

**Request for Action**  
**by**  
**Board of Commissioners**  
**Preliminary Approval of Financing for Beachwinds**

**A. PROJECT SUMMARY**

This Request for Action (“RFA”) is for preliminary approval of tax-exempt financing in an amount not to exceed \$17,000,000 for Beachwinds (“Beachwinds” or the “Development”). Beachwinds is the redevelopment of 2 existing low-income housing tax credit (“LIHTC”) projects at the end of their initial 15-year compliance periods. The Development consists of a total of 104 existing apartments located within South Winds Apartments and Beachwood Apartments located approximately one mile apart in Narragansett. Preservation of Affordable Housing, Inc. (“POAH”) is the “Developer.”

**B. DISCUSSION**

South Winds Apartments was built in 1977. The project contains 3 buildings located on 1 parcel of land. There are a total of 48 units; 42 one-bedroom units and 6 two-bedroom units. POAH purchased this property in 2004 and financed the property using tax-exempt bonds, 4% LIHTC and a deferred loan from the Affordable Housing Trust (“AHT”). The initial 15-year compliance period ended December 31, 2018.

Beachwood Apartments was built in 1977. The project contains 3 buildings linked by common corridors. There are a total of 56 units; 52 one-bedroom units and 4 two-bedroom units. POAH purchased Beachwood in 2004 and financed the property using tax-exempt bonds and 4% LIHTC. The initial 15-year compliance period ended December 31, 2019.

In 2018 and 2019, National Equity Fund (“NEF”), the limited partner in both deals, transferred their interests to an affiliate of POAH. POAH will now form a new limited partnership entity to acquire both South Winds and Beachwood, combine them into one single asset entity and re-syndicate the Development. The new investor limited partner will be the Massachusetts Housing Investment Corporation (“MHIC”). POAH recently received a Mark-Up-To-Market Program rent increase for both properties and a new 20-year Section 8 Housing Assistance Payment (“HAP”) is in process.

POAH intends to undertake approximately \$70,000 per unit of rehabilitation. The proposed rehabilitation scope of work includes envelope improvements and unit upgrades with a focus on energy efficiency. The proposed rehabilitation does not currently include any building additions and maintains the existing building footprints. Common areas in both properties will be upgraded to allow for enhanced supportive services geared toward seniors. Plans and specifications are in the preliminary stage at this time. Once plans are complete, POAH intends to put the project out to bid.

**C. FINANCING**

During construction, Rhode Island Housing and Mortgage Finance Corporation

(“RIHousing”) will issue tax-exempt bonds in an amount not to exceed \$17,000,000 which includes both the permanent loan and a bridge loan to assist in (i) meeting the 50% test needed to be eligible to generate 4% LIHTC on all units, and (ii) to bridge the LIHTC equity in order to increase the pricing of the tax credits. A recourse guarantee for the bridge loan will be required. The permanent loan will be amortized over 40 years but have a mandatory balloon in year 17 in order to improve the interest rate.

As part of this transaction, the existing permanent loans and approximately \$1,000,000 of accrued interest and principal on the existing AHT loan will be paid off. Staff has determined that the Development and sponsor meet RIHousing’s requirements for rollover of existing debt. Broadly, this review includes:

- Current on first mortgage or in compliance with forbearance agreement;
- No outstanding monitoring findings, no history of significant monitoring findings;
- Demonstrated responsible long-term ownership and management of the property;
- A satisfactory equity pay-in schedule to RIHousing;
- Maximize amortizing debt the property can support; and
- Borrower provides guarantees to cover any deficit shortfalls.

Prior to firm commitment, RIHousing and POAH will be refining the Development budget with the goal of generating greater proceeds in order to pay down more of the existing AHT loan.

The capital stack includes the following: (i) a tax-exempt loan, (ii) equity generated from the allocation of 4% LIHTCs, (iii) a deferred developer fee, (iv) cash flow from operations, and (v) the partial rollover of the existing AHT loan.

This RFA seeks preliminary approval of a tax-exempt loan in an amount of up to \$17,000,000 of which \$11,740,000 will remain as permanent debt.

#### **D. RECOMMENDATION**

The attached resolution for preliminary approval of tax-exempt financing for Beachwinds is recommended for approval subject to:

- Syndication equity from the sale of LIHTC in an amount sufficient to achieve project feasibility.
- A relocation plan acceptable to RIHousing.
- Approval by RIHousing of proposed general contractor.
- Approval of a final operating budget for the Development.
- Approval by RIHousing of management documentation including marketing and lease-up plans.
- Approval by RIHousing of the final scope of work, construction plans, specifications, and supporting construction documentation.

- FHA Risk-Sharing approval from HUD for a minimum of 50% of the first mortgage loan.
- Approval by bond underwriter and bond counsel that the loan will satisfy all bond requirements.
- Execution of a construction completion guarantee from POAH that includes a guarantee of bridge loan repayment, cost overruns and/or equity shortfalls.
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

**D. ATTACHMENTS**

- A.** Development Summary
- B.** Term Sheet
- B.** Resolutions
- C.** Site Location Maps

**Attachment A  
Development Summary**

**A. Development Team**

1. **Sponsor:** Preservation of Affordable Housing, Inc.  
40 Court Street, Suite 700  
Boston, MA 02108
2. **Mortgagor:** TBD
3. **Architect:** Union Studio Architecture & Community Design, Inc.  
140 Union Street  
Providence, RI 02903
4. **General Contractor:** TBD
5. **Legal:** TBD
6. **Management Agent:** POAH Communities, LLC  
40 Court Street, Suite 700  
Boston, MA 02108
7. **Consultant** NONE

**C. Development Team Qualifications**

***Sponsor/Mortgagor***

Preservation of Affordable Housing, Inc. (“POAH”) is a not-for-profit corporation with a core mission of preserving at-risk affordable housing, often housing that is at risk of being lost due to market pressures or physical deterioration. Based in Boston, POAH now owns and operates more than 11,000 affordable homes in 11 states and Washington DC. One of POAH’s core principles is that the real estate portfolio must be sustainable and that the organization should be sustained primarily by the portfolio. They have an identify of interest property management company called POAH Communities.

The organization is familiar with RIHousing requirements and processes and they own/manage developments in approximately 12 communities in Rhode Island.

***Architect***

Union Studio Architecture & Community Design, Inc. (“USA”) is an architectural firm based in Rhode Island. They have designed both new construction and substantial rehabilitation developments for multiple projects in the RIHousing portfolio. Working with

POAH, they recently completed the renovation of Oxford Place & Gardens in Providence, also a preservation transaction. They are currently providing architectural services for two new construction projects funded with 9% LIHTC. Their RIHousing portfolio includes Dean Street Studios, Palmer Pointe and Shannock Falls which are both under construction, as well as developments in Providence, Barrington, Tiverton and North Kingstown. Union Studios has experience working with RIHousing’s development staff and is familiar with its requirements.

***Management Agent:***

POAH Communities, LLC (“POAH Communities”) has specialized in the management of assisted and non-assisted multi-family housing units for the past 25 years. They oversee the leasing and operations of all POAH properties. The mission of POAH Communities is to provide high quality property management and customer service to its residents. Working with their partners in the community, POAH Communities strives to empower residents and help them be successful with job training, healthcare enrollment, credit counseling and more. They are familiar with RIHousing’s compliance requirements for both LIHTC and the Section 8 program. They manage all 12 of POAH’s developments with RIHousing.

**B. Unit Distribution and Revenue**

South Winds contains 48 units; 42 one-bedroom units and 6 two-bedroom units. Beachwood contains 56 units; 52 one-bedroom units and 4 two-bedroom units.

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max Rent	Gross Rent as a % of LIHTC Max Rent	Discount from Market Rent
1	60%	42	\$ 1,581.00	\$ 922.00	171%	0.9%
2	60%	6	\$ 1,785.00	\$ 1,107.00	161%	0.8%
1	60%	52	\$ 1,581.00	\$ 922.00	171%	0.9%
2	60%	4	\$ 1,785.00	\$ 1,107.00	161%	0.8%
<b>Total</b>		<b>104</b>				<b>0.9%</b>

**D. Finance Summary**

Sources	Preliminary	
	Amount	Per Unit
RIH First Mortgage	\$11,740,000	\$112,885
Assumed Debt (Rollover)	\$950,000	\$9,135
Seller Loan	\$876,978	\$8,432
Seller Loan	\$730,800	\$7,027
Seller Loan	\$7,505,982	\$72,173
LIHTC Proceeds	\$9,086,639	\$87,372
CF From Operations During Construct	\$600,000	\$5,769
Deferred Developer Fee	\$2,005,780	\$19,286
<b>Total Sources</b>	<b>\$33,496,179</b>	<b>\$322,079</b>

Uses	Preliminary	
	Amount	Per Unit
Construction	\$7,550,587	\$72,602
Contingency	\$756,000	\$7,269
Acquisition	\$16,375,000	\$157,452
Soft Costs	\$1,846,069	\$17,751
Financing	\$1,594,550	\$15,332
Developer Fee	\$4,003,000	\$38,490
Operating Reserve	\$866,837	\$8,335
Replacement Reserve Year 1 Deposit	\$208,000	\$2,000
Other Reserves	\$296,136	\$2,847
<b>Total Uses</b>	<b>\$33,496,179</b>	<b>\$322,079</b>

\$987,777 – 4% LIHTC @\$0.92/credit

## Attachment B

### Permanent Financing Term Sheet Beachwinds

<b>Borrower:</b>	Preservation of Affordable Housing, Inc. or an affiliated partnership or limited liability company.
<b>Rents:</b>	The underwriting rents will be set at the lower of current HAP rents or market rents as determined by an appraisal commissioned by RIHousing.
<b>Insurance:</b>	50% FHA Risk Share Insurance on the permanent first mortgage loan.
<b>Mortgage Term:</b>	The permanent first mortgage term will amortize over 40 years but be due and payable 17 years after closing.
<b>Permanent Loan Rate:</b>	The rate on the loan will be determined at the time of the loan closing based on market conditions. The current underwriting rate is 4.75%.
<b>Collateral:</b>	The Borrower will furnish, as security for the Loan, a first mortgage covering the premises and a collateral assignment of the rents and leases.
<b>Loan to Value Ratio:</b>	The RIHousing permanent first mortgage may not exceed 90% of the as-stabilized value, subject to the lesser of market rents or contract rents as determined by an independent appraisal.
<b>Debt Service Coverage:</b>	The required debt service coverage ratio for sizing the supportable first mortgage is 1.15.
<b>Loan Fee:</b>	At or before closing, Borrower shall remit to RIHousing a permanent loan origination fee equal to 2% of the first \$5,000,000 of the permanent loan and 1% on the balance of the loan. The Borrower shall remit a bridge loan origination fee equal to 1% of the bridge loan.
<b>Third Party Fees:</b>	The Borrower shall be responsible for paying any and all of RIHousing's third party fees required to complete the due diligence review and close the transaction including cost of issuance for the bonds. Costs may be capitalized in the development budget.
<b>Replacement Reserves:</b>	The Borrower shall capitalize a new replacement reserve account equivalent to \$2,000 per unit. The Borrower shall

make monthly deposits to a replacement reserve, held by Lender, in an amount equal to \$350 per unit. The Lender reserves the right to increase the annual reserve contribution over the term of the loan due to inflation.

**Operating Reserve:**

The Borrower shall capitalize an operating reserve at final closing in a total amount not less than 6 months debt and 6 months operating expenses.

**Insurance Escrow:**

The Borrower shall make monthly deposits to an insurance escrow, held by Lender, equal to one-twelfth of the accruing insurance premiums.

**Tax Escrow:**

The Borrower shall make monthly deposits to a tax escrow, held by Lender, equal to one-twelfth of the accruing real estate tax premiums.



**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 issue tax-exempt bonds for the purpose of financing qualified housing developments throughout the state;

**Whereas,** said bonds shall have a term not to exceed 20 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 (“Applicant”) listed below has presented an application to RIHousing requesting mortgage financing to acquire and rehabilitate the buildings as set forth below:

<u>Development</u>	<u>Applicant</u>	<u>Tax Exempt Loan</u>
Beachwinds	POAH, Inc.	\$17,000,000

**Whereas,** staff has reviewed the submission of the Applicant for mortgage financing and determined that the Development may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines and policies;

**Whereas,** the Applicant intends to form a new limited partnership entity to acquire 2 existing projects known as, South Winds Apartments and Beachwood Apartments and combine them into one single asset entity known as Beachwinds (the “Development”); and

**Whereas,** RIHousing finds that:

(1) that there exists a shortage of decent, safe, and sanitary housing at rentals 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) that 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) that 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) that the proposed housing development to be assisted pursuant to the provisions of this chapter will be of public use and will provide a public benefit; and

(5) that 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, 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 preliminary commitment for tax-exempt mortgage financing for Preservation of Affordable Housing, Inc. or an affiliated entity (the “Borrower”) in an amount not to exceed \$17,000,000 for rental housing known as Beachwinds located in Narraganset to be financed, in part, by tax-exempt bonds;

**Resolved,** that RIHousing hereby declares that this preliminary commitment of financing for the Borrower constitutes the affirmative official act of RIHousing of its intention to issue bonds to finance up to \$17,000,000 in mortgage funds, plus the required bond reserve funds, and the related costs of issuance for the bond issue for the above-referenced Development pursuant to the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder. This resolution shall take effect immediately upon adoption;

**Resolved,** that the transfer of the limited partnership interest in the Development from the Applicant to a new limited partnership entity to be formed by the Applicant be, and hereby is, approved;

**Resolved,** that the foregoing resolutions are subject to the following conditions:

- Syndication equity from the allocation of Low-Income Housing Tax Credits in an amount sufficient to achieve project feasibility.
- A relocation plan acceptable to RIHousing.
- Approval by RIHousing of proposed general contractor.
- Approval of an operating budget for the Development.

- Approval by RIHousing of management documentation including marketing and lease-up plans.
- Approval by RIHousing of the final scope of work, construction plans, specifications, and supporting construction documentation.
- FHA Risk-Sharing approval from HUD for a minimum of 50% of the first mortgage loan.
- Approval by bond underwriter and bond counsel that the loan will satisfy all bond requirements.
- Execution of a construction completion guarantee from POAH that includes a guarantee of bridge loan repayment, cost overruns and/or equity shortfalls.
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

**Resolved,** that the Executive Director, the Deputy Executive Director, or the Director of Development each acting singly, shall take any and all actions they deem necessary to carry out the foregoing resolutions.

# Attachment C Site Location Map

## Beachwinds

