

BARNSTABLE COUNTY HOME CONSORTIUM ADVISORY COUNCIL

UNDERWRITING ANALYSIS OF FUNDING REQUEST

APPLICANT/SPONSOR: Community Housing Resource, Inc. (CHR)

PROJECT NAME/ADDRESS: Gull Pond Road
250 Gull Pond Road- Wellfleet

HOME \$ REQUESTED: \$200,000 (original); \$220,000 (revised)

TOTAL DEVELOPMENT COST: \$1,762,112

OF PROJECT UNITS: 6 # OF AFFORDABLE UNITS: 4

OF HOME UNITS: 4

PROJECT SCORE: 78

DATE: June 12, 2015

1. Overview

Gull Pond Road is a six (6) unit new construction affordable rental development located at 250 Gull Pond Road in Wellfleet. The 2.27 acre parcel was taken by the Town in a tax taking and designated for affordable housing and transferred to the Housing Authority in 2003. CHR was awarded designated developer status in 2006 and proceeded to secure its Chapter 40B permit for a 5 home ownership development in 2008. Because of the recession, DHCD stopped funding ownership developments; however, CDBG infrastructure funding was secured in 2011 and that work completed by mid 2012. CHR acquired the deed to the property in April 2014. Marketing commenced in mid 2014; however, not enough eligible buyers were found, and the Housing Authority and CHR made the joint decision to convert the development into six rental units. The Zoning Board of Appeals approved the amendment to the 40B permit to change to rental in May 2015.

There will be three buildings constructed, each with a one bedroom and two bedroom apartment. Two of the units will have project-based Section 8 vouchers (PBV) for households at or below 30% of area median income (AMI); two units

will be available to households at/below 60% AMI; and there will be 2 market rate units for households at/below 100% AMI.

The development team is led by Community Housing Resource, Inc. (CHR) (developer & contractor) which has been in existence since 1996. CHR has completed 143 year round homes, 51 art studio workspaces, and 9 commercial spaces. The architectural firm, used since 2000 on all CHR developments, is Spring Hill Design- Jessica Snare. CHR will also handle property management.

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

Sources	Amount	Uses	Amount
Public Equity & Grants- Town and CDBG	\$672,112	Acquisition	\$0
Public Debt- DHCD & County	\$500,000	Construction	\$1,252,306
First Mortgage	\$590,000	Soft costs	\$306,940
		Developer oh/fee	\$202,580
Total	\$1,762,112	Total	\$1,761,826

2. Executive Summary

A. Challenges/Opportunities: While the marketing for the ownership units was unsuccessful, there appears to be a strong demand for affordable as well as market rate rental housing on the Outer Cape. Absent the public financing, the development is ready to proceed as it is permitted and has design plans 100% complete and building permits issued. This is CHR's first submission to DHCD for funding.

There are two challenges for Consortium funding: 1) the scoring only provides for a maximum project funding amount of \$160,000; therefore, the Consortium will need to discuss whether a waiver of the scoring guidelines is warranted in this case.

2) The other major and significant challenge is that Section 504 of the Rehabilitation Act of 1973 requires that all multi-family (5+ units) new construction rental housing developments include at least 5% of the units be accessible to those with mobility impairments and an additional 2% of the units be available to those with sensory impairments. The Consortium's regional HUD program representative confirmed that there are no waivers or exceptions to that requirement. While CHR intends to make all 6 units adaptable for those with sensory impairments, the original approved design did not include a mobility accessible unit. CHR did not include one because accessibility was not a requirement for ownership developments of this size and because of site constraints: there is a steep grade at the site (a 90' incline from the entrance)

which meant that all of the buildings need to be built into the hill with a garage at the first level and then two floors of living area above that.

After internal review, CHR committed to convert the two bedroom unit E into an accessible unit in part by installing chair lifts to go from level to level. CHR's preliminary estimate was that this change/redesign would cost about \$20,000 and requested that the cost be covered by an increase in the requested HOME funding amount to \$220,000.

B. Affordability: Four (4) of the units are affordable to households at/below 60% AMI with two (2) of the units available to households at/below 30% AMI through project-based Section 8 vouchers. All four of these units will be considered HOME-assisted. Two (2) of the units will be priced at market rate and available to households at/below 100% AMI.

C. Risk Factors:

Developer: Low- The Consortium has funded six completed CHR developments to date, and all have been completed on time and on budget. CHR will act as the general contractor on this project, a model it used on both the 83 Shank Painter Road and Meadow Road developments. The development will be owned by a single purpose entity owned by CHR, and MHP- the permanent lender- may require, as it has on some prior CHR deals, personal financial guarantees from Ted Malone, the owner of CHR. Ted has been able to satisfactorily provide such guarantees in his prior transactions.

Underwriting Assumptions: Moderately Low- Total Development Cost (TDC) of \$293,685/unit is at the lower end of recent new construction, multi-family Consortium funded developments, and construction costs (site and buildings) of \$209 per square foot is at about the middle of recent comparable developments. Soft costs at 17.4% of TDC are above the Consortium's preferred maximum of 15%; however, they are comparable to other recent rental projects. Developer overhead and fee of 13% is below the Consortium's 15% maximum.

The 2 PBV's will enable households to pay only 30% of their income toward rent, and the one bedroom 60% unit will be at the HOME limit of \$920/month, while the 2 bedroom unit at \$1,132/month is about \$100 less than the allowable HOME rent. The 2 market rate unit rents are \$1,444 for the one bedroom and \$1,734 for the 2 bedroom unit. While these are high, CHR provided current market rate comparables and a check of local sources confirmed that there is a dearth of year round rental housing in Wellfleet. The vacancy rate of 5% for the non-subsidized units and 3% for the Section 8 units is reasonable.

Debt service coverage (dsc) of 1.20 at year one satisfies the Consortium's minimum 1.15 guideline, and the 20 year operating budget trending projection shows that the project maintains at least a 1.20 dsc and positive cash flow throughout the term of the permanent mortgage.

Annual property management expenses of \$6,242 per unit are at the very low end of recent rental projects; however, they are comparable to recent CHR developments: \$4,825/unit at 83 Shank Painter Road; \$5,912/unit at Sally's Way; and \$6,440/unit projected at Stable Path. Replacement reserves are \$350 per unit per year- the DHCD standard/requirement.

Construction: Low- CHR is both the developer and the general contractor. CHR has completed 143 year round homes, 51 art studio workspaces, and 9 commercial spaces. As noted earlier, CHR has acted in this role successfully on two earlier Consortium-funded projects, and Monica Stubner, CHR's licensed construction supervisor, has been with CHR since 2001.

Market/Leasing: Moderately Low- There was no market study performed; however, based upon recent CHR developments, there has been a very strong demand for affordable rental units- especially for single person households. There is a bit more risk associated with the market rate units although CHR provided current market rate comparables and a check of local sources confirmed that there is a dearth of year round rental housing in Wellfleet.

Property Management: Low- CHR currently manages 60 deed-restricted rental units with another 23 units to be completed by mid 2016. CHR has two full time property management staff for its residential portfolio and is advertising to add two more full-time positions for property maintenance. CHR will contract with the Homeless Prevention Council to provide case management/resident services for those households at Gull Pond Road who may find themselves needing various types of assistance or support. CHR is in good standing on all Consortium-funded rental developments.

Environmental Issues: Low- A Phase I study was completed and showed no issues that required further investigation or mitigation, and a full satisfactory HUD environmental review was completed for the CDBG infrastructure funding. Should the Consortium fund this project, a satisfactory (HUD approved finding of no significant environmental impact) environmental review will need to be completed for the HOME funding; however, there does not appear to be any environmental concerns of this site at this point.

Overall Risk Analysis: With the Section 504 accessibility issue apparently resolved, the analysis completed to date shows that this project presents a low level of risk with respect to a successful construction and ongoing operation of the rental housing.

3. Property Description

The project site is an undeveloped 2.27 acre formerly Town/Housing Authority owned parcel at 250 Gull Pond Road. The site is a challenging one to develop as the slope rises 90' from the entrance at Gull Pond Road. Because of the need for on-site water and Title 5 septic capacity limitations, a total of 9 bedrooms is the maximum that the site can

support. The three duplexes will be built at an elevation more than 40' above Gull Pond Road at the end of an access driveway that traverses the hillside with a switchback turn. The three homes will be set into the hillside with a private garage space under each of the homes with the living space of two stories above. Each unit will have private yard areas. The immediate surrounding area is single family residential. The site is approximately one half mile from Route 6 and the Flex Bus route and about 2 miles from Town Hall, health services, schools, and commercial services.

As noted earlier, A Phase I study was completed and showed no issues that required further investigation or mitigation, and a full satisfactory HUD environmental review was completed for the CDBG infrastructure funding. Should the Consortium fund this project, a satisfactory (HUD approved finding of no significant environmental impact) environmental review will need to be completed for the HOME funding; however, there does not appear to be any environmental concerns of this site at this point.

4. Development Entity and Team's Capacity

A. Prior Developments: As noted earlier, CHR is the developer and contractor and has been in existence since 1996. CHR has completed 143 year round homes, 51 art studio workspaces, and 9 commercial spaces. The Consortium has funded six of CHR's prior completed developments, and all have been completed on time and within budget. CHR has acted as general contractor successfully on two earlier Consortium-funded projects, and Monica Stubner, CHR's licensed construction supervisor, has been with CHR since 2001.

CHR currently manages 60 deed-restricted rental units with another 23 units to be completed by mid 2016. CHR has two full time property management staff for its residential portfolio and is advertising to add two more full-time positions for property maintenance. CHR will continue to contract with the Homeless Prevention Council to provide case management/resident services for those households at Gull Pond Road who may find themselves needing various types of assistance or support.

The architectural firm- Spring Hill Design- Jessica Snare has been used on all CHR developments since 2000.

B. Current Operational Capacity: CHR has seven staff, including a construction manager/supervisor who has over 15 years of construction experience. As noted above, CHR has two full time property management staff for its residential portfolio and is advertising to add two more full-time positions for property maintenance. CHR will contract with the Homeless Prevention Council to provide case management/resident services for those households at Gull Pond Road who may find themselves needing various types of assistance or support.

C. Financial Strength: The development will be owned by a single purpose entity owned by CHR, and MHP- the permanent lender- may very well require, as

it has on some prior CHR deals, personal financial guarantees from Ted Malone, the owner of CHR. Ted has been able to satisfactorily provide such guarantees in his prior transactions.

D. Standing Re: Prior HOME Awards: CHR is in good standing on all prior Consortium-funded rental developments.

5. Market Need/Study

There was no market study performed; however, based upon recent CHR developments, there has been a very strong demand for affordable rental units- especially for single person households. There is a bit more risk associated with the market rate units although CHR provided recent market rate comparables and a check of local sources confirmed that there is a dearth of year round rental housing in Wellfleet.

6. Location and Design Issues

The project site is an undeveloped 2.27 acre formerly Town/Housing Authority owned parcel at 250 Gull Pond Road. The site is a challenging one to develop as the slope rises 90' from the entrance at Gull Pond Road. Because of the on-site water well and Title 5 septic capacity limitations, a total of 9 bedrooms is the maximum that the site can support. The three duplexes will be built at an elevation more than 40' above Gull Pond Road at the end of an access driveway that traverses the hillside with a switchback turn. The three homes will be set into the hillside with a private garage space under each of the homes with the living space of two stories above. Each unit will have private yard areas.

The apartments are appropriately sized: 742 sf for the one bedroom units and 884 sf for the two bedroom units. One of the two bedroom units will be accessible to those with mobility impairments and will also be visit-able, and all six units will be adaptable to be accessible for those with sensory impairments. Some additional tenant storage is available in the garages.

Although the project will not seek LEED certification, there will be many "green" elements to the project including: highly insulated walls, roof and floors, Energy Star compliant appliances, and HVAC units that exceed 90% efficiency. This will result in a Five Star Energy Star rating (the highest level achievable). Some of the other sustainable components include low VOC paint to keep the air cleaner inside the units, energy efficient lighting throughout the apartments, faucet aerators and low flow shower heads to conserve water, and indigenous landscaping requiring low water usage.

7. Proposed Financial Structure- Sources and Uses

The total development cost (TDC) of approximately \$1.76 million is about \$294,000 per unit. The deal is proposed to be structured as follows: permanent loan (33.5%); public equity/grants- 38%; and public subsidies/subordinate loans, including HOME (28.4%).

The uses are as follows: acquisition (0%); construction (71.1%); soft costs (17.4%); and developer overhead and fee (13%).

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

Sources	Amount	Uses	Amount
Public Equity & Grants- Town and CDBG	\$672,112	Acquisition	\$0
Public Debt- DHCD & County	\$500,000	Construction	\$1,252,306
First Mortgage	\$590,000	Soft costs	\$306,940
		Developer oh/fee	\$202,580
Total	\$1,762,112	Total	\$1,761,826

8. Underwriting

A. Development Budget:

Minimum # of HOME units required: 1 Proposed # of HOME assisted units: 4

Construction costs (site and building) at \$209 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. Note that projects with smaller unit sizes and with a low per bedroom per unit average tend to have a higher per square foot construction cost.

Soft costs represent 17.4% 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 2 PBV's will enable households to pay only 30% of their income toward rent, and the one bedroom 60% unit will be at the HOME limit of \$920/month, while the 2 bedroom unit at \$1,132/month is about \$100 less than the allowable HOME

rent. The 2 market rate unit rents are \$1,444 for the one bedroom and \$1,734 for the 2 bedroom unit. The Landlord pays for all utilities except for electricity. The vacancy rate of 5% for the non-subsidized units and 3% for the Section 8 units is reasonable.

The operating budget included the DHCD standard of \$350/unit/year for an operating reserve, and the remaining individual line items appeared reasonable with an overall property management expense of \$6,242 per unit per year.

This is at the very low end 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. However, this level is comparable to recent CHR developments: \$4,825/unit at 83 Shank Painter Road; \$5,912/unit at Sally's Way; and \$6,440/unit projected at Stable Path.

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

The total allowable 221d3 limit for the project is \$674,774. As all 4 affordable units will be HOME assisted, the total project maximum allowable HOME investment is also \$674,774. The proposed HOME investment in the project is \$200,000: 29.6% 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 minimum amount of HOME funds to invest in this project to make it feasible.

9. Additional Considerations

None.

10. Conclusion

The project provides four affordable family rental units to households at or below 60% AMI, including two of the units reserved for households at or below 30% AMI in an area of the Cape with a very high demand for affordable rental units. It has a very favorable (low) risk profile. With respect to the issue of a waiver of the scoring system's outcome of a maximum project funding award of \$160,000 versus the revised requested amount of \$220,000, the development project review committee weighed the challenges of doing small scale rental housing development on the outer Cape along with the length of time that this project has been in the predevelopment process with the potential precedent that would be set with a waiver of our funding amount guidelines. In recognition of the special challenges involved in this project, the development project review committee is recommending that the Consortium approve a \$200,000 conditional award to

CHR. The committee believed that the funds for the additional estimated \$20,000 expense to create the mobility accessible apartment would need to be found by CHR within the existing budget.

11. Attachments

- DHCD cover letter.

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