

Approval Loan Recommendation Summary – Braeburn Chatham

Preliminary X

Firm _____

Date: May 12, 2021

1. OVERVIEW:

This Request is for Preliminary Approval of up to \$17,210,000 of tax-exempt financing and \$500,000 of Capital Magnet Funds as part of a Back-to-Back transaction for Braeburn and Chatham Apartments (“Braeburn/Chatham” or the “Development”), two existing Section 8 developments in Providence that will be refinanced into one single asset entity with 91 family units. The developer is BLVD Capital (“BLVD”), an entity affiliated with the current ownership of both existing developments. BLVD is proposing to undertake approximately \$5.36MM or \$59,000 per unit in rehabilitation.

Braeburn Apartments (“Braeburn”) is comprised of 51 units in 4 buildings. It was developed as affordable housing in the late 1970’s with financing from Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”). After the original financing matured, Braeburn was sold to an entity related to BLVD. It is not currently subject to a long-term use restriction. Chatham Apartments (“Chatham”) is comprised of 40 units in 7 buildings. It was developed in 1997 using low income housing tax credits (“LIHTC”) from RIHousing and financing from a commercial lender. Chatham is in the extended use period of its LIHTC restriction agreement which expires in 2028. It was purchased by an entity related to BLVD in 2016. Both properties are in fair condition and suffer from deferred maintenance.

BLVD is proposing to finance the transaction with 4% LIHTCs, a Tax-Exempt Private Placement Back-to-Back (“Back-to-Back”) Loan, a Capital Magnet Fund Loan and a deferred developer fee to fund acquisition and rehabilitation of the property. As part of the transaction, BLVD is anticipating approval for a mark-up-to market rent increase and new 20-year HAP contracts. Citibank will be the Back-to-Back lender. The Citibank loan is non-recourse to RIHousing and the only security RIHousing provides is an assignment of our rights under the loan to the Borrower. Citibank will service the loan made to the Borrower and Citibank will bear all financial risk should the Borrower default on the loan.

2. EXECUTIVE SUMMARY

Property Address: 25 Harwol Court, 50 Burns Street, 195 Chatham Village
Providence, RI

Developer: BLVD Capital

Amount Requested: \$17,210,000 (construction loan converting to permanent)
\$500,000 – Capital Magnet Fund (CMF) loan

In addition, \$490,000 of Preservation Loan Program (PLP) Funds to be approved by the Affordable Housing Trust.

Loan terms (rate/term): The permanent loan will begin amortizing at closing and the construction loan will be interest only. Interest rate is currently 4.50% but is subject to change before closing. The permanent loan will amortize over 35-years with a balloon payment in year 17. The loan terms include personal guarantees from BLVD principals.

Sources	Preliminary	
	Amount	Per Unit
First Mortgage	\$12,680,947	\$139,351
Capital Magnet Fund	\$500,000	\$5,495
Preservation Loan Fund Program	\$490,000	\$5,385
LIHTC Proceeds	\$8,640,432	\$94,950
Deferred Developer Fee	\$1,816,421	\$19,961
Total Sources	\$24,127,800	\$265,141

Uses	Amount	Per Unit
	Construction	\$5,357,875
Contingency	\$535,788	\$5,888
Acquisition	\$11,557,500	\$127,005
Soft Costs	\$1,739,486	\$19,115
Financing	\$863,308	\$9,487
Developer Fee	\$3,008,094	\$33,056
Operating Reserve	\$786,901	\$8,647
Replacement Reserve Year 1 Deposit	\$182,000	\$2,000
Other Reserves	\$96,848	\$1,064
Total Uses	\$24,127,800	\$265,141

Deviations from standard underwriting – Not applicable; the loan is underwritten to Citibank’s underwriting guidelines; any differences are mitigated because the loan is non-recourse to RIHousing:

Recommendation: Recommend preliminary approval of tax-exempt financing using the Tax-Exempt Private Placement Back to Back Loan structure in the maximum amount of \$17,210,000 of which \$12,680,950 will remain as permanent financing, and a Capital Magnet Loan in an amount of up to \$500,000.

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3. A Benefits

This transaction will allow for capital improvements and preservation of 91 affordable units, origination and loan servicing fees to RIHousing. Additionally, the preservation of both Braeburn and Chatham will strengthen significant investments made by RIHousing and its partners in the surrounding Providence neighborhoods.

The current renovation budget including contingency is \$64,000 per unit, significant for existing Section 8 housing. BLVD has completed a Capital Needs Assessment, Phase 1 Environmental Site Assessment and Fire Code Review as part of their due diligence, all of which will inform the final scope of work.

The scope of work includes:

Exterior: Roofs, windows, siding, entry doors, exterior lighting.

Mechanical: New boilers and hot water heaters, upgrade plumbing/fixtures, upgrade electrical service, fire alarm panel replacement, security systems upgrades.

Interior: Complete unit rehabilitation and common area upgrades.

3.B Risks/Challenges

The building is subject to a HAP contract which is subject to annual appropriation. The borrower has applied for a new mark-up-to-market 20-year HAP contracts.

3.C Affordability

A new 40-year Regulatory Agreement and a 30-year Tax Credit LURA will be recorded at closing ahead of the Citibank Mortgage.

3.D Pertinent risk factors for this development are:

Market - Low Risk, the 91 apartments will be available to residents with a range of income levels below 60% of Area Median Income (“AMI”). Post completion, occupancy is expected to be at or near 100% with normal tenant turnover.

Construction – Low Risk; Braeburn and Chatham suffer from deferred capital needs. BLVD has proposed a renovation budget including the immediate and future requirements identified in the Capital Needs Assessment (“CNA”). Plans are being developed by David Presbrey Architects.

BLVD has not selected a contractor yet. They have been working with Stand Corporation (“Stand”) on initial cost estimates, however have not yet determined whether they will enter into a negotiated contract with Stand or go out to competitive bid. The current budget assumes a 10% contingency.

Developer – Medium Risk, BLVD has significant experience as an owner/operator of affordable housing. BLVD currently owns minority interests in 4 properties in Rhode Island - Braeburn, Chatham, Rock Ridge and Park Plaza. BLVD did encounter issues with Park Plaza, a Section 8 development for which RIHousing provides Section 8 contract administration, and which they purchased with equity but no debt. After purchase it was discovered that the site had significant construction defects because of work completed by the prior owner and its affiliated construction company. After the issues were raised to BLVD’s asset management team, BLVD worked with the ownership entity to fund \$1.5MM in new equity and replace the existing roofs windows and some siding and remediate unit interiors of water damage. BLVD also replaced the management company overseeing the property.

Community Opposition – Low Risk as both of these are existing developments.

Financing – Low Risk – RIHousing will not incur loan risk on either the construction or permanent loan. Citibank will bear all financial risk.

Underwriting Assumptions – Low Risk - Underwriting of this Development is primarily driven by Citibank standards. RIHousing reviewed and is comfortable with their assumptions. The borrower will be required to provide RIHousing with the management, LIHTC and construction documentation required under our guidelines.

Other – NA

4. UNDERWRITING

Unit	Rent Type	Number of Units	Gross Rent	Gross Rent as a	
				LIHTC Max	% of LIHTC Max
				Rent	Rent
1	60%	10	\$ 1,535.00	\$ 922.00	166%
2	60%	18	\$ 1,720.00	\$ 1,107.00	155%
3	60%	12	\$ 1,990.00	\$ 1,278.00	156%
1	60%	1	\$ 1,315.00	\$ 922.00	143%
1	60%	16	\$ 1,380.00	\$ 922.00	150%
2	60%	5	\$ 1,485.00	\$ 1,107.00	134%
2	60%	5	\$ 1,620.00	\$ 1,107.00	146%
2	60%	24	\$ 1,575.00	\$ 1,107.00	142%
Total		91			

Citibank will commission an appraisal; Borrower currently underwriting to the proposed RCS requested HAP rents.

4.A Trending – 2% income; 3% operating expenses except for Real Estate taxes which are fixed to 8% of Gross Potential Revenue post completion.

4.B Vacancy Loss and Bad Debt—5%

4.C Other Income – N/A

4.D Operating Expenses – \$9,81 per unit including annual deposit to replacement reserve.

4.E RE Taxes – 8% of gross potential revenue. Taxes trending at 2% per year.

4.F Proposed Replacement Reserve Deposit – \$182,000 initial deposit; \$350/unit/year on-going

4.G Proposed Operating Reserve Deposit – Initial deposit of \$786,901

4.H Other Proposed Reserves – NA

4.I Resulting NOI for Debt Service – \$828,126; Debt Service Coverage in Year 1 is 1.15 and increases to 1.32 in year 17.

5. PROPERTY DESCRIPTION

Chatham was constructed in the early 1970's and is comprised of 7 two-story buildings with on-site parking. Each building has its own independent foundation, but adjacent buildings are connected by common stairways. Braeburn consists of 4 separate buildings – one 21-unit

building, two 12-unit buildings and a 6-unit building. The buildings range in age from 40 to 140 years old. Up until this week, all the buildings were fully operational and fully occupied. On April 18th, there was a fire at Chatham which has left some of the units uninhabitable and forced temporary relocation for the existing residents. The buildings are fully insured. The buyer and seller are assessing damage and the expectation is that either (i) the seller will repair the units prior to closing, or (ii) all insurance proceeds will be assigned to the buyer who will undertake the repairs as part of the overall scope of work.

6. DEVELOPMENT ENTITY AND CAPACITY

6.A Prior Developments and Current Operational Capacity:

BLVD Capital (“BLVD”) is a privately held real estate investment company founded in 2010. BLVD is focused on the acquisition, asset management and preservation of affordable housing across the country. Currently, BLVD’s portfolio consists of more than 6,000 units in 17 states. BLVD’s strategy is to identify underperforming, poorly maintained and properties in transitional markets. The managing principals are Rob Budman and Patrick Luke. BLVD currently holds a minority ownership interest in the selling entity and acts as a Special Member responsible for Asset Management.

6.B Financial Strength: RIHousing has reviewed the Borrower’s financials and has determined that they are financially stable and represent a good credit risk.

6.C Guarantees: Citibank will require guarantees from the principals of BLVD

7. LOCATION AND MARKET DYNAMIC

Braeburn is located in the Wanskuck neighborhood of Providence approximately two miles north of the downtown area. Chatham is located in the Charles neighborhood of Providence, also approximately 2 miles north of downtown. Surrounding uses to both sites include single-family homes, multifamily developments along with various commercial and retail establishments along commercial corridors. Single-family homes in the area are generally in average condition Commercial and retail uses in the subject’s neighborhood are 90 percent occupied and in fair to good condition. Overall, the subject’s site is located in a mixed-use neighborhood, in close proximity to retail and commercial uses.

8. CONCLUSION

Staff recommends preliminary approval of a permanent loan of up to \$17,210,000 subject to Citibank Loan Approval and a Capital Magnet Fund Loan of up to \$500,000.

9. ATTACHMENTS

A. Proforma