

### CHFA Capital Plan Property Assessment - Beechwood Gardens

#### Property Identification

Beechwood Gardens  
NEW HAVEN, CT

CHFA Property Identification #: 85120D

Current State Sponsored Housing Program: SH Moderate Rental

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.

Total Current Unit Count: 82

Census Tract: 1409.00

Connecticut Congressional District: 0

#### Property Description

Tenancy Type: Family

Structure Type: Low rise (1-4 floors)

Number of buildings: 10

Maximum # of Stories: 2

Elevator? None

Summary property description:

The Beechwood Gardens property has 82 two-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as owner provided air conditioning and semi-private patios.

#### Current Operating & Capital Needs Status

Aggregate Capital Needs  
(without market enhancements): \$ 2,663,794

Capital Needs per Unit: \$ 32,485

Projected Year 1 (2014) Operating Income: \$ (64,874)

Current operations at the property are projected to generate negative \$64,900 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 \$2.66 million (\$32,485 per unit) over the next 20 years.

# Revenue Adjustments Prior to a Recapitalization Transaction

Beechwood Gardens, continued

Current average income relative to the Area Median Income (AMI): 46%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	675	36%
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	634	34%
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: 82

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: \$ 38,030

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: \$ 222,234

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 82 Family 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 \$38,030 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 \$222,234.

**Revenue Adjustments Concurrent with a Recapitalization Transaction**

Beechwood Gardens, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	82	28
25-50% of AMI	0	27
50% of AMI or greater	0	27
Total number of units	82	82

While the the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy 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.) The capital plan has examined additional revenue adjustments based on an income-tier structure, which could supplement the revenue picture. However, the potential for additional revenue adjustments through income mixing is limited because the market will not support such a strategy.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	634	634
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

An income-tier structure would require a specified number of units to pay a higher base rent, affordable to households with a higher (albeit still low) income. For example, a tier serving households in the 50%-60% of AMI would pay a base rent equal to 30% of the adjusted gross income of a household earning 55% of AMI. The capital plan has adopted income tiers which correspond to CHFA's commonly used affordability thresholds.

As is the case with the base rent analysis, above, in income tier structure makes the units allocated to a higher-income tier unaffordable to those currently served by this housing. As state funds for operating subsidy are limited, the capital plan analysis has assumed that any available operating subsidy will be focused on protecting current residents until they move away from the property. On turnover, households earning incomes consistent with the income tier structure will be offered units on a preferential basis. However, additional operating subsidy beyond that reflected here would mitigate this loss of housing options for lower income households.

Rental operating subsidy in the transaction year  
which would be necessary to generate additional  
revenue equal to that generated by income  
mixing: \$ 68,111

Transitional rental operating subsidy necessary  
to protect current residents and permit a five-  
year transition to income tier occupancy: \$ 173,718

Based on the market conditions reflected in the property market condition assessment, tenants in the 25% to 80% of AMI range are available in the market. This analysis has increased the number of households at the property with incomes between 25% and 80% of AMI from 0 in 2014 to 54 post-transaction, which results in an increase in property revenue. The remaining units would continue to serve residents with incomes below 25% of AMI.

In order to attract the additional households in the 25% to 80% of AMI income tiers, the property condition must meet the market conditions these households would expect. Fortunately, this property would not require significant physical enhancements beyond routine capital improvements in order to attract these potential tenants.

Property used for market reference: Beechwood Gardens

**Transaction Options**

Beechwood Gardens, continued

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,663,794)	(5,560,828)
Recoverable Grant Scenario:	(4,048,402)	(5,466,918)
CHFA/FHA Scenario:	(8,255,616)	(10,380,599)
4% LIHTC Scenario:	(7,098,426)	(9,040,935)
9% LIHTC Scenario:	(5,470,487)	(7,167,971)

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**

Beechwood Gardens, continued

Recommended Transaction Option:	Recoverable Grant	The capital plan recommends using the recoverable grant scenario to finance the capital needs at this property. Given the market conditions around the property, and the limited potential to generate revenue from repositioning the property relative to the market, there is very little potential leverage to be generated by FHA debt or low income housing tax credit equity.
Recommended Transaction Year	2015	
Replacement Reserve Deposit PUPY:	-	This analysis has suggested a potential transaction year of 2015 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.
Debt Service Coverage in Transaction Year:	-	
Debt Service Coverage in Transaction Year 15:	-	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.
Pre-Transaction Capital Subsidy Needed:	-	
Transaction Capital Subsidy Needed:	4,048,402	

**Summary of Recommended Transaction**

Under the Recoverable Grant scenario, the property yields \$13,224 in NOI in the transaction completion year, which includes \$0 per unit per year in replacement reserve deposits. The property generates \$13,224 in cash flow in the capital transaction's completion year, trending to \$-104 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. If there is a recoverable grant, repayment of the recoverable grant would be specified in the transaction documents as a priority use of the funds. The transaction does not support debt or equity leverage. The transaction results in a gap of \$4,048,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$5,560,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance.

**Summary of Capital Needs & State Subsidy Needs**

Beechwood Gardens, continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 12,400  
 Current Routine Capital Needs: 692,837

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	705,237	-	-	-	-	-
2014	460,999	-	-	57,828	38,030	-
2015	192,407	-	4,048,402	65,202	34,912	-
2016	156,966	-	-	-	31,654	68,111
2017	37,960	-	-	-	28,251	52,105
2018	30,361	-	-	-	24,699	35,432
2019	27,024	-	-	6,757	20,994	18,070
2020	27,835	-	-	14,100	17,131	-
2021	53,821	-	-	21,806	13,106	-
2022	55,450	-	-	29,888	8,912	-

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	79,040	-	-	38,362	4,545	-
2024	71,562	-	-	47,242	-	-
2025	46,787	-	-	56,542	-	-
2026	16,332	-	-	66,280	-	-
2027	42,902	-	-	76,470	-	-
2028	179,108	-	-	87,130	-	-
2029	165,724	-	-	98,277	-	-
2030	116,979	-	-	109,929	-	-
2031	109,721	-	-	122,105	-	-
2032	87,578	-	-	134,823	-	-

**Scenario Pro Formas**

Beechwood Gardens, 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
<b>2023 ANNUAL INCOME</b>										
Gross Potential Rent	775,493	9,457.23	892,851	10,888.42	892,851	10,888	892,851	10,888	892,851	10,888
Vacancy/Loss	(87,285)	(1,064.45)	(100,494)	(1,225.54)	(100,494)	(1,226)	(100,494)	(1,226)	(100,494)	(1,226)
Other Income	21,194	258.47	21,194	258.47	21,194	258	21,194	258	21,194	258
<b>Effective Gross Income</b>	<b>709,402</b>	<b>8,651.25</b>	<b>813,551</b>	<b>9,921.35</b>	<b>813,551</b>	<b>9,921</b>	<b>813,551</b>	<b>9,921</b>	<b>813,551</b>	<b>9,921</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	855,126	10,428	851,913	10,389	836,138	10,197	836,138	10,197	836,138	10,197
Replacement Reserve Deposits	-	-	-	-	49,602	605	49,602	605	40,849	498
<b>Total Operating Expenses</b>	<b>855,126</b>	<b>10,428</b>	<b>851,913</b>	<b>10,389</b>	<b>885,740</b>	<b>10,802</b>	<b>885,740</b>	<b>10,802</b>	<b>876,987</b>	<b>10,695</b>
<b>2023 NET OPERATING INCOME</b>	<b>(145,723)</b>	<b>(1,777)</b>	<b>(38,362)</b>	<b>(468)</b>	<b>(72,189)</b>	<b>(880)</b>	<b>(72,189)</b>	<b>(880)</b>	<b>(63,436)</b>	<b>(774)</b>
Debt Service	-	-	-	-	-	-	5,000	61	-	-
<b>2023 CASH FLOW</b>	<b>(145,723)</b>	<b>(1,777)</b>	<b>(38,362)</b>	<b>(468)</b>	<b>(72,189)</b>	<b>(880)</b>	<b>(77,189)</b>	<b>(941)</b>	<b>(63,436)</b>	<b>(774)</b>

**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
<b>SOURCES</b>										
Hard Debt										
Commercial Debt 1	-	-	-	-	-	-	-	-	-	-
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	196,656	2,398	231,506	2,823	231,506	2,823	225,356	2,748
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	256,243	3,125	263,942	3,219	262,784	3,205
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,727,376	21,066	3,345,149	40,794
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>196,656</b>	<b>2,398</b>	<b>487,749</b>	<b>5,948</b>	<b>2,222,824</b>	<b>27,108</b>	<b>3,833,288</b>	<b>46,747</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	3,512,481	42,835	3,512,481	42,835	3,512,481	42,835
Construction Costs	-	-	3,195,984	38,975	3,195,984	38,975	3,231,401	39,407	3,231,401	39,407
Soft Costs - Design & Construction	-	-	353,116	4,306	348,078	4,245	356,480	4,347	356,480	4,347
Soft Costs - Due Diligence	-	-	15,435	188	31,250	381	35,393	432	35,393	432
Soft Costs - Transaction Costs	-	-	217,156	2,648	297,156	3,624	432,987	5,280	432,987	5,280
Soft Costs - Financing	-	-	100,668	1,228	564,923	6,889	577,242	7,040	573,120	6,989
Soft Costs - Other	-	-	47,150	575	53,300	650	53,300	650	53,300	650
Soft Cost Contingency	-	-	36,676	447	64,735	789	67,317	821	66,336	809
Reserves	-	-	-	-	34,850	425	394,794	4,815	385,318	4,699
Developer Fee	-	-	278,872	3,401	640,607	7,812	659,855	8,047	656,959	8,012
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>4,245,057</b>	<b>51,769</b>	<b>8,743,364</b>	<b>106,626</b>	<b>9,321,250</b>	<b>113,674</b>	<b>9,303,776</b>	<b>113,461</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(4,048,402)</b>	<b>(49,371)</b>	<b>(8,255,616)</b>	<b>(100,678)</b>	<b>(7,098,426)</b>	<b>(86,566)</b>	<b>(5,470,487)</b>	<b>(66,713)</b>

**Scenario Pro Formas (continued)**

Beechwood Gardens, 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
<b>FUNDS</b>										
Transaction Rehab	-	-	2,466,495	30,079	2,466,495	30,079	2,466,495	30,079	2,466,495	30,079
Capital Needs Funded Using Subsidy	2,663,794	32,485	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	-	-	-	-	964,342	11,760	964,342	11,760	794,164	9,685
<b>Total Funds</b>	<b>2,663,794</b>	<b>32,485</b>	<b>2,466,495</b>	<b>30,079</b>	<b>3,430,837</b>	<b>41,839</b>	<b>3,430,837</b>	<b>41,839</b>	<b>3,260,659</b>	<b>39,764</b>
<b>USES</b>										
Estimated Capital Needs	2,663,794	32,485	2,663,794	32,485	2,663,794	32,485	2,663,794	32,485	2,663,794	32,485
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>2,663,794</b>	<b>32,485</b>	<b>2,663,794</b>	<b>32,485</b>	<b>2,663,794</b>	<b>32,485</b>	<b>2,663,794</b>	<b>32,485</b>	<b>2,663,794</b>	<b>32,485</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>-</b>	<b>-</b>	<b>(197,299)</b>	<b>(2,406)</b>	<b>767,043</b>	<b>9,354</b>	<b>767,043</b>	<b>9,354</b>	<b>596,865</b>	<b>7,279</b>

**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
<b>OPERATING SUBSIDY</b>										
Base Rent Operating Subsidy Needed	n/a	n/a	222,234	2,710	222,234	2,710	222,234	2,710	222,234	2,710
Operating Deficit Subsidy Needed	2,897,034	35,330	1,032,740	12,594	1,729,031	21,086	1,639,026	19,988	1,400,828	17,083
Income Mixing Operating Subsidy Needed	n/a	n/a	173,718	2,119	173,718	2,119	173,718	2,119	173,718	2,119
<b>Total Operating Subsidy</b>	<b>2,897,034</b>	<b>35,330</b>	<b>1,428,693</b>	<b>17,423</b>	<b>2,124,983</b>	<b>25,914</b>	<b>2,034,979</b>	<b>24,817</b>	<b>1,796,780</b>	<b>21,912</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	2,663,794	32,485	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(10,176)	(124)	-	-	(92,470)	(1,128)	(99,296)	(1,211)
Transaction Capital Subsidy Needed	n/a	n/a	4,048,402	49,371	8,255,616	100,678	7,098,426	86,566	5,470,487	66,713
<b>Total Capital Subsidy</b>	<b>2,663,794</b>	<b>32,485</b>	<b>4,038,225</b>	<b>49,247</b>	<b>8,255,616</b>	<b>100,678</b>	<b>7,005,957</b>	<b>85,438</b>	<b>5,371,191</b>	<b>65,502</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>5,560,828</b>	<b>67,815</b>	<b>5,466,918</b>	<b>66,670</b>	<b>10,380,599</b>	<b>126,593</b>	<b>9,040,935</b>	<b>110,255</b>	<b>7,167,971</b>	<b>87,414</b>