CHFA Capital Plan Property Assessment - Shiloh Gardens

Property Identification

Shiloh Gardens
STRATFORD, CT

Total Current Unit Count:	60
Census Tract:	801.00
Connecticut Congressional District:	3

CHFA Property Identification #: 85183D
Current State Sponsored Housing Program: SH Elderly

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:	Elderly/Disabled
Structure Type:	Low rise (1-4 floors)
Number of buildings:	8
Maximum # of Stories:	1
Elevator?	None

Summary property description:
The Shiloh Gardens property has 20 efficiency or studio and 40 one-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as common laundry, central air conditioning, semi-private outdoor space, a common room and a dining room with meal service.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 2,779,626
Capital Needs per Unit:	$ 46,327
Projected Year 1 (2014) Operating Income:	$ (35,049)

Current operations at the property are projected to generate negative $35,000 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 this shortfall continues to grow. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $2.78 million ($46,327 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 22%

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This can happen in one of two ways - either the property could get operating subsidy from the state or federal government, or it could charge higher rents. A higher rent structure burdens low-income households to pay a greaterheir income for housing and it will require that the property serve tenants with modestly higher incomes.

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	265	17%
One-bedroom unit:	290	18%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

Currently, base rents are set by the owner of each property, often in consultation with CHFA staff. While there varying definitions of affordability, this study considers a rent which exceeds 30% of a household's adjusted gross income to be burdensome on the household's monthly budget. In the table to the left, the base rent is identified for each unit size. The table also identifies the minimum household income level for which the base rent would be considered "affordable." The household income level is presented as a percentage of the local Area Median Income.

There are strong reasons to keep the base rents low, as low base rents provide affordable housing options for the state's lowest income residents and reduce the burden of operating subsidies on the State budget. However, if the property's revenue stream (including any available operating subsidy and any cross-subsidy from higher income residents) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, the property itself is at risk.

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	461	30%
One-bedroom unit:	494	30%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

The Capital Plan is intended to identify the real estate needs of the State Sponsored Housing Portfolio. In order to ensure a minimum revenue stream and in order to implement programmatic consistency regarding base rent levels, this analysis assumes that all base rents are adjusted in 2014 to equal the greater of a) the current base rent or b) 30% of the adjusted gross income of a household at 30% of AMI for the applicable household size, provided these levels do not exceed the local market. This base rent adjustment would represent a significant increase for some households. The analysis identifies the number of households that would be affected by such a change and the amount of operating subsidy needed to protect these households. If the owners elect not to raise the base rents as assumed in this analysis, the property is more likely to experience tight operating budgets towards the end of the Capital Plan subsidy period and will be less able to access leverage funding such as private debt.

Number of current households that would be impacted by the proposed increase in Base Rent: 44

Protecting the 44 Elderly/Disabled Households at risk in the event of a base rent increase is clearly a major concern. In 2014, the base rent increase creates the need for operating subsidy of $107,143 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ 107,144

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: $ 626,101

This 2014 rental operating subsidy would recur annually, with inflation increases, for the next 20 years if the State determines that, as a policy matter, the property should continue serving households with an income profile equivalent to the current residents at the property. An alternative formulation assumes that, upon turnover, new residents would move in for whom the proposed base rent is affordable and tenant protection operating subsidies would no longer be necessary. This turnover strategy requires less operating subsidy from the State, but also reduces the number of units of housing available to the lowest income residents of the community. The total tenant protection operating subsidy associated with the increase in the base rent assuming that, on turnover, the units are leased to households able to pay the new base rent without assistance is $626,101.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	44	32
25-50% of AMI	16	16
50% of AMI or greater	0	12
Total number of units	60	60

While the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy improves the property's income and expense picture, it is insufficient for the property to operate sustainably for the foreseeable future. (The capital plan analysis considers sustainable operations to be a level of operating income sufficient to cover operating expenses and servicing of any capital leverage necessary to maintain the physical asset for the next 15-20 years without routine capital subsidies from the State.) Consequently, the capital plan has identified additional revenue adjustments based on an income-tier structure which would be necessary to reach a sustainable operating picture.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	461	461
One-bedroom unit:	494	494
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: $ 41,295

Transitional rental operating subsidy necessary to protect current residents and permit a five-year transition to income tier occupancy: $ 105,323

Property used for market reference: Lucas Gardens

An income-tier structure would require a specified number of units to pay a higher base rent, affordable to households with a higher (albeit still low) income. For example, a tier serving households in the 50%-60% of AMI would pay a base rent equal to 30% of the adjusted gross income of a household earning 55% of AMI. The capital plan has adopted income tiers which correspond to CHFA's commonly used affordability thresholds.

As is the case with the base rent analysis, above, in income tier structure makes the units allocated to a higher-income tier unaffordable to those currently served by this housing. As state funds for operating subsidy are limited, the capital plan analysis has assumed that any available operating subsidy will be focused on protecting current residents until they move away from the property. On turnover, households earning incomes consistent with the income tier structure will be offered units on a preferrential basis. However, additional operating subsidy beyond that reflected here would mitigate this loss of housing options for lower income households. The owner of this property has indicated that they have up to 56 Section 8 Housing Choice Vouchers which could, potentially, be project based. If the mobile Section 8 Housing Choice Vouchers are not fully utilized, the owner's election to project-base them at this property could help mitigate the impact of income tiering on the availability of units for the lowest income households.

Based on the market conditions reflected in the most closely applicable property market condition assessment, tenants in the 25% to 80% of AMI range are available in the market. This analysis has increased the number of households at the property with incomes between 25% and 80% of AMI from 16 in 2014 to 28 post-transaction, which results in an increase in property revenue. The remaining units would continue to serve residents with incomes below 25% of AMI.

In order to attract the additional households in the 25% to 80% of AMI income tiers, the property condition must meet the market conditions these households would expect. However, the property could benefit from some curb appeal upgrades. In order to attract higher AMI tenants and thus increase the gross potential revenue at the property, the capital transaction will need to include funds to address these concerns. Specifically, curb appeal enhacements would improve the property's marketability.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,455,300)	(3,930,479)
Recoverable Grant Scenario:	(4,906,858)	(4,894,541)
CHFA/FHA Scenario:	(4,788,884)	(5,258,830)
4% LIHTC Scenario:	(3,685,540)	(4,149,661)
9% LIHTC Scenario:	(1,595,910)	(2,059,910)

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:	4% LIHTC
Recommended Transaction Year	2019
Replacement Reserve Deposit PUPY:	350
Debt Service Coverage in Transaction Year:	5.510
Debt Service Coverage in Transaction Year 15:	1.101
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	3,685,540

The capital plan recommends using the 4% low income housing tax credit scenario to finance the capital needs at this property. The debt-only scenario leaves significant capital needs unaddressed, while the use of 9% tax credits at this property would be an inefficient use of the scarce 9% resource given the competing needs within the portfolio and within the State as a whole. The 4% LIHTC scenario, however, covers the capital needs appropriately while minimizing the need for State capital subsidies.
This analysis has suggested a potential transaction year of 2019 based on a series of criteria outlined in the capital plan report. In short, the transaction year has been informed by the distribution of critical capital needs year-by-year at the property (i.e. roof, mechanical, structural components) and by the need to distribute the timing of capital transaction for properties within the State Sponsored Housing Portfolio over a period of years in order to manage scarce State-wide resources.

This property has been underwritten assuming replacement reserve deposits of $350 per unit per year, and assuming hard construction capital needs of $2.78 million plus $150,000 for property enhancements (curb appeal enhacements.).

The property is able to cover its capital needs from current replacement reserves through the date of the capital transaction, so no interim State support is needed.

Summary of Recommended Transaction

Under the 4% LIHTC scenario, the property yields $79,055 in NOI in the transaction completion year, which includes $350 per unit per year in replacement reserve deposits. After debt service, the property generates $59,708 in cash flow in the capital transaction's completion year, trending to $1,944 fifteen years thereafter. Post-transaction, distribution of cash flow is governed by the terms of the transaction documents and, to the extent not restricted by the documents, could be used at the owner's discretion for ongoing capital needs, owner's working capital or the owner's other priorities. The transaction raises $237,000 in debt and $1,877,000 in equity. The transaction results in a gap of $3,685,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $3,930,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $4,906,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs	Shiloh Gardens, continued

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	315,570

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	**315,570**	-	-	-	-	-
2014	**24,429**	-	-	-	107,144	-
2015	**40,106**	-	-	-	98,358	-
2016	**100,932**	-	-	-	89,178	-
2017	**48,562**	-	-	-	79,591	(0)
2018	**100,702**	-	-	-	69,585	(0)
2019	**106,395**	-	3,685,540	-	59,148	-
2020	**92,423**	-	-	-	48,264	41,295
2021	**372,233**	-	-	-	36,922	31,591
2022	**320,123**	-	-	-	25,107	21,482

		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	**358,551**	-	-	-	12,805	10,956
2024	**88,027**	-	-	-	-	-
2025	**76,764**	-	-	-	-	-
2026	**123,465**	-	-	-	-	-
2027	**113,433**	-	-	-	-	-
2028	**103,452**	-	-	-	-	-
2029	**118,415**	-	-	-	-	-
2030	**106,880**	-	-	-	-	-
2031	**34,636**	-	-	-	-	-
2032	**134,528**	-	-	-	-	-

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	315,524	5,258.73	537,805	8,963.42	537,805	8,963	537,805	8,963	537,805	8,963
Vacancy/Loss	(6,370)	(106.16)	(7,257)	(120.94)	(26,890)	(448)	(37,646)	(627)	(37,646)	(627)
Other Income	2,378	39.63	2,378	39.63	2,378	40	2,378	40	2,378	40
Effective Gross Income	**311,532**	**5,192.20**	**532,927**	**8,882.11**	**513,293**	**8,555**	**502,537**	**8,376**	**502,537**	**8,376**
2023 ANNUAL EXPENSES										
Operating Expenses	385,097	6,418	411,743	6,862	401,832	6,697	401,294	6,688	401,294	6,688
Replacement Reserve Deposits	826	14	826	14	29,890	498	29,890	498	29,890	498
Total Operating Expenses	**385,923**	**6,432**	**412,569**	**6,876**	**431,722**	**7,195**	**431,184**	**7,186**	**431,184**	**7,186**
2023 NET OPERATING INCOME	**(74,391)**	**(1,240)**	**120,358**	**2,006**	**81,571**	**1,360**	**71,353**	**1,189**	**71,353**	**1,189**
Debt Service	-	-	-	-	31,117	519	19,348	322	19,329	322
2023 CASH FLOW	**(74,391)**	**(1,240)**	**120,358**	**2,006**	**50,454**	**841**	**52,005**	**867**	**52,024**	**867**

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	-	-	-	-	541,486	9,025	237,111	3,952	336,352	5,606
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,800,000	30,000	1,800,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	16,325	272	37,325	622	37,325	622	37,325	622
Cash Escrows	-	-	305,661	5,094	347,317	5,789	347,317	5,789	347,317	5,789
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	294,560	4,909	305,858	5,098	304,526	5,075
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,877,746	31,296	3,864,096	64,402
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**321,986**	5,366	**1,220,688**	20,345	**4,605,358**	76,756	**6,689,616**	111,494
USES										
Acquisition Costs	-	-	-	-	-	-	1,800,000	30,000	1,800,000	30,000
Construction Costs	-	-	4,179,906	69,665	4,179,906	69,665	4,226,227	70,437	4,226,227	70,437
Soft Costs - Design & Construction	-	-	457,979	7,633	451,390	7,523	462,379	7,706	462,379	7,706
Soft Costs - Due Diligence	-	-	15,516	259	26,016	434	31,231	521	31,231	521
Soft Costs - Transaction Costs	-	-	36,825	614	116,825	1,947	262,148	4,369	262,148	4,369
Soft Costs - Financing	-	-	127,025	2,117	373,158	6,219	424,827	7,080	421,422	7,024
Soft Costs - Other	-	-	34,500	575	39,000	650	39,000	650	39,000	650
Soft Cost Contingency	-	-	33,592	560	50,319	839	55,017	917	53,890	898
Reserves	-	-	-	-	36,559	609	225,422	3,757	227,912	3,799
Developer Fee	-	-	343,501	5,725	736,399	12,273	764,646	12,744	761,316	12,689
Total Uses of Funds	**-**	-	**5,228,844**	87,147	**6,009,572**	100,160	**8,290,898**	138,182	**8,285,526**	138,092
TRANSACTION SURPLUS (GAP)	**-**	-	**(4,906,858)**	(81,781)	**(4,788,884)**	(79,815)	**(3,685,540)**	(61,426)	**(1,595,910)**	(26,598)

Scenario Pro Formas (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	-	-	3,075,835	51,264	3,075,835	51,264	3,075,835	51,264	3,075,835	51,264
Capital Needs Funded Using Subsidy	2,455,300	40,922	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	308,271	5,138	308,271	5,138	308,271	5,138	308,271	5,138	308,271	5,138
Replacement Reserves	16,055	268	16,055	268	581,096	9,685	581,096	9,685	581,096	9,685
Total Funds	**2,779,626**	**46,327**	**3,400,162**	**56,669**	**3,965,202**	**66,087**	**3,965,202**	**66,087**	**3,965,202**	**66,087**
USES										
Estimated Capital Needs	2,779,626	46,327	2,779,626	46,327	2,779,626	46,327	2,779,626	46,327	2,779,626	46,327
Enhancements	-	-	-	-	150,000	2,500	150,000	2,500	150,000	2,500
Total Uses	**2,779,626**	**46,327**	**2,779,626**	**46,327**	**2,929,626**	**48,827**	**2,929,626**	**48,827**	**2,929,626**	**48,827**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**620,536**	**10,342**	**1,035,576**	**17,260**	**1,035,576**	**17,260**	**1,035,576**	**17,260**

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	626,101	10,435	626,101	10,435	626,101	10,435	626,101	10,435
Operating Deficit Subsidy Needed	1,475,179	24,586	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	105,323	1,755	105,323	1,755	105,323	1,755	105,323	1,755
Total Operating Subsidy	**1,475,179**	**24,586**	**731,425**	**12,190**	**731,425**	**12,190**	**731,425**	**12,190**	**731,425**	**12,190**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,455,300	40,922	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(743,742)	(12,396)	(261,478)	(4,358)	(267,304)	(4,455)	(267,425)	(4,457)
Transaction Capital Subsidy Needed	n/a	n/a	4,906,858	81,781	4,788,884	79,815	3,685,540	61,426	1,595,910	26,598
Total Capital Subsidy	**2,455,300**	**40,922**	**4,163,116**	**69,385**	**4,527,406**	**75,457**	**3,418,236**	**56,971**	**1,328,485**	**22,141**
TOTAL SUBSIDY NEEDED	**3,930,479**	**65,508**	**4,894,541**	**81,576**	**5,258,830**	**87,647**	**4,149,661**	**69,161**	**2,059,910**	**34,332**