

Approval Loan Recommendation Summary – Saving the Future / Building the Dream

Preliminary _____

Firm X

Date March 10, 2021

1. OVERVIEW AND CHANGES FROM PRELIMINARY

This request is for Preliminary Approval of a RIHousing first mortgage in the amount of \$350,000 and Capital Magnet Funds in the amount of \$750,000 for Saving the Future/Building the Dream (the “Development”). The borrower is also requesting a Preservation Loan Fund Program loan (“PLF”) in an amount up to \$1,500,000 from the Affordable Housing Trust. NeighborWorks Blackstone River Valley is the developer (“NWBRV” or the “Developer”)

This is the refinance of two separate post year 15 LIHTC projects, Saving the Future and Building the Dream, both of which are in Woonsocket. Both are 100% affordable, restricted to households earning up to 60% of Area Median Income (AMI).

The changes to this proposed transaction since preliminary approval include:

- adding the existing reserves as a source
- increased construction costs due to an increased scope of work following a Capital Needs Assessment (CNA), fire code compliance report, and Phase I Environmental Site Assessment.
- The initial deposit to the replacement reserve was increased to meet the requirements of the projected replacement reserve schedule in the CNA.
- The developer fee increased due to the increased construction costs.
- The underwriting of the new loan changed with the vacancy rate decreasing to 3%. A revenue deficit reserve of \$100,000 will be funded at closing to supplement revenue starting in year 13 in order to meet debt service.

STF (AKA Constitution Hill II/III) was developed in 1998. It contains 46 units in 13 buildings. BTM (AKA Constitution Hill IV) was developed in 2002. It contains 19 units in 7 buildings. The primary sources of financing for both transactions were LIHTC, a small amortizing loan, a RIHousing Targeted Loan, HOME funds, lead funds and sponsor loans. Each of the buildings was substantially renovated. National Equity Fund (“NEF”) was the original limited partner in both deals.

NWBRV contemplates merging two existing low-income housing tax credit (“LIHTC”) limited partnerships, Securing the Future, L.P. (“STF”) and Building the Dream, L.P. (“BTM”) into a single limited partnership. The merger of these two limited partnerships will serve to preserve the

affordability of the units and to create stronger economies of scale for the rehabilitation and maintenance of the units.

In the proposed transaction NWBRV will merge BTM into SFT and NEF will transfer their limited partnership interest in both deals to an affiliate of NWBRV. SFT will be the surviving entity. NWBRV intends to undertake approximately \$35,000/unit of rehabilitation to the Development.

2. EXECUTIVE SUMMARY

Property Address: Scattered sites located in the Constitution Hill neighborhood of Woonsocket.

Developer: Woonsocket Neighborhood Development Corporation d/b/a NeighborWorks Blackstone River Valley

Amount(s) Requested:

RIH First Mortgage	\$ 350,000
Capital Magnet Fund	\$ 750,000
Assumed Debt (Rollover)	\$5,388,403

Loan terms (rate/term): RIHousing 1st Mortgage: 5%/30 years

Existing debt: Securing the Future

Loan Type	Principal & Accrued Interest	Rate	Comment
Existing 1 st Mortgage	\$ 166,816	8%	To be paid off
Targeted Loan	\$ 1,826,850	5%	To be rolled over
HOME Loan	\$ 500,000	0%	To be rolled over/potential discharge
Lead loan	\$ 953,790	6%	To be rolled over/potential discharge
Lead loan	\$ 441,977	6%	To be rolled over/potential discharge
Sponsor Loan	\$ 52,319	6%	To be rolled over/potential discharge
Sponsor Loan	\$ 33,629	6%	To be rolled over/potential discharge
Sponsor Loan	\$ 185,000	0%	To be rolled over/potential discharge

Existing debt: Building the Dream

Loan Type	Principal & Accrued Interest	Rate	Comment
Existing 1 st Mortgage	\$ 97,163	8.45%	To be paid off
Targeted Loan	\$ 275,996	5%	To be rolled over
HOME Loan	\$ 500,000	0%	To be rolled over/potential discharge
NOP Loan	\$ 140,000	5%	To be rolled over
Sponsor Loan	\$ 102,370	0%	To be rolled over/potential discharge
Sponsor Loan	\$ 343,183	0%	To be rolled over/potential discharge

As part of the approval process, staff has determined that the Development and sponsor meet RIHousing’s requirements for rollover of existing debt. Broadly, this review includes:

- Current on first mortgage or in compliance with forbearance agreement;
- No outstanding monitoring findings, no history of significant monitoring findings;
- Demonstrated responsible long-term ownership and management of the property;
- Maximize amortizing debt the property can support; and
- Borrower provide guarantees to cover any deficit shortfalls.

Proposed Sources & Uses:

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$350,000	\$5,385	\$0	\$350,000	\$5,385
Preservation Loan Fund Program	\$1,500,000	\$23,077	\$135,000	\$1,365,000	\$21,000
Capital Magnet Fund	\$750,000	\$11,538	\$0	\$750,000	\$11,538
Assumed Debt (Rollover)	\$5,388,403	\$82,899	\$0	\$5,388,403	\$82,899
RI HRC	\$649,000	\$9,985	\$0	\$649,000	\$9,985
Existing Replacement Reserves	\$0	\$0	(\$132,580)	\$132,580	\$2,040
Existing Operating Reserves	\$0	\$0	(\$90,593)	\$90,593	\$1,394
Total Sources	\$8,637,403	\$132,883	(\$141,489)	\$8,778,892	\$135,060

Uses	Amount		Delta	Amount	
	Amount	Per Unit		Amount	Per Unit
Construction	\$2,089,000	\$32,138	(\$111,000)	\$2,200,000	\$33,846
Contingency	\$209,900	\$3,229	\$44,900	\$165,000	\$2,538
Acquisition & Rolled Over Debt	\$5,638,403	\$3,846	\$0	\$5,638,403	\$86,745
Soft Costs	\$144,955	\$2,230	(\$41,672)	\$186,627	\$2,871
Financing	\$20,000	\$83,206	\$0	\$20,000	\$308
Developer Fee	\$92,145	\$1,418	(\$26,105)	\$118,250	\$1,819
Operating Reserve	\$231,000	\$3,554	\$78,500	\$152,500	\$2,346
Revenue Deficit Reserve	\$0	\$0	(\$100,000)	\$100,000	\$1,538
Replacement Reserve Year 1 Deposit	\$135,000	\$2,077	(\$11,000)	\$146,000	\$2,246
Other Reserves	\$77,000	\$1,185	\$24,888	\$52,112	\$802
Total Uses	\$8,637,403	\$132,883	(\$141,489)	\$8,778,892	\$135,060

Deviations from standard underwriting: Vacancy rate of 3% where 5% is standard and year 15 DSCR below 1.15, however there is a revenue deficit reserve that is sized to keep the DSC positive to year 18 of the loan.

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits – The proposed transaction enables NWBRV to undertake a moderate rehabilitation of the Development, focused primarily on exterior envelope upgrades and some upgrades to the unit interiors and mechanicals.

3.B Risks/Challenges – These two projects have been underperforming in recent years due to NWBRV's reluctance to raise rents. RIHousing commitment is contingent on the developer implementing a plan to raise the rents to levels that sustain operations and debt service at required levels to underwrite the proposed transaction.

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 – Historical occupancy is less than 2% and demand for units is expected to remain high even as rents are increased to better reflect the required AMI set asides.

Construction – Medium Risk – NWBRV will serve as the general contractor (GC) for the project rather than hiring a third-party contractor. NWBRV has served as the GC on other smaller projects, but this will be a larger undertaking for them. They are only planning a moderate rehabilitation of occupied units. The contingency is 7.5% of the construction hard costs budget.

Developer – Low to Medium Risk – NWBRV is a well-established community development corporation (“CDC”) with a successful track record of developing affordable housing. Like many CDCs, NWBRV has a lean real estate development staff which can sometimes slows things down, extending the time frame for project development

Community Opposition – Low Risk – These 65 units are existing affordable housing units in an area that features properties of similar building type and serving tenants of similar demographics.

Financing – Low to Moderate Risk – The debt service coverage starts at 4.0 in year 1 but drops to .83 in year 18, however a revenue deficit reserve has been established to ensure adequate cash flow through year 18.

Underwriting Assumptions – Low to Moderate Risk – The financing assumes that the Developer will institute rent increases to bring the existing rents up to be more in line with the current LIHTC rents which have been kept artificially low based on the incomes of existing residents. RIHousing will require the Borrower to establish a revenue deficit reserve to supplement revenue in year 13 in order to meet debt service.

4. UNDERWRITING

4A. Assisted/Market Rents

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max	Gross Rent as a	Discount from
				Rent	% of LIHTC Max	
EFF	50%	5	\$ 597.00	\$ 717.00	83%	35.3%
1	50%	14	\$ 721.36	\$ 768.00	94%	26.3%
1	60%	1	\$ 771.00	\$ 922.00	84%	20.2%
1	60%	1	\$ 823.00	\$ 922.00	89%	13.8%
2	50%	10	\$ 926.80	\$ 922.00	101%	22.8%
2	60%	2	\$ 900.50	\$ 1,107.00	81%	25.4%
3	50%	16	\$ 1,156.31	\$ 1,065.00	109%	29.3%
3	60%	3	\$ 1,062.33	\$ 1,278.00	83%	36.1%
3	60%	3	\$ 1,092.33	\$ 1,278.00	85%	33.9%
3	60%	4	\$ 1,153.75	\$ 1,278.00	90%	29.5%
4	50%	3	\$ 1,198.67	\$ 1,188.00	101%	41.5%
4	60%	1	\$ 1,388.00	\$ 1,426.00	97%	30.3%
4	60%	2	\$ 1,466.00	\$ 1,426.00	103%	25.7%
Total		65				

4B. Trending – 2% income; 3% operating expenses

4C. Vacancy Loss and Bad Debt – 3% (2020 vacancy was less than 2% across both projects and NWBRV currently has over 200 households on their waiting list)

4D. Other Income – The underwriting for this transaction includes \$66,566 in rental assistance subsidies from both project-based and tenant vouchers. RIHousing is only underwriting to the project-based voucher rents. The subsidies have been in place for more than 10 years, and while the annual subsidy amount varies, the inclusion of this other income in the model is conservatively estimated based on the historic subsidy amounts.

4E. Operating Expenses – Forecasted at \$8,838/unit including annual deposit to replacement reserve.

4F. RE Taxes – 8% of gross rental revenue trending at 2% per year to be consistent with income trending.

4G. Proposed Replacement Reserve Deposit – Initial deposit is \$2,246/unit and \$450 unit/year on-going.

4H. Proposed Operating Reserve Deposit – Initial deposit is equal to 6 months of operating expenses and debt service minus the deposit to the Replacement Reserve.

4I. Other Proposed Reserves – Revenue deficit reserve: \$100,000

4J. Resulting NOI for Debt Service – \$69,675 in Year 1; DSCR below 1.15 in year 13 which is mitigated by the revenue deficit reserve.

5. PROPERTY DESCRIPTION

The project consists of 65 affordable units located within 20 two to four story multifamily buildings on scattered sites within an 8-block area in the Constitution Hill neighborhood of Woonsocket, RI. The buildings were originally built in the 1950's and rehabilitated in 1999 and 2003.

6. DEVELOPMENT ENTITY AND CAPACITY

6A. NWBRV has been creating economic opportunity and revitalizing Rhode Island neighborhoods for almost thirty years. NWBRV is the largest nonprofit community development corporation serving Northern Rhode Island and the Blackstone Valley. NWBRV has worked throughout Rhode Island's urban, suburban and rural communities, tackling a variety of development projects ranging from single-family new construction and infrastructure development, restoration of abandoned multifamily homes and redevelopment of brownfields/mill structures into successful mixed-use developments.

Since 1995 NWBRV has spearheaded several nationally recognized economic development and community revitalization initiatives that have created over 550 affordable homes and apartments; 46,874 square feet of neighborhood commercial and community facilities; over 700 construction jobs and 65 permanent jobs.

6B. Current Organizational Capacity – NWBRV is a robust organization that is well staffed and experienced in the execution of projects with the size and scope of this proposed project.

6C. Financial Strength – RIHousing has reviewed the Borrower's financials and preliminarily has determined that they are financially stable, and the organization is well capitalized.

6D. Guarantees – The sponsor will be required to provide a construction completion guarantee.

7. LOCATION AND MARKET

The Constitution Hill neighborhood was developed in the 1950's and consists of mostly two to four story tenement houses. The neighborhood is well located as it is nearby to commercial areas offering access to public transportation, grocery stores, restaurants, and other retail and entertainment amenities. Costa Park is a nearby green space offering recreation opportunities and access to the Blackstone River.

8. ADDITIONAL CONSIDERATIONS – None

9. CONCLUSION – Staff recommends firm approval of first mortgage in the amount of \$350,000 and a Capital Magnet Fund loan in the amount of \$750,000.