CHFA Capital Plan Property Assessment - Hale Farm

Property Identification

Hale Farm
GLASTONBURY, CT

Total Current Unit Count:	3
Census Tract:	5201.00
Connecticut Congressional District:	1

CHFA Property Identification #: 77013D
Current State Sponsored Housing Program: SH Affordable Housing

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:	Family
Structure Type:	Low rise (1-4 floors)
Number of buildings:	0
Maximum # of Stories:	1
Elevator?	None

Summary property description:
The Hale Farm property has 1 one-bedroom and 2 two-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as refrigerators, ranges, and dishwashers.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	82,650
Capital Needs per Unit:	$	27,550
Projected Year 1 (2014) Operating Income:	$	15,292

Current operations at the property are projected to generate roughly $15,300 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 yet remains positive through the time horizon studied. The property is rare in the portfolio, in that the NOI is sufficient to leverage debt financing and the property is able to adequately address its future basic capital needs, projected to be approximately $0.08 million ($27,549 per unit) over the next 20 years without dramatic changes to the property's operations.

Current average income relative to the Area Median Income (AMI): 39%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	515	32%
Two-bedroom unit:	560	29%
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	482	30%
Two-bedroom unit:	578	30%
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: 0

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

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

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.

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.

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.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	0	0
25-50% of AMI	2	2
50% of AMI or greater	1	1
Total number of units	3	3

With the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy, the property should operate under a sustainable revenue picture for the foreseeable future. As a result, no additional revenue adjustments from income mixing are recommended in connection with the transaction.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	482	482
Two-bedroom unit:	578	578
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: $ 0

Transitional rental operating subsidy necessary to protect current residents and permit a five-year transition to income tier occupancy: $ 0

Property used for market reference: Herbert Clark House

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(52,896)	(52,896)
Recoverable Grant Scenario:	(180,523)	(40,524)
CHFA/FHA Scenario:	(117,898)	(65,408)
4% LIHTC Scenario:	(125,611)	(109,911)
9% LIHTC Scenario:	23,075	-

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:	Recoverable Grant
Recommended Transaction Year	2018
Replacement Reserve Deposit PUPY:	-
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	5,280
Transaction Capital Subsidy Needed:	180,523

The capital plan recommends using the recoverable grant scenario to finance the capital needs at this property. Given the small size of the property, the transaction costs associated with any of the other financing structures outweigh the additional funds which could be achieved by leveraging FHA debt or low income housing tax credit equity.

This analysis has suggested a potential transaction year of 2018 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.

Given the 2018 transaction year, the property will struggle to meet its capital needs purely from its own resources prior to that date. The capital plan recommends that the State establish an interim recoverable grant structure to cover the needs until the transaction year. This interim recoverable grant would be repaid to the State to the extent possible from cash flow, but has not been included as a required repayment in the proposed transaction.

Summary of Recommended Transaction

Under the Recoverable Grant scenario, the property yields $19,273 in NOI in the transaction completion year, which includes $0 per unit per year in replacement reserve deposits. The property generates $19,273 in cash flow in the capital transaction's completion year, trending to $22,617 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. If there is a recoverable grant, repayment of the recoverable grant would be specified in the transaction documents as a priority use of the funds. The transaction does not support debt or equity leverage. The transaction results in a gap of $180,000, plus the pre-transaction need of $5,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $52,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance.

Immediate Emergency Capital Needs:	4,550
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	43,796

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	**48,346**	5,280	-	-	-	-
2014	**-**	-	-	-	-	-
2015	**2,738**	-	-	-	-	-
2016	**-**	-	-	-	-	-
2017	**8,133**	-	-	-	-	-
2018	**-**	-	180,523	-	-	-
2019	**-**	-	-	-	-	0
2020	**2,152**	-	-	-	-	-
2021	**-**	-	-	-	-	-
2022	**3,777**	-	-	-	-	-

		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	**2,945**	-	-	-	-	-
2024	**-**	-	-	-	-	-
2025	**2,211**	-	-	-	-	-
2026	**470**	-	-	-	-	-
2027	**8,585**	-	-	-	-	-
2028	**1,714**	-	-	-	-	-
2029	**-**	-	-	-	-	-
2030	**-**	-	-	-	-	-
2031	**-**	-	-	-	-	-
2032	**1,578**	-	-	-	-	-

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	32,325	10,774.98	37,594	12,531.50	37,594	12,531	37,594	12,531	37,594	12,531
Vacancy/Loss	-	-	-	-	(1,880)	(627)	(2,632)	(877)	(2,632)	(877)
Other Income	232	77.37	232	77.37	232	77	232	77	232	77
Effective Gross Income	**32,557**	**10,852.35**	**37,827**	**12,608.87**	**35,947**	**11,982**	**35,195**	**11,732**	**35,195**	**11,732**
2023 ANNUAL EXPENSES										
Operating Expenses	13,963	4,654	15,855	5,285	15,457	5,152	15,419	5,140	15,419	5,140
Replacement Reserve Deposits	1,777	592	1,777	592	1,815	605	1,815	605	1,494	498
Total Operating Expenses	**15,740**	**5,247**	**17,631**	**5,877**	**17,271**	**5,757**	**17,234**	**5,745**	**16,913**	**5,638**
2023 NET OPERATING INCOME	**16,817**	**5,606**	**20,195**	**6,732**	**18,676**	**6,225**	**17,961**	**5,987**	**18,282**	**6,094**
Debt Service	-	-	-	-	10,906	3,635	15,409	5,136	10,670	3,557
2023 CASH FLOW	**16,817**	**5,606**	**20,195**	**6,732**	**7,770**	**2,590**	**2,552**	**851**	**7,611**	**2,537**

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	-	-	-	-	189,780	63,260	172,018	57,339	185,677	61,892
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	215,022	71,674	218,444	72,815
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	3,545	1,182	4,820	1,607	4,820	1,607	4,595	1,532
Cash Escrows	-	-	1,248	416	1,275	425	1,275	425	1,050	350
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	15,927	5,309	20,153	6,718	20,078	6,693
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	145,568	48,523	280,663	93,554
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**4,793**	1,598	**211,803**	70,601	**558,855**	186,285	**710,506**	236,835
USES										
Acquisition Costs	-	-	-	-	-	-	215,022	71,674	218,444	72,815
Construction Costs	-	-	108,173	36,058	108,173	36,058	109,371	36,457	109,371	36,457
Soft Costs - Design & Construction	-	-	24,029	8,010	23,858	7,953	24,143	8,048	24,143	8,048
Soft Costs - Due Diligence	-	-	7,780	2,593	15,430	5,143	15,839	5,280	15,843	5,281
Soft Costs - Transaction Costs	-	-	24,045	8,015	104,045	34,682	210,089	70,030	210,089	70,030
Soft Costs - Financing	-	-	4,298	1,433	21,366	7,122	31,759	10,586	31,782	10,594
Soft Costs - Other	-	-	1,725	575	1,950	650	1,950	650	1,950	650
Soft Cost Contingency	-	-	3,094	1,031	8,332	2,777	11,775	3,925	11,711	3,904
Reserves	-	-	-	-	6,728	2,243	14,136	4,712	13,905	4,635
Developer Fee	-	-	12,174	4,058	39,819	13,273	50,382	16,794	50,194	16,731
Total Uses of Funds	**-**	-	**185,317**	61,772	**329,701**	109,900	**684,466**	228,155	**687,431**	229,144
TRANSACTION SURPLUS (GAP)	**-**	-	**(180,523)**	(60,174)	**(117,898)**	(39,299)	**(125,611)**	(41,870)	**23,075**	7,692

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	-	-	83,482	27,827	83,482	27,827	83,482	27,827	83,482	27,827
Capital Needs Funded Using Subsidy	52,896	17,632	5,280	1,760	5,280	1,760	5,280	1,760	5,280	1,760
Existing Replacement Reserve Balance	(4,550)	(1,517)	(4,550)	(1,517)	(4,550)	(1,517)	(4,550)	(1,517)	(4,550)	(1,517)
Replacement Reserves	353,438	117,813	34,539	11,513	35,281	11,760	35,281	11,760	29,055	9,685
Total Funds	**401,784**	**133,928**	**118,751**	**39,584**	**119,493**	**39,831**	**119,493**	**39,831**	**113,267**	**37,756**
USES										
Estimated Capital Needs	82,650	27,550	82,650	27,550	82,650	27,550	82,650	27,550	82,650	27,550
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**82,650**	**27,550**	**82,650**	**27,550**	**82,650**	**27,550**	**82,650**	**27,550**	**82,650**	**27,550**
YEAR 20 REPLACEMENT RESERVE BALANCE	**319,134**	**106,378**	**36,101**	**12,034**	**36,843**	**12,281**	**36,843**	**12,281**	**30,617**	**10,206**

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	-	-	0	-	0	-	0	-
Operating Deficit Subsidy Needed	0	-	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	0	0	0	0	0	0	0	0
Total Operating Subsidy	**-**	**-**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	52,896	17,632	5,280	1,760	5,280	1,760	5,280	1,760	5,280	1,760
Recoverable Cash Flow	n/a	n/a	(145,280)	(48,427)	(57,770)	(19,257)	(20,980)	(6,993)	(5,280)	(1,760)
Transaction Capital Subsidy Needed	n/a	n/a	180,523	60,174	117,898	39,299	125,611	41,870	-	-
Total Capital Subsidy	**52,896**	**17,632**	**40,524**	**13,508**	**65,408**	**21,803**	**109,911**	**36,637**	**(0)**	**(0)**
TOTAL SUBSIDY NEEDED	**52,896**	**17,632**	**40,524**	**13,508**	**65,408**	**21,803**	**109,911**	**36,637**	**-**	**-**