CHFA Capital Plan Property Assessment - Security Manor

Property Identification

Security Manor
NEW BRITAIN, CT

Total Current Unit Count:	50
Census Tract:	4166.00
Connecticut Congressional District:	5

CHFA Property Identification #: 04002D
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.

Property Description

Tenancy Type:	Elderly/Disabled
Structure Type:	Low rise (1-4 floors)
Number of buildings:	3
Maximum # of Stories:	1
Elevator?	None

Summary property description:
The Security Manor property has 26 efficiency or studio and 24 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, a patio with picnic tables, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	1,851,588
Capital Needs per Unit:	$	37,032
Projected Year 1 (2014) Operating Income:	$	(17,957)

Current operations at the property are projected to generate negative $18,000 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 this shortfall continues to grow. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.85 million ($37,031 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 19%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	532	36%
One-bedroom unit:	549	34%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	532	36%
One-bedroom unit:	549	34%
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: 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

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	49	49
25-50% of AMI	1	1
50% of AMI or greater	0	0
Total number of units	50	50

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:	532	532
One-bedroom unit:	549	549
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: Security Manor

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,851,588)	(3,029,605)
Recoverable Grant Scenario:	(3,161,255)	(4,934,942)
CHFA/FHA Scenario:	(3,290,912)	(5,458,250)
4% LIHTC Scenario:	(2,418,006)	(4,623,665)
9% LIHTC Scenario:	(769,519)	(2,974,552)

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	Security Manor, continued

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:	1,851,588
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 $1,851,588 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 low rental revenue and 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 negative $17,958 in NOI in the current year, which includes $0 per unit per year in replacement reserve deposits, trending to negative $88,836 fifteen years thereafter. The transaction results in a capital subsidy need of $1,851,000 and $1,178,000 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: 92,600
Current Routine Capital Needs: 323,241

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: Pre-Transaction Capital Subsidy Needs	Capital Subsidy: Transaction Capital Subsidy Needs	Operating Subsidy: Operating Deficit Subsidy Needs	Operating Subsidy: Base Rent Operating Subsidy Needs	Operating Subsidy: Income Mixing Operating Subsidy Needs
2013	**415,841**	415,841	-	-	-	-
2014	**74,505**	74,505	-	17,958	-	-
2015	**76,740**	76,740	-	21,690	-	-
2016	**80,786**	80,786	-	25,598	-	-
2017	**85,539**	85,539	-	29,689	-	-
2018	**32,637**	32,637	-	33,969	-	-
2019	**241,726**	241,726	-	38,445	-	-
2020	**6,624**	6,624	-	43,124	-	-
2021	**11,148**	11,148	-	48,014	-	-
2022	**16,158**	16,158	-	53,123	-	-

Year	Annual Capital Needs (per CNA)	Capital Subsidy: Pre-Transaction Capital Subsidy Needs	Capital Subsidy: Transaction Capital Subsidy Needs	Operating Subsidy: Operating Deficit Subsidy Needs	Operating Subsidy: Base Rent Operating Subsidy Needs	Operating Subsidy: Income Mixing Operating Subsidy Needs
2023	**477,855**	477,855	-	58,459	-	-
2024	**23,163**	23,163	-	64,030	-	-
2025	**7,390**	7,390	-	69,843	-	-
2026	**7,612**	7,612	-	75,910	-	-
2027	**19,569**	19,569	-	82,237	-	-
2028	**84,091**	84,091	-	88,836	-	-
2029	**44,138**	44,138	-	95,715	-	-
2030	**45,796**	45,796	-	102,885	-	-
2031	**49,541**	49,541	-	110,355	-	-
2032	**50,728**	50,728	-	118,138	-	-

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	403,674	8,073.48	568,578	11,371.55	568,578	11,372	568,578	11,372	568,578	11,372
Vacancy/Loss	(25,250)	(505.01)	(35,565)	(711.31)	(35,565)	(711)	(39,800)	(796)	(39,800)	(796)
Other Income	32,646	652.92	32,646	652.92	32,646	653	32,646	653	32,646	653
Effective Gross Income	**411,069**	**8,221.39**	**565,658**	**11,313.16**	**565,658**	**11,313**	**561,423**	**11,228**	**561,423**	**11,228**
2023 ANNUAL EXPENSES										
Operating Expenses	469,528	9,391	468,417	9,368	457,537	9,151	457,325	9,147	457,325	9,147
Replacement Reserve Deposits	-	-	-	-	24,908	498	24,908	498	24,908	498
Total Operating Expenses	**469,528**	**9,391**	**468,417**	**9,368**	**482,445**	**9,649**	**482,233**	**9,645**	**482,233**	**9,645**
2023 NET OPERATING INCOME	**(58,459)**	**(1,169)**	**97,241**	**1,945**	**83,213**	**1,664**	**79,190**	**1,584**	**79,190**	**1,584**
Debt Service	-	-	-	-	32,336	647	27,799	556	27,710	554
2023 CASH FLOW	**(58,459)**	**(1,169)**	**97,241**	**1,945**	**50,877**	**1,018**	**51,391**	**1,028**	**51,480**	**1,030**

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	-	-	-	-	562,684	11,254	376,780	7,536	482,186	9,644
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,025,000	20,500	1,025,000	20,500
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	105,459	2,109	122,959	2,459	122,959	2,459	122,959	2,459
Cash Escrows	-	-	-	-	17,500	350	17,500	350	17,500	350
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	180,798	3,616	188,722	3,774	187,921	3,758
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,480,628	29,613	3,025,602	60,512
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**105,459**	2,109	**883,942**	17,679	**3,211,589**	64,232	**4,861,169**	97,223
USES										
Acquisition Costs	-	-	-	-	475,000	9,500	1,500,000	30,000	1,500,000	30,000
Construction Costs	-	-	2,501,409	50,028	2,381,421	47,628	2,407,812	48,156	2,407,812	48,156
Soft Costs - Design & Construction	-	-	279,091	5,582	262,549	5,251	268,810	5,376	268,810	5,376
Soft Costs - Due Diligence	-	-	13,002	260	23,428	469	27,189	544	27,189	544
Soft Costs - Transaction Costs	-	-	125,959	2,519	205,959	4,119	333,932	6,679	333,932	6,679
Soft Costs - Financing	-	-	77,678	1,554	268,677	5,374	300,844	6,017	302,163	6,043
Soft Costs - Other	-	-	28,750	575	32,500	650	32,500	650	32,500	650
Soft Cost Contingency	-	-	26,224	524	39,656	793	43,497	870	42,818	856
Reserves	-	-	-	-	33,668	673	243,205	4,864	245,661	4,913
Developer Fee	-	-	214,602	4,292	451,995	9,040	471,806	9,436	469,802	9,396
Total Uses of Funds	**-**	**-**	**3,266,714**	65,334	**4,174,853**	83,497	**5,629,596**	112,592	**5,630,688**	112,614
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(3,161,255)**	(63,225)	**(3,290,912)**	(65,818)	**(2,418,006)**	(48,360)	**(769,519)**	(15,390)

Scenario Pro Formas (continued)	Security Manor, 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	-	-	1,930,458	38,609	1,837,858	36,757	1,837,858	36,757	1,837,858	36,757
Capital Needs Funded Using Subsidy	1,851,588	37,032	88,275	1,766	88,275	1,766	88,275	1,766	88,275	1,766
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	-	-	-	-	484,247	9,685	484,247	9,685	484,247	9,685
Total Funds	**1,851,588**	**37,032**	**2,018,733**	**40,375**	**2,410,379**	**48,208**	**2,410,379**	**48,208**	**2,410,379**	**48,208**
USES										
Estimated Capital Needs	1,851,588	37,032	1,851,588	37,032	1,851,588	37,032	1,851,588	37,032	1,851,588	37,032
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,851,588**	**37,032**	**1,851,588**	**37,032**	**1,851,588**	**37,032**	**1,851,588**	**37,032**	**1,851,588**	**37,032**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**167,145**	**3,343**	**558,792**	**11,176**	**558,792**	**11,176**	**558,792**	**11,176**

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	2,219,320	44,386	2,219,320	44,386	2,219,320	44,386	2,219,320	44,386
Operating Deficit Subsidy Needed	1,178,018	23,560	90,405	1,808	178,808	3,576	185,948	3,719	185,948	3,719
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**1,178,018**	**23,560**	**2,309,725**	**46,194**	**2,398,128**	**47,963**	**2,405,268**	**48,105**	**2,405,268**	**48,105**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,851,588	37,032	88,275	1,766	88,275	1,766	88,275	1,766	88,275	1,766
Recoverable Cash Flow	n/a	n/a	(624,312)	(12,486)	(319,064)	(6,381)	(287,884)	(5,758)	(288,510)	(5,770)
Transaction Capital Subsidy Needed	n/a	n/a	3,161,255	63,225	3,290,912	65,818	2,418,006	48,360	769,519	15,390
Total Capital Subsidy	**1,851,588**	**37,032**	**2,625,218**	**52,504**	**3,060,122**	**61,202**	**2,218,397**	**44,368**	**569,284**	**11,386**
TOTAL SUBSIDY NEEDED	**3,029,605**	**60,592**	**4,934,942**	**98,699**	**5,458,250**	**109,165**	**4,623,665**	**92,473**	**2,974,552**	**59,491**