

Approval Loan Recommendation Summary – RIVERSIDE HOUSE

Preliminary _____

Firm X

Date: October 7, 2020

1. OVERVIEW AND UPDATE

This Credit Committee request is for Firm Approval of a taxable permanent loan for Riverside House (the “Development”). The project is currently financed by RIHousing. The Development is legally owned by *Willett/Riverside, LLC*. No change in ownership is anticipated as part of this transaction.

A. Overview

Riverside House Apartments is an existing 55-unit elderly affordable housing development located in the Riverside neighborhood of East Providence, RI. The property is subsidized by a Section 8 Housing Assistance Payment (“HAP”) Contract that is effective through November 2033. The owner is seeking to refinance the Development with a taxable first mortgage in the principal amount of \$6,286,500. The proceeds of the new financing will be utilized to pay off the existing mortgage, undertake various unit and common area upgrades, recapitalize the reserves, and make an equity distribution to the partners. The proposed refinancing is consistent with RIHousing’s taxable loan program that was introduced to replace the Treasury-HUD Federal Financing Bank (“FFB”) HFA Multifamily Risk Sharing Loan Financing Initiative which was suspended by HUD in 2018.

As part of the approval process, staff has determined that the Development and owner meet RIHousing’s requirements for participating in the taxable loan program. Broadly, this review includes:

- Compliance with HUD’s requirements
- Demonstrated responsible long-term ownership and management of the property
- A 20-year HAP contract with a minimum of 10 years remaining
- Well-funded reserves
- Low vacancy rates
- Financially beneficial to RIHousing
- Execution of a new 40-year affordability agreement
- Consistency with RIHousing’s standard underwriting requirements

Specifically, under the taxable loan program, RIHousing will agree to a refinancing if, at a minimum, all of the following additional conditions are met:

- The borrower has demonstrated responsible long-term ownership and management of the property;
- The property is in good physical condition and RIHousing is satisfied based on review of a current capital needs assessment that all capital needs are adequately funded during the life of the loan; and,
- The transaction conforms to the RIHousing Risk Share Underwriting Guidelines and the Taxable Loan Program Term Sheet.

2. EXECUTIVE SUMMARY

Property Address: 1061 Willett Avenue
East Providence, RI 02915

Developer: Willett/Riverside, LLC

Amount(s) Requested: \$6,286,500

Loan terms (rate/term):

Rate 4.5%
Term 40-years

Loan to Value (LTV) Test:

NET OPERATING INCOME	\$411,977	\$7,490	(\$21,491)	\$390,486	\$7,100
Appraisal Cap Rate	5.90%			5.90%	
Valuation	\$6,985,000	\$127,000	(\$366,589)	\$6,618,411	\$120,335
Loan Principal	\$6,286,500	\$114,300		\$6,286,500	\$114,300
LTV	90.00%		5%	94.99%	

Proposed Sources and Uses:

Sources	FIRM	
	Amount	Per Unit
RIH First Mortgage	\$6,286,500	\$114,300
Operating Reserve	\$70,423	\$1,280
Replacement Reserve	\$127,242	\$2,313
T/I Reserve	\$37,596	\$684
Total Sources	\$6,521,761	\$118,577

Uses	FIRM	
	Amount	Per Unit
Construction	\$1,125,814	\$20,469
Contingency	\$112,500	\$2,045
Acquisition	\$1,959,000	\$35,618
Soft Costs	\$232,925	\$4,235
Financing	\$215,021	\$3,909
Developer Fee	\$100,000	\$1,818
Operating Reserve	\$101,815	\$1,851
Replacement Reserve Year 1 Deposit	\$110,000	\$2,000
Other Reserves	\$53,214	\$968
Developer Fee	\$100,000	\$1,818
Equity Takeout	\$2,411,472	\$43,845
Total Uses	\$6,521,761	\$118,577

Deviations from standard underwriting: Yes

A 4% vacancy rate was applied to underwriting as the historical vacancy economic and physical vacancy have hovered near 2% over the last three years. The appraisal used a vacancy rate of 3%.

Consistent with the term sheet for this loan product, the combination of replacement and operating reserves were sized at 3 months versus 6 months. The property has an excellent repayment history and the HAP rents provide additional debt coverage.

Consistent with the term sheet for this loan product, the annual replacement reserves will start at \$300 per unit versus \$325. An updated Capital Needs Assessment will be commissioned every five years to reassess property needs and ensure there are adequate replacement reserves.

Recommendation: Staff recommends firm approval of a new first mortgage in the amount of \$6,286,500.

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits: The proposed refinancing preserves 55-units of elderly and/or disabled housing and will extend the affordability period for the Development for 40 years, while allowing the owner to enhance accessibility, improve energy efficiency, upgrade life-safety equipment, update unit and common area finishes, and adequately capitalize the replacement reserve to provide for future upgrades to the Development over the next 20 years.

3.B Risks/Challenges The refinancing transaction assumes continuation of Section 8 assistance to support the new first mortgage debt, however, credit enhancement in the form of FHA Risk Share Insurance will be required.

3.C Affordability A 40 year extension to the existing affordability restriction will be recorded at closing.

3.D Pertinent risk factors for this development are:

Market – Low Risk; The Development has historically low vacancy rates, and except for standard turnover, the Development is essentially 100% occupied with a waiting list. All of the units are subsidized with a HAP Contract. The loan is underwritten to the lower of market rents or HAP rents.

Construction – Low Risk; The scope of work is routine, and the GC has demonstrated the capacity to perform the required work. Completed plans and specs will be required before closing. The proposed work includes: replacement of the emergency generator, replacement of all windows, grinding and repaving the asphalt parking lot, painting and new floor covering in all common areas and new kitchens in 34 of the 55 units. An updated Capital Needs Assessment will be commissioned every five years to reassess property needs and ensure there are adequate replacement reserves.

Developer – Low Risk; The current ownership has owned and operated this property for 15 years.

Community Opposition – None, the improvements are existing.

Financing - Low Risk; The primary source of permanent financing will be a 40-year mortgage supported by the lower of HAP or market rents which will be insured through the FHA Risk Share Program.

Underwriting Assumptions – Low Risk; transaction is underwritten to RIHousing’s standard underwriting guidelines, except as noted above. The Development’s debt coverage ratio is 1.15 in year 1 and increases annually thereafter.

Other – Not applicable.

4. UNDERWRITING

4.A

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%	50	\$ 1,380.00	\$ 922.00	150%	6.1%
2	60%	5	\$ 1,650.00	\$ 1,107.00	149%	0.0%
Total		55				5.6%

Note: For one-bedroom units the loan is underwritten to HAP rents, which are lower than market and for the two-bedroom units, the loan is underwritten to current HAP rents which are slightly lower than current market rents.

4.B Trending – 2% rental income/3% expenses

4.C Vacancy Loss and Bad Debt – 4%

4.D Other Income – \$8,686 for laundry, AC fee and other miscellaneous revenue. Income is not trended.

4.E Operating Expenses – \$9,239 per unit, inclusive of Replacement Reserve deposits.

4.F RE Taxes – \$74,160; 8% of Gross Revenue Potential.

4.G Proposed Replacement Reserve Deposit – Initial deposit of \$110,000 (\$2,000 per unit); annual deposits of \$300/unit per year

4.H Proposed Operating Reserve Deposit – \$101,815; three months of operating expenses and debt service on first mortgage less the \$110,000 deposited into the Replacement Reserve account.

4.I Other Proposed Reserves - None

4.J Resulting NOI for Debt Service – \$390,486 in Year 1 with a DSC of 1.15. Projected NOI in Year 15 is \$424,918 with a DSC of 1.25. Proforma performs for 30+ years.

5. PROPERTY DESCRIPTION

Riverside House consists of one tax parcel containing 2.80 acres located along Willet Avenue in the Riverside neighborhood of East Providence. The improvements are located within a single 3-story apartment building constructed in 1983. Along with the 55 residential units the building contains a management and resident services coordinator's office, common laundry room on the first floor, and a common room with a full kitchen. The building also has a hair salon and library.

There are 50 one-bedroom units and five two-bedroom units. Each unit has a similar layout with a kitchen featuring an electric range, refrigerator, microwave and dishwasher as well as a space for a small table for dining. The living rooms all feature a sliding, metal frame, screened window and through the wall air conditioning unit. The two-bedroom units feature a larger master bedroom and a smaller second bedroom. The bedroom and bathrooms have emergency pull cords for tenants. Communal amenities at the subject property include a sitting area in the lobby of the building, laundry room, community room with a full kitchen as well as an outdoor seating and smoking area to the rear of the property. All 55 have the benefit of project-based rent assistance through a HAP Contract.

6. DEVELOPMENT ENTITY AND CAPACITY

6.A Prior Developments and Current Operational Capacity

The building is owned by an LLC which is controlled by multiple individuals from the same family. This property represents the bulk of commercial real estate owned by this group. They have owned and operated the property since 2005 and by all accounts done so in a manner that is fiscally responsible while providing a good environment for the tenants. The property is managed by an affiliated management company which manages one other similar residential building.

6.B Financial Strength

RIHousing has reviewed the historical property financials and has determined that they are financially stable and represents a reasonable credit risk.

6.C Guarantees

A construction completion guaranty will be required and 20% of the equity will be withheld until construction completion.

7. DESCRIPTION OF THE NEIGHBORHOOD

The property is located in the Riverside neighborhood of East Providence, which is in a stable phase of its life cycle. The neighborhood has access to the Interstate 195/Pawtucket Avenue interchange about 4.5 miles to the north via Routes 103 and 114. Alternative access to the interstate highway is offered by Wampanoag Trail/East Shore Expressway, via Route 103 traveling east into Barrington. RIPTA Bus service is also provided along Willett Avenue with a bus stop located across the street from the subject property.

The area is made up primarily of residential uses. However, there are some commercial and retail uses in the immediate vicinity of the subject property. There is a Shaw's anchored plaza directly across Willet Avenue from the subject property that includes a Rite Aid, Domino's Pizza, McGreen's Fine Wine and Spirits and other local business. There are several pizza restaurants in the local area as well as the Christian Community Bible Church of Riverside, Riverside Cleaners, Nationwide Insurance and Navigant Credit Union. There are also several parks in the neighborhood. The subject has a "Walk Score" of 56 out of 100, which means it is somewhat walkable and that some errands can be accomplished on foot.

8. CONCLUSION

Staff recommends firm approval of: a taxable first mortgage in the amount of \$\$6,286,500.

9. ATTACHMENT(S)

Proforma