

**Request for Action
by
Board of Commissioners**

Preliminary Approval of Financing for The Avenue

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for preliminary approval of a Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt construction loan in an amount not to exceed \$15,500,000, of which \$3,600,000 will remain as a permanent first mortgage, for The Avenue (the “Development”). Olneyville Housing Corporation d/b/a ONE Neighborhood Builders (“ONE NB” or the “Developer”) is the developer.

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 a 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. 22 of the new units will be LIHTC units restricted to households with incomes at or below 60% of area median income (“AMI”) and 17 units will be non-LIHTC units restricted to households with incomes up to 80% of AMI. The 39 new units will range in size from studios to three-bedrooms. The plans are 90% complete and all planning and zoning approvals are in place.

The Development was previously awarded Building Homes Rhode Island (“BHRI”) funds, Preservation Loan Funds (“PLF”) and an initial allocation of Capital Magnet Fund (“CMF”) funding. The Developer submitted their proposal for the balance of funding needed to complete their capital stack in response to the Request for Proposals issued by RIHousing in November 2022. The collective capital stack for the Development is anticipated to consist of (i) the permanent loan contemplated herein; (ii) proceeds from the tax-exempt financing and sale of 4% LIHTC; (iii) BHRI funds; (iv) CMF funding; (v) Development of Affordable Housing 2 (“DAH-2” also known as ARPA Production Fund) funds; (vi) Community Revitalization Program (“CRP”) funds; (vii) Middle Income (“MI”) Program funds; (viii) PLF funding; (ix) the rollover of existing soft debt on the ENR II properties; (x) existing ENR II reserves and escrows; and (xi) a deferred developer fee.

By this RFA, staff recommends the attached resolutions providing preliminary approval of \$15,500,000 in tax-exempt financing, of which \$3,600,000 will remain as a permanent first

mortgage, for The Avenue, subject to certain conditions as set forth therein.

C. ATTACHMENTS

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

**Attachment A
Credit Summary**

Approval Loan Recommendation Summary – The Avenue

Preliminary X

Firm _____

Date: May 18, 2023

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

	Name	Location	Risk Rating
Sponsor/Developer	Olneyville Housing Corporation d/b/a ONE Neighborhood Builders	Providence, RI	Low
Mortgagor	TBD		
Architect	DBVW Architects, Inc.	Providence, RI	Low
Legal	Klein Hornig LLP	Boston, MA	Low
Management Agent	Peabody Properties, Inc.	Braintree, MA	Low

Executive Summary

	Address	City
Property Addresses – see below table	Scattered Sites	Providence
Proposed Loan Amount(s) and Terms		
	Amount	Interest Rate/Term
Tax-Exempt Loan	\$15,500,000	
Constructon/Bridge Loan	\$11,900,000	6.0%/3-year term
Permanent Loan	\$3,600,000	6.75%/40-year term

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

Proposed Sources & Uses:

Sources	Preliminary	
	Amount	Per Unit
RIH First Mortgage	\$3,600,000	\$42,353
Building Homes Rhode Island	\$3,445,000	\$40,529
Preservation Loan Fund Program	\$1,500,000	\$17,647
Capital Magnet Fund	\$952,001	\$11,200
Community Revitalization	\$2,000,000	\$23,529
Middle Income Program	\$1,320,000	\$15,529
DAH-2 Funds	\$3,874,000	\$45,576
LIHTC Proceeds	\$10,360,080	\$121,883
Existing Debt Rollover	\$1,755,451	\$20,652
Existing Operating Reserver ENRII	\$152,000	\$1,788
Existing Rep Reserve ENR II	\$133,000	\$1,565
Deferred Developer Fee	\$650,000	\$7,647
Total Sources	\$29,741,532	\$349,900

Uses	Amount	
	Amount	Per Unit
Construction	\$19,341,600	\$227,548
Contingency	\$1,569,273	\$18,462
Acquisition	\$2,730,451	\$32,123
Soft Costs	\$1,742,195	\$20,496
Financing	\$1,385,536	\$16,300
Developer Fee	\$2,257,669	\$26,561
Operating Reserve	\$512,547	\$6,030
Lease Up Reserve	\$20,000	\$235
Replacement Reserve Year 1 Deposit	\$104,675	\$1,231
Other Reserves	\$77,587	\$913
Total Uses	\$29,741,532	\$349,900

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$349,900	
Residential Vacancy Rate	5.0%	
DCR Yr 1	1.32	Proforma utilizes negative trending
DCR Yr 15	1.27	
NOI	\$56,321	Year 1
Income Trending	2.0%	
Expense Trending	3.0%	
Loan to Value	TBD	

Initial Installment (%) of syndication proceeds	20%	
Acquisition Price equal to or less than Appraised value	TBD	
Operating Reserve (Amt and confirm consistency with UW requirements)	\$524,365	Equals 6 months debt and OPEX.
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$104,675	\$325/unit for new construction and \$2,000/unit for preservation units; consistent with UW requirements.

Deviations from standard underwriting – Yes

The project fails “Test 2” of the Bridge Loan Test. The construction loan is sized at the minimum level required to meet the IRS requirement that 50% of the project be financed using tax-exempt bonds.

Unit Distribution and Revenue:

Unit	Rent Type	Number of Units	Gross Rent	Net Rent	LIHTC Max Rent	Discount from LIHTC Max Rent	Gross Rent as a % of LIHTC Max Rent	Gross Rent as a % of Gross MAX AMI
1	30%	4	\$ 997.00	\$ 840.00	\$ 544.00	-83.3%	183%	55%
1	50%	1	\$ 906.00	\$ 749.00	\$ 906.00	0.0%	0%	50%
2	50%	3	\$ 1,088.00	\$ 885.00	\$ 1,088.00	0.0%	0%	50%
3	50%	1	\$ 1,257.00	\$ 1,008.00	\$ 1,257.00	0.0%	0%	50%
1	60%	2	\$ 1,066.24	\$ 909.24	\$ 1,088.00	2.0%	98%	59%
2	60%	10	\$ 1,266.82	\$ 1,063.82	\$ 1,306.00	3.0%	97%	58%
3	60%	1	\$ 1,450.00	\$ 1,201.00	\$ 1,509.00	3.9%	96%	58%
1	30%	3	\$ 1,066.00	\$ 909.00	\$ 544.00	-96.0%	196%	59%
2	30%	3	\$ 1,306.00	\$ 1,103.00	\$ 653.00	-100.0%	200%	60%
3	30%	3	\$ 1,450.00	\$ 1,201.00	\$ 754.00	-92.3%	192%	58%
EFF	60%	2	\$ 994.70	\$ 859.70	\$ 1,015.00	2.0%	98%	59%
1	60%	7	\$ 1,066.00	\$ 909.00	\$ 1,088.00	2.0%	98%	59%
2	60%	9	\$ 1,267.00	\$ 1,064.00	\$ 1,306.00	3.0%	97%	58%
3	60%	17	\$ 1,450.00	\$ 1,201.00	\$ 1,509.00	3.9%	96%	58%
4	60%	2	\$ 1,550.00	\$ 1,258.00	\$ 1,683.00	7.9%	92%	55%
1	80% Non-LIHTC	4	\$ 1,294.00	\$ 1,137.00	\$ -	0.0%	0%	NA
2	80% Non-LIHTC	11	\$ 1,539.00	\$ 1,336.00	\$ -	0.0%	0%	NA
3	80% Non-LIHTC	2	\$ 1,763.00	\$ 1,514.00	\$ -	0.0%	0%	NA
Total		85				-15.2%	86%	

Property Addresses:

New Production	434 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 or preserve 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 also authorized to issue tax-exempt 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/or rehabilitate the development as set forth below (the “Development”):

<u>Development</u>	<u>Applicant</u>	<u>Tax-Exempt Loan</u>
The Avenue	Olneyville Housing Corporation d/b/a ONE Neighborhood Builders	\$15,500,000

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 that:

- (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 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 subject to the special conditions listed below, RIHousing hereby declares preliminary commitment for tax-exempt mortgage financing for the Applicant or other affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$15,500,000 for rental housing known as The Avenue located in Providence, Rhode Island to be financed, in part, by tax-exempt bonds.

Resolved, that RIHousing hereby declares that this preliminary commitment of financing for the Applicant 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, 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 the foregoing resolutions are subject to the following conditions:

- Syndication equity from the allocation of LIHTC credits in amounts sufficient to achieve project feasibility;
- Acceptable final appraisal by an independent appraiser that supports the purchase price and demonstrates that the permanent loan does not exceed 90% of the as-stabilized value of the property, and sufficient demand exists for the proposed units;

- Approval of subordinate funding in amounts sufficient to achieve project feasibility or the availability of alternative loans satisfactory to RIHousing;
- Approval by the bond underwriter and bond counsel confirming the loan satisfies all required bond provisions for the bond issue;
- Execution and delivery by the Borrower of a construction completion guaranty in form and substance satisfactory to RIHousing;
- Approval by RIHousing of all management related documentation, including the marketing and tenant selection plans;
- Approval by RIHousing of design and construction plans, specifications, and construction documentation;
- Recordation of a RIHousing Declaration of Land Use Restrictive Covenants and Regulatory Agreement in form(s) acceptable to RIHousing;
- Satisfactory and timely performance in accordance with the schedule established by RIHousing staff; and
- Completion of all items required for firm commitment and 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.