

**Request for Action
by
Board of Commissioners**

Preliminary Approval of Financing for Hillcrest Village Apartments

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for preliminary approval of a Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt construction loan in an amount not to exceed \$23,500,000 for Hillcrest Village Apartments (the “Development”), of which \$13,500,000 would remain as a permanent first mortgage. Preservation of Affordable Housing, Inc. (“POAH” or the “Developer”) is the developer.

B. DISCUSSION

Hillcrest Village Apartments is an existing 6-story 130-unit housing development built in 1979 consisting of 112 one-bedroom units and 18 two-bedroom units located in the City of Providence’s Mount Pleasant neighborhood. The initial fifteen-year low-income housing tax credit (“LIHTC”) compliance period ended in December 2021 with the original tax credit investor exiting the partnership in June 2022. The Developer seeks to undertake a moderate rehabilitation and recapitalization of the Development.

There is a Section 8 Project-Based HAP contract (the “HAP Contract”) currently in place for all 130 units that expires in January 2027. POAH is in the process of extending the HAP Contract for another 20 years with rents marked up to market at closing.

POAH anticipates a 12-month construction timeline with a construction budget of approximately \$12,800,000 for a mixed level of renovations including new kitchen cabinets and countertops, updated lighting, interior doors, VCT flooring, baseboard heater covers, and water saving water closets. Additional communitywide renovations and improvements will include a new roof, full building Wi-Fi, new washer and dryers, a new generator, DHW heating system, and building security upgrades. In addition, upgrades will be made to the current ADA-accessible units, and three units will be upgraded to conform to the 2% hearing and visual impairment guidelines.

The capital stack is comprised of the following sources: (i) the tax-exempt first mortgage contemplated herein, (ii) cash flow from operations, (iii) LIHTC equity, (iv) a deferred developer fee, and (v) a seller note and sponsor loan. Boston Financial Investment Management (“BFIM”) will be the syndicator purchasing the 4% LIHTC at \$0.950 per credit. As part of the refinancing, RIHousing loans totaling approximately \$9,400,000 will be repaid at closing.

By this RFA, staff recommends for approval the attached resolutions providing preliminary approval of \$23,500,000 in tax-exempt financing for Hillcrest Village Apartments, subject to certain conditions as set forth therein.

C. ATTACHMENTS

- A.** Credit Summary
- B.** Resolutions

Attachment A

Credit Summary

Approval Loan Recommendation Summary – Hillcrest Village Apartments

Preliminary X

Firm _____

Date: **October 19, 2023**

Project: Renovation of a 130-unit affordable housing apartment complex located in Providence comprised of 112 one-bedroom and 18 two-bedroom units.

Development Team

	Name	Location (city/state)	Risk Rating (low/med/high)
Sponsor/Developer	Preservation of Affordable Housing, Inc.	Boston, MA	Low
Mortgagor	TBD	Providence, RI	Low
Architect	Union Studio Architecture & Community Design	Providence, RI	Low
General Contractor	Pezzuco Construction, Inc.	Cranston, RI	Low
Legal	TBD		
Management Agent	POAH Communities, LLC	Boston, MA	Low
Syndicator	Boston Financial Investment Management	Boston, MA	Low

Executive Summary

	Address	City
Property Address	40 Leander Street	Providence
Proposed Loan Amount(s) and Terms		
	Amount	Interest rate/Term
Tax Exempt Loan	\$23,500,000	
Construction/Bridge Loan	\$10,000,000	7.25%/ 24 months
Permanent First Mortgage	\$13,500,000	7.25%/40 years with balloon at year 17

Note: Interest rates are subject to change based on market conditions and deal specifics

Proposed Sources & Uses:

Sources	Preliminary	
	Amount	Per Unit
RIH First Mortgage	\$13,500,000	\$103,846
LIHTC Proceeds	\$18,547,031	\$142,669
Seller Loan - Acquisition Equity	\$10,781,604	\$82,935
CF From Operations During Construct	\$586,249	\$4,510
Deferred Fee	\$2,959,257	\$22,764
Total Sources	\$46,374,141	\$356,724

Uses	Preliminary	
	Amount	Per Unit
Construction	\$11,726,452	\$90,203
Contingency	\$1,160,000	\$8,923
Acquisition	\$20,499,004	\$157,685
Soft Costs	\$2,467,911	\$18,984
Financing	\$2,832,439	\$21,788
Developer Fee	\$5,802,920	\$44,638
Operating Reserve	\$1,289,137	\$9,916
Replacement Reserve Year 1 Deposit	\$260,000	\$2,000
Other Reserves	\$336,278	\$2,587
Total Uses	\$46,374,141	\$356,724

\$1,952,914 LIHTC @ \$.950/credit.

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$356,724	\$342,220 without reserves
Residential Vacancy Rate	5%	
DCR Yr 1	1.19	
DCR Yr 15	1.34	
NOI	\$1,229,940	
Income Trending	2%	
Expense Trending	3%	
Loan to Value	TBD	
Initial Installment (%) of syndication proceeds	15%	

Acquisition Price equal to or less than Appraised value	TBD	
Operating Reserve (Amt and confirm consistency with UW requirements)	\$1,289,137	Equal to six months OpEx & Debt Service
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$260,000	\$2,000 per unit

Deviations from standard underwriting – None

Unit Distribution and Revenue

Unit	Rent Type	Number of Units	Gross Rent	Gross Rent as a		
				LIHTC Max Rent	% of LIHTC Max Rent	Discount from Market Rent
1	60%	112	\$ 1,800.00	\$ 1,088.00	165%	0.0%
2	60%	18	\$ 2,200.00	\$ 1,306.00	168%	0.0%
Total		130				0.0%

RIHousing will underwrite to the lower of the HAP Contract rents or market. Rents as determined by a RIHousing commissioned appraisal.

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 issue tax-exempt bonds for financing qualified housing developments throughout the state;
- Whereas,** said bonds 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,** RIHousing is also authorized to issue tax-exempt bonds at an economically acceptable rate to promote the acquisition, rehabilitation, or preservation of affordable housing;
- Whereas,** Preservation of Affordable Housing, Inc. (“Applicant”) has presented an application to RIHousing requesting mortgage financing to acquire and/or rehabilitate the development as set forth below (the “Development”):

<u>Development</u>	<u>Applicant</u>	<u>Mortgage</u>
Hillcrest Village Apartments	Preservation of Affordable Housing, Inc.	\$23,500,000

- Whereas,** staff has reviewed the submission and determined that the Development may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines, and policies; and
- Whereas,** RIHousing finds that:
- (1) That there exists a shortage of decent, safe, and sanitary housing at rentals 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) That 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) That 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) That the proposed housing development to be assisted will be of public use and will provide a public benefit; and

(5) That 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, 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 preliminary commitment for tax-exempt mortgage financing for the Applicant or other affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$23,500,000 for rental housing known as Hillcrest Village Apartments located in Providence, Rhode Island to be financed, in part, by tax-exempt bonds.

Resolved, that RIHousing hereby declares that this preliminary commitment of financing for the Borrower constitutes the affirmative official act of RIHousing of its intention to issue bonds to finance, and to reimburse qualified expenditures incurred by the Borrower or RIHousing in advance of the issuance of the bonds, up to \$23,500,000 in mortgage funds, plus the required bond reserve funds, and the related costs of issuance for the bond issue for the above-referenced Development pursuant to the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder. The intent to reimburse the aforementioned bond-funded costs is intended to satisfy the requirements of Section 1.150-2 of the United States Treasury Regulations. This resolution shall take effect immediately upon adoption.

Resolved, that the foregoing resolutions are subject to the following conditions:

- Final appraisal acceptable to RIHousing prepared by an independent appraiser demonstrating support for the acquisition price and that the first mortgage loans do not exceed 90% of the as-stabilized value of the Development phases and that sufficient demand exists for the proposed units;
- Syndication equity from the allocation of LIHTC in an amount sufficient to achieve project feasibility;
- Availability of subordinate financing in amounts sufficient to achieve project feasibility or the availability of alternative equity satisfactory to RIHousing;
- Final approval of a new 20 year Section 8 Project-Based HAP contract;
- Execution and delivery by the Borrower of a construction completion guaranty in form and substance satisfactory to RIHousing and any other lender;
- Approval by RIHousing of design and construction plans, specifications and construction documentation;
- Approval by RIHousing of all management related documentation, including the marketing and tenant selection plans;
- Recordation of a RIHousing Declaration of Land Use Restrictive Covenant and Regulatory Agreement in form(s) acceptable to RIHousing; and
- 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, and the Director of Real Estate Development, each acting singly, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.