CHFA Capital Plan Property Assessment - Eastman Curran Terrace

Property Identification

Eastman Curran Terrace
WINDHAM, CT

Total Current Unit Count:	78
Census Tract:	8003.00
Connecticut Congressional District:	2

CHFA Property Identification #: 85224D
Current State Sponsored Housing Program: 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:	Duplex
Number of buildings:	44
Maximum # of Stories:	2
Elevator?	None

Summary property description:

The Eastman Curran Terrace property has 16 one-bedroom, 32 two-bedroom, 28 three-bedroom and 2 four-bedroom units. Generally, the property consists of relatively spacious units. It features limited amenities.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 3,440,143
Capital Needs per Unit:	$ 44,104
Projected Year 1 (2014) Operating Income:	$ 17,167

Current operations at the property are projected to generate roughly $17,200 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 2018. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $3.44 million ($44,104 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 28%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	250	16%
Two-bedroom unit:	285	15%
Three-bedroom unit:	340	16%
Four-bedroom unit:	380	16%
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	466	30%
Two-bedroom unit:	559	30%
Three-bedroom unit:	645	30%
Four-bedroom unit:	720	30%
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: $ 184,115

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: $ 4,205,278

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. The Capital Plan is modeled with the assumption that the State will be making new rental assistance payment contracts available and this analysis recommends that a RAP contract be established for this property. The RAP allows the residents to pay an affordable rent based on their income and pays the difference up to an agreed revenue level which this Capital Plan recommends be set high enough to generate a sustainable revenue stream.

Low base rent levels maximize affordability for households in the community. However, if the property's revenue stream (including any available operating subsidy) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, necessary repairs and maintenance will get deferred. An extended period of deferred maintenance can put the property itself at risk, which would be a significant blow to the availability of affordable housing in the area.

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, 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.

The figures to the left indicate the additional rental operating subsidy which would be necessary in 2014 to cover this base rent increase as well as the total 20 year impact given that this subsidy need will recur annually, with inflation increases. Since the rental assistance payment protects the residents of the property, none of the actual households would be impacted by the increase in the base rent and the property would continue to serve the current resident demographic.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	42	78
25-50% of AMI	31	0
50% of AMI or greater	5	0
Total number of units	78	78

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	466	750
Two-bedroom unit:	559	750
Three-bedroom unit:	645	750
Four-bedroom unit:	720	750
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: $ 3,582,725

Property used for market reference: Eastman Curran Terrace

While 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 analysis assumes this property will receive a project-based rental assistance payment. A RAP 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 RAP are their only viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the RAP subsidy, is used to generate enough income for the property to operate at a sustainable level.

The rental assistance payment ensures that the property receives the base rent. However, since the base rent increase suggested above is insufficient over the long term, the only alternative is to increase the base rent again in conjunction with the recapitalization transaction. (An income-tier structure in this situation would only serve to reduce housing options to the lowest income households, without increasing revenue to the property.)

An increase in the base rent at a property with a rental assistance payment translates into an increase in the operating subsidy necessary to sustain the property over time.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,299,184)	(2,965,773)
Recoverable Grant Scenario:	(4,673,761)	(9,388,064)
CHFA/FHA Scenario:	(1,449,656)	(8,281,321)
4% LIHTC Scenario:	306,416	(6,759,716)
9% LIHTC Scenario:	3,030,320	(6,691,958)

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:	4% LIHTC
Recommended Transaction Year	2014
Replacement Reserve Deposit PUPY:	425
Debt Service Coverage in Transaction Year:	1.200
Debt Service Coverage in Transaction Year 15:	1.458
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	-

The capital plan recommends using the 4% low income housing tax credit scenario to finance the capital needs at this property. The debt-only scenario leaves significant capital needs unaddressed, while the use of 9% tax credits at this property would be an inefficient use of the scarce 9% resource given the competing needs within the portfolio and within the State as a whole. The 4% LIHTC scenario, however, covers the capital needs appropriately while minimizing the need for State capital subsidies.
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 1.458 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $3.44 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 4% LIHTC scenario, the property yields $302,702 in NOI in the transaction completion year, which includes $425 per unit per year in replacement reserve deposits. After debt service, the property generates $88,369 in cash flow in the capital transaction's completion year, trending to $98,068 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 $3,459,000 in debt and $2,708,000 in equity. 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 $2,965,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $4,673,000 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:	0
Current Routine Capital Needs:	221,508

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	**221,508**	-	-	-	-	-
2014	**209,202**	-	-	-	184,115	-
2015	**215,478**	-	-	-	355,118	-
2016	**163,577**	-	-	-	362,220	-
2017	**147,343**	-	-	-	369,464	-
2018	**151,135**	-	-	-	376,854	-
2019	**156,143**	-	-	-	384,391	-
2020	**208,387**	-	-	-	392,079	-
2021	**129,119**	-	-	-	399,920	-
2022	**144,660**	-	-	-	407,918	-

		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	**108,265**	-	-	-	416,077	-
2024	**90,183**	-	-	-	424,398	-
2025	**98,817**	-	-	-	432,886	-
2026	**95,675**	-	-	-	441,544	-
2027	**270,524**	-	-	-	450,375	-
2028	**264,608**	-	-	-	459,382	-
2029	**264,310**	-	-	-	468,570	-
2030	**211,561**	-	-	-	477,942	-
2031	**207,493**	-	-	-	487,500	-
2032	**82,157**	-	-	-	497,250	-

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	470,873	6,036.83	890,306	11,414.18	890,306	11,414	890,306	11,414	890,306	11,414
Vacancy/Loss	(14,621)	(187.45)	(16,490)	(211.41)	(44,515)	(571)	(62,321)	(799)	(62,321)	(799)
Other Income	49,022	628.49	49,022	628.49	49,022	628	49,022	628	49,022	628
Effective Gross Income	**505,274**	**6,477.87**	**922,838**	**11,831.26**	**894,813**	**11,472**	**877,006**	**11,244**	**877,006**	**11,244**
2023 ANNUAL EXPENSES										
Operating Expenses	482,237	6,183	528,378	6,774	518,401	6,646	517,511	6,635	517,511	6,635
Replacement Reserve Deposits	51,281	657	51,281	657	47,183	605	47,183	605	38,856	498
Total Operating Expenses	**533,517**	**6,840**	**579,659**	**7,432**	**565,584**	**7,251**	**564,694**	**7,240**	**556,367**	**7,133**
2023 NET OPERATING INCOME	**(28,244)**	**(362)**	**343,179**	**4,400**	**329,228**	**4,221**	**312,313**	**4,004**	**320,639**	**4,111**
Debt Service	-	-	-	-	221,304	2,837	214,334	2,748	215,475	2,762
2023 CASH FLOW	**(28,244)**	**(362)**	**343,179**	**4,400**	**107,925**	**1,384**	**97,979**	**1,256**	**105,164**	**1,348**

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	-	-	-	-	3,850,986	49,372	3,459,458	44,352	3,749,551	48,071
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	4,324,322	55,440	4,411,237	56,554
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	35,396	454	68,546	879	68,546	879	62,696	804
Cash Escrows	-	-	100,651	1,290	100,651	1,290	100,651	1,290	100,651	1,290
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	276,279	3,542	290,439	3,724	289,170	3,707
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	2,708,857	34,729	5,141,686	65,919
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**136,047**	1,744	**4,296,462**	55,083	**10,952,273**	140,414	**13,754,991**	176,346
USES										
Acquisition Costs	-	-	-	-	-	-	4,324,322	55,440	4,411,237	56,554
Construction Costs	-	-	3,808,149	48,822	3,808,149	48,822	3,850,350	49,363	3,850,350	49,363
Soft Costs - Design & Construction	-	-	418,358	5,364	412,356	5,287	422,367	5,415	422,367	5,415
Soft Costs - Due Diligence	-	-	15,970	205	27,370	351	36,510	468	36,614	469
Soft Costs - Transaction Costs	-	-	55,896	717	135,896	1,742	277,633	3,559	277,633	3,559
Soft Costs - Financing	-	-	117,960	1,512	424,602	5,444	537,193	6,887	539,057	6,911
Soft Costs - Other	-	-	44,850	575	50,700	650	50,700	650	50,700	650
Soft Cost Contingency	-	-	32,652	419	52,546	674	59,960	769	58,886	755
Reserves	-	-	-	-	143,802	1,844	360,724	4,625	354,902	4,550
Developer Fee	-	-	315,973	4,051	690,696	8,855	726,097	9,309	722,925	9,268
Total Uses of Funds	**-**	**-**	**4,809,808**	61,664	**5,746,118**	73,668	**10,645,857**	136,485	**10,724,671**	137,496
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(4,673,761)**	(59,920)	**(1,449,656)**	(18,585)	**306,416**	3,928	**3,030,320**	38,850

Scenario Pro Formas (continued)

Eastman Curran Terrace, 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	-	-	2,938,933	37,679	2,938,933	37,679	2,938,933	37,679	2,938,933	37,679
Capital Needs Funded Using Subsidy	2,299,184	29,477	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	100,651	1,290	100,651	1,290	100,651	1,290	100,651	1,290	100,651	1,290
Replacement Reserves	1,040,309	13,337	996,974	12,782	917,301	11,760	917,301	11,760	755,425	9,685
Total Funds	**3,440,143**	**44,104**	**4,036,557**	**51,751**	**3,956,885**	**50,729**	**3,956,885**	**50,729**	**3,795,008**	**48,654**
USES										
Estimated Capital Needs	3,440,143	44,104	3,440,143	44,104	3,440,143	44,104	3,440,143	44,104	3,440,143	44,104
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**3,440,143**	**44,104**	**3,440,143**	**44,104**	**3,440,143**	**44,104**	**3,440,143**	**44,104**	**3,440,143**	**44,104**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**596,414**	**7,646**	**516,742**	**6,625**	**516,742**	**6,625**	**354,865**	**4,550**

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	7,788,003	99,846	7,788,003	99,846	7,788,003	99,846	7,788,003	99,846
Operating Deficit Subsidy Needed	666,589	8,546	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**666,589**	**8,546**	**7,788,003**	**99,846**	**7,788,003**	**99,846**	**7,788,003**	**99,846**	**7,788,003**	**99,846**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,299,184	29,477	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(3,073,700)	(39,406)	(956,338)	(12,261)	(1,028,287)	(13,183)	(1,096,045)	(14,052)
Transaction Capital Subsidy Needed	n/a	n/a	4,673,761	59,920	1,449,656	18,585	-	-	-	-
Total Capital Subsidy	**2,299,184**	**29,477**	**1,600,061**	**20,514**	**493,318**	**6,325**	**(1,028,287)**	**(13,183)**	**(1,096,045)**	**(14,052)**
TOTAL SUBSIDY NEEDED	**2,965,773**	**38,023**	**9,388,064**	**120,360**	**8,281,321**	**106,171**	**6,759,716**	**86,663**	**6,691,958**	**85,794**