

CHFA Capital Plan Property Assessment - Green Manor

Property Identification

Green Manor
THOMASTON, CT

Total Current Unit Count: 62
Census Tract: 3492.00
Connecticut Congressional District: 5

CHFA Property Identification #: 85186D, 85187D

Current State Sponsored Housing Program: SH Elderly

This property was originally financed in phases and appears 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: Low rise & Garden/Townhouse
Number of buildings: 13
Maximum # of Stories: 2
Elevator? Yes

Summary property description:

The Green Manor property has 49 efficiency or studio and 13 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, owner-provided air conditioning, a common room, and a dining room with meal service.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 1,756,716

Capital Needs per Unit: \$ 28,334

Projected Year 1 (2014) Operating Income: \$ 13,200

Current operations at the property are projected to generate roughly \$13,200 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 results in negative NOI beginning in 2022. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$1.76 million (\$28,334 per unit) over the next 20 years.

Current average income relative to
the Area Median Income (AMI): 22%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	60	4%
One-bedroom unit:	70	4%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	460	30%
One-bedroom unit:	493	30%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. The Capital Plan is modeled with the assumption that the State will be making new rental assistance payment contracts available and this analysis recommends that a RAP contract be established for this property. The RAP allows the residents to pay an affordable rent based on their income and pays the difference up to an agreed revenue level which this Capital Plan recommends be set high enough to generate a sustainable revenue stream.

Low base rent levels maximize affordability for households in the community. However, if the property's revenue stream (including any available operating subsidy) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, necessary repairs and maintenance will get deferred. An extended period of deferred maintenance can put the property itself at risk, which would be a significant blow to the availability of affordable housing in the area.

The Capital Plan is intended to identify the real estate needs of the State Sponsored Housing Portfolio. In order to ensure a minimum revenue stream, this analysis assumes that all base rents are adjusted in 2014 to equal the greater of a) the current base rent or b) 30% of the adjusted gross income of a household at 30% of AMI for the applicable household size, provided these levels do not exceed the local market.

The figures to the left indicate the additional rental operating subsidy which would be necessary in 2014 to cover this base rent increase as well as the total 20 year impact given that this subsidy need will recur annually, with inflation increases. Since the rental assistance payment protects the residents of the property, none of the actual households would be impacted by the increase in the base rent and the property would continue to serve the current resident demographic.

Number of current households that would be
impacted by the proposed increase in Base Rent: 0

Rental operating subsidy necessary in 2014 to
generate revenue equal to raising the base rent
as proposed: \$ 172,026

Additional rental assistance payments subsidy
over a 20 year period due to revised base rent: \$ 3,929,170

Revenue Adjustments Concurrent with a Recapitalization Transaction

Green Manor, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	41	62
25-50% of AMI	21	0
50% of AMI or greater	0	0
Total number of units	62	62

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	460	750
One-bedroom unit:	493	750
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

While the revenue generated by the increase in the base rent improves the property's income and expense picture, it is insufficient for the property to operate sustainably for the foreseeable future. (The capital plan analysis considers sustainable operations to be a level of operating income sufficient to cover operating expenses and servicing of any capital leverage necessary to maintain the physical asset for the next 15-20 years without routine capital subsidies from the State.) However, as noted above, the analysis assumes the property will receive a project-based rental assistance payment contract. A RAP arrangement provides operating support to the property while permitting residents to pay based on what they can afford, so income mixing is neither needed nor appropriate. For extremely low income households, properties with a RAP are their only viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the RAP subsidy, is used to generate enough income for the property to operate at a sustainable level.

The rental assistance payment ensures that the property receives the base rent. However, since the base rent increase suggested above is insufficient over the long term, the only alternative is to increase the base rent again in conjunction with the recapitalization transaction. (An income-tier structure in this situation would only serve to reduce housing options to the lowest income households, without increasing revenue to the property.)

An increase in the base rent at a property with a rental assistance payment translates into an increase in the operating subsidy necessary to sustain the property over time.

Rental operating subsidy in the transaction year
which would be necessary to generate additional
revenue equal to that generated by income
mixing: \$ -

Additional rental operating subsidy necessary to
sustain Rental Assistance Payments based on
the adjusted base rent: \$ 4,167,482

Property used for market reference: Green Manor

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,301,098)	(1,440,333)
Recoverable Grant Scenario:	(2,412,173)	(6,928,013)
CHFA/FHA Scenario:	900,839	(6,687,410)
4% LIHTC Scenario:	1,876,305	(6,655,009)
9% LIHTC Scenario:	3,228,662	(6,629,651)

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

Green Manor, continued

Recommended Transaction Option:	4% LIHTC	<p>The capital plan recommends using the 4% low income housing tax credit scenario to finance the capital needs at this property. The debt-only scenario leaves significant capital needs unaddressed, while the use of 9% tax credits at this property would be an inefficient use of the scarce 9% resource given the competing needs within the portfolio and within the State as a whole. The 4% LIHTC scenario, however, covers the capital needs appropriately while minimizing the need for State capital subsidies. This analysis has suggested a potential transaction year of 2016 based on a series of criteria outlined in the capital plan report. In short, the transaction year has been informed by the distribution of critical capital needs year-by-year at the property (i.e. roof, mechanical, structural components) and by the need to distribute the timing of capital transaction for properties within the State Sponsored Housing Portfolio over a period of years in order to manage scarce State-wide resources.</p> <p>This property has been underwritten assuming replacement reserve deposits of \$350 per unit per year, and assuming hard construction capital needs of \$1.76 million.</p>
Recommended Transaction Year	2016	
Replacement Reserve Deposit PUPY:	350	
Debt Service Coverage in Transaction Year:	1.200	
Debt Service Coverage in Transaction Year 15:	1.946	
Pre-Transaction Capital Subsidy Needed:	-	<p>The property is able to cover its capital needs from current replacement reserves through the date of the capital transaction, so no interim State support is needed.</p>
Transaction Capital Subsidy Needed:	-	

Summary of Recommended Transaction

Under the 4% LIHTC scenario, the property yields \$344,778 in NOI in the transaction completion year, which includes \$350 per unit per year in replacement reserve deposits. After debt service, the property generates \$131,151 in cash flow in the capital transaction's completion year, trending to \$202,149 fifteen years thereafter. Post-transaction, distribution of cash flow is governed by the terms of the transaction documents and, to the extent not restricted by the documents, could be used at the owner's discretion for ongoing capital needs, owner's working capital or the owner's other priorities. The transaction raises \$3,447,000 in debt and \$1,728,000 in equity. The transaction results in a gap of \$000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$1,440,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over \$2,412,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs

Green Manor, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 0
 Current Routine Capital Needs: 113,576

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	113,576	-	-	-	-	-
2014	58,077	-	-	-	172,026	-
2015	98,449	-	-	-	175,467	-
2016	72,434	-	-	-	178,976	-
2017	63,019	-	-	-	406,141	-
2018	46,413	-	-	-	414,264	-
2019	40,193	-	-	-	422,549	-
2020	51,804	-	-	-	431,000	-
2021	41,564	-	-	-	439,620	-
2022	50,282	-	-	-	448,413	-

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	52,880	-	-	-	457,381	-
2024	30,491	-	-	-	466,529	-
2025	42,512	-	-	-	475,859	-
2026	164,439	-	-	-	485,376	-
2027	150,896	-	-	-	495,084	-
2028	234,985	-	-	-	504,986	-
2029	128,593	-	-	-	515,085	-
2030	169,746	-	-	-	525,387	-
2031	96,067	-	-	-	535,895	-
2032	50,296	-	-	-	546,613	-

Scenario Pro Formas

Green Manor, 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	217,988	3,515.94	693,803	11,190.37	693,803	11,190	693,803	11,190	693,803	11,190
Vacancy/Loss	(3,265)	(52.66)	(5,137)	(82.86)	(34,690)	(560)	(48,566)	(783)	(48,566)	(783)
Other Income	-	-	-	-	-	-	-	-	-	-
Effective Gross Income	214,723	3,463.28	688,666	11,107.51	659,113	10,631	645,237	10,407	645,237	10,407
2023 ANNUAL EXPENSES										
Operating Expenses	217,206	3,503	251,640	4,059	242,053	3,904	241,360	3,893	241,360	3,893
Replacement Reserve Deposits	-	-	-	-	30,886	498	30,886	498	30,886	498
Total Operating Expenses	217,206	3,503	251,640	4,059	272,939	4,402	272,245	4,391	272,245	4,391
2023 NET OPERATING INCOME	(2,483)	(40)	437,026	7,049	386,173	6,229	372,991	6,016	372,991	6,016
Debt Service	-	-	-	-	217,664	3,511	213,627	3,446	210,516	3,395
2023 CASH FLOW	(2,483)	(40)	437,026	7,049	168,510	2,718	159,364	2,570	162,475	2,621

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	-	-	-	-	3,787,642	61,091	3,447,785	55,609	3,663,271	59,085
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	4,309,731	69,512	4,309,731	69,512
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	27,542	444	49,242	794	49,242	794	49,242	794
Cash Escrows	-	-	393,821	6,352	393,821	6,352	393,821	6,352	393,821	6,352
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	165,960	2,677	178,494	2,879	177,928	2,870
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,728,439	27,878	2,866,302	46,231
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	421,363	6,796	4,396,665	70,914	10,107,512	163,024	11,460,295	184,843
USES										
Acquisition Costs	-	-	-	-	-	-	4,309,731	69,512	4,309,731	69,512
Construction Costs	-	-	2,211,109	35,663	2,211,109	35,663	2,235,612	36,058	2,235,612	36,058
Soft Costs - Design & Construction	-	-	248,152	4,002	244,666	3,946	250,479	4,040	250,479	4,040
Soft Costs - Due Diligence	-	-	13,253	214	23,853	385	32,154	519	32,154	519
Soft Costs - Transaction Costs	-	-	48,042	775	128,042	2,065	254,372	4,103	254,372	4,103
Soft Costs - Financing	-	-	70,410	1,136	267,220	4,310	379,162	6,116	380,539	6,138
Soft Costs - Other	-	-	35,650	575	40,300	650	40,300	650	40,300	650
Soft Cost Contingency	-	-	20,775	335	35,204	568	43,061	695	42,581	687
Reserves	-	-	-	-	130,532	2,105	240,100	3,873	241,045	3,888
Developer Fee	-	-	186,145	3,002	414,899	6,692	446,236	7,197	444,819	7,175
Total Uses of Funds	-	-	2,833,536	45,702	3,495,826	56,384	8,231,207	132,761	8,231,633	132,768
TRANSACTION SURPLUS (GAP)	-	-	(2,412,173)	(38,906)	900,839	14,530	1,876,305	30,263	3,228,662	52,075

Scenario Pro Formas (continued)

Green Manor, 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	-	-	1,706,419	27,523	1,706,419	27,523	1,706,419	27,523	1,706,419	27,523
Capital Needs Funded Using Subsidy	1,301,098	20,985	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	393,821	6,352	393,821	6,352	393,821	6,352	393,821	6,352	393,821	6,352
Replacement Reserves	61,796	997	-	-	600,466	9,685	600,466	9,685	600,466	9,685
Total Funds	1,756,716	28,334	2,100,240	33,875	2,700,706	43,560	2,700,706	43,560	2,700,706	43,560
USES										
Estimated Capital Needs	1,756,716	28,334	1,756,716	28,334	1,756,716	28,334	1,756,716	28,334	1,756,716	28,334
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	1,756,716	28,334	1,756,716	28,334	1,756,716	28,334	1,756,716	28,334	1,756,716	28,334
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	343,525	5,541	943,990	15,226	943,990	15,226	943,990	15,226

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	8,096,652	130,591	8,096,652	130,591	8,096,652	130,591	8,096,652	130,591
Operating Deficit Subsidy Needed	139,235	2,246	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	139,235	2,246	8,096,652	130,591	8,096,652	130,591	8,096,652	130,591	8,096,652	130,591
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,301,098	20,985	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(3,580,812)	(57,755)	(1,409,242)	(22,730)	(1,441,642)	(23,252)	(1,467,001)	(23,661)
Transaction Capital Subsidy Needed	n/a	n/a	2,412,173	38,906	-	-	-	-	-	-
Total Capital Subsidy	1,301,098	20,985	(1,168,639)	(18,849)	(1,409,242)	(22,730)	(1,441,642)	(23,252)	(1,467,001)	(23,661)
TOTAL SUBSIDY NEEDED	1,440,333	23,231	6,928,013	111,742	6,687,410	107,861	6,655,009	107,339	6,629,651	106,930