

Approval Loan Recommendation Summary – Riveredge Apartments

Preliminary X

Firm _____

Date **June 9, 2021**

1. OVERVIEW

This Credit Committee Request seeks preliminary approval of a \$16.1 million tax-exempt construction loan of which \$10.5 million would remain as a permanent first mortgage. The funds will be used for the acquisition and rehabilitation of Riveredge Apartments (the “Development”), an existing 99-unit low income apartment building located in Providence, RI. Cornell Management Corporation (“CMC”), will undertake a \$5 Million rehabilitation of the property to update all common areas, rehabilitation of approximately 60 residential units, updates to mechanical, electrical, and plumbing systems, and exterior and site improvements. There will be significant focus on energy conservation.

Riveredge Apartments is a 6-story, steel-frame, concrete building originally constructed in 1980. It has 89 one bedroom and 10 two-bedroom apartments for elderly and disabled households. Amenities include a community room, business center, outside patio and sitting areas. The Section 8 HAP contract which covers all 99 units was recently renewed for 20 years with rents marked up to market. The current partnership acquired the property in February 2006 using bond financing and low income housing tax credits (“LIHTC”) through RIHousing. A moderate rehab of about \$11,000 per unit was completed at that time.

The existing limited partner Richman Capital has confirmed that the initial compliance period for the Development expired in December of 2020. Richman Capital has indicated a desire to exit the existing partnership and re-syndicate the new Development.

2. EXECUTIVE SUMMARY

Property Address: 993 Manton Avenue
Providence, RI

Developer: Cornell Management Corporation
PO Box 6727
New Bedford, MA

Amount(s) Requested: Total Loan Amount: \$16,100,000
 Bridge Loan: \$ 5,600,000
 Permanent Loan: \$10,500,000

Loan terms (rate/term): Rate: 3.625%
 Loan Amortization: 40 years
 Loan Term: 17-year balloon

Proposed Sources & Uses:

Sources	Preliminary	
	Amount	Per Unit
RIH First Mortgage	\$10,500,000	\$106,061
Sponsor (Dev Fee)	\$1,669,956	\$16,868
Assumed Debt (Rollover)	\$217,319	\$2,195
LIHTC Proceeds	\$8,584,076	\$86,708
Seller Loan	\$1,511,158	\$15,264
Existing Reserves	\$846,491	\$8,550
Cash From Operations	\$482,000	\$4,869
Solar Rebate	\$140,000	\$1,414
Total Sources	\$23,951,000	\$241,929

Uses	Amount	
	Amount	Per Unit
Construction	\$4,631,551	\$46,783
Contingency	\$463,155	\$4,678
Acquisition	\$13,500,000	\$136,364
Soft Costs	\$432,061	\$4,364
Financing	\$1,085,565	\$10,965
Developer Fee	\$2,984,956	\$30,151
Operating Reserve	\$566,609	\$5,723
Replacement Reserve Year 1 Deposit	\$198,000	\$2,000
Other Reserves	\$89,103	\$900
Total Uses	\$23,951,000	\$241,929

Equity - \$933,145 4% LIHTC @ \$.92

Deviations from standard underwriting – A 3% vacancy rate was applied to underwriting as the historical vacancy (economic and physical) has been under 2% over the last three years. The appraisal used a vacancy rate of 2.5%.

Recommendation: Staff recommends preliminary approval of a tax-exempt loan in the amount not to exceed \$16,100,000 of which \$10,500,000 will remain as permanent debt.

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits: The proposed transaction enables CMC to perform significant renovations at the property while refinancing a property that has completed its current compliance period. The proposed scope will allow for a renovation of the 60 units that have not previously been upgraded. Unit upgrades include energy efficient appliances, new kitchens, new bathrooms, new floor coverings, and refreshed paint. Additionally, all the common areas will be updated with fresh paint, floor coverings and new lighting. Improvements will be made to the existing mechanical, electrical and plumbing systems as well as elevator upgrades. Exterior repairs include new windows throughout the building, installation of a new roof and solar panels, and replacement of the exterior Dryvit and Aluminum panels with new Fiber Cement panels. The net result of the completed proposed scope of work will be a completely refreshed energy efficient building with a new affordability period that will extend the life of this development well into the future.

3.B Risks/Challenges: The proposed transaction is low risk and presents few material challenges. CMC is an experienced affordable housing developer and the development team has experience in the rehabilitation of existing affordable housing. The renovations will be overseen by the RIHousing Design & Construction team in order to ensure completion of the renovation scope. The Development has a new 20-year HAP contract 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 new 30-year Tax Credit Restriction Agreement and a 40-year Regulatory Agreement will be executed and recorded at closing.

3.D Pertinent risk factors for this development are:

Market - Low Risk - The Development is well occupied with a historical vacancy rate of 1 to 2%. The improvements planned as part of this transaction will increase the desirability of the units while also reducing the turn time for re-occupancy upon tenant vacancy.

Construction - Low Risk - The general contractor, Pariseault Builders, Inc., has experience in executing resident in-place rehabilitation projects. The identified scope captures both cosmetic and systems upgrades. A careful review of the schedule of values for the proposed renovations has been completed and it is expected that CMC will be able to complete the renovation project with the budget they have presented.

Developer - Low Risk - CMC has owned and operated this development since 2006 and has successfully owned and managed this and other affordable housing developments.

Community Opposition - Low Risk – This is an existing affordable housing development and does not require additional approvals outside of building permits. No community opposition is expected.

Financing - Low Risk - Low Risk; The primary source of permanent financing will be a mortgage with a 17-year term and a 40-year amortization, supported by the lower of HAP or market rents. As underwritten, the proposed transaction will allow the Developer to operate the property at a DSCR of 1.29 at year 1, increasing to 1.39 in year 15.

Underwriting Assumptions - Low Risk – Except as noted above regarding vacancy rate, transaction is underwritten to RIHousing’s standard underwriting guidelines.

Existing Debt

Loan	Principal Balance	Interest Rate	Maturity Date
1st Mortgage	\$2,621,386	6.75%	6/1/2042
TOTALS	\$2,621,386		

New Permanent Debt

Loan	Principal amount	Term	Interest Rate	Comment
1st Mortgage	\$10,500,000	17 Years	3.625%	New 1st Mortgage
TOTALS	\$10,500,000			

4. UNDERWRITING

4.A Assisted Units/Rents

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max Rent	Gross Rent as a % of LIHTC Max Rent	Discount from Market Rent
1	60%	89	\$ 1,418.00	\$ 978.00	145%	5.5%
2	60%	10	\$ 1,680.00	\$ 1,174.00	143%	9.2%
Total		99				5.8%

Final loan sizing will be based on the lower of approved HAP rents or the market rents determined in the final appraisal commissioned by RIHousing.

4.B Market Units/Rents - Not Applicable

4.C Trending - 2% income; 3% operating expenses except for real estate taxes which will track at 8% of GPR.

4.D Vacancy Loss and Bad Debt - 3.0% Vacancy

4.E Other Income - Laundry and Misc. Income estimated to be \$9,804 annually.

4.F Operating Expenses - The per unit operating expenses are projected to be \$10,420.

4.G RE Taxes – Project is taxed at 8% of gross rents.

4.H Proposed Replacement Reserve Deposit - \$198,500 initial deposit (\$2,000 per unit) at closing and annual deposits of \$650/unit/year. A Capital Needs Assessment has been prepared and the combination of the extensive scope of work to be performed immediately after closing and annual deposits allow the replacement reserves to remain positive throughout the next 20 years after proposed capital improvements are made.

4.I Proposed Operating Reserve Deposit - \$566,609 operating reserve deposit at closing is consistent with RIHousing's requirement of the Replacement Reserve and Operating Reserve equaling: 6 months debt service and 6 months operating expenses.

4.J Other Proposed Reserves – Standard Real Estate Tax and Insurance Escrows equivalent to 50% of annual expense.

4.K Resulting NOI for Debt Service - NOI in Year 1 \$642,732 and annual Debt Service of \$497,603 results in Debt Service Coverage of 1.29 in year 1 and 1.39 in year 15.

5. PROPERTY DESCRIPTION

The project is owned by Manton River Associates Limited Partnership and operated by Cornell Management Corporation. The proposed transaction involves the rehabilitation of an existing affordable housing development located in a densely occupied mixed-use neighborhood located at 993 Manton Avenue, Providence, RI. The existing building is a 6-story brick veneer building that contains 99 subsidized residential apartment living units with a rentable area of is approximately 59,405 square feet. The unit mix includes 89 one-bedroom apartment living units and 10 two-bedroom apartment living units. The building is situated on one tax lot containing 3.45 acres. The property is on the Northeast side of Manton Avenue with access via Devereux Avenue, which is a short street running from Manton Avenue. The project is located in an R-4 Residential zoning district, which is a high density residential zone.

Limited non-residential/commercial uses are permitted if they are considered compatible with their surroundings. The proposed rehabilitation project does not include any building additions and maintains the existing building footprint and structure intact.

6. DEVELOPMENT ENTITY AND CAPACITY

6.A Prior Developments and Current Operational Capacity - CMC is the developer and management agent. In addition to Riveredge Apartments, CMC also owns two other similar multi-family projects in Rhode Island, both financed with bonds and LIHTC through RIHousing. CMC also provides management to 10+ multi-family and residential condominium projects in RI and MA.

Located in New Bedford Massachusetts and established over 25 years ago, CMC has a primary focus on property management and real estate development.

6.B Financial Strength - RIHousing will review the general partner and borrower's financials to confirm their ability to meet financial obligations and overall financial health.

6.C Guarantees - RIHousing will require a construction completion guarantee from the Borrower and a recourse guarantee from the general partner for the bridge portion of the loan. The General Contractor will also be required to provide a Payment and Performance Bond.

7. LOCATION AND MARKET DYNAMIC

Brief description of neighborhood: The subject is located in the Manton neighborhood which is in the westernmost part of the City of Providence. The town of North Providence borders it to the north, Johnston to the west, while the neighborhoods of Hartford, Olneyville, and Mount Pleasant border it inside Providence. The Woonasquatucket River separates it from Johnston to the west. The subject is located off of Manton Avenue with access to the site via Devereux Avenue. Manton Avenue is a major roadway that runs through the Manton and Olneyville neighborhoods, eventually connecting to the Huntington Expressway (Route 6).

The immediate neighborhood has a mix of multi-family, single-family and commercial uses. Commercial development in the neighborhood is situated along Manton Avenues and consists of a mix of locally owned businesses and nationally owned franchises. Most residential development is originated long local side streets with some multi-family residences scattered among the commercial development along Manton Avenue.

The subject is well located within walking distance to shopping, restaurants, and other services. It has a Walk Score of 77, meaning most errands can be accomplished on foot and a Transit Score of 38, meaning there are nearby public transportation options. The Rhode Island Public

Transit Authority (RIPTA) provides fixed route bus service and a stop in front of the property and runs along Manton Street, servicing the neighborhood and downtown Providence. RIPTA also provides paratransit services to the elderly and disabled and the property also provides transportation to its tenants.

The subject has good access to a variety of neighborhood services within a half mile, including a Stop & Shop, two pharmacies, automotive uses, Family Dollar, and several restaurants. Recreational uses nearby include the Woonasquatucket River Greenway and Triggs Memorial Golf Course. The closest senior center is the Lillian Feinstein Senior Center located 1.5 miles away and the closest public library is 1.6 miles away. There are several medical centers located within 3 miles of the subject including the Roger Williams Medical Center, Providence Community Health Center, and Providence VA Medical Center.

Overall, the subject is well located within an urban location that has access to health care, shopping, restaurants, and entertainment all of which benefit the residents at the subject property.

8. CONCLUSION

Staff recommends preliminary approval of a tax-exempt loan in the amount not to exceed \$16,100,000 of which \$10,500,000 will remain as permanent debt.

9. ATTACHMENTS

- a) Bridge Loan Test Analysis
- b) Site Map

BRIDGE LOAN TEST ANALYSIS

The sum of the bridge loan (the “Bridge Loan”) and the Rhode Island Housing permanent loan cannot exceed 90% of the Total Development
Test 1 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:	\$5,600,000
Permanent Loan:	<u>\$10,500,000</u>
SUM:	\$16,100,000
TDC:	\$23,951,000

MEETS REQUIRED TEST.

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.

For tax-exempt transactions, the amount of the Bridge Loan in general,
Test 2 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, RIHousing will consider bridging historic tax credits, which exceed the minimum loan amount necessary to meet the 50% Test.

Bridge Loan:	\$5,600,000
Total LIHTC Equity:	\$8,584,076
Total Historic Credits:	\$0
B Gross Syndication Raise:	\$8,584,076
Initial Capital Contribution:	\$1,287,611
Initial Percent of Credits:	15.0%
A Bridge + Initial Contribution:	\$6,887,611
Test: A over B	80.2%

MEETS REQUIRED TEST.

SITE MAP

