CHFA Capital Plan Property Assessment - Grasso Gardens I & II

Property Identification

Grasso Gardens I & II
GROTON, CT

Total Current Unit Count:	70
Census Tract:	7028.00
Connecticut Congressional District:	2

CHFA Property Identification #: 85066D, 87002D
Current State Sponsored Housing Program: SH Elderly

This property was originally financed in phases and appears 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:	Elderly/Disabled
Structure Type:	Multi Unit Pods
Number of buildings:	18
Maximum # of Stories:	1
Elevator?	None

Summary property description:
The Grasso Gardens I & II properties have 54 efficiency or studio and 16 one-bedroom units. Generally, the properties consists of reasonably sized units. They features amenities such as air conditioning, common laundry, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 2,587,999
Capital Needs per Unit:	$ 36,971
Projected Year 1 (2014) Operating Income:	$ 30,221

Current operations at the property are projected to generate roughly $30,200 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 2027. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $2.59 million ($36,971 per unit) over the next 20 years.

Owner Comments to Property Assessment:

Owner Comments:
-Confirming my understanding that not every housing complex received a Market Assessment. We did receive one for Pequot Village, but not for Grasso Gardens.
-Grasso Gardens has 70 1-bedroom units total. These numbers were incorrect in the report.
-Before July 2010, Base rents were: Efficiencies - $85: bedrooms - $115 and $145. 116 apartments have these base rents. 58 units have these higher base rents: Efficiencies: $140; smaller bedrooms: $200 and larger bedrooms: $250, beginning July 2010.

RECAP Response: While the Grasso Gardens CNA did report that property is comprised of 70 1-bedroom units, the data provided by CHFA with respect to the base rents and bedroom mix differed. The owner did not provide updated rent roll and operating data, so Recap was not able to update the site assessment.

Current average income relative to the Area Median Income (AMI): 26%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	115	8%
One-bedroom unit:	75	5%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	435	30%
One-bedroom unit:	466	30%
Two-bedroom unit:		
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: 45

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ 139,284

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: $ 813,917

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 greater percentage of their 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.

Protecting the 45 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 $139,284 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

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 $813,916.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	45	45
25-50% of AMI	23	23
50% of AMI or greater	2	2
Total number of units	70	70

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	435	435
One-bedroom unit:	466	466
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: $ (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: Pequot Village I

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.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,061,988)	(2,134,604)
Recoverable Grant Scenario:	(4,325,684)	(3,790,251)
CHFA/FHA Scenario:	(3,094,904)	(3,536,685)
4% LIHTC Scenario:	(1,973,488)	(2,473,913)
9% LIHTC Scenario:	(129,372)	(602,571)

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	Grasso Gardens I & II, continued

Recommended Transaction Option:	4% LIHTC
Recommended Transaction Year	2019
Replacement Reserve Deposit PUPY:	350
Debt Service Coverage in Transaction Year:	1.200
Debt Service Coverage in Transaction Year 15:	1.344
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	1,973,488

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, assuming debt service coverage is maintained over 1.344 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $2.59 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 $148,076 in NOI in the transaction completion year, which includes $350 per unit per year in replacement reserve deposits. After debt service, the property generates $53,474 in cash flow in the capital transaction's completion year, trending to $32,512 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 $1,480,000 in debt and $1,753,000 in equity. The transaction results in a gap of $1,973,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $2,134,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $4,325,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	201,970

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	**201,970**	-	-	-	-	-
2014	**134,935**	-	-	-	139,284	-
2015	**111,694**	-	-	-	127,863	-
2016	**172,267**	-	-	-	115,929	-
2017	**177,609**	-	-	-	103,467	(0)
2018	**76,204**	-	-	-	90,459	(0)
2019	**73,415**	-	1,973,488	-	76,890	-
2020	**103,634**	-	-	-	62,743	(0)
2021	**93,391**	-	-	-	47,998	(0)
2022	**128,631**	-	-	-	32,639	-

		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	**93,574**	-	-	-	16,646	-
2024	**87,257**	-	-	-	-	-
2025	**176,203**	-	-	-	-	-
2026	**111,328**	-	-	-	-	-
2027	**151,822**	-	-	-	-	-
2028	**236,844**	-	-	-	-	-
2029	**163,059**	-	-	-	-	-
2030	**76,993**	-	-	-	-	-
2031	**73,046**	-	-	-	-	-
2032	**144,124**	-	-	-	-	-

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	298,052	4,257.88	520,496	7,435.65	520,496	7,436	520,496	7,436	520,496	7,436
Vacancy/Loss	(2,002)	(28.60)	(2,002)	(28.60)	(26,025)	(372)	(36,435)	(520)	(36,435)	(520)
Other Income	21,817	311.66	21,817	311.66	21,817	312	21,817	312	21,817	312
Effective Gross Income	**317,866**	**4,540.95**	**540,310**	**7,718.72**	**516,287**	**7,376**	**505,878**	**7,227**	**505,878**	**7,227**
2023 ANNUAL EXPENSES										
Operating Expenses	304,579	4,351	331,595	4,737	324,990	4,643	324,469	4,635	324,469	4,635
Replacement Reserve Deposits	3,303	47	3,303	47	34,871	498	34,871	498	34,871	498
Total Operating Expenses	**307,882**	**4,398**	**334,898**	**4,784**	**359,861**	**5,141**	**359,340**	**5,133**	**359,340**	**5,133**
2023 NET OPERATING INCOME	**9,984**	**143**	**205,413**	**2,934**	**156,427**	**2,235**	**146,537**	**2,093**	**146,537**	**2,093**
Debt Service	-	-	-	-	96,103	1,373	94,602	1,351	90,413	1,292
2023 CASH FLOW	**9,984**	**143**	**205,413**	**2,934**	**60,323**	**862**	**51,935**	**742**	**56,124**	**802**

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	-	-	-	-	1,672,330	23,890	1,480,768	21,154	1,573,316	22,476
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,100,000	30,000	2,100,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	43,429	620	67,929	970	67,929	970	67,929	970
Cash Escrows	-	-	213,933	3,056	259,179	3,703	259,179	3,703	259,179	3,703
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	260,496	3,721	271,792	3,883	270,627	3,866
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,753,948	25,056	3,500,307	50,004
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**257,362**	3,677	**2,259,934**	32,285	**5,933,615**	84,766	**7,771,358**	111,019
USES										
Acquisition Costs	-	-	-	-	-	-	2,100,000	30,000	2,100,000	30,000
Construction Costs	-	-	3,620,757	51,725	3,620,757	51,725	3,660,882	52,298	3,660,882	52,298
Soft Costs - Design & Construction	-	-	398,387	5,691	392,680	5,610	402,198	5,746	402,198	5,746
Soft Costs - Due Diligence	-	-	15,345	219	26,345	376	32,413	463	32,413	463
Soft Costs - Transaction Costs	-	-	63,929	913	143,929	2,056	283,858	4,055	283,858	4,055
Soft Costs - Financing	-	-	111,816	1,597	353,726	5,053	415,811	5,940	412,929	5,899
Soft Costs - Other	-	-	40,250	575	45,500	650	45,500	650	45,500	650
Soft Cost Contingency	-	-	31,486	450	48,109	687	53,348	762	52,362	748
Reserves	-	-	-	-	72,552	1,036	233,612	3,337	234,018	3,343
Developer Fee	-	-	301,076	4,301	651,241	9,303	679,480	9,707	676,569	9,665
Total Uses of Funds	**-**	-	**4,583,047**	65,472	**5,354,839**	76,498	**7,907,103**	112,959	**7,900,729**	112,868
TRANSACTION SURPLUS (GAP)	**-**	-	**(4,325,684)**	(61,795)	**(3,094,904)**	(44,213)	**(1,973,488)**	(28,193)	**(129,372)**	(1,848)

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	-	-	2,794,313	39,919	2,794,313	39,919	2,794,313	39,919	2,794,313	39,919
Capital Needs Funded Using Subsidy	2,061,988	29,457	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	241,488	3,450	241,488	3,450	241,488	3,450	241,488	3,450	241,488	3,450
Replacement Reserves	284,524	4,065	64,220	917	677,945	9,685	677,945	9,685	677,945	9,685
Total Funds	**2,587,999**	**36,971**	**3,100,021**	**44,286**	**3,713,746**	**53,054**	**3,713,746**	**53,054**	**3,713,746**	**53,054**
USES										
Estimated Capital Needs	2,587,999	36,971	2,587,999	36,971	2,587,999	36,971	2,587,999	36,971	2,587,999	36,971
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**2,587,999**	**36,971**	**2,587,999**	**36,971**	**2,587,999**	**36,971**	**2,587,999**	**36,971**	**2,587,999**	**36,971**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**512,022**	**7,315**	**1,125,747**	**16,082**	**1,125,747**	**16,082**	**1,125,747**	**16,082**

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	813,917	11,627	813,917	11,627	813,917	11,627	813,917	11,627
Operating Deficit Subsidy Needed	72,616	1,037	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Operating Subsidy	**72,616**	**1,037**	**813,917**	**11,627**	**813,917**	**11,627**	**813,917**	**11,627**	**813,917**	**11,627**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,061,988	29,457	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,349,350)	(19,276)	(372,136)	(5,316)	(313,492)	(4,478)	(340,718)	(4,867)
Transaction Capital Subsidy Needed	n/a	n/a	4,325,684	61,795	3,094,904	44,213	1,973,488	28,193	129,372	1,848
Total Capital Subsidy	**2,061,988**	**29,457**	**2,976,335**	**42,519**	**2,722,769**	**38,897**	**1,659,996**	**23,714**	**(211,346)**	**(3,019)**
TOTAL SUBSIDY NEEDED	**2,134,604**	**30,494**	**3,790,251**	**54,146**	**3,536,685**	**50,524**	**2,473,913**	**35,342**	**602,571**	**8,608**