CHFA Capital Plan Property Assessment - Hillside Apartments

Property Identification

Hillside Apartments
NORWICH, CT

Total Current Unit Count:	26
Census Tract:	6967.00
Connecticut Congressional District:	2

CHFA Property Identification #: 85144D
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:	Low rise (1-4 floors)
Number of buildings:	3
Maximum # of Stories:	2
Elevator?	None

Summary property description:
The Hillside Apartments property has 3 one-bedroom, 15 two-bedroom, 5 three-bedroom and 3 four-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as semi-private outdoor space.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	1,060,925
Capital Needs per Unit:	$	40,805
Projected Year 1 (2014) Operating Income:	$	20,710

Current operations at the property are projected to generate roughly $20,700 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 2025. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.06 million ($40,804 per unit) over the next 20 years.

Owner Comments to Property Assessment:

1. Conditions Unique to this Property: Although apparently still considered by CHFA as part of the State Sponsored Housing Portfolio, the State no longer has any role in the financing of the property. As part of the purchase transaction of the property by the current owner in 2008, the CHFA mortgage on the property was paid off, and the owner took out mortgage financing with a private lender. CHFA's role is now limited to review and approval of the operating budgets in order to assure that the property continues to meet the requirements of the Moderate Rental Program. The replacement reserve account and any operating surplus are held by and controlled by the owner. This unique situation has numerous implications on such issues as security for any future State investment in the property, potential future private refinancing, etc.

2. Projected Year 1 Operating Income: The projected Year 1 Operating Income used in the analysis is roughly in agreement with actual experience, but with 2 caveats. First, unlike the normal concept of NOI, the Operating Income figure represents income after payment of operating expenses and after payment of debt service on the private mortgage financing. Second, since our ownership, actual operating expenses have included moderate rehabilitation of 5 units in the complex as apartments have turned over; these rehabs were funded out of operating – no replacement reserves were used. We anticipate being able to carry out 1-2 unit rehabs per year, paid out of operating, going forward.

RECAP Response: The property assessment was revised with updated operating income and expsense data provided by the owner.

Current average income relative to the Area Median Income (AMI): 19%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	672	43%
Two-bedroom unit:	779	42%
Three-bedroom unit:	808	38%
Four-bedroom unit:	779	32%
Five-bedroom unit:		
Six-bedroom unit:		

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Five-bedroom unit:		
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

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.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	23	23
25-50% of AMI	2	2
50% of AMI or greater	1	1
Total number of units	26	26

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:	672	672
Two-bedroom unit:	779	779
Three-bedroom unit:	808	808
Four-bedroom unit:	779	779
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

Additional rental operating subsidy necessary to sustain Rental Assistance Payments based on the adjusted base rent: n/a

Property used for market reference: Eastwood Court

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(575,956)	(684,676)
Recoverable Grant Scenario:	(1,864,322)	(1,889,709)
CHFA/FHA Scenario:	(1,545,259)	(1,779,293)
4% LIHTC Scenario:	(1,138,880)	(1,369,530)
9% LIHTC Scenario:	38,750	(236,261)

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:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	455
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	575,956
Transaction Capital Subsidy Needed:	-

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.
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 $571,627 over the course of the next 20 years.

At this time, the "Current Scenario" is the only approach which reasonably covers the property’s capital needs given the low rental revenue and/or 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.

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 does not have a stable operating revenue and expense picture and is at-risk of experiencing long term structural operating deficits unless it is able to access significant operating subsidy. Under the Current scenario, the property yields $20,7104 in NOI in the current year, which includes $455 per unit per year in replacement reserve deposits, trending to negative $11,540 fifteen years thereafter. The transaction results in a capital subsidy need of $575,000 and $109,000 in operating deficit subsidy, 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.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	74,334

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	**74,334**	37,823	-	-	-	-
2014	**41,255**	8,720	-	-	-	-
2015	**42,493**	11,067	-	-	-	-
2016	**43,768**	13,527	-	-	-	-
2017	**53,027**	24,049	-	-	-	-
2018	**54,399**	26,765	-	-	-	-
2019	**77,414**	51,208	-	-	-	-
2020	**13,421**	-	-	-	-	-
2021	**80,519**	46,170	-	-	-	-
2022	**91,273**	69,895	-	-	-	-

		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	**103,758**	84,182	-	-	-	-
2024	**22,208**	4,537	-	-	-	-
2025	**15,559**	-	-	2,545	-	-
2026	**16,026**	-	-	5,397	-	-
2027	**121,904**	96,664	-	8,393	-	-
2028	**46,333**	25,856	-	11,540	-	-
2029	**86,056**	64,760	-	14,843	-	-
2030	**32,880**	10,732	-	18,308	-	-
2031	**20,980**	-	-	21,942	-	-
2032	**23,319**	-	-	25,751	-	-

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	301,066	11,579	332,051	12,771	332,051	12,771	332,051	12,771	332,051	12,771
Vacancy/Loss	(11,290)	(434)	(12,272)	(472)	(16,603)	(639)	(23,244)	(894)	(23,244)	(894)
Other Income	2,999	115	2,999	115	2,999	115	2,999	115	2,999	115
Effective Gross Income	**292,775**	**11,261**	**322,778**	**12,415**	**318,448**	**12,248**	**311,807**	**11,993**	**311,807**	**11,993**
2023 ANNUAL EXPENSES										
Operating Expenses	273,199	10,508	245,812	9,454	241,463	9,287	241,131	9,274	241,131	9,274
Replacement Reserve Deposits	16,830	647	16,830	647	15,728	605	15,728	605	12,952	498
Total Operating Expenses	**290,030**	**11,155**	**262,643**	**10,102**	**257,190**	**9,892**	**256,858**	**9,879**	**254,083**	**9,772**
2023 NET OPERATING INCOME	**2,745**	**106**	**60,135**	**2,313**	**61,257**	**2,356**	**54,948**	**2,113**	**57,724**	**2,220**
Debt Service	-	-	-	-	33,520	1,289	26,286	1,011	30,305	1,166
2023 CASH FLOW	**2,745**	**106**	**60,135**	**2,313**	**27,738**	**1,067**	**28,663**	**1,102**	**27,419**	**1,055**

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	-	-	-	-	583,289	22,434	351,766	13,529	527,342	20,282
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	780,000	30,000	780,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	37,130	1,428	48,180	1,853	48,180	1,853	46,230	1,778
Cash Escrows	-	-	60,634	2,332	59,053	2,271	59,053	2,271	55,075	2,118
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	114,535	4,405	120,981	4,653	120,477	4,634
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	927,785	35,684	1,937,109	74,504
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**97,763**	3,760	**805,057**	30,964	**2,287,765**	87,991	**3,466,234**	133,317
USES										
Acquisition Costs	-	-	-	-	-	-	780,000	30,000	780,000	30,000
Construction Costs	-	-	1,513,963	58,229	1,513,963	58,229	1,530,740	58,875	1,530,740	58,875
Soft Costs - Design & Construction	-	-	173,852	6,687	171,466	6,595	175,446	6,748	175,446	6,748
Soft Costs - Due Diligence	-	-	10,617	408	19,417	747	21,673	834	21,673	834
Soft Costs - Transaction Costs	-	-	57,630	2,217	137,630	5,293	257,235	9,894	257,235	9,894
Soft Costs - Financing	-	-	46,976	1,807	151,927	5,843	174,433	6,709	175,632	6,755
Soft Costs - Other	-	-	14,950	575	16,900	650	16,900	650	16,900	650
Soft Cost Contingency	-	-	15,201	585	24,867	956	28,536	1,098	28,109	1,081
Reserves	-	-	-	-	27,810	1,070	139,230	5,355	140,556	5,406
Developer Fee	-	-	128,896	4,958	286,336	11,013	302,452	11,633	301,193	11,584
Total Uses of Funds	**-**	**-**	**1,962,085**	75,465	**2,350,316**	90,397	**3,426,645**	131,794	**3,427,484**	131,826
TRANSACTION SURPLUS (GAP)	**-**	-	**(1,864,322)**	(71,705)	**(1,545,259)**	(59,433)	**(1,138,880)**	(43,803)	**38,750**	1,490

Scenario Pro Formas (continued)	Hillside Apartments, 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	-	-	1,168,398	44,938	1,168,398	44,938	1,168,398	44,938	1,168,398	44,938
Capital Needs Funded Using Subsidy	575,956	22,152	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	36,511	1,404	36,511	1,404	36,511	1,404	36,511	1,404	36,511	1,404
Replacement Reserves	451,147	17,352	327,207	12,585	305,767	11,760	305,767	11,760	251,808	9,685
Total Funds	**1,063,614**	**40,908**	**1,532,116**	**58,928**	**1,510,676**	**58,103**	**1,510,676**	**58,103**	**1,456,717**	**56,028**
USES										
Estimated Capital Needs	1,060,925	40,805	1,060,925	40,805	1,060,925	40,805	1,060,925	40,805	1,060,925	40,805
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,060,925**	**40,805**	**1,060,925**	**40,805**	**1,060,925**	**40,805**	**1,060,925**	**40,805**	**1,060,925**	**40,805**
YEAR 20 REPLACEMENT RESERVE BALANCE	**2,689**	**103**	**471,191**	**18,123**	**449,751**	**17,298**	**449,751**	**17,298**	**395,792**	**15,223**

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	380,660	14,641	380,660	14,641	380,660	14,641	380,660	14,641
Operating Deficit Subsidy Needed	108,719	4,182	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**108,719**	**4,182**	**380,660**	**14,641**	**380,660**	**14,641**	**380,660**	**14,641**	**380,660**	**14,641**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	575,956	22,152	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(355,272)	(13,664)	(146,626)	(5,639)	(150,010)	(5,770)	(144,398)	(5,554)
Transaction Capital Subsidy Needed	n/a	n/a	1,864,322	71,705	1,545,259	59,433	1,138,880	43,803	-	-
Total Capital Subsidy	**575,956**	**22,152**	**1,509,049**	**58,040**	**1,398,633**	**53,794**	**988,870**	**38,033**	**(144,398)**	**(5,554)**
TOTAL SUBSIDY NEEDED	**684,676**	**26,334**	**1,889,709**	**72,681**	**1,779,293**	**68,434**	**1,369,530**	**52,674**	**236,261**	**9,087**