

Approval Loan Recommendation Summary – Maple Gardens II

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 \$10,360,000 for the refinancing of Maple Gardens II.

Maple Gardens II is an existing 90-unit elderly affordable housing development located in North Providence, RI (“Maple II” or “Development”) that is currently financed by RIHousing. The Development is owned by Maple Housing Group, LP (the “Mortgagor” or “Borrower”). Ferland Corporation (“Ferland”) and MG Management LLC (“MGM”) are co-general partners of the Borrower with each holding a 1% interest. The limited partners of the Borrower are Ferland (24.5%), MGM (49%), and A. Austin Ferland (24.5%).

Maple II is subsidized by a Section 8 Housing Assistance Payment (“HAP”) Contract that is effective through May 2040. The Developer is seeking to refinance the Development with a taxable first mortgage in the principal amount of \$10,360,000. The Developer will use the proceeds of the new financing to pay off the existing mortgage, undertake accessibility, elevator, 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 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: 25 McGuire Road
North Providence, RI

Developer: Ferland Corporation

Loan Amount: \$10,360,000

Loan to Value (LTV) Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$720,073	\$8,001	(\$49,071)	\$671,002	\$7,456
Appraisal Cap Rate	6.25%			6.25%	
Valuation	\$11,521,164	\$128,013	(\$785,138)	\$10,736,026	\$119,289
Loan Principal	\$10,360,000	\$115,111		\$10,360,000	\$115,111
LTV	89.92%		7%	96.50%	

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	\$10,360,000	\$115,111
Existing Reserves	\$591,182	\$6,569
Total Sources	\$10,951,182	\$121,680

Uses	Firm	
	Amount	Per Unit
Construction	\$515,370	\$5,726
Contingency	\$51,537	\$573
Acquisition	\$3,721,630	\$41,351
Soft Costs	\$189,826	\$2,109
Financing Costs	\$324,450	\$3,605
Operating Reserve	\$16,859	\$187
Replacement Reserve Year 1 Deposit	\$315,000	\$3,500
Equity Takeout	\$5,816,511	\$64,628
Total Uses	\$10,951,182	\$121,680

Deviations from standard underwriting – YES.

- A 4% vacancy rate was applied to underwriting as the historical has been less than 1% over the last three years.
- 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 the amount of \$10,360,000.

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits: The proposed refinancing preserves 90-units of elderly housing and will extend the affordability period for the Development for 40 years, while allowing the Developer to enhance accessibility, upgrade elevators, 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 HAP contract 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. All 90 units are subsidized with a Section 8 HAP contract. The loan is underwritten to the lower of market or HAP rents.

Construction – Low Risk – The scope of work is moderate. Completed architectural plans will be required for ADA upgrades, life safety and other work as required by RIHousing and applicable building codes. 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 1979.

Community Opposition – Low Risk – Not Applicable. The site is existing and has been operating since 1979.

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 be in accordance with the program requirements.

Other – Not applicable.

4. UNDERWRITING

4.A Rent Comparison

Bedrooms	Number of Units	Gross Market Rent	Gross HAP Rent	Gross UW Rent
1	84	\$1,350	\$1,350	\$1350
2	6	\$1,515	\$1,510	\$1510

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 \$30,000 annually (2% of effective gross revenue), which is consistent with historical operations. It is not being trended in the projections.

4.E Operating Expenses – OPEX is forecasted at \$8,539 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 \$155,439 and trending at 3% per year in the projections.

4.G Proposed Replacement Reserve Deposit – \$315,000 initial deposit (\$3,500 per unit) plus annual deposits of \$29,250 or \$325/unit/year.

4.H Proposed Operating Reserve Deposit – \$16,859 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

- \$671,002 in the first year.
- Projections demonstrate a DSCR above 1.20 for 17 years with negative trending.

5. PROPERTY DESCRIPTION

Maple II is a 90-unit elderly apartment community comprised of 3 three-story garden style apartment buildings and a clubhouse/leasing office building, all located on a 5.1-acre lot. The Development was constructed by Ferland in 1979 was fully renovated in 2000.

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 other 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 30% of the equity will be withheld until construction completion.

7. BRIEF DESCRIPTION OF THE NEIGHBORHOOD

Maple II is well located in an area of North Providence known as Greystone, in the northwest area of town. The Development's immediate neighborhood is characterized by primarily residential uses, including single and multifamily buildings, with commercial uses predominant to the south along Mineral Spring Avenue. Commercial uses in and around the Development's neighborhood serve the everyday needs of residents and consist of both nationally recognized and local retailers. Public transportation is available nearby with a RIPTA bus stop located at McGuire Road and Mineral Spring Avenue, less than ¼ of a mile from the Development

8. CONCLUSION

Staff recommends firm approval of a taxable first mortgage loan in the amount of \$10,360,000.

9. ATTACHMENTS

A: Pro forma