

## Approval Recommendation Summary – Brookside Terrace II

**Preliminary:**

**Firm: X**

**Date: October 7, 2020**

### 1. OVERVIEW & UPDATE

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#### 1.A Overview

This Request is for Firm Approval of a Reservation of up to \$1,239,502 in 2020 9% low income housing tax credits (“LIHTC”) and Firm Commitment of financing of a first mortgage in the amount of \$1,125,000 and a Housing Trust Fund (“HTF”) Program loan in the amount of \$720,000 for Brookside Terrace II (the “Development” or “BT Phase II”). Dakota Properties, Inc. is the developer (“Dakota or the “Developer”).

The Development is the second phase of a two-phase 96-unit affordable housing development in East Greenwich. BT Phase II will consist of 48 units in 2 three-story garden-style newly-constructed residential buildings. The proposed buildings will provide a mix of 12 one-bedroom and 36 two-bedroom units and will benefit from a single-story community building and other site infrastructure being built as part of Brookside Terrace Phase I (“BT Phase I”). The Development will include energy-efficient elements including passive housing design and meet National Grid’s Residential New Construction Tier II standards. The 17-acre site is well located along South County Trail (Route 2) and is close to many shopping and recreation amenities. Much of the site is wetlands and unsuitable for further development and these areas will remain undisturbed.

Six units will be designated as HUD Section 811 Program units with an associated HUD Section 811 project-based voucher contract. The remaining 42 units will be restricted to residents with incomes at or below 60% AMI. A market study recently commissioned for BT Phase I supports the proposed 60% AMI units evidencing desirable penetration and absorption rates. A new market study has been commissioned for BT Phase II to confirm the proposed rents remain consistent with the proposed underwriting.

Santander Bank, N.A. will be the construction lender. Redstone Equity Partners will be the LIHTC investor with pricing at \$.9425, up from \$.92 from preliminary approval. These two partners represent a change from BT Phase I in which Bank of America was both the construction lender and the LIHTC syndicator.

## 2.B Update

Since preliminary approval, the first phase of the Brookside Terrace development closed and started construction. The data from on-going work has resulted in an increase in construction and soft costs for BT Phase II. The general contractor encountered significant ledge at the site that was not previously identified in the geotechnical reports for BT Phase I and this is the primary driver for the increased construction pricing. Soft costs increases were the result of refinement of budget items and the addition of playground equipment to the furniture, fixtures, and equipment line item. The total per unit development costs increased about 2%, from approximately \$276,000 to \$281,000 per unit. The total development cost per unit remain within the RI Housing total development costs limits for garden-style new construction.

On the sources side, Dakota was able to secure higher pricing on the LIHTC than anticipated at preliminary to cover the additional costs.

## 2. EXECUTIVE SUMMARY

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**Property Address:** 1470 South County Trail, East Greenwich, RI 02814

**Developer:** Dakota Partners, Inc.

**Amount(s) Requested:** \$1,239,502 LIHTC  
\$1,125,000 First Mortgage  
\$ 720,000 HTF Loan

**Loan terms (rate/term):** 5.0% /30-year taxable loan (1<sup>st</sup> Mortgage)

**Loan to Value (LTV):**

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$139,937	\$2,915	\$15,539	\$155,476	\$3,239
Appraisal Cap Rate	6.00%			6.00%	
Valuation	\$2,332,283	\$48,589	\$258,987	\$2,591,270	\$53,985
Loan Principal	\$1,125,000	\$23,438		\$1,125,000	\$23,438
LTV	48.24%		-5%	43.42%	

## Proposed Sources & Uses (Changes since Preliminary Approval)

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$1,125,000	\$23,438	\$0	\$1,125,000	\$23,438
Housing Trust Fund	\$720,000	\$15,000	\$0	\$720,000	\$15,000
LIHTC Proceeds	\$11,402,275	\$237,547	(\$278,863)	\$11,681,138	\$243,357
Other (Describe)	\$6,500	\$135	\$6,500	\$0	\$0
<b>Total Sources</b>	<b>\$13,253,775</b>	<b>\$276,120</b>	<b>(\$272,363)</b>	<b>\$13,526,138</b>	<b>\$281,795</b>

Uses	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Construction	\$8,750,941	\$182,311	(\$202,607)	\$8,953,548	\$186,532
Contingency	\$437,547	\$9,116	(\$10,130)	\$447,677	\$9,327
Acquisition	\$725,000	\$15,104	\$0	\$725,000	\$15,104
Soft Costs	\$1,386,843	\$28,893	(\$54,429)	\$1,441,272	\$30,027
Financing Costs	\$766,067	\$15,960	(\$5,475)	\$771,542	\$16,074
Developer Fee	\$907,200	\$18,900	\$0	\$907,200	\$18,900
Operating Reserve	\$235,177	\$4,900	\$1,278	\$233,899	\$4,873
Replacement Reserve Year 1 Deposit	\$16,800	\$350	\$0	\$16,800	\$350
RE Tax & Insurance Escrow	\$28,200	\$588	(\$1,000)	\$29,200	\$608
<b>Total Uses</b>	<b>\$13,253,775</b>	<b>\$276,120</b>	<b>(\$272,363)</b>	<b>\$13,526,138</b>	<b>\$281,795</b>

### \$1,239,502 LIHTC at \$.9425

**Deviations from standard underwriting:** Developer has requested a waiver from the RIHousing requirements for construction contingency and the general contractors' letter of credit.

RIHousing requirements include a construction contingency of 7.5% for new construction and Dakota has requested to carry a contingency of 5%. The principals of Dakota are providing a recourse guarantee for construction completion. Santander, the construction lender has agreed to a 5% construction contingency.

RIHousing requirements require a general contractor to post a payment and performance bond for the full contract amount or alternatively a letter of credit ("LOC") equal to 25% of the total contract amount. Dakota has requested to provide a LOC for 10% of the total construction contract which. Santander, the construction lender, has agreed to accept.

Since Santander is the construction lender, RIHousing staff is comfortable with these two deviations from our standard underwriting requirements.

**Recommendation:** Firm Approval of a Reservation of Low-Income Housing Tax Credits, a First Mortgage and HTF Loan.

### 3. OPPORTUNITY (BENEFITS) / CHALLENGES

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#### 3.A Benefits

The Development is the second phase of a two-phase 96-unit development approved by the Town of East Greenwich. BT Phase I closed in July 2020 and construction is underway. BT Phase II creates an additional 48 new affordable apartments, providing rental housing for households earning less than 60% AMI. The site is located on South County Trail, also known as Route 2, just south of the intersection with Route 4 and Interstate 95, making it desirable for renter households due to the community it is located in and the nearby amenities.

#### 3.B Risks/Challenges

Overall the development risk is low to moderate. With BT Phase II following close in time to the ongoing construction of BT Phase I, many of the development risks (unknown site costs, subcontractor's bids, etc.) have been mitigated. The remaining risk is execution risk by Dakota since they are acting as the general contractor as well as the developer. However, Dakota has demonstrated their ability to undertake challenging projects. They are wrapping up construction on Lincoln Lofts and were able to address schedule concerns due to several subcontractor challenges. To date, the ledge removal at BT Phase I has not resulted in schedule delays and Dakota was able to absorb the significant change order without negatively impacting the project. The first mortgage will be insured under the FHA Risk Sharing program.

#### 3.C Affordability

The target population for Brookside Terrace II is individuals and families with incomes below 60% area median income ("AMI"). Six (6) units will be subject to affordability restrictions at 30% ("AMI") under the HTF program. The remaining 42 units will all be leased at 60% AMI. A 30 year use restriction will be recorded at closing.

#### 3.D Pertinent risk factors for this development are:

**Market - Low Risk** – The units are expected to rent up within one to three months of construction completion. BT Phase II will benefit from the lease-up activity at BT Phase I, which will create interest and allow for the creation of a waiting list of income-eligible tenants. East Greenwich is a desirable community to live in and the RIHousing engaged market study confirms that there are sufficient renter income-eligible households in the primary market area to absorb the units and achieve the 60% AMI rents. The market study concluded that given

the lack of competing unsubsidized LIHTC housing and the 100% occupied status of nearby subsidized and affordable housing, there is high demand for the proposed LIHTC units.

***Construction – Low to Medium Risk*** - Construction will take place over 14 months with Dakota self-performing as the general contractor. The Development will benefit from the site and infrastructure work that has been completed as part of Phase I. This reduces significant risk associated with unknown site conditions such as excavating, utility, and roadways which have been completed as part of Phase I. The total construction costs for this project is \$8.9 Million plus a 5% contingency. Dakota will provide a letter of credit in lieu of a payment and performance bond insuring the work.

***Developer – Low to Medium Risk*** - Dakota Partners, Inc, founded in 2006, is a Massachusetts-based real estate developer and builder involved in the acquisition and development of multi-family rental communities and for-sale projects in both urban and suburban areas throughout New England and New York.

Dakota and its team have successfully acquired or completed over 1000 residential units, including a number of garden-style affordable housing developments, the conversion of a historic New Hampshire mill into loft-style apartments, and several projects involving the adaptive reuse of historic urban buildings in Hartford, Connecticut. Over the past 18 months, Dakota has experienced significant growth, both in successful funding awards in multiple states and staffing. The challenge for Dakota is to ensure that they can successfully execute the funding awards in a timely manner and maintain quality staff for the long-term.

Dakota has experience with state and federal programs, real estate transactions utilizing low-income housing tax credits, historic tax credits, community development block grants, and Housing and Urban Development programs. Dakota is led by principals Marc Daigle (CEO) and Roberto Arista (President).

***Community Opposition – Low Risk*** – The Development has been fully approved by the Town of East Greenwich. BT Phase I did not experience any community opposition during the entitlement process. During the pre-development design and permitting for BT Phase I, Dakota participated in a public engagement process that included organizing a community meeting that was in addition to those held for locally mandated zoning and planning approval processes. The Town of East Greenwich supports the creation of affordable housing as it is currently below the 10% affordable housing mandate and needs an additional 222 units to reach that goal by 2025. BT II will help the Town towards this goal by providing 21% of the affordable units necessary to meet the 10% goal.

***Financing – Low Risk*** - The total development cost is \$13.5 Million and over 86% of the cost is covered with LIHTC syndication equity. Santander will also provide a \$9.3 Million construction loan to bridge the delivery of equity during the 14-month construction period.

The permanent first mortgage is a taxable loan of \$1,125,000 provided by RIHousing. In addition, RIHousing will be providing a \$720,000 HTF loan. The first mortgage will be insured through the FHA Risk Sharing Program.

**Underwriting Assumptions – Low to Moderate Risk** – Transaction underwritten to RIHousing standard guidelines with negative trending. The development’s DCR is 1.22 in year 15, meeting RIHousing requirements.

**4. UNDERWRITING**

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**4.A. Rents** – Most of the units will be available to residents with incomes up to 60% AMI income range. Six units, consisting of four one-bedroom units and two two-bedrooms units, will be set aside for households with incomes ranging between 30% AMI and 60% AMI. It is expected that these 6 units will benefit from a HUD Section 811 rental subsidy contract that will be executed once the buildings are placed in service. RIHousing underwriting does not take into account the Section 811 rents, instead these 6 units are underwritten at 30% of AMI. The proposed rents are as follow

Unit	Rent Type	Number of Units	Gross Rent	Gross Rent as a		
				LIHTC Max Rent	% of LIHTC Max Rent	Discount from Market Rent
1	30%	4	\$ 479.22	\$ 461.00	104%	64.0%
1	60%	8	\$ 903.56	\$ 922.00	98%	28.8%
2	30%	2	\$ 593.88	\$ 553.00	107%	61.8%
2	60%	34	\$ 1,084.86	\$ 1,107.00	98%	26.3%
<b>Total</b>		<b>48</b>				

**4.B Comparison of market rents/proposed rents :**

Market Rents		Proposed Rents	
1 Bedroom	\$ 1,250	1 Bedroom	\$ 461
1 Bedroom	\$ 1,250	1 Bedroom	\$ 922
2 Bedroom	\$ 1,500	2 Bedroom	\$ 553
2 Bedrrom	\$ 1,500	2 Bedrrom	\$ 1,107

Proposed rents are net of utilities

**4.C Trending** – Rents 2% Expenses 3%. Consistent with underwriting guidelines.

**4.D Vacancy Loss and Bad Debt** — Vacancy of 5% of gross rent. Consistent with underwriting guidelines

**4.E Other Income** – Dakota is projecting additional income of \$12,000 from laundry and other fees and sources.

**4.F Operating Expenses** – \$8,236/unit was confirmed with Asset Management as a reasonable budget for similar properties within the RIHousing portfolio and is in line with the projected expenses for Phase I.

**4.G RE Taxes** – Phase II will be assessed real estate taxes based on 8% of Gross Potential Income per letter provided from Town of East Greenwich.

**4.H Proposed Replacement Reserve Deposit** – To be capitalized with an initial deposit of \$16,800 when placed in service and funded annually at rate of \$350/Unit/Yr.

**4.I Proposed Operating Reserve Deposit** – Operating Reserve capitalized at \$233,899 which meets RIHousing requirements for 6 months debt and 6 months operating expenses. Taxes and Insurance escrow accounts will be capitalized at six months of expenses for each.

**4.J. Other Proposed Reserves** – None.

**4.K Resulting NOI for Debt Service** – NOI year 1 of \$121,204. DSC of 1.67 in year 1 and 1.22 in year 15.

## **5. PROPERTY DESCRIPTION**

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BT Phase II is a proposed 48-unit affordable housing development that will be located on a 17-acre site in the Town of East Greenwich. It will consist of two, 3-story garden style residential buildings and will share a one single-story clubhouse/community building with Brookside Terrace I. The proposed buildings will provide a mix of 12 one-bedroom units and 36 two-bedroom units. The site is accessible from South County Trail (Route 2) and is abutted by two commercial properties. Much of the site is wetlands that is unsuitable for development and will remain undisturbed.

## **6. DEVELOPMENT ENTITY AND CAPACITY**

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### **6.A Prior Developments**

Brookside Terrace II will be the third 9% LIHTC project that Dakota will build in RI. Currently nearing construction completion is Lincoln Lofts, a 45-unit historic mill conversion project in Lincoln, RI. BT Phase I, a 48-unit new construction affordable housing development that is co-located with Brookside Terrace II has started construction and is on schedule to be completed in April 2021. The firm has been in business since 2006 and has a

good track record with over 1000 units developed in New England and other states on the Atlantic seacoast. Across their portfolio, Dakota has nearly 250 units in their pipeline which are expected to be delivered over the next two years.

### **6.B Current Operational Capacity**

Dakota is a growing for-profit entity that develops and manages construction of affordable housing in several states throughout New England and along the Atlantic seacoast. The staffing structure on the development planning side is led by a senior development manager with support from a development coordinator overseen by the principals and other senior staff with specialization in areas such as construction and zoning. The construction division operates as the general contractor for each of their developments but does not self-perform the construction work.

### **6.C Financial Strength**

Dakota's financials have been reviewed. They appear to represent a moderate risk as a small boutique developer. The principals have net worth and liquidity guarantees to the syndicator that are acceptable to RIHousing.

**6.D Guarantees** – Santander, the construction lender and RedStone Equity Partners, the tax credit equity syndicator for Brookside Terrace II, will require Dakota and its principals to provide completion guarantees for the project. RIHousing will also require a Construction Completion Guaranty.

## **7. LOCATION AND MARKET DYNAMIC**

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### **7.A Brief description of neighborhood**

The Brookside Terrace II site is located along South Country Trail in East Greenwich, RI, which is a main street within a neighborhood which is mostly commercial. There is a garden style condominium project within a tenth of a mile of the project site which has building types are similar to the proposed project, while the commercial buildings are a random variety of office and retail buildings with no common design elements. The site is set back several hundred feet from the road and buildings may not be visible from the street.

## **8. ADDITIONAL CONSIDERATIONS**

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None



## **9. CONCLUSION**

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Staff recommends Firm Approval of a Reservation of up to \$1,239,502 in 2020 9% Low-Income Housing Tax Credits (“LIHTCs”) and Firm Commitment of financing of a first mortgage in the amount of \$1,125,000 and a Housing Trust Fund loan in the amount of \$720,000

## **10. ATTACHMENTS**

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- a) Map of Neighborhood
- b) Development Proforma