

CHFA Capital Plan Property Assessment - Bellwood Court & Chatham Acres

Property Identification

Bellwood Court & Chatham Acres
EAST HAMPTON, CT

Total Current Unit Count: 70
Census Tract: 5501.00
Connecticut Congressional District: 2

CHFA Property Identification #: 85032D, 85033D
Current State Sponsored Housing Program: SH Elderly

This property was originally financed separately 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: 14
Maximum # of Stories: 1
Elevator? None

Summary property description:

The Bellwood Court & Chatham Acres property has 53 efficiency or studio and 17 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as air conditioning, common laundry, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 2,280,031

Capital Needs per Unit: \$ 32,572

Projected Year 1 (2014) Operating Income: \$ (6,245)

Owner Comments to Property Assessment:

Current operations at the property are projected to generate negative \$6,200 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 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 \$2.28 million (\$32,571 per unit) over the next 20 years.

My question referred to the a section of the Market Assessment there was a reference to the projects as being relatively new (section VI) which I mentioned that Bellwood Court and Chatham Acres are 40 and 30 years old. Also, no strong need for redevelopment scenario. Bellwood Court especially is in need of a major renovation or updating to modernize apartments to be able to compete in an area where a studio style apartment is not the most desirable. I also disagree that "no building or unit configuration to impede marketability to diverse incomes. To continue to have a very low vacancy rate we need to be able to compete and market our properties with success.

RECAP Response: While it is important to note the owner comments to the market assessments, the market analysis was used primarily to determine the maximum market rents for the property area, as well as to inform revitalization options and any marketability issues at the site.

I have concerns on the Reserves, as I have seen the amount that we can contribute reduce year by year, and I wonder how this all impacts a small housing authority like ours when we submit applications for funding rounds. I don't know if this concern is shared with CHFA. There are authorities like ours that live very frugally trying to keep to our budget, to be able to keep base rents low but at the same time has been stratifying the base rents for new applicants. We don't want to be thought of as "OK" because we are doing a good job, and see the bulk of the funding sent to others that are always looking for help.

RECAP Response: Recap has put forth recommendations in the Capital Plan Final Report to avoid penalizing well performing properties and to ensure equitable distribution of State funding. Recap has recommended an allocation of new RAP units to this property to increase revenue and ensure its long term sustainability. However, Recap encourages property owners to develop their own recapitalization solutions that work for their specific situation, with the Capital Plan Property Assessment to be used as a starting point for discussions internally and with the State.

Current average income relative to
the Area Median Income (AMI): 25%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	250	17%
One-bedroom unit:	350	22%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	450	30%
One-bedroom unit:	482	30%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

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: \$ 128,307

Additional rental assistance payments subsidy
over a 20 year period due to revised base rent: \$ 2,930,604

Revenue Adjustments Concurrent with a Recapitalization Transaction

Bellwood Court & Chatham Acres, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	40	70
25-50% of AMI	28	0
50% of AMI or greater	2	0
Total number of units	70	70

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	450	750
One-bedroom unit:	482	750
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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 contract. 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.

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: \$ 5,111,395

Property used for market reference: Bellwood Court

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,031,301)	(1,901,370)
Recoverable Grant Scenario:	(2,992,609)	(7,928,174)
CHFA/FHA Scenario:	(219,701)	(7,029,721)
4% LIHTC Scenario:	815,264	(6,771,388)
9% LIHTC Scenario:	2,408,179	(6,742,590)

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 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 for all properties.

Recommended Transaction and Transaction Assumptions

Bellwood Court & Chatham Acres, continued

Recommended Transaction Option:	4% LIHTC	<p>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 2015 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.</p> <p>This property has been underwritten assuming replacement reserve deposits of \$350 per unit per year, assuming debt service coverage is maintained over 1.791 throughout the first 15 years of the new financing, and assuming hard construction capital needs of \$2.28 million.</p> <p>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.</p>
Recommended Transaction Year	2015	
Replacement Reserve Deposit PUPY:	350	
Debt Service Coverage in Transaction Year:	1.200	
Debt Service Coverage in Transaction Year 15:	1.791	
Pre-Transaction Capital Subsidy Needed:	-	
Transaction Capital Subsidy Needed:	-	

Summary of Recommended Transaction

Under the 4% LIHTC scenario, the property yields \$303,099 in NOI in the transaction completion year, which includes \$350 per unit per year in replacement reserve deposits. After debt service, the property generates \$114,692 in cash flow in the capital transaction's completion year, trending to \$148,949 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 \$3,030,000 in debt and \$1,827,000 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 \$1,901,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over \$2,992,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs

Bellwood Court & Chatham Acres, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 65,849
 Current Routine Capital Needs: 178,375

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	244,224	-	-	-	-	-
2014	217,840	-	-	-	128,307	-
2015	183,738	-	-	-	130,873	-
2016	83,519	-	-	-	388,906	-
2017	73,497	-	-	-	396,684	-
2018	259,916	-	-	-	404,618	-
2019	98,586	-	-	-	412,710	-
2020	56,024	-	-	-	420,965	-
2021	64,910	-	-	-	429,384	-
2022	38,757	-	-	-	437,972	-

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	60,087	-	-	-	446,731	-
2024	76,566	-	-	-	455,666	-
2025	105,755	-	-	-	464,779	-
2026	167,440	-	-	-	474,074	-
2027	114,259	-	-	-	483,556	-
2028	123,402	-	-	-	493,227	-
2029	147,970	-	-	-	503,092	-
2030	53,847	-	-	-	513,153	-
2031	58,445	-	-	-	523,417	-
2032	51,252	-	-	-	533,885	-

Scenario Pro Formas

Bellwood Court & Chatham Acres, 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	338,024	4,828.91	783,326	11,190.37	783,326	11,190	783,326	11,190	783,326	11,190
Vacancy/Loss	(775)	(11.07)	(1,133)	(16.19)	(39,166)	(560)	(54,833)	(783)	(54,833)	(783)
Other Income	3,629	51.84	3,629	51.84	3,629	52	3,629	52	3,629	52
Effective Gross Income	340,878	4,869.69	785,822	11,226.02	747,789	10,683	732,122	10,459	732,122	10,459
2023 ANNUAL EXPENSES										
Operating Expenses	347,656	4,967	386,947	5,528	376,700	5,381	375,916	5,370	34,871	498
Replacement Reserve Deposits	35,622	509	35,622	509	34,871	498	34,871	498	34,871	498
Total Operating Expenses	383,278	5,475	422,569	6,037	411,571	5,880	410,787	5,868	69,742	996
2023 NET OPERATING INCOME	(42,400)	(606)	363,252	5,189	336,218	4,803	321,335	4,590	662,380	9,463
Debt Service	-	-	-	-	192,979	2,757	188,407	2,692	185,068	2,644
2023 CASH FLOW	(42,400)	(606)	363,252	5,189	143,239	2,046	132,928	1,899	477,312	6,819

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	-	-	-	-	3,358,093	47,973	3,030,991	43,300	3,220,428	46,006
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	3,703,738	52,911	3,703,738	52,911
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	32,863	469	57,363	819	57,363	819	57,363	819
Cash Escrows	-	-	556,180	7,945	556,180	7,945	556,180	7,945	556,180	7,945
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	206,733	2,953	219,177	3,131	218,384	3,120
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,827,169	26,102	3,229,716	46,139
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	589,043	8,415	4,178,368	59,691	9,394,618	134,209	10,985,810	156,940
USES										
Acquisition Costs	-	-	-	-	85,000	1,214	3,788,738	54,125	3,788,738	54,125
Construction Costs	-	-	2,812,231	40,175	2,812,231	40,175	2,843,396	40,620	2,843,396	40,620
Soft Costs - Design & Construction	-	-	312,217	4,460	307,784	4,397	315,178	4,503	315,178	4,503
Soft Costs - Due Diligence	-	-	14,375	205	25,477	364	33,459	478	33,459	478
Soft Costs - Transaction Costs	-	-	53,363	762	133,363	1,905	265,492	3,793	265,492	3,793
Soft Costs - Financing	-	-	88,490	1,264	309,797	4,426	408,137	5,831	408,236	5,832
Soft Costs - Other	-	-	40,250	575	45,500	650	45,500	650	45,500	650
Soft Cost Contingency	-	-	25,435	363	41,096	587	48,180	688	47,509	679
Reserves	-	-	-	-	120,989	1,728	283,332	4,048	284,162	4,059
Developer Fee	-	-	235,291	3,361	516,832	7,383	547,942	7,828	545,961	7,799
Total Uses of Funds	-	-	3,581,652	51,166	4,398,069	62,830	8,579,354	122,562	8,577,631	122,538
TRANSACTION SURPLUS (GAP)	-	-	(2,992,609)	(42,752)	(219,701)	(3,139)	815,264	11,647	2,408,179	34,403

Scenario Pro Formas (continued)

Bellwood Court & Chatham Acres, 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	-	-	2,170,335	31,005	2,170,335	31,005	2,170,335	31,005	2,170,335	31,005
Capital Needs Funded Using Subsidy	1,031,301	14,733	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	556,180	7,945	556,180	7,945	556,180	7,945	556,180	7,945	556,180	7,945
Replacement Reserves	692,551	9,894	692,551	9,894	677,945	9,685	677,945	9,685	677,945	9,685
Total Funds	2,280,031	32,572	3,419,065	48,844	3,404,460	48,635	3,404,460	48,635	3,404,460	48,635
USES										
Estimated Capital Needs	2,280,031	32,572	2,280,031	32,572	2,280,031	32,572	2,280,031	32,572	2,280,031	32,572
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	2,280,031	32,572	2,280,031	32,572	2,280,031	32,572	2,280,031	32,572	2,280,031	32,572
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	1,139,034	16,272	1,124,429	16,063	1,124,429	16,063	1,124,429	16,063

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	8,041,999	114,886	8,041,999	114,886	8,041,999	114,886	8,041,999	114,886
Operating Deficit Subsidy Needed	870,070	12,430	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	870,070	12,430	8,041,999	114,886	8,041,999	114,886	8,041,999	114,886	8,041,999	114,886
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,031,301	14,733	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(3,106,433)	(44,378)	(1,231,978)	(17,600)	(1,270,611)	(18,152)	(1,299,409)	(18,563)
Transaction Capital Subsidy Needed	n/a	n/a	2,992,609	42,752	219,701	3,139	-	-	-	-
Total Capital Subsidy	1,031,301	14,733	(113,824)	(1,626)	(1,012,277)	(14,461)	(1,270,611)	(18,152)	(1,299,409)	(18,563)
TOTAL SUBSIDY NEEDED	1,901,370	27,162	7,928,174	113,260	7,029,721	100,425	6,771,388	96,734	6,742,590	96,323