

## Approval Loan Recommendation Summary – OXFORD LAND FAMILY HOUSING

Preliminary \_\_\_\_\_

Firm  X

Date: February 10, 2021

### 1. OVERVIEW AND SUMMARY OF CHANGES FROM PRELIMINARY APPROVAL

This Credit Committee request is for Firm Approval of a reservation of up to \$796,297 of 2020 Low-Income Housing Tax Credits (“LIHTC”) and a taxable permanent mortgage of up to \$1,450,000 for Oxford Land Family Housing (“OFLH” or the “Development”) located in Providence. The developer is Preservation of Affordable Housing, Inc. (“POAH” or the “Developer”). Preliminary approval of OFLH was granted by the Board of Commissioners on May 13, 2020.

The proposed Development will be located on a vacant site adjacent to the existing Oxford Place and Gardens, both refinanced and substantially rehabilitated in 2018. OLFH will enter a long-term ground lease with another POAH controlled entity to ensure perpetual affordability. The Development will consist of 30 units in a 3-story garden-style residential building. The proposed building will provide a mix of 4 one-bedroom, 2 one-bedrooms with a den, 13 two-bedroom units and 11 three-bedroom units. In total there will be 24 LIHTC units and 6 market rate units. The project is anticipated to be built to the highest standard of energy efficiency through Passive House Certifications. The project will also include the installation of equipment which will provide free wireless broadband internet service for the residents of this project along with the residents of Oxford Place and Oxford Garden.

The total development cost (“TDC”) at the time of Preliminary Approval was \$9,128,293. Since Preliminary Approval TDC has increased to \$9,966,512. The higher cost has been primarily covered with higher equity pricing, a higher first mortgage, deferred fee and a small sponsor loan.

Since preliminary approval, the Development has secured all of its remaining financing. Changes of note include: (i) RIHousing will now serve as the permanent lender (ii) a change in construction lenders; (iii) a change in syndicators; (iv) an increase in LIHTC equity and (v) a change in unit configuration.

- The Developer and previous permanent lender were unable to agree on lending terms. The Developer reached out to the market for a new permanent lender and selected RIHousing to provide the loan upon completion of construction and repayment of that loan.

- The Developer reached out to the market for a new construction lender and selected Citizen’s Bank to provide the construction loan. They are also the LIHTC investor. Additionally, Citizens awarded the project approximately \$260,000 of Community Development Funds that will be used to fund the infrastructure for free broadband for the three Oxford Communities. This is now included as both a source and an expense to the project.
- Construction/Contingency Costs increased \$180,000 due primarily to the inclusion of Rhode Island state sales tax, not originally assumed.
- Soft Costs increased \$440,000, primarily architecture, passive house consultants and testing, builder’s risk insurance and Clerk of the Works.
- The Developer went out to the market for bids on the LIHTCs. After reviewing multiple bids, National Affordable Housing Trust (“NAHT”) was selected. The LIHTC pricing increased from \$0.92 to \$0.96, resulting in \$318,000 of increased equity.
- Code requirements related to emergency egress and utility connections necessitated a change in the unit mix. Despite the net loss of two bedrooms overall, the project will yield more three-bedroom units and better overall flow within the building.

	Preliminary		Firm	
	Units	Bedrooms	Units	Bedrooms
Total 1 Bed	1	1	4	4
Total 1 Bed w/ Den	0	0	2	2
Total 2 Bed	21	42	13	26
Total 3 Bed	8	24	11	33
<b>TOTAL</b>	<b>30</b>	<b>67</b>	<b>30</b>	<b>65</b>

## 2. EXECUTIVE SUMMARY

**Property Address:** 200 Gordon Avenue  
Providence, RI 02905

**Developer:** Preservation of Affordable Housing, Inc.

**Amount(s) Requested:** \$1,450,000 Permanent Mortgage

**Loan terms (rate/term):** 4.625% / 35-year amortization / 17-year term

### Loan to Value (LTV) Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$128,334	\$4,278	(\$23,214)	\$105,120	\$3,504
Appraisal Cap Rate	5.75%			5.75%	
Valuation	\$2,250,000	\$75,000	(\$421,833)	\$1,828,167	\$60,939
Loan Principal	\$1,450,000	\$48,333		\$1,450,000	\$48,333
LTV	64.44%		15%	79.31%	

### RIHousing funded Capital Stack Terms:

Loan Type	Principal	Term	Rate	Comment
Permanent Loan	\$1,450,000	17 years	4.625%	35 Year Amortization

### Proposed Sources and Uses:

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$1,277,563	\$42,585	(\$172,437)	\$1,450,000	\$48,333
LIHTC Proceeds	\$7,325,200	\$243,758	(\$577,257)	\$7,902,457	\$263,415
City of Providence HOME	\$400,000	\$13,333	\$0	\$400,000	\$13,333
Sponsor Loan	\$125,530	\$4,184	(\$34,470)	\$160,000	\$5,333
Deferred Developer Fee	\$0	\$0	(\$54,055)	\$54,055	\$1,802
<b>Total Sources</b>	<b>\$9,128,293</b>	<b>\$304,276</b>	<b>(\$838,219)</b>	<b>\$9,966,512</b>	<b>\$332,217</b>

Uses	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Construction	\$6,924,101	\$230,803	(\$182,884)	\$7,106,985	\$236,900
Contingency	\$346,205	\$11,540	(\$1,705)	\$347,910	\$11,597
Soft Costs	\$731,573	\$24,386	(\$439,127)	\$1,170,700	\$39,023
Financing	\$424,000	\$14,133	\$130,297	\$293,704	\$9,790
Developer Fee	\$564,900	\$18,830	(\$25,200)	\$590,100	\$19,670
Operating Reserve	\$76,654	\$2,555	(\$88,946)	\$165,600	\$5,520
Replacement Reserve Year 1 Deposit	\$15,000	\$500	\$5,250	\$9,750	\$325
Other Reserves	\$45,860	\$1,529	\$22,868	\$22,992	\$766
Neighborhood Initiative / Broadband	\$0	\$0	(\$258,771)	\$258,771	\$8,626
<b>Total Uses</b>	<b>\$9,128,293</b>	<b>\$304,276</b>	<b>(\$838,219)</b>	<b>\$9,966,512</b>	<b>\$332,217</b>

## **Deviations from standard underwriting**

None

**Recommendation:** Firm Approval of a Reservation of Low-Income Housing Tax Credits and a Permanent Loan.

### **3. OPPORTUNITY (BENEFITS) / CHALLENGES**

#### **3.A Benefits**

This transaction will allow for the addition of 30 new affordable housing units on a vacant infill site in South Providence. The building will be built to Passive House standards ensuring energy efficiency and additional comfort for the residents.

#### **3.B Risks/Challenges**

This is an infill project with a building footprint that is the maximum size permitted by zoning, leaving the GC minimal room to navigate. All parties will need to carefully monitor construction details to achieve the projected level of energy efficiency. The permanent loan will be insured through the FHA Risk Sharing Program

#### **3.C Affordability**

The target population for the Development is individuals and families. The Developer is proposing 5 units at 50% AMI, 19 units at 60% AMI and 6 unrestricted units. The projected rents for the unrestricted units are calculated to be affordable to households at 70% AMI, which is a discount of from market rent of 13% on the two bedroom and 19% on the three-bedroom units. RIHousing will require the standard 30-year Tax Credit Restriction Agreement and a 30-year Regulatory Agreement in regard to the LIHTC units.

#### **3.D Pertinent risk factors for this development are:**

**Market** – Moderate Risk; POAH properties in the RIHousing portfolio have a proven track record of low vacancy at or under 3%. The adjoining Oxford Place and Oxford Gardens properties have seldom had a vacancy since reaching stabilization and both have waiting lists with over 100 households. The transaction is underwritten with a 5% vacancy rate on the affordable units and a 7% vacancy rate on the unrestricted units.

**Construction** – Moderate Risk; the architect, Developer and general contractor are all experienced with this type of construction. Additionally, the Developer has engaged a “clerk of the works” and passive housing specialty firm to guide them through the design and

construction process. RIHousing’s Design and Construction group has reviewed the proposed plans and specifications. In addition to specific line item allowances, the development budget includes a 5% contingency.

**Developer**– Low Risk; POAH has a strong presence in Rhode Island and is already operating the two adjacent projects. The existing property management site staff will manage all three projects allowing for overall lower costs per unit. POAH is a not-for-profit corporation with a core mission of preserving at-risk affordable housing. One of POAH’s core principles is that the real estate portfolio must be sustainable and that the organization should be sustained primarily by the portfolio.

**Community Opposition** – Low Risk; The new building was carefully designed to fit in with neighboring properties. It has been well received by the neighborhood during public meetings. The city has now granted all approvals except a building permit.

**Financing** - Low Risk; The primary source of construction financing will be a construction loan from a third party. Permanent financing will be a 17-year taxable mortgage from RIHousing which will not be funded until the project reaches stabilization. Additional sources of funds will be the equity from the sale of 9% LIHTC’s, city HOME funds, a sponsor loan and deferred developer fee.

**Underwriting Assumptions** – Low Risk; except as noted previously, transaction is underwritten to RIHousing’s standard underwriting guidelines. The underwriting includes negative trending. The Development represents appropriate loan-to-value risk and there is sufficient cashflow to support the property’s debt service associated with the Permanent Loan, and the amortizing AHT loan. Initial capitalization of reserves meets or exceeds our underwriting guidelines.

**Other**– NA

#### 4. UNDERWRITING

##### 4.A

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max Rent	Gross Rent as a		Discount from Market Rent
					% of LIHTC Max Rent		
1	60%	6	\$ 813.00	\$ 922.00	88%		41.9%
2	50%	4	\$ 783.00	\$ 922.00	85%		45.8%
2	60%	5	\$ 975.00	\$ 1,107.00	88%		32.5%
2	100%	4	\$ 1,252.00	Market Unit	0%		13.4%
3	50%	1	\$ 905.00	\$ 1,065.00	85%		37.4%
3	60%	8	\$ 1,128.00	\$ 1,278.00	88%		36.6%
3	100%	2	\$ 1,445.08	Market Unit	0%		18.8%
<b>Total</b>		<b>30</b>					<b>34.0%</b>

- 4.B Trending** – 2% rental income/3% expenses
- 4.C Vacancy Loss and Bad Debt** – 5% on affordable units and 7% on market rate units, equates to a blended rate of 5.4% overall.
- 4.D Other Income** – \$3,750 generated from laundry.
- 4.E Operating Expenses** – \$8,241 per unit, inclusive of Replacement Reserve deposits
- 4.F RE Taxes** – \$29,484; 8% of Gross Revenue Potential.
- 4.G Proposed Replacement Reserve Deposit** – Initial deposit of \$9,760 (\$325 per unit); annual deposits of \$325/unit per year
- 4.H Proposed Operating Reserve Deposit** – \$165,600, or six months of operating expenses and debt service on first mortgage.
- 4.I Other Proposed Reserves** - NONE
- 4.J Resulting NOI for Debt Service** – \$105,120 in Year 1 which drops steadily with negative trending to \$101,077 in year 15.

## **5. PROPERTY DESCRIPTION**

The proposed single, three-story building is expected to be certified as Passive Housing. The building will provide a mix of 4 one-bedroom, 2 one-bedroom with a den, 13 two-bedroom units and 11 three-bedroom units. There will also be a community garden and playground.

## **6. DEVELOPMENT ENTITY AND CAPACITY**

**6.A Prior Developments and Current Operational Capacity** – POAH is a not-for-profit corporation with a core mission of preserving at-risk affordable housing, often housing that is at risk of being lost due to market pressures or physical deterioration. Based in Boston, POAH now owns and operates more than 11,000 affordable homes in 11 states and Washington DC. One of POAH's core principles is that the real estate portfolio must be sustainable and that the organization should be sustained primarily by the portfolio. They have an identify of interest property management company called POAH Communities.

Aaron Gornstein has been the Executive Director for six years. From 2012-2015, Mr. Gornstein served as undersecretary for the Massachusetts Department of Housing and Community Development (DHCD) and executive director of Citizens' Housing and Planning Association (CHAPA). POAH has significant staff capacity with a development team, asset

management group and a design and construction team that oversees their projects. In addition to completing the adjacent Oxford Gardens and Oxford Place projects, POAH is expected to close on the refinancing of Southwinds and Beachwood Apartments in Narragansett, RI on or about February 1, 2021.

**6.B Financial Strength** - RIHousing has reviewed the Borrower's financials and determined they are financially stable; the organization is well capitalized and represents a minimal credit risk.

**6.D Guarantees** - RIHousing will require a construction completion guarantee from POAH. The General Contractor will also be required to provide a Payment and Performance Bond.

## **7. LOCATION AND MARKET DYNAMICS**

**Brief Description of the Neighborhood** – The Development is located in the Lower South neighborhood of Providence, which stretches along the west side of the Providence River south of Downtown Providence with Broad Street and the Elmwood neighborhood to the West, Public Street and Upper South Providence to the north and Interstate 95 to the south.

The site is adjacent to the existing Oxford Place and Oxford Garden and is located within walking distance of various houses of worship and retail establishments along Broad Street. Within the immediate vicinity are several single-family homes, two to five family dwellings, triple-deckers and various industrial/commercial uses. Public transportation is within walking distance on Broad Street. Also located on Broad Street are fast food establishments, retail storefronts and two-family dwellings. The Robert L. Bailey IV Elementary School is located approximately one block north of the subject property.

## **8. ADDITIONAL CONSIDERATIONS** - None

## **9. CONCLUSION**

Staff recommends firm approval of a reservation of up to \$796,297 of 2020 Low-Income Housing Tax Credits ("LIHTC") and a taxable permanent mortgage of up to \$1,450,000.

## **10. ATTACHMENTS**

A) Proforma

**Attachment A - Proforma**