

Approval Loan Recommendation Summary – Sutton Place

Preliminary X

Firm _____

Date September 9, 2020

1. OVERVIEW

This Credit Committee request is for Preliminary Approval of a taxable RI Housing first mortgage of up to amount of \$1,315,000 for Sutton Place (the “Development”). Olneyville Housing Corporation d/b/a ONE Neighborhood Builders (“ONENB” or the “Developer”) is the developer. The Developer is also requesting HOME and Housing Trust Funds along with a Preservation Loan Fund Program loan (“PLF”) in the amount of \$1,080,000 from the Affordable Housing Trust, all of which will be considered in separate requests.

ONENB has an option to purchase an existing 36-unit market rate property through an arms’ length transaction. The purchase price is \$3,420,000 or \$95,000 per unit. The building could be considered Naturally Occurring Affordable Housing (“NOAH”). NOAH is unsubsidized rental housing that is affordable because of low market values. According to Harvard’s Joint Center for Housing Studies, 75% of affordable rental units across the country do not receive any government subsidy. The Development is located between the Downtown and the Rumford neighborhoods of East Providence and is in walking distance of the East Side of Providence. As part of this proposed transaction the units will be restricted to households with incomes between 30% and 80% of the Area Median Income (“AMI”). These restrictions will ensure long-term affordability as the neighborhood around the property gentrifies and the market rents increase. ONENB intends to invest \$1.1 million or nearly \$32,000 per unit to renovate individual apartments as well as the common areas.

The project consists of two nearly identical buildings constructed in 1970 located on a single tax lot in the Riverside neighborhood of East Providence. Between the buildings is a large surface parking lot. The project is thought to be in fair to average condition and contains 22 one-bedroom units (450 Square Feet (SF) each) and 14 studio units (375 SF each). Common area improvements will include new roofs, all new windows, new landscaping, and the installation of a ramp/modifications to doors in one building to allow for ADA accessibility. New kitchens and bathrooms will be installed in the individual apartments along with new flooring, doors and painting.

The Development has the support of the City of East Providence and has been awarded \$200,000 from the East Providence Waterfront Commission.

2. EXECUTIVE SUMMARY

Property Address: 54-60 Sutton Avenue, East Providence

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

Amount(s) Requested: First Mortgage of \$1,315,000

Loan terms (rate/term): 5.5% with a 40-year amortization

Proposed Sources & Uses:

Sources	Preliminary	
	Amount	Per Unit
RIH First Mortgage	\$1,315,000	\$36,528
Preservation Loan Fund Program	\$1,080,000	\$30,000
EP Waterfront Funds	\$200,000	\$5,556
HOME	\$1,392,497	\$38,680
HTF	\$1,189,921	\$33,053
Deferred Dev Fee	\$65,903	\$1,831
Total Sources	\$5,243,321	\$145,648

Uses	Preliminary	
	Amount	Per Unit
Construction	\$1,037,804	\$28,828
Contingency	\$103,780	\$2,883
Acquisition	\$3,420,000	\$95,000
Soft Costs	\$140,095	\$3,892
Financing	\$47,900	\$1,331
Developer Fee	\$300,000	\$8,333
Operating Reserve	\$98,000	\$2,722
Replacement Reserve Year 1 Deposit	\$72,000	\$2,000
Other Reserves	\$23,742	\$659
Total Uses	\$5,243,321	\$145,648

Deviations from standard underwriting: None.

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits – This property is located in a neighborhood expected to experience gentrification and significant upward pressure on rents. Based on the unit sizes and condition, the units have effectively been functioning as affordable housing for years. This transaction will upgrade the units and permanently deed restrict them for 40 years at considerably less cost than new construction.

3.B Risks/Challenges – This is a true arms’ length transaction. The units are part of a larger portfolio and only minimal historic operating information has been made available to the Developer and RIHousing. As part of the standard due diligence between preliminary and firm commitment, unexpected property conditions may necessitate a change in underwriting assumptions and the capital stack.

3.C Affordability – A 40-year affordability restriction (coterminous with the proposed financing) will be recorded at closing.

3.D Pertinent risk factors for this development are:

Market – Moderate Risk – According to the seller, these units have been well occupied since the property was acquired in 2017. The Developer has a commitment from the East Providence Housing Authority for 7 project-based Section 8 vouchers which will serve households at or below 30% AMI. RIHousing will obtain an appraisal of the property before seeking firm approval in order to confirm the purchase price is reasonable and underwriting rents are achievable.

Construction – Moderate Risk – As noted above, the Developer has not yet ordered the various due diligence reports typically required by RIHousing. There is a risk that the construction budget could increase once due diligence is completed and the full scope of work is determined and priced by a general contractor.

Developer – Low Risk – ONENB is a well-established community development corporation (“CDC”) with a successful track record of developing and operating affordable housing.

Community Opposition – Low Risk – These 36 units are existing housing and it is anticipated that even though the units will go from “market rate” to “affordable”, the project will continue to serve tenants of similar demographics. Additionally, the proposed scope of work includes exterior building improvements and landscaping upgrades, both of which are typically appreciated by the surrounding community.

Financing – Low Risk – The debt service coverage starts at 1.27 in year 1, is at 1.2 in year 15 and remains above 1.0 through year 25.

Underwriting Assumptions – Moderate Risk – The financing assumes that the purchase price is market oriented. The Developer has also done their best to accurately project income and expenses without the benefit of complete historical information. The City of East Providence has approved the Developer’s request for 8% tax treatment. Staff believes the projected income and expenses are reasonable based on other properties in RIHousing’s portfolio and previous experience in this market. RIHousing will obtain an appraisal of the property before seeking firm approval in order to confirm the underwriting assumptions.

4. UNDERWRITING

4A. Assisted/Market Rents*

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	\$ 1,000	\$ 1,148	87%	0.0%
1	80%	7	\$ 1,125	\$ 1,230	91%	0.0%
1	60%	8	\$ 829	\$ 922	90%	0.0%
EFF	50%	3	\$ 646	\$ 717	90%	0.0%
1	30%	2	\$ 461	\$ 461	0%	0.0%
EFF	30%	2	\$ 864	\$ 430	201%	0.0%
1	30%	5	\$ 977	\$ 461	212%	0.0%
Total		36				0.0%

* Market rents will be determined once RIHousing commissions an appraisal.

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

4C. Vacancy Loss and Bad Debt – 5.7% Staff is using a blended rate of 5.0% on units at or below 50% AMI, which includes the 7 units with vouchers, and 6.0% for the units at or above 60% AMI.

4D. Other Income – The underwriting for this transaction includes \$2,000 annually from the coin operated laundry and miscellaneous revenue.

4E. Operating Expenses – Forecasted at \$7,172/unit including annual deposit to replacement reserve. Given the average unit size of 421 SF staff believes the projection is reasonable.

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 \$2,000/unit and \$325 unit/year on-going. These figures are minimums per our guidelines and will be reassessed once the Capital Needs Assessment is updated and approved.

4H. Proposed Operating Reserve Deposit – Initial deposit of \$98,000 is equal to 3.5 months of projected operating expenses and debt service. The combination of the replacement reserve and operating reserve equals six months of operating expenses and debt service, consistent with the requirements of Preservation transactions.

4I. Resulting NOI for Debt Service – \$103,086 in year 1. With negative trending, the debt service coverage exceeds 1.15 for the first 18 years.

5. PROPERTY DESCRIPTION

The project consists of 36 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 in the 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, ONE NB has improved their financial position along with their asset management and development capacity. ONENB has a strong presence in the community and has completed a number of affordable housing developments over the past 20 years.

ONENB has completed four tax credit rental developments with another one 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.

6B. Financial Strength – RIHousing has reviewed the Borrower's financials and has seen steady improvement to the financials under the current Executive Director. Staff has determined that they represent an acceptable credit risk.

6C. 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

7A. 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.

7B. Comparison of market rents/proposed rents – As of this request for preliminary approval, an appraisal has not been commissioned, thus recent market rent rates are not yet available.

8. ADDITIONAL CONSIDERATIONS – None

9. CONCLUSION – Staff recommends preliminary approval of first mortgage in the amount of \$1,315,000.

10. Attachments

- a. Proforma