CHFA Capital Plan Property Assessment - Marjorie Moore Village, Percival Hts

Property Identification

Marjorie Moore Village, Percival Hts
BERLIN, CT

Total Current Unit Count:	70
Census Tract:	4003.00
Connecticut Congressional District:	1

CHFA Property Identification #: 85002D, 85003D
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:	Row House
Number of buildings:	7
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The Marjorie Moore Village property has 52 efficiency or studio and 18 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, a business center/computer room and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	1,972,480
Capital Needs per Unit:	$	28,178
Projected Year 1 (2014) Operating Income:	$	34,797

Current operations at the property are projected to generate roughly $34,800 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 results in negative NOI beginning in 2022. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.97 million ($28,178 per unit) over the next 20 years.

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.

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

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	505	34%
One-bedroom unit:	604	38%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	505	34%
One-bedroom unit:	604	38%
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

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	52	52
25-50% of AMI	17	17
50% of AMI or greater	1	1
Total number of units	70	70

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:	505	505
One-bedroom unit:	604	604
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: Percival Heights

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(105,335)	(613,671)
Recoverable Grant Scenario:	(3,654,929)	(4,422,768)
CHFA/FHA Scenario:	(4,332,445)	(4,813,008)
4% LIHTC Scenario:	(3,527,906)	(4,065,731)
9% LIHTC Scenario:	(1,934,547)	(2,472,504)

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	Marjorie Moore Village, Percival Hts, 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:	105,335
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 $105,335 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 $34,797 in NOI in the current year, which includes $0 per unit per year in replacement reserve deposits, trending to negative $41,434 fifteen years thereafter. The transaction results in a capital subsidy need of $105,335 and $508,336 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:	33,463
Current Routine Capital Needs:	166,156

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	**199,619**	105,335	-	-	-	-
2014	**45,919**	-	-	-	-	-
2015	**47,296**	-	-	-	-	-
2016	**53,636**	-	-	-	-	-
2017	**59,721**	-	-	-	-	-
2018	**20,846**	-	-	-	-	-
2019	**133,313**	-	-	-	-	-
2020	**22,724**	-	-	916	-	-
2021	**119,206**	-	-	6,127	-	-
2022	**61,352**	-	-	11,622	-	-

		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	**48,086**	-	-	17,411	-	-
2024	**49,528**	-	-	23,507	-	-
2025	**64,003**	-	-	29,923	-	-
2026	**100,093**	-	-	36,671	-	-
2027	**212,873**	-	-	43,766	-	-
2028	**63,217**	-	-	51,221	-	-
2029	**69,888**	-	-	59,052	-	-
2030	**81,411**	-	-	67,273	-	-
2031	**266,187**	-	-	75,899	-	-
2032	**253,562**	-	-	84,948	-	-

Scenario Pro Formas

Marjorie Moore Village, Percival Hts, continued

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	523,381	7,476.87	563,993	8,057.04	563,993	8,057	563,993	8,057	563,993	8,057
Vacancy/Loss	(1,451)	(20.73)	(1,490)	(21.28)	(28,200)	(403)	(39,480)	(564)	(39,480)	(564)
Other Income	4,371	62.45	4,371	62.45	4,371	62	4,371	62	4,371	62
Effective Gross Income	**526,301**	**7,518.59**	**566,874**	**8,098.21**	**540,165**	**7,717**	**528,885**	**7,555**	**528,885**	**7,555**
2023 ANNUAL EXPENSES										
Operating Expenses	436,904	6,241	428,675	6,124	418,641	5,981	418,077	5,973	418,077	5,973
Replacement Reserve Deposits	97,020	1,386	97,020	1,386	34,871	498	34,871	498	34,871	498
Total Operating Expenses	**533,924**	**7,627**	**525,695**	**7,510**	**453,512**	**6,479**	**452,948**	**6,471**	**452,948**	**6,471**
2023 NET OPERATING INCOME	**(7,623)**	**(109)**	**41,179**	**588**	**86,653**	**1,238**	**75,937**	**1,085**	**75,937**	**1,085**
Debt Service	9,788	140	9,788	140	33,272	475	20,891	298	20,911	299
2023 CASH FLOW	**(17,411)**	**(249)**	**31,391**	**448**	**53,381**	**763**	**55,046**	**786**	**55,026**	**786**

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	-	-	-	-	578,976	8,271	262,610	3,752	363,877	5,198
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,336,435	19,092	1,336,435	19,092
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	62,695	896	87,195	1,246	87,195	1,246	87,195	1,246
Cash Escrows	-	-	212,491	3,036	123,413	1,763	123,413	1,763	123,413	1,763
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	223,954	3,199	233,213	3,332	232,250	3,318
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,558,084	22,258	3,048,423	43,549
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**275,186**	3,931	**1,013,538**	14,479	**3,600,950**	51,442	**5,191,593**	74,166
USES										
Acquisition Costs	-	-	-	-	763,565	10,908	2,100,000	30,000	2,100,000	30,000
Construction Costs	-	-	3,069,563	43,851	3,026,204	43,231	3,059,739	43,711	3,059,739	43,711
Soft Costs - Design & Construction	-	-	339,642	4,852	330,251	4,718	338,207	4,832	338,207	4,832
Soft Costs - Due Diligence	-	-	14,683	210	26,548	379	31,692	453	31,692	453
Soft Costs - Transaction Costs	-	-	83,195	1,189	163,195	2,331	297,388	4,248	297,388	4,248
Soft Costs - Financing	-	-	95,914	1,370	344,214	4,917	384,051	5,486	382,047	5,458
Soft Costs - Other	-	-	40,250	575	45,500	650	45,500	650	45,500	650
Soft Cost Contingency	-	-	28,684	410	45,485	650	49,642	709	48,827	698
Reserves	-	-	-	-	41,136	588	239,605	3,423	242,115	3,459
Developer Fee	-	-	258,183	3,688	559,884	7,998	583,032	8,329	580,625	8,295
Total Uses of Funds	**-**	-	**3,930,115**	56,145	**5,345,982**	76,371	**7,128,856**	101,841	**7,126,140**	101,802
TRANSACTION SURPLUS (GAP)	**-**	-	**(3,654,929)**	(52,213)	**(4,332,445)**	(61,892)	**(3,527,906)**	(50,399)	**(1,934,547)**	(27,636)

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	-	-	2,193,930	31,342	2,160,467	30,864	2,160,467	30,864	2,160,467	30,864
Capital Needs Funded Using Subsidy	105,335	1,505	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	94,284	1,347	94,284	1,347	94,284	1,347	94,284	1,347	94,284	1,347
Replacement Reserves	1,975,673	28,224	1,886,218	26,946	677,945	9,685	677,945	9,685	677,945	9,685
Total Funds	**2,175,292**	**31,076**	**4,174,432**	**59,635**	**2,932,697**	**41,896**	**2,932,697**	**41,896**	**2,932,697**	**41,896**
USES										
Estimated Capital Needs	1,972,480	28,178	1,972,480	28,178	1,972,480	28,178	1,972,480	28,178	1,972,480	28,178
Enhancements	-	-	-	-	175,000	2,500	175,000	2,500	175,000	2,500
Total Uses	**1,972,480**	**28,178**	**1,972,480**	**28,178**	**2,147,480**	**30,678**	**2,147,480**	**30,678**	**2,147,480**	**30,678**
YEAR 20 REPLACEMENT RESERVE BALANCE	**202,812**	**2,897**	**2,201,952**	**31,456**	**785,217**	**11,217**	**785,217**	**11,217**	**785,217**	**11,217**

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	820,899	11,727	820,899	11,727	820,899	11,727	820,899	11,727
Operating Deficit Subsidy Needed	508,336	7,262	60,653	866	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**508,336**	**7,262**	**881,551**	**12,594**	**820,899**	**11,727**	**820,899**	**11,727**	**820,899**	**11,727**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	105,335	1,505	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(113,712)	(1,624)	(340,336)	(4,862)	(283,074)	(4,044)	(282,942)	(4,042)
Transaction Capital Subsidy Needed	n/a	n/a	3,654,929	52,213	4,332,445	61,892	3,527,906	50,399	1,934,547	27,636
Total Capital Subsidy	**105,335**	**1,505**	**3,541,217**	**50,589**	**3,992,109**	**57,030**	**3,244,833**	**46,355**	**1,651,605**	**23,594**
TOTAL SUBSIDY NEEDED	**613,671**	**8,767**	**4,422,768**	**63,182**	**4,813,008**	**68,757**	**4,065,731**	**58,082**	**2,472,504**	**35,321**