

CHFA Capital Plan Property Assessment - Harry Schwartz Manor/Eastwood Court

Property Identification

Harry Schwartz Manor/Eastwood Court
NORWICH, CT

Total Current Unit Count: 73
Census Tract: 6970.00
Connecticut Congressional District: 0

CHFA Property Identification #: 85140D, 85141D

Current State Sponsored Housing Program: SH Elderly

These properties were originally financed separately and appear 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: Multi Unit Pods
Number of buildings: 16
Maximum # of Stories: 1
Elevator? None

Summary property description:

The Harry Schwartz Manor/Eastwood Court property has 49 efficiency or studio and 24 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 3,015,418

Capital Needs per Unit: \$ 41,307

Projected Year 1 (2014) Operating Income: \$ (4,614)

Current operations at the property are projected to generate negative \$4,600 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 \$3.02 million (\$41,307 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Harry Schwartz Manor/Eastwood Court, continued

Current average income relative to
the Area Median Income (AMI): 19%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	325	22%
One-bedroom unit:	330	21%
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:	330	21%
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

Harry Schwartz Manor/Eastwood Court, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	67	67
25-50% of AMI	6	6
50% of AMI or greater	0	0
Total number of units	73	73

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:	330	330
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: Eastwood Court

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(699,153)	(1,918,739)
Recoverable Grant Scenario:	(4,365,509)	(6,605,017)
CHFA/FHA Scenario:	(3,591,567)	(5,237,766)
4% LIHTC Scenario:	(2,199,925)	(3,911,304)
9% LIHTC Scenario:	(66,729)	(1,747,530)

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

Harry Schwartz Manor/Eastwood 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:	-	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 \$699,153 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:	699,153	
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 \$4,614 in NOI in the current year, which includes \$0 per unit per year in replacement reserve deposits, trending to negative \$100,883 fifteen years thereafter. The transaction results in a capital subsidy need of \$699,153 and \$1,219,586 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

Harry Schwartz Manor/Eastwood Court, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 172,163
 Current Routine Capital Needs: 106,395

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	278,557	-	-	-	-	-
2014	536,247	181,612	-	4,614	-	-
2015	489,304	370,793	-	9,462	-	-
2016	270,001	146,749	-	14,572	-	-
2017	62,505	-	-	19,956	-	-
2018	97,818	-	-	25,625	-	-
2019	237,240	-	-	31,591	-	-
2020	33,365	-	-	37,866	-	-
2021	144,195	-	-	44,465	-	-
2022	37,895	-	-	51,399	-	-

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	53,806	-	-	58,683	-	-
2024	53,141	-	-	66,332	-	-
2025	39,891	-	-	74,360	-	-
2026	39,840	-	-	82,784	-	-
2027	49,079	-	-	91,619	-	-
2028	53,098	-	-	100,883	-	-
2029	85,420	-	-	110,593	-	-
2030	103,866	-	-	120,768	-	-
2031	59,164	-	-	131,426	-	-
2032	290,987	-	-	142,587	-	-

Scenario Pro Formas

Harry Schwartz Manor/Eastwood 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	411,985	5,643.62	494,353	6,771.96	494,353	6,772	494,353	6,772	494,353	6,772
Vacancy/Loss	(8,082)	(110.71)	(8,082)	(110.71)	(24,718)	(339)	(34,605)	(474)	(34,605)	(474)
Other Income	22,730	311.38	22,730	311.38	22,730	311	22,730	311	22,730	311
Effective Gross Income	426,633	5,844.29	509,002	6,972.63	492,366	6,745	482,479	6,609	482,479	6,609
2023 ANNUAL EXPENSES										
Operating Expenses	323,125	4,426	348,575	4,775	340,363	4,663	339,869	4,656	339,869	4,656
Replacement Reserve Deposits	162,191	2,222	162,191	2,222	36,366	498	36,366	498	36,366	498
Total Operating Expenses	485,316	6,648	510,766	6,997	376,729	5,161	376,234	5,154	376,234	5,154
2023 NET OPERATING INCOME	(58,683)	(804)	(1,765)	(24)	115,637	1,584	106,245	1,455	106,245	1,455
Debt Service	-	-	-	-	74,125	1,015	73,007	1,000	68,930	944
2023 CASH FLOW	(58,683)	(804)	(1,765)	(24)	41,513	569	33,237	455	37,314	511

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	-	-	-	-	1,289,868	17,669	1,123,892	15,396	1,199,478	16,431
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,152,000	29,479	2,152,000	29,479
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	52,940	725	78,490	1,075	78,490	1,075	78,490	1,075
Cash Escrows	-	-	503,705	6,900	503,705	6,900	503,705	6,900	503,705	6,900
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	278,197	3,811	289,822	3,970	288,414	3,951
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	2,005,295	27,470	4,055,982	55,561
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	556,645	7,625	2,150,260	29,456	6,153,205	84,290	8,278,069	113,398
USES										
Acquisition Costs	-	-	-	-	38,000	521	2,190,000	30,000	2,190,000	30,000
Construction Costs	-	-	3,887,129	53,248	3,887,129	53,248	3,930,205	53,838	3,930,205	53,838
Soft Costs - Design & Construction	-	-	426,776	5,846	420,649	5,762	430,868	5,902	430,868	5,902
Soft Costs - Due Diligence	-	-	15,815	217	27,010	370	33,294	456	33,294	456
Soft Costs - Transaction Costs	-	-	73,440	1,006	153,440	2,102	295,938	4,054	295,938	4,054
Soft Costs - Financing	-	-	119,778	1,641	359,636	4,927	423,591	5,803	419,512	5,747
Soft Costs - Other	-	-	41,975	575	47,450	650	47,450	650	47,450	650
Soft Cost Contingency	-	-	33,889	464	50,409	691	55,622	762	54,430	746
Reserves	-	-	-	-	62,612	858	221,606	3,036	222,067	3,042
Developer Fee	-	-	323,353	4,429	695,492	9,527	724,555	9,925	721,034	9,877
Total Uses of Funds	-	-	4,922,154	67,427	5,741,827	78,655	8,353,129	114,426	8,344,799	114,312
TRANSACTION SURPLUS (GAP)	-	-	(4,365,509)	(59,801)	(3,591,567)	(49,200)	(2,199,925)	(30,136)	(66,729)	(914)

Scenario Pro Formas (continued)

Harry Schwartz Manor/Eastwood 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	-	-	2,999,885	41,094	2,999,885	41,094	2,999,885	41,094	2,999,885	41,094
Capital Needs Funded Using Subsidy	699,153	9,577	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	519,239	7,113	519,239	7,113	519,239	7,113	519,239	7,113	519,239	7,113
Replacement Reserves	3,153,234	43,195	3,153,234	43,195	707,000	9,685	707,000	9,685	707,000	9,685
Total Funds	4,371,626	59,885	6,672,358	91,402	4,226,124	57,892	4,226,124	57,892	4,226,124	57,892
USES										
Estimated Capital Needs	3,015,418	41,307	3,015,418	41,307	3,015,418	41,307	3,015,418	41,307	3,015,418	41,307
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	3,015,418	41,307	3,015,418	41,307	3,015,418	41,307	3,015,418	41,307	3,015,418	41,307
YEAR 20 REPLACEMENT RESERVE BALANCE	1,356,207	18,578	3,656,939	50,095	1,210,705	16,585	1,210,705	16,585	1,210,705	16,585

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	1,921,382	26,320	1,921,382	26,320	1,921,382	26,320	1,921,382	26,320
Operating Deficit Subsidy Needed	1,219,586	16,707	356,795	4,888	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	1,219,586	16,707	2,278,177	31,208	1,921,382	26,320	1,921,382	26,320	1,921,382	26,320
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	699,153	9,577	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(38,668)	(530)	(275,183)	(3,770)	(210,003)	(2,877)	(240,581)	(3,296)
Transaction Capital Subsidy Needed	n/a	n/a	4,365,509	59,801	3,591,567	49,200	2,199,925	30,136	66,729	914
Total Capital Subsidy	699,153	9,577	4,326,840	59,272	3,316,384	45,430	1,989,922	27,259	(173,852)	(2,382)
TOTAL SUBSIDY NEEDED	1,918,739	26,284	6,605,017	90,480	5,237,766	71,750	3,911,304	53,580	1,747,530	23,939