

**Request for Action  
by  
Board of Commissioners**

**Firm Approval of Financing for The Avenue**

**A. PROJECT SUMMARY**

This Request for Action (“RFA”) is for firm approval of Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt financing in an amount not to exceed \$15,500,000, of which \$3,400,000 will remain as a permanent first mortgage, as well as a Capital Magnet Fund (“CMF”) loan of \$476,001, a Development of Affordable Housing 2 Program (“DAH-2”) loan of \$3,874,000, and a Community Revitalization Program (“CRP”) award of \$2,000,000 for The Avenue (hereinafter referred to as the “Development”). Olneyville Housing Corporation d/b/a ONE Neighborhood Builders (“ONE NB” or the “Developer”) is the developer. The Development received preliminary approval from the Board of Commissioners on May 18, 2023 (“Preliminary Approval”).

**B. DISCUSSION**

The Development consists of two separate components that will comprise one single economic entity. One component, Elmwood Neighborhood Revitalization II (“ENR II”), is an existing post-year-15 low-income housing tax credit (“LIHTC”) project for families. ENR II contains 46 units located on scattered sites in the Elmwood neighborhood of Providence. The units range in size from one to four bedrooms. ENR II has historically run with a 2% vacancy rate. The units need moderate rehabilitation to ensure they are maintained as safe, affordable housing for families in Providence. The second component is the new construction of 39 units of housing on a vacant site located at 434 Atwells Avenue in the Federal Hill neighborhood of Providence. The residential units will be located on floors 2-5 with commercial space and project amenities located on the first floor.

The most significant change since preliminary approval is that the 19 units preliminarily approved for Middle Income funds will, through Income Averaging, be 80% AMI LIHTC units. This will allow the developer to generate more equity for the Development. The Middle Income Program funds will be de-obligated from this project and all 39 apartments will be LIHTC units restricted to households with incomes between 30% and 80% of AMI. The 39 new units will range in size from studios to three-bedrooms.

The Total Development Cost (“TDC”) has increased nearly \$1.9 million since Preliminary Approval. The increase is due primarily to increased construction costs, higher architect fees, higher water and sewer connection fees and an increased construction loan interest expense. Since this transaction was priced 18 months ago, construction materials and labor costs have increased across the board. The higher municipal connection fees are a result of receiving more detailed information from the water and sewer department. The increased construction loan interest is a result of higher borrowing costs. The Borrower has filled this gap primarily through increased syndication proceeds and additional funding from the City of Providence.

In addition to the sources requested in this RFA, the Developer will complete the acquisition and rehabilitation of the Development using the proceeds from this tax-exempt financing and the sale of LIHTCs, a preservation loan from the Affordable Housing Trust (“AHT”), a loan from the City of Providence, a Building Homes Rhode Island loan from the Housing Resources Commission, and a deferred developer fee. Since Preliminary Approval, the Developer as secured the National Equity Fund (“NEF”) as their syndicator and limited partner. NEF will purchase the 4% LIHTCs at \$0.90 per credit resulting in total syndication proceeds of \$12,930,721.

There is approximately \$1,855,451 of existing principal plus accrued interest on the ENR II properties comprised of a first mortgage with RIHousing, a RIHousing HOME Investment Partnerships Program Loan, a Neighborhood Opportunity Program Loan, a RIHousing Targeted Loan, and Lead Program funds from RIHousing and the City of Providence. The first mortgage will be paid off at closing and \$1,755,451 of subordinate debt will be assumed by the new borrower entity. As part of the approval process, staff has determined that the Development and sponsor meet RIHousing’s requirement for rollover of existing debt:

- Current on first mortgage or in compliance with forbearance agreement;
- No outstanding monitoring findings and no history of significant monitoring findings;
- Demonstrated, responsible long-term ownership and management of the property;
- An equity pay-in schedule satisfactory to RIHousing;
- Maximization of amortizing debt able to be supported by the property; and
- Borrower-provided guarantees to cover any deficit shortfalls.

### **C. RECOMMENDATION**

This RFA requests firm approval of tax-exempt financing in an amount not to exceed \$15,500,000, of which \$3,400,000 will remain as a permanent first mortgage, a Capital Magnet Fund (“CMF”) loan of \$476,001, a Development of Affordable Housing 2 Program (“DAH-2”) loan of \$3,874,000, and a Community Revitalization Program (“CRP”) award of \$2,000,000.

The attached resolution for firm approval of tax-exempt financing and other funding for The Avenue is recommended for approval subject to certain conditions as set forth in the attached Resolution.

### **D. ATTACHMENTS**

- A.** Credit Summary
- B.** Resolutions

**Attachment A**

**Credit Summary**

**Approval Loan Recommendation Summary – The Avenue**

**Preliminary** \_\_\_\_\_

**Firm**   X  

**Date:** January 11, 2024

**Project:** New construction of 39 units and the preservation of 46 units located in the Federal Hill and Elmwood neighborhoods of Providence, respectively.

**Development Team**

	<b>Name</b>	<b>Location</b>	<b>Risk Rating</b>
<b>Sponsor/Developer</b>	Olneyville Housing Corporation d/b/a ONE Neighborhood Builders	Providence, RI	Low
<b>Mortgagor</b>	The Avenue L.P.		
<b>Architect</b>	DBVW Architects, Inc.	Providence, RI	Low
<b>Legal</b>	Klein Hornig LLP	Boston, MA	Low
<b>Management Agent</b>	Peabody Properties, Inc.	Braintree, MA	Low
<b>General Contractor</b>	Pezzucio Construction, Inc.	Cranston, RI	Low
<b>Syndicator</b>	National Equity Fund, Inc.	Chicago, IL	Low

**Executive Summary**

<b>Property Address</b>	Scattered Sites	Providence
<b>Proposed Loan Amount(s) and Terms</b>		
Tax-Exempt Loan	\$15,500,000	
Construction/Bridge Loan	\$12,100,000	5.1%/3-year term
Permanent Loan	\$3,400,000	6.5%/40-year term
CMF	\$476,001	1.0%/40-year term
DAH-2	\$3,874,000	Zero/40-year term
CRP	\$2,000,000	NA

Note: Interest rates are subject to change based on market conditions.

## Proposed Sources & Uses:

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$3,600,000	42,353	(\$200,000)	\$3,400,000	\$40,000
Building Homes Rhode Island	\$3,445,000	40,529	\$0	\$3,445,000	\$40,529
Preservation Loan Fund Program	\$1,500,000	17,647	\$0	\$1,500,000	\$17,647
Capital Magnet Fund	\$952,001	11,200	\$0	\$952,001	\$11,200
Community Revitalization	\$2,000,000	23,529	\$0	\$2,000,000	\$23,529
Middle Income	\$1,320,000	15,529	(\$1,320,000)	\$0	\$0
DAH-2	\$3,874,000	45,576	\$0	\$3,874,000	\$45,576
Rollover Debt	\$1,755,451	20,652	\$0	\$1,755,451	\$20,652
City of Providence	\$0	0	\$802,000	\$802,000	\$9,435
LIHTC Proceeds	\$10,360,080	121,883	\$2,685,269	\$13,045,349	\$153,475
Deferred Development Fee	\$650,000	7,647	\$43,000	\$693,000	\$8,153
Existing ENR II Reserves	\$285,000	3,353	(\$18,450)	\$266,550	\$3,136
<b>Total Sources</b>	<b>\$29,741,532</b>	<b>349,900</b>	<b>\$1,991,819</b>	<b>\$31,733,351</b>	<b>\$373,334</b>

  

Uses	Amount		Delta	Per Unit	
	Amount	Per Unit		Amount	Per Unit
Construction	\$19,341,600	\$227,548	\$579,249	\$19,920,849	\$234,363
Contingency	\$1,569,273	\$18,462	(\$119,923)	\$1,449,350	\$17,051
Acquisition	\$2,730,451	\$32,123	\$100,000	\$2,830,451	\$33,299
Soft Costs	\$1,742,195	\$20,496	\$713,426	\$2,455,621	\$28,890
Financing	\$1,385,536	\$16,300	\$574,177	\$1,959,713	\$23,055
Developer Fee	\$2,257,669	\$26,561	\$156,753	\$2,414,422	\$28,405
Operating Reserve	\$512,547	\$6,030	(\$4,194)	\$508,353	\$5,981
Lease Up Reserve	\$20,000	\$235	(\$10,000)	\$10,000	\$118
Replacement Reserve Year 1 Deposit	\$104,675	\$1,231	\$0	\$104,675	\$1,231
Other Reserves	\$77,587	\$913	\$2,330	\$79,916	\$940
<b>Total Uses</b>	<b>\$29,741,532</b>	<b>\$349,900</b>	<b>\$1,991,819</b>	<b>\$31,733,351</b>	<b>\$373,334</b>

The \$952,001 CMF award shown above includes two separate awards: a \$476,000 award of 2017 CMF grant program income approved in May 2023 and the \$476,001 CMF loan being approved herein. A portion of the total CMF award amount has closed and been disbursed.

## Loan to Value Test: -

	Appraisal	Per Unit	Variance	Current UW	Per Unit
OPERATING EXPENSES	\$762,645	8,972	(\$15,195)	\$777,840	\$9,151
NET OPERATING INCOME	\$331,357	3,898	\$4,392	\$335,749	\$3,950
Appraisal Cap Rate	6.50%			6.50%	
Valuation	\$5,100,000	60,000	\$65,375	\$5,165,375	\$60,769
Loan Principal	\$3,400,000	40,000		\$3,400,000	\$40,000
LTV	66.67%		-1%	65.82%	

## Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$372,109	
Residential Vacancy Rate	7.0%	
DCR Yr 1	1.4	
DCR Yr 15	1.34	
NOI	\$333,353	

Income Trending	2%	
Expense Trending	3%	
Loan to Value	66%	
Initial Installment (%) of syndication proceeds	18.9%	
Acquisition Price equal to or less than Appraised value	Yes	Acquisition basis for credits is less than the appraisal.
Operating Reserve (Amt and confirm consistency with UW requirements)	\$508,156	Consistent with underwriting - six months operating expenses, replacement reserve deposits and debt service.
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$104,675	Consistent with underwriting – \$325 per unit for new units and \$2,000 per unit for existing.

### Deviations from standard underwriting – Yes

Transaction fails Part 2 of the Bridge Loan Test – This is a tax-exempt transaction. The Bridge Loan is sized at the minimum amount required to ensure that 50% of the aggregate basis of the project is funded with tax-exempt bond proceeds as required by the applicable tax code provisions.

### Unit Distribution and Revenue

Unit	Rent Type	Number of Units	Gross Rent	Gross Rent as a		
				LIHTC Max Rent	% of LIHTC Max Rent	Discount from Market Rent
1	30%	4	\$ 997.00	\$ 576.00	173%	26.3%
1	50%	1	\$ 930.00	\$ 960.00	97%	32.1%
2	50%	3	\$ 1,120.00	\$ 1,152.00	97%	42.3%
3	50%	1	\$ 1,290.00	\$ 1,331.00	97%	43.5%
1	60%	2	\$ 1,090.00	\$ 1,152.00	95%	18.2%
2	60%	10	\$ 1,310.00	\$ 1,383.00	95%	38.2%
3	60%	1	\$ 1,500.00	\$ 1,597.00	94%	32.2%
1	30%	3	\$ 1,066.00	\$ 576.00	185%	41.5%
2	30%	3	\$ 1,306.00	\$ 691.00	189%	38.8%
3	30%	3	\$ 1,450.00	\$ 798.00	182%	46.7%
EFF	60%	2	\$ 1,010.00	\$ 1,075.00	94%	23.6%
1	60%	7	\$ 1,080.00	\$ 1,152.00	94%	40.6%
2	60%	7	\$ 1,300.00	\$ 1,383.00	94%	39.1%
3	60%	17	\$ 1,475.00	\$ 1,597.00	92%	45.6%
4	60%	2	\$ 1,550.00	\$ 1,782.00	87%	46.6%
1	80% LIHTC	4	\$ 1,300.00	\$ 1,537.00	85%	0.0%
2	80% LIHTC	13	\$ 1,750.00	\$ 1,844.00	95%	3.1%
3	80% LIHTC	2	\$ 1,795.00	\$ 2,130.00	84%	16.4%
<b>Total</b>		<b>85</b>				<b>31.6%</b>

**Property Addresses:**

<b>Property Addresses</b>		
New Production	433 Atwells Avenue	Providence
ENR II	9 Moore St./691 Broad St.	Providence
ENR II	11-13 Moore St.	Providence
ENR II	50-52 Moore St.	Providence
ENR II	54-56 Moore St.	Providence
ENR II	17 Mawney St.	Providence
ENR II	34 Mawney St.	Providence
ENR II	40-42 Mawney St.	Providence
ENR II	44-46 Mawney St.	Providence
ENR II	75-77 Congress Ave.	Providence
ENR II	316 Elmwood Ave.	Providence
ENR II	213 Congress Ave.	Providence
ENR II	685 Broad St.	Providence

**ATTACHMENT B**

**Resolution of the Board of Commissioners  
of Rhode Island Housing and Mortgage Finance Corporation**

- Whereas,** Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) is authorized to make loans to mortgagors or sponsors for such developments as in the judgment of RIHousing have promise of supplying well-planned, well-designed apartment units which will provide housing for low and moderate-income persons or families, or the elderly, or others in locations where there is a need for such housing;
- Whereas,** RIHousing intends to issue tax-exempt bonds for financing qualified housing developments throughout the state;
- Whereas,** said bonds shall have a term not to exceed 40 years and shall be in the approximate amount sufficient to finance the mortgage, pay the costs of issuance, fund a capital reserve fund and to provide the capitalized interest if determined to be necessary;
- Whereas,** RIHousing is authorized to issue bridge financing at an economically acceptable rate to promote the acquisition, rehabilitation or preservation of affordable housing;
- Whereas,** Olneyville Housing Corporation d/b/a ONE Neighborhood Builders (“Applicant”) has presented an application to RIHousing requesting mortgage financing to acquire and rehabilitate the development as set forth below (the “Development”):

<u>Development</u>	<u>Applicant</u>	<u>Tax Exempt Bond</u>	<u>Capital Magnet Funds</u>	<u>DAH-2</u>	<u>CRP</u>
The Avenue	Olneyville Housing Corporation d/b/a ONE Neighborhood Builders	\$15,500,000	\$476,001	\$3,874,000	\$2,000,000

**Whereas,** staff has reviewed the submission and determined that the Development may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines and policies; and

**Whereas,** RIHousing finds:

(1) that there exists a shortage of decent, safe, and sanitary housing at rentals or prices which persons and families of low or moderate income can afford within the general housing market area to be served by the proposed housing development;

(2) that private enterprise and investment have been unable, without assistance, to provide an adequate supply of decent, safe, and sanitary housing in the general housing market area at prices which persons or families of low and moderate income can afford or to provide sufficient mortgage financing for residential housing for occupancy by those persons or families;

(3) that the housing sponsor or sponsors undertaking the proposed housing development in this state will supply well-planned, well designed housing for persons or families of low and moderate income and that those sponsors are financially responsible;

(4) that the proposed housing development to be assisted pursuant to the provisions of this chapter will be of public use and will provide a public benefit; and

(5) that the proposed housing development will be undertaken, and the housing sponsor or sponsors regulated pursuant to the authority and within the restrictions provided for by the RIHousing Enabling Act, Chapter 55 of Title 42 of the Rhode Island General Laws.

**NOW, THEREFORE, IT IS HEREBY:**

**Resolved,** that RIHousing hereby grants firm approval of tax-exempt mortgage financing in an amount not to exceed \$15,500,000 to Applicant or an affiliated entity of the Applicant (the “Borrower”) for rental housing known as The Avenue in Providence to be financed, in part, by tax-exempt bonds.

**Resolved,** that RIHousing hereby declares that this firm commitment of financing for the Borrower constitutes the affirmative official act of RIHousing of its intention to issue bonds to finance, and to reimburse qualified expenditures incurred by the Borrower or RIHousing in advance of the issuance of the bonds, up to \$15,500,000 in mortgage funds for rehabilitation and new construction of the Development, plus the required bond reserve funds, and the related costs of issuance for the bond issue for the above-referenced Development pursuant to the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder. The intent to reimburse the aforementioned bond-funded costs is intended to satisfy the requirements of Section 1.150-2 of the United States Treasury Regulations. This resolution shall



take effect immediately upon adoption.

**Resolved,** that, subject to the special conditions listed below, RIHousing hereby approves a Capital Magnet Fund loan to the Borrower in an amount not to exceed \$476,001 for the rental housing to be located in Providence and known as The Avenue.

**Resolved,** that any such previous actions and approvals by the Executive Director, Deputy Executive Director, or Director of Real Estate Development in connection with the Capital Magnet Fund loans for this Development are hereby ratified and confirmed.

**Resolved,** that, subject to the special conditions listed below, RIHousing hereby approves a Development of Affordable Housing 2 Program loan to the Borrower in an amount not to exceed \$3,874,000 for rental housing to be located in Providence and known as The Avenue.

**Resolved,** that, subject to the special conditions listed below, RIHousing hereby approves a Community Revitalization Program award to the Borrower in an amount not to exceed \$2,000,000 for rental housing to be located in Providence and known as The Avenue.

**Resolved,** That the foregoing resolutions are subject to the following conditions:

- Approval of a Preservation Loan Program Fund loan from the Affordable Housing Trust;
- Syndication equity from the allocation of low-income housing tax credits in an amount sufficient to achieve project feasibility;
- Final approval of plans and specifications by RIHousing, as well as related construction contract documentation;
- Approval by RIHousing of management documentation;
- Execution and delivery by the developer of a Construction Completion Guaranty in form and substance satisfactory to lender and RIHousing;
- Approval by bond underwriter and bond counsel that the loans will satisfy all required bond provisions for the bond issue;
- Closing of a subordinate financing loan with the City of Providence, or other substitute financing, in an amount sufficient to achieve project feasibility;
- Recordation of a RIHousing Declaration of Land Use Restrictive Covenants and Regulatory Agreement in form(s) acceptable to RIHousing;
- FHA Risk-Sharing Program approval from HUD for a minimum of 50% of the first mortgage; and
- Completion of all items required for closing in accordance with normal underwriting and processing requirements.

**Resolved,** that the Executive Director, Deputy Executive Director, and Director of Real Estate Development, each acting singly, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.