CHFA Capital Plan Property Assessment - Hevrin Terrace

Property Identification

Hevrin Terrace
WINDHAM, CT

Total Current Unit Count:	90
Census Tract:	8003.00
Connecticut Congressional District:	0

CHFA Property Identification #: 86013D
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:	45
Maximum # of Stories:	2
Elevator?	None

Summary property description:

The Hevrin Terrace property has 60 two-bedroom and 30 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):	$	4,533,472
Capital Needs per Unit:	$	50,372
Projected Year 1 (2014) Operating Income:	$	72,472

Current operations at the property are projected to generate roughly $72,500 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 2026. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $4.53 million ($50,371 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 22%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	559	30%
Three-bedroom unit:	611	28%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	559	30%
Three-bedroom unit:	611	28%
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.

Revenue Adjustments Concurrent with a Recapitalization Transaction Hevrin Terrace, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	90	90
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	90	90

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:	559	559
Three-bedroom unit:	611	611
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: Eastman Curran

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,584,829)	(1,821,208)
Recoverable Grant Scenario:	(6,407,033)	(5,849,551)
CHFA/FHA Scenario:	(6,331,136)	(5,992,483)
4% LIHTC Scenario:	(3,945,162)	(3,833,988)
9% LIHTC Scenario:	349,277	-

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

Hevrin Terrace, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	366
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	1,584,829
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 $1,584,829 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 $72,472 in NOI in the current year, which includes $366 per unit per year in replacement reserve deposits, trending to negative $22,964 fifteen years thereafter. The transaction results in a capital subsidy need of $1,584,829and $236,379 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.

Immediate Emergency Capital Needs: 0
Current Deferred Capital Needs: 0
Current Routine Capital Needs: 183,658

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	**183,658**	-	-	-	-	-
2014	**30,737**	-	-	-	-	-
2015	**19,309**	-	-	-	-	-
2016	**19,888**	-	-	-	-	-
2017	**223,657**	-	-	-	-	-
2018	**213,717**	-	-	-	-	-
2019	**742,295**	-	-	-	-	-
2020	**676,458**	-	-	-	-	-
2021	**696,752**	450,381	-	-	-	-
2022	**100,350**	28,553	-	-	-	-

		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	**126,387**	60,043	-	-	-	-
2024	**106,461**	45,885	-	-	-	-
2025	**185,623**	131,143	-	-	-	-
2026	**191,192**	138,442	-	4,708	-	-
2027	**272,795**	217,935	-	13,610	-	-
2028	**296,403**	239,349	-	22,964	-	-
2029	**332,433**	273,097	-	32,790	-	-
2030	**41,239**	-	-	43,104	-	-
2031	**42,475**	-	-	53,926	-	-
2032	**31,643**	-	-	65,276	-	-

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	767,450	8,527.23	961,924	10,688.05	961,924	10,688	961,924	10,688	961,924	10,688
Vacancy/Loss	(15,589)	(173.21)	(19,008)	(211.20)	(48,096)	(534)	(67,335)	(748)	(67,335)	(748)
Other Income	23,984	266.48	23,984	266.48	23,984	266	23,984	266	23,984	266
Effective Gross Income	**775,845**	**8,620.50**	**966,900**	**10,743.33**	**937,811**	**10,420**	**918,573**	**10,206**	**918,573**	**10,206**
2023 ANNUAL EXPENSES										
Operating Expenses	709,501	7,883	757,846	8,421	745,415	8,282	744,453	8,272	744,453	8,272
Replacement Reserve Deposits	46,894	521	46,894	521	54,442	605	54,442	605	44,834	498
Total Operating Expenses	**756,395**	**8,404**	**804,740**	**8,942**	**799,857**	**8,887**	**798,895**	**8,877**	**789,288**	**8,770**
2023 NET OPERATING INCOME	**19,450**	**216**	**162,160**	**1,802**	**137,955**	**1,533**	**119,678**	**1,330**	**129,285**	**1,437**
Debt Service	-	-	-	-	42,545	473	21,483	239	35,447	394
2023 CASH FLOW	**19,450**	**216**	**162,160**	**1,802**	**95,409**	**1,060**	**98,195**	**1,091**	**93,838**	**1,043**

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	-	-	-	-	740,348	8,226	272,396	3,027	616,825	6,854
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,622,671	29,141	2,622,671	29,141
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	114,695	1,274	152,945	1,699	152,945	1,699	146,195	1,624
Cash Escrows	-	-	1,727,519	19,195	1,738,336	19,315	1,738,336	19,315	1,724,566	19,162
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	457,828	5,087	472,547	5,251	470,135	5,224
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	3,569,762	39,664	7,530,434	83,671
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**1,842,213**	20,469	**3,089,457**	34,327	**8,828,657**	98,096	**13,110,825**	145,676
USES										
Acquisition Costs	-	-	-	-	77,329	859	2,700,000	30,000	2,700,000	30,000
Construction Costs	-	-	6,537,755	72,642	6,537,755	72,642	6,610,205	73,447	6,610,205	73,447
Soft Costs - Design & Construction	-	-	709,269	7,881	698,964	7,766	716,152	7,957	716,152	7,957
Soft Costs - Due Diligence	-	-	19,845	221	31,938	355	39,672	441	39,672	441
Soft Costs - Transaction Costs	-	-	135,195	1,502	215,195	2,391	383,264	4,258	383,264	4,258
Soft Costs - Financing	-	-	197,816	2,198	520,560	5,784	591,575	6,573	588,913	6,543
Soft Costs - Other	-	-	51,750	575	58,500	650	58,500	650	58,500	650
Soft Cost Contingency	-	-	55,694	619	76,258	847	81,129	901	79,087	879
Reserves	-	-	-	-	59,523	661	411,955	4,577	410,417	4,560
Developer Fee	-	-	541,921	6,021	1,144,571	12,717	1,181,368	13,126	1,175,338	13,059
Total Uses of Funds	**-**	**-**	**8,249,246**	91,658	**9,420,594**	104,673	**12,773,819**	141,931	**12,761,548**	141,795
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(6,407,033)**	(71,189)	**(6,331,136)**	(70,346)	**(3,945,162)**	(43,835)	**349,277**	3,881

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	-	-	5,045,502	56,061	5,045,502	56,061	5,045,502	56,061	5,045,502	56,061
Capital Needs Funded Using Subsidy	1,584,829	17,609	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	1,689,106	18,768	1,689,106	18,768	1,689,106	18,768	1,689,106	18,768	1,689,106	18,768
Replacement Reserves	1,336,812	14,853	911,693	10,130	1,058,425	11,760	1,058,425	11,760	871,644	9,685
Total Funds	**4,610,748**	**51,231**	**7,646,300**	**84,959**	**7,793,032**	**86,589**	**7,793,032**	**86,589**	**7,606,251**	**84,514**
USES										
Estimated Capital Needs	4,533,472	50,372	4,533,472	50,372	4,533,472	50,372	4,533,472	50,372	4,533,472	50,372
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**4,533,472**	**50,372**	**4,533,472**	**50,372**	**4,533,472**	**50,372**	**4,533,472**	**50,372**	**4,533,472**	**50,372**
YEAR 20 REPLACEMENT RESERVE BALANCE	**77,276**	**859**	**3,112,828**	**34,587**	**3,259,560**	**36,217**	**3,259,560**	**36,217**	**3,072,779**	**34,142**

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	101,941	1,133	101,941	1,133	101,941	1,133	101,941	1,133
Operating Deficit Subsidy Needed	236,379	2,626	-	-	0	-	11,773	131	3,560	40
Income Mixing Operating Subsidy Needed	n/a	n/a	277,197	3,080	277,197	3,080	277,197	3,080	277,197	3,080
Total Operating Subsidy	**236,379**	**2,626**	**379,138**	**4,213**	**379,138**	**4,213**	**390,911**	**4,343**	**382,698**	**4,252**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,584,829	17,609	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(936,619)	(10,407)	(717,791)	(7,975)	(502,084)	(5,579)	(382,698)	(4,252)
Transaction Capital Subsidy Needed	n/a	n/a	6,407,033	71,189	6,331,136	70,346	3,945,162	43,835	-	-
Total Capital Subsidy	**1,584,829**	**17,609**	**5,470,414**	**60,782**	**5,613,346**	**62,371**	**3,443,078**	**38,256**	**(382,698)**	**(4,252)**
TOTAL SUBSIDY NEEDED	**1,821,208**	**20,236**	**5,849,551**	**64,995**	**5,992,483**	**66,583**	**3,833,988**	**42,600**	**-**	**-**