

Request for Action
by
Board of Commissioners

Firm Approval of Financing for Riverside House Apartments

1. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of taxable refinancing in the amount of \$6,286,500 for Riverside House Apartments (“Riverside” or the “Development”), an existing affordable housing development currently financed by Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”). The Development is owned by Willett/Riverside, LLC, (the “Borrower”), who is also acting as the developer. Preliminary approval of taxable refinancing for Riverside was granted by the Board of Commissioners on March 19, 2020.

Riverside is an existing 55-unit elderly affordable housing development located on Willet Avenue in the Riverside neighborhood of East Providence, RI. The Development consists of a 3-story, 55-unit apartment building built circa 1983 and was last renovated in 2005. There are 50 one-bedroom and 5 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 November 2033. Riverside is well located within a suburban location. The neighborhood has access to the Interstate 195/Pawtucket Avenue interchange about 4.5 miles to the north via Routes 103 and 114. Alternative access to the interstate highway is offered by Wampanoag Trail/East Shore Expressway, via Route 103 traveling east into Barrington. RIPTA Bus service is also provided along Willett Avenue with a bus stop located across the street from the subject property.

The owners of Willett/Riverside, LLC are Roland (James) Ferland and David Ferland. These 2 individuals assumed ownership control in 2005. No change in ownership interest will occur as a result of this proposed transaction. The property management firm is Craig Management Company, Inc., which is owned by James Ferland.

The proceeds of the new financing will be utilized to pay off the existing mortgage, undertake various unit and common area upgrades, recapitalize the reserves, and make an equity distribution to the partners. The rehabilitation budget is approximately \$1.1 million. The proposed work includes: replacement of the emergency generator, replacement of all windows, grinding and repaving the asphalt parking lot, painting and new floor covering in all common areas and new kitchens in 34 of the 55 units that have not previously had a kitchen upgrade. In order to ensure the property is adequately capitalized in future years, a new replacement reserve account will be capitalized with \$110,000 or \$2,000 per unit. The Borrower will also make annual deposits of \$300 per unit into the replacement reserve, and an updated capital needs assessment (“CNA”) will be commissioned every 5 years to reassess property needs and ensure there are adequate replacement reserves.

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

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 approval process, staff determined that the Development and owner meet RIHousing’s requirements for participating in the taxable loan program. Broadly, this review included:

- Compliance with HUD’s requirements
- Demonstrated responsible long-term ownership and management of the property
- A 20-year HAP Contract with a minimum of 10 years remaining
- Adequately funded replacement and operating reserves
- Low vacancy rates
- Financially beneficial to RIHousing
- Execution of a new 40-year affordability agreement
- Consistency with RIHousing’s standard underwriting requirements

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” and “as complete and stabilized” values assuming the lower of market rents or the current HAP rents. Consistent with the values in the appraisal, the proposed loan is underwritten to the HAP rents for the 1-bedroom units (lower than market rents) and the current market rents for the 2-bedroom units (less than the HAP rents).

This RFA is for firm approval of taxable financing in an amount up to \$6,286,500 for the Development.

2. RECOMMENDATION

The attached resolution is recommended for approval subject to:

- 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 Borrower 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.
- Evidence that the City of East Providence Tax Assessor has approved the statutory “8% tax treatment” for the Development and will limit the taxation of the Development to 8% or less of gross scheduled rental income.
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

3. ATTACHMENTS

A. Development Summary

- B.** Term Sheet
- C.** Resolution
- D.** Site Location Maps

Attachment A Development Summary

A. Development Team

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|-------------------------------|--|
| 1. Mortgagor: | Willett/Riverside, LLC 1061 Willett Avenue East Providence, RI 02915 |
| 3. Architect: | Lerner/Ladds + Bartels, Inc. 161 Exchange Street Pawtucket, RI 02860 |
| 4. General Contractor: | Cathedral Construction Management, LLC 5 Cathedral Square Providence, RI 02903 |
| 5. Management Agent | Craig Management Company, Inc. 1061 Willett Avenue East Providence, RI 02915 |
| 6. Legal: | Gina Illiano, Esq. 5 Cathedral Square Providence, RI 02903 |
| 7. Consultant: | Cathedral Development Group, Inc. 5 Cathedral Square Providence, RI 02903 |

Development Team Qualifications

Mortgagor / Management Agent

Willett/Riverside, LLC has owned and operated the property for 15 years. The property represents the bulk of commercial real estate owned by this group. They have owned and operated the property in a manner that is fiscally responsible while providing a good environment for the tenants. The property is managed by Craig Management Company, Inc. (“Craig Management”), an affiliated family owned business, which manages one other similar residential building. Craig Management is familiar with the requirements of the associated financing and HAP Contract.

Architect

Lerner/Ladds + Bartels, Inc. (“LLB”) is a leader in designing timeless environments that allow people to thrive. The architectural practice is built upon the core values of care for the environment, communities and clients. A multi-disciplinary firm, LLB has a wide portfolio of work for both public and private clients. LLB has worked with a number of property management

companies to renovate affordable housing properties throughout Rhode Island, meeting the requirements of both state and federal agencies. LLB has coordinated numerous projects financed with RIHousing, including Bradford Court, Harris House, Mt Vernon Apartments, Redfern Grove Apartments and Temple North Apartments.

General Contractor / Consultant

Cathedral Development Group, Inc. (“CDG”) owns and operates over 30 residential properties with over 3,000 units. Cathedral Construction Management, LLC (“CCM”) is a subsidiary of CDG. In addition to their work in Rhode Island, both companies also operate in Arizona, Connecticut, Delaware, Maine, Pennsylvania, Wisconsin and New York. CCM has operated for over 10 years and completed over \$50,000,000 worth of construction projects. Typically, these companies work on projects owned by CDG, but do provide consulting and construction management for select third party clients.

Legal

Legal counsel for the Mortgagor 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

| Unit | Rent Type | Number of Units | Gross Rent | Gross Rent as a | | Discount from Market Rent |
|--------------|-----------|-----------------|-------------|-----------------|---------------------|---------------------------|
| | | | | LIHTC Max Rent | % of LIHTC Max Rent | |
| 1 | 60% | 50 | \$ 1,380.00 | \$ 922.00 | 150% | 6.1% |
| 2 | 60% | 5 | \$ 1,650.00 | \$ 1,107.00 | 149% | 0.0% |
| Total | | 55 | | | | 5.6% |

The new financing is based on the lower of HAP rents or Market rents by unit size.

D. Finance Summary

| Sources | FIRM | |
|----------------------|--------------------|------------------|
| | Amount | Per Unit |
| RIH First Mortgage | \$6,286,500 | \$114,300 |
| Operating Reserve | \$70,423 | \$1,280 |
| Replacement Reserve | \$127,242 | \$2,313 |
| T/I Reserve | \$37,596 | \$684 |
| Total Sources | \$6,521,761 | \$118,577 |

| Uses | FIRM | |
|------------------------------------|--------------------|------------------|
| | Amount | Per Unit |
| Construction | \$1,125,814 | \$20,469 |
| Contingency | \$112,500 | \$2,045 |
| Acquisition | \$1,959,000 | \$35,618 |
| Soft Costs | \$232,925 | \$4,235 |
| Financing | \$215,021 | \$3,909 |
| Operating Reserve | \$101,815 | \$1,851 |
| Replacement Reserve Year 1 Deposit | \$110,000 | \$2,000 |
| Other Reserves | \$53,214 | \$968 |
| Developer Fee | \$100,000 | \$1,818 |
| Equity Takeout | \$2,511,472 | \$45,663 |
| Total Uses | \$6,521,761 | \$118,577 |

Attachment B
Term Sheet – Riverside House Apartments

| | |
|-------------------------------|---|
| Borrower: | Willett/Riverside, LLC |
| 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 17 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 Fund. |
| 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 4.5% 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 \$110,000. 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 so that the combination of the replacement reserves and operating reserve total a minimum of three months of: operating expenses, replacement reserve contributions and debt service. This is currently projected to be in a total amount of \$101,815.

Insurance and Tax Escrows: At closing, the Borrower will capitalize new insurance and tax escrows equivalent to three-twelfths of the annual billing. 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 an additional 40 years from the expiration of the current term.

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: in March 2020, the RIHousing Board of Commissioners granted preliminary approval of taxable refinancing for the applicant (“Applicant”) listed below to rehabilitate the development (“Development”) as set forth below:

| <u>Development</u> | <u>Applicant</u> | <u>Loan</u> |
|-------------------------------|------------------------|-------------|
| Riverside House Apartments | Willett/Riverside, LLC | \$6,286,500 |

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; and

Whereas: RIHousing Board of Commissioners and staff reviewed the submission and determined that the Development qualifies for financing under RIHousing’s enabling legislation, regulations, guidelines and policies.

NOW, THEREFORE, IT IS HEREBY:

Resolved: that, subject to the special conditions listed below, RIHousing hereby authorizes firm approval of taxable refinancing to Willett/Riverside, LLC in an amount not to exceed \$6,286,500 for the rehabilitation of rental housing known as Riverside House Apartments located in East Providence, Rhode Island;

Resolved: that the foregoing resolution is subject to the following conditions:

- 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 the U.S. Department of Housing and Urban Development for a minimum of 50% of the first mortgage.
- Evidence that the City of East Providence Tax Assessor has approved the statutory “8% tax treatment” for the Development and will limit the taxation of the Development to 8% or less of gross scheduled rental income.
- 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, 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 Maps

