

**Request for Action  
by  
Board of Commissioners**

**Firm Approval of Financing for Gatewood 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 \$9,018,000.00 for Gatewood Apartments in North Smithfield (hereinafter referred to as “Gatewood” or the “Development”). Providence Realty Investment, LLC is the developer (“PRI” or the “Developer”).

Gatewood is a one- and two-story garden style apartment complex originally constructed in 1979. It has 56 one-bedroom and four two-bedroom apartments for elderly and disabled households. Amenities include a community room with a kitchen, common laundry room, and management office. The Section 8 HAP contract, which covers all 60 units, was recently renewed for 20 years with rents marked up to market.

The Developer acquired the Development in 2010 through an arm’s length transaction. In 2011, a moderate rehabilitation was completed utilizing tax-exempt bonds and Low-Income Housing Tax Credits. Prior to closing, the Developer will complete \$165,000.00 of critical and non-critical repairs identified in a RIHousing-commissioned capital needs assessment (“CNA”). After closing, the Developer will undertake a small amount of work and plans to address future capital needs as they arise. To ensure that the replacement reserve balance remains positive through the first 15 years of the new loan, the developer will deposit \$6,556.00 per unit in the replacement reserve at closing and \$375.00 per unit per annum. A new CNA will be required at year 10 to ensure that the replacement reserve will stay positive for the next 15 years. If required, the annual deposits to the replacement reserve will be increased at that time. The Developer also seeks to lock in a lower interest rate and complete an equity take-out.

The scope of work to be completed pre-closing includes addressing a variety of accessibility, fire- and life-safety issues, roof replacement and concrete replacement. Post-closing, PRI will install new cabinets in those units that were not upgraded in 2011.

This RFA seeks firm approval of a taxable permanent loan in an amount not to exceed \$9,018,000.00, 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 – GATEWOOD APARTMENTS

Preliminary \_\_\_\_\_

Firm   X  

Date: December 8, 2021

**Project:** Preservation of 60 affordable apartments located in North Smithfield, comprised of 56 one-bedroom and 4 two-bedroom units for elderly and disabled persons.

#### Development Team

|                          | Name                                       | Location                     | Risk Rating |
|--------------------------|--|------------------------------|-------------|
| <b>Sponsor/Developer</b> | Providence Realty Investment, LLC          | Providence, RI               | Low         |
| <b>Mortgagor</b>         | Gatewood RIH, LLC                          | Providence, RI               | Low         |
| <b>Architect</b>         | NA   |                              |             |
| <b>Legal</b>             | Blish & Cavanagh, LLP<br>Nixon Peabody LLP | Providence, RI<br>Boston, MA | Low<br>Low  |
| <b>Management Agent</b>  | Wingate Management Company, LLC            | Newton, MA                   | Low         |

#### Executive Summary

|  |                 |                      |
|--|-----------------|----------------------|
| <b>Property Address</b>                  | 403 Mendon Road | North Smithfield, RI |
| <b>Proposed Loan Amount(s) and Terms</b> |                 |                      |
|  |                 |                      |
| Taxable Loan (FFB)                       | \$9,018,000.00  | 4.0%/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   | \$9,018,000        | \$150,300        |
| Escrows              | \$65,957           | \$1,099          |
| Replacement Reserve  | \$161,961          | \$2,699          |
| Operating Reserve    | \$206,591          | \$3,443          |
| <b>Total Sources</b> | <b>\$9,452,509</b> | <b>\$157,542</b> |

  

| Uses                               | Firm               |                  |
|------------------------------------|--------------------|------------------|
|                                    | Amount             | Per Unit         |
| Construction                       | \$20,000           | \$333            |
| Contingency                        | \$2,000            | \$33             |
| Acquisition                        | \$4,253,643        | \$70,894         |
| Soft Costs                         | \$123,655          | \$2,061          |
| Financing                          | \$292,723          | \$4,879          |
| FFB & Operating Reserve            | \$149,379          | \$2,490          |
| Tax and Insurance Reserves         | \$52,162           | \$869            |
| Replacement Reserve Year 1 Deposit | \$393,350          | \$6,556          |
| Equity Takeout                     | \$4,165,597        | \$69,427         |
| <b>Total Uses</b>                  | <b>\$9,452,509</b> | <b>\$157,542</b> |

**Loan to Value Test:**

|                      | Appraisal    | Per Unit  | Variance  | Current UW   | Per Unit  |
|----------------------|--------------|-----------|-----------|--------------|-----------|
| NET OPERATING INCOME | \$551,214    | \$9,187   | \$10,160  | \$561,374    | \$9,356   |
| Appraisal Cap Rate   | 5.50%        |           |           | 5.50%        |           |
| Valuation            | \$10,020,000 | \$167,000 | \$186,805 | \$10,206,805 | \$170,113 |
| Loan Principal       | \$9,018,000  | \$150,300 |           | \$9,018,000  | \$150,300 |
| LTV                  | 90.00%       |           | -2%       | 88.35%       |           |

- RIHousing used a 4.0% vacancy vs. appraiser's 2.5%; actual vacancy over the past three years has averaged just over 1.0%
- RIHousing had slightly higher Other Income based on historic operations
- Appraiser had higher Administrative Expenses
- RIHousing used a higher Replacement Reserve deposit

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  | \$157,542.00 |   |
| Residential Vacancy Rate   | 4.0%         |   |
| DCR Yr 1   | 1.24         | Proforma utilizes negative trending   |
| DCR Yr 15  | 1.44         |   |
| NOI  | \$561,374.00 | Year 1  |
| Income Trending  | 2.0%         |   |
| Expense Trending   | 3.0%         |   |
| Loan to Value  | 88.4%        |   |
| 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)   | \$149,379.00 | Exceeds 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) | \$393,350.00 | \$6,556/unit; exceeds UW requirement of \$2,000.00  |

## Deviations from standard underwriting – YES

A 4% vacancy rate was utilized instead of 5%. The appraisal utilized 2.5%, historic vacancy has averaged just over 1% for the past three plus years. Collectively the Operating Reserve and Replacement Reserve exceed three months of debt and OPEX; however, the Replacement Reserve is disproportionately larger.

| Unit         | Number of Units | Contract Rent | Market Rent | Contract Rent as a % of Market Rent | Discount from Market Rent |
|--------------|-----------------|---------------|-------------|-------------------------------------|---------------------------|
| 1            | 56              | \$ 1,444.00   | \$ 1,375.00 | 105%                                | -5.0%                     |
| 2            | 4               | \$ 1,759.00   | \$ 1,645.00 | 107%                                | -6.9%                     |
| <b>Total</b> | <b>60</b>       |               |             |                                     |                           |

## Unit Distribution and Revenue

Market rents were determined by a RIHousing-commissioned appraisal. Market rents were determined to be \$1,375 for the one-bedroom units and \$1,645 for the two-bedroom units. The market rents are slightly below the HAP rents. The loan is underwritten to the lower market 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:

| <b>Applicant</b>                  | <b>Development</b>  | <b>RIHousing 1<sup>st</sup> Mortgage</b> |
|-----------------------------------|---------------------|--|
| Providence Realty Investment, LLC | Gatewood Apartments | \$9,018,000.00                           |

**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 Gatewood RIH, LLC or an affiliated entity (the “Borrower”) in an amount not to exceed \$9,018,000.00, funded through the Risk-Sharing Initiative, for rental housing known as Gatewood Apartments located in North Smithfield, 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 and completion of work completed prior to closing.
- 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.
- 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.