

Approval Loan Recommendation Summary – PINE VIEW APARTMENTS

Preliminary X

Firm _____

Date August 5, 2020

1. OVERVIEW

This Request is for Preliminary Approval of a tax-exempt construction to permanent loan and a Capital Magnet Fund (“CMF”) Loan for Pine View Apartments (“PVA” or the “Development”). Women’s Development Corporation (“WDC” or the “Developer”), proposes the new construction of 40 affordable apartments located in Exeter comprised of 5 one-bedroom and 35 two-bedroom residences.

The development is situated on a 7.6-acre parcel of land nestled on two sides by preserved wooded wetlands on South County Trail (Rt.2) and immediately adjacent to the Oak Harbor Village commercial center. The project consists of 34,700 square feet of total living area spread across ten (10) two-story wood-framed buildings.

Of the 40 units, 3 units will be restricted to 30% area median income (“AMI”), 5 units will be restricted to 50% AMI and 32 will be restricted to 60% of AMI. To be conservative, staff utilized the 2019 60% low income housing tax credits (“LIHTC”) rents (versus 2020 which were significantly higher) as indicated in the rental grid on page five. Eight (8) of the 40 units will be subsidized by project-based vouchers (“PBV”) allocated by the Coventry Housing Authority.

Jade Investment Group, Inc. (“JIG”) was the original land developer and received master approval in 2014 and preliminary approval in 2016 for a project with 75% market rate and 25% affordable units. In 2018, WDC entered into a purchase and sale agreement with JIG and received approval from the town to modify the development for 100% affordable units. WDC utilized a LISC recoverable grant of \$100,000 for predevelopment expenses to perform site design and geotechnical work.

Since acquiring site control, PVA has received two awards of Building Homes Rhode Island (“BHRI”) totaling \$4,640,000. PVA applied for, but was not awarded, an allocation of 9% LIHTC. WDC resubmitted PVA as this 4% LIHTC transaction early this year.

The acquisition price of \$1,400,000 is high. In addition to the raw land, the seller has included the land entitlements and initial site clearing/site work. The RIHousing Land Bank took title to the property in June of this year for the appraised value. WDC is obligated to purchase the property from our land bank at the completion of the HUD Environmental Review expected early this fall. RIHousing paid the appraised value, \$900,000 for the property. WDC has an

agreement with JIG for the balance of the acquisition price that is subject to certain approvals and the availability of funds.

The original design by JIG was intended for condominium resale and included two septic systems for each building. Following preliminary approval, WDC will engage a geotechnical study and consolidate the septic design and fire suppression systems. WDC is hopeful that such a redesign will result in lower construction and maintenance costs. JIG will retain ownership of the abutting parcel with a permanent easement in place to provide PVA with access to JIG's public well.

WDC is proposing to finance the transaction with a tax-exempt construction to permanent loan, equity generated from the sale of 4% LIHTCs, a deferred developer fee and funds from BHRI, HOME, the Housing Trust Fund ("HTF") and Capital Magnet Fund ("CMF"). WDC has received two letters of intent to purchase the LIHTCs from Red Stone Equity Partners and the National Equity Fund in the range of \$0.92 to \$0.956 per tax credit respectively.

2. EXECUTIVE SUMMARY

Property Address:	Pole #33 South County Trail Exeter, RI 02822
Developer:	Womens Development Corporation
Amount(s) Requested:	Total Loan Amount: \$7,000,000 Bridge Loan: \$4,480,000 Permanent Loan: \$2,150,000
Loan terms (rate/term):	5.25% 40-Year Amortization

Proposed Sources & Uses:

Sources	Preliminary	
	Amount	Per Unit
RIH First Mortgage	\$2,150,000	\$53,750
LIHTC Proceeds	\$3,232,534	\$80,813
Deferred Developer Fee	\$374,703	\$9,368
Building Homes Rhode Island	\$4,640,000	\$116,000
HOME	\$1,459,000	\$36,475
Housing Trust Fund	\$515,000	\$12,875
Capital Magnet Fund	\$625,000	\$15,625
Total Sources	\$12,996,237	\$324,906
Uses	Amount	Per Unit
Construction	\$7,825,828	\$195,646
Contingency	\$785,452	\$19,636
Acquisition	\$1,340,000	\$33,500
Soft Costs	\$1,015,818	\$25,395
Financing	\$708,188	\$17,705
Developer Fee	\$1,072,000	\$26,800
Operating Reserve	\$203,956	\$5,099
Replacement Reserve Year 1 Deposit	\$15,000	\$375
Other Reserves	\$29,995	\$750
Total Uses	\$12,996,237	\$324,906

\$323,020 LIHTC @ \$.95/credit

Deviations from standard underwriting – YES. If yes, please explain:

The Bridge Loan Test 2 fails to meet the standard of the total bridge loan amount not exceeding 90% of the syndication raise. When factoring at closing WDC will have about \$8MM of funds committed (not including the deferred developer fee) which surpasses the \$7MM bridge loan by 1.15x. Staff thinks this is sufficient coverage for the bridge loan.

Recommendation:

Staff recommends preliminary approval of a total of \$7,000,000 of tax-exempt bond financing, which consists of a \$4,850,000 Bridge Loan and a \$2,150,000 Permanent Loan and a Capital Magnet Fund Loan of \$625,000.

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits: The proposed transaction enables WDC to build 40 new affordable units in Exeter.

3.B Risks/Challenges: The proposed transaction is a medium risk and presents few material challenges. WDC is an experienced affordable housing developer and the development team has experience with both new construction and rehabilitation of affordable housing developments. The construction will be overseen by the RIHousing Design & Construction team in order to address potential issues and ensure completion. The Development will enter into an AHAP contract for 8 PBVs subject to annual appropriations that has historically been renewed. The permanent loan will be insured through the HUD Risk Share program.

3.C Affordability: A 40-year affordability extension will be recorded at closing.

3.D Pertinent risk factors for this development are:

Market - Low Risk; affordable year-round affordable rental housing is difficult to find in this community.

Construction – Moderate Risk; Subsurface conditions with ledge could increase the cost of site work. Initial civil engineering reports indicate there are no subsurface issues where the current septic systems are planned. The proposed buildings will not have basements and will only require a depth of 4 feet to pour the foundations. Additional geotechnical investigation will be performed after preliminary approval. The construction contingency is nearly 10% of the budget which exceeds our 7% contingency requirement for new construction.

Developer – Low Risk; WDC is an experienced owner/developer with an excellent reputation working with RIHousing. The senior development staff is well seasoned and the organization is well capitalized. The organization recently lost their Executive Director but expects to have a new ED in place by the end of the year. WDC has an affiliated property management company.

Community Opposition – None.

Financing - Low Risk; The primary source of permanent financing will be a new permanent mortgage with a 40-year amortization. Additional sources of funds include equity from the sale of 4% LIHTC, a deferred developer fee, and funds from BHRI, HTF and CMF. The debt service coverage ratio (“DSCR”) is 1.15 in year 1, increasing to 1.20 in year 15. The Loan will be underwritten to the lower of the approved PBV rents or market rents, or the lower of LIHTC rents or market as determined by an RIHousing commissioned market study.

Underwriting Assumptions – Moderate Risk; 20% of the units will have PBVs. The remaining 80% of the units have been underwritten to the maximum 60% rents from 2019, in order to cushion for potential income deflation in 2021.

4.A Rent Comparison

Beds	Units	AMI	PBV	Underwriting*	60% LIHTC*		UW/2019
					2019	2020	
1	2	30%	Yes	\$987	\$922	\$978	107%
1	3	50%	Yes	\$987	\$922	\$978	107%
2	1	30%	Yes	\$1,182	\$1,107	\$1,174	107%
2	2	50%	Yes	\$1,182	\$1,107	\$1,174	107%
2	32	60%	No	\$1,107	\$1,107	\$1,174	100%
Total / Avg	40	56.5%		\$43,905	\$43,355	\$45,980	101%
<i>*Gross Rents</i>							

Market rents will be determined by a RI Housing commissioned market study. PBV rents are set at 1.10 times the Fair Market Rents (“FMR”) established by HUD. Staff does not anticipate the PBV rents to decrease as they are determined by HUD’s market research and the rates are not a percentage of area median income.

4.B Trending – 2% rental income/3% expenses consistent with underwriting guidelines.

4.C Vacancy Loss and Bad Debt — This transaction is being underwritten with a 6.6% vacancy rate. A 5.0% vacancy was applied to the 8 PBV units and 7.0% was applied to the remainder, resulting in an average 6.6% vacancy.

4.D Other Income - \$7,780 in Laundry Revenue

4.E Operating Expenses – \$6,980 per unit, inclusive of Replacement Reserve deposits.

4.F RE Taxes – Projecting \$35,990 or \$900 per unit assuming an 8% tax stabilization with 2% inflation to be consistent with 2% income inflation.

4.G Proposed Replacement Reserve Deposit – Initial deposit of \$15,000 (\$375 per unit); annual deposits of \$375/unit per year.

4.H Proposed Operating Reserve Deposit – \$203,956, or a full six months of operating expenses, replacement reserves and debt service.

4.I. Other Proposed Reserves - NONE

4.J Resulting NOI for Debt Service – \$148,128 in Year 1 which even with negative trending, increases to \$154,261 in Year 15. The DSC increases from 1.15 in Year 1 to 1.20 in Year 15.

4. PROPERTY DESCRIPTION

Pine View Apartments is a 40-unit affordable housing development located on a 7.6-acre parcel of land in Exeter, RI. Nestled on two sides by preserved wooded wetlands and conveniently located on South County Trail (Rt.2), it is situated immediately adjacent the Oak Harbor Village commercial center. The project is a planned residential community consisting of 34,700 square feet of total living area spread across ten (10) two-story wood-framed buildings. There are ten (10) 4-unit buildings, arranged in pairs so that each pair shares storage and laundry facilities. The individual living units have an efficient and simple plan, resulting in one-bedroom and two-bedroom units of 615 to 760 square feet in area. A minimum of 2 units (5%) of the proposed 40 units at Pine View will be designed to be handicapped accessible. A minimum of two parking spaces are available for each apartment.

5. DEVELOPMENT ENTITY AND CAPACITY

6.A Prior Developments and Current Operational Capacity

Since 1979, WDC has developed nearly 2,000 units of affordable housing, including over 200 units of supportive housing throughout the state. In 2017 they completed Dean Street which contains 51 units of housing for chronically homeless individuals and office space for The Kent Center's Housing First Program. WDC is completing construction of Shannock Village, a 9% LIHTC development in Charlestown and Richmond, RI. Dean E. Harrison, Director of Real Estate Development, has over 29 years of experience in all phases of real development and financing of affordable housing. WDC has significant staff capacity with a development team and affiliated property management group.

6.B Financial Strength

RIHousing has reviewed the Borrower's financials and has determined that they are financially stable, the organization is well capitalized and represents a minimal credit risk.

6.C Guarantees

RIHousing will require a construction completion guarantee from WDC. The General Contractor will also be required to provide a Payment and Performance Bond.

6. LOCATION AND MARKET DYNAMIC

The development is located on Rt. 2, in Exeter, a primarily rural, car-dependent municipality. The location is served by the RIPTA #66 bus connecting northbound to Providence and southbound to URI. Of the 2,500 households in Exeter, 19% are rental and 81% are owned. Only 8% of housing stock, or 218 units, in Exeter are multifamily and 66% of area renters are considered "cost burdened." The Town of Exeter has struggled to reach the goal of 10% affordable housing with only 2.4% of the housing stock being affordable at this time. The 40 units proposed would increase the amount of the Town's affordable housing stock from 2.4% of all households to nearly 4% and provide an example of the viability of development in areas historically challenging for affordable housing.

7. CONCLUSION

Between Preliminary and Firm, staff will commission an appraisal and market study and complete all required due diligence to finalize the construction budget and appropriately size the permanent loan. WDC intends to bid out the construction to help reduce the cost.

Staff recommends Preliminary Approval of a tax-exempt loan in the amount of \$7,000,000 of which \$2,150,000 will remain as permanent debt and a Capital Magnet Loan of \$625,000.

8. ATTACHMENTS

- a. Proforma
- b. Bridge Loan Test

Attachment B – Bridge Loan Test

Test 1 The sum of the bridge loan (the “Bridge Loan”) and the RI Housing permanent loan cannot exceed 90% of the Total Development Cost (“TDC”) of the project. This includes transactions in which the Bridge Loan is bridging equity from the sale of Low Income Housing Tax Credits (“LIHTC”), federal and/or state historic tax credits.

Bridge Loan:	\$4,850,000
Permanent Loan:	<u>\$2,150,000</u>
SUM:	\$7,000,000
TDC:	\$12,996,237

PASSES TEST 1

The sum of the Bridge Loan and the initial capital contributions may not exceed 90% of the gross syndication raise, subject to terms and conditions of the Limited Partnership Agreement (“LPA”) and all subsequent capital contributions.

Test 2 For tax-exempt transactions, the amount of the Bridge Loan in general, shall not exceed the minimum amount of loan proceeds necessary to ensure that over 50% of the aggregate basis of the project is funded with tax-exempt bond proceeds (the “50% Test”), as determined in accordance with applicable tax code provisions. Under certain circumstances, Rhode Island Housing will consider bridging historic tax credits, which exceed the minimum loan amount necessary to meet the 50% Test.

Bridge Loan:	\$4,850,000
Total LIHTC Equity:	\$3,232,534
Total Historic Credits:	\$0
B Gross Syndication Raise:	\$3,232,534
Initial Capital Contribution:	\$808,134
Initial Percent of Credits:	25.0%
A Bridge + Initial Contribution:	\$5,658,134
Test: A over B	175.0%

FAILS TEST 2

Staff has determined that the minimum tax-exempt bond amount needed to meet the 50% test with a cushion is \$7,000,000.