

Loan Approval Recommendation Summary – Forest Farms Assisted Living

Preliminary

Firm

Date: February 10, 2021

1. OVERVIEW

Forest Farm Assisted Living (FFAL) is a licensed assisted living facility located in Middletown, RI originally constructed and financed by RIHousing in 1999 using Low Income Housing Tax Credits (LIHTC) and other financing. The property currently has 50 one-bedroom assisted living apartments contained in a single building, of which 35 are LIHTC and receive Medicaid Waivers from the State of RI. The project reached the end of its initial compliance period in 2014 and the equity investor limited partner, National Equity Fund, exited the partnership in 2015.

In addition to the assisted living apartments, the building features a commercial kitchen, dining room, library and other common activity rooms to service the needs of the residents. Church Community Housing Corporation (CCHC or the Developer) was the original developer of FFAL and is proposing this refinancing to undertake a moderate rehabilitation of the property. The building is attached to the Royal Middletown Nursing Centre (F/K/A Forest Farms Healthcare Center) (Royal). FFAL and Royal have a contractual relationship in which an affiliate of Royal provides meals and services to FFAL. FFAL is responsible for the property management traditional to a residential property.

FFAL's operations have been inconsistent over the past 20 years. Much of the challenge is due to the vagaries of the state's Medicaid Waiver. While the state did set aside 151 Medicaid waivers for 3 assisted living facilities financed by RIHousing, the reimbursement rate was stagnant for more than 10 years even though costs, many mandated by the Department of Health, increased annually. In 2018, the reimbursement rate increased from \$43/day to \$69/day, helping to stabilize operations.

Many of the building systems and interior finishes that were installed in 1999 are at or nearing the end of their effective useful life and need replacement. CCHC is proposing over \$4.5MM in improvements to the property and the planned scope of the rehabilitation includes replacing the roof and installing solar panels, replacing boilers and hot water tanks with new efficient systems, installing new efficient heat pumps for each unit for improved heating and cooling within the units, upgrading the sprinkler and fire alarm systems to meet current code requirements and improve life safety, upgrading the commercial kitchen and decommissioning one market rate unit to allow for expanded kitchen operations with space for food preparation and storage space, replacing the generator, and making site improvements.

CCHC is proposing to refinance without undertaking a resyndication. Assisted Living transactions are difficult to re-syndicate, and FFAL is a small transaction making it a challenge to attract an equity partner. Proposed sources include a taxable first mortgage, a Preservation Loan from the Affordable Housing Trust, a Capital Magnet Fund (CMF) Loan, a \$500,000 Building Homes Rhode Island (BHRI) loan, and an additional \$650,000 from the Federal Home Loan Bank of Boston's Affordable Housing Program (AHP). The BHRI and AHP sources have been secured. CCHC is also seeking to rollover existing subordinate debt from the 1999 transaction. FFAL was awarded thirty project-based vouchers in September of 2020, which has significantly improved the revenue generated at the property, allowing it to support the proposed debt and help insure more stabilized operations going forward.

2. EXECUTIVE SUMMARY

Borrower: Forest Farm Assisted Living Limited Partnership

Property Address: 191 Forest Avenue
Middletown, RI 02842

Developer: Church Community Housing Corp.
50 Washington Square
Newport, RI 02840

RIHousing Resources Requested:

RIH Taxable First Mortgage	\$2,250,000
Capital Magnet Fund	\$ 750,000
HOME/HTF	\$ 850,000
Assumed Debt (Rollover)	\$1,019,292

Loan terms (rate/term): RIHousing taxable first mortgage loan: 5.5%/40 years/fully amortizing

Existing debt:

Loan Type	Principal & Accrued Interest	Rate	Comment
Existing 1 st Mortgage	\$ 652,500	5%	To be paid off
Targeted Loan	\$ 1,704,609	5%	To be rolled over
HOME Loan	\$ 300,000	0%	To be discharged

As part of the approval process, staff has determined that the Development and sponsor meet RIHousing’s requirements for rollover of existing debt. Broadly, this review includes:

- Current on first mortgage or in compliance with forbearance agreement;
- No outstanding monitoring findings, no history of significant monitoring findings;
- Demonstrated responsible long-term ownership and management of the property;
- Maximize amortizing debt the property can support; and
- Borrower provide guarantees to cover any deficit shortfalls.

Proposed Sources & Uses:

Sources	Preliminary	
	Amount	Per Unit
RIH First Mortgage	\$2,250,000	\$45,918
Assumed Debt (Rollover)	\$1,019,292	\$20,802
Preservation Loan Fund Program	\$991,170	\$20,228
Capital Magnet Fund	\$750,000	\$15,306
Building Homes Rhode Island	\$500,000	\$10,204
FHLB Affordable Housing Program	\$650,000	\$13,265
RIH HOME Loan	\$850,000	\$17,347
General Partner Capital	\$449,267	\$9,169
RI Renewable Energy	\$29,450	\$601
Total Sources	\$7,489,179	\$152,840

Uses	Preliminary	
	Amount	Per Unit
Construction	\$4,127,851	\$84,242
Contingency	\$412,785	\$8,424
Acquisition	\$1,728,500	\$35,276
Soft Costs	\$590,614	\$12,053
Financing	\$47,813	\$976
Developer Fee	\$225,114	\$4,594
Operating Reserve	\$201,283	\$4,108
Replacement Reserve Year 1 Deposit	\$98,000	\$2,000
Other Reserves	\$57,219	\$1,168
Total Uses	\$7,489,179	\$152,840

Deviations from standard underwriting: None

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits – This proposed transaction will allow CCHC to complete a substantial rehabilitation of the property and help ensure stabilized operations going forward. The updated mechanical systems, solar installation, and building envelope improvements will create more efficient operations of the property with lowered utility costs and reduced maintenance expenses.

3.B Risks/Challenges – FFAL has been on the RIHousing risk rating watch list for the last several years. This has been mostly due to the in-place rent restrictions which hampered FFAL's ability to increase revenues to match an increase in operating expenses. The proposed rehabilitation of the property will allow for more efficient and less expensive operations (lowered utility and maintenance expenses) and the addition of the 30 project-based vouchers increases the revenue, which supports the proposed debt. The first mortgage will be insured under the FHA Risk Sharing Program.

3.C Affordability – A 40-year affordability extension will be recorded at closing.

3.D Pertinent risk factors for this development are:

Market – Low Risk – As one of only 3 LIHTC assisted living facilities with Medicaid Waivers licensed by the RI Department of Health, demand for the units is stable. The planned upgrades to the property is expected to increase demand with improved ascetics and comfort and convenience for the residents.

Construction – Low to Moderate Risk – The planned scope of the rehabilitation is limited to replacement of existing building systems, interior upgrades, and limited site improvements. CCHC has developed detailed schematic plans for construction pricing and is working with a qualified and experience contractor for a negotiated guaranteed maximum price contract. A contingency of 10% of hard costs is included in the current budget. The facility will remain occupied during construction.

Developer – Low to Moderate Risk – CCHC has successfully executed similar substantial rehabilitation projects in the past and has a strong history of successful operations. They have the capacity and experience to execute this proposed project.

Community Opposition – Low Risk – This is an existing assisted living facility that is not expanding operations and there is no requirement for zoning approval for the planned rehabilitation, thus no community opposition is expected.

Financing – Low to Moderate Risk – The proposed capital structure of this refinancing includes leveraging over \$1MM in non-RIHousing ancillary sources, rolling over existing RIHousing cash flow

loans, and adding new soft debt sources with CMF/HOME/HTF funds. This structure allows for the sizing of a new first mortgage loan that is adequately supported by the net operating income with negative trending. The new first mortgage taxable loan will be insured under the FHA Risk Share program, limiting RIHousing exposure losses to 50% in the unlikely event of default.

Underwriting Assumptions – Low to Moderate Risk – Underwriting assumptions are all within the RIHousing standard underwriting guidelines and best practices in the affordable housing industry.

FFAL currently contracts with Royal at Home RI, LLC (“Royal at Home”) as the service provider for meals, assisted living services for residents (including housekeeping and daily living activities), and cleaning of the common areas. RIHousing staff has reviewed the third-party service provider agreement between FFAL and Royal at Home to understand the contractual obligations that FFAL has under the agreement. The agreement currently in place contains legacy financial terms which the parties have verbally modified when the Medicaid reimbursement rate was increased in 2018. A condition of firm approval of this proposed refinancing transaction will be that FFAL execute a revised third-party service provider agreement that clarifies the financial terms, and which meets the approval of RIHousing underwriting and asset management staff.

4. UNDERWRITING

4A. Affordable/Market Rents

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max Rent	Gross Rent as a		Discount from Market Rent
					% of LIHTC Max Rent		
1	50%	5	\$ 946.00	\$ 897.00	105%		0.0%
1	30%	10	\$ 1,211.76	\$ 538.00	225%		0.0%
1	50%	20	\$ 1,211.76	\$ 897.00	135%		0.0%
1	80% Non-LIHTC	9	\$ 1,211.76	\$ -	0%		0.0%
1	80% Non-LIHTC	5	\$ 1,224.00	\$ -	0%		0.0%
Total		49					

4B. Trending – 2% income; 3% operating expenses

4C. Vacancy Loss and Bad Debt – 7.5% for residential vacancy.

4D. Other Income – The assisted living operations at the property are carried as a financial pass-through wherein FFAL pays to Royal at Home all of the income from the Medicaid reimbursements and Royal at Home is responsible for all of the expenses of providing those services. There is no net financial liability or benefit to FFAL for the assisted living operations. Beginning in 2019, FFAL removed all of the revenue and expenses from the assisted living operations from the audited financial statements of the limited partnership at the recommendation of their auditor and in accordance with generally accepted accounting procedures, reflecting the true nature of the financial pass-through contractual agreement with Royal at Home.

4E. Operating Expenses – Forecasted at \$9,374/unit including annual deposit to replacement reserve.

4F. RE Taxes – 8% of gross rental revenue trending at 2% per year to be consistent with income trending.

4G. Proposed Replacement Reserve Deposit – Initial deposit is \$2000/unit and \$350/unit per year on-going.

4H. Proposed Operating Reserve Deposit – Initial deposit of \$192,708 is equal to 6 months of operating expenses and debt service, less the initial deposit to the replacement reserve, consistent with the Preservation Guidelines. It does not include the operating expenses associated with the assisted living due to the pass-thru nature of the services.

4I. Other Proposed Reserves – None

4J. Resulting NOI for Debt Service – \$185,697 in Year 1; model performs for 25 years with negative trending.

5. PROPERTY DESCRIPTION

The building is a two-story steel and wood framed apartment building constructed in 1999 and located on 3.9 acres of leased land. While FFAL has maintained the property well over the last 21 years of operations, many of the mechanical systems have reached the end of their useful life and need replacement with functional and more efficient systems. The interior fit and finish of the units and common areas are clean and serviceable, yet they are well-used and worn and in need of updating. The grounds are neatly maintained, well landscaped, and includes a walking trail through a wooded area that offers residents a comfortable and safe area for recreation and exercise.

6. DEVELOPMENT ENTITY AND CAPACITY

6A. Developer's Operational Experience and Capacity

Church Community Housing Corporation is a not-for-profit corporation with a core mission of providing safe, decent and affordable housing. Based in Newport, CCHC was founded in 1969. Since then they were created over 800 units of housing, approximately 700 multifamily and 100 homes for first time buyers. CCHC serves low to moderate income residents and works almost exclusively in Newport County. Christian Belden is the Executive Director. The former long-time Executive Director Steve Ostiguy is now serving in the role of asset manager on a part-time basis and is leading this project on behalf of CCHC. In addition, the CCHC staff includes a property manager for the 50+ rental units managed directly by CCHC, several program managers and property maintenance personnel, and a homebuyer trainer.

6B. Financial Strength – RIHousing has reviewed the Borrower’s financials and preliminarily has determined that they are financially stable and the organization is well capitalized.

6C. Guarantees – The borrower will be required to provide a construction completion guarantee. The General Contractor will be required to provide a Payment and Performance Bond.

7. LOCATION AND MARKET

The property is located on Forest Avenue in Middletown, RI. The neighborhood is predominately residential; however, the building is co-located with a skilled nursing facility. The building is nestled in behind the nursing home and enjoys tree-lined borders with its residential neighbors. While the property has a rural feel, it is conveniently centrally located on Aquidnick island and is readily access from West Main Road.

8. ADDITIONAL CONSIDERATIONS – None

9. CONCLUSION – Staff recommends preliminary approval of the following for FFAL:

1. A new taxable first mortgage in the amount of \$2,250,000;
2. A Capital Magnet Fund loan in the amount of \$750,000; and
3. Rollover of existing RIHousing debt in the amount of \$1,019,292.

10. ATTACHMENTS

- a. Proforma