CHFA Capital Plan Property Assessment - Melrose Park, Sunset Park

Property Identification

Melrose Park, Sunset Park
NORWICH, CT

Total Current Unit Count:	104
Census Tract:	6967.00
Connecticut Congressional District:	0

CHFA Property Identification #: 85139D, 85139Z
Current State Sponsored Housing Program: SH Moderate Rental

These properties were originally financed separetely and appear 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:	Family
Structure Type:	Duplex
Number of buildings:	57
Maximum # of Stories:	2
Elevator?	None

Summary property description:

The Melrose Park/Sunset Park property has 46 two-bedroom and 58 three-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as in-unit laundry and semi-private outdoor space.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 5,676,155
Capital Needs per Unit:	$ 54,578
Projected Year 1 (2014) Operating Income:	$ 106,021

Current operations at the property are projected to generate roughly $106,000 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 results in negative NOI beginning in 2028. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $5.68 million ($54,578 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:		
One-bedroom unit:		
Two-bedroom unit:	415	22%
Three-bedroom unit:	415	19%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	415	22%
Three-bedroom unit:	415	19%
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

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: 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	63	63
25-50% of AMI	32	32
50% of AMI or greater	9	9
Total number of units	104	104

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:		
One-bedroom unit:		
Two-bedroom unit:	415	415
Three-bedroom unit:	415	415
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

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

Property used for market reference: Sunset Park

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,133,883)	(2,273,985)
Recoverable Grant Scenario:	(8,168,429)	(7,723,587)
CHFA/FHA Scenario:	(6,609,874)	(6,598,075)
4% LIHTC Scenario:	(4,021,821)	(4,131,334)
9% LIHTC Scenario:	609,104	(121,722)

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:	2,133,883
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 $2,133,883 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 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 $106,021 in NOI in the current year, which includes $0 per unit per year in replacement reserve deposits, trending to negative $3,754 fifteen years thereafter. The transaction results in a capital subsidy need of $2,133,000 and $140,000 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.

Summary of Capital Needs & State Subsidy Needs

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	308,117
Current Routine Capital Needs:	75,463

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	**383,581**	-	-	-	-	-
2014	**57,476**	-	-	-	-	-
2015	**1,652,845**	1,316,894	-	-	-	-
2016	**324,836**	140,897	-	-	-	-
2017	**67,913**	-	-	-	-	-
2018	**96,251**	-	-	-	-	-
2019	**300,185**	-	-	-	-	-
2020	**133,085**	-	-	-	-	-
2021	**85,158**	-	-	-	-	-
2022	**87,713**	-	-	-	-	-

		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	**355,688**	-	-	-	-	-
2024	**101,185**	-	-	-	-	-
2025	**166,373**	-	-	-	-	-
2026	**102,587**	-	-	-	-	-
2027	**166,925**	-	-	-	-	-
2028	**406,194**	114,917	-	3,754	-	-
2029	**195,981**	48,333	-	15,273	-	-
2030	**295,089**	141,535	-	27,394	-	-
2031	**343,393**	183,697	-	40,141	-	-
2032	**353,695**	187,610	-	53,540	-	-

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	901,974	8,672.82	1,077,312	10,358.77	1,077,312	10,359	1,077,312	10,359	1,077,312	10,359
Vacancy/Loss	(17,942)	(172.52)	(17,942)	(172.52)	(53,866)	(518)	(75,412)	(725)	(75,412)	(725)
Other Income	20,490	197.02	20,490	197.02	20,490	197	20,490	197	20,490	197
Effective Gross Income	**904,521**	**8,697.32**	**1,079,860**	**10,383.27**	**1,043,936**	**10,038**	**1,022,390**	**9,831**	**1,022,390**	**9,831**
2023 ANNUAL EXPENSES										
Operating Expenses	742,231	7,137	796,224	7,656	772,239	7,425	771,162	7,415	771,162	7,415
Replacement Reserve Deposits	116,689	1,122	116,689	1,122	62,910	605	62,910	605	51,809	498
Total Operating Expenses	**858,920**	**8,259**	**912,913**	**8,778**	**835,150**	**8,030**	**834,072**	**8,020**	**822,971**	**7,913**
2023 NET OPERATING INCOME	**45,602**	**438**	**166,947**	**1,605**	**208,786**	**2,008**	**188,317**	**1,811**	**199,419**	**1,917**
Debt Service	-	-	-	-	139,148	1,338	119,599	1,150	133,407	1,283
2023 CASH FLOW	**45,602**	**438**	**166,947**	**1,605**	**69,639**	**670**	**68,718**	**661**	**66,012**	**635**

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	-	-	-	-	2,421,361	23,282	1,893,877	18,210	2,321,466	22,322
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	3,099,388	29,802	3,099,388	29,802
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	36,868	354	81,068	779	81,068	779	73,268	704
Cash Escrows	-	-	402,927	3,874	402,927	3,874	402,927	3,874	402,927	3,874
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	486,614	4,679	502,295	4,830	499,772	4,806
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	3,836,854	36,893	8,037,055	77,279
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**439,795**	4,229	**3,391,970**	32,615	**9,816,410**	94,389	**14,433,877**	138,787
USES										
Acquisition Costs	-	-	-	-	20,612	198	3,120,000	30,000	3,120,000	30,000
Construction Costs	-	-	6,896,627	66,314	6,896,627	66,314	6,973,054	67,049	6,973,054	67,049
Soft Costs - Design & Construction	-	-	744,067	7,154	733,196	7,050	750,181	7,213	750,181	7,213
Soft Costs - Due Diligence	-	-	20,976	202	33,701	324	42,712	411	42,712	411
Soft Costs - Transaction Costs	-	-	57,368	552	137,368	1,321	308,899	2,970	308,899	2,970
Soft Costs - Financing	-	-	209,306	2,013	698,892	6,720	780,727	7,507	778,494	7,486
Soft Costs - Other	-	-	59,800	575	67,600	650	67,600	650	67,600	650
Soft Cost Contingency	-	-	54,576	525	83,538	803	88,752	853	86,617	833
Reserves	-	-	-	-	113,774	1,094	450,568	4,332	447,785	4,306
Developer Fee	-	-	565,504	5,438	1,216,536	11,697	1,255,738	12,074	1,249,431	12,014
Total Uses of Funds	**-**	**-**	**8,608,224**	82,771	**10,001,844**	96,172	**13,838,231**	133,060	**13,824,772**	132,931
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(8,168,429)**	(78,543)	**(6,609,874)**	(63,556)	**(4,021,821)**	(38,671)	**609,104**	5,857

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	-	-	5,322,460	51,178	5,322,460	51,178	5,322,460	51,178	5,322,460	51,178
Capital Needs Funded Using Subsidy	2,133,883	20,518	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	402,927	3,874	402,927	3,874	402,927	3,874	402,927	3,874	402,927	3,874
Replacement Reserves	3,139,346	30,186	2,268,599	21,813	1,223,068	11,760	1,223,068	11,760	1,007,233	9,685
Total Funds	**5,676,155**	**54,578**	**7,993,986**	**76,865**	**6,948,456**	**66,812**	**6,948,456**	**66,812**	**6,732,620**	**64,737**
USES										
Estimated Capital Needs	5,676,155	54,578	5,676,155	54,578	5,676,155	54,578	5,676,155	54,578	5,676,155	54,578
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**5,676,155**	**54,578**	**5,676,155**	**54,578**	**5,676,155**	**54,578**	**5,676,155**	**54,578**	**5,676,155**	**54,578**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**2,317,831**	**22,287**	**1,272,300**	**12,234**	**1,272,300**	**12,234**	**1,056,465**	**10,158**

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	773,631	7,439	773,631	7,439	773,631	7,439	773,631	7,439
Operating Deficit Subsidy Needed	140,102	1,347	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Operating Subsidy	**140,102**	**1,347**	**773,631**	**7,439**	**773,631**	**7,439**	**773,631**	**7,439**	**773,631**	**7,439**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,133,883	20,518	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,218,473)	(11,716)	(785,429)	(7,552)	(664,118)	(6,386)	(651,909)	(6,268)
Transaction Capital Subsidy Needed	n/a	n/a	8,168,429	78,543	6,609,874	63,556	4,021,821	38,671	-	-
Total Capital Subsidy	**2,133,883**	**20,518**	**6,949,956**	**66,826**	**5,824,444**	**56,004**	**3,357,703**	**32,286**	**(651,909)**	**(6,268)**
TOTAL SUBSIDY NEEDED	**2,273,985**	**21,865**	**7,723,587**	**74,265**	**6,598,075**	**63,443**	**4,131,334**	**39,724**	**121,722**	**1,170**