

## CHFA Capital Plan Property Assessment - Grove Court, Grove Court Ext

### Property Identification

Grove Court, Grove Court Ext  
VERNON, CT

Total Current Unit Count: 54  
Census Tract: 5301.00  
Connecticut Congressional District: 2

CHFA Property Identification #: 85199D, 85201D

Current State Sponsored Housing Program: SH Elderly

This property was originally financed in phases and appears in CHFA's records as two 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: Low rise (1-4 floors)  
Number of buildings: 7  
Maximum # of Stories: 2  
Elevator? None

Summary property description:

The Grove Court property has 39 efficiency or studio and 15 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, semi-private outdoor space, and a common room.

### Current Operating & Capital Needs Status

Aggregate Capital Needs  
(without market enhancements): \$ 2,109,375  
  
Capital Needs per Unit: \$ 39,063  
  
Projected Year 1 (2014) Operating Income: \$ 40,324

Current operations at the property are projected to generate roughly \$40,300 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 and results in negative NOI beginning in 2030. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$2.11 million (\$39,062 per unit) over the next 20 years.

**Revenue Adjustments Prior to a Recapitalization Transaction**

Grove Court, Grove Court Ext , continued

Current average income relative to  
the Area Median Income (AMI): 26%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	250	17%
One-bedroom unit:	275	17%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	250	17%
One-bedroom unit:	275	17%
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**

Grove Court, Grove Court Ext , continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	28	28
25-50% of AMI	25	25
50% of AMI or greater	1	1
Total number of units	54	54

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:	250	250
One-bedroom unit:	275	275
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: Grove Court

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(160,108)	(178,542)
Recoverable Grant Scenario:	(2,675,425)	(3,170,107)
CHFA/FHA Scenario:	(1,559,910)	(2,507,877)
4% LIHTC Scenario:	(703,905)	(1,703,423)
9% LIHTC Scenario:	713,832	(967,575)

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**

Grove Court, Grove Court Ext , 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 \$160,108 over the course of the next 20 years.
Replacement Reserve Deposit PUPY:	556	
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:	160,108	
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 \$40,324 in NOI in the current year, which includes \$556 per unit per year in replacement reserve deposits, trending to negative \$5,594 fifteen years thereafter. The transaction results in a capital subsidy need of \$160,108 and \$18,434 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**

Grove Court, Grove Court Ext , continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 46,119  
 Current Routine Capital Needs: 160,952

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	207,071	-	-	-	-	-
2014	175,996	-	-	-	-	-
2015	127,707	-	-	-	-	-
2016	93,807	-	-	-	-	-
2017	102,661	-	-	-	-	-
2018	78,270	-	-	-	-	-
2019	100,501	-	-	-	-	-
2020	82,909	-	-	-	-	-
2021	125,481	-	-	-	-	-
2022	114,804	-	-	-	-	-

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	50,029	-	-	-	-	-
2024	45,444	-	-	-	-	-
2025	66,256	-	-	-	-	-
2026	149,681	-	-	-	-	-
2027	75,757	-	-	-	-	-
2028	131,329	-	-	-	-	-
2029	100,320	36,730	-	-	-	-
2030	168,297	112,064	-	1,981	-	-
2031	69,797	11,314	-	6,073	-	-
2032	43,259	-	-	10,380	-	-

**Scenario Pro Formas**

Grove Court, Grove Court Ext , 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
<b>2023 ANNUAL INCOME</b>										
Gross Potential Rent	325,000	6,018.51	442,786	8,199.75	442,786	8,200	442,786	8,200	442,786	8,200
Vacancy/Loss	(25,392)	(470.22)	(25,392)	(470.22)	(25,392)	(470)	(30,995)	(574)	(30,995)	(574)
Other Income	2,534	46.92	2,534	46.92	2,534	47	2,534	47	2,534	47
<b>Effective Gross Income</b>	<b>302,141</b>	<b>5,595.20</b>	<b>419,928</b>	<b>7,776.44</b>	<b>419,928</b>	<b>7,776</b>	<b>414,325</b>	<b>7,673</b>	<b>414,325</b>	<b>7,673</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	238,083	4,409	259,079	4,798	251,872	4,664	251,592	4,659	251,592	4,659
Replacement Reserve Deposits	42,733	791	42,733	791	26,901	498	26,901	498	26,901	498
<b>Total Operating Expenses</b>	<b>280,816</b>	<b>5,200</b>	<b>301,812</b>	<b>5,589</b>	<b>278,773</b>	<b>5,162</b>	<b>278,493</b>	<b>5,157</b>	<b>278,493</b>	<b>5,157</b>
<b>2023 NET OPERATING INCOME</b>	<b>21,325</b>	<b>395</b>	<b>118,115</b>	<b>2,187</b>	<b>141,155</b>	<b>2,614</b>	<b>135,832</b>	<b>2,515</b>	<b>135,832</b>	<b>2,515</b>
Debt Service	-	-	-	-	85,517	1,584	86,833	1,608	82,574	1,529
<b>2023 CASH FLOW</b>	<b>21,325</b>	<b>395</b>	<b>118,115</b>	<b>2,187</b>	<b>55,637</b>	<b>1,030</b>	<b>48,999</b>	<b>907</b>	<b>53,258</b>	<b>986</b>

**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
<b>SOURCES</b>										
Hard Debt										
Commercial Debt 1	-	-	-	-	1,488,120	27,558	1,352,373	25,044	1,436,897	26,609
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,690,467	31,305	1,690,467	31,305
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	13,248	245	32,148	595	32,148	595	32,148	595
Cash Escrows	-	-	749,502	13,880	749,502	13,880	749,502	13,880	749,502	13,880
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	195,459	3,620	205,077	3,798	204,208	3,782
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,353,636	25,067	2,683,281	49,690
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>762,750</b>	<b>14,125</b>	<b>2,465,229</b>	<b>45,652</b>	<b>5,383,203</b>	<b>99,689</b>	<b>6,796,502</b>	<b>125,861</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	-	-	1,690,467	31,305	1,690,467	31,305
Construction Costs	-	-	2,723,547	50,436	2,723,547	50,436	2,753,729	50,995	2,753,729	50,995
Soft Costs - Design & Construction	-	-	302,765	5,607	298,472	5,527	305,633	5,660	305,633	5,660
Soft Costs - Due Diligence	-	-	13,468	249	23,668	438	28,433	527	28,433	527
Soft Costs - Transaction Costs	-	-	33,748	625	113,748	2,106	245,022	4,537	245,022	4,537
Soft Costs - Financing	-	-	84,456	1,564	244,521	4,528	295,543	5,473	293,643	5,438
Soft Costs - Other	-	-	31,050	575	35,100	650	35,100	650	35,100	650
Soft Cost Contingency	-	-	23,274	431	35,775	663	40,658	753	39,922	739
Reserves	-	-	-	-	61,659	1,142	179,831	3,330	180,202	3,337
Developer Fee	-	-	225,865	4,183	488,648	9,049	512,693	9,494	510,521	9,454
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>3,438,175</b>	<b>63,670</b>	<b>4,025,139</b>	<b>74,540</b>	<b>6,087,108</b>	<b>112,724</b>	<b>6,082,670</b>	<b>112,642</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(2,675,425)</b>	<b>(49,545)</b>	<b>(1,559,910)</b>	<b>(28,887)</b>	<b>(703,905)</b>	<b>(13,035)</b>	<b>713,832</b>	<b>13,219</b>

**Scenario Pro Formas (continued)**

Grove Court, Grove Court Ext , 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
<b>FUNDS</b>										
Transaction Rehab	-	-	2,101,893	38,924	2,101,893	38,924	2,101,893	38,924	2,101,893	38,924
Capital Needs Funded Using Subsidy	160,108	2,965	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	756,984	14,018	756,984	14,018	756,984	14,018	756,984	14,018	756,984	14,018
Replacement Reserves	1,209,847	22,405	830,790	15,385	522,986	9,685	522,986	9,685	522,986	9,685
<b>Total Funds</b>	<b>2,126,939</b>	<b>39,388</b>	<b>3,689,667</b>	<b>68,327</b>	<b>3,381,863</b>	<b>62,627</b>	<b>3,381,863</b>	<b>62,627</b>	<b>3,381,863</b>	<b>62,627</b>
<b>USES</b>										
Estimated Capital Needs	2,109,375	39,063	2,109,375	39,063	2,109,375	39,063	2,109,375	39,063	2,109,375	39,063
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>2,109,375</b>	<b>39,063</b>	<b>2,109,375</b>	<b>39,063</b>	<b>2,109,375</b>	<b>39,063</b>	<b>2,109,375</b>	<b>39,063</b>	<b>2,109,375</b>	<b>39,063</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>17,564</b>	<b>325</b>	<b>1,580,292</b>	<b>29,265</b>	<b>1,272,488</b>	<b>23,565</b>	<b>1,272,488</b>	<b>23,565</b>	<b>1,272,488</b>	<b>23,565</b>

**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
<b>OPERATING SUBSIDY</b>										
Base Rent Operating Subsidy Needed	n/a	n/a	1,357,449	25,138	1,357,449	25,138	1,357,449	25,138	1,357,449	25,138
Operating Deficit Subsidy Needed	18,434	341	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
<b>Total Operating Subsidy</b>	<b>18,434</b>	<b>341</b>	<b>1,357,449</b>	<b>25,138</b>	<b>1,357,449</b>	<b>25,138</b>	<b>1,357,449</b>	<b>25,138</b>	<b>1,357,449</b>	<b>25,138</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	160,108	2,965	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(862,766)	(15,977)	(409,482)	(7,583)	(357,931)	(6,628)	(389,873)	(7,220)
Transaction Capital Subsidy Needed	n/a	n/a	2,675,425	49,545	1,559,910	28,887	703,905	13,035	-	-
<b>Total Capital Subsidy</b>	<b>160,108</b>	<b>2,965</b>	<b>1,812,658</b>	<b>33,568</b>	<b>1,150,428</b>	<b>21,304</b>	<b>345,974</b>	<b>6,407</b>	<b>(389,873)</b>	<b>(7,220)</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>178,542</b>	<b>3,306</b>	<b>3,170,107</b>	<b>58,706</b>	<b>2,507,877</b>	<b>46,442</b>	<b>1,703,423</b>	<b>31,545</b>	<b>967,575</b>	<b>17,918</b>