

Approval Loan Recommendation Summary – Geneva Plaza

Preliminary:

Firm: X

Date: September 9, 2020

1. OVERVIEW

This is a request for the recommendation of approval of a taxable loan in the amount of \$14,970,000 for the refinancing of Geneva Plaza Apartments, LP.

Geneva Plaza Apartments is an existing 150-unit elderly affordable housing development located in Pawtucket, RI (“Geneva Plaza” or “Development”) that is currently financed by RIHousing. The Development is owned by Geneva Plaza, LP (the “Mortgagor” or “Borrower”). The co-general partners of the Development are Ferland Corporation (“Ferland”) and Cathedral Development Group, Inc. (“CDG”) with Ferland as the Managing General Partner. The limited partners are CDG (49%), A. Austin Ferland (24.5%), and Debra L. Ferland (24.4%). No change in either the general partner or a limited partner with greater than 25% ownership interest is anticipated.

Geneva Plaza is subsidized by a Section 8 Housing Assistance Payment (“HAP”) Contract that is effective through April 2033. The Developer is seeking to refinance the Development with a taxable first mortgage in the principal amount of \$14,970,000. The Developer will use the proceeds of the new financing to pay off the existing mortgage, undertake accessibility, energy efficiency and life safety upgrades to the Development, and make an equity distribution to the partners. The proposed refinancing is consistent with RIHousing’s taxable loan program introduced in September 2019 to replace the Treasury-HUD Federal Financing Bank HFA Multifamily Risk Sharing Loan Financing Initiative which was suspended by HUD.

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

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

Specifically, under the taxable loan platform, RIHousing will agree to a refinancing, if at a minimum, all of the following conditions are met:

- The borrower has demonstrated responsible long-term ownership and management of the property;
- The property is in good physical condition and RIHousing is satisfied based on review of a current capital needs assessment that all capital needs are adequately funded during the life of our loan;
- The transaction conforms to RIHousing’s Risk Share Underwriting Guidelines and the Taxable Loan Program Term Sheet.

2. EXECUTIVE SUMMARY

Property Address: 150 Dartmouth Street
Pawtucket, RI

Developer: Ferland Corporation

Loan Amount: \$14,970,000

Loan to Value (LTV) Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$1,039,919	\$6,933	(\$67,395)	\$972,524	\$6,483
Appraisal Cap Rate	6.25%			6.25%	
Valuation	\$16,638,704	\$110,925	(\$1,078,322)	\$15,560,382	\$103,736
Loan Principal	\$14,970,000	\$99,800		\$14,970,000	\$99,800
LTV	90.00%		6%	96.21%	

The primary difference in LTV is due to the higher vacancy rate that RIHousing requires in its underwriting.

Loan terms (rate/term):

- Rate: 4.5%
- Term: 40-years with a balloon payment in year 17.

Proposed Sources & Uses:

Sources	Firm	
	Amount	Per Unit
RIH First Mortgage	\$14,970,000	\$99,800
Existing Reserves	\$1,075,000	\$7,167
Total Sources	\$16,045,000	\$106,967

Uses	Firm	
	Amount	Per Unit
Construction	\$402,641	\$2,684
Contingency	\$40,264	\$268
Acquisition	\$6,477,000	\$43,180
Soft Costs	\$193,287	\$1,289
Financing Costs	\$445,463	\$2,970
Operating Reserve	\$119,326	\$796
Replacement Reserve Year 1 Deposit	\$390,000	\$2,600
Equity Takeout	\$7,977,020	\$53,180
Total Uses	\$16,045,000	\$106,967

Deviations from standard underwriting – YES.

- A 4% vacancy rate was applied to underwriting as the historical vacancy ranged from .67% to 1.21% since 2017. The appraiser used 3%.
- An OPEX reserve equal to 3 months each of debt service and operating expenses less the initial deposit to the replacement reserve. This is within the current program requirements for this loan product. The borrower has a long history of strong financial performance and loan repayment.

Recommendation: Firm approval of the first mortgage in an up to amount of \$14,970,000.

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits: The proposed refinancing preserves 150-units of elderly housing and will extend the affordability period for the Development for 40 years, while allowing the Developer to enhance accessibility, improve energy efficiency, update life-safety features and adequately capitalize the renovation reserve to provide for future upgrades to the Development over the next 15 years.

3.B Risks/Challenges: The refinancing transaction assumes continuation of Section 8 assistance to support the new first mortgage debt, however, credit enhancement in the form of FHA Risk Share Insurance will be required

3.C Affordability: 40-year affordability restriction will be recorded at closing.

3.D Pertinent risk factors for this development are:

Market - Low Risk – The Development has historically low vacancy rates, and except for standard turnover, the Development is essentially 100% occupied with a waiting list. One hundred forty nine (149) units are subsidized with a Section 8 HAP contract (one unit is reserved for maintenance staff). The loan is underwritten to the HAP rents which are lower than the market rents.

Construction – Low Risk – The scope of work is relatively small and is primarily focused on upgrades to the fire suppression system, replacement of water closets to improve operations and ADA improvements. A Capital Needs Assessment will be commissioned every five years to reassess needs per Risk Share requirements.

Developer – Low Risk – Ferland has had an ownership interest in the property and managed the Development since 1983.

Community Opposition – Low Risk – Not Applicable. The site is existing and has been operating since 1983.

Financing - Low Risk – This transaction assumes payoff of the existing RIHousing debt. The primary source of permanent financing will be a 40-year mortgage supported by the lower of HAP or market rents which will be insured through the FHA Risk Sharing Program.

Underwriting Assumptions – Low Risk – The transaction is underwritten to RIHousing standard guidelines with negative trending and a 4% vacancy rate. The Development's debt coverage ratio is 1.20 in year 1 and increases annually thereafter. Capitalized reserves will equal RIHousing's required amounts.

Other – Not applicable.

4. UNDERWRITING

4.A Rent Comparison

Bedrooms	Number of units	Gross Market Rent	Gross HAP Rent	Gross UW Rent
1	34	\$1,270	\$1,270	\$1,270
1	102	\$1,200	\$1,197	\$1,197
2	2	\$1,505	\$1,484	\$1,484
2	11	\$1,450	\$1,425	\$1,425
2	1	\$1,450	\$1,425	\$1,425

Note – Underwriting rents are the lower of market or HAP contract rents.

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

4.C Vacancy Loss and Bad Debt – 4%

4.D Other Income – Other income is projected at \$56,684 annually (2.5% of gross potential revenue), which is consistent with historical operations. It is not being trended in the projections.

4.E Operating Expenses – OPEX is forecasted at \$8,004 per unit and includes real estate taxes, utilities, and the annual deposit to the replacement reserve

4.F RE Taxes – Projected at the current assessed amount of \$278,457 and trending at 3% per year in the projections.

4.G Proposed Replacement Reserve Deposit – \$390,000 initial deposit (\$2,600 per unit) plus annual deposits of \$49,500 or \$330/unit/year.

4.H Proposed Operating Reserve Deposit – \$119,326 equals the three (3) months each of operating expenses and debt service, less the amount of the initial deposit into the replacement reserve.

4.I. Other Proposed Reserves – None.

4.J Resulting NOI for Debt Service

- \$972,524 in the first year.
- Projections demonstrate a DSCR above 1.16 for 17 years with negative trending.

5. PROPERTY DESCRIPTION

Geneva Plaza consists of two interconnected residential structures containing a total of 150 residential apartments. There are 136 one-bedroom and 13 two-bedroom units. The development was constructed in 1983 with the adaptive reuse of a former bakery building and the construction of a midrise apartment building. Of the total 150 units, 149 have the benefit of project-based rent assistance through a HAP Contract and a single two-bedroom unit is reserved for maintenance staff.

6. DEVELOPMENT ENTITY AND CAPACITY

6.A Prior Developments and Current Operational Capacity - Ferland is a Rhode Island based real estate ownership group. They control the general partner interest in several Section 8 developments financed by RIHousing and they have proactively preserved most of their portfolio with RIHousing through its various preservation programs. Ferland is also the property management agent for this and their developments. They have a history of strong operations at all their developments that are in the RIHousing portfolio.

6.B Financial Strength - RIHousing has reviewed the Borrower's audited financials for the preceding three years and has determined that they are financially stable and represent a reasonable credit risk.

6.C Guarantees – A construction completion guaranty will be required and 20% of the equity will be withheld until construction completion. Additional equity will be held if the plans and specification have not been finalized prior to closing.

7. BRIEF DESCRIPTION OF THE NEIGHBORHOOD

The Development is in an area of Pawtucket known as Woodlawn, just north of the Providence/Pawtucket city line, and south and east of Interstate 95. The neighborhood is defined as the area north of Providence/Pawtucket city line, south and east of Interstate 95, and west of East Street in the southwest section of Pawtucket. The Development is 8 blocks north of the Providence/Pawtucket city line.

The Development is well located on Dartmouth Street in Pawtucket, RI and is 1.2± to 1.5± miles from an interchange with Interstate 95 and is about a 10 minute drive from downtown Providence, with little or no traffic. The neighborhood is best characterized by its proximity to retail/commercial uses along East Avenue and Pawtucket Avenue (Route 1), with secondary side streets off Pawtucket Avenue and Dartmouth Street being dominated by residential uses.

8. CONCLUSION

Staff recommends firm approval of a taxable first mortgage loan in the amount of \$14,970,000.

9. ATTACHMENTS

A: Pro forma