

CHFA Capital Plan Property Assessment - Veteran Terrace, Veteran Terrace Ext

Property Identification

Veteran Terrace, Veteran Terrace Ext
EAST HARTFORD, CT

Total Current Unit Count: 150
Census Tract: 5103.00
Connecticut Congressional District: 1

CHFA Property Identification #: 85036D, 85036Z
Current State Sponsored Housing Program: SH Mod Rental Sec 8 Rehab

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: Family
Structure Type: Low rise (1-4 floors)
Number of buildings: 44
Maximum # of Stories: 2
Elevator? None

Summary property description:

The Veteran Terrace property has 97 two-bedroom and 53 three-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as a community room and an outdoor basketball court.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 5,836,385

Capital Needs per Unit: \$ 38,909

Projected Year 1 (2014) Operating Income: \$ 172,807

Current operations at the property are projected to generate roughly \$172,800 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 2027. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$5.84 million (\$38,909 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Veteran Terrace, Veteran Terrace Ext, continued

Current average income relative to the Area Median Income (AMI): 20%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	778	40%
Three-bedroom unit:	843	38%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	778	40%
Three-bedroom unit:	843	38%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

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

Revenue Adjustments Concurrent with a Recapitalization Transaction

Veteran Terrace, Veteran Terrace Ext, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	150	150
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	150	150

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:	778	778
Three-bedroom unit:	843	843
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: Veteran Terrace

Transaction Options

Veteran Terrace, Veteran Terrace Ext, continued

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,436,858)	(2,858,650)
Recoverable Grant Scenario:	(9,644,990)	(13,522,032)
CHFA/FHA Scenario:	(5,883,645)	(11,435,614)
4% LIHTC Scenario:	(4,550,581)	(10,090,223)
9% LIHTC Scenario:	(535,490)	(6,102,112)

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

Veteran Terrace, Veteran Terrace Ext, continued

Recommended Transaction Option:	Current	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.
Recommended Transaction Year	n/a	
Replacement Reserve Deposit PUPY:	484	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 \$2,436,858 over the course of the next 20 years.
Debt Service Coverage in Transaction Year:	-	
Debt Service Coverage in Transaction Year 15:	-	At this time, the "Current Scenario" is the only approach which reasonably covers the property's capital needs given the low rental revenue and/or small size of the property and 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.
Pre-Transaction Capital Subsidy Needed:	2,436,858	
Transaction Capital Subsidy Needed:	-	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 \$172,807 in NOI in the current year, which includes \$484 per unit per year in replacement reserve deposits, trending to negative \$35,941 fifteen years thereafter. The transaction results in a capital subsidy need of \$2,436,858 and \$421,792 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.

Summary of Capital Needs & State Subsidy Needs

Veteran Terrace, Veteran Terrace Ext, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 473,996
 Current Routine Capital Needs: 490,030

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	964,025	734,774	-	-	-	-
2014	1,214,986	969,612	-	-	-	-
2015	419,886	181,724	-	-	-	-
2016	441,662	211,220	-	-	-	-
2017	561,720	339,527	-	-	-	-
2018	113,625	-	-	-	-	-
2019	104,829	-	-	-	-	-
2020	110,053	-	-	-	-	-
2021	102,920	-	-	-	-	-
2022	128,906	-	-	-	-	-

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	452,625	-	-	-	-	-
2024	110,824	-	-	-	-	-
2025	110,954	-	-	-	-	-
2026	103,357	-	-	-	-	-
2027	118,395	-	-	15,418	-	-
2028	211,758	-	-	35,941	-	-
2029	166,135	-	-	57,505	-	-
2030	152,109	-	-	80,151	-	-
2031	119,819	-	-	103,920	-	-
2032	127,798	-	-	128,858	-	-

Scenario Pro Formas

Veteran Terrace, Veteran 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	1,781,014	11,873.43	2,226,268	14,841.79	2,226,268	14,842	2,226,268	14,842	2,226,268	14,842
Vacancy/Loss	(48,540)	(323.60)	(60,675)	(404.50)	(111,313)	(742)	(155,839)	(1,039)	(155,839)	(1,039)
Other Income	9,180	61.20	9,180	61.20	9,180	61	9,180	61	9,180	61
Effective Gross Income	1,741,654	11,611.03	2,174,772	14,498.48	2,124,134	14,161	2,079,609	13,864	2,079,609	13,864
2023 ANNUAL EXPENSES										
Operating Expenses	1,581,338	10,542	1,690,077	11,267	1,650,295	11,002	1,648,069	10,987	1,648,069	10,987
Replacement Reserve Deposits	103,285	689	103,285	689	90,736	605	90,736	605	74,724	498
Total Operating Expenses	1,684,624	11,231	1,793,362	11,956	1,741,031	11,607	1,738,805	11,592	1,722,793	11,485
2023 NET OPERATING INCOME	57,030	380	381,410	2,543	383,103	2,554	340,804	2,272	356,816	2,379
Debt Service	-	-	-	-	226,439	1,510	180,626	1,204	202,054	1,347
2023 CASH FLOW	57,030	380	381,410	2,543	156,664	1,044	160,178	1,068	154,762	1,032

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	-	-	-	-	3,940,342	26,269	2,902,404	19,349	3,516,011	23,440
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	4,785,806	31,905	4,950,318	33,002
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	197,263	1,315	261,013	1,740	261,013	1,740	249,763	1,665
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	513,961	3,426	532,642	3,551	531,193	3,541
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	3,535,385	23,569	6,948,484	46,323
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	197,263	1,315	4,715,317	31,435	12,017,251	80,115	16,195,768	107,972
USES										
Acquisition Costs	-	-	-	-	-	-	4,785,806	31,905	4,950,318	33,002
Construction Costs	-	-	7,739,488	51,597	7,125,304	47,502	7,204,265	48,028	7,204,265	48,028
Soft Costs - Design & Construction	-	-	821,253	5,475	753,777	5,025	771,325	5,142	771,325	5,142
Soft Costs - Due Diligence	-	-	24,287	162	38,550	257	51,888	346	52,085	347
Soft Costs - Transaction Costs	-	-	217,763	1,452	297,763	1,985	471,500	3,143	471,500	3,143
Soft Costs - Financing	-	-	237,297	1,582	728,395	4,856	848,997	5,660	857,178	5,715
Soft Costs - Other	-	-	86,250	575	97,500	650	97,500	650	97,500	650
Soft Cost Contingency	-	-	69,343	462	95,799	639	103,033	687	101,807	679
Reserves	-	-	-	-	176,969	1,180	901,914	6,013	897,297	5,982
Developer Fee	-	-	646,571	4,310	1,284,903	8,566	1,331,604	8,877	1,327,983	8,853
Total Uses of Funds	-	-	9,842,253	65,615	10,598,962	70,660	16,567,832	110,452	16,731,259	111,542
TRANSACTION SURPLUS (GAP)	-	-	(9,644,990)	(64,300)	(5,883,645)	(39,224)	(4,550,581)	(30,337)	(535,490)	(3,570)

Scenario Pro Formas (continued)

Veteran Terrace, Veteran 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	-	-	5,972,937	39,820	5,498,941	36,660	5,498,941	36,660	5,498,941	36,660
Capital Needs Funded Using Subsidy	2,436,858	16,246	108,193	721	108,193	721	108,193	721	108,193	721
Existing Replacement Reserve Balance	229,251	1,528	229,251	1,528	229,251	1,528	229,251	1,528	229,251	1,528
Replacement Reserves	3,267,458	21,783	2,008,016	13,387	1,764,041	11,760	1,764,041	11,760	1,452,740	9,685
Total Funds	5,933,567	39,557	8,318,396	55,456	7,600,426	50,670	7,600,426	50,670	7,289,124	48,594
USES										
Estimated Capital Needs	5,836,385	38,909	5,836,385	38,909	5,836,385	38,909	5,836,385	38,909	5,836,385	38,909
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	5,836,385	38,909	5,836,385	38,909	5,836,385	38,909	5,836,385	38,909	5,836,385	38,909
YEAR 20 REPLACEMENT RESERVE BALANCE	97,182	648	2,482,011	16,547	1,764,041	11,760	1,764,041	11,760	1,452,740	9,685

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	6,414,077	42,761	6,414,077	42,761	6,414,077	42,761	6,414,077	42,761
Operating Deficit Subsidy Needed	421,792	2,812	-	-	1,965	13	1,965	13	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	421,792	2,812	6,414,077	42,761	6,416,042	42,774	6,416,042	42,774	6,414,077	42,761
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,436,858	16,246	108,193	721	108,193	721	108,193	721	108,193	721
Recoverable Cash Flow	n/a	n/a	(2,645,227)	(17,635)	(972,266)	(6,482)	(984,593)	(6,564)	(955,648)	(6,371)
Transaction Capital Subsidy Needed	n/a	n/a	9,644,990	64,300	5,883,645	39,224	4,550,581	30,337	535,490	3,570
Total Capital Subsidy	2,436,858	16,246	7,107,955	47,386	5,019,572	33,464	3,674,181	24,495	(311,965)	(2,080)
TOTAL SUBSIDY NEEDED	2,858,650	19,058	13,522,032	90,147	11,435,614	76,237	10,090,223	67,268	6,102,112	40,681