

**DEVELOPMENT PROJECT REVIEW COMMITTEE**  
**UNDERWRITING ANALYSIS OF FUNDING**  
**REQUEST**

APPLICANT/SPONSOR: Preservation of Affordable Housing, Inc.  
(POAH) and Housing Assistance Corp. (HAC)

PROJECT NAME/ADDRESS: Canal Bluffs – Phase III  
102 Harmony Hill Drive, Bourne, MA

HOME \$ REQUESTED: \$200,000

TOTAL DEVELOPMENT COST: \$13,299,424

# OF PROJECT UNITS: 44                      # OF AFFORDABLE UNITS: 35

# OF HOME UNITS: 11

PROJECT SCORE: 88

DATE: June 10, 2015

**1. Overview**

Canal Bluffs---Phase III is a forty-four (44) unit affordable rental development that will expand upon an existing development. The existing development consists of two buildings, Clay Pond Cove (Phase II) which is a 45 unit, one and two bedroom apartment building that is fully restricted at 60% AMI LIHTC rent levels and with a preference for renters aged 55 and older, and The Residences at Canal Bluffs (Phase I), a 28 unit, one, two and three bedroom apartment building that is fully restricted at 60% AMI LIHTC rent levels that is not restricted.

The proposed units will be comprised of 44 units in 10 buildings: 24 two bedroom units, 20 of which will be restricted to 60% AMI LIHTC rent levels; and 20 three bedroom units, 15 of which will be restricted at 60% AMI LIHTC rent levels. Seven (7) of the units will be available to households at/below 30% AMI through project-based Section 8 vouchers.

Canal Bluffs III will be the final phase of a 40 B development located on a 17.1 acre site in Bourne. In 2005 when HAC and POAH began to plan for the development of this multi-phased project, they envisioned bringing first

homebuyer and affordable for-sale units to the portion of the site that abuts the existing single family neighborhood. After successful completion of the first two phases, amid a dramatic cooling-off of the for-sale market, HAC and POAH decided to pursue a modification to the 40B permit to allow for additional rental units. Remaining true to the initial site design and programming, the rental units will continue to be townhome-style units, offering another housing option to residents of this community.

The project will be built by Callahan Construction, the general contractor who built the two prior phases, through a “design-build” project delivery framework to ensure construction costs are constantly managed and the construction schedule is expedited.

## **2. Executive Summary**

A. Challenges/Opportunities: This project completes a long planned, well-conceived development to provide 117 units of housing in Bourne in three phases. The original concept called for homeownership in this phase, however, market conditions were no longer favored after the first two phases were completed. POAH/HAC has kept the basic design and lay-out of the original plan, but has reconceived the townhouse phase as an affordable rental development. These units will be connected to the existing wastewater treatment facility on site that currently has excess capacity. The project will need a modification to its 40B permit, but that is anticipated to proceed without any challenge. Most of the amenities for the new units will be provided in the existing buildings: some thought should be given to making sure that all residents at each complex are welcome to use all facilities (i.e. laundry, community room), and that the relocated play area is also accessible to residents of all three complexes.

B. Affordability: Thirty-five (35) of the units are affordable to households at/below 60% AMI with seven (7) of the units available to households at/below 30% AMI through project-based Section 8 vouchers. All seven of these units will be considered HOME-assisted in addition to four of the 60% AMI LIHTC units or eleven (11) units in total. One (1) of the units will be affordable to households at/below 50% AMI and nine (9) will be affordable to households up to 110% AMI.

### **C. Risk Factors:**

Developer: Low-POAH has acquired, rehabilitated and/or built more than 8,500 affordable apartments at more than 70 properties in nine states and DC; HAC has successfully completed four tax credit projects of comparable size along with other Consortium supported non tax credits. Together, they have successfully developed Phase I and II of this project as well as the West Barnstable Communities and are currently in the construction phase at Melpet Farms in Dennis. Both partners have strong financial positions and have established an excellent track record in getting projects to closing.

Underwriting Assumptions: Moderately Low- Total Development Cost (TDC) of \$301,851/unit is in the middle of recent new construction, multi-family Consortium funded developments, and construction costs (site and buildings) of \$216 per square foot is also at about the middle of recent comparable developments. Soft costs at 13.9% of TDC are below the Consortium's preferred maximum of 15%. Developer overhead and fee of 9.9% is also below the Consortium's 15% maximum.

Tax credit rents are about 9 – 14% below HOME rents on the 2 and 3 bedroom units; the rents for the market rate (110%) are within the target rents found in the market study. The vacancy rate of 5% for the tax credit and market units and 3% for the Section 8 project based units is reasonable.

Debt service coverage (dsc) of 1.24 at year one satisfies the Consortium's minimum 1.15 guideline, however, 20 year operating budget trending projection shows that the project dips below 1.15 dsc in year 5 and cash flow turns negative in Year 9. It appears that this is a result of not applying 2% trending projections to the revenue from the non-rental assisted units. This was confirmed in discussions with the Project Manager at POAH; applying the 2% projection to these units will reverse the negative cash flow projections and make the project financially feasible through year 20.

Annual property management expenses of \$7,011 per unit are at in the middle end of recent rental projects; and are comparable to recent Consortium funded developments: \$6,193/unit Province Landing; \$7,097/unit at Simpkins School; and \$7,433/unit at Clay Pond Cove. Replacement reserves are \$375 per unit per year are \$25 above the DHCD standard/requirement.

Construction: Low- Callahan Construction was the general contractor who built the prior two phases of this project and has extensive knowledge of the site, and in-house expertise to complete Phase III of this project.

Market/Leasing: Moderately Low- The market study for Phase III estimated that project rents are 21-23% below market rents and comparable to rents of other affordable properties in the report. The market study shows strong evidence of demand for two-bedroom units, and that the project should have fewer three bedroom units (20 proposed) than two bedroom units (24 proposed). Based on analysis of capture and penetration rates of the units at the subject property, there are sufficient income eligible households in the 30-45 drive time areas to absorb the subject's rental units in addition to the current supply and achieve the projected 60% AMI rents.

Property Management: Low- POAH subsidiary, POAH Communities is the designated property management company for Canal Bluffs-Phase III. It currently manages the Phase I and Phase II properties as well as numerous LIHTC and mixed income developments across the nation, including significant

Massachusetts LIHTC developments, and operates those developments in full compliance with all provisions of the Section 42.

Environmental Issues: Low- The Horsley Witten Group, Inc. completed a Phase I Environmental Site Assessment documenting conditions of an undeveloped lot on the northwest portion of the Harmony Hill Road property (the Site) located at 100 Harmony Hill Road, Bourne, Massachusetts on April 15, 2015. The Site is comprised of a 6.94-acre undeveloped lot as a part of the total 17.16-acre Harmony Hill Road property, commonly known as “Canal Bluffs.”

Canal Bluffs has two apartment buildings and associated parking and landscaping that comprises the majority of the property. Harmony Hill Road, an access drive, leads up to the property from the south. The northwestern portion of the property is undeveloped woodlands. This study concentrated on the northwestern portion of the property where 10 townhouses are proposed for development. No indications of a recognized environmental condition were observed by HW during an April 15, 2015 site reconnaissance. Based on HW’s review and interpretation of reasonably ascertainable information, observations made during our site reconnaissance, and interviews with Site contacts, this study has not revealed indications of a “recognized environmental condition” (REC) (as defined in Section 2.1 of this report) in connection with this Site.

Overall Risk Analysis: While the process to amend the 40B permit has not concluded, it is likely that the modification from ownership to rental will go forward as submitted. The development team consists of a very experienced project manager, contractor, and property management company, and should be able to deliver a successful project once financing is in place. Given other applications going to DHCD in this funding round from Bourne, it is likely that this project will not get funded in this round, but will need to resubmit next year.

### **3. Property Description**

Canal Bluffs – Phase III is located along MacArthur Boulevard, a major arterial connector providing direct access to a wide range of public services, including transportation and employment opportunities. The site currently contains 73 apartments serving the needs of low-income families and individuals. A wastewater treatment plant, designed to accept the additional rental units, provides a much sought after solution to sewer impasse for rental housing development on the Cape. Adjacent uses include a community shopping center (North); a small complex of retail and light industrial uses (South); a well-established single family subdivision overlooking Buzzards Bay (West); and Otis Air Force Base (East). These uses provide a wealth of shopping and employment opportunity within easy walking distance of the development.

The proposed development is the final phase of the development permitted under a comprehensive permit issued in 2007. Upon the successful completion of Phase III, the

overall Canal Bluffs parcel will include 117 units of housing, including a mix of affordable family and elderly apartments and moderate income rental units, distributed across an attractive 17 acre campus at the summit of a small hill. The existing two buildings containing twenty-eight (28) and forty-five (45) affordable LIHTC were built on the highest point of the parcel (providing views to Buzzards Bay). The vision for this final phase is to provide a lower density connection to the abutting single family subdivision bridging the two communities and creating a sense of neighborhood.

#### **4. Development Entity and Team's Capacity**

A. Prior Developments: The POAH/HAC team has been the developer/sponsor of several Consortium supported similarly scaled tax credit projects. The general contractor, Callahan Construction, was the contractor for Phase I and II of this project and will again serve in the capacity of architect as this will be a design-build project.

B. Current Operational Capacity: POAH is currently comprised of 39 full-time employees led by a seasoned six person leadership team. POAH's wholly owned management company has an additional 326 employees. HAC has three housing development staff that will be working with POAH to develop this project, and has the in-house capacity to support the property management staff in providing residential services.

C. Financial Strength: POAH will serve as the Managing Member of the general partner of the limited partnership to be formed to own and operate the tax credit project. POAH has completed numerous deals with the Commonwealth and other state agencies. POAH is in good financial standing and has adequate net worth to secure investor interest and provide the necessary guarantees for financing today.

D. Standing Re: Prior HOME Awards: POAH and HAC are in good standing on all prior Consortium-funded rental developments.

#### **5. Market Need/Study**

Keystone Consulting Group performed a market study of Canal Bluffs- Phase III that was effective March 27, 2015. After analyzing comparable LIHTC properties in the project's surrounding communities, they concluded that two and three bedroom units are almost all fully occupied with lengthy waitlists. Most of the properties surveyed were also achieving maximum allowable rents. Based on analysis of capture and penetration rates of the units at the subject property, there are sufficient income eligible households in the 30-45 drive time areas to absorb the subject's rental units in addition to the current supply and achieve the projected 60% AMI rents.

## **6. Location and Design Issues**

Canal Bluffs has two apartment buildings and associated parking and landscaping that comprises the majority of the property. Harmony Hill Road, an access drive, leads up to the property from the south. The northwestern portion of the property is undeveloped woodlands where the 10 townhouses are proposed for development. This project will complete Phase III of the 117 unit planned development that included building the necessary infrastructure (including a waste water treatment plant) for all three phases. It appears that the existing play structures may be removed to make room for parking in the new development; although there's a proposed recreation area within the middle of the new development, it may not be as accessible to the existing residents of Phase I and Phase II.

Current design plans do not include washer/dryer hook-ups or the creation of additional laundry facilities on the site. Residents in Phase III would need to use the existing laundry facilities in the other two buildings on the site; one of which is designated for over 55. The other amenities for Phase III (community room, leasing office) are also located in the other buildings. A final concern about the current design is the proposed use of electric heat: while the development team contemplates using "split" units that provide highly efficient heating and cooling, and would work well if the project could install solar panels, tenants are currently responsible for all utilities except sewer and water and may experience higher costs if the heating is electric.

As for location, the project is well situated to access major transportation routes and area businesses. A supermarket plaza, pizza place, liquor store and parking lot border the Site to the north, although the supermarket is currently closed.

The Site is abutted to the east and south by the Canal Bluffs complex. A vacant automobile dealership abuts the property to the east. Other businesses border the property to the south, east and west. A four-lane divided highway, MacArthur Boulevard, also borders the property to the east. The Site is zoned for business, and the surrounding area consists primarily of commercial properties.

## **7. Proposed Financial Structure- Sources and Uses**

The total development cost (TDC) of approximately \$13.3 million is about \$301,000 per unit. The deal is proposed to be structured as follows: tax credit and developer equity (53.8%); permanent loan (27.4%); and public subsidies/subordinate loans, including HOME (18.8%).

The uses are as follows: acquisition (6.2%); construction (70%); soft costs (13.9%); and developer overhead and fee (9.9%).

A summary of the sources and uses for the project is below:

Sources	Amount	Uses	Amount
Tax credit and developer equity	\$7,159,699	Acquisition	\$800,000
Public Debt-DHCD & County	\$2,500,000	Construction	\$9,019,500
First Mortgage	\$3,639,725	Soft costs	\$1,788,641
		Developer oh/fee	\$1,280,814
		Capital reserves	\$392,500
Total	\$13,299,424	Total	\$13,281,528

## 8. Underwriting

### A. Development Budget:

Minimum # of HOME units required: 1 Proposed # of HOME assisted units: 11

Construction costs (site and building) at \$216 per square foot appear reasonable based upon other recent new construction multi-family projects: Province Landing- \$149/sf; Clay Pond Cove- \$185/sf; Veterans Park- \$167/sf; Route 134- \$254/sf; and Stable Path- \$190/sf.

Soft costs represent 13.9% of TDC, and again individual line items and overall soft costs appear consistent with the recent new construction rental projects noted above: Province Landing- 19.1%; Clay Pond Cove- 16.9%; Veterans Park- 17.1%; Route 134- 21.1%; and Stable Path- 13.7%.

### B. Operating Budget:

The operating budget included \$375/unit/year for an operating reserve, and the remaining individual line items appeared reasonable with an overall property management expense of \$7,011 per unit per year. This is at the middle of recent projects. In comparison, Province Landing was \$6,193; Veterans Park was \$7,066; Clay Pond Cove was \$7,433; Simpkins was \$7,097; Coady School at \$8,092; and Route 134- \$9,414.

### C. Maximum Per Unit/Total HOME Subsidy Limit for Project:

The total allowable 221d3 limit for the project is \$1,396,564. The proposed HOME investment in the project is \$200,000: 14.3% of the allowable maximum subsidy limit for the project.

### D. Subsidy Layering Analysis/Conclusion:

As noted in the earlier sections of this analysis, both the development and operating costs for this project appear reasonable and necessary for the

successful completion of this project, and staff concludes that \$200,000 is the appropriate amount of HOME funds to invest in this project to make it feasible.

## **9. Additional Considerations**

None.

## **10. Conclusion**

As noted earlier, this project has thirty-five (35) of the units which will be affordable to households at/below 60% AMI with seven (7) of the units available to households at/below 30% AMI through project-based Section 8 vouchers. The development team consists of a very experienced project manager, contractor, and property management company, and should be able to deliver a successful project once financing is in place. Although it is likely that this project will not get funded in this round due to competing projects in Bourne, the project has a very favorable (risk) profile. The development project review committee recommends

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## **11. Attachments**

- DHCD cover letter.
- One Stop application.
- Development concept, site and building plans.

Project plans and other application material referenced in this report will be available at the meeting.