

**Request for Action
by
Board of Commissioners**

Firm Approval of Financing for Bear Hill Village

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 \$22,640,000.00 for Bear Hill Village in Cumberland (the “Development”). Providence Realty Investment, LLC is the developer (“Developer”).

Bear Hill is a three-story garden-style building originally constructed in 1980. It has 111 one-bedroom and 15 two-bedroom apartments for elderly and disabled households. Amenities include an outdoor communal patio, community room with a kitchen, common laundry room, a library, and management office. The Section 8 HAP contract, which covers 125 of the 126 units, was renewed in August 2021 for 20 years with rents marked up to market.

The Developer acquired the Development in 2010 through an arm’s length transaction. In 2011, moderate rehabilitation was completed utilizing tax-exempt bonds and Low-Income Housing Tax Credits. Prior to closing, the Developer will complete \$75,000 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 over \$7,700 per unit in the replacement reserve at closing and \$400.00 per unit per annum thereafter. 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 Developer also seeks to lock in a lower interest rate and complete an equity take-out.

The scope of work to be completed pre-closing includes addressing a variety of accessibility, fire- and life-safety issues, and parking lot sealing and striping. Post-closing the Developer will install a new fire alarm system and replace the elevator controls.

This RFA seeks firm approval of a taxable permanent loan in an amount not to exceed \$22,640,000, 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 – BEAR HILL VILLAGE

Preliminary _____

Firm X

Date: June 8, 2021

Project: Preservation of 126 existing affordable elderly and disabled apartments located in Cumberland comprised of 111 one-bedroom and 15 two-bedroom units.

Development Team

	Name	Location	Risk Rating
Sponsor/Developer	Providence Realty Investment, LLC	Providence, RI	Low
Mortgagor	Bear Hill Village 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	156 Bear Hill Road	Cumberland, RI
Proposed Loan Amount(s) and Terms		
Taxable Loan (FFB)	\$22,640,000.00	5.25%/40-year term*

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

* Current interest rates are closer to 5.45%; 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	\$22,640,000	\$179,683
Escrows	\$75,405	\$598
Replacement Reserve	\$453,957	\$3,603
Operating Reserve	\$462,330	\$3,669
Total Sources	\$23,631,693	\$187,553

Uses	Firm	
	Amount	Per Unit
Construction	\$322,713	\$2,561
Contingency	\$32,271	\$256
Acquisition	\$11,000,000	\$87,302
Soft Costs	\$106,315	\$844
Financing	\$650,300	\$5,161
Operating Reserve	\$190,665	\$1,513
Replacement Reserve Year 1 Deposit	\$974,397	\$7,733
Other Reserves	\$341,388	\$2,709
Equity Take-out	\$10,013,643	\$79,473
Total Uses	\$23,631,693	\$187,553

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$1,590,983	\$12,627	(\$32,189)	\$1,558,794	\$12,371
Appraisal Cap Rate	5.50%			5.50%	
Valuation	\$28,926,964	\$229,579	(\$585,254)	\$28,341,709	\$224,934
Loan Principal	\$22,640,000	\$179,683		\$22,640,000	\$179,683
LTV	78.27%		2%	79.88%	

- RIHousing used a 4.0% vacancy vs. appraiser's 2.0%; actual vacancy over the past three years has averaged near 1.0%

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	\$187,553	
Residential Vacancy Rate	4.0%	
DCR Yr 1	1.15	Proforma utilizes negative trending
DCR Yr 15	1.39	
NOI	\$1,558,794	Year 1
Income Trending	2.0%	
Expense Trending	3.0%	
Loan to Value	78.3%	
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)	\$416,553	Operating Reserve plus FFB reserve of 2 months P&I
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$974,397	\$7,733/unit; exceeds UW requirements of \$2,000

Deviations from standard underwriting – YES

- A 4% vacancy rate was utilized instead of 5%. The appraisal utilized 2%, historic vacancy has averaged nearly 1% for the past three plus years.

Unit Distribution and Revenue

Unit	Rent Type	Number of Units	Contract Rent	Market Rent	Contract Rent as a % of Market Rent	Discount from Market Rent
1	1	110	\$ 1,655	\$ 1,750	94.6%	5.4%
2	2	15	\$ 2,037	\$ 2,150	94.7%	5.3%
1	1	1	NA	\$ 1,750	NA	NA
Total		126				5.7%

Market rents were determined by a RI Housing-commissioned appraisal. Market rents were determined to be \$1,655 for the one-bedroom units and \$2,037 for the two-bedroom units. The HAP rents are approximately 5% below 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	Bear Hill Village	\$22,640,000

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 Bear Hill Village RIH, LLC or an affiliated entity (the “Borrower”) in an amount not to exceed \$22,640,000, funded through the Risk-Sharing Initiative, for rental housing known as Bear Hill Village located in Cumberland, Rhode Island;

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

- A final appraisal acceptable to RIHousing prepared by an independent appraiser demonstrating that the first mortgage loan does not exceed 90% of the as-stabilized value of the property.
- 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.
- 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.