CHFA Capital Plan Property Assessment - McKinney Terrace I (fka Manor at Byram) & McKinney Terrace II

Property Identification

McKinney Terrace I (fka Manor at Byram) & McKinney Terrace II
GREENWICH, CT

Total Current Unit Count:	72
Census Tract:	105.00
Connecticut Congressional District:	4

CHFA Property Identification #: 89007D, 89008D
Current State Sponsored Housing Program: SH Moderate Rental/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:	Mixed
Structure Type:	Low rise (1-4 floors)
Number of buildings:	6
Maximum # of Stories:	3
Elevator?	None

Summary property description:

The McKinney Terrace I & II property has 19 efficiency or studio, 34 one-bedroom, 13 two-bedroom and 6 three-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as semi-private patios as well as an in-unit laundry hook-up.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 4,148,802
Capital Needs per Unit:	$ 57,622
Projected Year 1 (2014) Operating Income:	$ 44,891

Current operations at the property are projected to generate roughly $44,900 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 $4.15 million ($57,622 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 30%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	448	21%
One-bedroom unit:	812	35%
Two-bedroom unit:	884	32%
Three-bedroom unit:	926	29%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
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Two-bedroom unit:	884	32%
Three-bedroom unit:	926	29%
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	58	58
25-50% of AMI	11	11
50% of AMI or greater	3	3
Total number of units	72	72

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:	448	448
One-bedroom unit:	812	812
Two-bedroom unit:	884	884
Three-bedroom unit:	926	926
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: McKinney Terr. II

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,805,889)	(3,266,341)
Recoverable Grant Scenario:	(6,704,723)	(9,238,222)
CHFA/FHA Scenario:	(7,306,426)	(9,793,576)
4% LIHTC Scenario:	(5,954,522)	(9,154,714)
9% LIHTC Scenario:	(3,092,040)	(6,306,662)

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	McKinney Terrace I (fka Manor at Byram) & McKinney Terrace II, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	539
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	2,805,889
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 $2,805,889 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 $44,891 in NOI in the current year, which includes $539 per unit per year in replacement reserve deposits, trending to negative $48,808 fifteen years thereafter. The transaction results in a capital subsidy need of $2,805,889 and $460,452 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:	46,793
Current Routine Capital Needs:	206,002

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	**252,794**	196,918	-	-	-	-
2014	**304,820**	221,127	-	-	-	-
2015	**293,919**	213,318	-	-	-	-
2016	**380,076**	302,773	-	-	-	-
2017	**351,763**	277,970	-	-	-	-
2018	**184,350**	114,290	-	-	-	-
2019	**150,474**	84,378	-	-	-	-
2020	**127,673**	65,781	-	-	-	-
2021	**111,633**	54,195	-	-	-	-
2022	**293,699**	240,596	-	378	-	-

		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	**157,885**	102,659	-	7,486	-	-
2024	**509,458**	452,022	-	14,959	-	-
2025	**89,037**	29,304	-	22,813	-	-
2026	**92,923**	30,801	-	31,062	-	-
2027	**58,940**	-	-	39,721	-	-
2028	**88,010**	15,150	-	48,808	-	-
2029	**193,265**	123,385	-	58,338	-	-
2030	**216,447**	143,772	-	68,328	-	-
2031	**142,647**	67,065	-	78,797	-	-
2032	**148,988**	70,383	-	89,763	-	-

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	667,423	9,269.77	872,964	12,124.51	872,964	12,125	872,964	12,125	872,964	12,125
Vacancy/Loss	(9,234)	(128.25)	(9,234)	(128.25)	(43,648)	(606)	(61,108)	(849)	(61,108)	(849)
Other Income	11,476	159.39	11,476	159.39	11,476	159	11,476	159	11,476	159
Effective Gross Income	**669,666**	**9,300.91**	**875,207**	**12,155.65**	**840,792**	**11,678**	**823,333**	**11,435**	**823,333**	**11,435**
2023 ANNUAL EXPENSES										
Operating Expenses	621,925	8,638	665,685	9,246	650,245	9,031	649,372	9,019	649,372	9,019
Replacement Reserve Deposits	55,227	767	55,227	767	43,553	605	43,553	605	35,867	498
Total Operating Expenses	**677,151**	**9,405**	**720,912**	**10,013**	**693,798**	**9,636**	**692,925**	**9,624**	**685,240**	**9,517**
2023 NET OPERATING INCOME	**(7,486)**	**(104)**	**154,295**	**2,143**	**146,994**	**2,042**	**130,408**	**1,811**	**138,094**	**1,918**
Debt Service	-	-	-	-	83,170	1,155	64,916	902	75,272	1,045
2023 CASH FLOW	**(7,486)**	**(104)**	**154,295**	**2,143**	**63,824**	**886**	**65,492**	**910**	**62,821**	**873**

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	-	-	-	-	1,447,279	20,101	990,167	13,752	1,309,843	18,192
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	787,028	10,931	787,028	10,931
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	20,688	287	51,288	712	51,288	712	45,888	637
Cash Escrows	-	-	55,876	776	55,876	776	55,876	776	55,876	776
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	384,677	5,343	395,623	5,495	394,172	5,475
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	2,375,417	32,992	4,919,294	68,324
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**76,564**	1,063	**1,939,119**	26,932	**4,655,399**	64,658	**7,512,101**	104,335
USES										
Acquisition Costs	-	-	-	-	1,372,972	19,069	2,160,000	30,000	2,160,000	30,000
Construction Costs	-	-	5,436,480	75,507	5,375,849	74,665	5,435,422	75,492	5,435,422	75,492
Soft Costs - Design & Construction	-	-	591,900	8,221	576,964	8,013	591,097	8,210	591,097	8,210
Soft Costs - Due Diligence	-	-	17,624	245	30,299	421	34,915	485	34,915	485
Soft Costs - Transaction Costs	-	-	41,188	572	121,188	1,683	278,048	3,862	278,048	3,862
Soft Costs - Financing	-	-	164,384	2,283	617,938	8,582	642,463	8,923	642,419	8,922
Soft Costs - Other	-	-	41,400	575	46,800	650	46,800	650	46,800	650
Soft Cost Contingency	-	-	42,825	595	69,659	967	72,697	1,010	71,469	993
Reserves	-	-	-	-	72,185	1,003	359,421	4,992	358,541	4,980
Developer Fee	-	-	445,486	6,187	961,692	13,357	989,057	13,737	985,430	13,687
Total Uses of Funds	**-**	**-**	**6,781,286**	94,185	**9,245,545**	128,410	**10,609,921**	147,360	**10,604,141**	147,280
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(6,704,723)**	(93,121)	**(7,306,426)**	(101,478)	**(5,954,522)**	(82,702)	**(3,092,040)**	(42,945)

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	-	-	4,195,594	58,272	4,148,802	57,622	4,148,802	57,622	4,148,802	57,622
Capital Needs Funded Using Subsidy	2,805,889	38,971	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	55,876	776	55,876	776	55,876	776	55,876	776	55,876	776
Replacement Reserves	1,287,037	17,876	1,073,690	14,912	846,740	11,760	846,740	11,760	697,315	9,685
Total Funds	**4,148,802**	**57,622**	**5,325,161**	**73,961**	**5,051,417**	**70,159**	**5,051,417**	**70,159**	**4,901,993**	**68,083**
USES										
Estimated Capital Needs	4,148,802	57,622	4,148,802	57,622	4,148,802	57,622	4,148,802	57,622	4,148,802	57,622
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**4,148,802**	**57,622**	**4,148,802**	**57,622**	**4,148,802**	**57,622**	**4,148,802**	**57,622**	**4,148,802**	**57,622**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**1,176,359**	**16,338**	**902,616**	**12,536**	**902,616**	**12,536**	**753,191**	**10,461**

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	3,601,636	50,023	3,601,636	50,023	3,601,636	50,023	3,601,636	50,023
Operating Deficit Subsidy Needed	460,452	6,395	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**460,452**	**6,395**	**3,601,636**	**50,023**	**3,601,636**	**50,023**	**3,601,636**	**50,023**	**3,601,636**	**50,023**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,805,889	38,971	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,068,137)	(14,835)	(1,114,487)	(15,479)	(401,445)	(5,576)	(387,014)	(5,375)
Transaction Capital Subsidy Needed	n/a	n/a	6,704,723	93,121	7,306,426	101,478	5,954,522	82,702	3,092,040	42,945
Total Capital Subsidy	**2,805,889**	**38,971**	**5,636,585**	**78,286**	**6,191,939**	**85,999**	**5,553,077**	**77,126**	**2,705,026**	**37,570**
TOTAL SUBSIDY NEEDED	**3,266,341**	**45,366**	**9,238,222**	**128,309**	**9,793,576**	**136,022**	**9,154,714**	**127,149**	**6,306,662**	**87,593**