CHFA Capital Plan Property Assessment - 42 Vernon Street

Property Identification

42 Vernon Street
HARTFORD, CT

Total Current Unit Count:	9
Census Tract:	5027.00
Connecticut Congressional District:	1

<u>CHFA Property Identification #:</u> 91082D
<u>Current State Sponsored Housing Program:</u> 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:	3
Elevator?	None

<u>Summary property description:</u>
The 42 Vernon Street property has 9 two-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as an in-unit laundry hookup, as well as in-unit refrigerators and stoves.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	467,698
Capital Needs per Unit:	$	51,966
Projected Year 1 (2014) Operating Income:	$	20,252

Current operations at the property are projected to generate roughly $20,300 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 yet remains positive through the time horizon studied. However, the property cannot leverage debt financing or adequately address its future basic capital needs, projected to be approximately $0.47 million ($51,966 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 18%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	700	36%
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:	700	36%
Three-bedroom unit:		
Four-bedroom unit:		
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

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: 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	9	9
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	9	9

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:	700	700
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):	(119,542)	(119,542)
Recoverable Grant Scenario:	(782,325)	(686,403)
CHFA/FHA Scenario:	(827,613)	(830,808)
4% LIHTC Scenario:	(705,661)	(708,299)
9% LIHTC Scenario:	(139,511)	(144,330)

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	42 Vernon Street, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	93
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	119,542
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 $119,542 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 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 has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields $20,252 in NOI in the current year, which includes $93 per unit per year in replacement reserve deposits, trending to $17,851 fifteen years thereafter. The transaction results in a capital subsidy need of $119,000, 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.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	21,506
Current Routine Capital Needs:	69,754

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	**91,260**	91,260	-	-	-	-
2014	**43,581**	22,488	-	-	-	-
2015	**17,036**	-	-	-	-	-
2016	**20,301**	-	-	-	-	-
2017	**8,803**	-	-	-	-	-
2018	**6,491**	-	-	-	-	-
2019	**6,685**	-	-	-	-	-
2020	**18,235**	-	-	-	-	-
2021	**74,531**	5,794	-	-	-	-
2022	**13,866**	-	-	-	-	-

		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	**10,527**	-	-	-	-	-
2024	**10,889**	-	-	-	-	-
2025	**8,906**	-	-	-	-	-
2026	**7,587**	-	-	-	-	-
2027	**8,943**	-	-	-	-	-
2028	**57,150**	-	-	-	-	-
2029	**22,845**	-	-	-	-	-
2030	**15,996**	-	-	-	-	-
2031	**9,936**	-	-	-	-	-
2032	**14,131**	-	-	-	-	-

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	81,690	9,076.63	83,533	9,281.49	83,533	9,281	83,533	9,281	83,533	9,281
Vacancy/Loss	-	-	-	-	(4,177)	(464)	(5,847)	(650)	(5,847)	(650)
Other Income	349	38.75	349	38.75	349	39	349	39	349	39
Effective Gross Income	**82,038**	**9,115.38**	**83,882**	**9,320.25**	**79,706**	**8,856**	**78,035**	**8,671**	**78,035**	**8,671**
2023 ANNUAL EXPENSES										
Operating Expenses	61,673	6,853	61,796	6,866	60,516	6,724	60,432	6,715	60,432	6,715
Replacement Reserve Deposits	1,196	133	1,196	133	5,444	605	5,444	605	4,483	498
Total Operating Expenses	**62,869**	**6,985**	**62,992**	**6,999**	**65,960**	**7,329**	**65,876**	**7,320**	**64,915**	**7,213**
2023 NET OPERATING INCOME	**19,170**	**2,130**	**20,890**	**2,321**	**13,746**	**1,527**	**12,159**	**1,351**	**13,119**	**1,458**
Debt Service	-	-	-	-	6,821	758	5,068	563	6,356	706
2023 CASH FLOW	**19,170**	**2,130**	**20,890**	**2,321**	**6,925**	**769**	**7,091**	**788**	**6,763**	**751**

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	-	-	-	-	118,689	13,188	1,124	125	110,607	12,290
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	270,000	30,000	270,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	16,171	1,797	19,996	2,222	19,996	2,222	19,321	2,147
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	49,750	5,528	54,481	6,053	54,282	6,031
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	405,762	45,085	865,756	96,195
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**16,171**	1,797	**188,435**	20,937	**751,364**	83,485	**1,319,967**	146,663
USES										
Acquisition Costs	-	-	-	-	-	-	270,000	30,000	270,000	30,000
Construction Costs	-	-	593,649	65,961	593,649	65,961	600,228	66,692	600,228	66,692
Soft Costs - Design & Construction	-	-	75,769	8,419	74,833	8,315	76,394	8,488	76,394	8,488
Soft Costs - Due Diligence	-	-	8,662	962	16,612	1,846	17,394	1,933	17,394	1,933
Soft Costs - Transaction Costs	-	-	36,671	4,075	116,671	12,963	227,398	25,266	227,398	25,266
Soft Costs - Financing	-	-	18,857	2,095	62,976	6,997	73,297	8,144	74,358	8,262
Soft Costs - Other	-	-	5,175	575	5,850	650	5,850	650	5,850	650
Soft Cost Contingency	-	-	7,257	806	13,847	1,539	17,159	1,907	16,990	1,888
Reserves	-	-	-	-	7,235	804	33,101	3,678	35,160	3,907
Developer Fee	-	-	52,456	5,828	124,374	13,819	136,204	15,134	135,706	15,078
Total Uses of Funds	**-**	**-**	**798,496**	88,722	**1,016,048**	112,894	**1,457,025**	161,892	**1,459,478**	162,164
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(782,325)**	(86,925)	**(827,613)**	(91,957)	**(705,661)**	(78,407)	**(139,511)**	(15,501)

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	-	-	458,148	50,905	458,148	50,905	458,148	50,905	458,148	50,905
Capital Needs Funded Using Subsidy	119,542	13,282	27,825	3,092	24,840	2,760	24,840	2,760	25,515	2,835
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	381,278	42,364	23,252	2,584	105,842	11,760	105,842	11,760	87,164	9,685
Total Funds	**500,820**	**55,647**	**509,225**	**56,581**	**588,830**	**65,426**	**588,830**	**65,426**	**570,827**	**63,425**
USES										
Estimated Capital Needs	467,698	51,966	467,698	51,966	467,698	51,966	467,698	51,966	467,698	51,966
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**467,698**	**51,966**	**467,698**	**51,966**	**467,698**	**51,966**	**467,698**	**51,966**	**467,698**	**51,966**
YEAR 20 REPLACEMENT RESERVE BALANCE	**33,122**	**3,680**	**41,527**	**4,614**	**121,132**	**13,459**	**121,132**	**13,459**	**103,129**	**11,459**

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	13,774	1,530	13,774	1,530	13,774	1,530	13,774	1,530
Operating Deficit Subsidy Needed	0	-	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	3,901	433	3,901	433	3,901	433	3,901	433
Total Operating Subsidy	**-**	**-**	**17,675**	**1,964**	**17,675**	**1,964**	**17,675**	**1,964**	**17,675**	**1,964**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	119,542	13,282	27,825	3,092	24,840	2,760	24,840	2,760	25,515	2,835
Recoverable Cash Flow	n/a	n/a	(141,422)	(15,714)	(39,319)	(4,369)	(39,877)	(4,431)	(38,371)	(4,263)
Transaction Capital Subsidy Needed	n/a	n/a	782,325	86,925	827,613	91,957	705,661	78,407	139,511	15,501
Total Capital Subsidy	**119,542**	**13,282**	**668,728**	**74,303**	**813,133**	**90,348**	**690,624**	**76,736**	**126,655**	**14,073**
TOTAL SUBSIDY NEEDED	**119,542**	**13,282**	**686,403**	**76,267**	**830,808**	**92,312**	**708,299**	**78,700**	**144,330**	**16,037**