

### CHFA Capital Plan Property Assessment - Southwest Terrace Apts

#### Property Identification

Southwest Terrace Apts  
WINDSOR LOCKS, CT

CHFA Property Identification #: 87028D  
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.

Total Current Unit Count: 40  
Census Tract: 4763.00  
Connecticut Congressional District: 1

#### Property Description

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

#### Summary property description:

The Southwest Terrace Apts property has 6 efficiency or studio and 34 one-bedroom units. Generally, the property consists of reasonably sized 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): \$ 1,784,283  
  
Capital Needs per Unit: \$ 44,607  
  
Projected Year 1 (2014) Operating Income: \$ 39,085

Current operations at the property are projected to generate roughly \$39,100 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 2032. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$1.78 million (\$44,607 per unit) over the next 20 years.

**Revenue Adjustments Prior to a Recapitalization Transaction**

Southwest Terrace Apts, continued

Current average income relative to  
the Area Median Income (AMI): 27%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	230	15%
One-bedroom unit:	240	15%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	230	15%
One-bedroom unit:	240	15%
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**

Southwest Terrace Apts, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	19	19
25-50% of AMI	18	18
50% of AMI or greater	3	3
Total number of units	40	40

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:	230	230
One-bedroom unit:	240	240
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: Southwest Terrace Apts

**Transaction Options**

Southwest Terrace Apts, continued

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(922,018)	(922,703)
Recoverable Grant Scenario:	(3,185,795)	(3,901,652)
CHFA/FHA Scenario:	(2,589,963)	(3,704,963)
4% LIHTC Scenario:	(1,814,416)	(3,022,743)
9% LIHTC Scenario:	(479,569)	(1,659,351)

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**

Southwest Terrace Apts, 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 \$922,018 over the course of the next 20 years.
Replacement Reserve Deposit PUPY:	492	
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:	922,018	
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 \$39,085 in NOI in the current year, which includes \$492 per unit per year in replacement reserve deposits, trending to \$11,944 fifteen years thereafter. The transaction results in a capital subsidy need of \$922,000 and \$685 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**

Southwest Terrace Apts, continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 0  
 Current Routine Capital Needs: 159,357

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	159,357	159,357	-	-	-	-
2014	20,856	-	-	-	-	-
2015	23,419	-	-	-	-	-
2016	43,794	-	-	-	-	-
2017	45,209	-	-	-	-	-
2018	55,206	-	-	-	-	-
2019	134,257	19,092	-	-	-	-
2020	33,153	-	-	-	-	-
2021	36,421	-	-	-	-	-
2022	106,083	33,426	-	-	-	-

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	528,907	483,395	-	-	-	-
2024	117,133	72,705	-	-	-	-
2025	25,058	-	-	-	-	-
2026	23,128	-	-	-	-	-
2027	44,802	-	-	-	-	-
2028	122,012	49,890	-	-	-	-
2029	25,273	-	-	-	-	-
2030	91,406	36,225	-	-	-	-
2031	96,181	55,143	-	-	-	-
2032	52,629	12,783	-	685	-	-

**Scenario Pro Formas**

Southwest Terrace Apts, 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	226,284	5,657.10	340,685	8,517.13	340,685	8,517	340,685	8,517	340,685	8,517
Vacancy/Loss					(17,034)	(426)	(23,848)	(596)	(23,848)	(596)
Other Income	39,004	975.10	39,004	975.10	39,004	975	39,004	975	39,004	975
<b>Effective Gross Income</b>	<b>265,288</b>	<b>6,632.20</b>	<b>379,689</b>	<b>9,492.23</b>	<b>362,655</b>	<b>9,066</b>	<b>355,841</b>	<b>8,896</b>	<b>355,841</b>	<b>8,896</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	212,974	5,324	231,959	5,799	225,539	5,638	225,199	5,630	225,199	5,630
Replacement Reserve Deposits	27,995	700	27,995	700	19,926	498	19,926	498	19,926	498
<b>Total Operating Expenses</b>	<b>240,969</b>	<b>6,024</b>	<b>259,954</b>	<b>6,499</b>	<b>245,466</b>	<b>6,137</b>	<b>245,125</b>	<b>6,128</b>	<b>245,125</b>	<b>6,128</b>
<b>2023 NET OPERATING INCOME</b>	<b>24,319</b>	<b>608</b>	<b>119,735</b>	<b>2,993</b>	<b>117,189</b>	<b>2,930</b>	<b>110,716</b>	<b>2,768</b>	<b>110,716</b>	<b>2,768</b>
Debt Service	6,803	170	6,803	170	71,518	1,788	72,185	1,805	67,793	1,695
<b>2023 CASH FLOW</b>	<b>17,516</b>	<b>438</b>	<b>112,932</b>	<b>2,823</b>	<b>45,671</b>	<b>1,142</b>	<b>38,531</b>	<b>963</b>	<b>42,923</b>	<b>1,073</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	-	-	-	-	1,244,505	31,113	1,110,302	27,758	1,179,696	29,492
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,158,147	28,954	1,158,147	28,954
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	17,720	443	31,720	793	31,720	793	31,720	793
Cash Escrows	-	-	40,125	1,003	28,560	714	28,560	714	28,560	714
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	187,535	4,688	196,069	4,902	195,231	4,881
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,241,464	31,037	2,503,224	62,581
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>57,845</b>	<b>1,446</b>	<b>1,492,320</b>	<b>37,308</b>	<b>3,766,263</b>	<b>94,157</b>	<b>5,096,579</b>	<b>127,414</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	229,731	5,743	1,387,878	34,697	1,387,878	34,697
Construction Costs	-	-	2,569,710	64,243	2,569,710	64,243	2,598,187	64,955	2,598,187	64,955
Soft Costs - Design & Construction	-	-	286,370	7,159	282,320	7,058	289,075	7,227	289,075	7,227
Soft Costs - Due Diligence	-	-	12,584	315	22,359	559	25,783	645	25,783	645
Soft Costs - Transaction Costs	-	-	38,220	955	118,220	2,955	248,009	6,200	248,009	6,200
Soft Costs - Financing	-	-	78,726	1,968	278,955	6,974	315,230	7,881	313,200	7,830
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	21,945	549	36,393	910	40,607	1,015	39,897	997
Reserves	-	-	-	-	49,759	1,244	159,736	3,993	160,040	4,001
Developer Fee	-	-	213,086	5,327	468,838	11,721	490,173	12,254	488,078	12,202
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>3,243,640</b>	<b>81,091</b>	<b>4,082,283</b>	<b>102,057</b>	<b>5,580,678</b>	<b>139,517</b>	<b>5,576,148</b>	<b>139,404</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(3,185,795)</b>	<b>(79,645)</b>	<b>(2,589,963)</b>	<b>(64,749)</b>	<b>(1,814,416)</b>	<b>(45,360)</b>	<b>(479,569)</b>	<b>(11,989)</b>

**Scenario Pro Formas (continued)**

Southwest Terrace Apts, 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	-	-	1,983,169	49,579	1,983,169	49,579	1,983,169	49,579	1,983,169	49,579
Capital Needs Funded Using Subsidy	922,018	23,050	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	862,265	21,557	544,268	13,607	387,397	9,685	387,397	9,685	387,397	9,685
<b>Total Funds</b>	<b>1,784,283</b>	<b>44,607</b>	<b>2,527,437</b>	<b>63,186</b>	<b>2,370,566</b>	<b>59,264</b>	<b>2,370,566</b>	<b>59,264</b>	<b>2,370,566</b>	<b>59,264</b>
<b>USES</b>										
Estimated Capital Needs	1,784,283	44,607	1,784,283	44,607	1,784,283	44,607	1,784,283	44,607	1,784,283	44,607
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>1,784,283</b>	<b>44,607</b>	<b>1,784,283</b>	<b>44,607</b>	<b>1,784,283</b>	<b>44,607</b>	<b>1,784,283</b>	<b>44,607</b>	<b>1,784,283</b>	<b>44,607</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>-</b>	<b>-</b>	<b>743,154</b>	<b>18,579</b>	<b>586,284</b>	<b>14,657</b>	<b>586,284</b>	<b>14,657</b>	<b>586,284</b>	<b>14,657</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	1,447,897	36,197	1,447,897	36,197	1,447,897	36,197	1,447,897	36,197
Operating Deficit Subsidy Needed	685	17	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
<b>Total Operating Subsidy</b>	<b>685</b>	<b>17</b>	<b>1,447,897</b>	<b>36,197</b>	<b>1,447,897</b>	<b>36,197</b>	<b>1,447,897</b>	<b>36,197</b>	<b>1,447,897</b>	<b>36,197</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	922,018	23,050	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(732,041)	(18,301)	(332,897)	(8,322)	(239,570)	(5,989)	(268,115)	(6,703)
Transaction Capital Subsidy Needed	n/a	n/a	3,185,795	79,645	2,589,963	64,749	1,814,416	45,360	479,569	11,989
<b>Total Capital Subsidy</b>	<b>922,018</b>	<b>23,050</b>	<b>2,453,754</b>	<b>61,344</b>	<b>2,257,066</b>	<b>56,427</b>	<b>1,574,846</b>	<b>39,371</b>	<b>211,454</b>	<b>5,286</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>922,703</b>	<b>23,068</b>	<b>3,901,652</b>	<b>97,541</b>	<b>3,704,963</b>	<b>92,624</b>	<b>3,022,743</b>	<b>75,569</b>	<b>1,659,351</b>	<b>41,484</b>