

**Request for Action
by
Board of Commissioners**

Firm Approval of Financing for Harris House

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of taxable refinancing in the amount of \$16,560,000 for Harris House Apartments (“Harris House” or the “Development”), an existing affordable housing development currently financed by Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”). Cathedral Development Group Inc. is the developer (“CDG” or the “Developer”).

Harris House is an existing 133-unit elderly affordable housing development located at 28 Harris Avenue in Cranston, RI. The Development consists of a 4-story, 133-unit apartment building built circa 1979 and was last renovated in 2010. There are 123 one-bedroom and 10 two-bedroom units. The Development is subsidized by the U.S. Department of Housing and Urban Development (“HUD”) through a Section 8 Housing Assistance Payment (“HAP”) contract that is effective through May 2031.

Harris House is well located within an urban location that has access to health care, senior focused services, shopping, restaurants, and entertainment, all of which benefit the residents at the Development. The immediate neighborhood is developed with primarily commercial, two-family, and multi-family residential uses as well as retail, dining, and entertainment services including a Stop & Shop supermarket, Aldi supermarket, Lang’s Bowlarama, Lowe’s Home Improvement, a Rite Aid Pharmacy, Cranston Public Library’s Arlington Branch, and multiple cafes. The City of Cranston - Department of Senior Services (“Senior Services”) is located within a quarter-mile, or approximately a 10-minute walk, to the south of the Development. RIPTA’s bus line #4, which has a stop at the front entrance of the Development, provides transportation to the Senior Services as well as additional locations primarily along Cranston Street.

The Development is owned by Harris House Partners, LP (the “Borrower”). 28 Harris Associates, LLC is the general partner and CDG is the sole managing member of the general partner. No change in either the general partner or a limited partner with greater than 25% ownership interest will occur as a result of this proposed transaction.

The Borrower will use the proceeds of the new financing to pay off the existing mortgage, undertake accessibility, life safety, energy and general upgrades to the Development. A new replacement reserve account will be capitalized with \$1,573,500 or \$11,831 per unit. In addition, the Borrower will make annual deposits of \$300 per unit into the replacement reserve, which is sufficient to address potential rehabilitation needs in the future. RIHousing’s design and construction staff will review and approve the proposed scope of work and the capital needs assessment.

RIHousing currently holds the first mortgage and is familiar with the property and operations. In addition to the rehabilitation, the Borrower will withdraw a portion of accrued equity in the

Development. The proposed refinancing is consistent with RIHousing’s taxable loan program that has replaced the Treasury-HUD Federal Financing Bank (“FFB”) HFA Multifamily Risk Sharing Loan Financing Initiative, which was suspended by HUD in 2018. As part of the underwriting process, staff has determined that the Development meets RIHousing’s requirements. Broadly, this review included:

- Compliance with HUD’s requirements
- Demonstrated responsible long-term ownership and management of the property
- A 20-year HAP Contract
- Adequately funded replacement and operating reserves
- Low vacancy rates
- Consistency with RIHousing’s standard underwriting requirements
- Financially beneficial to RIHousing
- Execution of a new 40-year affordability agreement

The refinancing of the Development will extend the affordability period for another 40 years. As part of this refinancing, RIHousing will receive an origination fee of \$215,600 and the Borrower will cover the cost of issuance fees associated with the financing.

RIHousing commissioned an appraisal seeking the as-is value assuming the lower of market rents or the current HAP rents. The proposed loan is underwritten to the current market rents, which are less than the HAP rents.

This RFA is for firm approval of taxable refinancing in an amount up to \$16,560,000 for the Development.

B. RECOMMENDATION

The attached resolution for firm approval of taxable refinancing for the Development is recommended for approval subject to the following:

- Approval by RIHousing of the final scope of the rehabilitation work.
- Approval by RIHousing of construction specifications and supporting construction documentation for the scope of rehabilitation work.
- FHA Risk Sharing approval from HUD for a minimum of 50% of the first mortgage.
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

C. ATTACHMENTS

- A.** Development Summary
- B.** Term Sheet
- C.** Resolution
- D.** Site Location Map

ATTACHMENT A
Development Summary

A. Development Team

- 1. Borrower:** Harris House Partners, LP
c/o Cathedral Development Group, Inc.
5 Cathedral Square
Providence, RI 02903
- 2. Developer:** Cathedral Development Group, Inc.
5 Cathedral Square
Providence, RI 02903
- 3. Legal:** Gina Illiano, Esq.
5 Cathedral Sq.
Providence, RI 02903
- 4. Management Agent:** Property Advisory Group, Inc.
5 Cathedral Square
Providence, RI 02903

B. Development Team Qualifications

Borrower/Developer/Management Agent:

Cathedral Development Group, Inc. (“CDG”) is a Rhode Island-based real estate owner and management company. They control the general partner interest in approximately ten Section 8 developments financed by RIHousing and they have proactively preserved most of their portfolio with RIHousing through its various preservation programs. Their identity of interest management company is Property Advisory Group (“PAG”). They are an experienced management agent providing services to its developments. CDG, PAG and Guardian Property Management, another affiliated property management company own and operate other developments in Rhode Island, New York, Delaware, Wisconsin and Arizona.

Legal

Legal counsel for the Developer in this transaction will be Gina Illiano, Esq. Ms. Illiano has been engaged in the representation of various corporations, partnerships, as well as state and municipal departments and agencies, in complex commercial-litigation matters and transactions as well as commercial and residential real-estate transactions. Ms. Illiano has worked on previous RIHousing financed transactions.

C. Unit Distribution and Revenue

Bedroom Size	Number	Gross HAP Rent	Gross Market Rent	Gross Underwriting Rent
1	122	\$1,340	\$1,320	\$1,320
2	10	\$1,575	\$1,500	\$1,500
1	1	\$988	\$1,320	\$988

The new financing has been sized based on the market rents, which have been determined to be less than the HAP rents through an appraisal commissioned by RIHousing.

D. Financing Summary

Sources	Firm	
	Amount	Per Unit
RIH First Mortgage	\$16,560,000	\$124,511
Operating Reserve	\$438,530	\$3,297
Replacement Reserve	\$729,373	\$5,484
Total Sources	\$17,727,903	\$133,293

Uses	Firm	
	Amount	Per Unit
Construction	\$192,500	\$1,447
Contingency	\$150,000	\$1,128
Acquisition	\$6,260,000	\$47,068
Soft Costs	\$304,201	\$2,287
Financing	\$484,700	\$3,644
Operating Reserve	\$215,816	\$1,623
Replacement Reserve	\$1,573,500	\$11,831
Other Reserves	\$112,238	\$844
Equity Takeout	\$8,434,947	\$63,421
Total Uses	\$17,727,903	\$133,293

Attachment B
Term Sheet –Harris House

Borrower:	Harris House Partners, LP
Rents:	Underwriting rents are the lower of HAP rents or market rents as determined by a certified appraiser commissioned by Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”).
Mortgage Term:	The loan term will be for 40 years with a balloon payment of the outstanding principal balance after 30 years.
Excess Cash Flow:	Equity will be determined at the final advance of loan and will be based on the difference between the loan and the appraised value. As per RIHousing statutory regulations, the return on equity (“ROE”) shall be the average per annum yield on the 30-year US Treasury Bond plus 5%. Excess cash flow above and beyond the ROE shall be divided between the owner and the Affordable Housing Trust.
Permanent Loan Rate:	The final loan rate will be determined at the time of the loan closing based on market conditions. The current underwriting rate is 4.375% and assumes a balloon structure.
Mortgage Insurance:	Credit enhancement provided through the HUD/HFA Risk Sharing Program; Mortgage Insurance Premium (“MIP”) is 0.125% of the outstanding loan amount annually. The first year of MIP is due at closing.
Collateral:	The Borrower will furnish as security for the loan, a first mortgage covering the premises and a collateral assignment of the rents and leases.
Loan to Value Ratio:	The RIHousing first mortgage may not exceed 90% of the as-stabilized value, subject to the lower of HAP rents or market rents as determined by a certified appraiser commissioned by RIHousing.
Debt Service Coverage:	The required debt service coverage ratio for sizing the supportable first mortgage is a minimum of 1.15.
Loan Fee:	At or before loan closing, Borrower shall remit to RIHousing a first mortgage origination fee equal to 2% of the first \$5 million of the loan and 1% on the balance of the loan amount.

- Third Party Fees:** The Borrower shall be responsible for paying any and all of RIHousing's third-party fees required to complete RIHousing's due diligence review and close the transaction. Costs may be capitalized in the development budget; costs exceeding those budgeted at closing will be the responsibility of the Borrower.
- Replacement Reserves:** The Borrower shall capitalize a new replacement reserve account in the amount of \$1,573,500. The Borrower shall make monthly deposits to a replacement reserve, held by lender, in an amount equal to \$300 per unit per year. The lender reserves the right to modify the annual reserve contribution over the term of the loan due to inflation or the physical needs of the development.
- Operating Reserve:** The Borrower shall capitalize an operating reserve at loan closing in a total amount of \$215,816.
- Insurance and Tax Escrows:** The Borrower will capitalize new insurance and tax escrows, and the Borrower will continue to make monthly deposits equal to one-twelfth of the annual billing.
- Regulatory Agreement:** Borrower is required to sign an affordability agreement restricting the units for 40 years from closing.

Attachment C
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 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 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 provide the capitalized interest if determined to be necessary;

Whereas: the applicant (“Applicant”) listed below has presented an application to RIHousing requesting mortgage refinancing to rehabilitate the development as set forth below:

<u>Development</u>	<u>Applicant</u>	<u>Mortgage</u>
Harris House Apartments	Harris House Partners, LP	\$16,560,000

Whereas: staff has reviewed the submission and determined that the Development may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines and policies;

Whereas: RIHousing finds that:

- (1) there exists a shortage of decent, safe, and sanitary housing at rentals 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 pursuant to the provisions of this chapter 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 Rhode Island Housing and Mortgage Finance Corporation Act, 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 authorizes firm approval of taxable refinancing to the Applicant in an amount not to exceed \$16,560,000 for rental housing known as Harris House Apartments located in Cranston, Rhode Island to be refinanced, with taxable funds;

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

- Approval by RIHousing of the final scope of the rehabilitation work.
- Approval by RIHousing of construction specifications and supporting construction documentation.
- FHA Risk Sharing approval from HUD for a minimum of 50% of the first mortgage.
- 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, or the Director of Development each acting singly, shall take any and all actions they deem necessary to carry out the foregoing resolutions.

ATTACHMENT D
Site Location Map

28 Harris Avenue, Cranston, RI

