

CHFA Capital Plan Property Assessment - Ludlow (Commons) Square Congregate

Property Identification

Ludlow (Commons) Square Congregate
NORWALK, CT

Total Current Unit Count: 44
Census Tract: 442.00
Connecticut Congressional District: 4

CHFA Property Identification #: 96083D
Current State Sponsored Housing Program: SH Congregate

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: Congregate
Structure Type: Low rise (1-4 floors)
Number of buildings: 1
Maximum # of Stories: 4
Elevator? Yes

Summary property description:

The Ludlow (Commons) Square Congregate property has 44 one-bedroom units. Generally, the property consists of spacious units at 700 sf. It features amenities such as refrigerator and stove, common laundry, and a common area kitchen.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 2,678,488

Capital Needs per Unit: \$ 60,875

Projected Year 1 (2014) Operating Income: \$ (47,188)

Current operations at the property are projected to generate negative \$47,200 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 \$2.68 million (\$60,874 per unit) over the next 20 years.

Owner Comments to Property Assessment:

Property Assessment Comments:

-Owner would appreciate keeping the current occupants
-Owner believes this property should be considered for State moderate rehabilitation as the property has no financial ability to repay any debt

CNA Comments:

-CNA states commercial kitchen should be replaced in year 3; did not see included on the comprehensive CNA schedule
-Congregate sites need furnishings for the dining and community room, library and halls that need to be included (only the Community Room was included)

RECAP Response: The comment period for issues related to the CNAs occurred when the draft CNAs were distributed to the person designated by the owner to review the CNA several months ago, so we are not able to revise CNAs at this time. However, given that the CNA impacts the property analysis, Recap has included the owner comments regarding the CNA to the property assessment so their concerns will be noted.

Revenue Adjustments Prior to a Recapitalization Transaction

Ludlow (Commons) Square Congregate, continued

Current average income relative to
the Area Median Income (AMI): 15%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	620	27%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	620	27%
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

Ludlow (Commons) Square Congregate, continued

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

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:	620	620
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: Ludlow (Commons) Square Con

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,020,520)	(3,101,048)
Recoverable Grant Scenario:	(3,071,848)	(5,629,145)
CHFA/FHA Scenario:	(2,125,032)	(4,920,010)
4% LIHTC Scenario:	(1,605,589)	(4,294,000)
9% LIHTC Scenario:	(224,226)	(2,911,332)

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

Ludlow (Commons) Square Congregate, 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	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 \$1,020,520 over the course of the next 20 years.
Replacement Reserve Deposit PUPY:	-	
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 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:	1,020,520	
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 \$47,188 in NOI in the current year, which includes \$0 per unit per year in replacement reserve deposits, trending to negative \$147,464 fifteen years thereafter. The transaction results in a capital subsidy need of \$1,020,000 and \$2,080,000 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

Ludlow (Commons) Square Congregate, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 0
 Current Routine Capital Needs: 318,006

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	318,006	215,697	-	-	-	-
2014	100,259	44,040	-	47,188	-	-
2015	84,329	25,861	-	52,468	-	-
2016	176,859	116,052	-	57,995	-	-
2017	43,364	-	-	63,779	-	-
2018	292,206	206,562	-	69,829	-	-
2019	37,294	-	-	76,156	-	-
2020	85,401	-	-	82,771	-	-
2021	172,338	81,517	-	89,684	-	-
2022	75,667	-	-	96,908	-	-

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	80,010	-	-	104,454	-	-
2024	132,350	47,850	-	112,334	-	-
2025	26,817	-	-	120,562	-	-
2026	38,592	-	-	129,150	-	-
2027	18,842	-	-	138,113	-	-
2028	176,971	-	-	147,464	-	-
2029	88,179	-	-	157,219	-	-
2030	304,455	79,790	-	167,393	-	-
2031	305,616	196,107	-	178,001	-	-
2032	120,935	7,045	-	189,060	-	-

Scenario Pro Formas

Ludlow (Commons) Square Congregate, 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	407,031	9,250.70	586,215	13,323.07	586,215	13,323	586,215	13,323	586,215	13,323
Vacancy/Loss	(2,382)	(54.14)	(3,097)	(70.39)	(29,311)	(666)	(41,035)	(933)	(41,035)	(933)
Other Income	4,785	108.75	4,785	108.75	4,785	109	4,785	109	4,785	109
Effective Gross Income	409,434	9,305.31	587,903	13,361.43	561,689	12,766	549,965	12,499	549,965	12,499
2023 ANNUAL EXPENSES										
Operating Expenses	433,870	9,861	448,490	10,193	434,507	9,875	433,921	9,862	433,921	9,862
Replacement Reserve Deposits	80,018	1,819	80,018	1,819	21,919	498	21,919	498	21,919	498
Total Operating Expenses	513,887	11,679	528,508	12,012	456,426	10,373	455,840	10,360	455,840	10,360
2023 NET OPERATING INCOME	(104,454)	(2,374)	59,395	1,350	105,263	2,392	94,125	2,139	94,125	2,139
Debt Service	-	-	-	-	76,501	1,739	64,929	1,476	64,923	1,476
2023 CASH FLOW	(104,454)	(2,374)	59,395	1,350	28,762	654	29,196	664	29,202	664

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	-	-	-	-	1,331,224	30,255	990,388	22,509	1,129,747	25,676
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,558,150	35,413	1,558,150	35,413
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	30,689	697	46,089	1,047	46,089	1,047	46,089	1,047
Cash Escrows	-	-	102,309	2,325	102,309	2,325	102,309	2,325	102,309	2,325
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	184,202	4,186	193,061	4,388	192,324	4,371
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,260,330	28,644	2,502,592	56,877
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	132,998	3,023	1,663,824	37,814	4,150,327	94,326	5,531,211	125,709
USES										
Acquisition Costs	-	-	-	-	-	-	1,558,150	35,413	1,558,150	35,413
Construction Costs	-	-	2,523,468	57,352	2,523,468	57,352	2,551,432	57,987	2,551,432	57,987
Soft Costs - Design & Construction	-	-	281,442	6,396	277,464	6,306	284,098	6,457	284,098	6,457
Soft Costs - Due Diligence	-	-	12,728	289	22,428	510	26,531	603	26,531	603
Soft Costs - Transaction Costs	-	-	51,189	1,163	131,189	2,982	260,533	5,921	260,533	5,921
Soft Costs - Financing	-	-	77,761	1,767	255,778	5,813	298,107	6,775	297,599	6,764
Soft Costs - Other	-	-	25,300	575	28,600	650	28,600	650	28,600	650
Soft Cost Contingency	-	-	22,421	510	35,773	813	40,288	916	39,664	901
Reserves	-	-	-	-	53,651	1,219	225,524	5,126	228,021	5,182
Developer Fee	-	-	210,537	4,785	460,505	10,466	482,652	10,969	480,809	10,927
Total Uses of Funds	-	-	3,204,846	72,837	3,788,855	86,110	5,755,916	130,816	5,755,437	130,805
TRANSACTION SURPLUS (GAP)	-	-	(3,071,848)	(69,815)	(2,125,032)	(48,296)	(1,605,589)	(36,491)	(224,226)	(5,096)

Scenario Pro Formas (continued)

Ludlow (Commons) Square Congregate, 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	-	-	1,947,482	44,261	1,947,482	44,261	1,947,482	44,261	1,947,482	44,261
Capital Needs Funded Using Subsidy	1,020,520	23,194	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	102,309	2,325	102,309	2,325	102,309	2,325	102,309	2,325	102,309	2,325
Replacement Reserves	1,555,659	35,356	1,555,659	35,356	426,137	9,685	426,137	9,685	426,137	9,685
Total Funds	2,678,488	60,875	3,605,450	81,942	2,475,928	56,271	2,475,928	56,271	2,475,928	56,271
USES										
Estimated Capital Needs	2,678,488	60,875	2,678,488	60,875	2,678,488	60,875	2,678,488	60,875	2,678,488	60,875
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	2,678,488	60,875	2,678,488	60,875	2,678,488	60,875	2,678,488	60,875	2,678,488	60,875
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	926,962	21,067	(202,560)	(4,604)	(202,560)	(4,604)	(202,560)	(4,604)

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	3,020,756	68,654	3,020,756	68,654	3,020,756	68,654	3,020,756	68,654
Operating Deficit Subsidy Needed	2,080,528	47,285	17,055	388	281	6	2,020	46	2,014	46
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	2,080,528	47,285	3,037,811	69,041	3,021,037	68,660	3,022,776	68,699	3,022,770	68,699
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,020,520	23,194	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(480,514)	(10,921)	(226,059)	(5,138)	(334,365)	(7,599)	(335,664)	(7,629)
Transaction Capital Subsidy Needed	n/a	n/a	3,071,848	69,815	2,125,032	48,296	1,605,589	36,491	224,226	5,096
Total Capital Subsidy	1,020,520	23,194	2,591,334	58,894	1,898,973	43,158	1,271,224	28,891	(111,438)	(2,533)
TOTAL SUBSIDY NEEDED	3,101,048	70,478	5,629,145	127,935	4,920,010	111,818	4,294,000	97,591	2,911,332	66,167