

Approval Loan Recommendation Summary – SUTTON PLACE

Preliminary _____

Firm X

Date: March 10, 2021

1. OVERVIEW AND SUMMARY OF CHANGES FROM PRELIMINARY APPROVAL

This Credit Committee request is for Firm Approval of a taxable permanent mortgage of up to \$1,885,000, a HOME Investment Partnerships Program (“HOME Program”) loan of \$1,392,497 and a Housing Trust Fund (“HTF”) loan of \$1,189,921 for Sutton Place (the “Development”) located in East Providence. Olneyville Housing Corporation d/b/a ONE Neighborhood Builders (“ONENB” or the “Developer”) is the developer. The Developer is also requesting a loan from the Preservation Loan Program Fund (“PLPF”) in the amount of \$1,080,000 through the Affordable Housing Trust (“AHT”). Preliminary approval of Sutton Place was granted by the Board of Commissioners on September 17, 2020.

The total development cost (“TDC”) at the time of Preliminary Approval was \$5,243,321. Since Preliminary Approval, the TDC has increased to \$5,896,573. The higher cost has been primarily covered with an increased Permanent Loan and the addition of cash flow from operations to the capital stack.

With this approval, the Development will have secured all required financing. Changes of note include: (i) an increase to the construction budget and (ii) a decrease to the purchase.

- After receipt of Preliminary Approval, the Developer undertook a higher level of due diligence. In addition to the capital improvements anticipated at Preliminary some additional code and environmental items were discovered. To address these issues, the construction budget and contingency increased by \$600,000.
- Because of the appraised value coming in lower than the original purchase price, the purchase price decreased \$60,000. This is an arms-length transaction with an unrelated seller.

The Development is located between the Downtown and the Rumford neighborhoods of East Providence and is in walking distance of the eastside of Providence. The project consists of two nearly identical buildings constructed in 1970 located on a single tax lot in the Riverside neighborhood of East Providence. The project is in fair to average condition and contains 22 one-bedroom units (450 Square Feet (SF) each) and 14 studio units (375 SF each). ONENB intends to invest \$1.75 million or over \$48,000 per unit to renovate individual apartments as well as the common areas. The units will be restricted to households with incomes between

30% and 80% of the Area Median Income (“AMI”). These restrictions will ensure affordability over the long term as the neighborhood around the property gentrifies and the market rents increase.

2. EXECUTIVE SUMMARY

Property Address: 54-60 Sutton Avenue
East Providence, 02914

Developer: Olneyville Housing Corporation d/b/a ONE Neighborhood Builders

Amount(s) Requested: \$1,885,000 Permanent Mortgage
\$1,392,497 HOME Program loan
\$1,189,921 HTF loan

Loan terms (rate/term): Permanent Mortgage - 5.0% / 40-year amortization / 40-year term

Loan to Value (LTV) Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$129,227	\$3,590	\$24,364	\$153,591	\$4,266
Appraisal Cap Rate	5.75%			5.75%	
Valuation	\$2,250,000	\$62,500	\$420,000	\$2,670,000	\$74,167
Loan Principal	\$1,885,000	\$52,361		\$1,885,000	\$52,361
LTV	83.78%		-13%	70.60%	

RIHousing funded Capital Stack Terms:

<u>Loan Type</u>	<u>Principal</u>	<u>Term</u>	<u>Rate</u>	<u>Comment</u>
Permanent Loan	\$1,885,000	40 years	4.625%	40 Year Amortization
HOME Program Loan	\$1,392,497	40 Years	AFR	Deferred
HTF Loan	\$1,189,921	40 Years	AFR	Deferred

Note: 50% of the surplus cash will be paid to the PLPF loan from the AHT.

Proposed Sources and Uses:

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$1,315,000	\$36,528	(\$570,000)	\$1,885,000	\$52,361
Preservation Loan Fund Program	\$1,080,000	\$30,000	\$0	\$1,080,000	\$30,000
EP Waterfront Funds	\$200,000	\$5,556	\$0	\$200,000	\$5,556
HOME	\$1,392,497	\$38,680	\$0	\$1,392,497	\$38,680
HTF	\$1,189,921	\$33,053	\$0	\$1,189,921	\$33,053
Deferred Dev Fee	\$65,903	\$1,831	\$65,903	\$0	\$0
CF from Operations	\$0	\$0	(\$149,155)	\$149,155	\$4,143
Total Sources	\$5,243,321	\$145,648	(\$653,252)	\$5,896,573	\$163,794

Uses	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Construction	\$1,037,804	\$28,828	(\$551,956)	\$1,589,760	\$44,160
Contingency	\$103,780	\$2,883	(\$56,220)	\$160,000	\$4,444
Acquisition	\$3,420,000	\$95,000	\$60,000	\$3,360,000	\$93,333
Soft Costs	\$140,095	\$3,892	(\$52,639)	\$192,734	\$5,354
Financing	\$47,900	\$1,331	(\$32,156)	\$80,056	\$2,224
Developer Fee	\$300,000	\$8,333	\$0	\$300,000	\$8,333
Operating Reserve	\$98,000	\$2,722	(\$18,500)	\$116,500	\$3,236
Replacement Reserve Year 1 Deposit	\$72,000	\$2,000	\$0	\$72,000	\$2,000
Other Reserves	\$23,742	\$659	(\$1,782)	\$25,524	\$709
Total Uses	\$5,243,321	\$145,648	(\$653,252)	\$5,896,573	\$163,794

Deviations from standard underwriting

None

Recommendation: Firm Approval of (i) a taxable first mortgage, (ii) a HOME Program loan, and (iii) an HTF loan.

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits

This transaction will preserve 36 naturally affordable but currently unrestricted apartments in East Providence. The planned upgrades will make the building safer and more comfortable for residents while also improving the street appeal to attract households up to 80% of area median income (“AMI”).

3.B Risks/Challenges

This transaction involves the rehabilitation of existing units. The current owner is not permitting destructive testing, so there is the possibility latent defects will be discovered post-closing. To mitigate this risk only 15% of the Developer Fee will be paid at closing, with the remainder of the fee available as additional contingency if the construction/contingency budget is insufficient. The permanent loan will be insured through the FHA Risk Sharing Program.

3.C Affordability

This project is currently unrestricted. The target population for the Development is individuals and small families. There will be a Regulatory Agreement recorded at closing to restrict occupancy to households with incomes between 30% and 80% of the Area Median Income (“AMI”). These restrictions will ensure affordability over the long term as the neighborhood around the property gentrifies and the market rents increase.

3.D Pertinent risk factors for this development are:

Market – Moderate Risk; many of the existing tenants have already been pre-qualified to remain in the property, however, ONENB will need to increase rents on some of the units prior to conversion to comply with the proposed underwriting. They have submitted a plan to raise rents over an 18-month period. Other ONENB properties in the RIHousing portfolio have a proven track record of low vacancy at or under 3%. The transaction is underwritten with a 5% vacancy rate.

Construction – Moderate Risk; the architect, Developer and general contractor are all experienced with this type of construction. RIHousing’s Design and Construction group has reviewed the proposed plans and specifications. In addition to specific line item allowances, the development budget includes a full 10% contingency and ONENB will execute a Construction Completion Guaranty.

Developer – Low Risk; ONENB has a strong presence in the greater Providence area.

Community Opposition – None; This is an existing project.

Financing – Low-Risk; The capital stack includes several subordinate loans and a construction to permanent loan.

Underwriting Assumptions – Moderate Risk; transaction is underwritten to RIHousing’s standard underwriting guidelines. The permanent loan is underwritten to a 1.26 debt service coverage and is dependent upon the successful implementation or rent increases to existing residents. The underwriting includes negative trending. The Development represents appropriate loan-to-value risk and there is sufficient cashflow to support the property’s debt service associated with the Permanent Loan. Initial capitalization of reserves meets our underwriting guidelines.

Other – NA

4. UNDERWRITING

4.A

Unit	Rent Type	Number of Units	Gross Rent	Gross Rent as a		Discount from Market Rent
				LIHTC Max Rent	% of LIHTC Max Rent	
EFF	80%	9	\$ 980	\$ 1,148	85%	5.1%
1	80%	8	\$ 1,176	\$ 1,230	96%	5.0%
1	60%	3	\$ 898	\$ 922	97%	28.3%
EFF	60%	2	\$ 913	\$ 861	106%	11.8%
EFF	30%	1	\$ 977	\$ 430	227%	5.4%
EFF	30%	2	\$ 864	\$ 430	201%	16.8%
1	30%	5	\$ 977	\$ 461	212%	21.7%
1	30%	1	\$ 997	\$ 461	216%	20.0%
1	70%	5	\$ 999	\$ 1,076	93%	19.8%
Total		36				12.8%

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

4.C Vacancy Loss and Bad Debt – 5% on all units, including those with Continuum of Care and Project Based Voucher units.

4.D Other Income – \$2,000 generated from laundry.

4.E Operating Expenses – \$7,317 per unit, inclusive of Replacement Reserve deposits

4.F RE Taxes – \$33,540; 8% of Gross Revenue Potential.

4.G Proposed Replacement Reserve Deposit – Initial deposit of \$72,000 (\$2,000 per unit); annual deposits of \$325/unit per year

4.H Proposed Operating Reserve Deposit – \$116,500, the combination of the Replacement Reserve and Operating Reserve equal six months of operating expenses, debt service on first mortgage and replacement reserve deposits.

4.I Other Proposed Reserves - NONE

4.J Resulting NOI for Debt Service – \$136,887 in Year 1 with a DSC of 1.26 which holds fairly steady with negative trending and is \$140,160 in year 15.

5. PROPERTY DESCRIPTION

The project consists of 36 currently market rate units located within two nearly identical buildings on the same tax lot in East Providence. At closing all 36 units will be subject to a recorded regulatory agreement making all units affordable. The buildings were originally built circa 1970.

6. DEVELOPMENT ENTITY AND CAPACITY

6.A Prior Developments and Current Operational Capacity – ONENB has been creating economic opportunity and revitalizing Rhode Island neighborhoods for thirty years. The organization has stabilized and grown under the leadership of Executive Director Jennifer Hawkins. Ms. Hawkins has over 20 years of non-profit experience and has served as the Executive Director of ONENB for the past three years. Under Ms. Hawkins' guidance, ONENB has improved their financial position along with their asset management and development capacity. ONENB recently hired a Director of Real Estate Development to oversee all development activity.

ONENB has completed four tax credit rental developments with a fifth currently under construction. As a result of their merger with CommunityWorks RI in 2014, they have eight tax credit developments in their portfolio. ONENB's homeownership developments include both single family homes and Riverside Townhomes, a condominium development at the edge of Riverside Park. They are currently building 5 net zero homes adjacent to 60 King Street, a recently completed mill renovation. Currently ONENB has approximately 400 apartments in their portfolio. They have played a central coordinating role in the revitalization and the stabilization of the Olneyville neighborhood.

6.B Financial Strength - RIHousing has reviewed the Borrower's financials and has seen steady improvement to the financials over the past 3 years. Staff has determined that they represent an acceptable credit risk.

6.D Guarantees - RIHousing will require a construction completion guarantee from ONENB. The General Contractor will also be required to provide a Payment and Performance Bond.

7. LOCATION AND MARKET DYNAMICS

Brief Description of the Neighborhood – The surrounding neighborhood consists primarily of one to three-unit residences. There are also a variety of commercial and retail / restaurant uses nearby. The neighborhood is well located and offers convenient access to public transportation, grocery stores, restaurants, and other retail and entertainment amenities.

8. ADDITIONAL CONSIDERATIONS - None

9. CONCLUSION

Staff recommends firm approval of: a Permanent Loan of up to \$1,885,000; a HOME Program loan of \$1,392,497, and a Housing Trust Fund loan of \$1,189,921.

10. ATTACHMENTS

A) Proforma

Attachment A - Proforma