

CHFA Capital Plan Property Assessment - Oak Terrace, Oak Terrace Extensions, Robert E. Hutt Congregate

Property Identification

Oak Terrace, Oak Terrace Extensions, Robert E. Hutt Congregate
NAUGATUCK, CT

Total Current Unit Count: 230
Census Tract: 3454.00
Connecticut Congressional District: 3

CHFA Property Identification #: 85107D, 85108D, 85109D, 85110D, 85111D, 94063D

Current State Sponsored Housing Program: SH Elderly & Congregate

These properties were originally financed separately and appear in CHFA's records as six 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: Row House
Number of buildings: 39
Maximum # of Stories: 3
Elevator? None

Summary property description:

The Oak Terrace, Oak Terrace Extensions & Robert E. Hutt Congregate property has 190 efficiency or studio and 40 one-bedroom units. Generally, the property consists of relatively small units. Some of the sites feature amenities such as common laundry, private patios, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 6,729,661

Capital Needs per Unit: \$ 29,259

Projected Year 1 (2014) Operating Income: \$ 80,232

Current operations at the property are projected to generate roughly \$80,200 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 results in negative NOI beginning in 2023. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$6.73 million (\$29,259 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Oak Terrace, Oak Terrace Extensions, Robert E. Hutt Congregate, continued

Current average income relative to
the Area Median Income (AMI): 21%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	80	6%
One-bedroom unit:	120	8%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	80	6%
One-bedroom unit:	120	8%
Two-bedroom unit:		
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

Additional rental assistance payments subsidy
over a 20 year period due to revised base rent: n/a

Revenue Adjustments Concurrent with a Recapitalization Transaction

Oak Terrace, Oak Terrace Extensions, Robert E. Hutt Congregate, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	166	166
25-50% of AMI	60	60
50% of AMI or greater	4	4
Total number of units	230	230

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:	80	80
One-bedroom unit:	120	120
Two-bedroom unit:		
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

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

Property used for market reference: Oak Terrace

Transaction Options

Oak Terrace, Oak Terrace Extensions, Robert E. Hutt Congregate, continued

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,313,573)	(3,015,857)
Recoverable Grant Scenario:	(9,630,679)	(16,733,677)
CHFA/FHA Scenario:	(5,600,468)	(14,815,109)
4% LIHTC Scenario:	(2,834,700)	(12,182,731)
9% LIHTC Scenario:	1,356,881	(9,328,998)

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

Oak Terrace, Oak Terrace Extensions, Robert E. Hutt Congregate, 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	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 \$2,313,573 over the course of the next 20 years.
Replacement Reserve Deposit PUPY:	467	
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:	2,313,573	
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 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 \$80,232 in NOI in the current year, which includes \$467 per unit per year in replacement reserve deposits, trending to negative \$74,826 fifteen years thereafter. The transaction results in a capital subsidy need of \$2,313,000 and \$702,000 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.

Summary of Capital Needs & State Subsidy Needs

Oak Terrace, Oak Terrace Extensions, Robert E. Hutt Congregate, continued

Immediate Emergency Capital Needs: 7,725
 Current Deferred Capital Needs: 33,481
 Current Routine Capital Needs: 337,464

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	378,670	-	-	-	-	-
2014	384,194	-	-	-	-	-
2015	275,963	-	-	-	-	-
2016	212,032	-	-	-	-	-
2017	417,437	-	-	-	-	-
2018	178,402	-	-	-	-	-
2019	190,735	-	-	-	-	-
2020	182,874	-	-	-	-	-
2021	143,353	-	-	-	-	-
2022	234,114	16,905	-	-	-	-

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	209,494	56,636	-	6,108	-	-
2024	302,294	143,323	-	18,505	-	-
2025	311,320	145,990	-	31,549	-	-
2026	260,161	88,218	-	45,265	-	-
2027	414,148	235,326	-	59,681	-	-
2028	398,901	212,927	-	74,826	-	-
2029	545,708	352,295	-	90,727	-	-
2030	496,392	295,243	-	107,416	-	-
2031	660,900	451,704	-	124,924	-	-
2032	532,569	315,006	-	143,283	-	-

Scenario Pro Formas

Oak Terrace, Oak Terrace Extensions, Robert E. Hutt Congregate, 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	1,079,811	4,694.83	1,633,811	7,103.52	1,633,811	7,104	1,633,811	7,104	1,633,811	7,104
Vacancy/Loss	(24,047)	(104.55)	(24,047)	(104.55)	(81,691)	(355)	(114,367)	(497)	(114,367)	(497)
Other Income	12,731	55.35	12,731	55.35	12,731	55	12,731	55	12,731	55
Effective Gross Income	1,068,495	4,645.63	1,622,494	7,054.32	1,564,851	6,804	1,532,174	6,662	1,532,174	6,662
2023 ANNUAL EXPENSES										
Operating Expenses	921,746	4,008	1,002,871	4,360	976,447	4,245	974,813	4,238	974,813	4,238
Replacement Reserve Deposits	152,857	665	152,857	665	114,577	498	114,577	498	114,577	498
Total Operating Expenses	1,074,603	4,672	1,155,728	5,025	1,091,023	4,744	1,089,389	4,736	1,089,389	4,736
2023 NET OPERATING INCOME	(6,108)	(27)	466,767	2,029	473,828	2,060	442,785	1,925	442,785	1,925
Debt Service	-	-	-	-	291,551	1,268	276,921	1,204	274,384	1,193
2023 CASH FLOW	(6,108)	(27)	466,767	2,029	182,277	793	165,864	721	168,402	732

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	-	-	-	-	5,073,379	22,058	4,493,785	19,538	4,774,646	20,759
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	6,900,000	30,000	6,900,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	100,460	437	180,960	787	180,960	787	180,960	787
Cash Escrows	-	-	657,706	2,860	657,706	2,860	657,706	2,860	657,706	2,860
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	585,453	2,545	609,626	2,651	607,117	2,640
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	4,357,983	18,948	8,259,161	35,909
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	758,166	3,296	6,497,499	28,250	17,200,060	74,783	21,379,590	92,955
USES										
Acquisition Costs	-	-	-	-	-	-	6,900,000	30,000	6,900,000	30,000
Construction Costs	-	-	8,229,355	35,780	8,229,355	35,780	8,320,550	36,176	8,320,550	36,176
Soft Costs - Design & Construction	-	-	866,113	3,766	853,142	3,709	873,409	3,797	873,409	3,797
Soft Costs - Due Diligence	-	-	28,875	126	47,875	208	67,765	295	67,765	295
Soft Costs - Transaction Costs	-	-	120,960	526	200,960	874	385,348	1,675	385,348	1,675
Soft Costs - Financing	-	-	258,479	1,124	823,478	3,580	1,014,519	4,411	1,009,634	4,390
Soft Costs - Other	-	-	132,250	575	149,500	650	149,500	650	149,500	650
Soft Cost Contingency	-	-	70,334	306	103,748	451	113,964	495	111,839	486
Reserves	-	-	-	-	226,275	984	685,640	2,981	686,871	2,986
Developer Fee	-	-	682,479	2,967	1,463,633	6,364	1,524,066	6,626	1,517,792	6,599
Total Uses of Funds	-	-	10,388,845	45,169	12,097,966	52,600	20,034,760	87,108	20,022,709	87,055
TRANSACTION SURPLUS (GAP)	-	-	(9,630,679)	(41,873)	(5,600,468)	(24,350)	(2,834,700)	(12,325)	1,356,881	5,899

Scenario Pro Formas (continued)

Oak Terrace, Oak Terrace Extensions, Robert E. Hutt Congregate, 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	-	-	6,350,990	27,613	6,350,990	27,613	6,350,990	27,613	6,350,990	27,613
Capital Needs Funded Using Subsidy	2,313,573	10,059	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	1,036,376	4,506	1,036,376	4,506	1,036,376	4,506	1,036,376	4,506	1,036,376	4,506
Replacement Reserves	3,379,712	14,694	2,971,763	12,921	2,227,534	9,685	2,227,534	9,685	2,227,534	9,685
Total Funds	6,729,661	29,259	10,359,129	45,040	9,614,900	41,804	9,614,900	41,804	9,614,900	41,804
USES										
Estimated Capital Needs	6,729,661	29,259	6,729,661	29,259	6,729,661	29,259	6,729,661	29,259	6,729,661	29,259
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	6,729,661	29,259	6,729,661	29,259	6,729,661	29,259	6,729,661	29,259	6,729,661	29,259
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	3,629,468	15,780	2,885,240	12,545	2,885,240	12,545	2,885,240	12,545

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	10,522,463	45,750	10,522,463	45,750	10,522,463	45,750	10,522,463	45,750
Operating Deficit Subsidy Needed	702,284	3,053	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	702,284	3,053	10,522,463	45,750	10,522,463	45,750	10,522,463	45,750	10,522,463	45,750
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,313,573	10,059	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(3,419,465)	(14,867)	(1,307,822)	(5,686)	(1,174,432)	(5,106)	(1,193,465)	(5,189)
Transaction Capital Subsidy Needed	n/a	n/a	9,630,679	41,873	5,600,468	24,350	2,834,700	12,325	-	-
Total Capital Subsidy	2,313,573	10,059	6,211,215	27,005	4,292,646	18,664	1,660,268	7,219	(1,193,465)	(5,189)
TOTAL SUBSIDY NEEDED	3,015,857	13,112	16,733,677	72,755	14,815,109	64,414	12,182,731	52,968	9,328,998	40,561