

**Request for Action  
by  
Board of Commissioners**

**Firm Approval of Financing for Copley Chambers I**

**A. PROJECT SUMMARY**

This Request for Action (“RFA”) is for firm approval of Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) taxable construction-to-permanent financing in an amount not to exceed \$3,000,000, of which \$2,310,000 will remain as permanent financing for Copley Chambers I (hereinafter referred to as “Copley” the “Development”). Marathon Development, LLC is the developer (“Marathon” or the “Developer”). The Development received preliminary approval for this financing from the Board of Commissioners on April 21, 2022 (“Preliminary Approval”).

**B. DISCUSSION**

Copley is the proposed rehabilitation of a blighted vacant historic building located at 206 Broad Street in the Upper South Providence neighborhood. The building is officially listed on the National Register of Historic Places. Constructed in 1913 as one of the first apartment buildings in the city, the building is now in shell condition. Marathon proposes to convert the structure into a mixed-use building with 26 affordable apartments and a first-floor commercial space occupied by supportive service providers. Communal amenities will include a community room and laundry facility. No onsite resident parking will be available.

The 26 apartment units will be comprised of five efficiency units, 18 one-bedroom units, and three two-bedroom units. Two of the dwelling units will be ADA compliant. The Development has secured 8 project-based vouchers from the Providence Housing Authority. The dwelling units will be restricted to individuals or households earning between 30% and 80% of area median income.

Marathon will rehabilitate the Development using this financing and proceeds from the sale of Federal Historic Tax Credits, a Building Homes Rhode Island (“BHRI”) loan from the State of Rhode Island Housing Resources Commission, Acquisition and Revitalization Program (“ARP”) funds, and a deferred developer’s fee. In addition to receiving preliminary approval in April, the BHRI loan and ARP funds have already been secured. The overall development costs are slightly lower than were projected at preliminary approval.

By this RFA, staff recommends the attached resolutions providing firm approval of \$3,000,000 in taxable construction financing for Copley Chambers I, of which \$2,310,000 will remain as permanent debt, subject to certain conditions.

**C. ATTACHMENTS**

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

## Attachment A

### Credit Summary

#### Approval Loan Recommendation Summary – Copley Chambers I

Preliminary \_\_\_\_\_

Firm  X

Date: June 16, 2022

**Project:** Rehabilitation of a vacant historic property in Providence. Marathon Development proposes to convert the structure into a mixed-use building with 26 affordable apartment units and a first commercial space to be occupied by supportive service providers.

#### Development Team

	<b>Name</b>	<b>Location (city/state)</b>	<b>Risk Rating (low/med/high)</b>
<b>Sponsor/Developer</b>	Marathon Development, LLC	Boston, MA	Medium
<b>Mortgagor</b>	Copley Chambers I LLC	Boston, MA	Low
<b>Architect</b>	Newport Collaborative Architects	Newport, RI	Low
<b>General Contractor</b>	Marathon Construction Inc.	Boston, MA	Medium
<b>Legal</b>	Hinckley, Allen & Snyder LLP	Providence, RI	Low
<b>Management Agent</b>	Phoenix Property Management, Inc.	Warwick, RI	Low
<b>Consultant</b>	NA	NA	NA
<b>Syndicator</b>	Tax Incentive Finance, LLC	Providence, RI	Low

#### Executive Summary

	<b>Address</b>	<b>City</b>
<b>Property Address</b>	206 Broad Street	Providence
<b>Proposed Loan Amount(s) and Terms</b>		
	<b>Amount</b>	<b>Interest rate/Term</b>
Taxable Loan		
Construction/Bridge Loan	\$690,000	5.0%/2 years
Permanent Loan	\$2,310,000	5.625%/40 years

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

## Proposed Sources & Uses:

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$2,391,000	\$91,962	(\$81,000)	\$2,310,000	\$88,846
Fed. Historic Tax Credit Proceeds	\$722,842	\$27,802	(\$16,755)	\$706,086	\$27,157
Building Homes Rhode Island	\$1,950,000	\$75,000	\$0	\$1,950,000	\$75,000
Acquisition and Revitalization Program	\$1,620,313	\$62,320	\$0	\$1,620,313	\$62,320
Deferred Developer Fee	\$58,612	\$2,254	(\$1)	\$58,612	\$2,254
<b>Total Sources</b>	<b>\$6,742,767</b>	<b>\$259,337</b>	<b>(\$97,756)</b>	<b>\$6,645,011</b>	<b>\$255,577</b>

Uses	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Construction	\$3,674,698	\$141,335	(\$59,147)	\$3,615,551	\$139,060
Contingency	\$380,711	\$14,643	\$0	\$380,711	\$14,643
Acquisition	\$900,000	\$34,615	\$0	\$900,000	\$34,615
Soft Costs	\$564,913	\$21,727	\$1,385	\$566,298	\$21,781
Financing	\$443,615	\$17,062	(\$40,216)	\$403,399	\$15,515
Developer Fee	\$587,282	\$22,588	(\$12,043)	\$575,239	\$22,125
Operating Reserve	\$162,133	\$6,236	\$11,433	\$173,566	\$6,676
Replacement Reserve Year 1 Deposit	\$8,450	\$325	\$0	\$8,450	\$325
Other Reserves	\$20,966	\$806	\$832	\$21,797	\$838
<b>Total Uses</b>	<b>\$6,742,768</b>	<b>\$259,337</b>	<b>(\$97,756)</b>	<b>\$6,645,011</b>	<b>\$255,577</b>

We note that the permanent loan amount decreased because of higher interest rates.

## Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$185,722	\$7,143	(\$18,495)	\$167,227	\$6,432
Appraisal Cap Rate	7.00%			7.00%	
Valuation	\$2,653,168	\$102,045	(\$264,214)	\$2,388,954	\$91,883
Loan Principal	\$2,310,000	\$88,846		\$2,310,000	\$88,846
LTV	87.07%		10%	96.70%	

The appraiser's LTV determination is lower than RIHousing's determination. The difference in valuation results from the appraiser's projection of a residential vacancy rate of 5%, which is lower than the 7% used in our model at preliminary. Additionally, the appraiser assumed lower operating expenses than what was underwritten at preliminary.

## Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$255,577	
Residential Vacancy Rate	5%	
DCR Yr 1	1.15	
DCR Yr 15	1.31	

NOI	\$167,227	
Income Trending	2%	
Expense Trending	3%	
Loan to Value	87%	
Initial Installment (%) of historic syndication proceeds	A minimum of 15%	
Acquisition Price equal to or less than Appraised value	Yes	Acquisition is \$390,000 less than “as is” appraised value
Operating Reserve (Amt and confirm consistency with UW requirements)	\$173,566	Equal to 6 months debt service OPEX
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$8,450 initial deposit	\$325 per dwelling unit

**Deviations from standard underwriting** – The project fails the bridge loan test in that the sum of the bridge loan and the initial installment of syndication equity exceed 90% of the syndication raise. To mitigate this deviation, the borrower and the principals of the borrower entity will be required to execute a recourse guarantee for the loan and a guaranty of construction completion. In addition, it is standard practice for RIHousing to take assignments of the construction and architect’s contracts.

### Unit Distribution and Revenue

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max		Gross Rent as a % of LIHTC Max		Market Rent	Discount from Market Rent
				Rent	Rent	Rent	Rent		
EFF	30%	3	\$ 1,004.00	\$ 454.00	221%	\$ 1,550.00	39%		
1	30%	5	\$ 1,128.00	\$ 486.00	232%	\$ 1,650.00	36%		
EFF	60%	1	\$ 995.22	\$ 909.00	109%	\$ 1,550.00	39%		
1	60%	5	\$ 1,135.87	\$ 973.00	117%	\$ 1,650.00	34%		
EFF	80% Non-LIHTC	1	\$ 1,286.00	\$ -	0%	\$ 1,550.00	19%		
1	80% Non-LIHTC	8	\$ 1,468.00	\$ -	0%	\$ 1,650.00	12%		
2	80% Non-LIHTC	3	\$ 1,653.00	\$ -	0%	\$ 1,850.00	12%		
<b>Total</b>		<b>26</b>			<b>97%</b>		<b>25.3%</b>		

This pro forma utilizes newly released 2022 rents, an increase from the rental rates presented for preliminary approval.

**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,** on April 21, 2022 the RIHousing Board of Commissioners granted preliminary approval of taxable construction-to-permanent first mortgage financing to Marathon Development, LLC (“Applicant”) to acquire and/or rehabilitate the affordable housing to be known as Copley Chambers I (the “Development”);

**Whereas,** Applicant is requesting firm approval of taxable construction-to-permanent first mortgage financing for the Development as set forth below:

<b>Applicant</b>	<b>Development</b>	<b>RIHousing Mortgage</b>
Marathon Development, LLC	Copley Chambers I	\$3,000,000

**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 construction-to-permanent first mortgage financing for Copley Chambers I LLC or other affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$3,000,000 for rental housing known as Copley Chambers I located in Providence, Rhode Island.

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

- Syndication proceeds from the sale of federal historic tax credits in an amount sufficient to ensure development feasibility;
- 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;
- FHA Risk-Sharing Program approval from HUD for a minimum of 50% of the first mortgage;
- Execution of an Agreement to Enter Into a Housing Assistance Payments (“AHAP”) contract with the Providence Housing Authority;
- Final approval by RIHousing of construction plans, specifications, and supporting construction documentation;
- Execution and delivery by the Applicant of a construction completion guaranty in form and substance satisfactory to RIHousing;
- Recordation of a RIHousing Regulatory Agreement in a form acceptable to RIHousing;
- Approval by RIHousing of management documentation; and
- 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, be and hereby are empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.