

CHFA Capital Plan Property Assessment - J.F. Kennedy Apts/J.F. Kennedy Heights

Property Identification

J.F. Kennedy Apts/J.F. Kennedy Heights
NORWICH, CT

Total Current Unit Count: 104
Census Tract: 6966.00
Connecticut Congressional District: 0

CHFA Property Identification #: 90107D, 85138Z

Current State Sponsored Housing Program: SH Affordable Housing/Moderate Rental

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: Family
Structure Type: Row Housing & Duplex
Number of buildings: 44
Maximum # of Stories: 2
Elevator? None

Summary property description:

The J.F. Kennedy Apts/J.F. Kennedy Heights property has 46 two-bedroom, 56 three-bedroom and 2 four-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as in-unit laundry.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 4,841,288

Capital Needs per Unit: \$ 46,551

Projected Year 1 (2014) Operating Income: \$ 90,108

Current operations at the property are projected to generate roughly \$90,100 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 results in negative NOI beginning in 2026. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$4.84 million (\$46,550 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

J.F. Kennedy Apts/J.F. Kennedy Heights, continued

Current average income relative to
the Area Median Income (AMI): 28%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	355	19%
Three-bedroom unit:	370	17%
Four-bedroom unit:	385	16%
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	355	19%
Three-bedroom unit:	370	17%
Four-bedroom unit:	385	16%
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

J.F. Kennedy Apts/J.F. Kennedy Heights, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	71	71
25-50% of AMI	31	31
50% of AMI or greater	2	2
Total number of units	104	104

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:	355	355
Three-bedroom unit:	370	370
Four-bedroom unit:	385	385
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: JF Kennedy Apartments

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,034,663)	(2,283,746)
Recoverable Grant Scenario:	(7,498,905)	(9,995,917)
CHFA/FHA Scenario:	(6,840,048)	(9,710,868)
4% LIHTC Scenario:	(5,219,622)	(8,081,663)
9% LIHTC Scenario:	(1,893,657)	(4,776,613)

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

J.F. Kennedy Apts/J.F. Kennedy Heights, 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 \$2,034,663 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 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:	2,034,663	
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 \$90,108 in NOI in the current year, which includes \$0 per unit per year in replacement reserve deposits, trending to negative \$22,690 fifteen years thereafter. The transaction results in a capital subsidy need of \$2,034,000 and \$249,000 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

J.F. Kennedy Apts/J.F. Kennedy Heights, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 214,024
 Current Routine Capital Needs: 71,450

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	285,474	-	-	-	-	-
2014	623,900	451,886	-	-	-	-
2015	75,801	-	-	-	-	-
2016	124,043	-	-	-	-	-
2017	80,417	-	-	-	-	-
2018	362,376	42,160	-	-	-	-
2019	189,073	47,631	-	-	-	-
2020	93,925	-	-	-	-	-
2021	373,852	197,182	-	-	-	-
2022	357,723	229,152	-	-	-	-

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	298,484	174,806	-	-	-	-
2024	216,682	98,218	-	-	-	-
2025	101,870	-	-	-	-	-
2026	178,264	59,222	-	980	-	-
2027	119,981	7,664	-	11,560	-	-
2028	129,498	12,688	-	22,690	-	-
2029	304,937	183,454	-	34,393	-	-
2030	124,373	-	-	46,690	-	-
2031	651,049	517,685	-	59,605	-	-
2032	149,565	12,914	-	73,164	-	-

Scenario Pro Formas

J.F. Kennedy Apts/J.F. Kennedy Heights, 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	891,455	8,571.68	1,052,391	10,119.14	1,052,391	10,119	1,052,391	10,119	1,052,391	10,119
Vacancy/Loss	(20,301)	(195.21)	(20,301)	(195.21)	(52,620)	(506)	(73,667)	(708)	(73,667)	(708)
Other Income	21,301	204.82	21,301	204.82	21,301	205	21,301	205	21,301	205
Effective Gross Income	892,455	8,581.29	1,053,391	10,128.76	1,021,073	9,818	1,000,025	9,616	1,000,025	9,616
2023 ANNUAL EXPENSES										
Operating Expenses	768,776	7,392	821,446	7,899	798,137	7,674	797,084	7,664	797,084	7,664
Replacement Reserve Deposits	96,009	923	96,009	923	62,910	605	62,910	605	51,809	498
Total Operating Expenses	864,786	8,315	917,455	8,822	861,047	8,279	859,995	8,269	848,893	8,162
2023 NET OPERATING INCOME	27,669	266	135,936	1,307	160,026	1,539	140,030	1,346	151,132	1,453
Debt Service	-	-	-	-	77,300	743	55,250	531	70,220	675
2023 CASH FLOW	27,669	266	135,936	1,307	82,726	795	84,780	815	80,912	778

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	-	-	-	-	1,345,124	12,934	830,434	7,985	1,221,916	11,749
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	3,120,000	30,000	3,120,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	62,789	604	106,989	1,029	106,989	1,029	99,189	954
Cash Escrows	-	-	271,365	2,609	271,365	2,609	271,365	2,609	271,365	2,609
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	439,920	4,230	455,567	4,380	453,925	4,365
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	2,866,839	27,566	5,803,392	55,802
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	334,154	3,213	2,163,399	20,802	7,651,195	73,569	10,969,787	105,479
USES										
Acquisition Costs	-	-	-	-	-	-	3,120,000	30,000	3,120,000	30,000
Construction Costs	-	-	6,236,136	59,963	6,236,136	59,963	6,305,244	60,627	6,305,244	60,627
Soft Costs - Design & Construction	-	-	677,124	6,511	667,294	6,416	683,689	6,574	683,689	6,574
Soft Costs - Due Diligence	-	-	20,183	194	32,883	316	41,910	403	41,910	403
Soft Costs - Transaction Costs	-	-	83,289	801	163,289	1,570	328,448	3,158	328,448	3,158
Soft Costs - Financing	-	-	190,406	1,831	578,134	5,559	663,606	6,381	664,106	6,386
Soft Costs - Other	-	-	59,800	575	67,600	650	67,600	650	67,600	650
Soft Cost Contingency	-	-	51,540	496	75,460	726	81,359	782	79,969	769
Reserves	-	-	-	-	82,850	797	440,043	4,231	437,665	4,208
Developer Fee	-	-	514,581	4,948	1,099,800	10,575	1,138,918	10,951	1,134,813	10,912
Total Uses of Funds	-	-	7,833,060	75,318	9,003,447	86,572	12,870,817	123,758	12,863,444	123,687
TRANSACTION SURPLUS (GAP)	-	-	(7,498,905)	(72,105)	(6,840,048)	(65,770)	(5,219,622)	(50,189)	(1,893,657)	(18,208)

Scenario Pro Formas (continued)

J.F. Kennedy Apts/J.F. Kennedy Heights, 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	-	-	4,812,728	46,276	4,812,728	46,276	4,812,728	46,276	4,812,728	46,276
Capital Needs Funded Using Subsidy	2,034,663	19,564	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	299,925	2,884	299,925	2,884	299,925	2,884	299,925	2,884	299,925	2,884
Replacement Reserves	2,506,699	24,103	1,866,556	17,948	1,223,068	11,760	1,223,068	11,760	1,007,233	9,685
Total Funds	4,841,288	46,551	6,979,209	67,108	6,335,721	60,920	6,335,721	60,920	6,119,885	58,845
USES										
Estimated Capital Needs	4,841,288	46,551	4,841,288	46,551	4,841,288	46,551	4,841,288	46,551	4,841,288	46,551
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	4,841,288	46,551	4,841,288	46,551	4,841,288	46,551	4,841,288	46,551	4,841,288	46,551
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	2,137,921	20,557	1,494,433	14,370	1,494,433	14,370	1,278,598	12,294

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	3,377,228	32,473	3,377,228	32,473	3,377,228	32,473	3,377,228	32,473
Operating Deficit Subsidy Needed	249,083	2,395	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	249,083	2,395	3,377,228	32,473	3,377,228	32,473	3,377,228	32,473	3,377,228	32,473
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,034,663	19,564	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(880,216)	(8,464)	(506,408)	(4,869)	(515,187)	(4,954)	(494,272)	(4,753)
Transaction Capital Subsidy Needed	n/a	n/a	7,498,905	72,105	6,840,048	65,770	5,219,622	50,189	1,893,657	18,208
Total Capital Subsidy	2,034,663	19,564	6,618,689	63,641	6,333,640	60,900	4,704,435	45,235	1,399,385	13,456
TOTAL SUBSIDY NEEDED	2,283,746	21,959	9,995,917	96,115	9,710,868	93,374	8,081,663	77,708	4,776,613	45,929