CHFA Capital Plan Property Assessment - Johnson Farms, Yale Acres

Property Identification

Johnson Farms, Yale Acres
MERIDEN, CT

Total Current Unit Count:	214
Census Tract:	1705.00
Connecticut Congressional District:	0

CHFA Property Identification #: 85096D, 85095D
Current State Sponsored Housing Program: SH Moderate Rental

These properties were originally financed separately and appear 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:	Low rise (1-4 floors)
Number of buildings:	84
Maximum # of Stories:	2
Elevator?	None

Summary property description:
The Johnson Farms, Yale Acres property has 171 two-bedroom, 23 three-bedroom and 20 four-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as in-unit laundry hook-ups and semi-private patios.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	9,439,211
Capital Needs per Unit:	$	44,108
Projected Year 1 (2014) Operating Income:	$	(99,211)

Current operations at the property are projected to generate negative $99,200 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 $9.44 million ($44,108 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:		
Two-bedroom unit:	446	24%
Three-bedroom unit:	461	21%
Four-bedroom unit:	478	20%
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:		
Two-bedroom unit:	559	30%
Three-bedroom unit:	645	30%
Four-bedroom unit:	720	30%
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: 176

Protecting the 176 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 $409,794 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ 409,794

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: $ 2,394,663

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 $2,394,662.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	176	176
25-50% of AMI	35	35
50% of AMI or greater	3	3
Total number of units	214	214

With the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy, the property should operate under a sustainable revenue picture for the foreseeable future. As a result, no additional revenue adjustments from income mixing are recommended in connection with the transaction.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	559	559
Three-bedroom unit:	645	645
Four-bedroom unit:	720	720
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: $ -

Transitional rental operating subsidy necessary to protect current residents and permit a five-year transition to income tier occupancy: $ (0)

Property used for market reference: Johnson Farms

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,583,023)	(8,368,574)
Recoverable Grant Scenario:	(13,841,242)	(15,051,810)
CHFA/FHA Scenario:	(9,399,096)	(10,357,356)
4% LIHTC Scenario:	(5,700,990)	(6,794,522)
9% LIHTC Scenario:	439,982	(975,273)

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 gehe 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 re 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 bee for all properties.

Recommended Transaction and Transaction Assumptions

Recommended Transaction Option:	4% LIHTC
Recommended Transaction Year	2017
Replacement Reserve Deposit PUPY:	425
Debt Service Coverage in Transaction Year:	1.200
Debt Service Coverage in Transaction Year 15:	1.383
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	5,700,990

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 2017 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 1.383 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $9.44 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 $516,846 in NOI in the transaction completion year, which includes $425 per unit per year in replacement reserve deposits. After debt service, the property generates $199,100 in cash flow in the capital transaction's completion year, trending to $121,631 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 $5,168,000 in debt and $5,539,000 in equity. The transaction results in a gap of $5,700,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $8,368,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $13,841,000 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:	1,278,884

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	**1,278,884**	-	-	-	-	-
2014	**1,124,034**	-	-	-	409,794	-
2015	**1,010,439**	-	-	-	376,191	-
2016	**788,216**	-	-	-	341,080	(0)
2017	**709,103**	-	5,700,990	-	304,414	(0)
2018	**500,266**	-	-	-	266,145	-
2019	**399,442**	-	-	-	226,223	(0)
2020	**312,259**	-	-	-	184,598	-
2021	**349,661**	-	-	-	141,217	-
2022	**472,993**	-	-	-	96,028	-

		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	**421,073**	-	-	-	48,974	-
2024	**337,407**	-	-	-	-	-
2025	**186,847**	-	-	-	-	-
2026	**177,631**	-	-	-	-	-
2027	**170,971**	-	-	-	-	-
2028	**228,205**	-	-	-	-	-
2029	**234,786**	-	-	-	-	-
2030	**273,523**	-	-	-	-	-
2031	**217,755**	-	-	-	-	-
2032	**245,715**	-	-	-	-	-

Scenario Pro Formas

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	1,396,289	6,524.72	1,979,614	9,250.53	1,979,614	9,251	1,979,614	9,251	1,979,614	9,251
Vacancy/Loss	(104,567)	(488.63)	(104,567)	(488.63)	(104,567)	(489)	(138,573)	(648)	(138,573)	(648)
Other Income	21,982	102.72	21,982	102.72	21,982	103	21,982	103	21,982	103
Effective Gross Income	**1,313,705**	**6,138.81**	**1,897,029**	**8,864.62**	**1,897,029**	**8,865**	**1,863,023**	**8,706**	**1,863,023**	**8,706**
2023 ANNUAL EXPENSES										
Operating Expenses	1,159,448	5,418	1,254,300	5,861	1,230,687	5,751	1,228,987	5,743	1,228,987	5,743
Replacement Reserve Deposits	440,999	2,061	440,999	2,061	129,450	605	129,450	605	106,606	498
Total Operating Expenses	**1,600,448**	**7,479**	**1,695,299**	**7,922**	**1,360,137**	**6,356**	**1,358,437**	**6,348**	**1,335,593**	**6,241**
2023 NET OPERATING INCOME	**(286,743)**	**(1,340)**	**201,730**	**943**	**536,892**	**2,509**	**504,586**	**2,358**	**527,430**	**2,465**
Debt Service	-	-	-	-	333,445	1,558	317,747	1,485	327,043	1,528
2023 CASH FLOW	**(286,743)**	**(1,340)**	**201,730**	**943**	**203,447**	**951**	**186,839**	**873**	**200,387**	**936**

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	-	-	-	-	5,802,392	27,114	5,168,468	24,152	5,690,995	26,593
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	6,460,586	30,190	6,695,288	31,286
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	84,206	393	175,156	818	175,156	818	159,106	743
Cash Escrows	-	-	1,017,815	4,756	1,017,815	4,756	1,017,815	4,756	1,017,815	4,756
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	837,067	3,912	864,740	4,041	861,691	4,027
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	5,539,072	25,884	11,150,592	52,106
Other	-		-		-		-		-	
Total Sources of Funds	-	-	**1,102,021**	5,150	**7,832,429**	36,600	**19,225,837**	89,840	**25,575,488**	119,512
USES										
Acquisition Costs	-	-	-	-	-	-	6,460,586	30,190	6,695,288	31,286
Construction Costs	-	-	12,030,902	56,219	12,030,902	56,219	12,164,226	56,842	12,164,226	56,842
Soft Costs - Design & Construction	-	-	1,214,245	5,674	1,195,281	5,585	1,224,910	5,724	1,224,910	5,724
Soft Costs - Due Diligence	-	-	32,637	153	50,837	238	69,450	325	69,731	326
Soft Costs - Transaction Costs	-	-	104,706	489	184,706	863	405,766	1,896	405,766	1,896
Soft Costs - Financing	-	-	364,111	1,701	1,144,632	5,349	1,323,440	6,184	1,325,628	6,195
Soft Costs - Other	-	-	123,050	575	139,100	650	139,100	650	139,100	650
Soft Cost Contingency	-	-	91,937	430	135,728	634	144,900	677	142,319	665
Reserves	-	-	-	-	257,672	1,204	832,598	3,891	814,309	3,805
Developer Fee	-	-	981,674	4,587	2,092,667	9,779	2,161,850	10,102	2,154,228	10,066
Total Uses of Funds	-	-	**14,943,262**	69,828	**17,231,525**	80,521	**24,926,826**	116,480	**25,135,506**	117,456
TRANSACTION SURPLUS (GAP)	-	-	**(13,841,242)**	(64,679)	**(9,399,096)**	(43,921)	**(5,700,990)**	(26,640)	**439,982**	2,056

Scenario Pro Formas (continued)

Johnson Farms, Yale 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	-	-	9,284,828	43,387	9,284,828	43,387	9,284,828	43,387	9,284,828	43,387
Capital Needs Funded Using Subsidy	2,583,023	12,070	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	1,172,198	5,478	1,172,198	5,478	1,172,198	5,478	1,172,198	5,478	1,172,198	5,478
Replacement Reserves	8,573,659	40,064	8,573,659	40,064	2,516,698	11,760	2,516,698	11,760	2,072,575	9,685
Total Funds	**12,328,880**	**57,612**	**19,030,685**	**88,928**	**12,973,724**	**60,625**	**12,973,724**	**60,625**	**12,529,601**	**58,550**
USES										
Estimated Capital Needs	9,439,211	44,108	9,439,211	44,108	9,439,211	44,108	9,439,211	44,108	9,439,211	44,108
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**9,439,211**	**44,108**	**9,439,211**	**44,108**	**9,439,211**	**44,108**	**9,439,211**	**44,108**	**9,439,211**	**44,108**
YEAR 20 REPLACEMENT RESERVE BALANCE	**2,889,669**	**13,503**	**9,591,474**	**44,820**	**3,534,513**	**16,516**	**3,534,513**	**16,516**	**3,090,390**	**14,441**

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	2,394,663	11,190	2,394,663	11,190	2,394,663	11,190	2,394,663	11,190
Operating Deficit Subsidy Needed	5,785,551	27,035	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Operating Subsidy	**5,785,551**	**27,035**	**2,394,663**	**11,190**	**2,394,663**	**11,190**	**2,394,663**	**11,190**	**2,394,663**	**11,190**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,583,023	12,070	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,184,095)	(5,533)	(1,436,402)	(6,712)	(1,301,130)	(6,080)	(1,419,390)	(6,633)
Transaction Capital Subsidy Needed	n/a	n/a	13,841,242	64,679	9,399,096	43,921	5,700,990	26,640	-	-
Total Capital Subsidy	**2,583,023**	**12,070**	**12,657,147**	**59,146**	**7,962,693**	**37,209**	**4,399,859**	**20,560**	**(1,419,390)**	**(6,633)**
TOTAL SUBSIDY NEEDED	**8,368,574**	**39,105**	**15,051,810**	**70,336**	**10,357,356**	**48,399**	**6,794,522**	**31,750**	**975,273**	**4,557**