CHFA Capital Plan Property Assessment - Tiffany Place

Property Identification

Tiffany Place
Brooklyn, CT

Total Current Unit Count:	27
Census Tract:	9051.00
Connecticut Congressional District:	2

CHFA Property Identification #: 77004D
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:	2
Maximum # of Stories:	3
Elevator?	None

Summary property description:
The Tiffany Place property has 6 one-bedroom, 17 two-bedroom and 4 three-bedroom units. Generally, the property consists of reasonably sized units. The property is currently 100% vacant.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 3,982,341
Capital Needs per Unit:	$ 147,494
Projected Year 1 (2014) Operating Income:	n/a

Due the property being currently vacant, current operations at the property are projected to generate no net operating income (NOI, or revenue after operating expenses) in Year 1 (2014). THe property is in need of a significant rehabilitation and recapitalization in order to address its future basic capital needs, projected to be approximately $3.98 million ($147,494 per unit) over the next 20 years.

Owner Comments to Property Assessment: *See Page 9 for Owner Comments*

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

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	-	0%
Two-bedroom unit:	-	0%
Three-bedroom unit:	-	0%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	750	48%
Two-bedroom unit:	750	40%
Three-bedroom unit:	750	35%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ 146,070

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: $ 3,336,320

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. The Capital Plan is modeled with the assumption that the State will be making new rental assistance payment contracts available and this analysis recommends that a RAP contract be established for this property. The RAP allows the residents to pay an affordable rent based on their income and pays the difference up to an agreed revenue level which this Capital Plan recommends be set high enough to generate a sustainable revenue stream.

Low base rent levels maximize affordability for households in the community. However, if the property's revenue stream (including any available operating subsidy) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, necessary repairs and maintenance will get deferred. An extended period of deferred maintenance can put the property itself at risk, which would be a significant blow to the availability of affordable housing in the area.

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, 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.

The figures to the left indicate the additional rental operating subsidy which would be necessary in 2014 to cover this base rent increase as well as the total 20 year impact given that this subsidy need will recur annually, with inflation increases. Since the rental assistance payment protects the residents of the property, none of the actual households would be impacted by the increase in the base rent and the property would continue to serve the current resident demographic.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	-	27
25-50% of AMI	-	0
50% of AMI or greater	-	0
Total number of units	-	27

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	750	750
Two-bedroom unit:	750	750
Three-bedroom unit:	750	750
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: $ -

Additional rental operating subsidy necessary to sustain Rental Assistance Payments based on the adjusted base rent: $ 1,409,371

Property used for market reference: Tiffany Place

While the the revenue generated by the increase in the base rent 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.) However, as noted above, the analysis assumes the property will receive a project-based rental assistance payment contract. A RAP arrangement provides operating support to the property while permitting residents to pay based on what they can afford, so income mixing is neither needed nor appropriate. For extremely low income households, properties with a RAP are their only viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the RAP subsidy, is used to generate enough income for the property to operate at a sustainable level.

The rental assistance payment ensures that the property receives the base rent. However, since the base rent increase suggested above is insufficient over the long term, the only alternative is to increase the base rent again in conjunction with the recapitalization transaction. (An income-tier structure in this situation would only serve to reduce housing options to the lowest income households, without increasing revenue to the property.)

An increase in the base rent at a property with a rental assistance payment translates into an increase in the operating subsidy necessary to sustain the property over time.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(3,905,521)	(6,387,026)
Recoverable Grant Scenario:	(5,757,810)	(9,366,771)
CHFA/FHA Scenario:	(4,853,761)	(9,199,708)
4% LIHTC Scenario:	(3,283,406)	(7,612,746)
9% LIHTC Scenario:	(1,002,269)	(5,293,243)

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	2014
Replacement Reserve Deposit PUPY:	425
Debt Service Coverage in Transaction Year:	1.20
Debt Service Coverage in Transaction Year 15:	1.51
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	3,283,406

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 2014 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 $425 per unit per year, assuming debt service coverage is maintained over 1.511 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $3.98 million.

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 $121,057 in NOI in the transaction completion year, which includes $425 per unit per year in replacement reserve deposits. After debt service, the property generates $32,340 in cash flow in the capital transaction's completion year, trending to $45,308 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 $1,383,000 in debt and $2,016,000 in equity. The transaction results in a gap of $3,283,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $6,387,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $5,757,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs Tiffany Place, continued

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	820,952
Current Routine Capital Needs:	2,066,540

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	**2,887,493**	-	-	-	-	-
2014	**-**	-	3,283,406	-	146,070	-
2015	**11,511**	-	-	-	214,812	-
2016	**-**	-	-	-	219,108	-
2017	**-**	-	-	-	223,490	-
2018	**55,594**	-	-	-	227,960	-
2019	**-**	-	-	-	232,519	-
2020	**-**	-	-	-	237,170	-
2021	**5,974**	-	-	-	241,913	-
2022	**-**	-	-	-	246,751	-

		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	**57,704**	-	-	-	251,686	-
2024	**-**	-	-	-	256,720	-
2025	**106,499**	-	-	-	261,855	-
2026	**-**	-	-	-	267,092	-
2027	**-**	-	-	-	272,434	-
2028	**453,994**	-	-	-	277,882	-
2029	**7,568**	-	-	-	283,440	-
2030	**-**	-	-	-	289,109	-
2031	**-**	-	-	-	294,891	-
2032	**396,005**	-	-	-	300,789	-

Scenario Pro Formas

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	-	-	302,140	11,190	302,140	11,190	302,140	11,190	302,140	11,190
Vacancy/Loss	-	-	(21,150)	(783)	(21,150)	(783)	(21,150)	(783)	(21,150)	(783)
Other Income	-	-	19,512	723	19,512	723	19,512	723	19,512	723
Effective Gross Income	**-**	**-**	**300,503**	**11,130**	**300,503**	**11,130**	**300,503**	**11,130**	**300,503**	**11,130**
2023 ANNUAL EXPENSES										
Operating Expenses	-	-	157,727	5,842	155,207	5,748	155,207	5,748	155,207	5,748
Replacement Reserve Deposits	-	-	16,333	605	16,333	605	16,333	605	16,333	605
Total Operating Expenses	**-**	**-**	**174,060**	**6,447**	**171,540**	**6,353**	**171,540**	**6,353**	**171,540**	**6,353**
2023 NET OPERATING INCOME	**-**	**-**	**126,443**	**4,683**	**128,963**	**4,776**	**128,963**	**4,776**	**128,963**	**4,776**
Debt Service	-	-	-	-	84,475	3,129	88,717	3,286	84,475	3,129
2023 CASH FLOW	**-**	**-**	**126,443**	**4,683**	**44,488**	**1,648**	**40,246**	**1,491**	**44,488**	**1,648**

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	-	-	-	-	1,469,980	54,444	1,383,510	51,241	1,469,980	54,444
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,729,388	64,051	1,729,388	64,051
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	29,426	1,090	29,426	1,090	29,426	1,090	29,426	1,090
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	326,773	12,103	338,599	12,541	337,022	12,482
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	2,016,879	74,699	4,203,036	155,668
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**29,426**	1,090	**1,826,179**	67,636	**5,497,802**	203,622	**7,768,852**	287,735
USES										
Acquisition Costs	-	-	-	-	-	-	1,729,388	64,051	1,729,388	64,051
Construction Costs	-	-	4,647,028	172,112	4,647,028	172,112	4,698,525	174,019	4,698,525	174,019
Soft Costs - Design & Construction	-	-	507,763	18,806	500,438	18,535	512,655	18,987	512,655	18,987
Soft Costs - Due Diligence	-	-	14,426	534	23,276	862	26,763	991	26,763	991
Soft Costs - Transaction Costs	-	-	38,451	1,424	118,451	4,387	268,281	9,936	268,281	9,936
Soft Costs - Financing	-	-	137,457	5,091	447,205	16,563	500,324	18,531	495,133	18,338
Soft Costs - Other	-	-	15,525	575	17,550	650	17,550	650	17,550	650
Soft Cost Contingency	-	-	35,681	1,322	55,346	2,050	60,183	2,229	58,848	2,180
Reserves	-	-	11,475	425	53,712	1,989	121,043	4,483	121,422	4,497
Developer Fee	-	-	379,430	14,053	816,932	30,257	846,497	31,352	842,555	31,206
Total Uses of Funds	**-**	**-**	**5,787,236**	214,342	**6,679,940**	247,405	**8,781,208**	325,230	**8,771,121**	324,856
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(5,757,810)**	(213,252)	**(4,853,761)**	(179,769)	**(3,283,406)**	(121,608)	**(1,002,269)**	(37,121)

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	-	-	3,586,336	132,827	3,586,336	132,827	3,586,336	132,827	3,586,336	132,827
Capital Needs Funded Using Subsidy	3,905,521	144,649	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	76,820	2,845	317,527	11,760	317,527	11,760	317,527	11,760	317,527	11,760
Total Funds	**3,982,341**	**147,494**	**3,903,863**	**144,588**	**3,903,863**	**144,588**	**3,903,863**	**144,588**	**3,903,863**	**144,588**
USES										
Estimated Capital Needs	3,982,341	147,494	3,982,341	147,494	3,982,341	147,494	3,982,341	147,494	3,982,341	147,494
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**3,982,341**	**147,494**	**3,982,341**	**147,494**	**3,982,341**	**147,494**	**3,982,341**	**147,494**	**3,982,341**	**147,494**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**(78,478)**	**(2,907)**	**(78,478)**	**(2,907)**	**(78,478)**	**(2,907)**	**(78,478)**	**(2,907)**

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	4,745,692	175,766	4,745,692	175,766	4,745,692	175,766	4,745,692	175,766
Operating Deficit Subsidy Needed	2,481,505	91,908	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**2,481,505**	**91,908**	**4,745,692**	**175,766**	**4,745,692**	**175,766**	**4,745,692**	**175,766**	**4,745,692**	**175,766**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	3,905,521	144,649	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,136,731)	(42,101)	(399,745)	(14,805)	(416,351)	(15,420)	(454,718)	(16,841)
Transaction Capital Subsidy Needed	n/a	n/a	5,757,810	213,252	4,853,761	179,769	3,283,406	121,608	1,002,269	37,121
Total Capital Subsidy	**3,905,521**	**144,649**	**4,621,079**	**171,151**	**4,454,016**	**164,964**	**2,867,055**	**106,187**	**547,551**	**20,280**
TOTAL SUBSIDY NEEDED	**6,387,026**	**236,557**	**9,366,771**	**346,917**	**9,199,708**	**340,730**	**7,612,746**	**281,954**	**5,293,243**	**196,046**

Owner Comments

Tiffany Place
Brooklyn, CT

Property: Tiffany Place, Brooklyn, CT
CHFA ID # 77004D
Contact: Erin Grist, 860-963-6829, ext. 11, eringrist@hotmail.com

1. Aggregate Capital Needs: We are in agreement with the CNA and the Property Assessment as to the capital needs of the project, at least on an order-of-magnitude scale.

2. Projected Year 1 Operating Income: It is understood from the Guidance provided with the assessment that Projected Year 1 Operating Income is trended from operating data provided by CHFA, which was generally for the 2010 or 2011 operating year. In 2010, one of the two buildings in the development was vacant, condemned due to structural issues, and therefore generating no income. The 2nd building was partially occupied at the beginning of 2010 and completely vacated during the year. Therefore, operating data for 2010 and 2011 would appear, in this case, to have no value as a predictor of post-rehabilitation operating results. Given the Post-Transaction Base Rent of $750/unit/month used in the analysis, post-rehab Year 1 net operating income would be expected to be positive. We recommend that the consultant utilize an estimate of operating expense for developments of this type and scale rather than the trended data in projecting NOI.

3. Rental Subsidy: We are in agreement that a RAP contract or some other source of rental subsidy is necessary for the property to operate in a sustainable manner over the 20-year projection period.

4. Operating Pro Formas: The 2023 operating pro formas for all of the transaction options (page 7) show a Vacancy and Collection Loss of $115,238. We are at a loss as to how a vacancy factor representing over 50% of Gross Potential Rent could be projected and expect that this entry is an error.

5. Capital Funding Sources: The analysis does not account for potential sources of capital funding other than State grants and Low Income Housing Tax Credits. Tiffany Place, which is a National Register Historic Property, is eligible for State Historic Tax Credits, and the owner is actively pursuing these credits as part of its pre-development activities. The State Historic Credits are expected to generate approximately $600,000 in equity for rehabilitation.

6. Recommended Transaction Option: The analysis concludes that the 4% LIHTC option is preferred. We recommend that this conclusion be re-visited after the issues raised in paragraphs 2, 4, and 5 have been investigated and any appropriate changes to the projections made.

RECAP Comments: Due to some of the unique characteristics of this property (substantial rehabilitation needs, currently 100% vacant), the baseline approach of the Property Assessments using historical data is complicated. We attempted to adequately address and control for these difficulties by applying a portion of the new RAP subsidy CHFA has allocated to address revenue stability, and used averages of the historical expense data as an estimate for the operating costs going forward. The vacancy assumptions were revised with a projected 7% vacancy rate post-transaction. In order to have an apples-top-apples comparison of all the study group properties, the financial model did not account for any additional outside funding due to its variability. The potential additional capital funding sources would certainly lower the amount of state subsidy needed for the Tiffancy Place recapitalization transaction.