

CHFA Capital Plan Property Assessment - 655 Garden Street

Property Identification

655 Garden Street
HARTFORD, CT

Total Current Unit Count: 4
Census Tract: 5015.00
Connecticut Congressional District: 1

CHFA Property Identification #: 91081D

Current State Sponsored Housing Program: SH Affordable Housing

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: Low rise (1-4 floors)
Number of buildings: 1
Maximum # of Stories: 2
Elevator? None

Summary property description:

The 655 Garden Street property has 4 two-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as an in-unit laundry hookup, as well resident-provided air conditioning.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 257,495

Capital Needs per Unit: \$ 64,374

Projected Year 1 (2014) Operating Income: \$ 5,428

Current operations at the property are projected to generate roughly \$5,400 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 \$0.26 million (\$64,373 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

655 Garden Street, continued

Current average income relative to the Area Median Income (AMI): 39%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	575	30%
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	575	30%
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

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

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: n/a

Revenue Adjustments Concurrent with a Recapitalization Transaction

655 Garden Street, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	4	4
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	4	4

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:	575	575
Three-bedroom unit:		
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: n/a

Transitional rental operating subsidy necessary to protect current residents and permit a five-year transition to income tier occupancy: n/a

Property used for market reference: 42 Vernon Street

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(186,527)	(186,527)
Recoverable Grant Scenario:	(508,714)	(454,146)
CHFA/FHA Scenario:	(588,511)	(583,971)
4% LIHTC Scenario:	(516,167)	(529,775)
9% LIHTC Scenario:	(138,221)	(133,783)

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

655 Garden Street, continued

Recommended Transaction Option:	Current	
Recommended Transaction Year	n/a	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.
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 \$186,527 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 small size of the property and 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:	186,527	
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 \$5,428 in NOI in the current year, which includes \$0 per unit per year in replacement reserve deposits, trending to \$2,665 fifteen years thereafter. The transaction results in a capital subsidy need of \$186,000, 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

655 Garden Street, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 0
 Current Routine Capital Needs: 14,035

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	14,035	14,035	-	-	-	-
2014	1,574	-	-	-	-	-
2015	1,621	-	-	-	-	-
2016	7,286	-	-	-	-	-
2017	2,536	-	-	-	-	-
2018	2,467	-	-	-	-	-
2019	1,825	-	-	-	-	-
2020	11,830	-	-	-	-	-
2021	5,865	-	-	-	-	-
2022	6,246	-	-	-	-	-

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	5,634	-	-	-	-	-
2024	1,359	-	-	-	-	-
2025	1,400	-	-	-	-	-
2026	30,732	22,520	-	-	-	-
2027	6,635	3,687	-	-	-	-
2028	3,316	651	-	-	-	-
2029	2,452	86	-	-	-	-
2030	129,959	127,909	-	-	-	-
2031	8,321	6,603	-	-	-	-
2032	12,403	11,036	-	-	-	-

Scenario Pro Formas

655 Garden Street, 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	34,317	8,579.28	43,710	10,927.40	43,710	10,927	43,710	10,927	43,710	10,927
Vacancy/Loss	-	-	-	-	(2,185)	(546)	(3,060)	(765)	(3,060)	(765)
Other Income	-	-	-	-	-	-	-	-	-	-
Effective Gross Income	34,317	8,579.28	43,710	10,927.40	41,524	10,381	40,650	10,162	40,650	10,162
2023 ANNUAL EXPENSES										
Operating Expenses	30,384	7,596	32,570	8,142	31,838	7,960	31,794	7,949	31,794	7,949
Replacement Reserve Deposits	-	-	-	-	2,420	605	2,420	605	1,993	498
Total Operating Expenses	30,384	7,596	32,570	8,142	34,258	8,564	34,214	8,554	33,787	8,447
2023 NET OPERATING INCOME	3,933	983	11,140	2,785	7,266	1,817	6,436	1,609	6,863	1,716
Debt Service	-	-	-	-	3,370	843	5,070	1,268	3,038	759
2023 CASH FLOW	3,933	983	11,140	2,785	3,896	974	1,366	341	3,825	956

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	-	-	-	-	58,646	14,662	1,157	289	52,864	13,216
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	120,000	30,000	120,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	15,310	3,828	17,010	4,253	17,010	4,253	16,710	4,178
Cash Escrows	-	-	-	-	3,468	867	3,468	867	2,856	714
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	34,457	8,614	38,772	9,693	38,598	9,650
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	274,916	68,729	602,880	150,720
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	15,310	3,828	113,581	28,395	455,323	113,831	833,909	208,477
USES										
Acquisition Costs	-	-	-	-	-	-	120,000	30,000	120,000	30,000
Construction Costs	-	-	373,465	93,366	373,465	93,366	377,603	94,401	377,603	94,401
Soft Costs - Design & Construction	-	-	52,302	13,076	51,714	12,928	52,696	13,174	52,696	13,174
Soft Costs - Due Diligence	-	-	8,148	2,037	15,848	3,962	16,197	4,049	16,197	4,049
Soft Costs - Transaction Costs	-	-	35,810	8,953	115,810	28,953	224,413	56,103	224,413	56,103
Soft Costs - Financing	-	-	12,043	3,011	41,742	10,436	49,054	12,263	49,279	12,320
Soft Costs - Other	-	-	2,300	575	2,600	650	2,600	650	2,600	650
Soft Cost Contingency	-	-	5,530	1,383	11,386	2,846	14,612	3,653	14,465	3,616
Reserves	-	-	-	-	3,385	846	17,386	4,347	18,381	4,595
Developer Fee	-	-	34,425	8,606	86,142	21,535	96,929	24,232	96,496	24,124
Total Uses of Funds	-	-	524,024	131,006	702,092	175,523	971,490	242,873	972,130	243,032
TRANSACTION SURPLUS (GAP)	-	-	(508,714)	(127,178)	(588,511)	(147,128)	(516,167)	(129,042)	(138,221)	(34,555)

Scenario Pro Formas (continued)

655 Garden Street, 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	-	-	288,221	72,055	288,221	72,055	288,221	72,055	288,221	72,055
Capital Needs Funded Using Subsidy	186,527	46,632	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	70,968	17,742	-	-	47,041	11,760	47,041	11,760	38,740	9,685
Total Funds	257,495	64,374	288,221	72,055	335,262	83,815	335,262	83,815	326,960	81,740
USES										
Estimated Capital Needs	257,495	64,374	257,495	64,374	257,495	64,374	257,495	64,374	257,495	64,374
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	257,495	64,374	257,495	64,374	257,495	64,374	257,495	64,374	257,495	64,374
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	30,726	7,681	77,767	19,442	77,767	19,442	69,465	17,366

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	701	175	701	175	701	175	701	175
Operating Deficit Subsidy Needed	0	-	-	-	327	82	3,037	759	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	14,810	3,703	14,810	3,703	14,810	3,703	14,810	3,703
Total Operating Subsidy	-	-	15,511	3,878	15,839	3,960	18,548	4,637	15,511	3,878
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	186,527	46,632	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(70,079)	(17,520)	(20,378)	(5,095)	(4,940)	(1,235)	(19,949)	(4,987)
Transaction Capital Subsidy Needed	n/a	n/a	508,714	127,178	588,511	147,128	516,167	129,042	138,221	34,555
Total Capital Subsidy	186,527	46,632	438,634	109,659	568,132	142,033	511,227	127,807	118,271	29,568
TOTAL SUBSIDY NEEDED	186,527	46,632	454,146	113,536	583,971	145,993	529,775	132,444	133,783	33,446