179**	**87,203**	**1,090**	**87,203**	**1,090**
Debt Service	-	-	-	-	35,975	450	27,604	345	27,597	345
2023 CASH FLOW	**(71,743)**	**(897)**	**30,252**	**378**	**58,344**	**729**	**59,598**	**745**	**59,605**	**745**

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	-	-	-	-	626,018	7,825	373,557	4,669	480,230	6,003
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,400,000	30,000	2,400,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	38,886	486	66,886	836	66,886	836	66,886	836
Cash Escrows	-	-	284,489	3,556	166,463	2,081	166,463	2,081	166,463	2,081
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	249,876	3,123	261,434	3,268	260,331	3,254
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,768,184	22,102	3,455,063	43,188
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**323,375**	4,042	**1,109,243**	13,866	**5,036,525**	62,957	**6,828,974**	85,362
USES										
Acquisition Costs	-	-	-	-	-	-	2,400,000	30,000	2,400,000	30,000
Construction Costs	-	-	3,541,572	44,270	3,475,187	43,440	3,513,698	43,921	3,513,698	43,921
Soft Costs - Design & Construction	-	-	389,947	4,874	377,395	4,717	386,531	4,832	386,531	4,832
Soft Costs - Due Diligence	-	-	15,750	197	27,170	340	34,096	426	34,096	426
Soft Costs - Transaction Costs	-	-	59,386	742	139,386	1,742	277,911	3,474	277,911	3,474
Soft Costs - Financing	-	-	110,454	1,381	325,050	4,063	394,170	4,927	391,748	4,897
Soft Costs - Other	-	-	46,000	575	52,000	650	52,000	650	52,000	650
Soft Cost Contingency	-	-	31,077	388	46,050	576	51,609	645	50,675	633
Reserves	-	-	-	-	45,988	575	252,792	3,160	255,288	3,191
Developer Fee	-	-	294,904	3,686	624,690	7,809	653,586	8,170	650,828	8,135
Total Uses of Funds	**-**	-	**4,489,090**	56,114	**5,112,916**	63,911	**8,016,394**	100,205	**8,012,776**	100,160
TRANSACTION SURPLUS (GAP)	**-**	-	**(4,165,715)**	(52,071)	**(4,003,673)**	(50,046)	**(2,979,870)**	(37,248)	**(1,183,802)**	(14,798)

Scenario Pro Formas (continued)

Spencer Village & Spencer Village Extension, 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	-	-	2,733,202	34,165	2,681,970	33,525	2,681,970	33,525	2,681,970	33,525
Capital Needs Funded Using Subsidy	648,008	8,100	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	106,217	1,328	106,217	1,328	106,217	1,328	106,217	1,328	106,217	1,328
Replacement Reserves	1,821,029	22,763	1,821,029	22,763	774,794	9,685	774,794	9,685	774,794	9,685
Total Funds	**2,575,254**	**32,191**	**4,660,448**	**58,256**	**3,562,981**	**44,537**	**3,562,981**	**44,537**	**3,562,981**	**44,537**
USES										
Estimated Capital Needs	2,361,617	29,520	2,361,617	29,520	2,361,617	29,520	2,361,617	29,520	2,361,617	29,520
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**2,361,617**	**29,520**	**2,361,617**	**29,520**	**2,361,617**	**29,520**	**2,361,617**	**29,520**	**2,361,617**	**29,520**
YEAR 20 REPLACEMENT RESERVE BALANCE	**213,637**	**2,670**	**2,298,831**	**28,735**	**1,201,364**	**15,017**	**1,201,364**	**15,017**	**1,201,364**	**15,017**

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	1,958,624	24,483	1,958,624	24,483	1,958,624	24,483	1,958,624	24,483
Operating Deficit Subsidy Needed	1,456,755	18,209	68,445	856	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**1,456,755**	**18,209**	**2,027,068**	**25,338**	**1,958,624**	**24,483**	**1,958,624**	**24,483**	**1,958,624**	**24,483**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	648,008	8,100	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(85,954)	(1,074)	(278,261)	(3,478)	(282,614)	(3,533)	(282,655)	(3,533)
Transaction Capital Subsidy Needed	n/a	n/a	4,165,715	52,071	4,003,673	50,046	2,979,870	37,248	1,183,802	14,798
Total Capital Subsidy	**648,008**	**8,100**	**4,079,761**	**50,997**	**3,725,412**	**46,568**	**2,697,256**	**33,716**	**901,148**	**11,264**
TOTAL SUBSIDY NEEDED	**2,104,762**	**26,310**	**6,106,829**	**76,335**	**5,684,036**	**71,050**	**4,655,880**	**58,198**	**2,859,771**	**35,747**