CHFA Capital Plan Property Assessment - Ulbrich Heights, Ulbrich Heights Extension

Property Identification

Ulbrich Heights, Ulbrich Heights Extension
WALLINGFORD, CT

Total Current Unit Count: 132
Census Tract: 1753.00
Connecticut Congressional District: 0

<u>CHFA Property Identification #:</u> 85204D, 85203D
<u>Current State Sponsored Housing Program:</u> SH Moderate Rental

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: Family
Structure Type: Duplex
Number of buildings: 39
Maximum # of Stories: 2
Elevator?

<u>Summary property description:</u>

The Ulbrich Heights property has 14 one-bedroom, 66 two-bedroom and 52 three-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as common laundry, a gazebo and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 6,215,002
Capital Needs per Unit:	$ 47,083
Projected Year 1 (2014) Operating Income:	$ (57,565)

Current operations at the property are projected to generate negative $57,600 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 $6.22 million ($47,083 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 26%

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This can happen in one of two ways - either the property could get operating subsidy from the state or federal government, or it could charge higher rents. A higher rent structure burdens low-income households to pay a greaterheir income for housing and it will require that the property serve tenants with modestly higher incomes.

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	435	28%
Two-bedroom unit:	445	24%
Three-bedroom unit:	455	21%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

Currently, base rents are set by the owner of each property, often in consultation with CHFA staff. While there varying definitions of affordability, this study considers a rent which exceeds 30% of a household's adjusted gross income to be burdensome on the household's monthly budget. In the table to the left, the base rent is identified for each unit size. The table also identifies the minimum household income level for which the base rent would be considered "affordable." The household income level is presented as a percentage of the local Area Median Income.

There are strong reasons to keep the base rents low, as low base rents provide affordable housing options for the state's lowest income residents and reduce the burden of operating subsidies on the State budget. However, if the property's revenue stream (including any available operating subsidy and any cross-subsidy from higher income residents) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, the property itself is at risk.

	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:		
Five-bedroom unit:		
Six-bedroom unit:		

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 and in order to implement programmatic consistency regarding base rent levels, 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. This base rent adjustment would represent a significant increase for some households. The analysis identifies the number of households that would be affected by such a change and the amount of operating subsidy needed to protect these households. If the owners elect not to raise the base rents as assumed in this analysis, the property is more likely to experience tight operating budgets towards the end of the Capital Plan subsidy period and will be less able to access leverage funding such as private debt.

Number of current households that would be impacted by the proposed increase in Base Rent:	90
Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed:	$ 164,670
Total rental operating subsidy necessary assuming a turnover-based leasing strategy:	$ 962,262

Protecting the 90 Family Households at risk in the event of a base rent increase is clearly a major concern. In 2014, the base rent increase creates the need for operating subsidy of $164,670 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

This 2014 rental operating subsidy would recur annually, with inflation increases, for the next 20 years if the State determines that, as a policy matter, the property should continue serving households with an income profile equivalent to the current residents at the property. An alternative formulation assumes that, upon turnover, new residents would move in for whom the proposed base rent is affordable and tenant protection operating subsidies would no longer be necessary. This turnover strategy requires less operating subsidy from the State, but also reduces the number of units of housing available to the lowest income residents of the community. The total tenant protection operating subsidy associated with the increase in the base rent assuming that, on turnover, the units are leased to households able to pay the new base rent without assistance is $962,261.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	90	57
25-50% of AMI	38	49
50% of AMI or greater	4	26
Total number of units	132	132

While the the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy 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.) Consequently, the capital plan has identified additional revenue adjustments based on an income-tier structure which would be necessary to reach a sustainable operating picture.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	466	466
Two-bedroom unit:	559	559
Three-bedroom unit:	645	645
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: $ 98,947

Transitional rental operating subsidy necessary to protect current residents and permit a five-year transition to income tier occupancy: $ 252,365

Property used for market reference: East Side Terrace

An income-tier structure would require a specified number of units to pay a higher base rent, affordable to households with a higher (albeit still low) income. For example, a tier serving households in the 50%-60% of AMI would pay a base rent equal to 30% of the adjusted gross income of a household earning 55% of AMI. The capital plan has adopted income tiers which correspond to CHFA's commonly used affordability thresholds.

As is the case with the base rent analysis, above, in income tier structure makes the units allocated to a higher-income tier unaffordable to those currently served by this housing. As state funds for operating subsidy are limited, the capital plan analysis has assumed that any available operating subsidy will be focused on protecting current residents until they move away from the property. On turnover, households earning incomes consistent with the income tier structure will be offered units on a preferential basis. However, additional operating subsidy beyond that reflected here would mitigate this loss of housing options for lower income households. The owner of this property has indicated that they have up to 0 Section 8 Housing Choice Vouchers which could, potentially, be project based. If the mobile Section 8 Housing Choice Vouchers are not fully utilized, the owner's election to project-base them at this property could help mitigate the impact of income tiering on the availability of units for the lowest income households.

Based on the market conditions reflected in the most closely applicable property market condition assessment, tenants in the 25% to 80% of AMI range are available in the market. This analysis has increased the number of households at the property with incomes between 25% and 80% of AMI from 42 in 2014 to 75 post-transaction, which results in an increase in property revenue. The remaining units would continue to serve residents with incomes below 25% of AMI.

In order to attract the additional households in the 25% to 80% of AMI income tiers, the property condition must meet the market conditions these households would expect. However, in order to attract higher AMI tenants and thus increase the gross potential revenue at the property, the capital transaction will need to include funds to address these concerns. Specifically, exterior upgrades to enhance curb appeal can be added.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(4,949,153)	(8,347,216)
Recoverable Grant Scenario:	(10,749,112)	(10,665,458)
CHFA/FHA Scenario:	(10,087,617)	(10,610,633)
4% LIHTC Scenario:	(7,776,609)	(8,287,933)
9% LIHTC Scenario:	(3,252,998)	(3,802,766)

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	2018
Replacement Reserve Deposit PUPY:	425
Debt Service Coverage in Transaction Year:	3.730
Debt Service Coverage in Transaction Year 15:	1.102
Pre-Transaction Capital Subsidy Needed:	28,714
Transaction Capital Subsidy Needed:	7,776,609

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 2018 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 1.102 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $6.22 million plus $330,000 for property enhancements (curb appeal enhacements).

Given the 2018 transaction year, the property will struggle to meet its capital needs purely from its own resources prior to that date. The capital plan recommends that the State establish an interim recoverable grant structure to cover the needs until the transaction year. This interim recoverable grant would be repaid to the State to the extent possible from cash flow, but has not been included as a required repayment in the proposed transaction.

Summary of Recommended Transaction

Under the 4% LIHTC scenario, the property yields $223,568 in NOI in the transaction completion year, which includes $425 per unit per year in replacement reserve deposits. After debt service, the property generates $158,630 in cash flow in the capital transaction's completion year, trending to $6,618 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 $990,000 in debt and $3,877,000 in equity. The transaction results in a gap of $7,776,000, plus the pre-transaction need of $28,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $8,347,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $10,749,000, plus the pre-transaction need of $28,000, 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:	550,224

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	**550,224**	20,837	-	-	-	-
2014	**404,392**	7,877	-	-	164,670	-
2015	**404,502**	-	-	-	151,167	-
2016	**416,637**	-	-	-	137,058	-
2017	**343,232**	-	-	-	122,324	(0)
2018	**291,297**	-	7,776,609	-	106,946	(0)
2019	**314,100**	-	-	-	90,904	98,947
2020	**261,139**	-	-	-	74,178	75,695
2021	**166,621**	-	-	-	56,746	51,472
2022	**195,964**	-	-	-	38,587	26,251

		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	**157,121**	-	-	-	19,680	-
2024	**174,974**	-	-	-	-	-
2025	**144,132**	-	-	-	-	-
2026	**140,787**	-	-	-	-	-
2027	**199,695**	-	-	-	-	-
2028	**203,505**	-	-	-	-	-
2029	**428,389**	-	-	-	-	-
2030	**563,279**	-	-	-	-	-
2031	**601,526**	-	-	-	-	-
2032	**253,486**	-	-	-	-	-

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	984,006	7,454.59	1,448,599	10,974.23	1,448,599	10,974	1,448,599	10,974	1,448,599	10,974
Vacancy/Loss	(68,867)	(521.72)	(77,457)	(586.80)	(77,457)	(587)	(101,402)	(768)	(101,402)	(768)
Other Income	50,454	382.23	50,454	382.23	50,454	382	50,454	382	50,454	382
Effective Gross Income	**965,594**	**7,315.11**	**1,421,596**	**10,769.67**	**1,421,596**	**10,770**	**1,397,651**	**10,588**	**1,397,651**	**10,588**
2023 ANNUAL EXPENSES										
Operating Expenses	1,071,579	8,118	1,142,659	8,657	1,123,240	8,509	1,122,042	8,500	1,122,042	8,500
Replacement Reserve Deposits	62,988	477	62,988	477	79,848	605	79,848	605	65,757	498
Total Operating Expenses	**1,134,567**	**8,595**	**1,205,647**	**9,134**	**1,203,087**	**9,114**	**1,201,890**	**9,105**	**1,187,799**	**8,998**
2023 NET OPERATING INCOME	**(168,973)**	**(1,280)**	**215,950**	**1,636**	**218,509**	**1,655**	**195,761**	**1,483**	**209,852**	**1,590**
Debt Service	-	-	-	-	90,587	686	64,938	492	84,753	642
2023 CASH FLOW	**(168,973)**	**(1,280)**	**215,950**	**1,636**	**127,922**	**969**	**130,823**	**991**	**125,099**	**948**

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	-	-	-	-	1,576,330	11,942	990,538	7,504	1,474,818	11,173
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	3,960,000	30,000	3,960,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	155,039	1,175	211,139	1,600	211,139	1,600	201,239	1,525
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	610,739	4,627	630,445	4,776	628,116	4,758
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	3,877,814	29,377	7,917,573	59,982
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**155,039**	1,175	**2,398,209**	18,168	**9,669,936**	73,257	**14,181,746**	107,437
USES										
Acquisition Costs	-	-	-	-	-	-	3,960,000	30,000	3,960,000	30,000
Construction Costs	-	-	8,671,193	65,691	8,671,193	65,691	8,767,285	66,419	8,767,285	66,419
Soft Costs - Design & Construction	-	-	906,575	6,868	892,907	6,764	914,262	6,926	914,262	6,926
Soft Costs - Due Diligence	-	-	24,505	186	38,605	292	50,073	379	50,073	379
Soft Costs - Transaction Costs	-	-	175,539	1,330	255,539	1,936	444,189	3,365	444,189	3,365
Soft Costs - Financing	-	-	261,887	1,984	809,426	6,132	918,277	6,957	917,785	6,953
Soft Costs - Other	-	-	75,900	575	85,800	650	85,800	650	85,800	650
Soft Cost Contingency	-	-	72,220	547	104,114	789	110,655	838	108,683	823
Reserves	-	-	-	-	101,393	768	619,892	4,696	616,377	4,670
Developer Fee	-	-	716,331	5,427	1,526,848	11,567	1,576,113	11,940	1,570,291	11,896
Total Uses of Funds	**-**	**-**	**10,904,151**	82,607	**12,485,825**	94,590	**17,446,546**	132,171	**17,434,745**	132,081
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(10,749,112)**	(81,433)	**(10,087,617)**	(76,421)	**(7,776,609)**	(58,914)	**(3,252,998)**	(24,644)

Scenario Pro Formas (continued)

Ulbrich Heights, Ulbrich Heights 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	-	-	6,361,978	48,197	6,361,978	48,197	6,361,978	48,197	6,361,978	48,197
Capital Needs Funded Using Subsidy	4,949,153	37,494	40,560	307	28,714	218	28,714	218	38,614	293
Existing Replacement Reserve Balance	41,277	313	41,277	313	41,277	313	41,277	313	41,277	313
Replacement Reserves	1,224,572	9,277	1,224,572	9,277	1,552,356	11,760	1,552,356	11,760	1,278,411	9,685
Total Funds	**6,215,002**	**47,083**	**7,668,388**	**58,094**	**7,984,326**	**60,487**	**7,984,326**	**60,487**	**7,720,280**	**58,487**
USES										
Estimated Capital Needs	6,215,002	47,083	6,215,002	47,083	6,215,002	47,083	6,215,002	47,083	6,215,002	47,083
Enhancements	-	-	-	-	330,000	2,500	330,000	2,500	330,000	2,500
Total Uses	**6,215,002**	**47,083**	**6,215,002**	**47,083**	**6,545,002**	**49,583**	**6,545,002**	**49,583**	**6,545,002**	**49,583**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**1,453,386**	**11,010**	**1,439,324**	**10,904**	**1,439,324**	**10,904**	**1,175,278**	**8,904**

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	962,262	7,290	962,262	7,290	962,262	7,290	962,262	7,290
Operating Deficit Subsidy Needed	3,398,063	25,743	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	252,365	1,912	252,365	1,912	252,365	1,912	252,365	1,912
Total Operating Subsidy	**3,398,063**	**25,743**	**1,214,627**	**9,202**	**1,214,627**	**9,202**	**1,214,627**	**9,202**	**1,214,627**	**9,202**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	4,949,153	37,494	40,560	307	28,714	218	28,714	218	38,614	293
Recoverable Cash Flow	n/a	n/a	(1,338,841)	(10,143)	(720,326)	(5,457)	(732,018)	(5,546)	(703,474)	(5,329)
Transaction Capital Subsidy Needed	n/a	n/a	10,749,112	81,433	10,087,617	76,421	7,776,609	58,914	3,252,998	24,644
Total Capital Subsidy	**4,949,153**	**37,494**	**9,450,831**	**71,597**	**9,396,006**	**71,182**	**7,073,306**	**53,586**	**2,588,139**	**19,607**
TOTAL SUBSIDY NEEDED	**8,347,216**	**63,236**	**10,665,458**	**80,799**	**10,610,633**	**80,384**	**8,287,933**	**62,787**	**3,802,766**	**28,809**