

**Request for Action
by
Board of Commissioners**

Firm Approval of Financing for Douglas Manor Apartments

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 \$15,350,000.00 for Douglas Manor Apartments in North Providence (hereinafter referred to as “Douglas Manor” or the “Development”). Cathedral Development Group, Inc. is the developer (“CDG” or the “Developer”).

Douglas Manor is a three- and four-story masonry building originally constructed in 1979. It has 86 one-bedroom and 14 two-bedroom apartments for elderly and disabled households. Amenities include an outdoor communal patio, community room with a kitchen, laundry room, and management office. The Section 8 HAP contract, which covers all 100 units, was recently renewed for 20 years with rents marked up to market.

The Developer acquired Douglas Manor in October 1992 through a related entity. In 2010, moderate rehabilitation was completed utilizing tax-exempt bonds and Low-Income Housing Tax Credits. The investor limited partner exited the transaction late last year. CDG will ensure the project meets all remaining tax credit obligations. At this time, the Developer would like to complete a light rehabilitation, informed by a RIHousing-commissioned capital needs assessment, of approximately \$13,000.00 per unit. The Developer also seeks to lock in a lower interest rate and complete an equity take-out.

The scope of work includes significant cosmetic upgrades to interior common areas and energy efficiency upgrades in the form of an upgraded domestic boiler, new exterior doors, replacement of 40 stoves, and installation of low-flow toilets. All units will receive new bathroom vanities, counters, and sinks and 40 units will receive new kitchens. There will be additional repairs to meet current fire and life-safety codes.

This RFA seeks firm approval of a taxable permanent loan in an amount not to exceed \$15,350,000.00, 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 – DOUGLAS MANOR

Preliminary _____

Firm X

Date: December 8, 2021

Project: Preservation of 100 existing affordable elderly and disabled apartments located in North Providence comprised of 86 one-bedroom and 14 two-bedroom units. Improvements are situated on a site owned by a related entity with a 99-year ground lease.

Development Team

	Name	Location	Risk Rating
Sponsor/Developer	Cathedral Development Group, Inc.	Providence, RI	Low
Mortgagor	Douglas Manor Apartments, LP	Providence, RI	Low
Architect	Lerner/Ladds + Bartels, Inc.	Pawtucket	Low
General Contractor	Cathedral Construction Management, LLC	Providence	Low
Legal	Gina M. Illiano, Esquire	Providence	Low
Management Agent	Property Advisory Group, Inc.	Providence	Low

Executive Summary

Property Address	1155 Douglas Avenue	North Providence, RI
Proposed Loan Amount(s) and Terms		
Taxable Loan (FFB)	\$15,350,000.00	3.8%/40-year term

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

Proposed Sources & Uses:

Sources	Firm	
	Amount	Per Unit
RIH First Mortgage	\$15,350,000	\$153,500
Operating Reserve	\$386,000	\$3,860
Replacement Reserve	\$429,860	\$4,299
Tax/Insurance	\$131,000	\$1,310
Total Sources	\$16,296,860	\$162,969

Uses	Firm	
	Amount	Per Unit
Construction	\$1,200,287	\$12,003
Contingency	\$120,000	\$1,200
Acquisition	\$5,752,000	\$57,520
Soft Costs	\$255,000	\$2,550
Financing	\$461,438	\$4,614
FFB & Operating Reserve	\$329,593	\$3,296
Replacement Reserve Year 1 Deposit	\$200,000	\$2,000
Tax and Insurance Reserves	\$98,850	\$988
Equity Take-out	\$7,879,694	\$78,797
Total Uses	\$16,296,860	\$162,969

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$971,443	\$9,714	(\$111,330)	\$860,113	\$8,601
Appraisal Cap Rate	5.35%			5.35%	
Valuation	\$18,160,000	\$181,600	(\$2,083,120)	\$16,076,880	\$160,769
Loan Principal	\$15,350,000	\$153,500		\$15,350,000	\$153,500
LTV	84.53%		11%	95.48%	

- RIHousing used a 4.0% vacancy vs. appraiser's 2.0%; actual vacancy is 1%
- RIHousing used a Management Fee of 5.5% vs. appraiser's 4.0%
- RIHousing used more conservative operating expenses in general
- Loan Amount will drop if the actual interest rate is higher than the underwriting rate

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	\$162,969.00	
Residential Vacancy Rate	4%	Appraisal uses 2.0%
DCR Yr 1	1.15	Proforma utilizes negative trending
DCR Yr 15	1.32	
NOI	\$860,113.00	Year 1
Income Trending	2.0%	
Expense Trending	3.0%	
Loan to Value	84.5%	
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)	\$329,593.00	Equals 3 months debt and OPEX minus deposit to Replacement Reserve; plus FFB reserve of 2 months P&I.
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$200,00.00	2,000/unit; consistent with UW requirement

Deviations from standard underwriting – YES

A 4% vacancy rate was utilized instead of 5%. The appraisal utilized 2%, historic vacancy has remained at or near 1% for the past several years.

Unit	Number of Units	Contract Rent	Market Rent	Contract Rent as a % of Market Rent	Discount from Market Rent
1	86	\$ 1,460.00	\$ 1,500.00	97%	2.7%
2	14	\$ 1,595.00	\$ 1,630.00	98%	2.1%
Total	100				2.6%

Unit Distribution and Revenue

Market rents were determined by a RIHousing-commissioned appraisal. Market rents were determined to be \$1,500 for the one-bedroom units and \$1,630 for the two-bedroom units. The project is underwritten to the lower of HAP or market rents; in this case, HAP 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
Cathedral Development Group	Douglas Manor Apartments	\$15,350,000

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 Douglas Manor Apartments, LP or an affiliated entity (the “Borrower”) in an amount not to exceed \$15,350,000, funded through the Risk-Sharing Initiative, for rental housing known as Douglas Manor Apartments located in North Providence, 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.
- 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.
- Amendment to the existing Ground Lease Agreement between D.M. Associates L.P. and Douglas Manor Apartments, LP subordinating the ground lease to RIHousing loan documents and any other changes recommended by legal counsel.
- 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, and the 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.