

**Request for Action
by
Board of Commissioners**

Preliminary Approval of Financing for Potters Tigray Apartments

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for preliminary approval of a Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt construction loan in an amount not to exceed \$9,500,000 and a taxable permanent loan in an amount not to exceed \$500,000 for Potters Tigray Apartments (the “Development”). S.W.A.P., INC. (STOP WASTING ABANDONED PROPERTY) (the “Developer”) is the developer.

B. DISCUSSION

This 57-unit development is comprised of two separate components located on scattered sites in South Providence. One component of the Development, known as Potters Avenue, is an existing post-year-15 LIHTC project in need of some capital improvements. 37 existing units are located in 16 buildings and range in size from one to four bedrooms. These units are slated to undergo a moderate rehabilitation of \$3.54 million, or \$96,000 per unit.

The Developer also owns multiple vacant sites located in South Providence. The other component of this Development is the Developer’s proposal to construct an additional 20 apartments in 11 buildings on these vacant sites. The 20 new units will range in size from one to three bedrooms and are proposed to serve tenants earning between 30% and 60% of area median income (“AMI”).

Together, the two components will be a single economic unit known as Potters Tigray Apartments. The “Tigray” in the Development’s name is in honor of Asata Tigray, a housing advocate who has worked in this neighborhood for decades. The Developer submitted its proposal for the Development in response to the Request for Proposals issued by RIHousing in November 2022. The collective capital stack for the Development is anticipated to consist of (i) the permanent loan from RIHousing contemplated herein, (ii) proceeds from the tax-exempt financing and sale of 4% low-income housing tax credits (“LIHTC”), (iii) a Capital Magnet Fund (“CMF”) loan, (iv) Development of Affordable Housing 2 (“DAH-2” also known as ARPA Production Fund) funds, (v) Community Revitalization Program (“CRP”) funds, (vi) existing replacement and operating reserves from Potters Avenue, and (vii) rollover of existing soft debt on the Potters Avenue properties.

By this RFA, staff recommends for approval the attached resolutions providing preliminary approval of \$9,500,000 in tax-exempt financing and a taxable permanent loan of \$500,000 for Potters Tigray Apartments, subject to certain conditions as set forth therein.

C. ATTACHMENTS

- A.** Credit Summary
- B.** Resolutions

**Attachment A
Credit Summary**

Approval Loan Recommendation Summary – Potters Tigrai Apartments

Preliminary X

Firm _____

Date: May 18, 2023

Project: The new construction of 20 units and the preservation of 37 units located in South Providence.

Development Team

	Name	Location	Risk Rating
Sponsor/Developer	S.W.A.P., INC. (STOP WASTING ABANDONED PROPERTY)	Providence, RI	Low
Mortgagor	TBD		
Architect	David Presbrey Architects, A Corporation	Providence, RI	Low
Legal	Chace Ruttenberg & Freedman, LLP	Providence, RI	Low
Management Agent	SWAP Community Land Trust, Inc.	Providence, RI	Low

Executive Summary

	Address	City
Property Addresses – see below table	Scattered Sites	Providence
Proposed Loan Amount(s) and Terms		
Tax-Exempt Loan (CL)	\$9,500,000	6.5%/3-year term
Taxable Permanent Loan	\$500,000	7.25%/30-year term

Note: Interest rates are subject to change based on market conditions.

Proposed Sources & Uses:

Sources	Preliminary - 4%	
	Amount	Per Unit
RIH First Mortgage	\$500,000	\$8,772
Assumed Debt (Rollover)	\$3,530,058	\$61,931
DAH-2	\$4,550,000	\$79,825
Community Revitalization	\$2,000,000	\$35,088
Capital Magnet Fund	\$250,000	\$4,386
LIHTC Proceeds	\$6,699,241	\$117,531
Potters Replacement Reserves	\$175,000	\$3,070
Potters Operating Reserves	\$147,000	\$2,579
Total Sources	\$17,851,299	\$313,181

Uses	Preliminary - 4%	
	Amount	Per Unit
Construction	\$8,213,738	\$144,101
Contingency	\$571,637	\$10,029
Acquisition	\$4,941,518	\$86,693
Soft Costs	\$1,242,237	\$21,794
Financing	\$1,366,464	\$23,973
Developer Fee	\$1,114,139	\$19,546
Operating Reserve	\$279,161	\$4,898
Replacement Reserve Year 1 Deposit	\$80,500	\$1,412
Other Reserves	\$41,905	\$735
Total Uses	\$17,851,299	\$313,181

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$313,181	
Residential Vacancy Rate	7.0%	
DCR Yr 1	2.48	Proforma utilizes negative trending
DCR Yr 15	1.25	
NOI	\$101,398	Year 1
Income Trending	2.0%	
Expense Trending	3.0%	
Loan to Value	TBD	
Initial Installment (%) of syndication proceeds	25%	
Acquisition Price equal to or less than Appraised value	NA	
Operating Reserve (Amt and confirm consistency with UW requirements)	\$279,161	Equals 6 months debt and OPEX.

Replacement Reserve (Amt and confirm consistency with UW requirements)	\$80,500	\$325/unit for new units and \$2,000/unit for existing units; consistent with UW requirement
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Deviations from standard underwriting – Yes

The project fails “Test 2” of the Bridge Loan Test. The construction loan is sized at the minimum level required to meet the IRS requirement that 50% of the project be financed using tax-exempt bonds.

Unit Distribution and Revenue:

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max	Gross Rent as a
				Rent	% of LIHTC Max
2	30%	2	\$ 1,215.00	\$ 653.00	186%
2	60%	11	\$ 1,142.36	\$ 1,306.00	87%
3	30%	5	\$ 1,357.00	\$ 754.00	180%
3	60%	18	\$ 1,181.39	\$ 1,509.00	78%
4	60%	1	\$ 1,282.00	\$ 1,683.00	76%
1	30%	1	\$ 906.00	\$ 544.00	167%
2	30%	4	\$ 1,088.00	\$ 653.00	167%
2	60%	6	\$ 1,215.00	\$ 1,306.00	93%
3	60%	9	\$ 1,357.00	\$ 1,509.00	90%
Total		57			

Property Addresses:

New Production	332 Thurbers Avenue	Providence
New Production	338 Thurbers Avenue	Providence
New Production	12 Meni Court	Providence
New Production	16 Meni Court	Providence
New Production	9 Husted Court	Providence
New Production	77 Beacon Street	Providence
New Production	225 Public Street	Providence
New Production	257 Public Street	Providence
New Production	270 Rhodes Street	Providence
New Production	120 Providence Street	Providence
New Production	27 Emmett Street	Providence
New Production	18 Van Buren Avenue	Providence
Potters Avenue	29 Milk Street	Providence
Potters Avenue	30 Ocean Street	Providence
Potters Avenue	34 Ocean Street	Providence
Potters Avenue	40 Ocean Street	Providence
Potters Avenue	321 Plain Street	Providence
Potters Avenue	327 Plain Street	Providence
Potters Avenue	331 Plain Street	Providence
Potters Avenue	337 Plain Street	Providence
Potters Avenue	82 Potters Avenue	Providence

Potters Avenue	101 Potters Avenue	Providence
Potters Avenue	109 Potters Avenue	Providence
Potters Avenue	306 Public Street	Providence
Potters Avenue	1 Salisbury Street	Providence
Potters Avenue	5 Salisbury Street	Providence
Potters Avenue	22 Salisbury Street	Providence
Potters Avenue	267 Swan Street	Providence

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 issue tax-exempt bonds for financing qualified housing developments throughout the state;
- Whereas,** said bonds shall have a term not to exceed 36 months 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,** RIHousing is also authorized to issue tax-exempt at an economically acceptable rate to promote the acquisition, rehabilitation, or preservation of affordable housing;
- Whereas,** S.W.A.P., INC. (STOP WASTING ABANDONED PROPERTY) (“Applicant”) has presented an application to RIHousing requesting mortgage financing to acquire and/or rehabilitate the development as set forth below (the “Development”):

<u>Development</u>	<u>Applicant</u>	<u>Construction Loan</u>	<u>Permanent Loan</u>
Potters Tigrai Apartments	S.W.A.P., INC. (STOP WASTING ABANDONED PROPERTY)	\$9,500,000	\$500,000

- Whereas,** staff has reviewed the submission and determined that the Development may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines, and policies; and
- Whereas,** RIHousing finds that:
- (1) That there exists a shortage of decent, safe, and sanitary housing at rentals 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) That 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) That 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) That the proposed housing development to be assisted will be of public use and will provide a public benefit; and

(5) That 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, 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 preliminary commitment for tax-exempt mortgage financing for the Applicant or other affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$9,500,000 for rental housing known as Potters Tigray Apartments located in Providence, Rhode Island to be financed, in part, by tax-exempt bonds.

Resolved, that RIHousing hereby declares that this preliminary commitment of financing for the Borrower constitutes the affirmative official act of RIHousing of its intention to issue bonds to finance, and to reimburse qualified expenditures incurred by the Borrower or RIHousing in advance of the issuance of the bonds, up to \$9,500,000 in mortgage funds, plus the required bond reserve funds, and the related costs of issuance for the bond issue for the above-referenced Development pursuant to the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder. The intent to reimburse the aforementioned bond-funded costs is intended to satisfy the requirements of Section 1.150-2 of the United States Treasury Regulations. This resolution shall take effect immediately upon adoption.

Resolved, that, subject to the special conditions listed below, RIHousing hereby grants preliminary approval for a permanent taxable loan in an amount not to exceed \$500,000 to the Borrower for rental housing known as Potters Tigray Apartments located in Providence, Rhode Island.

Resolved, that the foregoing resolutions are subject to the following conditions:

- Syndication equity from the allocation of LIHTC credits in amounts sufficient to achieve project feasibility;
- A final appraisal and market study 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, and sufficient demand exists for the proposed units;
- Approval of subordinate funding in amounts sufficient to achieve project feasibility or the availability of alternative equity satisfactory to RIHousing;
- Approval by the bond underwriter and bond counsel confirming the loans satisfy all required bond provisions for the bond issue;
- Execution and delivery by the Borrower of a construction completion guaranty in form and substance satisfactory to RIHousing;
- Approval by RIHousing of all management related documentation, including the marketing and tenant selection plans;
- Approval by RIHousing of design and construction plans, specifications, and construction documentation;
- Recordation of a RIHousing Declaration of Land Use Restrictive Covenants and Regulatory Agreement in form(s) acceptable to RIHousing;
- Confirmation that lots and unit mix included in the final project are consistent with those identified in the application;
- Satisfactory and timely performance in accordance with the schedule established by RIHousing staff; and
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

Resolved, that the Executive Director, Deputy Executive Director, and Director of Real Estate Development, each acting singly, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.