

Request for Action
by
Board of Commissioners

Firm Approval of Financing for Indian Run Village 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 \$23,769,000.00 for Indian Run Village Apartments in South Kingstown (hereinafter referred to as “Indian Run” or the “Development”). Providence Realty Investment, LLC is the developer (“PRI” or the “Developer”).

Indian Run is a three-story garden-style building originally constructed in 1978. It has 100 one-bedroom and 15 two-bedroom apartments for elderly and disabled households. Amenities include an outdoor communal patio, community room with a kitchen, common laundry room, a solarium, and management office. The Section 8 HAP contract, which covers 114 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, moderate rehabilitation was completed utilizing tax-exempt bonds and Low-Income Housing Tax Credits. In 2018, through a power purchasing agreement with an affiliated entity, PRI built a carport with solar panels, which subsidizes some of the electric costs at the site. Prior to closing, the Developer will complete \$350,000.00 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 more than \$5,570.00 per unit in the replacement reserve at closing and \$400.00 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, parking lot resurfacing, and new boilers. Post-closing PRI will install a new fire pump controller and caulk the exterior of the building.

This RFA seeks firm approval of a taxable permanent loan in an amount not to exceed \$23,769,000.00, 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 – INDIAN RUN VILLAGE APARTMENTS

Preliminary _____

Firm _____

Date: December 8, 2021

Project: Preservation of 115 affordable apartments in South Kingstown, comprised of 100 one-bedroom and 15 two-bedroom units for elderly and disabled persons.

Development Team

	Name	Location	Risk Rating
Sponsor/Developer	Providence Realty Investment, LLC	Providence, RI	Low
Mortgagor	Indian Run Village RIH, LLC	Providence, RI	Low
Architect	NA		
Legal	Blish & Cavanagh, LLP Nixon Peabody LLP	Providence, RI Boston, MA	Low Low
Management Agent	Wingate Management Company, LLC	Newton, MA	Low

Executive Summary

Property Address	681 Kingstown Road	South Kingstown, RI
Proposed Loan Amount(s) and Terms		
Taxable Loan (FFB)	\$23,769,000.00	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	\$23,769,000	\$206,687
Tax & Insurance Escrow	\$195,874	\$1,703
Replacement Reserve	\$331,721	\$2,885
Operating Reserve	\$458,322	\$3,985
Total Sources	\$24,754,916	\$215,260

Uses	Firm	
	Amount	Per Unit
Construction	\$90,000	\$783
Contingency	\$9,000	\$78
Loan Payoff	\$11,096,462	\$96,491
Soft Costs	\$127,639	\$1,110
Financing	\$650,225	\$5,654
FFB & Operating Reserve	\$366,680	\$3,189
Replacement Reserve Year 1 Deposit	\$640,508	\$5,570
Tax and Insurance Reseves	\$105,196	\$915
Equity Takeout	\$11,669,207	\$101,471
Total Uses	\$24,754,916	\$215,260

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$1,413,034	\$12,287	\$45,153	\$1,458,187	\$12,680
Appraisal Cap Rate	5.35%			5.35%	
Valuation	\$26,410,000	\$229,652	\$843,926	\$27,253,926	\$236,991
Loan Principal	\$23,769,000	\$206,687		\$23,769,000	\$206,687
LTV	90.00%		-3%	87.21%	

- RIHousing used a 4.0% vacancy vs. appraiser's 2.0%; actual vacancy over the past three years has averaged less than 2.0%
- 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	\$215,260.00	
Residential Vacancy Rate	4.0%	
DCR Yr 1	1.22	Proforma utilizes negative trending
DCR Yr 15	1.49	
NOI	\$1,458,187.00	Year 1
Income Trending	2.0%	
Expense Trending	3.0%	
Loan to Value	87.2%	
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)	\$366,680.00	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)	\$640,508.00	\$5,570/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%, historic vacancy has averaged below 2.0 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	99	\$ 1,675.00	\$ 1,675.00	100%	0%
1	1	\$ -	\$ 1,107.00	NA	0%
2	15	\$ 1,950.00	\$ 1,950.00	100%	0%
Total	115				

Unit Distribution and Revenue

Market rents were determined by a RIHousing-commissioned appraisal. Market rents were determined to be \$1,675 for the one-bedroom units and \$1,950 for the two-bedroom units. The HAP rents and Market rents were determined to be the same. The non-HAP unit has a rent that is consistent with 60% of AMI.

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:

Applicant	Development	RIHousing 1st Mortgage
Providence Realty Investment, LLC	Indian Run Village Apartments	\$23,769,000.00

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 Indian Run Village RIH, LLC or an affiliated entity (the “Borrower”) in an amount not to exceed \$23,769,000.00, funded through the Risk-Sharing Initiative, for rental housing known as Indian Run Village Apartments located in South Kingstown, 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.
- Resolution of the encroachments identified on the Survey.
- 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.