

**Request for Action
by
Board of Commissioners**

Firm Approval of Financing for 315 Park Avenue Apartments

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for the firm approval of Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) taxable permanent financing in an amount not to exceed \$10,100,000 for 315 Park Avenue Apartments in Cranston (hereinafter referred to as “Park Avenue” or the “Development”). Providence Realty Investment, LLC is the developer (“PRI” or the “Developer”).

Park Avenue is a 71-unit age-restricted affordable housing complex with 63 one-bedroom and 8 two-bedroom units. The Section 8 HAP contract that covers all 71 units was recently renewed for 20 years.

In 2010 the Developer acquired the Development, at which time they undertook a moderate rehabilitation utilizing tax-exempt bonds and Low-Income Housing Tax Credits (“LIHTCs”). Prior to this proposed refinance the Developer will complete \$337,000 of critical and non-critical repairs identified in the RIHousing-commissioned capital needs assessment (“CNA”). To ensure that the replacement reserve balance remains positive through the first 15 years of the new loan, the Developer will deposit \$7,452 per unit in the replacement reserve at closing and \$400 per unit per annum. A new CNA will be required at year 10 to ensure that the replacement reserve will stay positive for the next 15 years. If required, the annual deposits to the replacement reserve will be increased at that time.

The scope of work to be completed pre-closing includes addressing a variety of accessibility, fire- and life-safety issues, and site work. Post-closing PRI will complete repairs to the elevator, roofing, drainage, and exterior walls.

This RFA seeks firm approval of a taxable permanent loan in an amount not to exceed \$10,100,000, which will be funded through the Federal Financing Bank Risk-Sharing Initiative.

B. ATTACHMENTS

- A.** Credit Summary
- B.** Resolution

Attachment A

Approval Loan Recommendation Summary – 315 Park Avenue Apartments

Preliminary _____

Firm X

Date: May 11, 2022

Project: Preservation of 71 existing affordable apartments for elderly and disabled persons in Cranston, comprised of 63 one-bedroom and 8 two-bedroom units.

Development Team

	Name	Location	Risk Rating
Sponsor/Developer	Providence Realty Investment, LLC	Providence, RI	Low
Mortgagor	Park Avenue RIH, LLC	Providence, RI	Low
Architect	NA		
Legal	Blish & Cavanagh, LLP Nixon Peabody LLP	Providence, RI Boston, MA	Low Low
Management Agent	Wingate Management Company, LLC	Newton, MA	Low

Executive Summary

Property Address	315 Park Avenue	Cranston, RI
Proposed Loan Amount(s) and Terms		
Taxable Loan (FFB)	\$10,100,000	5.25.0%/40-year term*

Note: Interest rates are subject to change based on market conditions.

*Current interest rates are closer to 5.5%; however, since rates are fluctuating, staff is using 5.25% to provide an up-to amount for purposes of approval in the event rates drop.

Proposed Sources & Uses:

Sources	Firm	
	Amount	Per Unit
RIH First Mortgage	\$10,100,000	\$142,254
Escrows	\$109,778	\$1,546
Replacement Reserve	\$217,125	\$3,058
Operating Reserve	\$258,631	\$3,643
Total Sources	\$10,685,534	\$150,500

Uses	Firm	
	Amount	Per Unit
Construction	\$337,191	\$4,749
Contingency	\$33,719	\$475
Acquisition	\$4,722,967	\$66,521
Soft Costs	\$104,095	\$1,466
Financing	\$315,125	\$4,438
Operating Reserve	\$50,000	\$704
Replacement Reserve Year 1 Deposit	\$529,121	\$7,452
Equity Take-out	\$4,415,922	\$62,196
Other Reserves	\$177,393	\$2,498
Total Uses	\$10,685,534	\$150,500

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$664,395	\$9,358	\$30,173	\$694,568	\$9,783
Appraisal Cap Rate	5.35%			5.35%	
Valuation	\$12,420,000	\$174,930	\$562,579	\$12,982,579	\$182,853
Loan Principal	\$10,100,000	\$142,254		\$10,100,000	\$142,254
LTV	81.32%		-4%	77.80%	

- RIHousing used a 4.0% vacancy vs. appraiser's 2.0%; actual vacancy over the past three years has averaged less than 2.0%
- RIHousing is underwriting to the updated HAP rents which reflect the OCAF adjustment that will be in place prior to closing.
- RIHousing used a higher Replacement Reserve deposit

As part of the approval process, staff has determined that the Development and owner meet RIHousing's requirements for participating in the refinance/equity take-out program. Broadly, this review includes:

- Compliance with HUD's requirements
- Demonstrated responsible long-term ownership and management of the property
- A long-term HAP contract

- Well-funded reserves
- Low vacancy rates
- Consistency with RIHousing’s standard underwriting requirements
- Financial benefit to RIHousing
- Execution of a new 40-year affordability agreement

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$150,500	
Residential Vacancy Rate	4.0%	
DCR Yr 1	1.15	
DCR Yr 15	1.13	
NOI	\$694,568	Year 1
Income Trending	2.0%	
Expense Trending	3.0%	
Loan to Value	81.32%	
Initial Installment (%) of syndication proceeds	NA	
Acquisition Price equal to or less than Appraised value	NA	
Operating Reserve (Amt and confirm consistency with UW requirements)	\$227,393	Operating Reserve plus FFB reserve of 2 months P&I
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$529,121	\$7,452/unit; exceeds UW requirement of \$2,000/unit

Deviations from standard underwriting – YES

- A 4% vacancy rate was utilized instead of 5%. The appraisal utilized 2%, historic vacancy has averaged below 2.0 for the past three plus years.
- Combined Operating and Replacement reserves exceed requirements but are more heavily weighted to Replacement Reserve

Unit Distribution and Revenue

Unit	Rent Type	Number of Units	Contract Rent	Market Rent	Contract Rent as a Percent of Market Rent	Discount from Market Rent
1	60%	63	\$ 1,530.00	\$ 1,660.00	92.2%	7.8%
2	60%	8	\$ 1,785.00	\$ 1,935.00	92.2%	7.8%
Total		71				7.8%

Market rents were determined by a RIHousing-commissioned appraisal. Rents were underwritten to the lesser of the HAP and Market rents.

Attachment B

**Resolution of the Board of Commissioners
of Rhode Island Housing and Mortgage Finance Corporation**

Whereas: Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) is authorized to make loans to mortgagors or sponsors for such developments as in the judgment of RIHousing have promise of supplying well-planned, well-designed apartment units, which will provide or preserve housing for low- and moderate-income persons or families, or the elderly, or others in locations where there is a need for such housing;

Whereas: RIHousing intends to provide taxable loan funds for the purpose of financing qualified housing developments throughout the state;

Whereas: said loan shall be financed utilizing the Federal Financing Bank Risk-Sharing Initiative, a partnership between the U.S Department of Housing and Urban Development (“HUD”) and the U.S. Department of the Treasury Federal Financing Bank (“FFB”), under which FFB provides capital for multifamily loans insured under the Federal Housing Administration's Risk-Sharing program (the “Risk-Sharing Initiative”);

Whereas: said loan shall have a term not to exceed 40 years and shall be in the approximate amount sufficient to finance the mortgage, pay the costs of issuance, fund a capital reserve fund, and to provide the capitalized interest if determined to be necessary;

Whereas: the Applicant listed below has presented an application to RIHousing requesting mortgage financing to rehabilitate the Development as set forth below:

Applicant	Development	RIHousing 1st Mortgage
Providence Realty Investment, LLC	Park Avenue RIH, LLC	\$10,100,000

Whereas: the RIHousing Board of Commissioners and staff have reviewed the submission of the Applicant for mortgage financing and determined that the Development qualifies for financing under the Risk-Sharing Initiative and RIHousing’s enabling legislation, regulations, guidelines, and policies; and

Whereas: RIHousing finds that:

(1) there exists a shortage of decent, safe, and sanitary housing at rents or prices which persons and families of low- or moderate-income can afford within the general housing market area to be served by the proposed housing development;

(2) private enterprise and investment have been unable, without assistance, to provide an adequate supply of decent, safe, and sanitary housing in the

general housing market area at prices which persons or families of low- and moderate-income can afford or to provide sufficient mortgage financing for residential housing for occupancy by those persons or families;

(3) the housing sponsor or sponsors undertaking the proposed housing development in this state will supply well-planned, well-designed housing for persons or families of low- and moderate-income and that those sponsors are financially responsible;

(4) the proposed housing development to be assisted will be of public use and will provide a public benefit; and

(5) the proposed housing development will be undertaken, and the housing sponsor or sponsors regulated pursuant to the authority and within the restrictions provided for by the RIHousing enabling act, namely Chapter 55 of Title 42 of the Rhode Island General Laws.

NOW, THEREFORE, IT IS HEREBY:

Resolved: that subject to the special conditions listed below, RIHousing hereby declares firm commitment for taxable financing for Park Avenue RIH, LLC or an affiliated entity (the “Borrower”) in an amount not to exceed \$10,100,000, funded through the Risk-Sharing Initiative, for rental housing known as 315 Park Avenue Apartments located in Cranston, Rhode Island;

Resolved: that the foregoing resolutions are subject to the following special conditions:

- Approval by RIHousing of the final scope of the rehabilitation work and completion of work completed prior to closing.
- Approval by RIHousing of construction plans and specifications, as well as related construction contract documentation.
- Final confirmation of the HAP Contract rents consistent with underwriting.
- Execution and delivery by the Applicant of a construction completion guaranty in form and substance satisfactory to RIHousing.
- FHA Risk Sharing approval from HUD for a minimum of 50% of the first mortgage under the Risk-Sharing Initiative.
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

Resolved: that the Executive Director, Deputy Executive Director, and Director of Development, each acting singly, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.