

CHFA Capital Plan Property Assessment - Casa Verde Sur

Property Identification

Casa Verde Sur
HARTFORD, CT

Total Current Unit Count: 39
Census Tract: 5003.00
Connecticut Congressional District: 1

CHFA Property Identification #: 85076D

Current State Sponsored Housing Program: SH Moderate Rental Section 8

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: Garden/Townhouse
Number of buildings: 8
Maximum # of Stories: 2
Elevator? None

Summary property description:

The Casa Verde Sur property has 23 three-bedroom, 8 four-bedroom and 8 five-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, as well as semi-private patios.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 2,617,696

Capital Needs per Unit: \$ 67,120

Projected Year 1 (2014) Operating Income: \$ 104,980

Current operations at the property are projected to generate roughly \$105,000 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 2036. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$2.62 million (\$67,120 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Casa Verde Sur, continued

Current average income relative to
the Area Median Income (AMI): 13%

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.

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:		
Three-bedroom unit:	1,100	49%
Four-bedroom unit:	1,300	52%
Five-bedroom unit:	1,400	51%
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:		
Three-bedroom unit:	1,100	49%
Four-bedroom unit:	1,300	52%
Five-bedroom unit:	1,400	51%
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

Revenue Adjustments Concurrent with a Recapitalization Transaction

Casa Verde Sur, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	39	39
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	39	39

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:		
One-bedroom unit:		
Two-bedroom unit:		
Three-bedroom unit:	1,100	1,100
Four-bedroom unit:	1,300	1,300
Five-bedroom unit:	1,400	1,400
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: Casa Verde Sur

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,257,447)	(1,257,447)
Recoverable Grant Scenario:	(3,335,687)	(3,707,373)
CHFA/FHA Scenario:	(4,079,131)	(4,450,800)
4% LIHTC Scenario:	(3,224,367)	(4,607,869)
9% LIHTC Scenario:	(1,269,251)	(2,654,587)

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

Casa Verde Sur, continued

Recommended Transaction Option:	Current	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.
Recommended Transaction Year	n/a	
Replacement Reserve Deposit PUPY:	-	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 \$1,257,447 over the course of the next 20 years.
Debt Service Coverage in Transaction Year:	-	
Debt Service Coverage in Transaction Year 15:	-	At this time, the "Current Scenario" is the only approach which reasonably covers the property's capital needs given 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.
Pre-Transaction Capital Subsidy Needed:	1,257,447	
Transaction Capital Subsidy Needed:	-	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 has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields \$104,980 in NOI in the current year, which includes \$0 per unit per year in replacement reserve deposits, trending to \$50,498 fifteen years thereafter. The transaction results in a capital subsidy need of \$1,254,000, 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.

Summary of Capital Needs & State Subsidy Needs

Casa Verde Sur, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 0
 Current Routine Capital Needs: 248,101

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	248,101	248,101	-	-	-	-
2014	68,849	-	-	-	-	-
2015	70,787	-	-	-	-	-
2016	70,305	-	-	-	-	-
2017	66,390	-	-	-	-	-
2018	102,361	-	-	-	-	-
2019	105,436	-	-	-	-	-
2020	147,856	-	-	-	-	-
2021	152,786	24,742	-	-	-	-
2022	113,862	34,213	-	-	-	-

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	144,584	69,116	-	-	-	-
2024	86,567	15,537	-	-	-	-
2025	69,641	3,316	-	-	-	-
2026	100,727	39,385	-	-	-	-
2027	104,324	48,253	-	-	-	-
2028	149,724	99,226	-	-	-	-
2029	246,427	201,813	-	-	-	-
2030	224,800	186,395	-	-	-	-
2031	207,559	175,701	-	-	-	-
2032	136,610	111,648	-	-	-	-

Scenario Pro Formas

Casa Verde Sur, 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	699,771	17,942.85	804,737	20,634.27	804,737	20,634	804,737	20,634	804,737	20,634
Vacancy/Loss	(4,407)	(112.99)	(5,067)	(129.94)	(40,237)	(1,032)	(56,332)	(1,444)	(56,332)	(1,444)
Other Income	3,069	78.70	3,069	78.70	3,069	79	3,069	79	3,069	79
Effective Gross Income	698,434	17,908.56	802,738	20,583.04	767,569	19,681	751,474	19,269	751,474	19,269
2023 ANNUAL EXPENSES										
Operating Expenses	622,966	15,973	634,855	16,278	613,708	15,736	612,903	15,715	612,903	15,715
Replacement Reserve Deposits	-	-	-	-	23,591	605	23,591	605	19,428	498
Total Operating Expenses	622,966	15,973	634,855	16,278	637,299	16,341	636,495	16,320	632,332	16,214
2023 NET OPERATING INCOME	75,468	1,935	167,884	4,305	130,270	3,340	114,980	2,948	119,143	3,055
Debt Service	-	-	-	-	89,850	2,304	73,949	1,896	78,738	2,019
2023 CASH FLOW	75,468	1,935	167,884	4,305	40,419	1,036	41,030	1,052	40,405	1,036

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	-	-	-	-	1,563,518	40,090	1,139,461	29,217	1,370,145	35,132
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	229,907	5,895	273,364	7,009
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	71,103	1,823	87,678	2,248	87,678	2,248	84,753	2,173
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	203,797	5,226	210,290	5,392	209,388	5,369
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,706,985	43,769	3,434,042	88,052
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	71,103	1,823	1,854,993	47,564	3,374,321	86,521	5,371,692	137,736
USES										
Acquisition Costs	-	-	-	-	1,740,075	44,617	1,969,982	50,512	2,013,439	51,627
Construction Costs	-	-	2,654,657	68,068	2,654,657	68,068	2,684,075	68,822	2,684,075	68,822
Soft Costs - Design & Construction	-	-	295,423	7,575	291,239	7,468	298,218	7,647	298,218	7,647
Soft Costs - Due Diligence	-	-	12,636	324	24,174	620	26,435	678	26,487	679
Soft Costs - Transaction Costs	-	-	91,603	2,349	171,603	4,400	302,212	7,749	302,212	7,749
Soft Costs - Financing	-	-	81,084	2,079	409,920	10,511	415,388	10,651	416,705	10,685
Soft Costs - Other	-	-	22,425	575	25,350	650	25,350	650	25,350	650
Soft Cost Contingency	-	-	25,159	645	46,114	1,182	48,515	1,244	47,751	1,224
Reserves	-	-	-	-	61,500	1,577	302,788	7,764	303,237	7,775
Developer Fee	-	-	223,804	5,739	509,492	13,064	525,725	13,480	523,469	13,422
Total Uses of Funds	-	-	3,406,790	87,354	5,934,124	152,157	6,598,687	169,197	6,640,943	170,281
TRANSACTION SURPLUS (GAP)	-	-	(3,335,687)	(85,530)	(4,079,131)	(104,593)	(3,224,367)	(82,676)	(1,269,251)	(32,545)

Scenario Pro Formas (continued)

Casa Verde Sur, 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	-	-	2,048,727	52,531	2,048,727	52,531	2,048,727	52,531	2,048,727	52,531
Capital Needs Funded Using Subsidy	1,257,447	32,242	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	1,360,249	34,878	-	-	458,651	11,760	458,651	11,760	377,712	9,685
Total Funds	2,617,696	67,120	2,048,727	52,531	2,507,377	64,292	2,507,377	64,292	2,426,439	62,216
USES										
Estimated Capital Needs	2,617,696	67,120	2,617,696	67,120	2,617,696	67,120	2,617,696	67,120	2,617,696	67,120
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	2,617,696	67,120	2,617,696	67,120	2,617,696	67,120	2,617,696	67,120	2,617,696	67,120
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	(568,969)	(14,589)	(110,319)	(2,829)	(110,319)	(2,829)	(191,257)	(4,904)

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	1,843,780	47,276	1,843,780	47,276	1,843,780	47,276	1,843,780	47,276
Operating Deficit Subsidy Needed	0	-	-	-	0	-	5,025	129	3,888	100
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	-	-	1,843,780	47,276	1,843,780	47,276	1,848,805	47,405	1,847,668	47,376
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,257,447	32,242	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,472,094)	(37,746)	(1,472,111)	(37,746)	(465,302)	(11,931)	(462,331)	(11,855)
Transaction Capital Subsidy Needed	n/a	n/a	3,335,687	85,530	4,079,131	104,593	3,224,367	82,676	1,269,251	32,545
Total Capital Subsidy	1,257,447	32,242	1,863,593	47,784	2,607,020	66,847	2,759,064	70,745	806,920	20,690
TOTAL SUBSIDY NEEDED	1,257,447	32,242	3,707,373	95,061	4,450,800	114,123	4,607,869	118,150	2,654,587	68,066