CHFA Capital Plan Property Assessment - Enfield Manor, Enfield Manor Extension

Property Identification

Enfield Manor, Enfield Manor Extension
ENFIELD, CT

Total Current Unit Count:	80
Census Tract:	4807.00
Connecticut Congressional District:	2

CHFA Property Identification #: 85044D, 85045D
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:	18
Maximum # of Stories:	1
Elevator?	None

Summary property description:
The Enfield Manor property has 46 efficiency or studio and 34 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, semi-private patios, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 2,605,274
Capital Needs per Unit:	$ 32,566
Projected Year 1 (2014) Operating Income:	$ 25,378

Current operations at the property are projected to generate roughly $25,400 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 2022. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $2.61 million ($32,565 per unit) over the next 20 years.

Owner Comments to Property Assessment:

Please see Page 9 for Owner Comments

Current average income relative to the Area Median Income (AMI): 20%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	299	20%
One-bedroom unit:	320	20%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	299	20%
One-bedroom unit:	320	20%
Two-bedroom unit:		
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

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	64	64
25-50% of AMI	16	16
50% of AMI or greater	0	0
Total number of units	80	80

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:	299	299
One-bedroom unit:	320	320
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: Enfield Manor

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,953,265)	(2,233,101)
Recoverable Grant Scenario:	(3,958,023)	(5,716,844)
CHFA/FHA Scenario:	(2,948,562)	(5,622,361)
4% LIHTC Scenario:	(1,898,366)	(4,534,128)
9% LIHTC Scenario:	(203,032)	(2,806,909)

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:	-
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	1,953,265
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 $2,146,548 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 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 $3,749 in NOI in the current year, which includes $0 per unit per year in replacement reserve deposits, trending to negative $56,635 fifteen years thereafter. The transaction results in a capital subsidy need of $2,146,000 and $644,000 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:	99,954
Current Routine Capital Needs:	348,395

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	**448,349**	264,135	-	-	-	-
2014	**137,482**	99,437	-	-	-	-
2015	**144,124**	108,310	-	-	-	-
2016	**529,034**	495,584	-	-	-	-
2017	**139,518**	108,573	-	-	-	-
2018	**129,226**	100,932	-	-	-	-
2019	**92,452**	66,960	-	-	-	-
2020	**95,173**	72,639	-	-	-	-
2021	**70,687**	51,275	-	-	-	-
2022	**73,311**	55,974	-	1,215	-	-

		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	**111,827**	93,797	-	5,376	-	-
2024	**81,536**	62,785	-	9,748	-	-
2025	**83,777**	64,276	-	14,339	-	-
2026	**57,798**	37,517	-	19,157	-	-
2027	**48,612**	27,520	-	24,211	-	-
2028	**117,096**	95,160	-	29,511	-	-
2029	**51,444**	28,630	-	35,065	-	-
2030	**52,917**	29,191	-	40,884	-	-
2031	**76,120**	51,444	-	46,977	-	-
2032	**64,789**	39,127	-	53,355	-	-

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	386,119	4,826.49	579,041	7,238.02	579,041	7,238	579,041	7,238	579,041	7,238
Vacancy/Loss	(10,910)	(136.38)	(10,910)	(136.38)	(28,952)	(362)	(40,533)	(507)	(40,533)	(507)
Other Income	27,808	347.60	27,808	347.60	27,808	348	27,808	348	27,808	348
Effective Gross Income	**403,017**	**5,037.72**	**595,940**	**7,449.24**	**577,897**	**7,224**	**566,317**	**7,079**	**566,317**	**7,079**
2023 ANNUAL EXPENSES										
Operating Expenses	390,363	4,880	420,160	5,252	408,780	5,110	408,201	5,103	408,201	5,103
Replacement Reserve Deposits	18,030	225	18,030	225	39,853	498	39,853	498	39,853	498
Total Operating Expenses	**408,393**	**5,105**	**438,190**	**5,477**	**448,633**	**5,608**	**448,054**	**5,601**	**448,054**	**5,601**
2023 NET OPERATING INCOME	**(5,376)**	**(67)**	**157,749**	**1,972**	**129,265**	**1,616**	**118,263**	**1,478**	**118,263**	**1,478**
Debt Service	-	-	-	-	84,172	1,052	82,160	1,027	78,207	978
2023 CASH FLOW	**(5,376)**	**(67)**	**157,749**	**1,972**	**45,093**	**564**	**36,103**	**451**	**40,056**	**501**

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	-	-	-	-	1,464,706	18,309	1,275,149	15,939	1,360,908	17,011
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,400,000	30,000	2,400,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	19,905	249	47,905	599	47,905	599	47,905	599
Cash Escrows	-	-	184,214	2,303	184,214	2,303	184,214	2,303	184,214	2,303
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	237,336	2,967	248,760	3,109	247,690	3,096
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,705,561	21,320	3,310,517	41,381
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**204,119**	2,551	**1,934,161**	24,177	**5,861,589**	73,270	**7,551,234**	94,390
USES										
Acquisition Costs	-	-	-	-	-	-	2,400,000	30,000	2,400,000	30,000
Construction Costs	-	-	3,291,856	41,148	3,291,856	41,148	3,328,335	41,604	3,328,335	41,604
Soft Costs - Design & Construction	-	-	363,334	4,542	358,145	4,477	366,799	4,585	366,799	4,585
Soft Costs - Due Diligence	-	-	15,450	193	26,950	337	33,874	423	33,874	423
Soft Costs - Transaction Costs	-	-	40,405	505	120,405	1,505	257,161	3,215	257,161	3,215
Soft Costs - Financing	-	-	103,250	1,291	325,778	4,072	396,105	4,951	393,471	4,918
Soft Costs - Other	-	-	46,000	575	52,000	650	52,000	650	52,000	650
Soft Cost Contingency	-	-	28,422	355	44,164	552	49,807	623	48,902	611
Reserves	-	-	-	-	70,086	876	253,974	3,175	254,497	3,181
Developer Fee	-	-	273,425	3,418	593,339	7,417	621,899	7,774	619,226	7,740
Total Uses of Funds	**-**	**-**	**4,162,142**	52,027	**4,882,723**	61,034	**7,759,955**	96,999	**7,754,266**	96,928
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(3,958,023)**	(49,475)	**(2,948,562)**	(36,857)	**(1,898,366)**	(23,730)	**(203,032)**	(2,538)

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	-	-	2,540,484	31,756	2,540,484	31,756	2,540,484	31,756	2,540,484	31,756
Capital Needs Funded Using Subsidy	1,953,265	24,416	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	184,214	2,303	184,214	2,303	184,214	2,303	184,214	2,303	184,214	2,303
Replacement Reserves	467,794	5,847	350,527	4,382	774,794	9,685	774,794	9,685	774,794	9,685
Total Funds	**2,605,274**	**32,566**	**3,075,225**	**38,440**	**3,499,493**	**43,744**	**3,499,493**	**43,744**	**3,499,493**	**43,744**
USES										
Estimated Capital Needs	2,605,274	32,566	2,605,274	32,566	2,605,274	32,566	2,605,274	32,566	2,605,274	32,566
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**2,605,274**	**32,566**	**2,605,274**	**32,566**	**2,605,274**	**32,566**	**2,605,274**	**32,566**	**2,605,274**	**32,566**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**469,952**	**5,874**	**894,219**	**11,178**	**894,219**	**11,178**	**894,219**	**11,178**

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	2,993,609	37,420	2,993,609	37,420	2,993,609	37,420	2,993,609	37,420
Operating Deficit Subsidy Needed	279,836	3,498	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**279,836**	**3,498**	**2,993,609**	**37,420**	**2,993,609**	**37,420**	**2,993,609**	**37,420**	**2,993,609**	**37,420**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,953,265	24,416	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,234,788)	(15,435)	(319,810)	(3,998)	(357,847)	(4,473)	(389,732)	(4,872)
Transaction Capital Subsidy Needed	n/a	n/a	3,958,023	49,475	2,948,562	36,857	1,898,366	23,730	203,032	2,538
Total Capital Subsidy	**1,953,265**	**24,416**	**2,723,235**	**34,040**	**2,628,752**	**32,859**	**1,540,519**	**19,256**	**(186,701)**	**(2,334)**
TOTAL SUBSIDY NEEDED	**2,233,101**	**27,914**	**5,716,844**	**71,461**	**5,622,361**	**70,280**	**4,534,128**	**56,677**	**2,806,909**	**35,086**

Owner Comments

This “30,000 foot view” as referred to by Recap contains broad information that may provide some guidance in making decisions regarding the EHA’s State Financed Housing Programs. However, the reports appear to lack the depth and accuracy needed to be used as a basis for funding decisions.
The acknowledgement that the rent rates need to increase confirms what many owners and CHFA has stated for many years. This is appreciated.
The individual reports do not address the impact of programmatic and policy issues on the sustainability of the portfolio. The reports do not give enough consideration to repositioning properties and/or bifurcating portions of the portfolio.
The report does not take in account the overall obsolesce of the property. This includes, but is not limited to, the lack of marketability of the efficiency units, age, and lack of parking. The EHA’s data and demonstrates that this property requires substantial rehabilitation.

RECAP Response: Recap encourages property owners to develop their own recapitalization solutions that work for their specific situation, with the Capital Plan Property Assessment to be used as a starting point for discussions internally and with the State.

There are significant errors and omissions in the market report data and should not be relied upon.
Market Study
Page 1: Property information is wrong.
Page 3: Waitlist information only includes elderly applicants.
Page 5: Misses other significant assisted and non-assisted housing.
Page 6: Rent rates are incorrect, there are no children, total unit count is wrong. Also the waitlist information is inconsistent.
Page 8: Excludes the non-elderly disabled which will likely skew the data.
Page 9: Excludes the issue of the small efficiency units.

RECAP Response: While it is important to note the owner comments to the market assessments, the market analysis was used primarily to determine the maximum market rents for the property's market area, as well as to inform revitalization options and any marketability issues at the site. If the owner chooses to undertake a tax credit transaction, an updated market analysis will be required to meet IRS and State guidelines.

The financial information used in the financial analysis was not provided. This makes it difficult to verify the information in the reports to justify the conclusions and recommendations. It is my understanding that just one year’s data was used. Any anomalies in that one year could significantly skew the information. I believe this to be the case for our Green Valley and Laurel Park developments.

RECAP Response: The property was remodeled with 2012 operating data and 2013 rent rolls provided by the owner.

The period allowed to review and comment was not sufficient to allow for a detailed verification of the information contained within the reports.

RECAP Response: The two week turnaround for owner review was constrained by the Capital Plan project schedule. Since the property analysis is the starting point, owners will have a great deal more time to formulate your own plans and policy directions for funding awards.

The analyses do not appear to recognize that all operating income, in absence of debt, is treated as deposits to reserves.
The elderly reports do not recognize that the ongoing ERAP is an indirect operating subsidy.

RECAP Response: The policy recommendations in the Capital Plan Final Report include strategies to improve the revenue potential of elderly properties with ERAPs by supplementing the budget authority with new RAP units and greater flexibility with regards to SSHP program regulations.

The capital needs assessments vary from the ones the EHA had performed and may misstate the actual financial needs of the portfolio. There are several areas of the C.N.A.’s that we disagree with.

RECAP Response: The comment period for issues related to the CNAs occurred when the draft CNAs were distributed to the person designated by the owner to review the CNA several months ago, so we are not able to revise CNAs at this time. However, given that the CNA impacts the property anaysis, Recap has included the owner comments regarding the CNA to the property assessment so their concerns will be noted.