CHFA Capital Plan Property Assessment - Fairfield Ridge Rehab

Property Identification

Fairfield Ridge Rehab
DANBURY, CT

Total Current Unit Count:	25
Census Tract:	2104.00
Connecticut Congressional District:	5

CHFA Property Identification #: 85026D
Current State Sponsored Housing Program: SH Mod Rental Sec 8 Rehab

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:	Duplex
Number of buildings:	14
Maximum # of Stories:	2
Elevator?	None

Summary property description:
The Fairfield Ridge Rehab property has 18 two-bedroom and 7 three-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as in-unit laundry hookup, as well as semi-private patios.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	1,413,369
Capital Needs per Unit:	$	56,535
Projected Year 1 (2014) Operating Income:	$	(25,787)

Current operations at the property are projected to generate negative $25,800 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 $1.41 million ($56,534 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 27%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	746	31%
Three-bedroom unit:	818	29%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	746	31%
Three-bedroom unit:	840	30%
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: $ 1,848

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: $ 42,209

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This property currently has a project-based vouchers in place, which allow the residents to pay an affordable rent based on their income, but generally only yields the base rent amount as revenue. Currently, base rents are set by HUD.

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

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	746	858
Three-bedroom unit:	840	966
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: $ 414,536

Property used for market reference: Mill Ridge

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 property receives a project-based voucher payment. A PBV 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 PBV are their only viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the PBV 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):	(251,958)	(1,599,177)
Recoverable Grant Scenario:	(2,314,475)	(3,777,146)
CHFA/FHA Scenario:	(2,333,315)	(2,635,237)
4% LIHTC Scenario:	(1,884,083)	(2,185,932)
9% LIHTC Scenario:	(783,026)	(1,091,855)

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	2018
Replacement Reserve Deposit PUPY:	425
Debt Service Coverage in Transaction Year:	4.130
Debt Service Coverage in Transaction Year 15:	1.100
Pre-Transaction Capital Subsidy Needed:	5,296
Transaction Capital Subsidy Needed:	1,884,083

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 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.

This property has been underwritten assuming replacement reserve deposits of $425 per unit per year, assuming debt service coverage is maintained over 1.1 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $1.41 million.

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 4% LIHTC scenario, the property yields $52,093 in NOI in the transaction completion year, which includes $425 per unit per year in replacement reserve deposits. After debt service, the property generates $34,479 in cash flow in the capital transaction's completion year, trending to $1,769 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 $208,000 in debt and $869,000 in equity. The transaction results in a gap of $1,884,000, 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 $1,599,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $2,314,000, plus the pre-transaction need of $5,000, 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:	107,313

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	**107,313**	4,282	-	-	-	-
2014	**93,213**	1,014	-	-	1,848	-
2015	**96,009**	-	-	-	1,885	-
2016	**98,890**	-	-	-	1,923	-
2017	**134,838**	-	-	-	1,961	-
2018	**89,546**	-	1,884,083	-	2,000	-
2019	**92,232**	-	-	-	27,991	-
2020	**94,999**	-	-	-	28,551	-
2021	**97,849**	-	-	-	29,122	-
2022	**65,647**	-	-	-	29,704	-

		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	**27,351**	-	-	-	30,298	-
2024	**28,172**	-	-	-	30,904	-
2025	**55,742**	-	-	-	31,523	-
2026	**57,414**	-	-	-	32,153	-
2027	**63,713**	-	-	-	32,796	-
2028	**57,212**	-	-	-	33,452	-
2029	**58,928**	-	-	-	34,121	-
2030	**29,715**	-	-	-	34,803	-
2031	**30,606**	-	-	-	35,499	-
2032	**33,979**	-	-	-	36,209	-

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	285,787	11,431.48	331,298	13,251.90	331,298	13,252	331,298	13,252	331,298	13,252
Vacancy/Loss	(19,426)	(777.06)	(22,340)	(893.62)	(22,340)	(894)	(23,191)	(928)	(23,191)	(928)
Other Income	6,888	275.51	6,888	275.51	6,888	276	6,888	276	6,888	276
Effective Gross Income	**273,248**	**10,929.94**	**315,845**	**12,633.80**	**315,845**	**12,634**	**314,995**	**12,600**	**314,995**	**12,600**
2023 ANNUAL EXPENSES										
Operating Expenses	240,509	9,620	256,301	10,252	253,765	10,151	253,723	10,149	253,723	10,149
Replacement Reserve Deposits	99,773	3,991	99,773	3,991	15,123	605	15,123	605	12,454	498
Total Operating Expenses	**340,282**	**13,611**	**356,075**	**14,243**	**268,888**	**10,756**	**268,845**	**10,754**	**266,177**	**10,647**
2023 NET OPERATING INCOME	**(67,034)**	**(2,681)**	**(40,230)**	**(1,609)**	**46,957**	**1,878**	**46,149**	**1,846**	**48,818**	**1,953**
Debt Service	-	-	-	-	18,475	739	17,613	705	21,323	853
2023 CASH FLOW	**(67,034)**	**(2,681)**	**(40,230)**	**(1,609)**	**28,482**	**1,139**	**28,536**	**1,141**	**27,495**	**1,100**

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	-	-	-	-	321,497	12,860	208,449	8,338	371,055	14,842
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	750,000	30,000	750,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	63,935	2,557	74,560	2,982	74,560	2,982	72,685	2,907
Cash Escrows	-	-	58,461	2,338	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	140,551	5,622	147,644	5,906	147,162	5,886
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	869,175	34,767	1,810,616	72,425
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**122,396**	4,896	**536,607**	21,464	**2,049,829**	81,993	**3,151,517**	126,061
USES										
Acquisition Costs	-	-	-	-	-	-	750,000	30,000	750,000	30,000
Construction Costs	-	-	1,877,948	75,118	1,877,948	75,118	1,898,759	75,950	1,898,759	75,950
Soft Costs - Design & Construction	-	-	212,645	8,506	209,685	8,387	214,622	8,585	214,622	8,585
Soft Costs - Due Diligence	-	-	11,004	440	19,754	790	21,929	877	21,929	877
Soft Costs - Transaction Costs	-	-	84,435	3,377	164,435	6,577	287,551	11,502	287,551	11,502
Soft Costs - Financing	-	-	57,385	2,295	181,052	7,242	205,913	8,237	206,820	8,273
Soft Costs - Other	-	-	14,375	575	16,250	650	16,250	650	16,250	650
Soft Cost Contingency	-	-	18,992	760	29,559	1,182	33,389	1,336	32,980	1,319
Reserves	-	-	-	-	19,863	795	136,388	5,456	137,728	5,509
Developer Fee	-	-	160,086	6,403	351,377	14,055	369,110	14,764	367,904	14,716
Total Uses of Funds	**-**	**-**	**2,436,870**	97,475	**2,869,923**	114,797	**3,933,912**	157,356	**3,934,543**	157,382
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(2,314,475)**	(92,579)	**(2,333,315)**	(93,333)	**(1,884,083)**	(75,363)	**(783,026)**	(31,321)

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	-	-	1,449,303	57,972	1,449,303	57,972	1,449,303	57,972	1,449,303	57,972
Capital Needs Funded Using Subsidy	251,958	10,078	4,282	171	5,296	212	5,296	212	7,171	287
Existing Replacement Reserve Balance	7,018	281	7,018	281	7,018	281	7,018	281	7,018	281
Replacement Reserves	1,939,740	77,590	1,939,740	77,590	294,007	11,760	294,007	11,760	242,123	9,685
Total Funds	**2,198,717**	**87,949**	**3,400,344**	**136,014**	**1,755,624**	**70,225**	**1,755,624**	**70,225**	**1,705,616**	**68,225**
USES										
Estimated Capital Needs	1,413,369	56,535	1,413,369	56,535	1,413,369	56,535	1,413,369	56,535	1,413,369	56,535
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,413,369**	**56,535**	**1,413,369**	**56,535**	**1,413,369**	**56,535**	**1,413,369**	**56,535**	**1,413,369**	**56,535**
YEAR 20 REPLACEMENT RESERVE BALANCE	**785,348**	**31,414**	**1,986,975**	**79,479**	**342,256**	**13,690**	**342,256**	**13,690**	**292,247**	**11,690**

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	456,745	18,270	456,745	18,270	456,745	18,270	456,745	18,270
Operating Deficit Subsidy Needed	1,347,218	53,889	1,001,644	40,066	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**1,347,218**	**53,889**	**1,458,390**	**58,336**	**456,745**	**18,270**	**456,745**	**18,270**	**456,745**	**18,270**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	251,958	10,078	4,282	171	5,296	212	5,296	212	7,171	287
Recoverable Cash Flow	n/a	n/a	-	-	(160,119)	(6,405)	(160,192)	(6,408)	(155,087)	(6,203)
Transaction Capital Subsidy Needed	n/a	n/a	2,314,475	92,579	2,333,315	93,333	1,884,083	75,363	783,026	31,321
Total Capital Subsidy	**251,958**	**10,078**	**2,318,757**	**92,750**	**2,178,492**	**87,140**	**1,729,187**	**69,167**	**635,110**	**25,404**
TOTAL SUBSIDY NEEDED	**1,599,177**	**63,967**	**3,777,146**	**151,086**	**2,635,237**	**105,409**	**2,185,932**	**87,437**	**1,091,855**	**43,674**