

## Approval Loan Recommendation Summary – PINE VIEW APARTMENTS

Preliminary \_\_\_\_\_

Firm   X  

Date: May 12, 2021

### 1. OVERVIEW AND UPDATE SINCE PRELIMINARY:

This Request is for Firm Approval of a \$7,250,000 tax-exempt construction to permanent loan a \$625,000 Capital Magnet Fund (“CMF”) Loan, HOME Investment Partnerships Program (the “HOME Program”) loan in the amount of \$1,459,000, and a Housing Trust Fund (“HTF”) loan in the amount of \$515,000 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. Staff utilized the 2021 60% low income housing tax credits (“LIHTC”) rents which were reduced by 0.5% from 2020. The Coventry Housing Authority (“CHA”) has provided their written support to allocate eight (8) project-based vouchers (“PBV”) and the permanent loan has been sized as such. The CHA anticipates being able to issue the Agreement to Enter into a Contract for the PBV (“AHAP”) in July. The AHAP will be a condition to closing.

To secure the site, RIHousing provided a Landbank loan to WDC who took title to the property from Jade Investment Group (“JIG”) for the appraised value of \$900,000. JIG retains ownership of the abutting parcel with a permanent easement in place to provide PVA with access to JIG’s public well. WDC repaid the Landbank loan with \$900,000 of BHRI funds in October 2020 after completion of the HUD Environmental Review.

In addition to the \$900,000 paid for the property and additional \$405,000 of the purchase price was deferred via an addendum to the original purchase agreement. The addendum allowed for up to \$205,000 to be held back until JIG provides full access to their public well. An additional \$200,000 identified as the value of the existing permitting and sitework was held back until WDC is able close on the project financing. The development budget includes an acquisition cost of \$1,240,000.

The original design by JIG was intended for condominium resale and included two septic systems for each building. Following preliminary approval, WDC engaged a geotechnical study and consolidated the septic design and fire suppression systems. While the redesign was more efficient, geotechnical surveys revealed additional site work and recent construction material inflation has resulted in a construction cost increase of more than 9%.

Since Preliminary Approval, the National Equity Fund (“NEF”) lowered their LIHTC pricing from \$0.956 to \$0.92 per credit however the applicable rate on the 4% LIHTC was fixed at 4% increasing the number of LIHTC available resulting in \$1.2 million of additional equity to the transaction. This year, RIHousing has seen equity pricing drop on several projects, mainly attributed to the overall increase in the supply of 4% credits.

In addition to the increase in construction cost and decrease in equity pricing, the Development saw an increase to the stabilized operating expenses which reduced the loan size. To minimize the loan size reduction and in consideration of current market conditions, RIHousing lowered the permanent loan interest rate from 5.25% to 4.25%. The resulting \$1.4 million gap in sources was resolved by boosting eligible basis with a deferred incentive developer fee to generate more LIHTC, a reduction in construction contingency from 10% to 7% and a \$100,000 reduction in land acquisition.

**2. EXECUTIVE SUMMARY**

**Property Address:** Pole #33  
 South County Trail  
 Exeter, RI 02822

**Developer:** Women’s Development Corporation

**Amount(s) Requested:** Total Tax-Exempt Loan Amount: \$7,250,000  
 • Bridge Loan: \$5,250,000  
 • Permanent Loan: \$2,000,000

**Loan to Value Test:**

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$196,406	\$4,910	(\$59,323)	\$137,083	\$3,427
Appraisal Cap Rate	6.25%			6.25%	
Valuation	\$3,142,496	\$78,562	(\$949,172)	\$2,193,324	\$54,833
Loan Principal	\$2,000,000	\$50,000		\$2,000,000	\$50,000
LTV	63.64%		28%	91.19%	

- RIHousing used a 6.7% vacancy vs. appraiser's 3%
- RIHousing has discounted the maximum 60% LIHTC rents by 3%
- RIHousing used more conservative operating expenses

**Permanent Loan terms:** 4.25% / 40-Year Amortization

Capital Magnet Fund Loan: \$625,9000

HOME Program Loan: \$1,459,000

HTF Loan: \$515,000

**Proposed Sources & Uses:**

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$2,150,000	\$53,750	(\$150,000)	\$2,000,000	\$50,000
LIHTC Proceeds	\$3,232,534	\$80,813	\$1,208,234	\$4,440,768	\$111,019
Deferred Developer Fee	\$374,703	\$9,368	\$362,431	\$737,134	\$18,428
Building Homes Rhode Island	\$4,640,000	\$116,000	\$0	\$4,640,000	\$116,000
HOME	\$1,459,000	\$36,475	\$0	\$1,459,000	\$36,475
Housing Trust Fund	\$515,000	\$12,875	\$0	\$515,000	\$12,875
Capital Magnet Fund	\$625,000	\$15,625	\$0	\$625,000	\$15,625
<b>Total Sources</b>	<b>\$12,996,237</b>	<b>\$324,906</b>	<b>\$1,420,766</b>	<b>\$14,417,002</b>	<b>\$360,425</b>

Uses	Amount		Delta	Per Unit	
	Amount	Per Unit		Amount	Per Unit
Construction	\$7,825,828	\$195,646	\$730,314	\$8,556,142	\$213,904
Contingency	\$785,452	\$19,636	(\$186,522)	\$598,930	\$14,973
Acquisition	\$1,340,000	\$33,500	(\$100,000)	\$1,240,000	\$31,000
Soft Costs	\$1,015,818	\$25,395	\$382,404	\$1,398,222	\$34,956
Financing	\$708,188	\$17,705	\$208,808	\$916,995	\$22,925
Developer Fee	\$1,072,000	\$26,800	\$385,833	\$1,457,833	\$36,446
Operating Reserve	\$203,956	\$5,099	(\$505)	\$203,451	\$5,086
Replacement Reserve	\$15,000	\$375	\$0	\$15,000	\$375
Other Reserves	\$29,995	\$750	\$434	\$30,429	\$761
<b>Total Uses</b>	<b>\$12,996,237</b>	<b>\$324,906</b>	<b>\$1,420,766</b>	<b>\$14,417,002</b>	<b>\$360,425</b>

\$482,740 LIHTC @ \$.92/credit

**Deviations from standard underwriting – YES.**

A 7% construction contingency was utilized, versus 10%. Considering the project is new construction and the geotechnical survey met the requirements of RIHousing Design and Construction staff this I considered an acceptable deviation.

## **Recommendation:**

Staff recommends firm approval of a total of \$7,250,000 of tax-exempt bond financing, which consists of a \$5,250,000 Bridge Loan and a \$2,000,000 Permanent Loan, a Capital Magnet Fund Loan of \$625,000, a HOME Program loan of \$1,459,000 and an HTF Loan of \$515,000.

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

**3.A Benefits:** The proposed transaction enables WDC to build 40 new affordable units in Exeter, a community with less than 10% of its housing stock considered affordable.

**3.B Risks/Challenges:** The proposed transaction is a medium risk and presents few material challenges. WDC is historically an experienced affordable housing developer but recent staff turnovers have reduced the organization's development capacity. However, Charlotte Thomas-Davison, the Senior Project Manager, recently completed the development of Shannock Falls in Charlestown and WDC has engaged Frank Shea as Interim Executive Director. RIHousing will provide standard oversight. The Development will enter into a 20-year AHAP contract for 8 PBVs. 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 but appear to be mitigated by a geotechnical survey and civil engineering study. Subsurface issues were incorporated into the construction budget. The proposed buildings will not have basements and will only require a depth of 4 feet to pour the foundations. Material inflation is another construction risk both RIHousing and the developer are monitoring closely. The construction contingency of 7% is typical for new construction but less than RIHousing's 10% requirement. Stand Corporation ("Stand") is the general contractor, and they were selected through a competitive bid process. Stand has completed previous RIHousing financed projects

*Developer* – Medium Risk; As previously stated, WDC is historically an experienced owner/developer with an excellent reputation working with RIHousing. The departure of their Director of Development and Executive Director has lessened the organization's capacity to execute. WDC recently hired an assistant project manager and development consultant to support their project management. 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 1.29 in year 1 and 1.28 in year 15. The loan is underwritten to the lower of LIHTC or market rents and the lower of PBV or market rents as determined by the RIHousing commissioned appraisal.

**Underwriting Assumptions** – Moderate Risk; 20% of the units will have PBVs. The remaining 80% of the units have been underwritten to 97% of the maximum 60% rents.

**4.A Rent Comparison**

Bedrooms	Units	AMI	Gross Rents			Underwriting	% of Max Rent
			LIHTC	PBV	Market		
1	2	30%	\$486	\$988	\$1,365	\$988	100%
1	3	50%	\$811	\$988	\$1,365	\$988	100%
2	1	30%	\$584	\$1,183	\$1,450	\$1,183	100%
2	2	50%	\$973	\$1,183	\$1,450	\$1,183	100%
2	32	60%	\$1,168	N/A	\$1,450	\$1,135	97%
<b>Total</b>	<b>40</b>		<b>\$43,311</b>	<b>\$8,489</b>	<b>\$57,575</b>	<b>\$44,809</b>	

Market rents were determined by a RIHousing commissioned market study and appraisal. 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** - \$7,680 in Laundry Revenue

**4.E Operating Expenses** – \$7,509 per unit, inclusive of Replacement Reserve deposits.

**4.F RE Taxes** – \$36,858 per year assumes 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** – \$203,451, 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** – \$137,083 in Year 1 which decreases to \$135,902 in Year 15. The DSC starts at 1.29 in Year 1, increases and then decreases to 1.28 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 to 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 lease-up of Shannock Village, a 9% LIHTC development in Charlestown and Richmond, RI. Charlotte Thomas-Davison, Senior Project Manager has assumed overall project management for PVA and is supported by David Pride, a development consultant. WDC's affiliated property management group, Housing Opportunities Corporation will provide property management for the completed Development.

## **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. Stand 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**

Staff recommends Firm Approval of a tax-exempt loan in the amount of \$7,250,000 of which \$2,000,000 will remain as permanent debt, a Capital Magnet Fund Loan of \$625,000, a HOME Program loan of \$1,459,000 and an HTF Loan of \$515,000. As a condition to the approval, the development is required to obtain an AHAP from the Coventry Housing Authority for 8 project-based vouchers prior to closing or RIHousing reserves the right to reduce the permanent loan size.

## **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.

<b>Bridge Loan:</b>	\$5,250,000
<b>Permanent Loan:</b>	<u>\$2,000,000</u>
<b>SUM:</b>	\$7,250,000
<b>TDC:</b>	\$14,415,895

### **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.

<b>Bridge Loan:</b>	\$5,250,000
<b>Total LIHTC Equity:</b>	\$4,474,914
<b>Total Historic Credits:</b>	\$0
<b>B Gross Syndication Raise:</b>	\$4,474,914
<b>Initial Capital Contribution:</b>	\$827,859
<b>Initial Percent of Credits:</b>	18.5%
<b>A Bridge + Initial Contribution:</b>	\$6,077,859
<b>Test: A over B</b>	135.8%

### **FAILS TEST 2**

Staff has determined that the minimum tax-exempt bond amount needed to meet the 50% test with a cushion is \$7,250,000.