

CHFA Capital Plan Property Assessment - Gordon/Riozzi Courts

Property Identification

Gordon/Riozzi Courts
NEW LONDON, CT

CHFA Property Identification #: 85129D
Current State Sponsored Housing Program: SH Elderly

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: 80
Census Tract: 6903.00
Connecticut Congressional District: 0

Property Description

Tenancy Type: Elderly/Disabled
Structure Type: Multi Unit Pods
Number of buildings: 19
Maximum # of Stories: 1
Elevator? None

Summary property description:

The Gordon/Riozzi Courts property has 50 efficiency or studio and 30 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 4,314,265

Capital Needs per Unit: \$ 53,928

Projected Year 1 (2014) Operating Income: \$ (88,076)

Current operations at the property are projected to generate negative \$88,100 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 \$4.31 million (\$53,928 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Gordon/Riozzi Courts, continued

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

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	325	22%
One-bedroom unit:	340	22%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	325	22%
One-bedroom unit:	340	22%
Two-bedroom unit:		
Three-bedroom unit:		
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

Gordon/Riozzi Courts, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	62	62
25-50% of AMI	17	17
50% of AMI or greater	1	1
Total number of units	80	80

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:	325	325
One-bedroom unit:	340	340
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: Gordon/Riozzi Court

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(4,314,265)	(7,405,165)
Recoverable Grant Scenario:	(7,176,606)	(11,358,267)
CHFA/FHA Scenario:	(6,598,780)	(11,810,922)
4% LIHTC Scenario:	(5,113,377)	(10,326,634)
9% LIHTC Scenario:	(2,266,320)	(7,479,511)

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

Gordon/Riozzi Courts, 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:	-	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 \$4,314,265 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 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:	4,314,265	
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 \$88,076 in NOI in the current year, which includes \$0 per unit per year in replacement reserve deposits, trending to negative \$207,768 fifteen years thereafter. The transaction results in a capital subsidy need of \$4,314,265 and \$3,090,900 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

Gordon/Riozzi Courts, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 403,750
 Current Routine Capital Needs: 983,887

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	1,387,637	1,387,637	-	-	-	-
2014	241,137	241,137	-	88,076	-	-
2015	273,929	273,929	-	94,579	-	-
2016	58,803	58,803	-	101,353	-	-
2017	76,057	76,057	-	108,410	-	-
2018	422,041	422,041	-	115,759	-	-
2019	15,431	15,431	-	123,410	-	-
2020	7,416	7,416	-	131,374	-	-
2021	53,521	53,521	-	139,663	-	-
2022	2,075	2,075	-	148,287	-	-

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	83,917	83,917	-	157,258	-	-
2024	485,863	485,863	-	166,589	-	-
2025	31,109	31,109	-	176,293	-	-
2026	15,634	15,634	-	186,381	-	-
2027	85,077	85,077	-	196,868	-	-
2028	90,934	90,934	-	207,768	-	-
2029	265,387	265,387	-	219,094	-	-
2030	74,693	74,693	-	230,863	-	-
2031	261,826	261,826	-	243,088	-	-
2032	381,779	381,779	-	255,786	-	-

Scenario Pro Formas

Gordon/Riozzi Courts, 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	437,961	5,474.51	829,353	10,366.91	829,353	10,367	829,353	10,367	829,353	10,367
Vacancy/Loss	(12,325)	(154.06)	(18,345)	(229.31)	(41,468)	(518)	(58,055)	(726)	(58,055)	(726)
Other Income	35,694	446.18	35,694	446.18	35,694	446	35,694	446	35,694	446
Effective Gross Income	461,331	5,766.63	846,702	10,583.78	823,579	10,295	806,992	10,087	806,992	10,087
2023 ANNUAL EXPENSES										
Operating Expenses	618,589	7,732	660,924	8,262	644,720	8,059	643,890	8,049	643,890	8,049
Replacement Reserve Deposits	-	-	-	-	39,853	498	39,853	498	39,853	498
Total Operating Expenses	618,589	7,732	660,924	8,262	684,573	8,557	683,743	8,547	683,743	8,547
2023 NET OPERATING INCOME	(157,258)	(1,966)	185,778	2,322	139,007	1,738	123,249	1,541	123,249	1,541
Debt Service	-	-	-	-	69,010	863	51,294	641	51,284	641
2023 CASH FLOW	(157,258)	(1,966)	185,778	2,322	69,997	875	71,955	899	71,965	900

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	-	-	-	-	1,200,870	15,011	765,050	9,563	892,416	11,155
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,400,000	30,000	2,400,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	68,218	853	96,218	1,203	96,218	1,203	96,218	1,203
Cash Escrows	-	-	-	-	28,000	350	28,000	350	28,000	350
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	407,794	5,097	421,778	5,272	419,948	5,249
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	2,553,089	31,914	5,266,160	65,827
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	68,218	853	1,732,882	21,661	6,264,134	78,302	9,102,743	113,784
USES										
Acquisition Costs	-	-	-	-	-	-	2,400,000	30,000	2,400,000	30,000
Construction Costs	-	-	5,766,317	72,079	5,766,317	72,079	5,830,218	72,878	5,830,218	72,878
Soft Costs - Design & Construction	-	-	627,052	7,838	617,963	7,725	633,123	7,914	633,123	7,914
Soft Costs - Due Diligence	-	-	18,420	230	29,920	374	36,876	461	36,876	461
Soft Costs - Transaction Costs	-	-	88,718	1,109	168,718	2,109	329,345	4,117	329,345	4,117
Soft Costs - Financing	-	-	174,638	2,183	544,118	6,801	610,791	7,635	605,968	7,575
Soft Costs - Other	-	-	46,000	575	52,000	650	52,000	650	52,000	650
Soft Cost Contingency	-	-	47,741	597	70,636	883	75,776	947	74,228	928
Reserves	-	-	-	-	62,505	781	354,937	4,437	357,433	4,468
Developer Fee	-	-	475,937	5,949	1,019,485	12,744	1,054,444	13,181	1,049,871	13,123
Total Uses of Funds	-	-	7,244,824	90,560	8,331,662	104,146	11,377,511	142,219	11,369,062	142,113
TRANSACTION SURPLUS (GAP)	-	-	(7,176,606)	(89,708)	(6,598,780)	(82,485)	(5,113,377)	(63,917)	(2,266,320)	(28,329)

Scenario Pro Formas (continued)

Gordon/Riozzi Courts, 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	-	-	4,450,146	55,627	4,450,146	55,627	4,450,146	55,627	4,450,146	55,627
Capital Needs Funded Using Subsidy	4,314,265	53,928	15,900	199	15,900	199	15,900	199	15,900	199
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	-	-	-	-	774,794	9,685	774,794	9,685	774,794	9,685
Total Funds	4,314,265	53,928	4,466,046	55,826	5,240,840	65,510	5,240,840	65,510	5,240,840	65,510
USES										
Estimated Capital Needs	4,314,265	53,928	4,314,265	53,928	4,314,265	53,928	4,314,265	53,928	4,314,265	53,928
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	4,314,265	53,928	4,314,265	53,928	4,314,265	53,928	4,314,265	53,928	4,314,265	53,928
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	151,780	1,897	926,575	11,582	926,575	11,582	926,575	11,582

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	5,290,200	66,128	5,290,200	66,128	5,290,200	66,128	5,290,200	66,128
Operating Deficit Subsidy Needed	3,090,900	38,636	115,371	1,442	303,349	3,792	312,207	3,903	312,207	3,903
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	3,090,900	38,636	5,405,571	67,570	5,593,549	69,919	5,602,408	70,030	5,602,408	70,030
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	4,314,265	53,928	15,900	199	15,900	199	15,900	199	15,900	199
Recoverable Cash Flow	n/a	n/a	(1,239,811)	(15,498)	(397,307)	(4,966)	(405,051)	(5,063)	(405,116)	(5,064)
Transaction Capital Subsidy Needed	n/a	n/a	7,176,606	89,708	6,598,780	82,485	5,113,377	63,917	2,266,320	28,329
Total Capital Subsidy	4,314,265	53,928	5,952,695	74,409	6,217,373	77,717	4,724,226	59,053	1,877,104	23,464
TOTAL SUBSIDY NEEDED	7,405,165	92,565	11,358,267	141,978	11,810,922	147,637	10,326,634	129,083	7,479,511	93,494