

**Request for Action
by the Trustees of the
Affordable Housing Trust Fund**

**Firm Approval of Second Mortgage Financing
for Harris House Apartments (Cranston)**

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of Affordable Housing Trust Fund (“AHT”) taxable second mortgage financing in an amount not to exceed \$5,000,000 for Harris House Apartments (the “Development”). Cathedral Development Group, Inc. is the developer (the “Developer”).

B. DISCUSSION

Harris House Apartments is a five-story elevator-served building with 133 units which is owned by Harris House Partners, LP (the “Owner” or the “Mortgagor”). The Development is located on a 4.32-acre site at 28 Harris Avenue in Cranston. It was built in 1979 and was most recently refinanced in 2020, with extensive renovations completed in 2021 and a new boiler installed in 2023. The property contains 123 one-bed/one-bath units and 10 two-bed/one-bath units. In light of the recent renovations, there is no construction or renovation contemplated as part of this request. The Developer plans to address future capital needs as they arise through Reserves and cash flow. The Section 8 Housing Assistance Payments contract (“HAP contract”) for the Development encumbers 132 of the 133 total units and was renewed in August 2023 for 20 years. The one-bedroom unit not included in the HAP contract is rented at 60% AMI.

There is an existing 40-year \$16,560,000 Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) first mortgage on the Development which originated in October 2020 and has a current balance of approximately \$16,012,557. This second mortgage will be for a term of 30 years with a 40-year amortization schedule.

This RFA requests firm approval of an amount not to exceed \$5,000,000 in taxable second mortgage financing subject to certain conditions as set forth in the attached Resolution.

C. ATTACHMENTS

- A.** Credit Summary
- B.** Resolution

Attachment A

Credit Summary

Approval Loan Recommendation Summary: Harris House Apartments

Preliminary: _____

Firm: X

Date: April 18, 2024

Project: Second mortgage financing for Harris House Apartments, 133 existing affordable apartments for elderly and disabled households, comprised of 122 one-bedroom units at 30% AMI, 10 two-bedroom units at 30% AMI, and 1 one-bedroom unit at 60% AMI, located in Cranston, RI.

Development Team:

	Name	Location	Risk Rating
Sponsor/Developer	Cathedral Development Group, Inc.	Providence, RI	Low
Mortgagor	Harris House Partners, LP	Providence, RI	Low
Architect	N/A		
Legal	Gina M. Illiano, Esq.	Providence, RI	Low
Management Agent	Property Advisory Group, Inc.	Providence, RI	Low

Executive Summary:

Property Address	28 Harris Avenue	Cranston, RI
Proposed Loan Amount(s) and Terms		
Taxable – 2 nd Mortgage	\$5,000,000	8.25% / 40-year amort.

Note: Interest rates are subject to change based on market conditions.

Proposed Sources & Uses:

Sources	Firm	
	Amount	Per Unit
RIH Second Mortgage	\$5,000,000	\$37,594
Total Sources	\$5,000,000	\$37,594

Uses	Amount	Per Unit
	Equity Take-out	\$4,818,000
Soft Costs	\$91,400	\$687
Financing	\$50,000	\$376
Operating Reserve Deposit	\$40,600	\$305
Total Uses	\$5,000,000	\$37,594

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$1,576,106	\$11,850	\$30,268	\$1,606,374	\$12,078
Appraisal Cap Rate	5.75%			5.75%	
Valuation	\$27,410,539	\$206,094	\$526,397	\$27,936,936	\$210,052
Loan Principal	\$21,560,000	\$162,105		\$21,560,000	\$162,105
LTV	78.66%		-1%	77.17%	

Notes:

- The combined balances of the existing first mortgage and the proposed 2nd mortgage are included in the LTV analysis.
- Loan Amount will be reduced if (i) the final interest rate is higher than underwritten rate and/or (ii) the project cannot maintain a Debt Service Coverage Ratio in excess of 1.20:1 for the combined principal and interest payments for the first and second mortgages.

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 (20-year renewal completed in August 2023);
- Well-funded reserves;
- Low vacancy rates;

- Consistency with RIHousing’s standard underwriting requirements;
- Financial benefit to RIHousing; and
- Execution of a new 40-year affordability agreement.

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$37,594	
Residential Vacancy Rate	4%	
DCR Year 1	1.23	Proforma utilizes negative trending.
DCR Year 15	1.46	
NOI	\$1,606,374	Year 1
Income Trending	2%	
Expense Trending	3%	
Loan to Value	78.66%	
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)	\$40,600	Represents the delta between the existing Reserve balance of \$597,909 and the new required balance of \$638,506.
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$43,225 (\$325/unit)	

Deviations from standard underwriting – Yes

A 4% vacancy rate was utilized instead of 5%. The appraisal utilized a 3% vacancy rate while actual historical vacancy has remained at or near 1%.

Unit Distribution and Revenue:

Unit	Rent Type	Number of Units	Gross Rent	Net Rent	Market Rent	Discount from Market Rent
1	30%	122	\$ 1,850.00	\$ 1,850.00	\$ 1,850.00	0%
2	30%	10	\$ 2,083.00	\$ 2,083.00	\$ 2,100.00	1%
1	60%	1	\$ 276.00	\$ 276.00	\$ 1,850.00	85%
Total		133				0.7%

Market rents were determined by a RIHousing-commissioned appraisal. Market rents were determined to be \$1,850 for the one-bedroom units and \$2,100 for the two-bedroom units. The project is underwritten to the lower of the HAP contract rents or Market rents. In this case, Market rent was utilized for the one-bedroom units and HAP contract rents were utilized for the two-bedroom units. The U.S. Department of Housing and Urban Development has approved the Operating Cost Adjustment Factor (“OCAF”) for the HAP contract rents that will commence August 1, 2024, and these rents have been utilized in the underwriting.

Attachment B

Resolution of the Trustees of the Affordable Housing Trust Fund

Whereas, the Affordable Housing Trust Fund (the “AHT”) was created by Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) for the sole purpose of making homeownership to low- and moderate-income residents of the State of Rhode Island more affordable;

Whereas, one of the purposes of the AHT is to assist in the preservation of affordable housing throughout the State of Rhode Island; and

Whereas, the AHT has increased its investment portfolio over the last several years through its preservation related activities.

NOW, THEREFORE, IT IS HEREBY:

Resolved, that subject to the special condition listed below, the AHT be and is hereby authorized to commit up to \$5,000,000 in funding to Harris House Partners, LP (the “Borrower”) for rental housing known as Harris House Apartments located in Cranston, Rhode Island.

Resolved, that the foregoing resolution is subject to the following condition:

- Completion of all items required by RIHousing for firm commitment and closing in accordance with normal underwriting and processing requirements.

Resolved, that the Executive Director, Deputy Executive Director, and Director of Real Estate Development of RIHousing, each acting singly, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.