

CHFA Capital Plan Property Assessment - Shad Run Terrace, Shad Run Terrace Ext.

Property Identification

Shad Run Terrace, Shad Run Terrace Ext.
WINDSOR, CT

Total Current Unit Count: 52
Census Tract: 4737.00
Connecticut Congressional District: 1

CHFA Property Identification #: 85228D, 87027D

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: Low rise (1-4 floors)
Number of buildings: 18
Maximum # of Stories: 1
Elevator? None

Summary property description:

The Shad Run Terrace property has 46 efficiency or studio and 6 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, central air conditioning, semi-private outdoor space, a business center/computer room and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 2,645,413

Capital Needs per Unit: \$ 50,873

Projected Year 1 (2014) Operating Income: \$ (8,264)

Current operations at the property are projected to generate negative \$8,300 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 \$2.65 million (\$50,873 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:	209	14%
One-bedroom unit:	219	14%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	450	30%
One-bedroom unit:	482	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: 34

Rental operating subsidy necessary in 2014 to
generate revenue equal to raising the base rent
as proposed: \$ 93,005

Total rental operating subsidy necessary
assuming a turnover-based leasing strategy: \$ 543,479

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 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 34 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 \$93,004 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 \$543,478.

Revenue Adjustments Concurrent with a Recapitalization Transaction

Shad Run Terrace, Shad Run Terrace Ext., continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	34	34
25-50% of AMI	18	18
50% of AMI or greater	0	0
Total number of units	52	52

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.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	450	450
One-bedroom unit:	482	482
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: Shad Run Terrace

Transaction Options

Shad Run Terrace, Shad Run Terrace Ext., continued

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,304,039)	(2,984,531)
Recoverable Grant Scenario:	(4,461,196)	(4,423,638)
CHFA/FHA Scenario:	(4,415,842)	(4,769,211)
4% LIHTC Scenario:	(3,373,233)	(3,722,603)
9% LIHTC Scenario:	(1,522,993)	(1,850,241)

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

Shad Run Terrace, Shad Run Terrace Ext., continued

Recommended Transaction Option:	4% LIHTC	<p>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.</p> <p>This property has been underwritten assuming replacement reserve deposits of \$350 per unit per year, assuming debt service coverage is maintained over 1.101 throughout the first 15 years of the new financing, and assuming hard construction capital needs of \$2.65 million.</p> <p>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.</p>
Recommended Transaction Year	2019	
Replacement Reserve Deposit PUPY:	350	
Debt Service Coverage in Transaction Year:	4.320	
Debt Service Coverage in Transaction Year 15:	1.101	
Pre-Transaction Capital Subsidy Needed:	-	
Transaction Capital Subsidy Needed:	3,373,233	

Summary of Recommended Transaction

Under the 4% LIHTC scenario, the property yields \$62,402 in NOI in the transaction completion year, which includes \$350 per unit per year in replacement reserve deposits. After debt service, the property generates \$42,957 in cash flow in the capital transaction's completion year, trending to \$1,964 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 \$238,000 in debt and \$1,690,000 in equity. The transaction results in a gap of \$3,373,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$2,984,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over \$4,461,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs

Shad Run Terrace, Shad Run Terrace Ext., continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 15,457
 Current Routine Capital Needs: 128,161

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		Operating Subsidy		
		Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2013	143,618	-	-	-	-	-
2014	124,188	-	-	-	93,005	-
2015	66,213	-	-	-	85,378	-
2016	73,355	-	-	-	77,410	-
2017	66,321	-	-	-	69,088	(0)
2018	389,770	-	-	-	60,403	(0)
2019	256,618	-	3,373,233	-	51,342	-
2020	23,127	-	-	-	41,895	(0)
2021	131,209	-	-	-	32,050	(0)
2022	227,140	-	-	-	21,794	-

Year	Annual Capital Needs (per CNA)	Capital Subsidy		Operating Subsidy		
		Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2023	62,828	-	-	-	11,115	(0)
2024	73,448	-	-	-	-	-
2025	82,742	-	-	-	-	-
2026	98,305	-	-	-	-	-
2027	69,120	-	-	-	-	-
2028	81,487	-	-	-	-	-
2029	188,819	-	-	-	-	-
2030	301,077	-	-	-	-	-
2031	79,018	-	-	-	-	-
2032	107,009	-	-	-	-	-

Scenario Pro Formas

Shad Run Terrace, Shad Run Terrace Ext., continued

Income and Expense 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
2023 ANNUAL INCOME										
Gross Potential Rent	245,994	4,730.66	392,485	7,547.80	392,485	7,548	392,485	7,548	392,485	7,548
Vacancy/Loss	(5,985)	(115.10)	(5,985)	(115.10)	(19,624)	(377)	(27,474)	(528)	(27,474)	(528)
Other Income	4,792	92.16	4,792	92.16	4,792	92	4,792	92	4,792	92
Effective Gross Income	244,801	4,707.72	391,293	7,524.86	377,654	7,263	369,804	7,112	369,804	7,112
2023 ANNUAL EXPENSES										
Operating Expenses	274,651	5,282	294,216	5,658	287,278	5,525	286,885	5,517	286,885	5,517
Replacement Reserve Deposits	3,708	71	3,708	71	25,904	498	25,904	498	25,904	498
Total Operating Expenses	278,359	5,353	297,924	5,729	313,182	6,023	312,790	6,015	312,790	6,015
2023 NET OPERATING INCOME	(33,558)	(645)	93,368	1,796	64,472	1,240	57,014	1,096	57,014	1,096
Debt Service	-	-	-	-	27,996	538	19,445	374	16,042	308
2023 CASH FLOW	(33,558)	(645)	93,368	1,796	36,476	701	37,569	722	40,973	788

Sources and Uses 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
SOURCES										
Hard Debt										
Commercial Debt 1	-	-	-	-	487,164	9,369	238,719	4,591	279,148	5,368
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,521,821	29,266	1,521,821	29,266
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	16,227	312	34,427	662	34,427	662	34,427	662
Cash Escrows	-	-	259,223	4,985	291,036	5,597	291,036	5,597	291,036	5,597
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	267,567	5,146	278,010	5,346	276,740	5,322
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,690,186	32,504	3,493,679	67,186
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	275,450	5,297	1,080,194	20,773	4,054,199	77,965	5,896,852	113,401
USES										
Acquisition Costs	-	-	-	-	38,179	734	1,560,000	30,000	1,560,000	30,000
Construction Costs	-	-	3,783,096	72,752	3,783,096	72,752	3,825,020	73,558	3,825,020	73,558
Soft Costs - Design & Construction	-	-	415,688	7,994	409,725	7,879	419,671	8,071	419,671	8,071
Soft Costs - Due Diligence	-	-	14,640	282	24,786	477	29,262	563	29,262	563
Soft Costs - Transaction Costs	-	-	36,727	706	116,727	2,245	258,222	4,966	258,222	4,966
Soft Costs - Financing	-	-	114,839	2,208	342,245	6,582	387,160	7,445	383,026	7,366
Soft Costs - Other	-	-	29,900	575	33,800	650	33,800	650	33,800	650
Soft Cost Contingency	-	-	30,590	588	46,364	892	50,814	977	49,738	957
Reserves	-	-	-	-	32,198	619	168,459	3,240	169,257	3,255
Developer Fee	-	-	311,167	5,984	668,917	12,864	695,026	13,366	691,849	13,305
Total Uses of Funds	-	-	4,736,646	91,089	5,496,036	105,693	7,427,432	142,835	7,419,844	142,689
TRANSACTION SURPLUS (GAP)	-	-	(4,461,196)	(85,792)	(4,415,842)	(84,920)	(3,373,233)	(64,870)	(1,522,993)	(29,288)

Scenario Pro Formas (continued)

Shad Run Terrace, Shad Run Terrace Ext., 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	-	-	2,919,598	56,146	2,919,598	56,146	2,919,598	56,146	2,919,598	56,146
Capital Needs Funded Using Subsidy	2,304,039	44,308	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	269,286	5,179	269,286	5,179	269,286	5,179	269,286	5,179	269,286	5,179
Replacement Reserves	72,088	1,386	72,088	1,386	503,616	9,685	503,616	9,685	503,616	9,685
Total Funds	2,645,413	50,873	3,260,972	62,711	3,692,500	71,010	3,692,500	71,010	3,692,500	71,010
USES										
Estimated Capital Needs	2,645,413	50,873	2,645,413	50,873	2,645,413	50,873	2,645,413	50,873	2,645,413	50,873
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	2,645,413	50,873	2,645,413	50,873	2,645,413	50,873	2,645,413	50,873	2,645,413	50,873
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	615,559	11,838	1,047,087	20,136	1,047,087	20,136	1,047,087	20,136

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	543,479	10,452	543,479	10,452	543,479	10,452	543,479	10,452
Operating Deficit Subsidy Needed	680,492	13,086	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Operating Subsidy	680,492	13,086	543,479	10,452	543,479	10,452	543,479	10,452	543,479	10,452
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,304,039	44,308	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(581,038)	(11,174)	(190,110)	(3,656)	(194,110)	(3,733)	(216,231)	(4,158)
Transaction Capital Subsidy Needed	n/a	n/a	4,461,196	85,792	4,415,842	84,920	3,373,233	64,870	1,522,993	29,288
Total Capital Subsidy	2,304,039	44,308	3,880,159	74,618	4,225,732	81,264	3,179,124	61,137	1,306,762	25,130
TOTAL SUBSIDY NEEDED	2,984,531	57,395	4,423,638	85,070	4,769,211	91,716	3,722,603	71,589	1,850,241	35,582