

CHFA Capital Plan Property Assessment - Armstrong Court

Property Identification

Armstrong Court
GREENWICH, CT

Total Current Unit Count: 144
Census Tract: 105.00
Connecticut Congressional District: 4

CHFA Property Identification #: 85060D

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.

Property Description

Tenancy Type: Family
Structure Type: Low rise (1-4 floors)
Number of buildings: 6
Maximum # of Stories: 3
Elevator? None

Summary property description:

The Armstrong Court property has 12 one-bedroom, 109 two-bedroom and 23 three-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, an outdoor playground and basketball court, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 13,913,394

Capital Needs per Unit: \$ 96,621

Projected Year 1 (2014) Operating Income: \$ (2,509)

Current operations at the property are projected to generate negative \$2,500 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 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 \$13.91 million (\$96,620 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Armstrong Court, continued

Current average income relative to
the Area Median Income (AMI): 25%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	371	16%
Two-bedroom unit:	423	15%
Three-bedroom unit:	466	15%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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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

Total rental operating subsidy necessary
assuming a turnover-based leasing strategy: n/a

Revenue Adjustments Concurrent with a Recapitalization Transaction

Armstrong Court, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	87	87
25-50% of AMI	44	44
50% of AMI or greater	13	13
Total number of units	144	144

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:	371	371
Two-bedroom unit:	423	423
Three-bedroom unit:	466	466
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: Armstrong Court

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(10,513,823)	(13,508,069)
Recoverable Grant Scenario:	(20,319,414)	(20,424,087)
CHFA/FHA Scenario:	(17,891,484)	(19,739,441)
4% LIHTC Scenario:	(13,376,048)	(14,851,136)
9% LIHTC Scenario:	(5,115,668)	(6,609,267)

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

Armstrong Court, continued

Recommended Transaction Option:	Current	
Recommended Transaction Year	n/a	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.
Replacement Reserve Deposit PUPY:	780	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 \$10,513,823 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:	10,513,823	
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 negative \$2,509 in NOI in the current year, which includes \$780 per unit per year in replacement reserve deposits, trending to negative \$252,734 fifteen years thereafter. The transaction results in a capital subsidy need of \$10,513,823 and \$2,994,246 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

Armstrong Court, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 30,300
 Current Routine Capital Needs: 546,219

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	576,519	285,276	-	-	-	-
2014	3,280,523	3,168,193	-	2,509	-	-
2015	1,243,910	1,127,086	-	15,324	-	-
2016	1,173,020	1,051,523	-	28,801	-	-
2017	1,009,849	883,492	-	42,966	-	-
2018	605,472	474,061	-	57,846	-	-
2019	154,750	18,083	-	73,470	-	-
2020	125,540	-	-	89,866	-	-
2021	139,129	-	-	107,066	-	-
2022	494,269	315,251	-	125,100	-	-

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	518,390	358,509	-	144,001	-	-
2024	497,787	331,510	-	163,802	-	-
2025	543,802	370,874	-	184,540	-	-
2026	598,862	419,017	-	206,249	-	-
2027	392,590	205,551	-	228,968	-	-
2028	966,494	771,973	-	252,734	-	-
2029	304,690	102,388	-	277,590	-	-
2030	378,775	168,382	-	303,575	-	-
2031	496,567	277,758	-	330,733	-	-
2032	412,457	184,896	-	359,109	-	-

Scenario Pro Formas

Armstrong Court, 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	1,352,468	9,392.14	1,911,604	13,275.03	1,911,604	13,275	1,911,604	13,275	1,911,604	13,275
Vacancy/Loss	(10,108)	(70.19)	(10,108)	(70.19)	(95,580)	(664)	(133,812)	(929)	(133,812)	(929)
Other Income	45,934	318.98	45,934	318.98	45,934	319	45,934	319	45,934	319
Effective Gross Income	1,388,294	9,640.93	1,947,430	13,523.82	1,861,958	12,930	1,823,725	12,665	1,823,725	12,665
2023 ANNUAL EXPENSES										
Operating Expenses	1,372,413	9,531	1,469,785	10,207	1,429,686	9,928	1,427,775	9,915	1,427,775	9,915
Replacement Reserve Deposits	159,882	1,110	159,882	1,110	87,107	605	87,107	605	71,735	498
Total Operating Expenses	1,532,295	10,641	1,629,666	11,317	1,516,793	10,533	1,514,881	10,520	1,499,509	10,413
2023 NET OPERATING INCOME	(144,001)	(1,000)	317,764	2,207	345,165	2,397	308,844	2,145	324,216	2,251
Debt Service	-	-	-	-	236,257	1,641	197,063	1,368	215,881	1,499
2023 CASH FLOW	(144,001)	(1,000)	317,764	2,207	108,907	756	111,781	776	108,335	752

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	-	-	-	-	4,111,198	28,550	3,174,049	22,042	3,756,630	26,088
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	4,441,463	30,843	4,587,479	31,857
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	38,905	270	100,105	695	100,105	695	89,305	620
Cash Escrows	-	-	291,243	2,023	291,243	2,023	291,243	2,023	291,243	2,023
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	1,152,348	8,002	1,181,821	8,207	1,177,187	8,175
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	6,724,903	46,701	14,393,359	99,954
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	330,148	2,293	5,654,893	39,270	15,913,584	110,511	24,295,203	168,717
USES										
Acquisition Costs	-	-	-	-	-	-	4,441,463	30,843	4,587,479	31,857
Construction Costs	-	-	16,850,532	117,018	16,850,532	117,018	17,037,266	118,314	17,037,266	118,314
Soft Costs - Design & Construction	-	-	1,655,608	11,497	1,629,048	11,313	1,670,547	11,601	1,670,547	11,601
Soft Costs - Due Diligence	-	-	34,921	243	49,621	345	62,374	433	62,550	434
Soft Costs - Transaction Costs	-	-	59,405	413	139,405	968	406,959	2,826	406,959	2,826
Soft Costs - Financing	-	-	493,447	3,427	1,550,848	10,770	1,670,427	11,600	1,665,713	11,567
Soft Costs - Other	-	-	82,800	575	93,600	650	93,600	650	93,600	650
Soft Cost Contingency	-	-	116,309	808	173,126	1,202	179,039	1,243	175,116	1,216
Reserves	-	-	-	-	179,329	1,245	773,404	5,371	768,673	5,338
Developer Fee	-	-	1,356,541	9,420	2,880,869	20,006	2,954,552	20,518	2,942,968	20,437
Total Uses of Funds	-	-	20,649,562	143,400	23,546,377	163,517	29,289,633	203,400	29,410,871	204,242
TRANSACTION SURPLUS (GAP)	-	-	(20,319,414)	(141,107)	(17,891,484)	(124,246)	(13,376,048)	(92,889)	(5,115,668)	(35,525)

Scenario Pro Formas (continued)

Armstrong Court, 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	-	-	13,004,369	90,308	13,004,369	90,308	13,004,369	90,308	13,004,369	90,308
Capital Needs Funded Using Subsidy	10,513,823	73,013	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	291,243	2,023	291,243	2,023	291,243	2,023	291,243	2,023	291,243	2,023
Replacement Reserves	3,108,328	21,586	3,108,328	21,586	1,693,479	11,760	1,693,479	11,760	1,394,630	9,685
Total Funds	13,913,394	96,621	16,403,940	113,916	14,989,092	104,091	14,989,092	104,091	14,690,242	102,016
USES										
Estimated Capital Needs	13,913,394	96,621	13,913,394	96,621	13,913,394	96,621	13,913,394	96,621	13,913,394	96,621
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	13,913,394	96,621	13,913,394	96,621	13,913,394	96,621	13,913,394	96,621	13,913,394	96,621
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	2,490,546	17,295	1,075,698	7,470	1,075,698	7,470	776,848	5,395

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	2,638,831	18,325	2,638,831	18,325	2,638,831	18,325	2,638,831	18,325
Operating Deficit Subsidy Needed	2,994,246	20,793	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	2,994,246	20,793	2,638,831	18,325	2,638,831	18,325	2,638,831	18,325	2,638,831	18,325
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	10,513,823	73,013	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(2,534,158)	(17,598)	(790,874)	(5,492)	(1,163,743)	(8,082)	(1,145,232)	(7,953)
Transaction Capital Subsidy Needed	n/a	n/a	20,319,414	141,107	17,891,484	124,246	13,376,048	92,889	5,115,668	35,525
Total Capital Subsidy	10,513,823	73,013	17,785,257	123,509	17,100,610	118,754	12,212,306	84,808	3,970,436	27,572
TOTAL SUBSIDY NEEDED	13,508,069	93,806	20,424,087	141,834	19,739,441	137,079	14,851,136	103,133	6,609,267	45,898